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DOD BUSINESS TRANSFORMATION

A Comprehensive, Integrated, and Enterprisewide Business Transformation Plan Coupled With Sustained Senior Leadership Attention Are Needed to Strengthen Ongoing Efforts

Statement of David M. Walker
Comptroller General of the United States

GAO

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A Comprehensive, Integrated, and Enterprisewide Business Transformation Plan Coupled With Sustained Senior Leadership Attention Are Needed to Strengthen Ongoing Efforts

Why GAO Did This Study

Of the 25 areas on GAO's 2005 high-risk list of federal programs or activities that are at risk for waste, fraud, abuse, or mismanagement, 8 are Department of Defense (DOD) programs or operations and 6 are governmentwide high-risk areas for which DOD shares some responsibility. These high-risk areas relate to DOD's major business operations. DOD's failure to effectively resolve these high-risk areas results in billions of dollars of waste each year, ineffective performance, and inadequate accountability. At a time when DOD is competing for resources in an increasingly fiscally constrained environment, it is critically important that DOD get the most from every defense dollar. DOD has taken several positive steps and devoted substantial resources toward establishing key management structures and processes to successfully transform its business operations and address its high-risk areas, but overall progress by area varies widely and huge challenges remain.

This testimony addresses (1) DOD's progress in developing a strategic, integrated, enterprise-wide business transformation plan and its related leadership approach, (2) the extent to which DOD has complied with legislation that addresses business systems modernization and improving financial management accountability, and (3) selected additional DOD high-risk areas that highlight the need for continued attention.

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What GAO Found

DOD has made some progress in its overall approach to business transformation, which GAO has designated as high risk. Yet, GAO still believes DOD needs an integrated, enterprisewide strategic plan and chief management official (CMO) to guide and oversee these efforts. DOD has developed a revised business enterprise architecture and enterprise business transition plan. However, this plan does not go far enough to constitute a strategic plan for the overall business transformation effort. DOD also established the Defense Business Systems Management Committee (DBSMC), as DOD's primary transformation leadership and oversight mechanism, and the Business Transformation Agency (BTA) to support the DBSMC. However, these organizations do not provide the sustained leadership needed to successfully achieve business transformation. Also, the BTA still faces challenges to become operational, such as filling a number of key positions to oversee the transformation process.

DOD continues to take steps to comply with legislative requirements to improve business systems modernization, designated as a high-risk area. It has updated its business enterprise architecture and enterprise transition plan and issued its annual report to Congress. This report describes steps taken and planned that address several of the missing elements GAO previously identified relative to legislative provisions concerning the architecture, transition plan, budgetary reporting of business system investments, and investment review. While these steps certainly reflect progress, DOD continues to face challenges relative to ensuring that the department's key business system investments are managed in a way to deliver promised system capabilities and benefits on time and within budget. Further, in late December 2005, DOD issued its Financial Improvement and Readiness Plan to guide its financial management improvement efforts.

Ensuring effective transformation of other defense areas that GAO has identified as high risk will require continued attention over many years. These other high-risk areas include weapon systems acquisition, contract management, supply chain management, personnel security clearances, and support infrastructure management. In the area of weapons system acquisition, recurring problems with changing requirements, cost overruns, and schedule delays have resulted in a reduction of buying power of the defense dollar at a time when the nation is struggling with a large and growing structural deficit. While it has made some progress in addressing its supply chain management problems, DOD faces challenges in successfully implementing its planned changes and measuring progress. Problems with the personnel security clearance program continue, although DOD has taken steps to address the financial costs, delays, and other risks associated with the program. Finally, much work remains for DOD to transform its support infrastructure to improve operations and achieve efficiencies so that infrastructure costs adequately fund but no longer consume a larger than necessary portion of DOD's budget.

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Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be back before this Subcommittee to discuss the progress the Department of Defense (DOD) has made in transforming its business processes. Since the first financial statement audit of a major DOD component was attempted almost 20 years ago, we have reported that weaknesses in business management systems, processes, and internal controls not only adversely affect the reliability of reported financial data, but also the economy, efficiency, and effectiveness of DOD's and the federal government's operations. In fact, DOD currently bears responsibility, in whole or in part, for 14 of our 25 high-risk areas. Eight of these are specific to DOD and include DOD's overall approach to business transformation, business systems modernization, financial management, the personnel security clearance process, supply chain management, support infrastructure management, weapon systems acquisition, and contract management. In addition, DOD shares responsibility for six governmentwide high-risk areas.[1] Collectively, these high-risk areas relate to DOD's major business operations which directly support the warfighter, including how they get paid, the benefits provided to their families, and the availability and condition of the equipment they use both on and off the battlefield.

DOD's business area weaknesses result in reduced efficiencies, ineffective performance, and inadequate accountability to Congress and the American people, wasting billions of dollars each year at a time when DOD is competing for resources in an increasingly fiscally constrained environment. As a result, it is important that DOD get the most from every dollar it invests. Our nation is not only threatened by external security threats, but also from within by growing fiscal imbalances due primarily to our aging population and rising health care costs. These trends are compounded by the near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy. If left unchecked, these fiscal imbalances will ultimately impede economic growth, have an adverse effect on our future standard of living, and in due course affect our ability to address key national and homeland security needs. These factors create the need to make choices that will only become more difficult and potentially disruptive the longer they are

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[1] GAO, *GAO's High-Risk Program*, GAO-06-497T (Washington, D.C.: Mar. 15, 2006). DOD shares responsibility for the following six governmentwide high-risk areas: (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, and (6) real property.

postponed. Among these difficult choices will be decisions about the affordability and sustainability of the continued growth in defense spending. We believe DOD's recently issued Quadrennial Defense Review (QDR) did not result in a long-term, integrated and resource constrained investment strategy. In fact, the gap between wants, needs, affordability, and sustainability seems to be greater than ever.

I continue to believe that DOD's senior leadership is committed to transforming the department and DOD has taken a number of positive, albeit overdue steps to begin this effort. In fact, because of the impact of the department's business systems and processes on its warfighters, DOD recognizes now, more than ever, the need to transform its business operations and provide transparency in this process. Indeed, Secretary Rumsfeld was very clear in his speech on September 10, 2001, when he identified business transformation as a top priority. However, DOD's ability to focus on this priority was overshadowed by the events of September 11, 2001, and the ensuing Global War on Terrorism, including military operations in Iraq and Afghanistan. Clearly, these events have required considerable emphasis and have become the department's primary focus. As a result, progress on the full range of DOD's business transformation challenges has been inconsistent.

Congress, under the leadership of this Subcommittee, passed legislation that codified many of our prior recommendations related to DOD business systems modernization.[2] Since then, the department has devoted substantial resources and made important progress toward establishing key management structures and processes to guide business systems investment activities. DOD's current approach is clearly superior to its prior approach; however, a number of challenges remain.

Today, I would like to provide my perspectives on actions DOD has taken to date to address the eight high-risk areas for which it bears sole responsibility. Specifically, I will provide my perspective on (1) DOD's progress in developing a comprehensive, integrated, enterprisewide business transformation plan and its related leadership approach, (2) the extent to which DOD has complied with legislation that addresses business systems modernization and improving financial management accountability, and (3) the five additional DOD-specific high-risk areas

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[2] Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. §§ 186 and 2222).

related to business transformation that need continued attention. In addition, you asked me to discuss two provisions contained in Senate Bill 2766 (the National Defense Authorization Act for Fiscal Year 2007), as reported by the Senate Armed Services Committee.

My statement is based in large part on previous GAO reports and some of our current, ongoing efforts. Our work was performed in accordance with generally accepted government auditing standards.

Summary

I have stated on many occasions that transforming DOD's business operations is an absolute necessity given our nation's long-term fiscal outlook. Although DOD continues to make progress in several areas in its overall business transformation efforts, which GAO has designated as high-risk, I believe that the department still lacks several key elements that are needed to ensure a successful and sustainable transformation effort. First, DOD's transformation efforts must include development of a comprehensive, integrated and enterprisewide business transformation plan. To its credit, DOD has developed a business enterprise architecture and enterprise transition plan. However, the enterprise transition plan does not go far enough to constitute a strategic plan for the overall business transformation effort. Second, a chief management official (CMO) at the right level of the organization is essential for providing the sustained leadership needed to achieve a successful and sustainable transformation effort. Again, to its credit, DOD established the Defense Business Systems Management Committee (DBSMC) as DOD's primary transformation leadership and oversight mechanism, and created the Business Transformation Agency (BTA) to support the DBSMC. However, these organizations do not provide the sustained leadership needed to successfully achieve business transformation. The DBSMC's representatives consist of political appointees whose terms expire when administrations change and the BTA has yet to fill a number of key positions for overseeing the transformation process.

DOD continues to take steps to comply with legislative requirements to improve its business systems modernization approach. It has released an update to its business enterprise architecture, developed an updated enterprise transition plan, and issued its annual report to Congress describing steps taken and planned. These steps address several of the missing elements we previously identified relative to the legislative provisions concerning the architecture, transition plan, budgetary reporting of business system investments, and investment review. While this progress better positions DOD to address the business systems

modernization high-risk area, DOD continues to face formidable challenges relative to ensuring that the department's key business system investments are managed in a way to deliver promised system capabilities and benefits on time and within budget. In late December 2005 DOD issued its Financial Improvement and Audit Readiness (FIAR) plan, a third major component of its business transformation strategy, to guide financial management improvement and clean audit opinion efforts within the department.

Ensuring effective transformation of other areas within DOD that we have identified as high risk will require continued attention and sustained leadership to be successful. These other high-risk areas include weapon systems acquisition, contract management, DOD supply chain management, the DOD personnel security clearance program, and DOD support infrastructure management. In the area of weapon systems acquisition, recurring problems with cost overruns and schedule delays have resulted in a reduction of buying power of the defense dollar at a time when the nation is struggling with a large and growing structural deficit. While DOD has made some progress in addressing its supply chain management problems, the department faces challenges in successfully implementing its changes and measuring progress. While positive steps have been taken to address the financial costs, delays, and other risks associated with DOD's personnel security clearance program, problems with this program continue. Finally, much work remains for DOD to transform its support infrastructure to adequately fund and improve operations and achieve efficiencies while ensuring that infrastructure costs no longer consume a larger than necessary portion of DOD's budget.

In addition, you asked me to discuss two provisions contained in Senate Bill 2766 (the National Defense Authorization Act for Fiscal Year 2007), as reported by the Senate Armed Services Committee. The first provision, section 313, is intended to ensure that the Department pursues audit activities only in accordance with a comprehensive financial management improvement plan that coordinates such activities with improvements in its systems and controls. I fully support the intent of legislation aimed at focusing DOD's corrective actions on sustained improvements in its ability to provide timely, reliable, complete, and useful information. This is important not only for financial reporting purposes, but more importantly for daily decision making and oversight. Section 313 is consistent with existing legislation, as well as recent actions taken by the department. The second provision, section 804, establishes certain reporting and oversight requirements for the acquisition of Major Automated Information Systems (MAIS). The proposed language in Section 804 of the Fiscal Year 2007

National Defense Authorization Act[3] could provide an important oversight mechanism because it would establish certain reporting and oversight requirements for the acquisition of MAIS that fail to meet cost, schedule, or performance criteria, although certain provisions may need further review.

Background

DOD is one of the largest and most complex organizations in the world. Overhauling its business operations will take years to accomplish and represents a huge management challenge. Execution of DOD's operations spans a wide range of defense organizations, including the military services and their respective major commands and functional activities, numerous large defense agencies and field activities, and various combatant and joint operational commands that are responsible for military operations for specific geographic regions or theaters of operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business functions—using more than 3,700 business systems—related to major business areas such as weapon systems management, supply chain management, procurement, health care management, and financial management. The ability of these systems to operate as intended affects the lives of our warfighters both on and off the battlefield. For fiscal year 2006, Congress appropriated approximately $16 billion to DOD, and for fiscal year 2007, DOD has requested another $16 billion in appropriated funds to operate, maintain, and modernize these business systems.

Transformation of DOD's business systems and operations is key to improving the department's ability to provide DOD management and Congress with accurate, timely, reliable, and useful information for analysis, oversight, and decision making. This effort is an essential part of the Secretary of Defense's broad initiative to "transform the way the department works and what it works on." The savings resulting from an effective business transformation effort could be significant. The Secretary himself estimated that the department could save 5 percent of its annual budget, which for fiscal year 2006 would have been about $21 billion, through effective business transformation. Until DOD can successfully transform its operations, it will continue to confront the pervasive, decades-old management problems that cut across all of DOD's major business areas.

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[3]S. 2766, 109th Cong. §804 (2006).

During the past year DOD has embarked on a series of efforts to transform its business operations, including issuing an enterprise transition plan for implementing its business enterprise architecture. In addition, in February 2005, DOD chartered the Defense Business Systems Management Committee (DBSMC) to oversee transformation and ensure it meets the needs and priorities of the warfighter. As the senior most governing body overseeing business transformation, the DBSMC is comprised of senior leaders who meet monthly under the personal direction of the Deputy Secretary of Defense to set business transformation priorities and recommend policies and procedures required to attain DOD-wide interoperability of business systems and processes. In October 2005, DOD also established a Business Transformation Agency (BTA) intended to advance defense-wide business transformation efforts in general but particularly with regard to business systems modernization. DOD believes it can better address managing defense-wide business transformation—which includes planning, management, organizational structures and processes related to all key business areas—by first transforming business operations that support the warfighter while also enabling financial accountability across DOD. The BTA reports directly to the vice chair of the DBSMC—the Under Secretary of Defense for Acquisition, Technology and Logistics—and includes an acquisition executive who is responsible for 28 DOD-wide business projects, programs, systems, and initiatives. The BTA is responsible for integrating and supporting the work of the Office of the Secretary of Defense principal staff assistants, who include the approval authorities that chair the business system investment review boards (IRB).

DOD Lacks a Comprehensive, Integrated, and Enterprisewide Approach to Decisionmaking and Sustained Leadership

While DOD has developed plans that address certain high-risk areas related to business transformation, and is taking other steps to guide and lead transformation efforts, I believe that the department still lacks several key elements that are needed to ensure a successful and sustainable business transformation effort. First, these efforts must include a comprehensive, integrated, and enterprisewide business transformation plan. Second, a chief management official with the right skills and at the right level of the department is essential for providing the sustained leadership needed to achieve a successful and sustainable transformation effort.

Comprehensive, Integrated, and Enterprisewide Business Transformation Plan Not Developed

Although some progress has been made in business transformation planning, DOD still has not developed a comprehensive, integrated, and enterprisewide strategy or action plan for managing its overall business transformation effort. The lack of a comprehensive, integrated, and enterprisewide action plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's business management transformation. DOD's efforts to plan and organize itself to achieve business transformation are continuing to evolve. Critical to the success of these efforts will be top management attention and structures that focus on transformation from a broad perspective and a clear, comprehensive, integrated and enterprisewide plan that, at a summary level, addresses all of the department's major business areas. This strategic plan should cover all of DOD's key business functions; contain results-oriented goals, measures and expectations that link institutional, unit, and individual performance goals and expectations to promote accountability; identify people with needed skills, knowledge, experience, responsibility, and authority to implement the plan; and establish an effective process and related tools for implementation. Such an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the department's key resource decisions.

While DOD has not yet developed a comprehensive, integrated, enterprisewide business transformation plan, its leaders have recognized the need to transform its business operations. In September 2005, DOD issued a business enterprise architecture and an enterprise transition plan for modernizing its business processes and supporting information technology assets. The business enterprise architecture provides a foundational blueprint for modernizing business operations, information, and systems, while the enterprise transition plan provides a roadmap and management tool that sequences business system investments in the areas of personnel, logistics, real property, acquisition, purchasing, and financial requirements. However, the enterprise transition plan does not go far enough to constitute a strategic plan for the overall business transformation efforts since it is more focused on business systems. Business transformation is much broader and encompasses not only the supporting systems, but also the planning, management, organizational structures, processes, and accountability mechanisms related to all of DOD's major business areas. Such areas include support infrastructure management, human capital management, financial management, planning and budgeting, and supply chain management. DOD officials acknowledge that the enterprise transition plan may not have all of the elements of an overarching business transformation plan as we envision it. However, they consider the business enterprise plan to be an evolving plan.

DOD's key strategic documents also highlight the need for business transformation. For example, the National Defense Strategy issued in March 2005 and the February 2006 Quadrennial Defense Review both state that DOD must transform the way the department works and what it works on, including its capabilities for defending the nation by revolutionizing management, technology, and business practices to support the needs of the combatant commanders. Nevertheless, these are high level documents that do not contain supporting details such as key metrics, milestones, and mechanisms to guide and direct business transformation efforts. Further, the QDR and other DOD planning documents do not address the ongoing gap between wants, needs, affordability, and sustainability in what is likely to be a resource constrained environment.

Sustained Leadership Is Needed

While DOD has established leadership and oversight mechanisms to address transformation, DOD lacks the sustained leadership at the right level needed to achieve successful and lasting transformation. Due to the complexity and long-term nature of DOD's business transformation efforts, we continue to believe DOD needs a chief management officer (CMO) to provide sustained leadership and maintain momentum. Without formally designating responsibility and accountability for results, choosing among competing demands for scarce resources and resolving differences in priorities between various DOD organizations will be difficult and could impede DOD's ability to transform in an efficient, effective, and reasonably timely manner. In addition, it may be particularly difficult for DOD to sustain transformation progress when key personnel changes occur. The CMO would serve as the Deputy Secretary of Defense or Principal Under Secretary for Management and as the strategic integrator for DOD's overall business transformation effort. This position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, information technology management, and financial management, while facilitating the overall business management transformation effort within DOD. I would also like to articulate what this position would not do. The CMO would not assume the responsibilities of the undersecretaries of defense, the service secretaries, or other DOD officials for the day-to-day management of the department. Instead, the CMO would be responsible and accountable for planning, integrating, and executing the overall business transformation effort. The CMO also would develop and implement a strategic plan for the overall business transformation. I understand that DOD has been legislatively mandated to study the feasibility of a chief management

official position in DOD. It is also my understanding that the Defense Business Board has recommended the creation of a Principal Under Secretary of Defense to serve as a CMO.

The Secretary of Defense, Deputy Secretary of Defense, and other senior leaders have clearly shown a commitment to business transformation and addressing deficiencies in the department's business operations. During the past year, DOD has taken additional steps to address certain provisions and requirements of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, including establishing the DBSMC as DOD's primary transformation leadership and oversight mechanism, and creating the Business Transformation Agency (BTA) to support the DBSMC, a decision making body. However, these organizations do not provide the sustained leadership needed to successfully achieve business transformation. The DBSMC's representatives consist of political appointees whose terms expire when administrations change. Furthermore, it is important to remember that committees do not lead, people do. Thus, DOD still needs to designate a person to provide sustained leadership and have overall responsibility and accountability for this effort.

In addition, we testified in November 2005 that DOD's BTA offers potential benefits relative to the department's business systems modernization efforts if the agency can be properly organized, resourced, and empowered to effectively execute its roles and responsibilities and is held accountable for doing so. However, the department has faced challenges in making the BTA operational. For example, we previously testified that there are numerous key acquisition functions that would need to be established and made operational for the BTA to effectively assume responsibility for 28 DOD-wide projects, programs, systems, and initiatives, and our experience across the government shows that these functions can take considerable time to fully implement on each and every program. [4] While we have reported that the department has established certain system investments and processes that are consistent with recent legislation and our prior recommendations, the fundamental question that remains is the extent to which these management controls are actually being implemented on both the 28 enterprise-level investments, but also

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[4] GAO, *Defense Management: Foundational Steps Being Taken to Manage DOD Business Systems Modernization, but Much Remains to be Accomplished to Effect True Business Transformation*, GAO-06-234T (Washington, D.C.: Nov. 9, 2005).

the hundreds of other system investments that are being managed at the component level. We are working with this Subcommittee's staffs to answer this question.

Moreover, BTA has yet to fill a number of key positions for overseeing the transformation process. According to DOD officials, BTA currently has several unfilled leadership and expert positions. Moreover, BTA still does not have an empowered senior level manager, such as a CMO, to ensure the success of its transformation efforts. Without qualified individuals in these positions, particularly at this formative stage of the BTA, its ability to effectively support the DBSMC will be limited.

To assist the department, the Congress enacted a provision in the Fiscal Year 2004 National Defense Authorization Act that gives DOD the authority to hire up to 2,500 highly-qualified experts from outside the civil service and uniformed services without going through the normal civil service hiring system.[5] Specifically, it is our understanding that since DOD received this hiring authority, only 10 individuals have been hired across the department to fill critical BTA positions under this authority. According to DOD officials, this is due to internal DOD policy that restricts the use of the new authority, such as a provision prohibiting experts hired under the provision from performing "continuing department functions, including work of a policy, decision-making, or management nature." As a result of these restrictions, the newly established agency remains understaffed, and thus constrained in its ability to perform its transformation mission.

According to the Deputy Secretary of Defense, the department is reviewing its policy and plans to issue clarifying guidance that would expand the use of the authority over the next several months. However, the longer DOD takes to address this critical human capital issue and provide sustained leadership for its business transformation efforts, the greater the risk that these efforts will be severely undermined.

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[5] National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 9903 (2003).

DOD Has Made Important Progress Complying With Business Systems Modernization and Financial Management Accountability Legislation, But Much Work Remains

As we testified and reported earlier this year[6], we believe DOD has made important progress in complying with legislation pertaining to its business systems modernization and financial management improvement efforts. For example, we reported in May 2006[7] that DOD released a minor update to its business enterprise architecture on March 15, 2006, developed an updated enterprise transition plan, and issued its annual report to Congress describing steps taken and planned, among other things. These steps address several of the missing elements we previously identified relative to the legislative provisions concerning the architecture, transition plan, budgetary reporting of business system investments, and investment review. Further we testified,[8] that in late December 2005 DOD had issued its Financial Improvement and Audit Readiness (FIAR) plan,[9] a third major component of its business transformation strategy, to guide financial management improvement and clean audit opinion efforts within the department. While this progress better positions the department to address the business systems modernization and financial management high-risk areas, many challenges remain relative to improving the architecture, implementing its tiered accountability investment approach, and actually acquiring and implementing modernized business systems on time and within budget that provide promised capabilities and benefits.

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[6] GAO, *Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance*, GAO-06-406T (Washington, D.C.: March 1, 2006).

[7] GAO, *Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed*, GAO-06-658 (Washington, D.C.: May 15, 2006).

[8] GAO-06-406T.

[9] The FIAR Plan was issued pursuant to section 376 of the National Defense Authorization Act for Fiscal Year 2006, which for fiscal year 2006 limited DOD's ability to obligate or expend funds for financial improvement activities relating to the preparation, processing, or auditing of financial statements until the department submitted a comprehensive and integrated financial management improvement plan to congressional defense committees that (a) described specific actions to be taken to correct deficiencies that impair the department's ability to prepare timely, reliable, and complete financial management information; and (b) systematically tied such actions to process and control improvements and business systems modernization efforts described in the business enterprise architecture and transition plan. Pub. L. No. 109-163, § 376 (Jan. 6, 2006). Further, section 376 required a written determination that each financial management improvement activity undertaken be (a) consistent with the financial management improvement plan and (b) likely to improve internal controls or otherwise result in sustained improvement in DOD's ability to produce timely, reliable, and complete financial management information, and required that each written determination be submitted to the congressional defense committees.

Additional challenges include implementing sustainable process and systems improvements that will provide timely, reliable, accurate, and useful information for analysis, decisionmaking, and reporting.

DOD Continues to Address Limitations in Prior Version of Architecture

As part of DOD's incremental strategy for developing and implementing its architecture, the department has taken steps over the last 6 months to address a number of the limitations in the prior version of the architecture that we previously reported[10] as falling short of the Fiscal Year 2005 National Defense Authorization Act's requirements and related guidance. For example, the architecture now has much of the information needed, if properly implemented, to achieve compliance with the Department of the Treasury's United States Standard General Ledger,[11] such as the data elements or attributes that are needed to facilitate information sharing and reconciliation with the Treasury. In addition, the architecture continues to specify DOD's Standard Financial Information Structure (SFIS)[12] as an enterprisewide data standard for categorizing financial information to support financial management and reporting functions. Thus far, the department has completed Phase I of the SFIS initiative, which is focused on standardizing general ledger and external financial reporting requirements, and has incorporated associated definitions in the architecture. However, key SFIS data elements and attributes are not yet in the architecture. For example, data elements for DOD's planning, programming, and budgeting business process area have yet to be defined.

Despite this progress, as we recently reported,[13] the latest version of the architecture does not comply with all of the legislative requirements[14] and related best practices. For example, it does not include a systems standards profile to allow data sharing among departmentwide business systems and interoperability with departmentwide information technology (IT) infrastructure systems. Program officials acknowledged that the

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[10]GAO, *DOD Business Systems Modernization: Important Progress Made in Establishing Foundational Architecture Products and Investment Management Practices, but Much Work Remains*, GAO-06-219 (Washington, D.C.: Nov. 23, 2005).

[11]The *United States Standard General Ledger* provides a uniform chart of accounts and technical guidance used in standardizing federal agency accounting.

[12]SFIS is the department's common financial business language.

[13] GAO-06-658.

[14] 10 U.S.C. §2222(d).

architecture does not include this profile and stated that they are working with the Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer (ASD(NII)/CIO) to address this in future versions. Furthermore, the architecture does not address other limitations we previously reported.[15] For example, it is not yet adequately linked to military service and defense agency component architectures and transition plans, which is particularly important given the department's federated approach to developing and implementing the architecture.[16] In its March 15, 2006, report to Congress, the department stated that integration with these component architectures will be an ongoing goal. To accomplish this goal, program officials told us that a federation strategy is being developed and will be implemented in future versions of the architecture and transition plan.

We support DOD taking an incremental approach to developing the business enterprise architecture, recognizing that adopting such an approach is a best practice that we have advocated. In addition, we believe that the current architecture provides an improved foundation on which to continue to build a more complete architecture. However, the department has yet to develop or establish milestones for developing a near- or long-term plan that will provide details on what will be included in these incremental architecture developments and what will not be included, with particular emphasis and clarity around the near-term increments. Without such a plan, the department is less likely to accomplish intended improvements. Once the missing scope, content, and related shortcomings are added, the architecture will be a more sufficient frame of reference to optimally guide and constrain DOD-wide system investment decisionmaking.

DOD Continues to Improve Its Enterprise Transition Plan

DOD has taken a number of steps to improve its enterprise transition plan and address some of the missing elements that we previously identified[17] relative to the Act's requirements and related transition planning guidance. In particular, the updated plan provides information on progress on major

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[15] GAO-06-219.

[16] As we previously reported, a federated architecture is composed of a set of coherent but distinct entity architectures. The members of the federation collaborate to develop an integrated enterprise architecture that conforms to the enterprise view and to the overarching rules of the federation.

[17] GAO-06-219.

investments over the last 6 months—including key accomplishments and milestones attained, as well as new information on near-term activities (i.e., within the next 6 months) at both the enterprise and component levels. For example, in an effort to improve visibility into personnel activities, DOD reported that, for the Defense Civilian Personnel Data System, it met the milestone to deploy a data warehouse capability to facilitate data sharing. It also reported that, for this system, it has set a September 2008 milestone for developing an implementation strategy for integrating modules supporting functionality that is currently provided by stand-alone applications. In addition, DOD continues to validate the inventory of ongoing IT investments that formed the basis for the prior version of the transition plan. Specifically, DOD intends future updates to the plan to continue to introduce the results of ongoing and planned analyses of gaps between its current and target architectural environments, in which capability and performance shortfalls are described and investments (such as transformation initiatives and systems) that are to address these shortfalls are clearly identified.

However, the transition plan does not identify, for example, all legacy systems that will or will not be part of the target architecture, nor does it include explicit strategies for modifying those legacy systems identified in the plan's system migration diagrams. In particular, the termination dates for many legacy systems remain unknown, making it unclear whether they will be part of the target environment. The plan also does not include system and budget information for all of the department's agencies[18] and combatant commands.[19] For example, program officials stated that the Defense Information Systems Agency's IT infrastructure investments will not be reflected in the enterprise transition plan because the capabilities

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[18]DOD included system and budget information for the Defense Financial and Accounting Service and Defense Logistics Agency in the transition plan. DOD did not include this information for the following defense agencies: (1) Ballistic Missile Defense Organization, (2) Defense Advanced Research Projects Agency, (3) Defense Commissary Agency, (4) Defense Contract Audit Agency, (5) Defense Contract Management Agency, (6) Defense Information Systems Agency, (7) Defense Intelligence Agency, (8) Defense Legal Services Agency, (9) Defense Security Cooperation Agency, (10) Defense Security Service, (11) Defense Threat Reduction Agency, (12) National Imagery and Mapping Agency (now National Geospatial-Intelligence Agency) and (13) National Security Agency.

[19]DOD included system and budget information for the Transportation Command in the transition plan. DOD did not include this information for the (1) Central Command, (2) Joint Forces Command, (3) Pacific Command, (4) Southern Command, (5) Space Command, (6) Special Operations Command, (7) European Command, and (8) Strategic Command.

that these investments are intended to deliver are reflected in the Global Information Grid rather than in the business enterprise architecture. As we previously reported,[20] exclusion of Defense Information Systems Agency investments is particularly limiting, given that this agency and its investments provide key IT infrastructure services that business systems will use. Without including information on the timing and content of these investments, the critical relationship between infrastructure and systems becomes blurred in many ways. For example, it becomes unclear whether a new business system will be able to reuse existing infrastructure components or services—thereby leveraging established capabilities—or whether it will have to introduce duplicative capabilities as part of the business system investment.

Under the department's incremental approach to developing its enterprise transition plan, the latest plan is a clear improvement over the prior plan. Program officials stated that many of the missing elements that we identified will be included in future iterations of the plan. This incremental approach is both a best practice and is consistent with our previous recommendation. However, the content that the latest plan is missing is important, and the department has yet to develop a plan showing what will be included in each incremental iteration of the enterprise transition plan, with particular emphasis and clarity focused on the near-term increments. Without such a plan, the department is less likely to accomplish intended improvements. Once missing content is added to the enterprise transition plan and all system investments are validated by capability gap analyses, the department will be better positioned to sequentially manage the migration and disposition of existing business processes and systems— and the introduction of new ones.

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[20]GAO-06-219.

DOD Has Taken Steps to Meet Budgetary Reporting Requirements for Business System Investments

DOD has taken steps to meet the Act's requirements[21] relative to the identification of all business systems in its IT budget request. In particular, program officials told us that the DOD Information Technology Portfolio Repository (DITPR) has been established as the authoritative repository for certain information about DOD's systems, such as system names and the responsible DOD components. Further, this repository is being expanded to contain information required for the certification, approval, and annual reviews of these business system investments. To ensure consistency of DOD's fiscal year 2007 IT budget submission with this authoritative inventory, DOD has reconciled (and intends to continue reconciling) DITPR with the database that it uses to prepare its IT budget submissions, referred to as Select and Native Programming Data System–Information Technology (SNAP-IT). According to program and military service officials, DOD is taking steps to ensure that it is entering each system investment in DITPR and SNAP-IT, as appropriate, and it is continually reconciling the information between the two to ensure consistency.

Thus far, program officials told us that business system investments greater than $1 million have been broken out individually and disclosed in the fiscal year 2007 IT budget submission. However, smaller systems—those with modernization funding less than $1 million over the future years' defense program (fiscal years 2006-2011)—still need to be individually visible in the budget. According to these officials, steps are underway to make these smaller systems individually visible in the budget. DOD's actions relative to budgetary reporting should help ensure the completeness and reliability of its IT budget submissions, and increase compliance with the Act's requirements.

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[21]The *Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005* specifies information that the department is to incorporate in its budget request for fiscal year 2006 and each fiscal year thereafter. Specifically, the Act states that each budget request must include information on (1) each defense business system for which funding is being requested; (2) all funds, by appropriation, for each such business system, including funds by appropriation specifically for current services (operation and maintenance) and systems modernization; and (3) the designated approval authority for each business system.

DOD Has Efforts Under Way to Control its Business System Investments, but an Investment Review Board Has Not Been Established

In accordance with the Act, DOD has established and is beginning to implement processes aimed at exercising greater control over its many business system investments. The Act specifies two basic requirements, effective October 1, 2005, for obligation of funds for business system modernizations costing more than $1 million. First, it requires that these modernizations be certified by a designated "approval authority"[22] as meeting specific criteria.[23] Second, it requires that the DBSMC approve each certification. The Act also states that failure to do so before the obligation of funds for any such modernization constitutes a violation of the Anti-deficiency Act.[24] In this regard, the department reported in March 2006 that 226 business systems, representing about $3.6 billion in modernization investment funding, had been approved by the DBSMC.

According to the department's March 2006 report, the investment review and approval process has identified more than 290 systems for phase-out or elimination. For example, one business system investment that has been eliminated is the Forward Compatible Payroll system (FCP). In reviewing the program status, it was determined that FCP would duplicate the functionality contained in DIMHRS, and it was unnecessary to continue investing in both systems. According to the department's fiscal year 2007 IT budget request, approximately $33 million was sought for fiscal year 2007 and about $31 million was estimated for fiscal year 2008 for FCP. Eliminating this duplicative system will enable DOD to use this funding for other priorities.

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[22] Approval authorities, including the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense; and the Deputy Secretary of Defense or an Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

[23] A key condition identified in the Act includes certification by designated approval authorities that the defense business system modernization is (1) in compliance with the enterprise architecture; (2) necessary to achieve critical national security capability or address a critical requirement in an area such as safety or security; or (3) necessary to prevent a significant adverse effect on a project that is needed to achieve an essential capability, taking into consideration the alternative solutions for preventing such an adverse effect.

[24] 31 U.S.C. § 1341(a)(1)(A); see 10 U.S.C. § 2222(b).

The department's March 2006 report to the congressional defense committees also notes that the investment review process has identified approximately 40 business systems for which the requested funding was reduced and the funding availability periods were shortened to fewer than the number of years requested. For example, the Navy requested funding of about $19 million for fiscal years 2006 to 2011 for its Military Sealift Command Human Resources Management System, but the amount approved was approximately $2 million for the first 6 months of fiscal year 2006. According to Navy officials, this system will be reviewed to ascertain whether it has some of the same functionality as the Defense Civilian Personnel Data System. Funding system initiatives for shorter time periods can help reduce the financial risk by providing additional opportunities for monitoring a project's progress against established milestones and help ensure that the investment is properly aligned with the architecture and the department's overall goals and objectives.

The Act also directs that DOD establish five IRBs, each responsible and accountable for controlling certain business system investments to ensure compliance and consistency with the business enterprise architecture. Four of the five designated IRBs have been established, the exception being an IRB chaired by the ASD(NII)/CIO. According to the Act and the Deputy Secretary of Defense's March 19, 2005, memorandum, the ASD(NII)/CIO-chaired IRB is to be responsible and accountable for any business system that primarily supports IT infrastructure or information assurance activities. According to ASD(NII)/CIO officials, this IRB has not been established because the CIO does not have direct control and accountability over any such business systems. CIO officials further noted that since a representative of the ASD(NII)/CIO office is a participant in each of the other four IRBs, any infrastructure related matters could be addressed as part of these boards' deliberations.

The Act's requirement that modernizations costing more than $1 million must be certified by a designated "approval authority" and subsequently approved by the DBSMC prior to funds being obligated applies to both business systems that deliver applications and functional capabilities in each of the identified functional areas, as well as infrastructure that support these systems. Our analysis of the department's detailed fiscal year 2007 budget request documents disclosed that 8 infrastructure modernizations, costing more than $1 million, are designated by DOD in those documents as in support of the business mission area.[25] Investment

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[25] These projects represent approximately $47 million in modernization funding.

in infrastructure is an integral part of any enterprise architecture and transition plan, and should, therefore, be subject to the same investment management structures and processes as the application systems that they support.

Key DOD Systems Still Face Challenges

We testified in November 2005[26] that DOD faced a number of challenges, including ensuring that the department's many business system investments are managed in a way to deliver promised system capabilities and benefits on time and within budget. Our work has shown that key DOD business system investments continue to face formidable challenges. Examples of these system investments are the Defense Integrated Military Human Resources System (DIMHRS), Defense Travel System (DTS), the Army Logistics Modernization Program (LMP), the Navy Tactical Command Support System (NTCSS), and the Transportation Coordinators' Automated Information for Movements System II (TC-AIMS II). The challenges that the DBSMC and the BTA face relative to each of these systems are discussed below.

DIMHRS

Since our report,[27] DOD has made some progress in addressing concerns, however significant challenges remain. Specifically, the DBSMC established a steering committee to ensure timely and cost effective implementation of DIMHRS, and according to its charter, the committee will include representatives from the services. The Defense Business Systems Acquisition Executive (DBSAE) also recently hired a program manager who has prior experience in implementing an integrated personnel and payroll system. Further, the Army and the Air Force have completed assessments of the commercial-off-the-shelf product selected for DIMHRS that has resulted in both services concluding that the product can be used to meet their needs under certain conditions. The Army and the Air Force are currently working to identify all user requirements and to identify functionality gaps within the product and potential solutions to address these gaps. The Navy also recently completed its assessment, but has yet to release the results. According to the DBSAE, the Marine Corps will conduct a similar assessment in spring 2007. According to DOD officials, the Army currently expects to deploy DIMHRS by April 2008 with the Air Force to begin deploying a month later.

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[26] GAO-06-234T.

[27] GAO, *DOD Systems Modernization: Management of Integrated Human Capital Program Needs Additional Improvements*, GAO-05-189 (Washington, D.C.: Feb 11, 2005).

Nonetheless, much remains to be done before this can occur and before DOD can be optimistic about the program's outcome or success. Some of the challenges that DOD has to overcome are ensuring that (1) the department fully addresses our recommendation with respect to the quality of DIMHRS' requirements (e.g., ensuring that user requirements are complete and unambiguous), (2) all the legacy systems DIMHRS will replace and the termination dates for these systems are identified, (3) system interfaces are defined and built, and (4) legacy system data are ready to be converted in accordance with the deployment schedule. Until DOD resolves these challenges, it will not be effectively positioned to correct known weaknesses, including shortcomings in its ability to properly pay military personnel and to monitor and track them to, from, and within their duty stations.

DTS

As we reported in January 2006,[28] DTS continues to face implementation challenges, particularly with respect to testing key functionality to ensure that the system will perform as intended. Our analysis of selected requirements for one key area disclosed that system testing was not effective in ensuring that the promised capability was delivered as intended. For example, we found that DOD did not have reasonable assurance that flight information was properly displayed.[29] This problem was not detected prior to deployment of DTS because DOD did not properly test the system interfaces through which the data are accessed for display. As a result, those travelers using the system may not have received accurate information on available flights, which could have resulted in higher travel costs. The report also identified key challenges facing DTS in becoming DOD's standard travel system, including developing needed interfaces and underutilization of DTS at sites where it has been deployed. While DTS has developed 36 interfaces with various DOD business systems, it will have to develop interfaces with at least 18 additional business systems—not a trivial task. Additionally, the continued use of the existing legacy travel systems at locations where DTS is already deployed results in underutilization of DTS and affects the savings that DTS had planned to achieve. Under the statutory authority of the Comptroller General, we are performing additional audit work on DTS and will provide you the results of our audit upon its completion.

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[28] GAO, *DOD Business Transformation: Defense Travel System Continues to Face Implementation Challenges*, GAO-06-18 (Washington, D.C.: Jan. 18, 2006).

[29] Flight information includes items such as departure and arrival times, airports, and the cost of the airline ticket.

GAO-06-845T

LMP	We have reported that the Army faces challenges in developing and implementing LMP.[30] While LMP has not been designated an enterprise-level system, DOD considers this system to be extremely important to achieving key enterprise priorities, such as asset visibility. For example, we reported that LMP will not provide total asset visibility over DOD's billions of dollars of inventory. We also reported that implementation problems precluded the Tobyhanna Army Depot from accurately reporting on its financial operations, which, in turn, adversely affects the depot's ability to set prices for work performed. At your request, we will be undertaking a series of audits directed at DOD's efforts to resolve longstanding financial management problems over the visibility of its assets that will include follow-up work on LMP.
NTCSS	In December 2005, we reported that DOD needed to reassess its planned investment in the NTCSS,[31] which is a system intended to help Navy personnel effectively manage ships, submarines, and aircraft support activities. We reported that this program was not being managed in accordance with key aspects of the department's policies and related guidance, including federal and recognized best practice guidance. For example, the Navy had not economically justified its ongoing and planned investment in NTCSS; invested in NTCSS within the context of a well-defined DOD or Navy enterprise architecture, which is necessary to guide and constrain NTCSS in a way that promotes interoperability and reduces redundancy with related and dependent systems; effectively performed key measurement, reporting, budgeting, and oversight activities; and adequately conducted requirements management and testing activities. Without this information, we concluded that the Navy could not determine whether NTCSS as defined, and as being developed, is the right solution to meet its strategic business and technological needs.

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[30] GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May. 27, 2004) and GAO, *Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts*, GAO-05-441 (Washington, D.C.: June 30, 2005).

[31] GAO, *DOD Systems Modernization: Planned Investment in the Navy Tactical Command Support System Needs to be Reassessed*, GAO-06-215 (Washington, D.C.: Dec. 5, 2005).

TC-AIMS II	We reported in December 2005[32] that TC-AIMS II—a joint services system with the goal of helping to manage the movement of forces and equipment within the United States and abroad—had not been defined and developed in the context of a DOD enterprise architecture. Similar to DIMHRS and DTS, TC-AIMS II is intended to be an enterprise-level system. However, the Army—DOD's acquisition agent for TC-AIMS II—had pursued the system on the basis of an Army logistics-focused architecture. This means that TC-AIMS II, which is intended to produce a departmentwide military deployment management system, is based on a service-specific architecture and not a DOD-wide architecture, thus increasing the risk that this program, as defined, will not properly fit within the context of future DOD enterprisewide business operations and IT environments. In addition, the Army had not economically justified the program on the basis of reliable estimates of life-cycle costs and benefits, and as a result, the Army does not know that investment in TC-AIMS II as planned is warranted, represents a prudent use of limited DOD resources, and will be interoperable with and not be duplicative of related systems.

Specific High-risk Program Areas Highlight the Need for Continued Attention to Ensure Effective Transformation

I would like to discuss the five remaining high-risk areas within DOD. These include weapon systems acquisitions and contractor oversight; supply chain management; personnel security clearance program; and support infrastructure management.

Management of DOD's Weapon Systems Acquisitions and Contractor Oversight	Two interrelated high-risk areas are the management of DOD's major weapon systems acquisitions and its contractors due to recurring problems with cost overruns and scheduling delays. DOD's new weapon systems programs are expected to be the most expensive and complex ever and will consume an increasingly large share of DOD's budget. These costly current and planned acquisitions are running head-on into the nation's unsustainable fiscal path. In the past 5 years, DOD has doubled its commitment to major weapon systems from $700 billion to $1.4 trillion,

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[32]GAO, *DOD Systems Modernization: Uncertain Joint Use and Marginal Expected Value of Military Asset Deployment System Warrant Reassessment of Planned Investment*, GAO-06-171 (Washington, D.C.: Dec. 15, 2005).

but this huge increase has not been accompanied by more stability, better outcomes, or more increased buying power for the acquisition dollar. Rather than showing appreciable improvement, programs are experiencing recurring problems with cost overruns, missed deadlines, and performance shortfalls. A large number of the programs included in our annual assessment of weapon systems are costing more and taking longer to develop than estimated.[33] It is not unusual to see development cost increases between 30 percent and 40 percent and attendant schedule delays. The consequence of cost and schedule growth is manifested in a reduction of buying power of the defense dollar, at a time when the nation is struggling with a large and growing structural deficit. This causes DOD to either cut back on planned quantities or capabilities, or to even scrap multi-billion dollar programs, after years of effort. If these systems are managed with the traditional margins of error, the financial consequences can be dire, especially in light of a constrained discretionary budget.

It is within this context that we must engage in a comprehensive and fundamental reexamination of new and ongoing investments in our nation's weapon systems. Success for acquisitions means making sound decisions to ensure that program investments are getting promised returns. In the commercial world, successful companies have no choice but to adopt processes and cultures that emphasize basing decisions on knowledge, reducing risks prior to undertaking new efforts, producing realistic cost and schedule estimates, and building in quality to deliver products to customers at the right price, time, and cost. However, this is not happening within DOD. The department has tried to embrace best practices in its policies and instill more discipline in requirements setting, among numerous other actions, but it still has trouble distinguishing wants from true needs. While DOD's policy supports a knowledge-based, evolutionary approach to acquiring new weapons, its practice of making decisions on individual programs often sacrifices knowledge and executability in favor of revolutionary solutions. In an important sense, success has come to mean starting and continuing programs even when cost, schedule, and quantities must be sacrificed.

Our reviews have identified a number of causes behind the acquisition problems just described, but I would now like to discuss three of these underlying causes. The first I would refer to as "big A", or acquisition with

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[33] GAO, *Defense Acquisitions: Assessments of Selected Major Weapon Programs*, GAO-06-391 (Washington, D.C.: March 31, 2006).

a capital "A." What I mean by this is that DOD's funding, requirements, and acquisition processes are not working synergistically. DOD does not clearly define and stabilize requirements before programs are started. Our work has shown that DOD's requirements process generates more demand for new programs than fiscal resources can support. DOD compounds the problem by approving many highly complex and interdependent programs. Moreover, once a program is approved, requirements can be added along the way—significantly stretching technology, creating design challenges, exacerbating budget overruns, and accountability challenges. For example, in the F-22A program, the Air Force added a requirement for air-to-ground attack capability. In its Global Hawk program, the Air Force added both signals intelligence and imagery intelligence requirements. Both programs have experienced schedule delays and significant unit cost increases. Customers often demand additional requirements fearing there may not be another chance to get new capabilities because programs can take a decade or longer to complete. Yet, perversely, such strategies delay delivery to the warfighter, often by years.

The second cause I would refer to as "little a" or the acquisition process itself. DOD commits to individual programs before it obtains assurance that the capabilities it is pursuing can be achieved within available resources and time constraints. Funding processes encourage this approach, since acquisition programs attract more dollars than efforts concentrating solely on proving out technologies. Only 10 percent of the programs in our latest annual assessment of weapon systems had demonstrated critical technologies to best practice standards at the start of development; and only 23 percent demonstrated them to DOD's standards.[34] The cost effect of proceeding without completing technology development before starting an acquisition can be dramatic. For example, research, development, test and evaluation costs for the programs included in our review that met best practice standards at program start increased by a modest average of 4.8 percent more than the first full estimate, whereas the costs for the programs that did not meet these standards increased by a much higher average of 34.9 percent more than the first full estimate. The bottom line is that these consequences are predictable and, thus, preventable.

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[34] DOD's policy states technologies should be demonstrated in at least a relevant environment before a program enters system development; whereas, GAO utilizes the best practice standard that calls for technologies to be demonstrated one step higher – demonstration in an operational environment.

The third cause has to do with the lack of accountability. Contractors and responsible DOD officials are not always held accountable when programs go astray. In December 2005, we reported that DOD gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives.[35] Unfortunately, we found DOD programs routinely engaged in practices that failed to hold contractors accountable for achieving desired outcomes and undermined efforts to motivate contractor performance, such as

- evaluating contractor performance on award-fee criteria that are not directly related to key acquisition outcomes (e.g., meeting cost and schedule goals and delivering desired capabilities to the warfighter);

- paying contractors a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance, which sometimes did not require meeting the basic requirements of the contract; and

- giving contractors at least a second opportunity to earn initially unearned or deferred fees.

As a result, DOD has paid out an estimated $8 billion in award fees on contracts in our study population, regardless of whether acquisition outcomes fell short of, met, or exceeded DOD's expectations. For example, we found that DOD paid its contractor for a satellite program—the Space-Based Infrared System High—74 percent of the award fee available, or $160 million, even though research and development costs increased by more than 99 percent, and the program was delayed for many years and was rebaselined three times. In another instance, DOD paid its contractor for the F-22A aircraft more than $848 million, 91 percent of the available award fee, even though research and development costs increased by more than 47 percent, the program had been delayed by more than 2 years and rebaselined 14 times. Despite paying billions of dollars in award and incentive fees, DOD has not compiled data or developed performance measures to evaluate whether the validity of its belief that

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[35] GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington, D.C.: Dec. 19, 2005); and GAO, *Defense Acquisitions: DOD Wastes Billions of Dollars through Poorly Structured Incentives*, GAO-06-409T (Washington, D.C.: April 5, 2006).

award and incentive fees improve contractor performance and acquisition outcomes.

There are many factors that play a role in causing weapons programs to go astray. They include workforce challenges, poor contractor oversight, frequent turnover in key leadership, and a lack of systems engineering, among others. Moreover, many of the business processes that support weapons development—strategic planning and budgeting, human capital management, infrastructure, financial management, information technology, and contracting—are beset with pervasive, decades-old management problems, including outdated organizational structures, systems, and processes. In fact, all of these areas—along with weapon systems acquisition—are on GAO's high-risk list of major government programs and operations.

Our work shows that acquisition problems will likely persist until DOD provides a better foundation for buying the right things, the right way. This involves making tough tradeoff decisions as to which programs should be pursued and, more importantly, not pursued, making sure programs are executable, locking in requirements before programs are started, and making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. These changes will not be easy to make. They require DOD to reexamine the entirety of its acquisition process and to make deep-seated changes to the setting, funding, and execution of program requirements. In other words, DOD would need to revisit who sets requirements, strategy, monitors performance and what factors to consider in selecting and rewarding contractors. It also involves changing how DOD views success, and what is necessary to achieve success. I am encouraged by DOD's recent efforts to improve the collaboration and consultation between the requirements and acquisition communities. The tests of these efforts will be whether they produce better decisions. If they do, it is important that they are sustained by more than the force of personality.

Buying major systems is not the only area where DOD needs to improve its acquisition practices. In fact, DOD's management of its contracts in general has been on GAO's high-risk list since 1992. Contract management remains a high-risk area at DOD to this day, in part, because DOD is unable to assure that it is using sound business practices to acquire the goods and services needed to meet the warfighter's needs, creating unnecessary risks and paying higher prices than justified. In this regard, in March 2005 we reported that deficiencies in DOD's oversight of service contractors placed DOD at risk of paying the contractors more than the

value of the services they performed. In other reports, we identified numerous issues in DOD's use of interagency contracting vehicles that contributed to poor acquisition outcomes. Additionally, earlier this year, we reported that the Army acquired guard services under authorized sole-source contract at 46 of 57 Army installations, despite the Army's recognition that it was paying about 25 percent more for its sole-source contracts than for those it had previously awarded competitively.[36]

Until the department devotes sufficient management attention to address these longstanding issues, DOD remains at risk of wasting billions of dollars and failing to get the goods and services it needs to accomplish its missions.

DOD Supply Chain Management

Since the January 2005 update of the high-risk series, DOD has made some progress toward addressing supply chain management problems. With the encouragement of the Office of Management and Budget (OMB), DOD has developed a plan to show progress toward the long-term goal of resolving problems and removing supply chain management from our list of high-risk areas within the department. DOD issued the first iteration of the plan in July 2005 and, since then, has regularly updated it. Based on our initial review of the plan, we believe it is a solid first step toward improving supply chain management in support of the warfighter. For example, DOD's plan identifies three key areas—supply requirements forecasting, distribution of material, and asset visibility—that we believe are critical to DOD's efforts to improve supply chain management. The plan highlights selected DOD supply chain initiatives, including key milestones in their development. Within the last few months, for example, DOD has made some progress in streamlining the storage and distribution of defense inventory items on a regional basis as part of its Joint Regional Inventory Materiel Management initiative. DOD has completed a pilot for this initiative in the San Diego region and, in January 2006, began a similar transition for inventory items in Oahu, Hawaii. Notwithstanding this positive first step, the department faces challenges and risks in successfully implementing its proposed changes across the department and measuring progress. It will be important for DOD to sustain top leadership commitment and long-term institutional support for the plan; obtain necessary resource commitments from the military services, the

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[36] GAO, *Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach*, GAO-06-284 (Washington, D.C.: Apr. 3, 2005).

Defense Logistics Agency, and other organizations; implement its proposed initiatives across the department; identify performance metrics and valid data to use in monitoring the initiatives; and demonstrate progress toward meeting performance targets. We have been holding monthly meetings with DOD and OMB officials to receive updates on the plan and gain a greater understanding of the ongoing initiatives. In addition, we are continuing to review DOD's progress in implementing its supply chain management plan, the extent the plan is strategically linked to other logistics strategies, and the performance measures DOD is using to track the plan's progress in resolving supply chain problems.

DOD Personnel Security Clearance Program

DOD's personnel security clearance program is another area that we continue to assess because of the risks it poses. For over 2 decades, we have reported on problems with DOD's personnel security clearance program as well as the financial costs and risks to national security resulting from these problems. For example, at the turn of the century, we documented problems such as incomplete investigations, inconsistency in determining eligibility for clearances, and a backlog of overdue clearance reinvestigations that exceeded 500,000 cases. More recently in 2004, we identified continuing and new impediments hampering DOD's clearance program and made recommendations for increasing the effectiveness and efficiency of the program. These longstanding delays in competing hundreds of thousands of clearance requests for servicemembers, federal employees, and industry personnel as well as numerous impediments that hinder DOD's ability to accurately estimate and eliminate its clearance backlog led us to declare DOD's personnel security clearance program a high-risk area in January 2005. Since then, we have participated in four hearings that addressed issues related to DOD's program.[37] While positive steps—such as (1) the development of an initial version of a plan to improve security clearance processes governmentwide and (2) high-level involvement from the Office of Management and Budget—have been taken toward addressing the problems, other recent events such as DOD halting the processing of all new clearance requests for industry personnel on

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[37] GAO, *DOD Personnel Clearances: New Concerns Slow Processing of Clearances for Industry Personnel,* GAO-06-748T (Washington, D.C.: May 17, 2006); GAO, *DOD Personnel Clearances: Funding Challenges and Other Impediments Slow Clearances for Industry Personnel,* GAO-06-747T (Washington, D.C.: May 17, 2006); GAO, *DOD Personnel Clearances: Government Plan Addresses Some Longstanding Problems with DOD's Program, But Concerns Remain,* GAO-06-233T (Washington, D.C.: Nov. 9, 2005); and GAO, *DOD Personnel Clearances: Some Progress Has Been Made but Hurdles Remain to Overcome the Challenges That Led to GAO's HighRisk Designation,* GAO-05-842T (Washington, D.C.: June 28, 2005).

April 28, 2006, reveal continuing problems with DOD's personnel security clearance program. As part of our ongoing efforts to monitor and evaluate this program, we are currently reviewing the timeliness and completeness of the processes used to determine whether industry personnel are eligible to hold a top secret clearance.

DOD Support Infrastructure Management

Since 1997, GAO has identified DOD's management of its support infrastructure as a high-risk area because infrastructure costs continue to consume a larger than necessary portion of its budget. DOD officials have been concerned for several years that much of the department's infrastructure is outdated, inadequately maintained, and that DOD has more infrastructure than needed, which impacts its ability to devote more funding to weapon systems modernization and other critical needs. Inefficient management practices and outdated business processes have also contributed to the problem.

While DOD has made progress and expects to continue making improvements in its support infrastructure management, DOD officials recognize they must achieve greater efficiencies. To its credit, the department has given high-level emphasis to reforming its support operations and infrastructure since we last reported on this high-risk area, including efforts to reduce excess infrastructure, promote transformation, and foster jointness through the 2005 base realignment and closure (BRAC) process. Also, DOD is updating its Defense Installations Strategic Plan to better address infrastructure issues, revise its installations readiness reporting to better measure facility conditions, establish core real property inventory data requirements to better support the needs of real property asset management, and continues to modify its suite of analytical tools to better forecast funding requirements for installation management services. It has also achieved efficiencies through privatizing military family housing and demolishing unneeded buildings at military installations.

Our engagements examining DOD's management of its facilities infrastructure indicate that much work remains for DOD to fully rationalize and transform its support infrastructure to improve operations, achieve efficiencies, and allow it to concentrate its resources on the most critical needs. For example

- In July 2005, we reported on clear limitations associated with achieving DOD's projected $50 billion in savings from this BRAC round. While DOD offered many proposed actions in the 2005 round, these actions

were more related to business process reengineering and realignment of various functions and activities than base closures and actual facility reductions. Moreover, sizable savings were projected from efficiency measures and other actions, but many underlying assumptions had not been validated and could be difficult to track over time. We have ongoing work monitoring actions emanating from the 2005 BRAC process and assessing costs and savings from those actions, and will be able to comment further on the status of these initiatives over the next several years as implementation actions progress.

- In June 2005, we reported that hundreds of millions of operation and maintenance dollars designated for facilities sustainment, restoration, and modernization and other purposes were moved by the services to pay for base operations support (BOS) due in part to a lack of a common terminology across the services in defining BOS functions, as well as the lack of a mature analytic process for developing credible and consistent requirements.[38] While such funding movements are permissible, we found that they were disruptive to the orderly provision of BOS services and contributed to the overall degradation of facilities which adversely affects the quality of life and morale of military personnel. In another report issued in June 2005, we reported that many of DOD's training ranges were in deteriorated condition and lacked modernization which adversely affected training activities and jeopardized the safety of military personnel.[39]

- In an April 2006 report, we identified several opportunities for DOD and the services to improve their oversight and monitoring of the execution and performance of awarded privatized housing projects.[40] We further reported that 36 percent of awarded privatization projects had occupancy rates below expectations even though the services had begun renting housing units to parties other than military families, including units rented to single or unaccompanied servicemembers, retired military personnel, civilians and contractors who work for DOD, and civilians from the general public.

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[38] GAO, *Defense Infrastructure: Issues Need to Be Addressed in Managing and Funding Base Operations and Facilities Support*, GAO-05-556 (Washington, D.C.: June 15, 2005).

[39] GAO, *Military Training: Better Planning and Funding Priority Needed to Improve Conditions of Military Training Ranges*, GAO-05-534 (Washington, D.C.: June 10, 2005).

[40] GAO, *Military Housing: Management Issues Require Attention as the Privatization Program Matures*, GAO-06-438 (Washington, D.C.: April 28, 2006).

- During our recent visits to installations in the United States and overseas, service officials continued to report on inadequate funding to provide both base operations support and maintain their facilities. They expressed concern that unless this is addressed, future upkeep and repair of many new facilities to be constructed as a result of BRAC, overseas rebasing, and the Army's move to the modular brigade structure will suffer and the condition of their facilities will continue to deteriorate.

- We have also found that DOD's outline of its strategic plan for addressing this high-risk area had a number of weaknesses and warranted further clarification and specification. We have met with officials of the OMB and DOD periodically to discuss the department's efforts to address this high-risk area.

Through our monitoring of DOD activities between now and the next several years for base closures and overseas basing, we will be able to determine what other work needs to be done on issues associated with DOD's management of its support infrastructure, as well as provide a more complete assessment of costs, savings, and overall benefits realized from the department's efforts to address these issues. Organizations throughout DOD will need to continue reengineering their business processes and striving for greater operational effectiveness and efficiency. DOD will also need to develop a comprehensive, long-range plan for its infrastructure that addresses facility requirements, recapitalization, and maintenance and repair, as well as to provide adequate resources to meet these requirements and halt the degradation of facilities and services.

Congress Proposed Legislation to Address DOD's Financial Management Weaknesses and Information Technology Systems

Lastly, you asked for my comments on two provisions contained in Senate Bill 2766 (the National Defense Authorization Act for Fiscal Year 2007), that the full Senate Armed Services Committee has reported to the Senate. The first provision, section 313, is intended to ensure that the department pursues audit activities only in accordance with a comprehensive financial management improvement plan that coordinates such activities with improvements in its systems and controls. The second provision, section 804, establishes certain reporting and oversight requirements for the acquisition of Major Automated Information Systems (MAIS).

Proposed Legislation Reiterates Need for Consistency Between DOD's Financial and Business Transformation Plans

Section 313 of legislation proposed by the Senate Armed Services Committee,[41] is intended to limit DOD's ability to obligate or expend any funds for the purpose of financial management improvement activities until DOD asserts that the activities are consistent with its financial management improvement plan and likely to result in sustained improvements. I fully support the intent of legislation aimed at focusing DOD's corrective actions on sustained improvements in its ability to provide timely, reliable, complete, and useful information. This is important not only for financial reporting purposes, but more importantly for daily decision making and oversight. Section 313 is consistent with existing legislation, as well as recent actions taken by the department.

For example, the National Defense Authorization Act for Fiscal Year 2002, Section 1008,[42] currently requires DOD to limit resources used to prepare and audit unreliable financial information, thereby saving the taxpayers millions of dollars annually. In addition, the Fiscal Year 2002 Act requires DOD to report to congressional committees and others annually on the reliability of DOD's financial information and to provide a summary of improvement activities, including priorities, milestones, measures of success, and estimates of when each financial statement will convey reliable information. In my opinion, Congress has clearly articulated its expectation that DOD exercise prudence in its use of taxpayer money and focus only on those activities that will result in sustained improvements in its ability to produce timely and reliable financial management information.

Moreover, DOD developed its FIAR Plan to provide DOD components with a roadmap for achieving the following objectives: (1) resolving problems affecting the accuracy, reliability, and timeliness of financial information and (2) obtaining clean financial statement audit opinions. Similar to the Financial Improvement Initiative, an earlier DOD improvement effort, the FIAR Plan uses an incremental approach to structure its process for examining operations, diagnosing problems, planning corrective actions, and preparing for audit. However, unlike the previous initiative, the FIAR Plan does not establish an overall goal of achieving a clean audit opinion on its departmentwide financial statements by a specific date. Rather, the FIAR Plan recognizes that it will take several years before DOD is able to

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[41] See S. 2766, 109th Cong. § 313 (2007).

[42] Pub. L. No. 107-107, §1008 (2001).

implement the systems, processes, and other changes necessary to fully address its financial management weaknesses.

I believe the FIAR Plan is an important step for the department in better understanding and addressing its financial management deficiencies. Furthermore, I believe development of the FIAR Plan was a direct result of the interest, oversight, and leadership that this Subcommittee and others have continued to demonstrate, through testimonies, legislation,[43] and other actions.

As outlined in its FIAR Plan, DOD has established business rules and an oversight structure to guide improvement activities and audit preparation efforts and to ensure compliance with Section 1008 of the National Defense Authorization Act for Fiscal Year 2002. As is true with most initiatives, however, a comprehensive and integrated plan, sustained leadership, results oriented performance measures, and effective implementation will be key to successful reform. The effectiveness of DOD's FIAR Plan, leadership, and business rules in addressing DOD's financial management deficiencies will be measured by the department's ability to provide timely, reliable, accurate, and useful information for day-to-day management, analysis, decision-making, reporting, and oversight rather than primarily for establishing dollar values for financial reporting purposes.

Legislative Language Establishing Reporting Requirements for Major Automated Information Systems Could Provide an Important Oversight Mechanism

The proposed language in Section 804 of Senate Bill 2766 (the Fiscal Year 2007 National Defense Authorization Act) could provide an important oversight mechanism because it would establish certain reporting and oversight requirements for the acquisition of MAIS that fail to meet cost, schedule, or performance criteria. In general, a MAIS is a major DOD IT program that is not embedded in a weapon system (e.g., a business system investment).

The reporting requirements proposed in Section 804 are in many ways similar to those for Major Defense Acquisition Programs (MDAPs), which are typically weapon systems,[44] including the cost increase reporting

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[43] National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 376 (2006).

[44] MDAPs are defined at 10 U.S.C. § 2430, as implemented in DOD Instruction 5000.2, Operation of the Defense Acquisition System, May 12, 2003.

mechanism commonly referred to as Nunn-McCurdy.[45] For example, Section 804 specifies cost increase percentage ranges that would prompt congressional reporting and, if applicable, certification. However, there are some major differences in the reporting requirements proposed for MAIS programs as compared to those for MDAPs. For example, the proposed language in Section 804 includes schedule delay thresholds, and provides more specificity regarding performance changes by creating criteria for either a "significant" or a "critical" change.[46] While subjective in the case of performance parameters, this added guidance is a positive step towards increased visibility into the performance and progress of DOD MAIS programs.

Another difference is that the proposed amendment does not include enforcement language similar to that contained in the Nunn-McCurdy provision, which states that, should the required reports not be submitted to Congress as required for an MDAP, appropriated funds may not be obligated for a major contract under the program.[47]

There are two other provisions in the proposed language that the Subcommittee may want to review. First, the proposed language mentions the original information submitted to Congress as the basis for assessing program changes. That would seem to mean the initial cost, schedule, and performance "baseline" submitted when the program is first reported to Congress. However, there is a risk that any cost, schedule, and performance variances would be reduced if the latest annual cost, schedule, and performance information is instead used by DOD as the "baseline." In effect, unless the proposed language is clarified, an argument could be made that, given the annual requirement to submit the MAIS program estimates, such programs could effectively be rebaselined every year.

Second, the terms "original estimate" or information "originally submitted" would also seem to mean the initial cost, schedule, and performance "baseline" for an entire MAIS program (i.e., total program estimate). However, a best practice for acquiring large and complex business system

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[45]10 U.S.C. § 2433.

[46]A significant change is defined as an adverse change in expected performance from reported parameters; a critical change is defined as a change that will undermine the ability of the system to perform the functions anticipated.

[47]10 U.S.C. § 2433(e) (3).

investments, preferred under the Clinger-Cohen Act and federal guidance, is to define, design, develop, and deploy a given system in incremental parts. Each increment should have its own set of cost, schedule, and performance (and benefit) baselines that are used to justify investment in, and measure performance and progress of, each increment. This practice is intended to spread the risk of managing large and lengthy investments across a progression of several smaller and shorter investments. The proposed legislative language does not recognize this practice. Our work has shown that even though major business system programs have known shortfalls in meeting incremental baselines, shortfalls against total program baselines are not similarly visible.

Concluding Observations

Let me close where I began. DOD's senior leaders have demonstrated a commitment to transforming the department and have taken several positive steps to begin this effort. However, for a long time now, we've been saying that DOD needs a comprehensive, integrated, and enterprisewide approach to decisionmaking and more sustained leadership at the top.

The long-term fiscal pressures we face as a nation and the size and trend of our projected longer term deficits will intensify the need for DOD to make disciplined and strategic investment decisions that identify and balance risks across a wide range of programs, operations, and functions. While DOD has established an enterprise architecture and transition plan and governance organizations to facilitate transformation across the department, we recognize that this is a large undertaking and we are still monitoring DOD's efforts in this area.

I continue to believe that DOD needs a chief management officer, because, in part, no single individual, no matter how talented or experienced, can effectively address all that needs to be addressed at DOD including conducting the Global War on Terrorism, transforming the military and tackling long-standing, systemic, business transformation challenges. Without the strong and sustained leadership provided by a CMO, DOD will likely continue to have difficulties in maintaining the oversight focus and momentum needed to implement and sustain the reforms to its overall business operations.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.