

GAO

Testimony

Subcommittee on Financial Management, the
Budget, and International Security,
Committee on Governmental Affairs, U. S.
Senate

For Release on Delivery
Expected at 10:30 a.m. EDT
Thursday, July 8, 2004

**DEPARTMENT OF
DEFENSE**

**Financial and Business
Management
Transformation
Hindered by Long-
standing Problems**

Statement of Gregory D. Kutz
Director, Financial Management and Assurance



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-04-941T](#), a testimony before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, United States Senate

Why GAO Did This Study

GAO has previously reported on the Department of Defense's (DOD) financial management and business related problems and key elements necessary for successful reform. Although the underlying conditions remain fundamentally unchanged, DOD continues to be confronted with pervasive problems related to its systems, processes (including internal controls), and people (human capital). These problems impede DOD's ability to operate its numerous business operations in an efficient and effective manner. The Subcommittee asked GAO to provide its views on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD, (2) the underlying causes of DOD business transformation challenges, and (3) DOD's business transformation efforts.

In addition, GAO reiterates the key elements to successful reform: (1) an integrated business management transformation strategy, (2) sustained leadership and resource control, (3) clear lines of responsibility and accountability, (4) results-oriented performance measures, (5) appropriate incentives and consequences, (6) an enterprise architecture to guide reform efforts, and (7) effective monitoring and oversight.

www.gao.gov/cgi-bin/getrpt?GAO-04-941T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9505 (kutzg@gao.gov)

DEPARTMENT OF DEFENSE

Financial and Business Management Transformation Hindered by Long-standing Problems

What GAO Found

DOD's senior civilian and military leaders are committed to transforming the department and improving its business operations and have taken positive steps to begin this effort. However, overhauling the financial management and related business operations of one of the largest and most complex organizations in the world represents a daunting challenge. Six DOD program areas are on GAO's "high risk" list, and the department shares responsibility for three other governmentwide high-risk areas. DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also to provide accurate and timely information for management and Congress to use in making informed decisions. Further, the lack of adequate accountability across all of DOD's major business areas results in billions of dollars in annual wasted resources in a time of increasing fiscal constraint.

Impact of Weaknesses in Human Capital Management, Internal Control, and Systems

Business area affected	Problem identified
Military pay	Ninety-four percent of mobilized Army National Guard soldiers GAO investigated had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and had a negative impact on retention.
Logistics	Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, resulting in a discrepancy of \$1.2 billion between the materiel shipped and the acknowledgement by the activity that the materiel was received.
Travel	Seventy-two percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and 73 percent were not properly justified.
Property	New JSLIST chem-bio suits sold on the Internet for \$3 while at the same time DOD was buying them for over \$200. Further, thousands of defective suits declared excess by DOD were improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.
Contract payments	Some DOD contractors were abusing the federal tax system, with little or no consequence. As of September 2003, DOD had collected only \$687,000 of unpaid federal taxes through a mandated levy program. GAO estimated that at least \$100 million could be collected annually through effective implementation of the levy on DOD contract payments.
Systems	The department invested \$179 million on two failed system efforts that were intended to resolve its long-standing disbursement problems.

Source: GAO.

Four underlying causes impede reform: (1) lack of sustained leadership, (2) cultural resistance to change, (3) lack of meaningful metrics and ongoing monitoring, and (4) inadequate incentives and accountability mechanisms. To address these issues, GAO offers two suggestions for legislative action. First, a senior management position should be established to manage and oversee DOD's financial and business management transformation efforts. Second, in a recent report GAO proposes that Congress shift the control and accountability for business systems investments from the DOD components to the recently created functional areas known as domains. DOD disagrees and stated that its portfolio management process would provide the needed control over business system investments. In GAO's view, providing the funding to the domains would be one way of overcoming DOD's parochial operations and help preclude spending billions on nonintegrated systems.

Mr. Chairman and Members of the Subcommittees:

It is a pleasure to be here to discuss key aspects of business transformation efforts at the Department of Defense (DOD). At the outset, we would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve. The involvement of this Subcommittee is critical to ultimately assuring public confidence in DOD as a steward that is accountable for its finances. DOD continues to confront pervasive decades-old financial management and business problems related to its systems, processes (including internal controls), and people (human capital). Of the 25 areas on GAO's governmentwide "high risk" list, 6 are DOD program areas, and the department shares responsibility for 3 other high-risk areas that are governmentwide in scope.¹ These problems preclude the department from producing accurate, reliable, and timely information to make sound decisions and to accurately report on its trillions of dollars of assets and liabilities. Further, DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements.

Today, we will provide our perspectives on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD, (2) the underlying causes that have impeded the success of prior reform efforts, and (3) DOD's business systems transformation efforts. In addition, we will offer two suggestions for legislative consideration, which we believe improve the chances that DOD business systems transformation efforts will succeed. Our statement is based on previous GAO reports and testimonies.

Summary

DOD's substantial long-standing business management systems and related problems adversely affect the economy, efficiency, and effectiveness of its operations, and have resulted in a lack of adequate accountability across all major business areas. These problems have left the department vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint. Secretary Rumsfeld has estimated that successful improvements to DOD's business operations could save the department 5 percent of its budget a year, which equates to over \$20 billion a year in savings. The following examples indicate the magnitude and severity of the problems.

- Ninety-four percent of mobilized Army National Guard soldiers from the six units we reviewed had pay problems. According to the individuals we interviewed, these problems distracted from the soldiers missions, imposed financial hardships on their families, and had a negative impact on retention.² For example, the commander of an Army National Guard Special Forces unit stated in January 28, 2004, testimony that 25 soldiers left his unit as a

¹ U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003). The nine interrelated high-risk areas that represent the greatest challenge to DOD's development of world-class business operations to support its forces are: contract management, financial management, human capital management, information security, inventory management, real property, systems modernization, support infrastructure management, and weapon systems acquisition.

² U.S. General Accounting Office, *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89 (Washington, D.C.: Nov. 13, 2003).

direct result of the pay problems they experienced and that another 15 asked for transfers to the inactive National Guard.

- DOD sold new Joint Service Logistics Integrated Suit Technology—chem-bio suits—on the Internet for \$3 while at the same time DOD was buying them for over \$200.³ Ineffective supply chain management resulted in thousands of defective suits being declared excess by DOD and then improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.⁴
- Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, including cannibalization of vehicles for parts and duplication of requisitions.⁵

Further evidence of DOD’s problems is the long-standing inability of any military service or major defense component to pass the test of an independent financial audit because of pervasive weaknesses in financial management systems, operations, and controls.

Over the years, the department has initiated several broad-based reform efforts intended to fundamentally reform its business operations. However, these efforts have not resulted in the fundamental reform necessary to resolve the department’s long-standing management challenges because the department has not addressed the four underlying causes that have impeded meaningful reform:

- lack of sustained leadership and management accountability;
- deeply embedded cultural resistance to change, including military service parochialism and stovepiped operations;
- lack of results-oriented goals and performance measures and monitoring; and
- inadequate incentives and accountability mechanisms for business transformation efforts.

These four issues, to a large degree, have impeded DOD’s efforts to modernize its business systems—a critical factor in its transformation efforts. DOD’s stovepiped, duplicative, and nonintegrated systems environment contributes to its operational problems and costs the taxpayers billions of dollars each year. For fiscal year 2004, DOD requested approximately \$19 billion to operate, maintain, and modernize its reported 2,274 business systems. The existing systems environment evolved over time as DOD components—each receiving their own funding—developed narrowly focused parochial solutions to their business problems. Unfortunately, however, these system solutions have not been implemented on time, within budget, and delivered the promised capability. Two systems discussed in our recent report⁶—the

³ U.S. General Accounting Office, *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

⁴ U.S. General Accounting Office, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-81TNI (Washington, D.C.: Oct. 7, 2003).

⁵ U.S. General Accounting Office, *Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom*, GAO-04-305R (Washington, D.C.: Dec. 18, 2003).

⁶ U.S. General Accounting Office, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004).

Defense Logistics Agency's Business Systems Modernization (BSM) effort and the Army's Logistics Modernization Program (LMP)—are no exception.

Successful reform of DOD's fundamentally flawed financial and business management operations must simultaneously focus on its systems, processes, and people. While DOD has made some encouraging progress in addressing specific challenges, it is still in the very early stages of a departmentwide reform that will take many years to accomplish. Secretary Rumsfeld has made business transformation a priority. For example, through its Business Management Modernization Program (BMMP), DOD is continuing its efforts to develop and implement a business enterprise architecture (BEA) and establish effective management oversight and control over its business systems modernization investments. However, after about 3 years of effort and over \$203 million in reported obligations, we have not seen significant change in the content of DOD's architecture or in its approach to investing billions of dollars annually in existing and new systems. We have made numerous recommendations aimed at improving DOD's plans for developing the next version of the architecture and implementing controls for selecting and managing business systems investments.⁷ To date, DOD has not addressed 22 of our 24 recommendations.

The seriousness of DOD's business management weaknesses underscores the importance of no longer condoning "status quo" business operations at DOD. To improve the likelihood that the department's current business transformation efforts will be successful, we have previously suggested⁸ that a chief management official⁹ position be created. The individual would be responsible for overseeing key areas such as strategic planning, performance and financial management, and business systems modernization, while also facilitating the overall business transformation effort within the department.

Further, in a recent report¹⁰ we also suggest that to improve management oversight, accountability, and control of the department's business system funding, Congress may wish to consider providing the funds to operate, maintain, and modernize DOD's business systems to the functional areas, known as domains, rather than the military services and the defense agencies. Currently, each military service and defense agency receives its own funding and is largely autonomous in deciding how to spend these funds, thereby hindering the development of broad-based, integrated corporate system solutions to common DOD-wide problems. Transforming DOD's business operations and making them more efficient would free up resources that could

⁷ See Related Reports.

⁸ U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation*, GAO-04-551T (Washington, D.C.: Mar. 23, 2004) and U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation*, GAO-04-626T (Washington, D.C.: Mar. 31, 2004).

⁹ On September 9, 2002, GAO convened a roundtable of executive branch leaders and management experts to discuss the Chief Operating Officer concept. For more information see U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

¹⁰ GAO-04-615.

be used to support the department's core mission, enhance readiness, and improve the quality of life for our troops and their families.

Background

Because DOD is one of the largest and most complex organizations in the world, overhauling its business operations represents a huge management challenge. In fiscal year 2003, DOD reported that its operations involved over \$1 trillion in assets, nearly \$1.6 trillion in liabilities, approximately 3.3 million military and civilian personnel, and disbursements of over \$416 billion. For fiscal year 2004, the department was appropriated more than \$425 billion, which included approximately \$65 billion for contingency operations. Execution of DOD 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 execute these military operations, the department performs an assortment of interrelated and interdependent business processes, including logistics management, procurement, healthcare management, and financial management.

Transformation of DOD's business systems and operations is critical to the department providing Congress and DOD management with accurate and timely information for use in decision making. One of the key elements we have reported¹¹ as necessary to successfully execute the transformation is establishing and implementing an enterprise architecture. In this regard, the department has undertaken a daunting challenge to modernize its existing business systems environment through the development and implementation of a business enterprise architecture (BEA)—a modernization blueprint. 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."

Pervasive Financial and Business Management Problems Affect DOD's Efficiency and Effectiveness

For several years, we have reported that DOD faces a range of financial management and related business process challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the department. As the Comptroller General testified in March 2004 and as discussed in our latest financial audit report,¹² DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. To date, none of the military services has passed the test of an independent financial audit because

¹¹ U.S. General Accounting Office, *Department of Defense: Status of Financial Management Weaknesses and Progress Toward Reform*, GAO-03-931T (Washington, D.C.: June 25, 2003).

¹² U.S. General Accounting Office, *Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, GAO-04-477T (Washington, D.C.: Mar. 3, 2004) and our report contained in the U.S. Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: Feb. 27, 2004).

of pervasive weaknesses in internal control and processes and fundamentally flawed business systems.

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that obtaining a clean (unqualified) financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that without sound internal control and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure of accountability for the American people. The Joint Financial Management Improvement Program (JFMIP)¹³ principals have defined certain measures, in addition to receiving an unqualified financial statement audit opinion, for achieving financial management success. These additional measures include (1) being able to routinely provide timely, accurate, and useful financial and performance information; (2) having no material internal control weaknesses or material noncompliance with laws and regulations; and (3) meeting the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).¹⁴ Unfortunately, DOD does not meet any of these conditions. For example, for fiscal year 2003, the DOD Inspector General (DOD IG) issued a disclaimer of opinion on DOD's financial statements, citing 11 material weaknesses in internal control and noncompliance with FFMIA requirements.

Pervasive weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decision makers; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, and abuse, as the following examples illustrate.

- Of the 481 mobilized Army National Guard soldiers from six GAO case study Special Forces and Military Police units,¹⁵ 450 had at least one pay problem associated with their mobilization. According to the individuals we interviewed, DOD's inability to provide timely and accurate payments to these soldiers, many of whom risked their lives in recent Iraq or Afghanistan missions, distracted them from their missions, imposed financial hardships on

¹³ JFMIP is a joint undertaking of the Office of Management and Budget, GAO, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government.

¹⁴ FFMIA, Pub. L. No. 104-208, div. A., §101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996), requires the 23 major departments and agencies covered by the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990) (as amended), to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) *U.S. Standard General Ledger (SGL)* at the transaction level.

¹⁵ The six case study units reviewed include the Colorado B Company Special Forces, Virginia B Company Special Forces, West Virginia C Company Special Forces, Mississippi 114th Military Police Company, California 49th Military Police Headquarters and Headquarters Detachment, and the Maryland 200th Military Police Company. In addition, our limited review of pay experiences of soldiers in the Colorado Army Guard's 220th Military Police Company, which recently returned from Iraq, indicated that some of the same types of pay problems that we found in our case studies had also affected soldiers in this unit.

the soldiers and their families, and has had a negative impact on retention.¹⁶ More specifically, in January 28, 2004, testimony, the commander of a special forces unit stated that 25 soldiers left the unit as a direct result of the pay problems they experienced and that another 15 asked for transfers to the inactive National Guard. He also stated that because it would take an estimated 2 years and \$250,000 to train each replacement, these losses have had a significant negative impact on the unit's mission capability—one of only six such units in the nation.

- DOD incurred substantial logistical support problems as a result of weak distribution and accountability processes and controls over supplies and equipment shipments in support of Operation Iraqi Freedom activities, similar to those encountered during the prior Gulf War. These weaknesses resulted in (1) supply shortages, (2) backlogs of materials delivered in theater but not delivered to the requesting activity, (3) a discrepancy of \$1.2 billion between the amount of materiel shipped and that acknowledged by the activity as received, (4) cannibalization of vehicles, and (5) duplicate supply requisitions.¹⁷
- Our analysis of data on more than 50,000 maintenance work orders opened during the deployments of six battle groups indicated that about 29,000 orders (58 percent) could not be completed because the needed repair parts were not available on board ship. This condition was a result of inaccurate ship configuration records and incomplete, outdated, or erroneous historical parts demand data. Such problems not only have a detrimental impact on mission readiness, they may also increase operational costs due to delays in repairing equipment and holding unneeded spare parts inventory.¹⁸
- Inadequate asset visibility and accountability resulted in DOD selling new Joint Service Lightweight Integrated Suit Technology—the current chemical and biological protective garment used by our military forces—on the Internet for \$3 each (coat and trousers) while at the same time buying them for over \$200 each.¹⁹ DOD has acknowledged that these garments should have been restricted to DOD use only and therefore should not have been available to the public.
- DOD sold excess biological laboratory equipment, including a biological safety cabinet, a bacteriological incubator, a centrifuge, and other items that could be used to produce biological agents. Using a fictitious company and fictitious individual identities, we were able to purchase a large number of new and usable equipment items and protective gear over the Internet from DOD. Although the production of biological warfare agents requires a high degree of expertise, the ease with which these items were obtained through public sales increases the risk that terrorists could obtain and use them to produce biological agents that

¹⁶ GAO-04-89.

¹⁷ GAO-04-305R.

¹⁸ U.S. General Accounting Office, *Defense Inventory: Opportunities Exist to Improve Spare Parts Support Aboard Deployed Navy Ships*, GAO-03-887 (Washington, D.C.: Aug. 29, 2003).

¹⁹ GAO-02-873T.

could be used against the United States.²⁰

- Some DOD contractors have been abusing the federal tax system with little or no consequence, and DOD is not collecting as much in unpaid taxes as it could. Under the Debt Collection Improvement Act of 1996, DOD is responsible—working with the Treasury Department—for offsetting payments made to contractors to collect funds owed, such as unpaid federal taxes. However, we found that DOD had collected only \$687,000 of unpaid taxes as of September 2003. We estimated that at least \$100 million could be collected annually from DOD contractors through effective implementation of levy and debt collection programs. We also found numerous instances of abusive or potentially criminal activity²¹ related to the federal tax system during our audit and investigation of 47 DOD contractor case studies. The 34 case studies involving businesses with employees had primarily unpaid payroll taxes, some dating to the early 1990s and some for as many as 62 tax periods.²² The other 13 case studies involved individuals who had unpaid income taxes dating as far back as the 1980s. Several of these contractors provided parts or services supporting weapons and other sensitive military programs.²³
- Based on statistical sampling, we estimated that 72 percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and that 73 percent were not properly justified. During fiscal years 2001 and 2002, DOD spent almost \$124 million on airline tickets that included at least one leg in premium class—usually business class. Because each premium class ticket costs the government up to thousands of dollars more than a coach class ticket, unauthorized premium class travel resulted in millions of dollars of unnecessary costs being incurred annually.²⁴
- Control breakdowns resulted in DOD paying for airline tickets that were not used and not processed for refund—amounting to about 58,000 tickets totaling more \$21 million for fiscal years 2001 and 2002. DOD was not aware of this problem before our audit and did not maintain any data on unused tickets. Based on limited data provided by the airlines, it is possible that the unused value of the fully and partially unused tickets DOD purchased from

²⁰ U.S. General Accounting Office, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-81TNI (Washington, D.C.: Oct. 7, 2003).

²¹ We characterized as “potentially criminal” any activity related to federal tax liability that may be a crime under a specific provision of the Internal Revenue Code. Depending on the potential penalty provided by statute, the activity could be a felony (punishable by imprisonment of more than 1 year) or a misdemeanor (punishable by imprisonment of 1 year or less). Some potential crimes under the Internal Revenue Code constitute fraud because of the presence of intent to defraud, intentional misrepresentation or deception, or other required legal elements.

²² A “tax period” varies by tax type. For example, the tax period for payroll and excise taxes is one quarter of a year. The taxpayer is required to file quarterly returns with IRS for these types of taxes, although payment of the taxes occurs throughout the quarter. In contrast, for income, corporate, and unemployment taxes, a tax period is 1 year.

²³ U.S. General Accounting Office, *Financial Management: Some DOD Contractors Abuse the Federal Tax System with Little Consequence*, GAO-04-95 (Washington, D.C.: Feb. 12, 2004).

²⁴ U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, GAO-04-229T (Washington, D.C.: Nov. 6, 2003), and U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, GAO-04-88 (Washington, D.C.: Oct. 24, 2003).

fiscal years 1997 through 2003 with DOD's centrally billed account could be at least \$115 million.²⁵

- We found that DOD sometimes paid twice for the same airline ticket—first to the Bank of America for the monthly credit and bill, and second to the traveler, who was reimbursed for the same ticket. Based on our mining of limited data, the potential magnitude of the improper payments was 27,000 transactions for over \$8 million. For example, DOD paid a Navy GS-15 civilian employee \$10,000 for 13 airline tickets he had not purchased.²⁶
- We found²⁷ that 38 of 105 travel cardholders we reviewed who had their accounts charged-off due to nonpayment still had active secret or top-secret clearances as of June 2002. Some of the Army personnel holding security clearances who have had difficulty paying their travel card bills may present security risks to the Army. Army regulations provide that an individual's finances are one of the key factors to be considered in determining whether an individual should continue to be entrusted with a secret or top-secret clearance. However, we found that Army security officials were unaware of these financial issues and consequently could not consider their potential effect on whether these individuals should continue to have security clearances.
- Our review of fiscal year 2002 data revealed that about \$1 of every \$4 in contract payment transactions in DOD's MOCAS system was for adjustments to previously recorded payments—\$49 billion of adjustments out of \$198 billion in disbursement, collection, and adjustment transactions. According to DOD, the cost of researching and making adjustments to accounting records was about \$34 million in fiscal year 2002, primarily to pay hundreds of DOD and contractor staff.²⁸
- Tens of millions of dollars are not being collected each year by military treatment facilities from third-party insurers because key information required to effectively bill and collect from third-party insurers is often not properly collected, recorded, or used by the military treatment facilities.²⁹
- DOD cannot provide reasonable assurance to the Congress that its IT budget request includes all funding for the department's business systems. We have reported³⁰ that DOD's IT budget

²⁵ U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars of Wasted on Unused Airline Tickets*, GAO-04-398 (Washington, D.C.: Mar. 31, 2004).

²⁶ U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Resulted in Millions of Dollars of Improper Payments*, GAO-04-576 (Washington, D.C.: June 9, 2004).

²⁷ U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, GAO-03-169 (Washington, D.C.: Oct. 11, 2002).

²⁸ U.S. General Accounting Office, *DOD Contract Payments: Management Action Needed to Reduce Billions in Adjustments to Contract Payment Records*, GAO-03-727 (Washington, D.C.: Aug. 8, 2003).

²⁹ U.S. General Accounting Office, *Military Treatment Facilities: Improvements Needed to Increase DOD Third-Party Collections*, GAO-04-322R (Washington, D.C.: Feb. 20, 2004).

³⁰ U.S. General Accounting Office, *Information Technology: Improvements Needed in the Reliability of Defense Budget Submissions*, GAO-04-115 (Washington, D.C.: Dec. 19, 2003).

submission to Congress for fiscal year 2004 contained material inconsistencies, inaccuracies, or omissions that limited its reliability. We identified discrepancies totaling about \$1.6 billion between two primary parts of the submission—the IT budget summary report and the detailed capital investments reports on each IT initiative. These problems were largely attributable to insufficient management attention and limitations in departmental policies and procedures, such as guidance in DOD’s Financial Management Regulation, and to shortcomings in systems that support budget-related activities.

These examples clearly demonstrate not only the severity of DOD’s current problems, but also the importance of business systems modernization as a critical element in the department’s transformation efforts to improve the economy, efficiency, and effectiveness of its operations, and to provide for accountability to Congress and American taxpayers.

Underlying Causes of Financial and Related Business Process Transformation Challenges

Since May 1997,³¹ we have highlighted in various reports and testimonies what we believe are the underlying causes of the department’s inability to resolve its long-standing financial management and related business management weaknesses and fundamentally reform its business operations. We found that one or more of these causes were contributing factors to the financial management and related business process weaknesses previously discussed. Over the years, the department has initiated several broad-based reform efforts intended to fundamentally reform its business operations and improve the reliability of information used in the decision-making process. Unfortunately, these initiatives have generally proven to be less successful than anticipated because DOD has not addressed the following four underlying causes:

- lack of sustained top-level leadership and management accountability for correcting problems;
- deeply embedded cultural resistance to change, including military service parochialism and stovepiped operations;
- lack of results-oriented goals and performance measures and monitoring; and
- inadequate incentives and accountability mechanisms relating to business transformation efforts.

If not properly addressed, these root causes, which I will now highlight, will likely result in the failure of current DOD transformation efforts and continue to hinder the department’s ability to produce accurate, reliable, and timely information to make sound decisions and to accurately report on its billions of dollars of assets, such as inventory.

Lack of Sustained Leadership and Adequate Accountability

Historically, DOD has not routinely assigned accountability for financial management performance to specific organizations or individuals who have sufficient authority to accomplish desired goals. For example, under the Chief Financial Officers Act of 1990,³² it is the

³¹ U.S. General Accounting Office, *DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste*, GAO/T-NSIAD/AIMD-97-143 (Washington, D.C.: May 1, 1997).

³² Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838, 2843 (Nov. 15, 1990) (*codified, as amended, in scattered sections of title 31, United States Code*).

responsibility of the agency Chief Financial Officer (CFO) to establish the mission and vision for the agency's future financial management and to direct, manage, and provide oversight of financial management operations. However, at DOD, the Comptroller—who is by statute the department's CFO—has direct responsibility for only an estimated 20 percent of the data relied on to carry out the department's financial management operations. The remaining 80 percent comes from DOD's other business areas such as acquisition and personnel, which are not under the control and authority of the DOD Comptroller.

Further, DOD's past experience has suggested that top management has not had a proactive, consistent, and continuing role in integrating daily operations for achieving business transformation performance goals. It is imperative that major improvement initiatives have the direct, active support and involvement of the Secretary and Deputy Secretary of Defense to ensure that daily activities throughout the department remain focused on achieving shared, agencywide outcomes and success. While DOD leadership has demonstrated its commitment to reforming the department's business operations, the magnitude and nature of day-to-day demands placed on these leaders, given the current world events associated with fighting the war on terrorism, clearly affect the level of oversight, commitment, and involvement they can devote to the transformation efforts. Given the importance of DOD's business transformation efforts, it is imperative that it receives the sustained leadership needed to improve the economy, efficiency, and effectiveness of DOD's business operations. Based on our surveys of best practices of world-class organizations,³³ strong executive CFO and Chief Information Officer (CIO) leadership and centralized control over systems investments are essential to (1) making financial management an entitywide priority, (2) providing meaningful information to decision makers, (3) building a team of people that delivers results, and (4) effectively leveraging technology to achieve stated goals and objectives.

Cultural Resistance and Parochialism

Cultural resistance to change, military service parochialism, and stovepiped operations have all contributed significantly to the failure of previous attempts to implement broad-based management reforms at DOD. The department has acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating practices of a complex, multifaceted organization and that many of these practices were developed piecemeal and evolved to accommodate different organizations, each with its own policies and procedures. Recent audits reveal that DOD has made only small inroads in addressing these challenges. For example, as discussed in our May 2004 report,³⁴ DOD does not have the processes and controls in place to provide reasonable assurance that it is in compliance with the fiscal year 2003 defense

³³ U.S. General Accounting Office, *Executive Guide: Creating Value Through World-class Financial Management*, GAO/AIMD-00-134 (Washington, D.C.: April 2000) and U.S. General Accounting Office, *Executive Guide: Maximizing the Success of Chief Information Officers: Learning From Leading Organizations*, GAO-01-376G (Washington, D.C.: February 2001).

³⁴ U.S. General Accounting Office, *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, GAO-04-731R (Washington, D.C.: May 17, 2004).

authorization act,³⁵ which requires the DOD Comptroller to review all system improvements with obligations exceeding \$1 million. As a result, DOD was not able to satisfy our request for information on all obligations in excess of \$1 million for system modernizations since passage of the act. Based upon a comparison of limited information provided by the military services and defense agencies for fiscal years 2003³⁶ and 2004, as of December 2003, we identified a total of \$863 million in obligations that exceeded \$1 million for system improvements that were not submitted to the DOD Comptroller for required review.

Additionally, as discussed in our recent report,³⁷ DOD continued to use a stovepiped approach to develop and fund its business system investments. As shown in table 1, DOD requested approximately \$18.8 billion for fiscal year 2004 to operate, maintain, and modernize its reported 2,274 nonintegrated, duplicative, stovepiped business systems. The table also shows how business system funding is spread across various DOD components.

Table 1: DOD Fiscal Year 2004 Information Technology Budget Request for Business Systems by DOD Component (Dollars in millions)

Component	Total
Army	\$3,652
Navy	3,778
Air Force	3,737
DISA ^a	3,938
TRICARE ^b	980
DLA ^c	774
DFAS ^d	502
Other DOD components ^e	1,440
Total	\$18,801

Source: GAO analysis based on DOD's fiscal year 2004 IT budget request.

^a The Defense Information Systems Agency provides DOD and other organizations with a wide range of information services, such as data processing, telecommunications services, and database management.

^b TRICARE is the health care system for DOD's active duty personnel, their dependents, and retirees.

^c DLA is DOD's logistics manager for all consumable and some repair items; its primary business function is providing supply support to sustain military operations and readiness.

^d Defense Finance and Accounting Services is the centralized accounting agency for DOD.

^e Other DOD components include entities such as the Office of the Secretary of Defense and the Defense Contract Management Agency.

³⁵ Subsection 1004 (d) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2629 (Dec. 2, 2002), provides that any amount in excess of \$1 million may be obligated for financial system improvements before approval of its enterprise architecture and a supporting transition plan only if the DOD Comptroller makes a determination that the improvement is necessary for (1) critical national security capability or critical safety and security requirements or (2) prevention of significant adverse effect on a project that is needed to achieve an essential capability. The act further provides that after the architecture is approved, the DOD Comptroller must determine before making obligations that exceed \$1 million for system improvements that such improvements are consistent with the enterprise architecture and the transition plan.

³⁶ We requested obligational data for fiscal year 2003 for the period December 2, 2002, the date of the enactment of the act, through September 30, 2003.

³⁷ GAO-04-615.

The existing systems environment evolved over time as DOD components—each receives its own system funding and follows decentralized acquisition and investment practices—developed narrowly focused parochial solutions to their business problems. DOD’s ability to address its current “business-as-usual” approach to business system investments is further hampered by its lack of

- a complete inventory of business systems—a condition we first highlighted in 1998. In fact, the DOD Comptroller testified in March 2004³⁸ that the size of DOD’s actual systems inventory could be twice the size currently reported;
- a standard definition of what constitutes a business system;
- a well-defined BEA; and
- an effective approach for the control and accountability over business system modernization investments.

Until DOD develops and implements an effective strategy for overcoming resistance, parochialism, and stovepiped operations, its transformation efforts will not be successful. Further, there can be little confidence that it will not continue to spend billions of dollars on stovepiped, duplicative, and nonintegrated systems that do not optimize mission performance and support the warfighter.

Lack of Results-Oriented Goals and Performance Measures

At a programmatic level, the lack of clear, linked goals and performance measures handicapped DOD’s past reform efforts. As a result, DOD managers lacked straightforward road maps showing how their work contributed to attaining the department’s strategic goals, and they risked operating autonomously rather than collectively. As of March 2004, DOD formulated departmentwide performance goals and measures and continued to refine and align them with the outcomes described in its strategic plan—the September 2001 Quadrennial Defense Review (QDR). The QDR outlined a new risk management framework, consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. According to DOD’s Fiscal Year 2003 Annual Report to the President and the Congress, these risk areas are to form the basis for DOD’s annual performance goals. They will be used to track performance results and will be linked to resources. As of March 2004, DOD was still in the process of implementing this approach on a departmentwide basis.

DOD currently has plans to institutionalize performance management by aligning management activities with the President’s Management Agenda. As part of this effort, DOD linked its fiscal year 2004 budget resources with metrics for broad program areas, e.g., air combat, airlift, and basic research in the Office of Management and Budget’s (OMB) Program Assessment Rating

³⁸ U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation*, GAO-04-626T (Washington, D.C.: Mar. 31, 2004).

Tool.³⁹ We have not reviewed DOD's efforts to link resources to metrics; however, some of our recent work notes the lack of clearly defined performance goals and measures in the management of such areas as defense inventory and military pay.⁴⁰ Further, without modern integrated systems and streamlined business processes, the accuracy and reliability of DOD's performance data will be questionable.

One program that has yet to establish measurable, results-oriented goals is the BMMP.⁴¹ The BMMP is the department's business transformation initiative encompassing defense policies, processes, people, and systems that guide, perform, or support all aspects of business management, including development and implementation of the BEA. A key element of any major program is its ability to establish clearly defined goals and performance measures to monitor and report its progress to management. Since DOD has yet to develop performance measures for the BMMP, it is difficult to evaluate and track, on an ongoing basis, specific program progress, outcomes, and results, such as explicitly defining performance measures to evaluate the architecture's quality, content, and utility of subsequent major updates. Given that DOD has reported obligations of over \$203 million since architecture development efforts began 3 years ago, this is a serious performance management weakness.

DOD recognizes that it needs to develop detailed plans and establish performance metrics to measure and track program progress to determine what it planned to accomplish by a certain point in time, what it actually accomplished at that point in time, and what has been spent thus far. In its March 15, 2004, progress report on the implementation of the BEA, DOD reported that it plans to establish an initial approved program metrics baseline to evaluate the cost, schedule, and performance of the BMMP and that, beginning with the fourth quarter of fiscal year 2004, it plans to begin formal tracking and reporting of specific program goals, objectives, and measures. Without explicitly defined program baselines, detailed plans, and performance measures, it is difficult to validate or justify the \$122 million requested for fiscal year 2005 and the \$494 million estimated to be needed for fiscal years 2006 through 2009.

³⁹ OMB developed the Program Assessment Rating Tool to strengthen the process for assessing the effectiveness of programs across the federal government. For fiscal year 2004, OMB rated the following 12 defense program areas: Air Combat; Airlift; Basic Research; Chemical Demilitarization; Communications Infrastructure; Defense Health; Energy Conservation Improvement; Facilities Sustainment, Restoration, Modernization, and Demolition; Housing; Missile Defense; Recruiting; and Shipbuilding. DOD linked metrics for these program areas, which represent 20 percent of the department's fiscal year 2004 budget; it linked another 20 percent in the 2005 budget and 30 percent in the 2006 budget, for a total of 70 percent.

⁴⁰ In July 2003 we reported that DOD and the military services do not have an effective approach to prevent and mitigate equipment corrosion, and that DOD's strategic plan should contain clearly defined goals, measurable, outcome-oriented objectives, and performance measures. (U.S. General Accounting Office, *Defense Management: Opportunities to Reduce Corrosion Costs and Increase Readiness*, GAO-03-753 (Washington, D.C.: July 7, 2003)). Similarly, in January 2004 we testified that existing processes and controls used to provide pay and allowances to mobilized Army Guard personnel prevented DOD from being able to reasonably assure timely and accurate payroll payments. We stated that DOD needs to establish a unified set of policies and procedures, as well as performance measures in the pay area. (U.S. General Accounting Office, *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-413T (Washington, D.C.: Jan. 28, 2004)).

⁴¹ GAO-04-731R.

Lack of Incentives for Change

The final underlying cause of the department's long-standing inability to carry out needed fundamental reform has been the lack of incentives for making more than incremental change to existing "business-as-usual" operations, systems, and organizational structures. Traditionally, DOD has focused on justifying its need for more funding rather than on the outcomes its programs have produced. DOD has historically measured its performance by resource components such as the amount of money spent, people employed, or number of tasks completed.

The lack of incentive to change is evident in the business systems modernization area. Despite DOD's acknowledgement that many of its systems are error prone, duplicative, and stovepiped, DOD continues to allow its component organizations to make their own investments independently of one another and implement different system solutions to solve the same business problems. These stovepiped decision-making processes have contributed to the department's current complex, error-prone environment. For example, our March 2003 report⁴² noted that DOD had not effectively managed and overseen its planned investment of over \$1 billion in four Defense Finance and Accounting Service (DFAS) system modernization efforts. One project's estimated cost had increased by as much as \$274 million, while the schedule slipped by almost 4 years. For each of these projects, DOD oversight entities—DFAS, the DOD Comptroller, and the DOD CIO—could not provide documentation that indicated they had questioned the impact of the cost increases and schedule delays, and allowed the projects to proceed in the absence of the requisite analytical justification. Such analyses provide the requisite justification for decision makers to use in determining whether to invest additional resources in anticipation of receiving commensurate benefits and mission value. Two of the four projects—the Defense Procurement Payment System and the Defense Standard Disbursing System—were terminated in December 2002 and December 2003, respectively, after an investment of approximately \$179 million that did not improve the department's business operations.

GAO and the DOD IG have identified numerous business system modernization efforts that are not economically justified on the basis of cost, benefits, and risk; take years longer than planned; and fall short of delivering planned or needed capabilities. Despite this track record, DOD continues to invest billions of dollars in business systems modernization, while at the same time it lacks the effective management and oversight needed to achieve results. Without appropriate incentives to improve their project management, ongoing oversight, and adequate accountability mechanisms, DOD components will continue to develop duplicative and nonintegrated systems that are inconsistent with the Secretary's vision for reform.

Keys to Successful Reform

Successful reform of DOD's fundamentally flawed financial and business management operations must simultaneously focus on its systems, processes, and people. While DOD has

⁴² GAO-03-465.

made some encouraging progress in addressing specific challenges, it is still in the very early stages of a departmentwide reform that will take many years to accomplish. At this time, it is not possible to predict when—or even whether—DOD’s reform effort will be successful. Our experience has shown there are several key elements that collectively would enable the department to effectively address the underlying causes of its inability to resolve its long-standing financial management problems. These elements, which we believe are key to any successful approach to transforming the department’s business operations, include

- addressing the department’s financial management and related business operational challenges as part of a comprehensive, integrated, DOD-wide strategic plan for business reform;
- providing for sustained and committed leadership by top management, including but not limited to the Secretary of Defense;
- establishing resource control over business systems investments;
- establishing clear lines of responsibility, authority, and accountability;
- incorporating results-oriented performance measures and monitoring progress tied to key financial and business transformation objectives;
- providing appropriate incentives or consequences for action or inaction;
- establishing an enterprise architecture to guide and direct business systems modernization investments; and
- ensuring effective oversight and monitoring.

These elements, which should not be viewed as independent actions but rather as a set of interrelated and interdependent actions, are reflected in the recommendations we have made to DOD and are consistent with those actions discussed in the department’s April 2001 financial management transformation report.⁴³ The degree to which DOD incorporates them into its current reform efforts—both long and short term—will be a deciding factor in whether these efforts are successful. Thus far, the department’s progress in implementing our recommendations has been slow. Further, as will be discussed in more detail later, we have not yet seen a comprehensive, cohesive strategy that details how some of the ongoing efforts are being integrated. For example, we have not seen how the department plans to integrate its objective of obtaining an unqualified audit opinion in fiscal year 2007 with the BMMP. It appears as if these two key efforts are being conducted in a stovepiped manner.

DOD Business Transformation Efforts

Over the years, we have given DOD credit for beginning numerous initiatives intended to improve its business operations. Unfortunately, most of these initiatives failed to achieve their intended objective in part, we believe, because they failed to incorporate key elements that in our experience are critical to successful reform. Today, we would like to discuss one very important broad-based initiative—the BMMP—that DOD currently has underway and, if properly developed and implemented, will result in significant improvements in DOD’s business systems and operations.

⁴³ Department of Defense, *Transforming Department of Defense Financial Management: A Strategy for Change* (Washington, D.C.: Apr. 13, 2001).

Effectively managing and overseeing the department's \$19 billion investment in its business systems is key to the successful transformation of DOD's business operations. The transformation also depends on the ability of the department to develop and implement business systems that provide users and department management with accurate and timely information on the results of operations and that help resolve the numerous long-standing weaknesses. As DOD moves forward with BMMP, it needs to ensure that the department's business systems modernization projects—such as BSM and LMP, discussed in our recently issued report—are part of a corporate solution to DOD long-standing business problems. To assist the department with its ongoing efforts, we would like to offer two suggestions for legislative consideration that we believe could significantly increase the likelihood of a successful business transformation effort at DOD.

Business Management Modernization Program

The BMMP, which the department established in July 2001 following our recommendation that DOD develop and implement an enterprise architecture,⁴⁴ is vital to the department's efforts to transform its business operations.⁴⁵ The purpose of the BMMP is to oversee development and implementation of a departmentwide BEA, transition plan, and related efforts to ensure that DOD business systems investments are consistent with the architecture and provide world class mission support to the fighting force. A well-defined and properly implemented BEA can provide assurance that the department invests in integrated enterprisewide business solutions and, conversely, can help move resources away from nonintegrated business system development efforts.

However, we recently reported⁴⁶ that since our last review,⁴⁷ and after about 3 years of effort and over \$203 million in reported obligations, we have not seen significant change in the content of DOD's architecture or in DOD's approach to investing billions of dollars annually in existing and new systems. Few actions have been taken to address the recommendations we made in our previous reports,⁴⁸ which were aimed at improving DOD's plans for developing the next version of the architecture and implementing the institutional means for selecting and controlling both planned and ongoing business systems investments. To date, DOD has not yet addressed 22 of our 24 recommendations.

Further, DOD has not yet developed either near-term or long-term plans for developing the architecture that explicitly identify and establish a baseline for the actions to be taken, milestones

⁴⁴ DOD has one Enterprise Information Environment Mission, and six departmental domains including (1) acquisition/ procurement; (2) finance, accounting, and financial management; (3) human resource management; (4) logistics; (5) strategic planning and budgeting; and (6) installations and environment.

⁴⁵ GAO-01-525.

⁴⁶ GAO-04-731R.

⁴⁷ GAO-03-1018.

⁴⁸ GAO-03-458 and GAO-03-1018.

to be achieved, cost estimates to be met, and targeted outcomes to be achieved. DOD has adopted an incremental approach to developing the architecture, including the transition plan, and plans to refine and extend the architecture in three increments, the first of which includes in part the department's efforts to obtain an unqualified audit opinion of DOD's consolidated fiscal year 2007 financial statements.

However, it is unclear what the increments individually or collectively mean, and what they will provide or allow DOD to achieve in the near and long term, because, as previously discussed, DOD has yet to develop detailed performance measures. Although the three increments were identified in November 2003, program officials do not expect to have a plan for increment one until the next version of the transition plan is completed in August 2004. According to program officials, the goals and scope for the second and third increments were only recently approved and, therefore, detailed plans of action and milestones do not yet exist.

Currently, DOD has three initiatives under way to support increment one. First, the program office is developing a plan of action for increment one and intends to complete the plan by August 2004. Second, the accounting and finance domain is conducting workshops to develop needed business rules and requirements for extending and evolving version 2.0 of the architecture. Last, DOD components are developing individual plans detailing their respective efforts for supporting increment one. However, there is no evidence that the program office is coordinating with the components and that the components are coordinating amongst themselves. Because there are not yet detailed plans guiding the program's activities, it is unclear whether and how these activities support each other and whether they support the department's goal of achieving an unqualified audit opinion in 2007.

As DOD moves forward with the BEA, it will be essential that the department have the management structure and processes in place to (1) improve the control and accountability over its billions of dollars of business systems investments; (2) develop corporate solutions to common business problems; and (3) implement system projects within budget, on time, and deliver the promised capability. The failure of the department to have the appropriate management structure and processes could result in billions of dollars continuing to be at risk of being spent on more systems that are duplicative, are not interoperable, cost more to maintain than necessary, and do not optimize mission performance and accountability.

Control and Accountability Over Business System Investments

As previously discussed, DOD continues to lack adequate control and accountability over its billions of dollars of business systems investments. Each DOD component continues to make its own investment decisions, which has led to the proliferation of systems. As shown in table 2, the department has reported that it has at least 2,274 business systems. For example, the department reportedly has 665 systems to support human resource management, 565 systems to support logistical functions,⁴⁹ 542 systems to perform finance and accounting functions, and 210 systems to support strategic planning and budget formulation.

⁴⁹ According to logistics domain officials, there are currently about 3,000 systems just within the logistics domain. Of that amount, about 1,900 systems have been validated by the DOD components as logistics systems—that is, they are not merely a spreadsheet or a report. Such a determination has not been made for the other 1,100.

Table 2: Reported DOD Business Systems by Domain and Functional Area

Domain	Air Force	Army	Navy/ Marine Corps	DFAS	Other	Total
Acquisition	27	31	61	3	21	143
Accounting and finance	43	88	195	165	51	542
Human resource management	71	387	86	33	88	665
Installations and environment	12	98	9	1	8	128
Logistics	180	191	104	11	79	565
Strategic planning and budgeting	23	63	98	15	11	210
Enterprise information environment	1	5	2	3	10	21
Total	357	863	555	231	268	2,274

Source: GAO analysis of BMMP data.

These numerous systems have evolved into the overly complex and error-prone operation that exists today, including (1) little standardization across DOD components, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, (4) manual data entry into multiple systems, and (5) a large number of data translations and interfaces that combine to exacerbate problems with data integrity. The proliferation of systems has resulted because DOD components are largely autonomous and each receives its own business system funding.

DOD has recognized the need to improve its control and accountability of its business system investments and has various initiatives underway and planned. For example, in response to our recommendations,⁵⁰ DOD issued a policy in March 2004 that assigns the domains the responsibility for IT portfolio management. However, the procedures to be followed to implement the policy are currently being developed and no time frames for completion have been provided. In addition, specific roles and responsibilities of the domains have not yet been formalized, standard criteria for performing the system reviews have not been developed, and explicit authority for fulfilling roles and responsibilities has not been assigned. Although DOD recognizes the need to clarify the roles and responsibilities associated with managing the domains' portfolios of business systems and ensuring compliance with the architecture, it has not yet established time frames for completing these activities.

While DOD is continuing to work toward establishing the structure and processes to manage its business systems investments, it has not yet conducted a comprehensive system review of its ongoing IT investments to ensure that they are consistent with its BEA efforts. Additionally, execution of a comprehensive review of all modernization efforts by DOD before billions of dollars have been invested will reduce the risk of continuing the department's track record of business systems modernization efforts that cost more than anticipated, take longer than expected, and fail to deliver intended capabilities.

⁵⁰ GAO-01-525 and GAO-03-458.

Corporate Solutions to Common Problems

The department's business transformation also depends on its ability to develop and implement business systems that provide corporate solutions to DOD's numerous long-standing problems. This approach should help preclude the continued proliferation of duplicative, stovepiped systems and reduce spending on multiple systems that are supposed to perform the same function. However, as discussed in our recently released report,⁵¹ DOD is still developing systems that are not designed to solve corporatewide problems. BSM and LMP were initiated in November 1999 and February 1998, respectively, prior to DOD undertaking the BEA and establishing the domains. As such, they were not directed towards a corporate solution to the department's long-standing weaknesses in the inventory and logistics management areas, such as total asset visibility. Rather, both projects are more focused on DLA's and the Army's respective inventory and logistics management operations. Today, I would like to focus on one of those issues—total asset visibility, because of its significant impact on DOD's operational effectiveness.

In October 2002, a DLA official testified⁵² that BSM would provide improved control and accountability over the Joint Services Lightweight Integrated Suit Technology (JSLIST), which is a lightweight, two-piece garment—coat and trousers—designed to provide maximum protection against chemical and biological contaminants. Total asset visibility is critical for sensitive items such as the JSLIST. For example, tracking the specific location of each suit by lot number is necessary if for any reason they have to be recalled, as was the case with the JSLIST predecessor the Battle Dress Overgarment (BDO).

Over 700,000 of the BDOs were found to be defective and were recalled. Since DOD's systems did not provide the capability to identify the exact location of each suit, a series of data calls were conducted, which proved to be ineffective. We reported in September 2001⁵³ that DOD was unable to locate approximately 250,000 of the defective suits and therefore was uncertain if the suits were still in the possession of the military forces, or whether they had been destroyed or sold. Subsequently, we found that DOD had sold many of these defective suits to the public as excess, including 379 that we purchased in an undercover operation.⁵⁴ In addition, DOD may have issued over 4,700 of the defective BDO suits to local law enforcement agencies. This is particularly significant because local law enforcement agencies are most likely to be the first responders to a terrorist attack, yet DOD failed to inform these agencies that using these suits could result in death or serious injury.

At the October 2002 hearing, the DLA official stated that JSLIST would be included in BSM at the earliest practicable date, which was estimated to be December 2003. BSM, however, is not

⁵¹ GAO-04-615.

⁵² *Chemical and Biological Equipment: Preparing for a Toxic Battlefield: Hearing Before the House Committee on Government Reform, Subcommittee on National Security, Veterans Affairs and International Relations, 107th Cong. 119 (Oct. 1, 2002) (statement of Deputy Commander, Defense Supply Center Philadelphia, Mr. George H. Allen).*

⁵³ U.S. General Accounting Office, *Chemical and Biological Defense: Improved Risk Assessment and Inventory Management Are Needed*, GAO-01-667 (Washington, D.C.: Sept. 28, 2001).

⁵⁴ U.S. General Accounting Office, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-81TNI (Washington, D.C.: Oct. 7, 2003).

designed to provide the corporate total asset visibility necessary to locate and track the suits throughout DOD's supply chain. While the suits are expected to be included in a future deployment of BSM, at the time of our review program officials had not yet specified a date when they will be included. Even when the suits are included, BSM is designed to provide visibility over the suits only within the DLA environment—something DLA has stated already exists within its current system environment.

As we have previously reported,⁵⁵ the lack of integrated systems hinders DOD's ability to know how many JSLIST it has on hand and where they are located once they leave the DLA warehouse. For example, we found that military units that receive JSLIST from DLA warehouses maintained inventory data in nonstandard, stovepiped systems that did not share data with DLA or other DOD systems. The methods used to control and maintain visibility over JSLIST at the units we visited ranged from stand-alone automated systems, to spreadsheet applications, to pen and paper. One military unit we visited did not have any inventory system for tracking JSLIST. BSM does not address asset visibility outside of DLA's supply chain for the JSLIST, and thus cannot provide DOD with the capability to readily locate JSLIST for any reason, including any potential need for a recall of defective suits.

Similarly, we recently reported⁵⁶ that LMP will not provide the Army with total asset visibility until a suite of other systems has been developed and implemented. Specifically, Army officials have stated that LMP will require integration with other Army systems that are under development in order to achieve total asset visibility within the Army. These additional systems are the Product Lifecycle Management Plus (PLM+) and Global Combat Support System—Army (GCSS-A). According to the Army, PLM+ is to integrate LMP and GCSS-A to create end-to-end solution for Army logistics. However, time frames and cost estimates have not been developed for these two additional system initiatives.

Further, to help provide for departmentwide total asset visibility, DLA is undertaking the implementation of the Integrated Data Environment (IDE) program. According to DLA, this initiative is intended to provide the capability for routing data from multiple systems within DLA and DOD into one system. According to DLA, IDE is expected to reach full operational capability in August 2007, with a current estimated cost of approximately \$30 million. However, successfully meeting this completion depends on other departmental efforts being completed on time, such as PLM+, for which a completion date had not been established.

Project Management and Oversight

While the success of BMMP and improved control and accountability of business system investments are critical aspects of the department's transformation efforts, equally important is the ability of DOD to implement chosen systems solutions on time, within budget, and with the promised capability. The department has not demonstrated the ability to achieve these goals.

⁵⁵ GAO-02-873T.

⁵⁶ GAO-04-615.

As discussed in our recently released report,⁵⁷ BSM and LMP have experienced cost increases, schedule slippages, and did not deliver planned system capabilities in their first release. Our analysis indicated that many of the operational problems experienced by BSM and LMP can be attributed to DOD's inability to effectively implement the disciplined processes necessary to reduce the risks associated with these projects to acceptable levels. Disciplined processes have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful systems acquisition.

Specifically, in the case of these two projects, they had significant deficiencies in defining requirements and testing—two areas that form the foundation for a project's success or failure. In fact, DLA and Army program officials acknowledged that requirements and testing defects were factors contributing to the operational problems and stated that they are working to develop more effective processes. To their credit, DLA and the Army have decided that future deployments of BSM and LMP will not go forward until they have reasonable assurance that the deployed systems will operate as expected for a given deployment. Our analysis of selected BSM and LMP key requirements⁵⁸ and testing processes found that (1) the functionality to be delivered was not adequately described or stated to allow for quantitative evaluation; (2) the traceability among the various process documents (e.g., operational requirements documents, functional or process scenarios, and test cases) was not maintained; and (3) system testing was ineffective.

In commenting on the report,⁵⁹ the department acknowledged that the initial implementation of BSM and LMP experienced problems that could be attributed to the lack of adequate requirements determination and system testing. To address these inadequacies, the department noted that requirements analysis had been expanded to include greater specificity and that the successful completion of comprehensive testing would be required prior to further implementation of either system.

Suggestions for Legislative Consideration

We would like to offer two suggestions for legislative consideration that we believe could contribute significantly to the department's ability to not only address the impediments to DOD's success but also to incorporate needed key elements to successful reform. These suggestions would include the (1) creation of a chief management official and (2) centralization of the funding business systems investments with the domain leaders responsible for the department's various business areas, such as logistics and human resource management. We provided similar views in our testimonies on March 23, 2004,⁶⁰ before the Subcommittee on Readiness and

⁵⁷ GAO-04-615.

⁵⁸ BSM and LMP have identified and documented 202 and 293 system requirements, respectively. For BSM, we reviewed 13 requirements related to finance, order fulfillment, planning, and procurement. For LMP, we reviewed 12 requirements related to planning and budget development, asset management, inventory management, and maintenance analysis and planning.

⁵⁹ GAO-04-615.

⁶⁰ GAO-04-551T.

Management Support, Senate Committee on Armed Services, on March 31, 2004,⁶¹ before the Subcommittee on Terrorism, Unconventional Threats, and Capabilities, House Committee on Armed Services, and yesterday⁶² before a joint hearing of the Subcommittee on National Security, Emerging Threats, and International Relations, the Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, and the Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform.

Chief Management Official

I will now discuss our first matter for consideration. Previous failed attempts to improve DOD's business operations illustrate the need for sustained involvement of DOD leadership in helping to assure that DOD's financial and overall business process transformation efforts remain a priority. While the Secretary and other key DOD leaders have demonstrated their commitment to the current business transformation efforts, the long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained executive leadership over a number of years and various administrations.

However, the tenure of the department's top political appointees has generally been short in duration and as a result, it is sometimes difficult to maintain the focus and momentum that are needed to resolve the management challenges facing DOD. For example, the former DOD Comptroller, who was very supportive of the current transformation effort, and one of its principal leaders, served as the DOD Comptroller for slightly over 3 years. Further, within the office of the DOD Comptroller, the current Principal Deputy/Deputy Under Secretary of Defense for Management Reform will soon be leaving the department. He also was in that position for slightly over 3 years. Additionally, leadership voids have existed in other key positions such as the program manager for BMMP. From May 2003 to February 2004, there was no program manager to identify, direct, and execute program activities.⁶³ The resolution of the array of interrelated business system management challenges that DOD faces is likely to span several administrations and require sustained leadership to maintain the continuity needed for success.

One way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive level II position for a chief management official⁶⁴ who would serve as the Principal Under Secretary of Defense for Management. This position would provide the sustained attention essential for addressing key stewardship responsibilities such as strategic planning, performance and financial management, and business systems modernization in an integrated manner. This position could be filled by an individual, appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. Such an individual should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process

⁶¹ GAO-04-626T.

⁶² U. S. General Accounting Office, *Department of Defense: Long-standing Problems Continue to Impede Financial and Business Management Transformation*, GAO-04-907T (Washington, D.C.: July 7, 2004).

⁶³ GAO-04-731R.

⁶⁴ GAO-03-192SP.

transformation across the department, and potentially administrations, and serve as an integrator for the needed business transformation efforts. In addition, this individual would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall organizational goals. Measurable progress towards achieving agreed-upon goals would be a basis for determining the level of compensation earned, including any related bonus. In addition, this individual's achievements and compensation would be reported to Congress each year.

Functional Domain Control and Accountability Over Business System Investments

We have made numerous recommendations to DOD intended to improve the management oversight and control of its business systems investments. However, progress in achieving this control has been slow and, as a result, DOD has little or no assurance that current business systems investments are being spent in an economically efficient and effective manner. DOD's current systems funding process has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, nonintegrated, and stovepiped systems. Given that DOD spends billions of dollars annually on business systems and related infrastructure, it is critical that actions be taken to gain more effective control over such business systems funding.

The second suggestion we have for legislative action to address this issue, as discussed in our report⁶⁵ and consistent with our open recommendations to DOD, is to establish specific management oversight, accountability, and control of funding with the "owners" of the various functional areas or domains. This legislation would define the scope of the various business areas (e.g., accounting, acquisition, logistics, and personnel) and establish functional responsibility for management of the portfolio of business systems in that area with the relevant Under Secretary of Defense for the six departmental domains and the CIO for the Enterprise Information Environment Mission (information technology infrastructure). For example, planning, development, acquisition, and oversight of DOD's portfolio of logistics business systems would be vested in the Under Secretary of Defense for Acquisition, Technology and Logistics.

We believe it is critical that funds for DOD business systems be appropriated to the domain owners in order to provide for accountability and the ability to prevent the continued parochial approach to systems investment that exists today. The domains would establish a hierarchy of investment review boards with DOD-wide representation, including the military services and defense agencies. These boards would be responsible for reviewing and approving investments to develop, operate, maintain, and modernize business systems for the domain portfolio, including ensuring that investments were consistent with DOD's BEA. All domain owners would be responsible for coordinating their business systems investments with the chief management official who would chair the proposed Defense Business Systems Modernization Executive Committee and provide a cross-domain perspective. Domain leaders would also be required to report to Congress through the chief management official and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

⁶⁵ GAO-04-615.

In commenting on our report, DOD stated that it did not agree with this funding concept. The department stated that the portfolio management process being established—to include investment review boards—would provide the appropriate control and accountability over business system investments. DOD also stated that beginning with the fiscal year 2006 budget review process, the domains will be actively involved in business system investment decisions. DOD stated that the military services implement their own statutory authorities for acquisition and IT systems development in consultation with DOD. While the establishment of the investment review boards is consistent with our previous recommendations, we continue to believe that appropriating funds for DOD business systems to the domains, rather than the various DOD entities, will significantly improve accountability over business system investments. DOD's comments indicate that the domains will be more accountable for making business system investment decisions, but unless they control the funding, they will not have the means to effect real change. Continuing to provide business system funding to the military services and defense agencies is an example of the department's embedded culture and parochial operations. As a result of DOD's intent to maintain the status quo, there can be little confidence that it will not continue to spend billions of dollars on duplicative, nonintegrated, stovepiped, and overly costly systems that do not optimize mission performance and accountability and, therefore, do not support the department's transformation goals.

Conclusion

The excellence of our military forces is unparalleled. However, that excellence is often achieved in the face of enormous challenges in DOD's financial management and other business areas, which have serious and far-reaching implications related to the department's operations and critical national defense mission. Our recent work has shown that DOD's long-standing financial management and business problems have resulted in fundamental operational problems, such as failure to properly pay mobilized Army Guard soldiers and the inability to provide adequate accountability and control over supplies and equipment shipments in support of Operation Iraqi Freedom. Further, the lack of appropriate accountability across all business areas has resulted in fraud, waste, and abuse and hinders DOD's attempts to develop world-class operations and activities to support its forces. Additionally, DOD cannot provide Congress reasonable assurance that the billions of dollars spent annually on business systems modernizations are not being wasted on projects that will perpetuate the current costly, nonintegrated, duplicative systems environment. If DOD is unable to address the underlying causes that have resulted in the failure of previous broad-based reform efforts, improvements will remain marginal, confined to narrowly defined incremental improvements.

As our nation continues to be challenged with growing budget deficits and increasing pressure to reduce spending levels, every dollar that DOD can save through improved economy and efficiency of its operations is important. As previously noted, the Secretary has stated that the department could save approximately 5 percent of its budget annually—which equal about \$20 billion—through improved business operations. DOD's senior leaders have demonstrated a commitment to transforming the department and improving its business operations and have taken positive steps to begin this effort. We believe that implementation of our open recommendations and our suggested legislative initiatives would greatly improve the likelihood of meaningful, broad-based reform at DOD.

The continued involvement and monitoring by congressional committees will also be critical to ensure that DOD's transformation actions are sustained and extended and that the department achieves its goal of securing the best performance and highest measure of accountability for the American people. We commend the Subcommittee for holding this hearing and we encourage you to use this vehicle, on at least an annual basis, as a catalyst for long overdue business transformation at DOD.

Mr. Chairman, this concludes our statement. We would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov. The following individuals contributed to the various reports and testimonies that were the basis for this testimony: Beatrice Alff, Molly Boyle, Art Brouk, Cherry Clipper, Mary Ellen Chervenik, Francine Delvecchio, Stephen Donahue, Francis Dymond, Eric Essig, Gayle Fischer, Geoff Frank, John Kelly, Randolph Hite, Cynthia Jackson, Neelaxi Lakhmani, Evelyn Logue, John Martin, Elizabeth Mead, Mai Nguyen, Michael Peacock, David Plocher, Gregory Pugnetti, Cary Russell, John Ryan, Katherine Schirano, Darby Smith, Carolyn Voltz, Marilyn Wasleski, and Jenniffer Wilson.

Selected GAO Products Related to DOD's Business Systems Modernization

U.S. General Accounting Office, *DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains*, GAO-03-1018 (Washington, D.C.: Sept. 19, 2003).

U.S. General Accounting Office, *Business Systems Modernization: Summary of GAO's Assessment of the Department of Defense's Initial Business Enterprise Architecture*, GAO-03-877R (Washington, D.C.: July 7, 2003).

U.S. General Accounting Office, *DOD Business Systems Modernization: Longstanding Management and Oversight Weaknesses Continue to Put Investments at Risk*, GAO-03-553T (Washington, D.C.: Mar. 31, 2003).

U.S. General Accounting Office, *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to be Justified*, GAO-03-465 (Washington, D.C.: March 28, 2003).

U.S. General Accounting Office, *DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed*, GAO-03-458 (Washington, D.C.: Feb. 28, 2003).

U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-497T (Washington, D.C.: Mar. 6, 2002).

U.S. General Accounting Office, *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, GAO-01-525 (Washington, D.C.: May 17, 2001).

(192138)

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. General Accounting Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.