



## DEFENSE MANAGEMENT

# Key Elements Needed to Successfully Transform DOD Business Operations

Highlights of [GAO-05-629T](#), a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

In addition to external security threats, our nation is threatened from within by growing fiscal imbalances. The combination of additional demands for national and homeland security resources, the long-term rate of growth of entitlement programs, and rising health care costs create the need to make difficult choices about the affordability and sustainability of the recent growth in defense spending. At a time when the Department of Defense (DOD) is challenged to maintain a high level of military operations while competing for resources in an increasingly fiscally constrained environment, DOD's business management weaknesses continue to result in billions in annual waste, as well as reduced efficiencies and effectiveness.

The Subcommittee asked GAO to provide its views on (1) the fiscal trends that prompt real questions about the affordability and sustainability of the rate of growth of defense spending, (2) business management challenges that DOD needs to address to successfully transform its business operations, and (3) key elements for achievement of reforms. One key element would be to establish a full-time chief management official (CMO) to take the lead in DOD for the overall business transformation effort. In this regard, we support the need for legislation to create a CMO in DOD with "good government" responsibilities that are professional and nonpartisan in nature, coupled with an adequate term in office.

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To view the full product, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or [pickups@gao.gov](mailto:pickups@gao.gov) or Gregory Kutz at (202) 512-9505 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

### What GAO Found

Our nation's current fiscal policy is on an imprudent and unsustainable course and the projected fiscal gap is too great to be solved by economic growth alone or by making modest changes to existing spending and tax policies. In fiscal year 2004, DOD's spending represented about 51 percent of discretionary spending, raising concerns about the affordability and sustainability of the current growth in defense spending and requiring tough choices about how to balance defense and domestic needs against available resources and reasonable tax burdens.

GAO has reported that DOD continues to confront pervasive, decades-old management problems related to business operations that waste billions of dollars annually. As shown below, these management weaknesses cut across all of DOD's major business areas. These areas, along with six government-wide areas that also apply to the department, mean that DOD is responsible for 14 of 25 high-risk areas.

**Years When Specific DOD Areas on GAO's 2005 High-Risk List Were First Designated as High Risk**

Area	Year designated as high risk
DOD approach to business transformation	2005
• DOD personnel security clearance program	2005
• DOD support infrastructure management	1997
• DOD business systems modernization	1995
• DOD financial management	1995
• DOD weapon systems acquisition	1990
• DOD contract management	1992
• DOD supply chain management*	1990

Source: GAO.

\*This area, formerly entitled DOD inventory management, was expanded to include distribution and asset visibility.

To move forward, in our view, there are three key elements that DOD must incorporate into its business transformation efforts to successfully address its systemic business management challenges. First, these efforts must include an integrated strategic plan, coupled with a well-defined blueprint—referred to as a business enterprise architecture—to guide and constrain implementation of such a plan. Second, central control of system investments is crucial for successful business transformation. Finally, a CMO is essential for providing the sustained leadership needed to achieve lasting transformation. The CMO would not assume the day-to-day management responsibilities of other DOD officials nor represent an additional hierarchical layer of management, but rather would serve as a strategic integrator who would lead DOD's overall business transformation efforts. Additionally, a 7-year term would also enable the CMO to work with DOD leadership across administrations to sustain the overall business transformation effort.