



## DEPARTMENT OF DEFENSE

# Sustained Leadership Is Critical to Effective Financial and Business Management Transformation

Highlights of [GAO-06-1006T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

The Department of Defense (DOD) bears sole responsibility for eight DOD-specific high-risk areas and shares responsibility for six governmentwide high-risk areas. These high-risk areas reflect the pervasive weaknesses that cut across all of DOD's major business operations. Several of the high-risk areas are inter-related, including, but not limited to, financial management, business systems modernization, and DOD's overall approach to business transformation. Billions of dollars provided to DOD are wasted each year because of ineffective performance and inadequate accountability. DOD has taken some positive steps to successfully transform its business operations and address these high-risk areas, but huge challenges remain.

This testimony discusses (1) pervasive, long-standing financial and business management weaknesses that affect DOD's efficiency; (2) some examples that highlight a need for improved business systems development and implementation oversight; (3) DOD's key initiatives to improve financial management, related business processes, and systems; and (4) actions needed to enhance the success of DOD's financial and business transformation efforts.

[www.gao.gov/cgi-bin/getrpt?GAO-06-1006T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-1006T).

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### What GAO Found

DOD's pervasive financial and business management 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. 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. The following examples indicate the magnitude and severity of the problems.

#### Illustrative Weaknesses in DOD's Financial Management and Business Operations

| Business area        | Problem identified  |
|----------------------|---|
| Military personnel   | Hundreds of separated battle-injured soldiers were pursued for collection of military debts incurred through no fault of their own. Overpayment of pay and allowances (entitlements), pay calculation errors, and erroneous leave payments caused 73 percent of the reported debts. |
| Inventory            | The Army had not maintained accurate accountability over inventory shipped to repair contractors.   |
| Financial management | DOD's processes for recording and reporting costs for the Global War on Terrorism were inadequate, raising significant concerns about the overall reliability of DOD's reported cost data.  |

Source: GAO.

To support its business operations, DOD invests billions of dollars each year to operate, maintain, and modernize its business systems. But despite this significant annual investment, GAO has continued to identify business system projects that have failed to be implemented on time, within budget, and with the promised capability. For example, in January 2006, GAO reported on problems with the implementation of the Defense Travel System—a project that was initiated in September 1998.

DOD's many high-risk challenges are years in the making and will take time to effectively address. Top management has demonstrated a commitment to transforming the department's business processes. In December 2005, DOD issued its Financial Improvement and Audit Readiness Plan to guide its financial management improvement efforts. Also, DOD has developed an initial Standard Financial Information Structure, which is DOD's enterprisewide data standard for categorizing financial information. Because of the complexity and long-term nature of DOD transformation efforts, GAO would like to reiterate two missing critical elements that need to be in place if DOD's transformation efforts are to be successful. First, DOD should develop and implement a comprehensive, integrated, and enterprisewide business transformation plan. Second, GAO continues to support the creation of a chief management officer, with the right skills and at the right level within the department, to provide the needed sustained leadership to oversee the department's overall business transformation process.