



Highlights of [GAO-07-229T](#), a testimony to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

Of the 26 areas on GAO's high-risk list of federal programs or activities that are at risk for waste, fraud, abuse, or mismanagement, 8 are Department of Defense (DOD) programs or operations and another 6 are governmentwide high-risk areas that also apply to DOD. These high-risk areas relate to most of DOD's major business operations. DOD's failure to effectively resolve these high-risk areas has resulted in billions of dollars of waste each year, ineffective performance, and inadequate accountability. At a time when DOD is competing for resources in an increasingly fiscally constrained environment, it is critically important that DOD get the most from every defense dollar. DOD has taken several positive steps and devoted substantial resources toward establishing key management structures and processes to successfully transform its business operations and address its high-risk areas, but overall progress by area varies widely and huge challenges remain.

This testimony addresses DOD's efforts to (1) develop a comprehensive, integrated, enterprisewide business transformation plan and its related leadership approach and (2) comply with legislation that addresses business systems modernization and improving financial management accountability. The testimony also addresses two sections included in recent legislation and other DOD high-risk areas.

www.gao.gov/cgi-bin/getrpt?GAO-07-229T.

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DEFENSE BUSINESS TRANSFORMATION

A Comprehensive Plan, Integrated Efforts, and Sustained Leadership Are Needed to Assure Success

What GAO Found

In the past year, DOD has made progress in transforming its business operations, but continues to lack a comprehensive, enterprisewide approach to its overall business transformation effort. Within DOD, business transformation is broad, encompassing people, planning, management, structures, technology, and processes in many key business areas. While DOD's planning and management continues to evolve, it has yet to develop a comprehensive, integrated, and enterprisewide plan that covers all key business functions, and contains results-oriented goals, measures and expectations that link organizational, unit, and individual performance goals, while also being clearly linked to DOD's overall investment plans. Because of the complexity and long-term nature of business transformation, DOD also continues to need a chief management official (CMO) with significant authority, experience, and tenure to provide sustained leadership and integrate DOD's overall business transformation effort. Without formally designating responsibility and accountability for results, reconciling competing priorities in investments will be difficult and could impede DOD's progress in its transformation efforts.

DOD is taking steps to comply with legislative requirements aimed at improving its business systems modernization and financial management; however, much remains to be accomplished. In particular, DOD recently issued updates to both the business enterprise architecture and the transition plan, which are still not sufficiently complete to effectively and efficiently guide and constrain business system investments across the department. Most notably, the architecture is not adequately linked to DOD component architectures, and the plan does not include business system information for all major DOD components. To address these shortfalls, DOD issued a strategy for "federating" or extending its architecture to the defense components. But much remains to be accomplished before a well-defined federated architecture is in place, given that GAO recently reported that select components' architecture programs are not mature. However, DOD components continue to invest billions of dollars in thousands of new and existing business system programs. The risks associated with investing in systems ahead of having a well-defined architecture and transition plan are profound and must be managed carefully, as must the wide assortment of other risks that GAO's work has shown to exist on specific DOD business system investments. While not a guarantee, GAO's work and research has shown that establishing effective system modernization management controls, such as an architecture-centric approach to investment decision making, can increase the chances of delivering cost-effective business capabilities on time and within budget. Further, with regard to legislation pertaining to financial management improvement, DOD issued and updated its *Financial Improvement and Audit Readiness Plan* in fiscal year 2006 to provide components with a construct for resolving problems affecting the accuracy and timeliness of financial information and an improved audit strategy for obtaining financial statement audit opinions.