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January 26, 2011

Congressional Committees

*Subject: Defense Business Transformation: DOD Needs to Take Additional Actions to Further Define Key Management Roles, Develop Measurable Goals, and Align Planning Efforts*

The Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. We have designated a number of these areas as high risk because of their vulnerability to fraud, waste, abuse, and mismanagement and because of opportunities to achieve greater efficiencies and free up resources for higher-priority needs.<sup>1</sup>

In 2005, we identified DOD's approach to business transformation as a high-risk area because (1) DOD had not established clear and specific management responsibility, accountability and control over business transformation-related activities and applicable resources; and (2) DOD lacked a clear strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms to monitor progress.<sup>2</sup> Because of the complexity and magnitude of the challenges facing DOD in improving business operations, we have reported the need for a chief management officer (CMO) with significant authority and experience to focus the necessary attention and sustain progress. We also recommended that DOD develop a comprehensive, integrated, and enterprisewide transformation plan, supported by a strategic planning process. Moreover, we recommended that DOD institutionalize in directives the roles, responsibilities, and relationships among the various business-related entities and committees that comprise its management framework and expand that framework beyond business systems modernization to all business transformation efforts.<sup>3</sup>

Both DOD and Congress have taken actions to address DOD's management of business transformation efforts. For example, DOD designated the Deputy Secretary

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<sup>1</sup>See for example, GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, DC.: Jan. 2009).

<sup>2</sup>GAO, *GAO's 2005 High-Risk Update*, GAO-05-350T (Washington, D.C.: Feb. 17, 2005).

<sup>3</sup>GAO, *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072 (Washington, D.C.: Sept. 5, 2007).

of Defense as the CMO for DOD in May 2007. In the National Defense Authorization Acts for Fiscal Year 2008<sup>4</sup> and Fiscal Year 2009,<sup>5</sup> Congress took steps that included:

- designating the Deputy Secretary of Defense as the CMO for DOD;
- creating a deputy chief management officer (DCMO) position;
- requiring the secretaries of the military departments to designate the department under secretaries as CMOs;
- requiring DOD to develop a strategic management plan (SMP); and
- requiring the secretary of each military department to establish a business transformation office and to develop business transformation plans.

In January 2009, we reported on DOD's progress in implementing its management framework and developing a strategic plan for business transformation.<sup>6</sup> For example, DOD had issued directives broadly defining the responsibilities of the CMO and DCMO, established an office of the DCMO, designated an Assistant DCMO, established governance entities,<sup>7</sup> and named CMOs or acting CMOs in the military departments. However, DOD had not clearly defined the authority, roles, and relationships for some positions and entities, including decision-making authority for the DCMO, the relationship between DOD's DCMO and the military department CMOs, and the responsibilities of various governance entities. Further, the military departments were in the early stages of responding to legislative requirements, and DOD's first SMP, issued in July 2008, did not identify specific business areas, strategic goals, objectives, or performance measures.

Since we last reported, a DCMO has been confirmed by the Senate, DOD has updated its SMP, and DOD and the military departments have continued to refine their management approach to business transformation. This report, which consists of this letter and the enclosed slides, addresses their progress since January 2009. We performed this review under the authority of the Comptroller General to conduct evaluations on his own initiative. Our objectives were to assess the extent to which DOD and the military departments have taken additional steps to (1) implement management frameworks for business transformation and (2) develop business transformation plans, supported by a strategic planning process, that enable them to align goals and planning efforts and to measure progress.

To assess progress in implementing management frameworks for business transformation, we compared DOD and military departments' actions to best practices for implementing CMO positions<sup>8</sup> and related statutory requirements in the National Defense Authorization Acts for Fiscal Years 2008 and 2009. We also reviewed DOD and military department guidance related to these positions and

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<sup>4</sup>Pub. L. No. 110-181, § 904 (2008).

<sup>5</sup>Pub. L. No. 110-417, §§ 904, 908 (2008).

<sup>6</sup>GAO, *Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation*, GAO-09-272R (Washington, D.C.: Jan. 9, 2009).

<sup>7</sup>For example, DOD established the Defense Business Systems Management Committee, the Deputy's Advisory Working Group, and the Business Transformation Agency.

<sup>8</sup>GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*. GAO-08-34 (Washington, D.C.: Nov. 1, 2007).

entities. To assess progress in developing business transformation plans supported by strategic planning process, we assessed DOD's updated 2009 SMP and the Air Force's 2008 strategic plan by comparing them to results-oriented management best practices and key elements of a strategic plan, which we identified by reviewing prior GAO work<sup>9</sup> and the Government Performance and Results Act of 1993.<sup>10</sup> We also met with Army and Navy officials to determine the status of their planning efforts. For both objectives, we interviewed DOD officials, including the DCMO; the Director of the Business Transformation Agency; the Under Secretaries of the Air Force, Army, and Navy in their capacities as CMOs; and the Director of Business Transformation for each military department. To determine the involvement of the CMO, DCMO, and military department CMOs in the Secretary of Defense's recent efficiency initiative and selected GAO high-risk areas, we met with these officials and reviewed relevant documents and our prior and ongoing work on the high-risk areas. We conducted this performance audit from July 2009 through January 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Summary

DOD and the military departments have taken additional steps to strengthen their management approach to business transformation. Opportunities exist, however, for the CMO and DCMO to take on a greater leadership role in implementing a departmentwide effort to achieve more efficiencies in its operations and to ensure results in individual business areas. Since January 2009, DOD has filled key positions, such as the DCMO and military department CMOs; established entities, such as a governance board to identify business process improvements; and undertaken various activities. For example, in July 2009, the CMO issued an updated SMP which identifies business priorities and related reform initiatives. In May 2010, the Secretary of Defense announced a major initiative to reduce overhead costs, intended to find more efficient and effective ways of doing business. Our work shows that key strategies for successful implementation of the CMO position include defining roles, responsibilities, structures, processes, reporting relationships, and ensuring a high level of authority. The CMO and DCMO have responsibilities, under statutes and department guidance, related to improving the efficiency and effectiveness of business operations, but they have not been assigned specific roles for integrating, monitoring or otherwise institutionalizing the ongoing efficiency initiative in the long term. The military department CMOs are leading efforts to implement the initiative in their organizations.

Without assigning a specific role for the CMO and DCMO, it is not clear how DOD will establish accountability and leverage those positions to provide the leadership necessary to implement, integrate, and otherwise institutionalize the Secretary of

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<sup>9</sup>See for example, GAO, *Defense Business Transformation: A Full-time Chief Management Officer with a Term Appointment Is Needed at DOD to Maintain Continuity of Effort and Achieve Sustainable Success*, GAO-08-132T (Washington, D.C.: Oct. 16, 2007); GAO-09-272R; and GAO-07-1072.

<sup>10</sup>Pub. L. No. 103-62 (1993).

Defense's recent efficiency initiative and sustain momentum and progress in the long term. Further, while DOD continues to take some actions to address weaknesses in individual business areas, we continue to see opportunities for the CMO and DCMO to provide the leadership needed to implement reforms and achieve goals reflected in the SMP, including those in areas we have identified as high risk. For example, DOD has significantly improved the timeliness of processing personnel security clearances but has yet to clearly define the specific roles and responsibilities of the CMO, DCMO, and military department CMOs for financial management improvement efforts, and to include clear performance measurement information and resource needs in its *Logistics Strategic Plan*, which guides efforts to improve supply chain management and other logistics processes.

DOD and the military departments have made limited progress in developing business transformation plans, supported by a strategic planning process, which enable them to align goals and planning efforts and to measure progress. We have previously reported that agencies that are successful in achieving business transformation strive to undertake strategic planning and establish a plan that includes goals and measures that align at all levels and that links resource needs to performance.<sup>11</sup> DOD's 2009 SMP identifies priorities and reform initiatives but lacks some key elements, such as a description of the problems to be addressed, measurable goals, and funding priorities. The military departments are in varying stages of their planning efforts—the Army issued its plan in October 2010 and the Navy issued its plan in November 2010. The Air Force has a 2008 strategic plan that according to Air Force officials covers business transformation, but the plan does not define transformation or related goals. Air Force officials expect to develop specific business priorities and issue a separate plan in March 2011. DOD is in the early stages of measuring progress. While the 2009 SMP describes a strategic planning process, DOD has not set up internal mechanisms, such as procedures and milestones, by which it can reach consensus with the military departments and others on priorities, synchronize the development of plans with each other and the budget process, and guide efforts to monitor progress and take corrective action. Without a strategic plan containing measurable goals and funding priorities, supported by a clearly defined planning process, the department will not have the tools it needs to set strategic direction for business transformation efforts, fully align efforts to develop plans and budget requests that reflect business priorities, measure progress in implementing reform initiatives, and institutionalize its strategic planning efforts across administrations.

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<sup>11</sup>GAO-09-272R.

## **Recommendations for Executive Action**

To establish ongoing accountability and better leverage the unique positions of the CMO and DCMO to provide the leadership necessary to follow up the Secretary's recent efficiency initiative for the long term, we recommend that the Secretary of Defense take the following action:

- Assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary's efficiency initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort for the long term.

To enhance DOD's ability to set strategic direction for its business transformation efforts, and better align and institutionalize its efforts to develop and implement plans and measure progress against established goals, we recommend that the Secretary of Defense direct the CMO to take the following two actions:

- Ensure that DOD's revised SMP contains measurable goals and funding priorities linked to those goals.
- Issue guidance to establish a strategic planning process with mechanisms—such as procedures and milestones—for routinely updating the SMP and military department business transformation plans. In particular, this guidance should include elements such as how DOD and the military departments—including the CMO, DCMO, and military department CMOs—will reach consensus on business priorities, coordinate review and approval of updates to plans, synchronize the development of plans with the budget process, and monitor the implementation of reform initiatives, and report progress, on a periodic basis, towards achieving established goals.

## **Agency Comments and Our Evaluation**

In commenting on a draft of this report, DOD concurred with two of our recommendations and partially concurred with one. DOD's comments are reprinted in their entirety in Enclosure II.

DOD concurred with our recommendation that the Secretary of Defense assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary's efficiency initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort for the long term. While DOD did not specify the action it planned to take to implement our recommendation, we would expect that once the Secretary determines the roles and responsibilities to be assigned to the CMO and DCMO, these would be clearly communicated within the department.

DOD also concurred with our recommendation that the Secretary direct the CMO to ensure that DOD's revised SMP contains measurable goals and funding priorities linked to those goals. DOD agreed that the SMP should contain measurable goals

linked to the budget, and stated that the draft fiscal year 2011 SMP accomplishes this goal. DOD also stated that the fiscal year 2011 SMP is tightly integrated with the fiscal year 2011 Performance Budget and directly links performance measures to the budget through Forces and Infrastructure Category codes. DOD further noted that each goal in the fiscal year 2011 SMP is supported by quantifiable performance measures and that results against these measures will be briefed on a quarterly basis to the DBSMC. On December 30, 2010, DOD issued an updated plan, which covers fiscal year 2011. We plan to evaluate the updated plan to assess whether it contains key elements, such as measurable goals, funding priorities, and resource needs.

DOD partially concurred with our recommendation that the Secretary direct the CMO to issue guidance to establish a strategic planning process with mechanisms—such as procedures and milestones—for routinely updating the SMP and military department business transformation plans. DOD agreed that it is important for its strategic planning process to ensure alignment between the various documents that comprise the department’s “family of plans” and the officials that are responsible for those plans. DOD identified this “family of plans” to include the SMP, Performance Budget, Financial Improvement and Audit Readiness Plan, DOD Logistics Strategic Plan, individual GAO High Risk Area Remediation Plans, and Military Department Business Transformation and Transition Plans. DOD, however, stated that it is focused on using its existing governance bodies and natural planning cycles associated with these documents to ensure alignment while maintaining the ability to respond to changing circumstances in an agile way that the establishment of formal policy would not allow. It noted these governance bodies include the DBSMC, the Performance Budget Senior Review Group, and a variety of functional and organizational boards throughout the department.

We recognize that DOD relies on existing governance bodies and planning cycles to develop and align the SMP and other related plans, and agree it is important for DOD to be able to respond to changing circumstances. However, we do not believe that establishing formal policy to govern its strategic planning efforts would hinder the department in any manner. Rather, we believe that issuing formal guidance to clearly define the planning process will help the department achieve a common understanding and approach among the various planning entities and therefore enhance its overall ability to set strategic direction, better align and institutionalize its planning efforts, and measure progress against established goals. Over the past few years, the department and military departments have gained momentum in achieving consensus on business priorities and maturing their planning efforts. To sustain this momentum and to ensure continuity for the long term, we believe it is important that the CMO clearly outline the process that will guide strategic planning efforts, including elements such as how DOD and the military departments—including the CMO, DCMO, and military department CMOs—will reach consensus on business priorities, coordinate review and approval of updates to plans, synchronize the development of plans with the budget process, and monitor the implementation of reform initiatives, and report progress, on a periodic basis, towards achieving established goals. Given DOD’s statements about the need to maintain the ability to respond to changing circumstances, the CMO could also include specific provisions to allow for the flexibility needed to make adjustments as circumstances dictate.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense, the Deputy Secretary of Defense, the DOD Deputy Chief Management Officer, and the Under Secretaries of the Army, Air Force, and Navy. This report will also be available on our Web site at <http://www.gao.gov>. Should you or your staff have any questions concerning this product, please contact me at (202) 512-9619 or [pickups@gao.gov](mailto:pickups@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Key contributors to this report were Donna Evans, Assistant Director; Joseph Capuano; Gabrielle Carrington; Tom Gosling; Nicole Harms; Evelyn Logue; Elizabeth McNally; Suzanne Perkins; Richard Powelson; Terry Richardson; Rebecca Rygg; and Darby Smith.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon L. Pickup  
Director, Defense Capabilities and Management

Enclosures

*List of Congressional Committees*

The Honorable Daniel K. Akaka  
The Honorable Thad Cochran  
The Honorable Susan M. Collins  
The Honorable Daniel K. Inouye  
The Honorable Carl Levin  
The Honorable Joseph I. Lieberman  
The Honorable John McCain  
United States Senate

The Honorable Harold Rogers  
Chairman  
The Honorable Norman Dicks  
Ranking Member  
Committee on Appropriations  
House of Representatives

The Honorable Howard McKeon  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives



**Defense Business Transformation:  
DOD Needs to Take Additional Actions to Further Define Key Management  
Roles, Develop Measurable Goals, and Align Planning Efforts**

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Briefing for Congressional Committees  
January 26, 2011

- Background
- Objectives
- Scope and Methodology
- Summary of Findings
- Objective 1: Management Framework
- Objective 2: Strategic Planning
- Conclusions
- Recommendations for Executive Action
- Agency Comments and Our Evaluation
- Related GAO Products

- The Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition.
- We have designated a number of these areas as high risk because of their vulnerability to waste, fraud, abuse, and mismanagement and because of opportunities to achieve greater efficiencies and free up resources for higher-priority needs.<sup>1</sup>
- In 2005, we identified DOD's management approach to overall business transformation as a high-risk area because
  - DOD had not established clear and specific management responsibility, accountability and control over business transformation-related activities and applicable resources; and
  - DOD lacked a clear strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms to monitor progress.<sup>2</sup>

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<sup>1</sup>The DOD high-risk areas are: DOD approach to business transformation, DOD personnel security clearance program, DOD support infrastructure management, DOD business systems modernization, DOD financial management, DOD contract management, DOD supply chain management, and DOD weapons system acquisition.

<sup>2</sup>For a list of related GAO products, see the list at the end of this briefing.

In prior reports and testimonies, we recommended the following:

- That Congress consider enacting legislation to establish a separate, full-time chief management officer (CMO) position with the authority and experience and a sufficient term to provide focused and sustained leadership over DOD's business transformation efforts.
- That DOD institutionalize in directives the roles, responsibilities, and relationships among the various business-related entities and committees that have a role in implementing business transformation efforts.
- That DOD develop a strategic planning process for business transformation that results in a comprehensive, integrated, and enterprisewide plan or set of plans that covers all key business areas and provides a clear strategic direction, prioritizes initiatives, and monitors progress across the department.

Both DOD and Congress have taken actions to address DOD's management of business transformation efforts. Specifically:

- In May 2007, the Secretary of Defense designated the Deputy Secretary of Defense as the CMO for DOD.
- Congress enacted the National Defense Authorization Act for Fiscal Year 2008,<sup>3</sup> which
  - designated the Deputy Secretary of Defense position as the CMO for DOD;
  - created a deputy chief management officer (DCMO) position to assist the CMO;
  - required the secretaries of the military departments to designate the department under secretaries as CMOs with primary management responsibility for business operations; and
  - required the Secretary of Defense, acting through the DOD CMO, to develop a strategic management plan (SMP) that contains certain elements, such as performance goals and measures and key initiatives to achieve performance goals together with resource needs.
- Congress enacted the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009,<sup>4</sup> which required the secretary of each military department to establish a business transformation office no later than 180 days after enactment of the act and, acting through the department CMOs, to develop comprehensive business transformation plans.

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<sup>3</sup>National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 904 (2008).

<sup>4</sup>Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, Pub. L. No. 110-417, §§ 904, 908 (2008).

- Our prior work has shown that key strategies for successful implementation of the CMO position include defining roles, responsibilities, structures, processes, and reporting relationships and ensuring a high level of authority.<sup>5</sup>
- In addition, agencies that are successful in achieving business management transformation undertake strategic planning and strive to establish a plan that contains key elements such as measurable goals and quantifiable measures that align at all levels of the agency. A strategic plan should
  - align goals and measures with departmentwide goals and cascade goals and measures to lower organizational levels,
  - assign accountability for achieving results,
  - demonstrate results,
  - provide a comprehensive view of performance, and link resource needs to performance.

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<sup>5</sup>For key strategies for establishing and implementing CMO or chief operating officer positions, see GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, GAO-08-34 (Washington, D.C.: Nov. 1, 2007).

In January 2009,<sup>6</sup> we reported on DOD's progress in implementing its business transformation management framework and developing a strategic plan for business transformation, including the following:

- DOD's senior leadership has shown a commitment to transforming business operations and taken steps to strengthen its management approach. For example, DOD did the following:
  - Issued a directive broadly defining the responsibilities of the CMO.
  - Established or designated governance entities, such as the Defense Business Systems Management Committee, the Deputy's Advisory Working Group, and the Business Transformation Agency.<sup>7</sup>
  - Established an office of the DCMO, designated an Assistant DCMO, and issued a directive broadly defining the responsibilities of the DCMO.
  - Issued its first SMP in July 2008.
  - Named CMOs or acting CMOs in the military departments and DCMOs in the Departments of the Air Force and the Navy.

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<sup>6</sup>GAO, *Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation*, GAO-09-272R (Washington, D.C.: Jan. 9, 2009).

<sup>7</sup>The Business Transformation Agency supports the DCMO in leading and coordinating business transformation efforts across the department, including maintaining and updating the department's enterprise architecture for its business mission area.

- DOD nevertheless had not completed implementation of its management framework for business transformation because authority, roles, and relationships for some positions and entities had not been clearly defined, including
  - clearly defined decision-making authority for the DCMO,
  - a clearly defined relationship between DOD's DCMO and the CMOs of the military departments, and
  - clearly defined unique and shared responsibilities of various governance entities, such as the Defense Business Systems Management Committee and the Deputy's Advisory Working Group.
- DOD's first SMP, issued in July 2008, did not identify any strategic goals, objectives, or performance measures and did not provide detailed information about business operations.
- The military departments were in the early stages of responding to the requirements in the National Defense Authorization Acts for Fiscal Years 2008 and 2009.

- This briefing report addresses the progress DOD and the military departments have made since January 2009 to strengthen their management approach to business transformation.
- Our specific objectives were to assess the extent to which DOD and the military departments have taken additional steps to:
  - implement management frameworks for business transformation, and
  - develop business transformation plans, supported by a strategic planning process, that enable them to align goals and planning efforts and to measure progress.

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- To assess progress in implementing management frameworks for business transformation, we compared DOD and military departments' actions to best practices for implementing CMO positions<sup>8</sup> and related statutory requirements in the National Defense Authorization Acts for Fiscal Years 2008 and 2009. We also reviewed DOD and military department guidance related to these positions and entities.
  - To assess progress in developing business transformation plans supported by a strategic planning process, we assessed DOD's 2009 SMP and the Air Force's strategic plan by comparing them to results-oriented management best practices and key elements of a strategic plan, which we identified by reviewing prior GAO work<sup>9</sup> and the Government Performance and Results Act of 1993.<sup>10</sup> We also met with Army and Navy officials to determine the status of their planning efforts.
  - For both objectives, we interviewed DOD officials, including the DCMO; the Director of the Business Transformation Agency; the Under Secretaries of the Air Force, Army, and Navy in their capacities as CMOs; and the Director of Business Transformation for each military department.
  - To determine the CMO, DCMO, and military department CMO involvement in the Secretary of Defense's recent efficiency initiative and selected GAO high-risk areas, we met with these officials and reviewed relevant documents and our prior and ongoing work on the high-risk areas.

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<sup>8</sup>GAO-08-34.

<sup>9</sup>GAO, *Defense Business Transformation: A Full-time Chief Management Officer with a Term Appointment Is Needed at DOD to Maintain Continuity of Effort and Achieve Sustainable Success*, GAO-08-132T (Washington, D.C.: Oct. 16, 2007); *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072 (Washington, D.C.: Sept. 5, 2007); and GAO-09-272R.

<sup>10</sup>Pub. L. No. 103-62 (1993).

- We conducted this performance audit from July 2009 through January 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DOD and the military departments have taken additional steps to strengthen their management approach to business transformation. Opportunities exist, however, for the CMO and DCMO to take on a greater leadership role in implementing a departmentwide effort to achieve more efficiencies in its operations and to ensure results in individual business areas.

- DOD has filled key positions, such as the DOD DCMO and military department CMOs, and established entities and undertaken activities to address business transformation, including creating a new governance board, coordinating efforts among senior leaders to establish top-level priorities, updating its SMP, and initiating a departmentwide effort to achieve greater efficiencies, including in business operations.
- The CMO and DCMO have responsibilities, under statutes and department guidance, related to the improvement of the efficiency and effectiveness of business operations, but they have not been assigned specific roles for integrating, monitoring or otherwise institutionalizing the ongoing Secretary of Defense efficiency initiative. In contrast, the military departments CMOs are leading efforts to implement the initiative in their organizations.
- Without assigning a specific role for the CMO and DCMO, it is not clear how DOD will establish accountability and leverage those positions to provide the leadership needed to implement, integrate, and otherwise institutionalize the Secretary of Defense's recent efficiency initiative and sustain momentum and progress in the long term. Furthermore, without a continuous focus on identifying and implementing efficiencies, DOD may be challenged in funding its highest-priority programs in light of DOD's fiscal challenges.

**Summary of Findings**  
**Objective 1: Management Framework**

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- DOD continues to take some actions to address weaknesses in individual business areas; however, we continue to see opportunities for the CMO and DCMO to provide the leadership needed to implement reforms and achieve goals reflected in the SMP, including those in areas we have identified as high risk.
  
- For example, DOD has significantly improved the timeliness of processing personnel security clearances but has yet to clearly define the specific roles and responsibilities of the CMO, DCMO, and military department CMOs for financial management improvement efforts, and to include clear performance measurement information and resource needs in its *Logistics Strategic Plan*, which guides efforts to improve supply chain management and other logistics processes.

DOD and the military departments have made limited progress in developing business transformation plans, supported by a strategic planning process, which enable them to align goals and planning efforts and to measure progress.

- DOD's 2009 SMP identifies priorities but lacks some key strategic plan elements. Specifically, some of the goals are not measurable, and it does not include funding priorities or a description of the problems and gaps the plan is trying to address.<sup>11</sup>
- The military departments are in varying stages of their planning efforts.
  - The Army issued its business transformation plan in October 2010. The Navy issued its business transformation plan in November 2010. Army and Navy officials stated that they used the SMP's priorities as the starting point for developing their individual business transformation plans.
  - The Air Force has an overarching 2008 strategic plan that it states covers business transformation; however, this Air Force plan does not define business transformation and does not identify which of its goals are related to business transformation. Air Force officials stated that they planned to update their strategic plan and establish business-related priorities by December 2010 and to formally issue their business transformation plan in March 2011.

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<sup>11</sup>On December 30, 2010, DOD issued an updated plan, which covers fiscal year 2011. We plan to evaluate the updated plan to assess whether it contains key elements, such as measurable goals, funding priorities, and resource needs.

- Although the 2009 SMP describes a strategic planning process, DOD has not set up internal mechanisms, including procedures and milestones, by which it can reach consensus with the military departments and others on priorities, synchronize the development of plans with each other and the budget process, and guide efforts to monitor progress and take corrective action.
- Without a strategic plan containing measurable goals and funding priorities, supported by a clearly defined planning process, the department will not have the tools it needs to set strategic direction for business transformation efforts, fully align efforts to develop plans and budget requests that reflect business priorities, measure progress in implementing reform initiatives, and institutionalize its strategic planning efforts across administrations.

## Objective 1: Management Framework

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**DOD and the military departments have taken additional steps to strengthen their management approach to business transformation. Opportunities exist, however, for the CMO and DCMO to take on a greater leadership role in implementing a departmentwide effort to achieve more efficiencies in its operations and in ensuring results in individual business areas:**

- Key strategies for successful implementation of the CMO position include defining roles, responsibilities, structures, processes, and reporting relationships and ensuring a high level of authority.<sup>12</sup>
- Since our January 2009 report, DOD has filled key positions, established entities, and undertaken activities to address business transformation:

Positions and Entities:

- In July 2009, the CMO authorized the Assistant DCMO to perform the duties of the DCMO until the DCMO position was filled. In July 2010, the Assistant DCMO was confirmed as the DCMO. In October 2010, DOD appointed a new Assistant DCMO.
- In addition, the DCMO is currently serving as DOD's Performance Improvement Officer, in which capacity she supervises DOD's performance management activities and leads the department's personnel security clearance reform efforts.
- In June 2010, the DCMO created the End-to-End Process Governance Board,<sup>13</sup> whose role is to advise the DBSMC on opportunities to enhance the management and execution of the end-to-end business processes across DOD. The board includes the military department DCMOs and representatives from various DOD offices such as the Offices of the Under Secretaries for Acquisition, Technology and Logistics; Comptroller; and Personnel and Readiness.

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<sup>12</sup>See GAO-08-34.

<sup>13</sup>This board was originally the Procure-to-Pay Governance Board and was established in October 2009. The DCMO expanded the scope of this board to include all business processes, renamed it the End-to-End Business Process Governance Board, and drafted a charter in June 2010.

### Objective 1: Management Framework

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- All of the military departments have CMOs in place and have issued related guidance to incorporate the CMO into existing governance structures.
- The Navy Under Secretary was confirmed in May 2009.
  - The Navy has issued an instruction stating that the Navy Under Secretary is the CMO, and creating a Deputy Under Secretary position to serve as the DCMO, to supervise the Office of Business Transformation, and to oversee and coordinate Navy business processes.
- The Army Under Secretary was confirmed in September 2009.<sup>14</sup>
  - The Army has issued an order stating that the CMO is a senior advisor to the Secretary of the Army and plans to issue additional guidance.
- The Air Force Under Secretary was confirmed in March 2010.
  - The Air Force has issued a directive for the CMO stating that the CMO is to direct and oversee the activities of the DCMO and that the DCMO exercises the CMO's responsibilities by effectively and efficiently organizing the Air Force's business operations and providing relevant information to DOD's CMO and DCMO.
  - According to officials, the Air Force is in the process of updating other guidance to clarify that the CMO and DCMO are now co-chairs of entities within the Air Force's existing governance structure.<sup>15</sup>
    - It is unclear whether this guidance will further define the CMO's roles, responsibilities, and relationships to other key Air Force leaders, such as the Assistant Secretaries of the Air Force for Acquisition and for Financial Management and Comptroller.

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<sup>14</sup>The previous Under Secretary of the Army, who served from July 2008 to December 2008, was also the Army CMO.

<sup>15</sup>The CMO co-chairs the Air Force Council and the DCMO co-chairs the Air Force Board. Both of these entities are part of the governance structure by which the Air Force makes servicewide decisions about all matters, including business transformation.

### Objective 1: Management Framework

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- Each of the military departments has established an Office of Business Transformation.
- The Navy established its Office of Business Transformation in December 2008. This office's Director serves as both the Navy DCMO and the Deputy Under Secretary of the Navy for Business Operations and Transformation.
- The Air Force established its Office of Business Transformation in June 2009. Its Director also serves as the Air Force DCMO.
- The Army established its Office of Business Transformation in April 2009. This office has an Acting Director who is also the Army's Acting DCMO.

#### Activities:

- On behalf of the CMO, the Assistant DCMO coordinated with the Under Secretaries of Defense to achieve consensus on top-level business priorities and with the military departments to obtain input on their respective priorities. The CMO formalized these priorities in the July 2009 update to the SMP.
- As discussed later, the DCMO is working with various DOD offices to collect data needed to assess progress against business-related measures. In January 2010, DOD began quarterly reporting to the DBSMC on progress against these business-related measures.

### Objective 1: Management Framework

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- The CMO chairs the DBSMC, which also includes the DCMO (Vice Chair), several Under Secretaries of Defense, and the military department CMOs. The DBSMC meets periodically to discuss issues related to business transformation, such as audit readiness, acquisition, and performance management. The DBSMC also reviews quarterly performance reports on progress in meeting performance measures for both business and nonbusiness priorities. It also serves as an investment review and decision-making body for business systems modernization activities.
  - DOD has stated that the DBSMC is considered the primary forum for addressing business transformation issues, although the 2005 charter for the DBSMC has not yet been revised to fully reflect this role. We have previously recommended that DOD institutionalize the roles, responsibilities, and relationships among various business-related entities, including the DBSMC.<sup>16</sup> DOD stated that it is currently in the process of updating the DBSMC charter.
- According to the DCMO, she meets regularly with key DOD personnel, including representatives from various offices in the Office of the Secretary of Defense and the CMOs and DCMOs of the military departments, to discuss business operations, including progress in addressing problems identified in GAO's high-risk areas. She stated that she also regularly briefs the CMO on business-related topics, both individually and as part of the DBSMC. The DCMO views herself as an integrator and as a facilitator of discussions to identify solutions, such as addressing weaknesses in business operations identified in GAO's high-risk areas.
  - In addition, the military department CMOs and DCMOs meet with each other on a regular basis to share information and ideas on business reform.

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<sup>16</sup>GAO-07-1072.

**CMO, DCMO, and Military Department CMO Role in DOD Efficiency Initiative**

- In May 2010, the Secretary of Defense announced the need for DOD to reduce overhead costs and subsequently called for a 5-year effort to cut \$100 billion from the department's budget in order to finance sustainment of the current force and modernize its weapons portfolio. As part of this effort, the Secretary has stated that the department must "take a hard look" at every aspect of how it does business.<sup>17</sup>
  - Since then, DOD has embarked on a four-track approach intended to achieve a more efficient, effective, and cost-conscious way of doing business. One of these tracks addresses specific areas where DOD could take immediate action to reduce inefficiencies and overhead, in particular, initiatives to reduce headquarters and support bureaucracies and to instill a culture of cost-consciousness and restraint in the department.<sup>18</sup> To see these initiatives through to action and to produce measurable results in the near term, the Secretary established a task force chaired by his Chief of Staff. This task force has chartered study groups to develop action plans and is overseeing the implementation of these plans and their eventual transition to the appropriate department leadership. The Secretary of Defense intends to personally approve all action plans.

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<sup>17</sup>Remarks as delivered by Secretary of Defense Robert M. Gates, Abilene, Kansas, May 8, 2010.

<sup>18</sup>The other three tracks are as follows: (1) the Secretary directed that the military services find more than \$100 billion in overhead savings over the next 5 years; (2) the department is seeking ideas, suggestions, and proposals regarding efficiencies from outside experts and industry; and (3) the department is conducting a broad review of how it is organized and operated to inform the President's 2012 budget process.

### Objective 1: Management Framework

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- According to the DCMO, the DOD CMO and DCMO are involved in the Secretary of Defense's ongoing efficiency initiative. For example:
  - The CMO recently testified before Congress to provide information on the department's efficiency efforts, and the DCMO has been given specific responsibilities to evaluate options for eliminating the Business Transformation Agency and transferring its functions to other organizations.
  - According to the DCMO, the CMO accompanies the Secretary of Defense to all meetings on the status of efforts related to the efficiency initiative.
  - However, notwithstanding their responsibilities related to improving the efficiency and effectiveness of business operations, neither the CMO nor DCMO has been assigned any specific role for integrating, monitoring or otherwise institutionalizing the ongoing efficiency initiative.
- Without assigning a specific role for the CMO and DCMO for the efficiency initiative, it is not clear how DOD will establish accountability and leverage those positions to provide the leadership necessary to implement, integrate, and otherwise institutionalize the initiative and sustain momentum and progress in the long term. Furthermore, without a continuous focus on identifying and implementing efficiencies, DOD may be challenged in funding its highest-priority programs in light of DOD's fiscal challenges.

### Objective 1: Management Framework

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- According to the military department CMOs, they were tasked to lead the Secretary of Defense's efficiency initiative within their respective departments. For example:
  - The Army CMO has issued guidance to implement this initiative that provides specific efforts, goals, milestones, and responsibilities to ensure that the Army synchronizes and integrates its adjustments to the budget.
  - The Air Force has also issued guidance on how to implement efficiency initiatives within the service and is using its existing governance structure—including entities co-chaired by the Air Force CMO and DCMO—to monitor progress in implementing these initiatives.
  - The Navy CMO and DCMO are overseeing working groups to implement DOD efficiency-related initiatives and are identifying additional military department-specific efficiency initiatives.
  - Each military department has identified areas for savings in its respective budget submission as part of efforts to meet the Secretary of Defense's goal for each military department to shift \$28.3 billion over the next 5 years (fiscal year 2012 through fiscal year 2016) in overhead costs to force structure and future modernization.
- In addition, the three military department CMOs meet with both the DOD DCMO and each other on a regular basis to discuss implementation of the efficiency initiatives and overall business issues.

**CMO and DCMO Role in Selected High-Risk Areas**

- DOD has had a CMO since 2007. While the CMO and DCMO, along with others, have taken additional actions in the past few years—including developing a strategic plan, implementing reform initiatives, and measuring progress—our work indicates that additional opportunities exist for the CMO, assisted by the DCMO, to provide the leadership needed to ensure that actions to implement reforms are completed and to achieve goals reflected in the SMP, including those in areas we have identified as high risk.
  - With respect to specific business areas, we focused on a few high-risk areas—personnel security clearances, financial management, and supply chain management—to illustrate the involvement of the CMO and DCMO and additional actions needed to address long-standing challenges in these areas.

**Personnel Security Clearances:**

- In 2005, we placed DOD's personnel security clearance program on our high-risk list and continued that designation in 2007 because of problems such as processing delays and incomplete documentation.<sup>19</sup> In response to our recommendations and to congressional concerns, DOD has taken steps to implement specific reforms to its processes for granting personnel security clearances to address timeliness and quality issues. For example:
  - The DCMO has been an active member of the Joint Security Clearance Process Reform Team, which was formed to improve the security clearance process governmentwide, and the Suitability and Security Clearance Performance Accountability Council, which guides governmentwide personnel security clearance reform efforts. The DOD DCMO stated that she is the Vice Chair of the Performance Accountability Council.
  - In 2007, we reported that a sample of initial clearances for DOD industry personnel took an average of 325 days to complete.<sup>20</sup> In 2008, we reported that DOD had made significant improvements in reducing delays, with the average of the fastest 80 percent of initial clearances taking 87 days to complete, well below the statutory requirements in effect at that time.<sup>21</sup>
  - In 2009, we recommended that the Performance Accountability Council establish a strategic framework that includes outcome-focused performance measures.<sup>22</sup> In response, the DCMO played a key role in developing both the Performance Accountability Council's Strategic Framework for Congress in February 2010 that articulated the goals of the reform efforts and participated in the Performance Accountability Council's proposed quality measures for the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs.

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<sup>19</sup>GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

<sup>20</sup>GAO, *High-Risk Series: An Update*. GAO-07-310 (Washington, D.C.: January 2007).

<sup>21</sup>GAO-09-271.

<sup>22</sup>GAO, *DOD Personnel Clearances: Comprehensive Timeliness Reporting, Complete Clearance Documentation, and Quality Measures Are Needed to Further Improve the Clearance Process*, GAO-09-400 (Washington, D.C.: May 19, 2009).

**Financial Management:**

- Based on our review of the process for developing the SMP and discussions with the DCMO, the CMO and DCMO have interacted with the DOD Comptroller on issues related to improving financial management. For example:
  - The Secretary of Defense, acting through the CMO, has statutory responsibility for developing the SMP. The 2008 SMP identified the need to modernize and integrate critical financial management and internal control systems as one of several departmentwide improvement areas within the DOD transformation priorities established by the plan.
  - To develop the 2009 SMP update, the DOD Comptroller provided financial management goals to the DCMO. The DCMO ultimately included these goals in the plan, which was then approved by the CMO.
  - The DCMO has been involved in discussions with other senior leaders at DBSMC meetings to discuss efforts to improve financial management.
  - The CMO and DCMO reviewed and provided comments on DOD's May 2010 Financial Improvement and Audit Readiness (FIAR) Plan Status Report, a key plan for transforming the department's financial management operations and achieving audit readiness.

## Objective 1: Management Framework

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- In May 2009, based on our review of the FIAR Plan, we reported that the plan did not identify and describe the oversight roles and responsibilities of DOD's CMO and military service CMOs over the financial improvement efforts occurring within the department.<sup>23</sup> In particular, we noted that integration of the CMO and other senior leaders into the FIAR Plan's efforts to transform DOD financial management operations is critical in enabling a process by which DOD can more timely identify and address cross-functional issues and ensure that other business functions, such as acquisition and logistics, fully acknowledge and are held accountable for their roles and responsibilities in achieving DOD's financial management improvement goals and audit readiness.<sup>24</sup> We made several recommendations to increase the FIAR Plan's effectiveness as a strategic and management tool for guiding, monitoring, and reporting on financial management improvement efforts and increasing the likelihood of meeting the department's goal of financial statement auditability, which were incorporated into the National Defense Authorization Act for Fiscal Year 2010.
  - In response to our recommendations, DOD has taken several actions to improve its FIAR Plan as a strategic and management tool for guiding, monitoring, and reporting on the department's financial management improvements. For example, DOD took steps to improve its governance framework for monitoring and overseeing financial management improvement efforts by expanding its FIAR governance board participants to include the DOD DCMO and the military department CMOs.
  - However, as we testified in September 2010,<sup>25</sup> DOD still needs to define the specific roles and responsibilities for these individuals, including when and how they and other leaders are expected to become involved in problem resolution or efforts to (1) ensure cross-functional area commitment and support for financial management improvement efforts, (2) effectively execute its plans, (3) gauge actual progress against goals, (4) strengthen accountability, and (5) make adjustments as needed.

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<sup>23</sup>GAO, *Financial Management: Achieving Financial Statement Auditability in the Department of Defense*, GAO-09-373 (Washington, D.C.: May 6, 2009).

<sup>24</sup>GAO, *Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve*, GAO-10-1059T (Washington, D.C.: Sept. 29, 2010).

<sup>25</sup>GAO-10-1059T.

**Supply Chain Management:**

- We have previously identified problems related to the effectiveness and efficiency of DOD supply chain management. Key aspects of supply chain management include inventory management, requirements forecasting, asset visibility, and materiel distribution, as well as logistics-related strategic planning efforts.
- In 2008 and 2009, we reported that the Army and Navy had billions of dollars of spare parts inventories that were not needed to meet current requirements.<sup>26</sup> We noted at the time of our reports that both the Army and Navy had an opportunity to enhance oversight of inventory management as well as gauge the effectiveness of inventory improvement efforts as they developed the roles and responsibilities of the newly designated CMOs. We recommended that the Army and Navy CMOs exercise appropriate oversight of inventory management to align these efforts with overall business transformation and to reduce support costs. We also recommended that the Army and Navy identify and correct any systemic weakness in demand forecasting procedures; the services concurred with this recommendation. According to DOD, the department began a two-phased evaluation of life cycle forecasting approaches in June 2009 and included the issue as a key initiative in its 2009 SMP. DOD has developed a plan to improve inventory management practices, including the forecasting of demand for inventory items. The DOD DCMO stated that she was not involved in developing or reviewing this plan.

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<sup>26</sup>GAO, *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory*, GAO-09-103 (Washington, D.C.: Dec. 12, 2008), and *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*, GAO-09-199 (Washington, D.C.: Jan. 12, 2009).

## Objective 1: Management Framework

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- In July 2010, we reported that DOD issued a new *Logistics Strategic Plan* to provide a framework for logistics improvement efforts, including supply chain management.<sup>27</sup> The *Logistics Strategic Plan* is intended to support strategic planning efforts such as the SMP and includes two of the SMP's business priorities: support contingency business operations to enhance support to the deployed warfighter and reform the department's acquisition and support processes. We also have reported that DOD needs to sustain top leadership commitment and long-term institutional support for its strategic planning efforts for supply chain management. Such a leadership commitment is needed to successfully resolve ongoing supply chain management problems. The DOD DCMO stated that she reviewed the draft *Logistics Strategic Plan* to ensure that it was aligned with the SMP. However, the plan lacks clear performance measurement information, definition of key concepts, identification of problems and capability gaps, and discussion of resources needed to achieve goals.

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<sup>27</sup>GAO, *DOD's High-Risk Areas: Observations on DOD's Progress and Challenges in Strategic Planning for Supply Chain Management*, GAO-10-929T (Washington, D.C.: July 27, 2010).

**DOD and the military departments have made limited progress in developing business transformation plans, supported by a strategic planning process, that enable them to align goals and planning efforts and to measure progress.**

- Our prior work has shown that implementing significant organizational change—such as DOD is attempting to do with business transformation—requires a comprehensive, integrated strategic plan that sets a clear direction and contains key elements, such as measurable performance goals and objectives, funding priorities that are linked to goals, and aligning of goals and measures with departmentwide goals and cascading goals and measures to lower organizational levels.<sup>28</sup>
- DOD’s July 2009 *Strategic Management Plan* identifies priorities but still does not contain some key strategic plan elements. Specifically, it does not include funding priorities and some of the goals were not measurable.
- The 2009 SMP, an update to the original SMP issued in 2008, represents an improvement in that the plan identifies five business priorities with associated outcomes, goals, measures, and initiatives. Those five business priorities are as follows:
  - Support the All-Volunteer Force
  - Support Contingency Business Operations
  - Reform the DOD Acquisition and Support Processes
  - Enhance the Civilian Workforce
  - Strengthen DOD Financial Management

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<sup>28</sup>GAO, *Military Training: DOD Needs a Strategic Plan and Better Inventory and Requirements Data to Guide Development of Language Skills and Regional Proficiency*, GAO-09-568 (Washington, D.C.: June 19, 2009), and GAO-09-272R.

Nevertheless, our analysis shows that the 2009 SMP:

- Contains some goals that are difficult to measure.
  - Our prior work has shown that a performance goal should be expressed in an objective, quantifiable, and measurable form.<sup>29</sup>
  - Of the 43 goals in the 2009 SMP, 15 are not expressed in a measurable form, for example,
    - “improve business process internal controls in Afghanistan”
- Contains some measures that do not allow for assessment of progress toward overall goals.
  - Our prior work has shown that a performance measure should have quantifiable, numerical targets or other measurable values to facilitate future assessments of whether overall goals and objectives were achieved.<sup>30</sup>
  - Of the 76 measures in the 2009 SMP, 56 lack information—specifically, baseline or target data—that would enable DOD to assess progress in achieving SMP goals. For example:
    - “increase contract oversight” and
    - “apply lessons learned in Iraq to Afghanistan”
- Does not identify time frames for completing key initiatives or funding priorities or resources needed to achieve goals.
- On December 30, 2010, DOD issued an updated plan, which covers fiscal year 2011. We plan to evaluate the updated plan to assess whether it contains key elements, such as measurable goals, funding priorities, and resource needs.

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<sup>29</sup>GAO, *The Results Act: An Evaluator’s Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: April 1998), and GAO-09-568.

<sup>30</sup>GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

- In addition, the 2009 SMP does not include a discussion about overall departmentwide or DOD component–specific business transformation problems or challenges, nor does it indicate the extent or severity of any identified capability gaps. Such information is necessary to establish a clear and common understanding of what problems and gaps the plan is trying to address.
- Although the 2009 SMP does not specifically refer to GAO’s high-risk areas, it does include outcomes, goals, measures, or initiatives that relate to aspects of the high-risk areas that we have identified as needing improvement.
- Moreover, it is unclear how the goals in the 2009 SMP relate to other DOD business-related plans, in particular the Business Enterprise Architecture (BEA) and Enterprise Transition Plan (ETP).
  - For example, the fiscal year 2010 ETP, which is an element of the BEA, contains six business enterprise priorities, but these are not clearly aligned with the SMP’s five business priorities. According to DOD officials, they are working to better align the ETP, BEA, and SMP in future updates.

- Although some performance goals and measures could be improved, DOD has begun using performance measures to monitor progress against business-related goals.
- Best practices for successfully implementing strategic plans include collecting data to measure performance and using that information to continuously improve organizational processes.<sup>31</sup>
- DOD has begun to collect and use performance data to measure progress against business-related goals.
  - DOD initially used the performance measures developed for its fiscal year 2010 performance plan,<sup>32</sup> rather than the measures included in the 2009 SMP, to monitor progress against business goals.
  - In October 2009, DOD revised the fiscal year 2010 performance plan measures to align them with the priorities and goals contained in the July 2009 SMP.<sup>33</sup>
  - In January 2010, DOD began reporting quarterly to the DBSMC on progress on the fiscal year 2010 performance plan measures, which it can track according to GAO's high-risk areas.
  - In October 2010, DOD continued this quarterly reporting using the fiscal year 2011 performance plan measures.

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<sup>31</sup>GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

<sup>32</sup>Under 31 U.S.C. § 1115, DOD is required to issue an annual performance plan, in which performance indicators to be used in measuring or assessing relevant outputs, service levels, and outcomes of each program activity are established.

<sup>33</sup>We did not assess the quality of the fiscal year 2010 performance plan measures.

The military departments are in varying stages of their planning efforts.

- Army and Navy officials stated that they used the SMP's priorities as the starting point for developing their respective business transformation plans. The Army issued its business transformation plan in October 2010. The Navy issued its plan in November 2010.
- The Air Force has an overarching 2008 strategic plan that it states covers business transformation; however, this Air Force plan does not define business transformation and does not identify which of its goals are related to business transformation.
  - For example, one goal in the Air Force 2008 strategic plan is to “ensure an accountable, credible, and transparent institution.” Because this goal is stated in broad terms, it is unclear whether this goal is related to any of the business priorities identified in DOD's July 2009 SMP.
  - Air Force officials stated that they planned to update their strategic plan and establish business-related priorities by December 2010 and then formally issue their business transformation plan in March 2011.

- Prior work on results-oriented management best practices has shown that a key attribute of success is that performance goals and measures—such as those in the military departments’ business transformation plans—should align with higher-level departmentwide priorities, with the relationship clearly articulated.<sup>34</sup>
  - Such linkage is important in ensuring that agency efforts are properly aligned with goals (and thus contribute to their accomplishment) and in assessing progress toward achieving goals.
- Although the 2009 SMP describes a strategic planning process, DOD has not established mechanisms, including procedures and milestones, by which DOD is to reach consensus with the military departments on priorities, synchronize development of the respective plans with each other and with the budget process, obtain review and approval by senior leaders, and guide efforts to monitor progress and take corrective action.
  - Therefore, it is unclear to what extent the business transformation priorities for the military departments will be aligned with the priorities identified in DOD’s SMP or how these business transformation priorities will influence the department’s budget requests.
- Without a strategic plan containing measurable goals and funding priorities, supported by a clearly defined planning process, the department will not have the tools it needs to set strategic direction for business transformation efforts, fully align efforts to develop plans and budget requests that reflect business priorities, measure progress in implementing reform initiatives, and institutionalize its strategic planning efforts across administrations.

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<sup>34</sup>GAO, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could Be Strengthened*, GAO-04-919 (Washington, D.C.: Sept. 13, 2004).

- Since January 2009, DOD and the military departments have taken some positive steps toward further developing and implementing a management approach to business transformation. Clearly, filling key positions, establishing governance entities, and developing business plans at the departmentwide and military department levels will enhance the department's ability to achieve successful and sustainable transformation. However, in order to establish accountability and fully leverage the potential of the CMO and DCMO positions and supporting governance entities to provide the leadership necessary to guide reform efforts, roles and responsibilities must be clear.
- Given their responsibilities, under statute and department guidance, related to improving the efficiency and effectiveness of business operations, the CMO and DCMO are uniquely positioned to monitor, integrate, and otherwise institutionalize the Secretary of Defense's ongoing efficiency initiative. In the absence of specifically defining their roles and responsibilities related to this initiative, it is unclear how DOD will establish accountability and leverage those positions to provide the leadership necessary to sustain momentum and progress in achieving reforms in the long term.
- DOD has now identified business priorities in its updated strategic plan, which is clearly an improvement over its initial plan, but it still lacks certain elements, such as a complete set of measurable goals linked to funding priorities. Furthermore, it has not yet set up mechanisms necessary to guide and align its strategic planning efforts. Without a comprehensive strategic plan, supported by a clearly defined planning process, DOD will not have the tools it needs to set strategic direction, fully align plans and budgets that reflect business priorities, measure progress against goals, and institutionalize its strategic planning efforts across administrations.

### Recommendations for Executive Action

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To establish ongoing accountability and better leverage the unique positions of the CMO and DCMO to provide the leadership necessary to follow up the Secretary's recent efficiency initiative in the long term, we recommend that the Secretary of Defense take the following action:

- Assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary's initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort for the long term.

To enhance DOD's ability to set strategic direction for its business transformation efforts, and better align and institutionalize its efforts to develop and implement plans and measure progress against established goals, we recommend that the Secretary of Defense direct the CMO to take the following two actions:

- Ensure that DOD's revised SMP contains measurable goals and funding priorities linked to those goals.
- Issue guidance to establish a strategic planning process with mechanisms—such as procedures and milestones—for routinely updating the SMP and military department business transformation plans. In particular, this guidance should include elements such as how DOD and the military departments—including the CMO, DCMO, and military department CMOs—will reach consensus on business priorities, coordinate review and approval of updates to plans, synchronize the development of plans with the budget process, and monitor implementation of reform initiatives, and report on progress, on a periodic basis, towards achieving established goals.

### Agency Comments and Our Evaluation

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- In its written comments, DOD concurred with two of our recommendations and partially concurred with one.
- DOD concurred with our recommendation that the Secretary of Defense assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary's efficiency initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort for the long term. While DOD did not specify the action it planned to take to implement our recommendation, we would expect that once the Secretary determines the roles and responsibilities to be assigned to the CMO and DCMO, these would be clearly communicated within the department.
- DOD concurred with our recommendation that the Secretary direct the CMO to ensure that DOD's revised SMP contains measurable goals and funding priorities linked to those goals. DOD agreed that the SMP should contain measurable goals linked to the budget, and stated that the draft fiscal year 2011 SMP accomplishes this goal. DOD also stated that the fiscal year 2011 SMP is tightly integrated with the fiscal year 2011 Performance Budget and directly links performance measures to the budget through Forces and Infrastructure Category codes. DOD further noted that each goal in the fiscal year 2011 SMP is supported by quantifiable performance measures and that results against these measures will be briefed on a quarterly basis to the DBSMC. On December 30, 2010, DOD issued an updated plan, which covers fiscal year 2011. We plan to evaluate the updated plan to assess whether it contains key elements, such as measurable goals, funding priorities, and resource needs.

- DOD partially concurred with our recommendation that the Secretary direct the CMO to issue guidance to establish a strategic planning process with mechanisms—such as procedures and milestones—for routinely updating the SMP and military department business transformation plans. DOD agreed that it is important for its strategic planning process to ensure alignment between the various documents that comprise the department’s “family of plans” and the officials that are responsible for those plans. DOD identified this “family of plans” to include the SMP, Performance Budget, Financial Improvement and Audit Readiness Plan, DOD Logistics Strategic Plan, individual GAO High Risk Area Remediation Plans, and Military Department Business Transformation and Transition Plans. DOD, however, stated that it is focused on using its existing governance bodies and natural planning cycles associated with these documents to ensure alignment while maintaining the ability to respond to changing circumstances in an agile way that the establishment of formal policy would not allow. It noted that these governance bodies include the DBSMC, the Performance Budget Senior Review Group, and a variety of functional and organizational boards throughout the department.

- We recognize that DOD relies on existing governance bodies and planning cycles to develop and align the SMP and other related plans, and agree that it is important for DOD to be able to respond to changing circumstances. However, we do not believe that establishing formal policy to govern its strategic planning efforts would hinder the department in any manner. Rather, we believe that issuing formal guidance to clearly define the planning process will help the department achieve a common understanding and approach among the various planning entities and therefore enhance its overall ability to set strategic direction, better align and institutionalize its planning efforts, and measure progress against established goals. Over the past few years, the department and military departments have gained momentum in achieving consensus on business priorities and maturing their planning efforts. To sustain this momentum and to ensure continuity for the long term, we believe it is important that the CMO clearly outline the process that will guide strategic planning efforts, including elements such as how DOD and the military departments—including the CMO, DCMO, and military department CMOs—will reach consensus on business priorities, coordinate review and approval of updates to plans, synchronize the development of plans with the budget process, and monitor implementation of reform initiatives, and report progress, on a periodic basis, towards achieving established goals. Given DOD’s statements about the need to maintain the ability to respond to changing circumstances, the CMO could also include specific provisions to allow for the flexibility needed to make adjustments as circumstances dictate.

## Related GAO Products

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- *DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed.* GAO-11-53. Washington, D.C.: October 7, 2010.
- *Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve.* GAO-10-1059T. Washington, D.C.: September 29, 2010.
- *DOD's High-Risk Areas: Observations on DOD's Progress and Challenges in Strategic Planning for Supply Chain Management.* GAO-10-929T. Washington, D.C.: July 27, 2010.
- *Warfighter Support: Actions Needed to Improve the Joint Improvised Explosive Device Defeat Organization's System of Internal Control.* GAO-10-660. Washington, D.C.: July 1, 2010.
- *Warfighter Support: DOD Needs to Improve Its Planning for Using Contractors to Support Future Military Operations.* GAO-10-472. Washington, D.C.: March 30, 2010.
- *Warfighter Support: Actions Needed to Improve Visibility and Coordination of DOD's Counter-Improvised Explosive Device Efforts.* GAO-10-95. Washington, D.C.: October 29, 2009.
- *DOD Personnel Clearances: Comprehensive Timeliness Reporting, Complete Clearance Documentation, and Quality Measures Are Needed to Further Improve the Clearance Process.* GAO-09-400. Washington, D.C.: May 19, 2009.

**Related GAO Products  
(continued)**

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- *DOD Business Systems Modernization: Recent Slowdown in Institutionalizing Key Management Controls Needs to Be Addressed.* GAO-09-586. Washington, D.C.: May 18, 2009.
- *Financial Management: Achieving Financial Statement Auditability in the Department of Defense.* GAO-09-373. Washington, D.C.: May 6, 2009.
- *DOD's High-Risk Areas: Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes.* GAO-09-460T. Washington, D.C.: March 12, 2009.
- *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts.* GAO-09-199. Washington, D.C.: January 12, 2009.
- *Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation.* GAO-09-272R. Washington, D.C.: January 9, 2009.
- *High-Risk Series: An Update.* GAO-09-271. Washington, D.C.: January 2009.
- *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory.* GAO-09-103. Washington, D.C.: December 12, 2008.
- *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved.* GAO-08-866. Washington, D.C.: August 8, 2008.
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- *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk.* GAO-07-860. Washington, D.C.: July 27, 2007.
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Comments from the Department of Defense



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DEC 21 2011

Ms. Sharon L. Pickup  
Director, Defense Capabilities and Management  
U. S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office draft report GAO-11-181R, "DEFENSE BUSINESS TRANSFORMATION: DoD Needs to Take Additional Actions to Further Define Key Management Roles, Develop Measurable Goals, and Align Planning Efforts," dated November 17, 2010 (GAO Code 351377). The Department acknowledges receipt of the draft report and appreciates the opportunity to review your findings. The Department's detailed comments on the recommendations are attached.

  
Elizabeth A. McGrath

Attachment:  
As stated



**GAO DRAFT REPORT DATED NOVEMBER 17, 2010  
GAO-11-181R (GAO CODE 351377)**

**“DEFENSE BUSINESS TRANSFORMATION: DOD NEEDS TO TAKE ADDITIONAL  
ACTIONS TO FURTHER DEFINE KEY MANAGEMENT ROLES, DEVELOP  
MEASURABLE GOALS, AND ALIGN PLANNING EFFORTS”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommends that the Secretary of Defense assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary’s efficiency initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort for the long term. (See pages 4-5/GAO Draft Report.)

**DoD RESPONSE:** Concur.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense direct the CMO to ensure that DoD’s revised SMP contains measurable goals and funding priorities linked to those goals. (See page 5/GAO Draft Report.)

**DoD RESPONSE:** Concur.

The Department agrees the Strategic Management Plan (SMP) should contain measurable goals linked to the budget. The draft Fiscal Year (FY) 2011 SMP, now in formal coordination within the Department, accomplishes this goal. The FY 2011 SMP is tightly integrated with the FY 2011 Performance Budget and directly links performance measures to the budget through the use of Forces and Infrastructure Category (“FIC”) codes. Additionally, each goal in the FY 2011 is supported by quantifiable performance measures. Results against these measures will be briefed on a quarterly basis to the Defense Business Systems Management Committee (DBSMC).

**RECOMMENDATION 3:** The GAO recommends that the Secretary of Defense direct the CMO to issue guidance to establish a strategic planning process with mechanisms – such as procedures and milestones – for routinely updating the SMP and military department business transformation plans. In particular, this guidance should include elements such as how DoD and the military departments – including the CMO, DCMO, and military department CMOs – will reach consensus on business priorities, coordinate review and approval of updates to plans, synchronize the development of plans with the budget process, and monitor and report progress in implementing reform initiatives and achieving established goals. (See page 5/GAO Draft Report.)

Attachment

**DoD RESPONSE:** Partially concur.

The Department agrees that it is important for the Department's strategic planning process to ensure alignment between the various documents that comprise the Department's "family of plans" and the officials that are responsible for those plans. The Department's "family of plans" includes the SMP, Performance Budget, Financial Improvement and Audit Readiness (FIAR) Plan, DoD Logistics Strategic Plan, individual GAO High Risk Area Remediation Plans and Military Department Business Transformation and Transition Plans. However, DoD is focused on using its existing governance bodies and the natural planning cycles associated with these documents to ensure alignment while maintaining the ability to respond to changing circumstances in an agile way that the establishment of formal policy would not allow. These governance bodies include the DBSMC, the Performance Budget Senior Review Group, and a variety of functional and organizational boards throughout the Department.

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