Testimony
Before the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

DEPARTMENT OF DEFENSE

Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation

Statement of David M. Walker
Comptroller General of the United States
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DEPARTMENT OF DEFENSE

Further Actions Needed to Establish and Implement a Framework for Successful Financial Management and Business Transformation

Why GAO Did This Study

In March 2002, GAO testified before this Subcommittee on the Department of Defense’s (DOD) financial management problems and key elements necessary for successful reform. Although the underlying conditions remain fundamentally unchanged, within the past 2 years DOD has begun a number of initiatives intended to address previously reported problems and transform its business operations. The Subcommittee asked GAO to provide a current status report on DOD’s progress to date and suggestions for improvement. Specifically, GAO was asked to provide (1) an overview of the impact of financial and related-business weaknesses on DOD operations, (2) the underlying causes of DOD business transformation challenges, and (3) the status of DOD reform efforts. In addition, GAO reiterates the key elements to successful reform: (1) an integrated business transformation strategy, (2) sustained leadership and resource control, (3) clear lines of responsibility and accountability, (4) results-oriented performance, (5) appropriate incentives and consequences, (6) an enterprise architecture to guide reform efforts, and (7) effective monitoring and oversight. GAO also offers two suggestions for legislative consideration which are intended to improve the likelihood of meaningful, broad-based financial management and related business reform at DOD.

What GAO Found

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

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

<table>
<thead>
<tr>
<th>Business area affected</th>
<th>Problem identified</th>
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<tbody>
<tr>
<td>Military pay</td>
<td>Ninety-four percent of mobilized Army National Guard soldiers GAO investigated had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and had a negative impact on retention.</td>
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<tr>
<td>Logistics</td>
<td>Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, including cannibalization of vehicles for parts and duplication of requisitions.</td>
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<tr>
<td>Travel</td>
<td>Seventy-two percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and 73 percent were not properly justified.</td>
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<tr>
<td>Property</td>
<td>New JSLIST chem-bio suits sold on the Internet for $3 while at the same time DOD was buying them for over $200. Further, thousands of defective suits, declared excess by DOD, were improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.</td>
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<tr>
<td>Contractor payments</td>
<td>Some DOD contractors were abusing the federal tax system, with little or no consequence. DOD had collected only $687,000 of unpaid contractor federal taxes through a mandated levy program over the last 6 years. GAO estimated that at least $100 million could be collected annually through effective implementation of the levy on DOD contractor payments.</td>
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Source: GAO.

Four underlying causes impede reform: (1) lack of sustained leadership, (2) cultural resistance to change, (3) lack of meaningful metrics and ongoing monitoring, and (4) inadequate incentives and accountability mechanisms. To address these issues, GAO reiterates the keys to successful business transformation and makes two additional suggestions for legislative action. First, GAO suggests that a senior management position be established to spearhead DOD-wide business transformation efforts. Second, GAO proposes that the leaders of DOD’s functional areas, referred to as domains, receive and control the funding for system investments, as opposed to the military services. Domain leaders would be responsible for managing business system and process reform efforts within their business areas and would be accountable to the new senior management official for ensuring their efforts comply with DOD’s business enterprise architecture.
Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be back again to discuss financial management and related business transformation efforts at the Department of Defense (DOD). At the outset, I would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve in providing a catalyst for business transformation at DOD. The involvement of this Subcommittee is critical to ultimately assuring public confidence in DOD as a steward that is accountable for its finances. DOD's substantial long-standing financial and business management problems adversely affect the economy, effectiveness, and efficiency of its operations, and have resulted in a lack of adequate transparency and appropriate accountability across all major business areas. As a result, DOD does not have timely, reliable information for management to use in making informed decisions. Further, as our reports continue to show, these problems result in significant fraud, waste, and abuse and hinder DOD's attempts to develop world-class operations and activities to support its forces. Of the 25 areas on GAO's governmentwide “high risk” list, 6 are DOD program areas, and the department shares responsibility for 3 other high-risk areas that are governmentwide in scope.\(^1\) The problems we continue to identify relate to human capital challenges, ineffective internal control and processes, and duplicative and stovepiped business systems. The seriousness of DOD's financial management weaknesses underscores the importance of no longer condoning “status quo” business operations at DOD.

Although the underlying operational conditions remain fundamentally unchanged since I last testified before this Subcommittee in March 2002, DOD has taken action to begin addressing a number of these challenges as part of its business transformation effort. Business transformation has been a priority of Secretary Rumsfeld. For example, DOD has been granted additional human capital flexibilities and is in the process of developing a new personnel management system for its civilian employees. In addition, through its Business Management Modernization Program (BMMP), DOD is continuing its efforts to develop and implement

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\(^1\) U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003). The nine interrelated high-risk areas that represent the greatest challenge to DOD's development of world-class business operations to support its forces are: contract management, financial management, human capital management, information security, support infrastructure management, inventory management, real property, systems modernization, and weapon systems acquisition.
a business enterprise architecture and establish effective management and
control over its business system modernization investments. To date,
however, tangible evidence of improvements in DOD business operations
remains limited to specific business process areas, such as DOD’s
purchase card program, where improvements have generally resulted from
increased management focus and better internal control rather than from
major modifications to automated systems. It is important to note that
some of the key elements I highlight in this testimony as necessary for
successful business transformation were critical to the success of several
narrowly defined initiatives that I will discuss today.

Because DOD is one of the largest and most complex organizations in the
world, overhauling its financial management and related business
operations represents a huge management challenge. In fiscal year 2003,
DOD reported that its operations involved over $1 trillion in assets, nearly
$1.6 trillion in liabilities, approximately 3.3 million military and civilian
personnel, and disbursements of over $416 billion. Moreover, execution of
DOD operations spans a wide range of defense organizations, including
the military services and their respective major commands and functional
activities, numerous large defense agencies and field activities, and
various combatant and joint operational commands that are responsible
for military operations for specific geographic regions or theaters of
operations. To execute these military operations, the department performs
an assortment of interrelated and interdependent business process areas,
including logistics management, procurement, healthcare management,
and financial management. Secretary Rumsfeld has estimated that
successful improvements to DOD’s business operations could save the
department 5 percent of its budget a year. Using DOD’s reported fiscal
year 2004 budget amounts, this percentage would equate to approximately
$22 billion a year in savings.

Two years ago, I testified on the challenges DOD faces in transforming its
financial management and related business operations and systems and I
discussed several key elements necessary for reform to succeed.² If the
past has taught us anything, it is that addressing the department’s serious
financial and related business process weaknesses will not be easy. For
several years, we have reported on DOD’s efforts to improve the

² U.S. General Accounting Office, DOD Financial Management: Integrated Approach,
Accountability, Transparency, and Incentives Are Keys to Effective Reform, GAO-02-497T
effectiveness and efficiency of its business operations and actions needed to achieve and sustain reform. Many of the same underlying causes, such as lack of sustained leadership, cultural resistance to change, parochialism, and stovepiped operations, that impeded the success of previous administrations in addressing DOD’s problems continue today. If DOD is unable to address these underlying causes that have resulted in the failure of previous broad-based reform efforts, improvements will remain marginal, confined to narrowly defined business process areas and incremental improvements in human capital policies, business processes, internal control systems, and information technologies.

Today, I will provide my perspectives on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD’s business operations, (2) underlying causes that have impeded the success of prior efforts, (3) keys to successful reform, and (4) the status of current DOD business transformation efforts. In addition, I will offer two suggestions for legislative consideration, which I believe will provide the sustained top-level leadership and accountability necessary for the overall business transformation effort to succeed. My statement is based on previous GAO reports as well as on our review of the work of other DOD auditors and recent DOD reports and studies.

Impact of Financial Management and Related Business Process Weaknesses

As I previously stated, and we have reported on for several years, DOD faces a range of financial management and related business process challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the department. As I recently testified and as discussed in our latest financial audit report, DOD’s financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government’s consolidated financial statements. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems.

In identifying improved financial performance as one of its five governmentwide initiatives, the President’s Management Agenda

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

Recent audits and investigations by GAO and DOD auditors continue to confirm the existence of pervasive weaknesses in DOD’s financial management and related business processes and systems. These problems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decision makers, (2) hindered its operational efficiency, (3) adversely affected mission performance, and (4) left the department vulnerable to fraud, waste, and abuse. For example,

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1 JFMIP is a joint undertaking of the Office of Management and Budget, GAO, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government.
• 450 of the 481 mobilized Army National Guard soldiers from six GAO case study Special Forces and Military Police units’ had at least one pay problem associated with their mobilization. DOD’s inability to provide timely and accurate payments to these soldiers, many of whom risked their lives in recent Iraq or Afghanistan missions, distracted them from their missions, imposed financial hardships on the soldiers and their families, and has had a negative impact on retention. (GAO-04-89, Nov. 13, 2003)

• DOD incurred substantial logistical support problems as a result of weak distribution and accountability processes and controls over supplies and equipment shipments in support of Operation Iraqi Freedom activities, similar to those encountered during the prior gulf war. These weaknesses resulted in (1) supply shortages, (2) backlogs of materials delivered in theater but not delivered to the requesting activity, (3) a discrepancy of $1.2 billion between the amount of materiel shipped and that acknowledged by the activity as received, (4) cannibalization of vehicles, and (5) duplicate supply requisitions. (GAO-04-305R, Dec. 18, 2003)

• Inadequate asset visibility and accountability resulted in DOD selling new Joint Service Lightweight Integrated Suit Technology (JSLIST)—the current chemical and biological protective garment used by our military forces—on the internet for $3 each (coat and trousers) while at the same time buying them for over $200 each. DOD has acknowledged that these garments should have been restricted to DOD use only and therefore should not have been available to the public. (GAO-02-873T, June 25, 2002)

• Inadequate asset accountability also resulted in DOD’s inability to locate and remove over 250,000 defective Battle Dress Overgarments (BDOs)—the predecessor of JSLIST—from its inventory. Subsequently, we found that DOD had sold many of these defective suits to the public, including 379 that we purchased in an undercover operation. In addition, DOD may have issued over 4,700 of the defective BDO suits to local law enforcement agencies. Although local law enforcement agencies are most likely to be the first responders to a terrorist attack, DOD failed to inform these

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5The six case study units reviewed include the Colorado B Company, Virginia B Company, West Virginia C Company, Mississippi 114th Military Police Company, California 49th Military Police Headquarters and Headquarters Detachment, and the Maryland 200th Military Police Company. In addition, our limited review of pay experiences of soldiers in the Colorado Army Guard’s 220th Military Police Company, who recently returned from Iraq, indicated that some of the same types of pay problems that we found in our case studies had also affected them.
agencies that using these BDO suits could result in death or serious injury. (GAO-04-15NI, Nov. 19, 2003)

- Tens of millions of dollars are not being collected each year by military treatment facilities from third-party insurers because key information required to effectively bill and collect from third-party insurers is often not properly collected, recorded, or used by the military treatment facilities. (GAO-04-322R, Feb. 20, 2004)

- Our analysis of data on more than 50,000 maintenance work orders opened during the deployments of six battle groups indicated that about 29,000 orders (58 percent) could not be completed because the needed repair parts were not available on board ship. This condition was a result of inaccurate ship configuration records and incomplete, outdated, or erroneous historical parts demand data. Such problems not only have a detrimental impact on mission readiness, they may also increase operational costs due to delays in repairing equipment and holding unneeded spare parts inventory. (GAO-03-887, Aug. 29, 2003)

- DOD sold excess biological laboratory equipment, including a biological safety cabinet, a bacteriological incubator, a centrifuge, and other items that could be used to produce biological warfare agents. Using a fictitious company and fictitious individual identities, we were able to purchase a large number of new and usable equipment items over the Internet from DOD. Although the production of biological warfare agents requires a high degree of expertise, the ease with which these items were obtained through public sales increases the risk that terrorists could obtain and use them to produce biological agents that could be used against the United States. (GAO-04-81TNI, Oct. 7, 2003)

- Based on statistical sampling, we estimated that 72 percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 was not properly authorized and that 73 percent was not properly justified. During fiscal years 2001 and 2002, DOD spent almost $124 million on premium class tickets that included at least one leg in premium class—usually business class. Because each premium class ticket cost the government up to thousands of dollars more than a coach class ticket, unauthorized premium class travel resulted in millions of dollars of unnecessary costs being incurred annually. (GAO-04-229T, Nov. 6, 2003)

- Some DOD contractors have been abusing the federal tax system with little or no consequence, and DOD is not collecting as much in unpaid taxes as it could. Under the Debt Collection Improvement Act of 1996,
DOD is responsible—working with the Treasury Department—for offsetting payments made to contractors to collect funds owed, such as unpaid federal taxes. However, we found that DOD had collected only $687,000 of unpaid taxes over the last 6 years. We estimated that at least $100 million could be collected annually from DOD contractors through effective implementation of levy and debt collection programs. (GAO-04-95, Feb. 12, 2004)

- DOD continues to lack a complete inventory of contaminated real property sites, which affects not only DOD’s ability to assess the potential environmental impact and to plan, estimate costs, and fund cleanup activities, as appropriate, but also its ability to minimize the risk of civilian exposure to unexploded ordnance. The risk of such exposure is expected to grow with the increase in development and recreational activities on land once used by the military for munitions-related activities (e.g., live fire testing and training). (GAO-04-147, Dec. 19, 2003)

- DOD’s Space and Naval Warfare Systems Command working capital fund activities used accounting entries to manipulate the amount of customer orders for the sole purpose of reducing the actual dollar amounts reported to Congress for work that had been ordered and funded (obligated) by customers but not yet completed by fiscal year end. As a result, congressional and DOD decision makers did not have the reliable information they needed to make decisions regarding the level of funding to be provided to working capital fund customers. (GAO-03-668, July 1, 2003)

- Our review of fiscal year 2002 data revealed that about $1 of every $4 in contract payment transactions in DOD’s Mechanization of Contract Administration Services (MOCAS) system was for adjustments to previously recorded payments—$49 billion of adjustments out of $198 billion in disbursement, collection, and adjustment transactions. According to DOD, the cost of researching and making adjustments to accounting records was about $34 million in fiscal year 2002, primarily to pay hundreds of DOD and contractor staff. (GAO-03-727, Aug. 8, 2003)

- DOD and congressional decision makers lack reliable data upon which to base sourcing decisions due to weaknesses in DOD’s data-gathering, reporting, and financial systems. As in the past, we have identified significant errors and omissions in the data submitted to Congress regarding the amount of each military service’s depot maintenance work out-sourced or performed in-house. As a result, both DOD and Congress lack assurances that the dollar amounts of public-private sector workloads reported by military services are reliable. (GAO-03-1023, Sept. 15, 2003)
DOD's information technology (IT) budget submission to Congress for fiscal year 2004 contained material inconsistencies, inaccuracies, or omissions that limited its reliability. For example, we identified discrepancies totaling about $1.6 billion between two primary parts of the submission—the IT budget summary report and the detailed Capital Investments Reports on each IT initiative. These problems were largely attributable to insufficient management attention and limitations in departmental policies and procedures, such as guidance in DOD's Financial Management Regulations, and to shortcomings in systems that support budget-related activities. (GAO-04-115, Dec. 19, 2003)

Since the mid 1980s, we have reported that DOD uses overly optimistic planning assumptions to estimate its annual budget request. These same assumptions are reflected in its Future Years Defense Program, which reports projected spending for the current budget year and at least 4 succeeding years. In addition, in February 2004 the Congressional Budget Office projected that DOD’s demand for resources would grow to about $473 billion a year by fiscal year 2009. DOD’s own estimate for that same year was only $439 billion. As a result of DOD's continuing use of optimistic assumptions, DOD has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program termination. Over the past few years, the mismatch between programs and budgets has continued, particularly in the area of weapons systems acquisition. For example, in January 2003, we reported that the estimated costs of developing eight major weapons systems had increased from about $47 billion in fiscal year 1998 to about $72 billion by fiscal year 2003. (GAO-03-98, January 2003)

DOD did not know the size of its security clearance backlog at the end of September 2003 and had not estimated a backlog since January 2000. Using September 2003 data, we estimated that DOD had a backlog of roughly 360,000 investigative and adjudicative cases, but the actual backlog size is uncertain. DOD’s failure to eliminate and accurately assess the size of its backlog may have adverse affects. For example, delays in updating overdue clearances for personnel doing classified work may increase national security risks and slowness in issuing new clearances

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can increase the costs of doing classified government work. (GAO-04-344, Feb. 9, 2004)

These examples clearly demonstrate not only the severity of DOD’s current problems, but also the importance of reforming financial management and related business operations to improve mission support and the economy and efficiency of DOD’s operations, and to provide for transparency and accountability to Congress and American taxpayers.

Underlying Causes of Financial and Related Business Process Transformation Challenges

The underlying causes of DOD’s financial management and related business process and system weaknesses are generally the same ones I outlined in my prior testimony before this Subcommittee 2 years ago. For each of the problems cited in the previous section, we found that one or more of these causes were contributing factors. Over the years, the department has undertaken many initiatives intended to transform its business operations departmentwide and improve the reliability of information for decision making and reporting but has not had much success because it has not addressed the following four underlying causes:

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

If not properly addressed, these root causes will likely result in the failure of current DOD initiatives.

Lack of Sustained Leadership and Adequate Accountability

DOD has not routinely assigned accountability for performance to specific organizations or individuals who have sufficient authority to accomplish desired goals. For example, under the Chief Financial Officers Act of 1990, it is the responsibility of the agency Chief Financial Officer (CFO) to

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establish the mission and vision for the agency’s future financial management and to direct, manage, and provide oversight of financial management operations. However, at DOD, the Comptroller—who is by statute the department’s CFO—has direct responsibility for only an estimated 20 percent of the data relied on to carry out the department’s financial management operations. The other 80 percent comes from DOD’s other business operations and is under the control and authority of other DOD officials.

In addition, DOD’s past experience has suggested that top management has not had a proactive, consistent, and continuing role in integrating daily operations for achieving business transformation related performance goals. It is imperative that major improvement initiatives have the direct, active support and involvement of the Secretary and Deputy Secretary of Defense to ensure that daily activities throughout the department remain focused on achieving shared, agencywide outcomes and success. While the current DOD leadership, such as the Secretary, Deputy Secretary, and Comptroller have certainly demonstrated their commitment to reforming the department, the magnitude and nature of day-to-day demands placed on these leaders following the events of September 11, 2001, clearly affect the level of oversight and involvement in business transformation efforts that these leaders can sustain. Given the importance of DOD’s business transformation effort, it is imperative that it receive the sustained leadership needed to improve the economy, efficiency, and effectiveness of DOD’s business operations. Based on our surveys of best practices of world-class organizations, strong executive CFO and Chief Information Officer leadership is essential to (1) making financial management an entitywide priority, (2) providing meaningful information to decision makers, (3) building a team of people that delivers results, and (4) effectively leveraging technology to achieve stated goals and objectives.

Cultural Resistance and Parochialism

Cultural resistance to change, military service parochialism, and stovepiped operations have all contributed significantly to the failure of previous attempts to implement broad-based management reforms at

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DOD. The department has acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating practices of a complex, multifaceted organization. Recent audits reveal that DOD has made only small inroads in addressing these challenges. For example, the Bob Stump National Defense Authorization Act for Fiscal Year 2003\(^\text{10}\) requires the DOD Comptroller to determine that each financial system improvement meets the specific conditions called for in the act before DOD obligates funds in amounts exceeding $1 million. However, we found that most system improvement efforts were not reviewed by the DOD Comptroller, as required, and that DOD continued to lack a mechanism for proactively identifying system improvement initiatives. We asked for, but DOD did not provide, comprehensive data for obligations in excess of $1 million for business system modernization. Based on the limited information provided, we found that as of December 2003, business system modernization efforts with reported obligations totaling over $479 million were not referred to the DOD Comptroller for review for fiscal years 2003 and 2004.

In addition, in September 2003,\(^\text{11}\) we reported that DOD continues to use a stovepiped approach to develop and fund its business system investments. Specifically, we found that DOD components receive and control funding for business systems investments without being subject to the scrutiny of the DOD Comptroller. DOD’s ability to address its current “business-as-usual” approach to business system investments is further hampered by its lack of (1) a complete inventory of business systems (a condition we first highlighted in 1998), (2) a standard definition of what constitutes a business system, (3) a well-defined enterprise architecture, and (4) an effective approach for controlling financial system improvements before making obligations exceeding $1 million. Until DOD develops and implements an effective strategy for overcoming resistance, parochialism, and stovepiped operations, reform will fail and “business-as-usual” will continue at the department.


Lack of Goals and Performance Measures

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

DOD currently has plans to institutionalize performance management by aligning management activities with the President’s Management Agenda. As part of this effort, DOD linked its fiscal year 2004 budget resources with metrics for broad program areas, e.g., air combat, airlift, and basic research in the Office of Management and Budget’s (OMB) Program Assessment Rating Tool.12 We have not reviewed DOD’s efforts to link resources to metrics; however, some of our recent work notes the lack of

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12 OMB developed the Program Assessment Rating Tool to strength the process for assessing the effectiveness of programs across the federal government. For fiscal year 2004, OMB rated the following 12 defense program areas: Air Combat; Airlift; Basic Research; Chemical Demilitarization; Communications Infrastructure; Defense Health; Energy Conservation Improvement; Facilities Sustainment, Restoration, Modernization, and Demolition; Housing; Missile Defense; Recruiting; and Shipbuilding. DOD linked metrics for these program areas, which represent 20 percent of the department’s fiscal year 2004 budget; it linked another 20 percent in the 2005 budget and 30 percent in the 2006 budget, for a total of 70 percent.
clearly defined performance goals and measures in the management of such areas as defense inventory and military pay.\footnote{In July 2003, we reported that DOD and the military services do not have an effective approach to prevent and mitigate equipment corrosion, and that DOD’s strategic plan should contain clearly defined goals; measurable, outcome-oriented objectives; and performance measures. \textit{(U.S. General Accounting Office, \textit{Defense Management: Opportunities to Reduce Corrosion Costs and Increase Readiness}, GAO-03-753 (Washington, D.C.: July 7, 2003)).} Similarly, in January 2004 we testified that existing processes and controls used to provide pay and allowances to mobilized Army Guard personnel prevented DOD from being able to reasonably assure timely and accurate payroll payments. We stated that DOD needs to establish a unified set of policies and procedures, as well as performance measures in the pay area \textit{(U.S. General Accounting Office, \textit{Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems}, GAO-04-413T (Washington, D.C.: Jan. 28, 2004)).}}

**Lack of Incentives for Change**

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

The lack of incentive to change is evident in the business systems modernization area. Despite DOD’s acknowledgement that many of its systems are error prone, duplicative, and stovepiped, DOD continues to allow its component organizations to make their own investment decisions, following different approaches and criteria. These stovepiped decision-making processes have contributed to the department’s current complex, error-prone environment of approximately 2,300 systems. In March 2003, we reported that ineffective program management and oversight, as well as a lack of accountability, resulted in DOD continuing to invest hundreds of millions of dollars in system modernization efforts without any assurance that the projects will produce operational improvements commensurate with the amount invested.\footnote{U.S. General Accounting Office, \textit{DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to be Justified}, GAO-03-465 (Washington, D.C.: Mar. 28, 2003).} For example, the estimated cost of one of the business system investment projects that we reviewed increased by as much as $274 million, while its schedule
slipped by almost 4 years. After spending $126 million, DOD terminated that project in December 2002, citing poor performance and increasing costs. GAO and the DOD Inspector General (DOD IG) have identified numerous business system modernization efforts that cost more than planned, take years longer than planned, and fall short of delivering planned or needed capabilities. Despite this track record, DOD continues to increase spending on business systems while at the same time it lacks the effective management and oversight needed to achieve real results. Without appropriate incentives to improve their project management, ongoing oversight, and adequate accountability mechanisms, DOD components will continue to develop duplicative and nonintegrated systems that are inconsistent with the Secretary’s vision for reform.

To effect real change, actions are needed to (1) break down parochialism and reward behaviors that meet DOD-wide goals, (2) develop incentives that motivate decision makers to initiate and implement efforts that are consistent with better program outcomes, including saying “no” or pulling the plug on a system or program that is failing, and (3) facilitate a congressional focus on results-oriented management, particularly with respect to resource-allocation decisions.

Over the years, we have given DOD credit for beginning numerous initiatives intended to improve its business operations. Unfortunately, most of these initiatives failed to achieve their intended objective in part, we believe, because they failed to incorporate key elements that in our experience shows are critical to successful reform. Today, I would like to discuss two very important broad-based initiatives DOD currently has underway that, if properly developed and implemented, will result in significant improvements in DOD’s business operations. In addition to these broad-based initiatives, DOD has undertaken several interim initiatives in recent years that have resulted in tangible, although limited, improvements. We believe that these tangible improvements were possible because DOD incorporated many of the key elements critical for reform. Furthermore, I would like to offer two suggestions for legislative consideration that I believe could significantly increase the likelihood of a successful business transformation effort at DOD.
As I have previously testified, and the success of the more narrowly defined DOD initiatives I will discuss later illustrate, the following key elements collectively will enable the department to effectively address the underlying causes of its inability to resolve its long-standing financial and business management problems. These elements are

- addressing the department’s financial management and related business operational challenges as part of a comprehensive, integrated, DOD-wide strategic plan for business reform;

- providing for sustained and committed leadership by top management, including but not limited to the Secretary of Defense;

- establishing resource control over business systems investments;

- establishing clear lines of responsibility, authority, and accountability;

- incorporating results-oriented performance measures and monitoring progress tied to key financial and business transformation objectives;

- providing appropriate incentives or consequences for action or inaction;

- establishing an enterprise architecture to guide and direct business systems modernization investments; and

- ensuring effective oversight and monitoring.

For the most part, these elements, which should not be viewed as independent actions but rather as a set of interrelated and interdependent actions, are consistent with those discussed in the department’s April 2001 financial management transformation report. The degree to which DOD incorporates them into its current reform efforts—both long and short term—will be a deciding factor in whether these efforts are successful.

Human capital challenges at DOD are crosscutting and impact the effectiveness of all of its business operations. Effective human capital
strategies are necessary for any business transformation to succeed at DOD. For several years, we have reported\textsuperscript{17} that many of DOD’s business process and control weaknesses were attributable in part to human capital issues. Recent audits of DOD’s military payroll and the individually billed travel card program further highlight the adverse impact that outdated and inadequate human capital practices, such as insufficient staffing, training, and monitoring of performance, continue to have on DOD business operations.

I strongly support the need for modernizing federal human capital policies both within DOD and for the federal government at large. We have found that a critical success factor for overall organizational transformation is the use of a modern, effective, credible, and integrated performance management system to define responsibility and assure accountability for achieving desired goals and objectives. Such a performance management system can help manage and direct the transformation process by linking performance expectations to an employee’s role in the transformation process. GAO has found that there are significant opportunities to use the performance management system to explicitly link senior executive expectations for performance to results-oriented goals. There is a need to hold senior executives accountable for demonstrating competencies in leading and facilitating change and fostering collaboration both within and across organizational boundaries to achieve results. Setting and meeting expectations such as these will be critical to achieving needed transformation changes. Simply put, DOD must convince people throughout the department that they must change business-as-usual practices or they are likely to face serious consequences, personally and organizationally. DOD has already applied this principle at the Defense Finance and Accounting Service (DFAS). For example, DFAS managers—and sometimes staff—are rated and rewarded based on their ability to reach specific annual performance goals. But linking employee pay to the achievement of measurable performance goals must be done within the context of a credible human capital system that includes adequate safeguards.

The National Defense Authorization Act for Fiscal Year 2004\textsuperscript{18} authorized DOD to establish a National Security Personnel System for its civilian


employees that is modern, flexible, and consistent with the merit principles outlined by the act. This legislation requires DOD to develop a human capital system that is consistent with many of the practices that we have laid out for an effective human capital system, including a modern and results-oriented performance management system. However, in our opinion, DOD does not yet have the necessary institutional infrastructure in place within its organization to support an effective human capital transformation effort. This institutional infrastructure must include, at a minimum,

- a human capital planning process that integrates the department’s human capital policies, strategies, and programs for both civilian (including contractors) and military personnel, with its program goals, mission, and desired outcomes;

- the capabilities to effectively develop and implement a new human capital system, and

- a modern, effective, credible, and hopefully validated performance management system that includes a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure the fair, effective, and credible implementation of the system.

The results of our review of DOD’s strategic human capital planning efforts along with the use of human capital flexibilities and related human capital efforts across government underscore the importance of such an institutional infrastructure in developing and effectively implementing new personnel authorities. In the absence of this critical element, the new human capital authorities will provide little advantage and could actually end up doing damage if not properly implemented.

As DOD develops regulations to implement its new civilian personnel system, the department needs to do the following.

- Ensure the active involvement of the Office of Personnel Management (OPM) in the development process, given the significant implications that changes in DOD regulations may have on governmentwide human capital policies.19

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Ensure the involvement of civilian employees and unions in the development of a new personnel system. The law calls for DOD to involve employees, especially in the design of its new performance management system. Involving employees in planning helps to develop agency goals and objectives that incorporate insights about operations from a front-line perspective. It can also serve to increase employees’ understanding and acceptance of organizational goals and improve motivation and morale.

Use a phased approach to implementing the system in recognition that different parts of the organization will have different levels of readiness and different capabilities to implement new authorities. Moreover, a phased approach allows for learning so that appropriate adjustments and midcourse corrections can be made before the regulations are fully implemented departmentwide. In this regard, DOD has indicated that it plans to implement its new human capital system for 300,000 civilian employees by October 1, 2004. It is highly unlikely that DOD will have employed an appropriate process and implemented an appropriate infrastructure to achieve this objective.

It is worth mentioning here that the Department of Homeland Security (DHS) is also currently developing a new human capital system. DHS is using a collaborative process that facilitates participation from all levels of DHS, and directly involves OPM. We found that the DHS process to date has generally reflected the important elements of a successful transformation, including effective communication and employee involvement.\textsuperscript{20} In addition, DHS plans to implement the job evaluation, pay, and performance management system in phases to allow time for final design, training, and careful implementation. I believe that DOD could benefit from employing a more inclusive process and phased implementation approach similar to the process used by DHS.

Another broad-based initiative that is vital to the department’s efforts to transform DOD business operations is the BMMP, which the department established in July 2001. The purpose of the BMMP is to oversee development and implementation of a departmentwide business enterprise architecture (BEA), transition plan, and related efforts to ensure that DOD business system investments are consistent with the architecture. A well-

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defined and properly implemented business enterprise architecture can provide assurance that the department invests in integrated enterprisewide business solutions and, conversely, can help move resources away from nonintegrated business system development efforts. As we reported in July 2003, within 1 year DOD developed an initial version of its departmentwide architecture for modernizing its current financial and business operations and systems. Thus far, DOD has expended tremendous effort and resources and has made important progress towards complying with legislative requirements. However, substantial work remains before the architecture will begin to have a tangible impact on improving DOD’s overall business operations. I cannot overemphasize the degree of difficulty DOD faces in developing and implementing a well-defined architecture to provide the foundation that will guide its overall business transformation effort.

On the positive side, during its initial efforts to develop the architecture, the department established some of the architecture management capabilities advocated by best practices and federal guidance, such as establishing a program office, designating a chief architect, and using an architecture development methodology and automated tool. Further, DOD’s initial version of its BEA provides a foundation on which to build and ultimately produce a well-defined business enterprise architecture. For example, in September 2003, we reported that the “As Is” descriptions within the BEA include an inventory of about 2,300 systems in operation or under development and their characteristics. The “To Be” descriptions address, to at least some degree, how DOD intends to operate in the future, what information will be needed to support these future operations, and what technology standards should govern the design of future systems.

While some progress has been made, DOD has not yet taken important steps that are critical to its ability to successfully use the enterprise architecture to drive reform throughout the department’s overall business


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operations. For example, DOD has not yet defined and implemented the following.

- Detailed plans to extend and evolve its initial architecture to include the missing scope and detail required by the Bob Stump National Defense Authorization Act for Fiscal Year 2003 and other relevant architectural requirements. Specifically, (1) the initial version of the BEA excluded some relevant external requirements, such as requirements for recording revenue, and lacked or provided little descriptive content pertaining to its “As Is” and “To Be” environments and (2) DOD had not yet developed the transition plan needed to provide a temporal road map for moving from the “As Is” to the “To Be” environment.

- An effective approach to select and control business system investments\(^\text{24}\) for obligations exceeding $1 million. As I previously stated, and it bears repeating here, DOD components currently receive direct funding for their business systems and continue to make their own parochial decisions regarding those investments without having received the scrutiny of the DOD Comptroller as required by the Bob Stump National Defense Authorization Act for Fiscal Year of 2003. Later, I will offer a suggestion for improving the management and oversight of the billions of dollars DOD invests annually in system modernization efforts.

Until DOD completes its efforts to refine and implement its enterprise architecture and transition plan, and develop and implement an effective approach for selecting and controlling business system investments, DOD will continue to lack (1) a comprehensive and integrated strategy to guide its business process and system changes, and (2) results-oriented measures to monitor and measure progress, including whether system development and modernization investment projects adequately incorporate leading practices used by the private sector and federal requirements and achieve performance and efficiency commensurate with the cost. These elements are critical to the success of DOD’s BMMP.

Developing and implementing a business enterprise architecture for an organization as large and complex as DOD is a formidable challenge but it is critical to effecting the change required to achieve the Secretary’s vision

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\(^{24}\) Business systems include financial and nonfinancial systems, such as civilian personnel, finance, health, logistics, military personnel, procurement, and transportation, with the common element being the generation or use of financial data to support DOD’s business operations.
of relevant, reliable, and timely financial and other management information to support the department’s vast operations. As mandated, we plan to continue to report on DOD’s progress in developing the next version of its architecture, developing its transition plan, validating its “As Is” systems inventory, and controlling its system investments.

Interim Initiatives

Since DOD’s overall business process transformation is a long-term effort, in the interim it is important for the department to focus on improvements that can be made using, or requiring only minor changes to, existing automated systems and processes. As demonstrated by the examples I will highlight in this testimony, leadership, real incentives, accountability, and oversight and monitoring—key elements to successful reform—have brought about improvements in some DOD operations, such as more timely commercial payments, reduced payment recording errors, and significant reductions in individually billed travel card delinquency rates.

To help achieve the department’s goal of improved financial information, the DOD Comptroller has developed a Financial Management Balanced Scorecard that is intended to align the financial community’s strategy, goals, objectives, and related performance measures with the departmentwide risk management framework established as part of DOD’s QDR, and with the President’s Management Agenda. To effectively implement the balanced scorecard, the Comptroller is planning to cascade the performance measures down to the military services and defense agency financial communities, along with certain specific reporting requirements. DOD has also developed a Web site where implementation information and monthly indicator updates will be made available for the financial communities’ review. At the departmentwide level, certain financial metrics will be selected, consolidated, and reported to the top levels of DOD management for evaluation and comparison. These “dashboard” metrics are intended to provide key decision makers, including Congress, with critical performance information at a glance, in a consistent and easily understandable format.

DFAS has been reporting the metrics cited below for several years, which, under the leadership of DFAS’ Director and DOD’s Comptroller, have reported improvements, including

- From April 2001 to January 2004, DOD reduced its commercial pay backlogs (payment delinquencies) by 55 percent.
From March 2001 to December 2003, DOD reduced its payment recording errors by 33 percent.

The delinquency rate for individually billed travel cards dropped from 18.4 percent in January 2001 to 10.7 percent in January 2004.

Using DFAS’ metrics, management can quickly see when and where problems are arising and can focus additional attention on those areas. While these metrics show significant improvements from 2001 to today, statistics for the last few months show that progress has slowed or even taken a few steps backward for payment recording errors and commercial pay backlogs. Our report last year on DOD’s metrics program included a caution that, without modern integrated systems and the streamlined processes they engender, reported progress may not be sustainable if workload is increased.

Since we reported problems with DOD’s purchase card program, DOD and the military services have taken actions to address all of our 109 recommendations. In addition, we found that DOD and the military services took action to improve the purchase card program consistent with the requirements of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 and the DOD Appropriation Act for Fiscal Year 2003. Specifically, we found that DOD and the military services had done the following.

- Substantially reduced the number of purchase cards issued. According to GSA records, DOD had reduced the total number of purchase cards from about 239,000 in March 2001 to about 134,609 in January 2004. These reductions have the potential to significantly improve the management of this program.

- Issued policy guidance to field activities to (1) perform periodic reviews of all purchase card accounts to reestablish a continuing bona fide need for each card account, (2) cancel accounts that were no longer needed, and (3) devise additional controls over infrequently used accounts to protect the government from potential cardholder or outside fraudulent use.


• Issued disciplinary guidelines, separately, for civilian and military employees who engage in improper, fraudulent, abusive, or negligent use of a government charge card.

In addition, to monitor the purchase card program, the DOD IG and the Navy have prototyped and are now expanding a data-mining capability to screen for and identify high-risk transactions (such as potentially fraudulent, improper, and abusive use of purchase cards) for subsequent investigation. On June 27, 2003, the DOD IG issued a report summarizing the results of an in-depth review of purchase card transactions made by 1,357 purchase cardholders. The report identified 182 cardholders who potentially used their purchase cards inappropriately or fraudulently.

We believe that consistent oversight played a major role in bringing about these improvements in DOD’s purchase and travel card programs. During 2001, 2002, and 2003, seven separate congressional hearings were held on the Army and Navy purchase and individually billed travel card programs. Numerous legislative initiatives aimed at improving DOD’s management and oversight of these programs also had a positive impact.

Another important initiative underway at the department pertains to financial reporting. Under the leadership of Comptroller Zakheim, DOD is working to instill discipline into its financial reporting processes to improve the reliability of the department’s financial data. Resolution of serious financial management and related business management weaknesses is essential to achieving any opinion on the DOD consolidated financial statements. Pursuant to the requirements in section 1008 of the National Defense Authorization Act for Fiscal Year 2002, DOD has reported for the past 3 years on the reliability of the department’s financial statements, concluding that the department is not able to provide adequate evidence supporting material amounts in its financial statements. Specifically, DOD stated that it was unable to comply with applicable financial reporting requirements for (1) property, plant, and equipment (PP&E), (2) inventory and operating materials and supplies, (3) environmental liabilities, (4) intragovernmental eliminations and related

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accounting entries, (5) disbursement activity, and (6) cost accounting by responsibility segment. Although DOD represented that the military retirement health care liability data had improved for fiscal year 2003, the cost of direct health care provided by DOD-managed military treatment facilities was a significant amount of DOD’s total recorded health care liability and was based on estimates for which adequate support was not available. DOD has indicated that by acknowledging its inability to produce reliable financial statements, as required by the act, the department saves approximately $23 million a year through reduction in the level of resources needed to prepare and audit financial statements. However, DOD has set the goal of obtaining a favorable opinion on its fiscal year 2007 departmentwide financial statements. To this end, DOD components and agencies have been tasked with addressing material line item deficiencies, in conjunction with the BMMP. This is an ambitious goal and we have been requested by Congress to review the feasibility and cost effectiveness of DOD’s plans for obtaining such an opinion within the stated time frame.

To instill discipline in its financial reporting process, the DOD Comptroller requires DOD’s major components to prepare quarterly financial statements along with extensive footnotes that explain any improper balances or significant variances from previous year quarterly statements. All of the statements and footnotes are analyzed by Comptroller office staff and reviewed by the Comptroller. In addition, the midyear and end-of-year financial statements must be briefed to the DOD Comptroller by the military service Assistant Secretary for Financial Management or the head of the defense agency. We have observed several of these briefings and have noted that the practice of preparing and explaining interim financial statements has led to the discovery and correction of numerous recording and reporting errors.

If DOD continues to provide for active leadership, along with appropriate incentives and accountability mechanisms, improvements will continue to occur in its programs and initiatives.

Suggestions for Legislative Consideration

I would like to offer two suggestions for legislative consideration that I believe could contribute significantly to the department’s ability to not only address the impediments to DOD success but also to incorporate needed key elements to successful reform. These suggestions would
include the creation of a chief management official and the centralization of responsibility and authority for business system investment decisions with the domain\textsuperscript{29} leaders responsible for the department’s various business process areas, such as logistics and human resource management.

Chief Management Official

Previous failed attempts to improve DOD’s business operations illustrate the need for sustained involvement of DOD leadership in helping to assure that the DOD’s financial and overall business process transformation efforts remain a priority. While the Secretary and other key DOD leaders have certainly demonstrated their commitment to the current business transformation efforts, the long-term nature of these efforts requires the development of an executive position capable of providing the strong and sustained executive leadership—over a number of years and various administrations. The day-to-day demands placed on the Secretary, the Deputy Secretary, and others make it difficult for these leaders to maintain the oversight, focus, and momentum needed to resolve the weaknesses in DOD’s overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Likewise, the breadth and complexity of the problems preclude the Under Secretaries, such as the DOD Comptroller, from asserting the necessary authority over selected players and business areas.

While sound strategic planning is the foundation upon which to build, sustained leadership is needed to maintain the continuity needed for success. One way to ensure sustained leadership over DOD’s business transformation efforts would be to create a full-time executive level II position for a chief management official who would serve as the Principal Under Secretary of Defense for Management.\textsuperscript{30} This position would provide the sustained attention essential for addressing key stewardship responsibilities such as strategic planning, performance and financial

\textsuperscript{29}DOD has one Enterprise Information Environment Mission, and six departmental domains including (1) acquisition/procurement, (2) finance, accounting, and financial management, (3) human resource management, (4) logistics, (5) strategic planning and budgeting, and 6) installations and environment.

management, and business systems modernization in an integrated manner, while also facilitating the overall business transformation operations within DOD. This position could be filled by an individual, appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. Such an individual should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process transformation across the department and serve as an integrator for the needed business transformation efforts. In addition, this individual would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall organizational goals in connection with the department’s overall business transformation efforts. Measurable progress towards achieving agreed upon goals would be a basis for determining the level of compensation earned, including any related bonus. In addition, this individual’s achievements and compensation would be reported to Congress each year.

We have made numerous recommendations to DOD intended to improve the management oversight and control of its business systems modernization investments. However, as previously mentioned, progress in achieving this control has been slow and, as a result, DOD has little or no assurance that current business systems modernization investment money is being spent in an economically efficient and effective manner. DOD’s current systems investment process has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, nonintegrated, and stovepiped systems. Given that DOD plans to spend $19 billion on business systems and related infrastructure for fiscal year 2004—including an estimated $5 billion in modernization money—it is critical that actions be taken to gain more effective control over such business systems investments.

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

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

As seen again in Iraq, the excellence of our military forces is unparalleled. However, that excellence is often achieved in the face of enormous challenges in DOD’s financial management and other business areas, which have serious and far-reaching implications related to the department’s operations and critical national defense mission. Our recent work has shown that DOD’s long-standing financial management and business problems have resulted in fundamental operational problems, such as failure to properly pay mobilized Army Guard soldiers and the inability to provide adequate accountability and control over supplies and equipment shipments in support of Operation Iraqi Freedom. Further, the lack of adequate transparency and appropriate accountability across all business areas has resulted in certain fraud, waste, and abuse and hinders DOD’s attempts to develop world-class operations and activities to support its forces. As our nation continues to be challenged with growing budget deficits and increasing pressure to reduce spending levels, every dollar that DOD can save through improved economy and efficiency of its operations is important.

DOD’s senior leaders have demonstrated a commitment to transforming the department and improving its business operations and have taken positive steps to begin this effort. We believe that our two suggested legislative initiatives will greatly improve the likelihood of meaningful,
broad-based reform at DOD. The continued involvement and monitoring by congressional committees will be critical to ensure that DOD’s initial transformation actions are sustained and extended and that the department achieves its goal of securing the best performance and highest measure of accountability for the American people. I commend the Subcommittee for holding this hearing and I encourage you to use this vehicle, on an annual basis, as a catalyst for long overdue business transformation at DOD.

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

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