Outline

• GAO Efforts to Assist Upcoming Transition
• Fiscal Challenges Facing DOD
• Opportunities to Improve DOD’s Business Operations
No Ordinary Transition: Dynamics Shaping our Environment

- A nation at war and facing first homeland security change

- Near-term and long-term economic challenges
  - Financial Turmoil
  - Economic Slowdown
  - Long-term fiscal imbalance as backdrop

- Personnel and Performance Challenges
Near Term: GAO Role in Financial Rescue

- Oversight role critically important in Economic Stabilization Act
- Congress turned to GAO
- Auditors of FDIC, FHFA and government wide statements
- Advice and analysis in reassessing regulatory structure
Long Term:
GAO Simulations on Federal Fiscal Path

- Short term issues require responses
- Long term unsustainable path will ultimately need attention
- Need to reexamine base, reform entitlements and review revenue structures
Composition of Federal Spending

### 1967
- Defense: 7%
- Social Security: 14%
- Medicare & Medicaid: 21%
- Net interest: 10%
- All other spending: 45%
- Other: 2%

### 1987
- Defense: 7%
- Social Security: 14%
- Medicare & Medicaid: 28%
- Net interest: 14%
- All other spending: 27%
- Other: 21%

### 2007
- Defense: 9%
- Social Security: 21%
- Medicare & Medicaid: 20%
- Net interest: 21%
- All other spending: 29%
- Other: 14%

Source: GAO analysis of data from the Office of Management and Budget.
Social Security, Medicare, and Medicaid Spending as a Percent of GDP

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

DOD Budget Authority FY 2001-2009 (Excluding Global War on Terror)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollars in Billions</th>
</tr>
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<tbody>
<tr>
<td>FY01</td>
<td>$289.9</td>
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<tr>
<td>FY02</td>
<td>$331.1</td>
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<tr>
<td>FY03</td>
<td>$368.5</td>
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<td>FY04</td>
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<td>FY08</td>
<td>$450.5</td>
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<tr>
<td>FY09</td>
<td>$512.1</td>
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</table>

Source: DOD.
Note: Amounts in nominal dollars.
Transition: GAO Objectives

- Provide insight into pressing national issues
- Highlight the growing need for innovative, integrated approaches to solve national and global challenges
- Document targeted opportunities to conserve resources that can be applied to new initiatives
- Underscore critical capacity-building needs in individual agencies that will affect implementation of whatever new priorities are pursued
- Help inform the management improvement agendas of Congress and the new administration
- Update High Risk list
DOD Faces Growing Fiscal Challenges

- DOD faces a number of near-term and long-term fiscal pressures
  - Extended operations have taken a toll on readiness; rebuilding will be complex and costly
  - Rising personnel costs for pay, benefits, and health care
  - Significant cost growth in weapon systems programs
  - At the same time, DOD is pursuing broad-based initiatives
    - Reshape and grow the force
    - Modernize and transform capabilities
Opportunities Exist to Improve DOD’s Business Operations

- Achieving affordable defense plan requires greater fiscal discipline
- Billions of dollars spent to sustain key DOD business operations
- Since first attempt at financial statement audit of a major DOD component 20 years ago, GAO has reported weaknesses in DOD’s business side
Opportunities Exist to Improve DOD’s Business Operations

DOD High Risk Areas

- Overall (Management) Approach to Business Transformation
- Business System Modernization
- Personnel Security Clearance Program
- Support Infrastructure Management
- Financial Management
- Supply Chain Management
- Weapons Systems Acquisition
- Contract Management
Excess Secondary Inventory

- DOD estimates investment in its supply chain is more than $150 billion a year
- Value of secondary inventory (spare parts) has grown by tens of billions of dollars, but substantial amounts are excess
- Difficulties in estimating lead times cause inefficient use of funds, and potential shortages/excesses
- Need to strengthen accountability and management of secondary inventory
Weapons System Cost and Schedule Growth

• Funding in DOD investment accounts (RDT&E and procurement) has significantly increased since 2000

• Problems, such as cost growth and schedule delays, continue

• More money did not make existing programs well and additional unexecutable programs got started

• Across-the-board improvements require fundamental changes to requirements, funding, and acquisition systems

(Fiscal year 2008 dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2000</th>
<th>2007</th>
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<tbody>
<tr>
<td>Annual funding in investment accounts</td>
<td>$112 billion</td>
<td>$184 billion</td>
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<tr>
<td>Total commitments for Major Defense Acquisition Programs</td>
<td>$790 billion</td>
<td>$1.6 trillion</td>
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</tbody>
</table>

Source: GAO analysis of DOD data.
Contract Management Challenges

- DOD is increasingly relying on contractors to provide services to help meet critical missions and support acquisition functions.

- DOD spent more than $315 billion acquiring goods and services in fiscal year 2007, more than double what it spent 6 years earlier.

- Weaknesses lead to poor outcomes:
  - Lack of well defined requirements
  - Use of ill suited business arrangements
  - Inadequate number of trained acquisition/oversight personnel

- Need to strengthen workforce training/capacity and reexamine mix, roles, and responsibilities of military, civilian, and contractors.
Transforming DOD Business Operations

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