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United States Government Accountability Office
Washington, DC 20548

January 9, 2009

Congressional Committees

Subject: Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation

This letter formally transmits the attached briefing on work performed under the authority of the Comptroller General to conduct evaluations on his own initiative and as part of our work for GAO's *High-Risk Series*, January 2009 update.

We are sending copies of this letter and briefing slides to the appropriate congressional committees. We are also sending copies to the Secretary of Defense and the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Secretaries of the Army, Air Force, and Navy. This letter and briefing 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. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of the briefing slides.

Sharon L. Pickup
Director, Defense Capabilities and Management

Enclosures

List of Congressional Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
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The Honorable John M. McHugh
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Committee on Armed Services
House of Representatives

The Honorable Edolphus Towns
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The Honorable Darrell Issa
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Daniel K. Akaka
Chairman
The Honorable George V. Voinovich
Ranking Member
Subcommittee on Oversight of Government Management, the Federal Workforce,
and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate



Status of Department of Defense Efforts to
Develop a Management Approach to Guide
Business Transformation

Briefing for Congressional Committees
January 9, 2009



- Background
 - Objectives
 - Scope and Methodology
 - Preliminary Observations
 - The Department of Defense's (DOD) progress in developing a comprehensive management framework for business transformation
 - DOD's progress in establishing a strategic management plan for business operations
 - Appendix I
-



- DOD spends billions of dollars to maintain key business operations that support the warfighter.
- We have reported on weaknesses in DOD's business operations that result in billions of dollars being wasted annually, reduced efficiencies, ineffective performance, inadequate accountability, and a lack of transparency.
 - Currently, DOD has sole responsibility for 8, and shares responsibility for another 7, of the federal government's 27 programs or activities we have identified as being at high risk for fraud, waste, abuse, and mismanagement.
 - In 2005, we added DOD's management approach to business transformation to our high-risk list because
 - 1) DOD's improvement efforts were fragmented,
 - 2) DOD lacked an integrated and enterprisewide transformation plan and investment strategy, and
 - 3) DOD had not designated a senior management official at an appropriate level with the authority to be responsible and accountable for enterprisewide business transformation.



- In prior reports and testimonies, we recommended the following.
 - 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.
 - 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.
 - DOD develop a comprehensive 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.



- The National Defense Authorization Act (NDAA) for Fiscal Year 2008¹ designated the Deputy Secretary of Defense as the CMO for DOD and created a Deputy CMO (DCMO) position to assist the CMO. The act also required the Secretaries of the military departments to designate the department Under Secretaries as CMOs with primary responsibility for business operations. Additionally, the act required the Secretary of Defense, acting through the DOD CMO, to develop a strategic management plan that contains certain elements including:
 - performance goals and measures,
 - key initiatives to achieve performance goals together with resource needs,
 - procedures to monitor progress in meeting performance goals and measures,
 - procedures to review and approve plans and budgets for changes in business operations, and
 - procedures to oversee the development, review, and approval of all budget requests for defense business systems.

- The Duncan Hunter NDAA for Fiscal Year 2009² requires 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.

¹Pub. L. No. 110-181 §904 (2008).

²Pub. L. No. 110-417 §908 (2008).



Objectives

1. To what extent has DOD made progress in developing a comprehensive management framework for business transformation?
2. To what extent does DOD's initial *Strategic Management Plan* (SMP) contain key elements of a strategic plan, including goals, objectives, and performance measures?



Scope and Methodology

- We reviewed DOD's progress in transforming its business operations under the authority of the Comptroller General to conduct evaluations on his own initiative.
- We reviewed the SMP and various other DOD documents related to business transformation, and interviewed DOD officials from the Office of the Deputy Chief Management Officer, the Business Transformation Agency (BTA), and the military departments. We compared DOD's actions in developing its CMO management framework to key strategies identified for implementing CMO positions in our previous work. We also reviewed DOD's SMP to identify key elements of a strategic plan as identified by our previous work and by the Government Performance and Results Act of 1993¹ (see app. I for a detailed methodology).
- We conducted this performance audit from August 2008 through December 2008, 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 assessment based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our assessment based on our audit objectives.

¹Pub. L. No. 103-62 (1993).



Objective 1: Management Framework
for Business Transformation

- DOD has made some progress in further developing its management framework for business transformation; however, implementation is not complete because key aspects have yet to be defined.
 - Prior to NDAA for Fiscal Year 2008, DOD:
 - Designated Deputy Secretary of Defense as CMO.
 - Issued a directive¹ broadly defining the responsibilities of the CMO, which are to
 - develop and maintain a departmentwide strategic plan for business reform,
 - ensure business missions are aligned to support warfighter mission,
 - establish performance goals and measures for improving and evaluating overall economy, efficiency, and effectiveness and monitor and measure the progress of the department, and
 - ensure departmentwide capability to carry out the DOD strategic plan in support of national security objectives.
 - Established entities such as the Defense Business Systems Management Committee (DBSMC) and BTA.

¹Department of Defense Directive 5105.02, *Deputy Secretary of Defense* (Sept. 18, 2007).



Objective 1: Management Framework
for Business Transformation

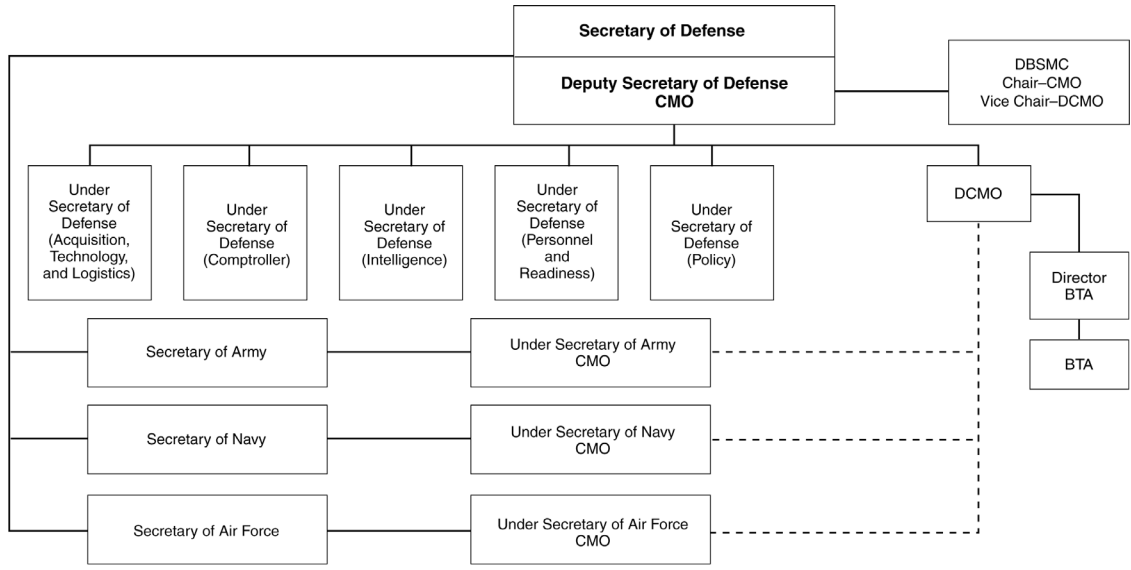
- After NDAA for Fiscal Year 2008, DOD:
 - Established an office of the DCMO, designated an Assistant DCMO, and issued a directive¹ broadly defining the responsibilities of the DCMO, including to
 - recommend to the CMO methodologies and measurement criteria to better synchronize, integrate, and coordinate the business operations to ensure alignment in support of the warfighting mission,
 - develop and maintain the SMP, through the DBSMC, and
 - advise the Secretary of Defense on performance goals and measures and assessing progress against those goals.
 - Designated governance bodies (the Deputy's Advisory Working Group, Senior Leader Review Group, and Defense Senior Leadership Conference) to assist in the alignment of business operations to strategic goals.
 - Named CMOs or acting CMOs in the military departments, and DCMOs in the Departments of the Air Force and Navy.

- Figure 1 shows DOD's management framework and the relationships among senior-level leadership positions and bodies.

¹Department of Defense Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).



Objective 1: Management Framework for Business Transformation
Figure 1



- - - Indicates that the relationships between the DCMO and the military departments' CMOs have yet to be fully defined
 ——— Indicate a direct reporting relationship

Source: GAO, DOD data.



Objective 1: Management Framework
for Business Transformation

- DOD has not yet completed implementation of its management framework.
 - Key strategies for successful implementation of a CMO management framework include defining roles, responsibilities, authority, structures, and processes, etc.¹
 - Authority, roles, and relationships for some positions and entities have 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 Deputy's Advisory Working Group and the DBSMC.
- Table 1 compares DOD's actions in developing its management framework to key strategies for implementing a CMO position and provides a summary of our observations.

¹For 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).



Objective 1: Management Framework for Business Transformation
Table 1

Selected key strategies for implementing CMO positions ¹	DOD's actions	Summary of observations
Ensure a high level of authority and clearly delineated reporting relationships	DOD has designated the Deputy Secretary of Defense as the CMO to act for the Secretary of Defense, who has clear authority to make and enforce decisions. Although the CMO can choose to delegate some authority to the DCMO, the DCMO position does not have decision-making authority inherent to the position. The DCMO reports to the CMO and the BTA Director reports to the DCMO. The DCMO is an executive level III position, similar to most Under Secretaries of Defense.	The CMO has comprehensive decision-making authority, but is not a separate, full-time position. The DCMO position provides assistance to the CMO and is full-time; however, the DCMO position appears to be advisory and does not appear to have clear decision-making authority. It is unclear how the creation of the position changes the existing structure of DOD's senior leadership since all decision-making authority remains with the CMO. Furthermore, it is unclear how the DCMO position will work with other senior leaders that are at the same level or higher within the department, such as the Under Secretaries of Defense and the military department CMOs.
Define specific roles and responsibilities	DOD defined the general roles and responsibilities for its CMO and DCMO positions. The CMO is, for example, to develop and maintain a departmentwide strategic plan for business reform. The DCMO is, for example, to assist the Deputy Secretary in his capacity as CMO and advise the Secretary of Defense on performance goals and measures and assessing progress against those goals.	DOD broadly defined the roles of the CMO and DCMO. However, the directive that established the DCMO position stated that the creation of the position does not subsume, realign, or replace the functions, responsibilities, or authorities of other senior leaders as prescribed by law for certain key business management functions, such as fiduciary, acquisition, and procurement activities. As stated above, it is unclear how the DCMO will work with these senior leaders.
Establish integration and transformation structures and processes	DOD established structures, such as the BTA, DBSMC, Deputy's Advisory Working Group, Senior Leader Review Group, and Defense Senior Leadership Conference. Currently, DOD is revising the roles and responsibilities of the DBSMC.	DOD has not clearly defined the unique and shared roles and responsibilities of various entities, such as identifying how they would manage and integrate business transformation efforts. Since DOD has not developed a strategic plan supported by a planning process, it is unclear how governance structures will prioritize their agendas and make informed decisions.
Promote accountability and performance based on job qualifications and performance management	The Deputy Secretary of Defense has stated that appointment by the President and confirmation by the Senate provides assurance that experienced executives are put into leadership positions.	DOD has not established a performance agreement for its CMO or DCMO. While DOD broadly defined the responsibilities of the positions in directives, a performance agreement that includes measurable goals for the CMO and DCMO would establish a means for measuring accountability and progress. Individual goals and performance measures have yet to be defined.
Provide for continuity of leadership	DOD issued a directive to guide its overall transition to a new administration, and named an Assistant DCMO to lead the establishment of the DCMO office.	There may not be continuity of leadership across administrations because the CMO and DCMO positions are appointed with undefined terms of office. Furthermore, although the DBSMC is a senior governance body in the business transformation area established by law, many leadership positions and members of this and other governance bodies are appointee positions that may change with administrations.

Source: GAO analysis.

¹See GAO-08-34 for criteria.

Note: The criteria for fostering effective working relationships were not added because it is too early to determine the effectiveness of the working relationships.



Objective 1: Management Framework
for Business Transformation

- The military departments have also taken steps to establish a management framework for business transformation.
 - The NDAA for Fiscal Year 2008 required the Secretaries of the military departments to designate their Under Secretaries as CMOs with responsibility for business operations. The military departments have identified a CMO or acting CMO and have taken different actions to establish DCMO positions.
 - The Air Force named an acting CMO due to a vacant Under Secretary position and has named a DCMO.
 - The Under Secretary for the Department of the Army is the department's CMO; the Army has not named a DCMO.
 - The Navy named an acting CMO due to a vacant Under Secretary position and has named a DCMO.
 - The Duncan Hunter NDAA for Fiscal Year 2009 requires the military departments to develop comprehensive business transformation plans acting through their CMOs, and to establish business transformation offices to assist their CMOs.
 - The military departments are in the early stages of responding to these legislative requirements.



Objective 1: Management Framework
for Business Transformation

- The new administration needs to move quickly to nominate and fill key leadership positions, including the Deputy Secretary of Defense (now statutorily designated as the CMO), the DCMO, the Under Secretaries of Defense, and the military department CMOs.
- In light of the transition, it will be important for senior leaders in the next administration to further define and clarify these roles, responsibilities, and relationships among the various positions and governance entities within DOD's management framework for business transformation in order to sustain and further DOD's progress.
- DOD has taken some positive steps towards developing a management framework. Because of the complexity and long-term nature of DOD's business transformation efforts, we have reported on the need for a CMO as a separate, full-time position with significant authority, experience, and a term to provide sustained leadership. We recognize that DOD plans to take additional actions and remain open to the possibility that these efforts will have a positive impact. At this point, however, it remains unclear how DOD's actions to date and its future plans will provide the long-term sustained leadership needed to address the significant challenges facing DOD in its business operations.



Objective 2: Strategic Planning

- Agencies that are successful in achieving business management transformation undertake strategic planning and strive to establish a plan that contains key elements such as goals and 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.

- For DOD's business transformation, our prior work has shown that a plan should be supported by a strategic planning process and should set strategic direction for overall business transformation efforts and all key business functions; prioritize initiatives and resources; establish investment priorities and guide the department's key resource decisions; and monitor progress through the establishment of performance goals and objectives.¹

¹See 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).



Objective 2: Strategic Planning

- DOD characterizes the inaugural, or initial, SMP as
 - a first step towards providing the Congress with the comprehensive plan required by law, and
 - a primer for incoming officials that describes newly established institutional and governance reforms, and the existing structures and processes within DOD to be used by the CMO for delivering effective and efficient support to the warfighter.

- Purpose of SMP:
 - Focus Secretary of Defense's senior leadership team on key priorities.
 - Ensure DOD's governance processes allow senior leaders to make informed decisions on the steps that must be taken to achieve those priorities.
 - Provide transparency needed to measure whether priorities are met—and if not—to provide the information needed to quickly improve performance.

- Expected use of SMP:
 - By senior civilian and military managers to align business operations with performance priorities.
 - By military departments, defense agencies, and combatant commanders to assess whether the results achieved support performance goals.



Objective 2: Strategic Planning

- In its current form, the initial SMP lacks key information and elements.
 - It does not identify any strategic goals, objectives, and performance measures.
 - While it states a purpose, the plan does not provide detailed information about business operations.
 - Without strategic goals and objectives, the SMP
 - cannot be linked to the *Quadrennial Defense Review*, DOD's overall strategic plan, which defines reshaping the defense enterprise as a key priority,
 - cannot be linked to other existing plans and tools for individual business areas, such as the *Enterprise Transition Plan* and the *Financial Improvement and Audit Readiness Plan*, which are focused largely on business systems modernization and financial management, respectively,¹ and
 - cannot be used to provide direction to the efforts of the military departments to develop compatible, lower-level business transformation plans and ensure linkage.

¹Some DOD business-related plans, such as the *Enterprise Transition Plan*, contain performance goals and measures that are used to track and monitor progress in an individual business area.



Objective 2: Strategic Planning

- The SMP does not identify accountability for achieving desired results, such as the roles of the CMO, the DCMO, the CMOs for the military departments, and other senior leaders in monitoring implementation and execution of the SMP.
- The SMP does not demonstrate results, provide a comprehensive view of performance for business operations, or link resource needs to performance.
 - DOD has yet to define performance measures for approving and evaluating the efficiency and effectiveness of business operations and key initiatives to be undertaken in meeting performance goals and measures.
 - The SMP contains discussions about existing processes for resource decisionmaking, such as the Planning, Programming, Budgeting, and Execution System and the Defense Acquisition System, but it does not address how these processes will be used to formulate investment priorities and decisions for business operations.



Objective 2: Strategic Planning

- DOD plans to update the SMP in July 2009 and every 2 years thereafter as required in the NDAA for Fiscal Year 2008; however, it has not yet developed a strategic planning process to guide future updates of the SMP. DOD indicated in the SMP that
 - The plan did not address two legislative requirements:
 - 1) Performance goals and measures for business operations, and
 - 2) Key initiatives to meet performance goals and measures.
 - DOD expects the incoming administration to address these remaining requirements in the July 2009 update.
- Without a strategic plan with clearly defined and aligned goals, objectives, and performance measures that is supported by a comprehensive, strategic planning process,
 - DOD will continue to face challenges in developing an integrated approach to manage and transform its business operations.
 - It is unclear how
 - DOD will measure progress, establish investment priorities, and link resource needs to performance.
 - Military departments and other DOD entities will develop plans for their programs and activities for business operations in the absence of departmentwide direction from the SMP.



Agency Comments

- DOD provided written comments on a draft of this briefing product. Our summary and evaluation of DOD's comments are included in enclosure II, and DOD's written comments are reprinted in their entirety in enclosure III. DOD also provided technical comments on a draft of this product, which we incorporated.



- Should you or your staff have any questions on the matters discussed in this briefing, please contact Sharon L. Pickup at (202) 512-9619 or pickups@gao.gov.
- In addition to the contact listed above, key contributors to this product were Deborah Yarborough, Assistant Director; Grace Coleman, K. Nicole Harms, Suzanne Perkins, Terry Richardson, Joseph Watkins, and Angela Watson.



Appendix I – Scope and Methodology

- To determine the extent of progress the Department of Defense (DOD) has made in developing a comprehensive management framework for business transformation, we
 - reviewed documentation related to the establishment and implementation of business transformation entities, such as DOD's July 2008 *Strategic Management Plan* (SMP), July 2008 Section 904 Implementation Report, directives on DOD senior governance councils and the establishment of the Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO) positions, and military departments' documents such as strategic plans,
 - interviewed DOD officials from the Office of the Deputy Chief Management Officer, the Business Transformation Agency (BTA), and the Departments of the Army, Air Force, and Navy about actions taken by DOD to establish its CMO and DCMO positions and expand and institutionalize its management framework for business transformation, such as the creation of the CMO and DCMO positions and the role of senior governance bodies, and
 - compared actions taken by DOD in establishing and implementing its CMO and DCMO management framework to key strategies identified in a prior GAO report for implementing CMO positions.



- To determine to what extent DOD's inaugural SMP contains key elements of a strategic plan, we
 - reviewed the SMP for evidence of inclusion of strategic goals, objectives, and performance measures, which are key elements for strategic plans identified in our previous work and by the Government Performance and Results Act of 1993,
 - reviewed business-related goals, objectives, and measures included in the *Quadrennial Defense Review* and functional plans, such as the *Enterprise Transition Plan*, to determine the degree of alignment with the SMP,
 - reviewed DOD's July 2008 Section 904 Implementation Report and the legislative requirements in the National Defense Authorization Act for Fiscal Year 2008,
 - interviewed DOD officials from the Office of the Deputy Chief Management Officer and the Office of the Director of Administration and Management about the process they used to develop the SMP, such as aligning the SMP with other plans, and
 - interviewed officials from the BTA and Departments of the Army, Air Force, and Navy to get their perspectives about the purpose and use of the SMP.



- We conducted this performance audit from August 2008 through December 2008, 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 assessment based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our assessment based on our audit objectives.



Related GAO Products

- *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.
- *DOD Business Systems Modernization: Progress in Establishing Corporate Management Controls Needs to Be Replicated within Military Departments.* GAO-08-705, Washington, D.C.: May 15, 2008.
- *Defense Business Transformation: Sustaining Progress Requires Continuity of Leadership and an Integrated Approach.* GAO-08-462T, Washington, D.C.: February 7, 2008.
- *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies.* GAO-08-322T, Washington, D.C.: December 13, 2007.
- *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies.* GAO-08-34, Washington, D.C.: November 1, 2007.
- *Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership.* GAO-07-1072, Washington, D.C.: September 5, 2007.
- *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.
- *High-Risk Series: An Update.* GAO-07-310, Washington, D.C.: January 31, 2007.

Agency Comments and Our Evaluation

We provided our draft briefing to the Department of Defense (DOD). In response to this draft, we received written comments from DOD (see enclosure III) which we summarize below. DOD also provided technical comments which we incorporated as appropriate.

DOD concurred with our observations but expressed concern that we have not given full consideration to the structures that the department has in place or the actions that have been taken to date. DOD noted we recognized the directives that DOD has issued to institutionalize the broad responsibilities of the Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO), but that we had also observed that the DCMO has not been invested with decision-making authority and that it is unclear how the DCMO will work with the Under Secretaries of Defense and the CMOs of the military departments. DOD emphasized it was deliberate in defining the responsibilities and authorities of the DCMO to be consistent with the charters of the other Under Secretaries of Defense. Further, DOD stated that many responsibilities of these senior leaders are statutorily mandated and each of these officials and organizations is accountable to the Deputy Secretary of Defense, acting as the CMO, for the execution and improvement of the business operations within their areas of responsibility. Lastly, DOD stated that it believes that it is important that the DCMO act as an advisor to synchronize, integrate, and align business operations and management structures from an enterprise perspective.

We recognize that several DOD senior leaders have statutorily defined responsibilities for certain business operations, and, as stated in our briefing, that the existence of the DCMO does not subsume, realign, or replace the functions, responsibilities, or authorities of other senior leaders as prescribed by law for certain key business management functions, such as fiduciary, acquisition, and procurement activities. However, by designating the DCMO as an advisor without clear decision-making authority or accountability for results, it is unclear how the DCMO will be able to provide effective leadership and ultimately effect change. Further, DOD has not clearly defined how the DCMO will work with other senior leaders that are at the same level or higher within the department, such as the Under Secretaries of Defense and the military department CMOs. If the DCMO is to have a role in synchronizing, integrating, and aligning business operations and management structures across the department, the DCMO will need to work closely with others. Therefore, in light of the transition, it will be important for DOD senior leaders in the next administration to further define and clarify these roles, responsibilities, and relationships among the various positions and governance entities within DOD's management framework for business transformation to sustain and further DOD's progress.

In response to our observation that there may not be continuity of leadership across administrations because the CMO and DCMO positions are appointed with undefined terms in office, DOD emphasized it had acted in accordance with the National Defense Authorization Act for Fiscal Year 2008 while codifying the duties of the CMO and establishing the Office of the DCMO, and has taken a number of steps to ensure that career senior executive service members are positioned in both the Office of the

Enclosure II

Secretary of Defense and the military departments to ensure continued execution of business operations and focus on long-standing challenges. DOD also stated that it continues to maintain focus on business improvement and transformation issues as it strives to make the department more efficient, effective, and responsive. We recognize that DOD has taken a number of steps to further develop its management framework for business transformation. In the briefing, we specifically describe actions such as issuing directives related to the CMO and DCMO, establishing an office of the DCMO, naming an Assistant DCMO, and designating acting CMOs, as appropriate, for the military departments. Because of the complexity and long-term nature of DOD's business transformation efforts, we have reported the need for the CMO to be a separate position with significant authority, experience, and a term. As DOD continues to develop its management approach for business transformation, we remain open to the possibility of further progress. However, because of the roles and responsibilities currently assigned to key positions, it is still unclear that DOD will be able to provide the long-term sustained leadership needed to address significant challenges in its business operations.

Comments from the Department of Defense



OFFICE OF THE DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

31 December 2008

MEMORANDUM FOR DIRECTOR, REPORT FOLLOWUP & GAO LIAISON,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: GAO Preliminary Observations, "Status of Department of Defense (DoD) Efforts to
Develop a Management Approach to Guide Business Transformation," dated
December 2008 (GAO Code 351262)

Attached is DoD's proposed response to the GAO's Preliminary Observations. My point
of contact is Michael Metzger, michael.metzger@osd.mil, 703-695-9715.

A handwritten signature in black ink, appearing to read "Elizabeth A. McGrath".

Elizabeth A. McGrath
Assistant Deputy Chief Management Officer

Attachment:
As stated





OFFICE OF THE DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

31 December 2008

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

Dear Ms. Pickup,

This is the Department of Defense (DoD) response to the GAO's preliminary observations, "Status of Department of Defense (DoD) Efforts to Develop a Management Approach to Guide Business Transformation," dated December 2008 (GAO Code 351262).

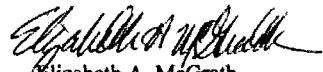
The Department appreciates the GAO's interest in the progress of Defense Business Transformation and the opportunity to respond to these preliminary observations. The Department generally concurs with the GAO's observations; however, we are concerned that the GAO has not given full consideration to the structures that the Department has in place or the actions that have been taken to date.

While the GAO recognizes the issuances that the Department has promulgated institutionalizing the broad responsibilities of the CMO and DCMO, they stated that the DCMO has not been invested with decision-making authority and that it is unclear how the DCMO will work with the Under Secretaries of Defense and the CMOs of the Military Departments. The Department was deliberate in defining the responsibilities and authorities that it imparted to the DCMO consistent with the charters of the other Under Secretaries of Defense. Many of the responsibilities of the Under Secretaries of Defense and the Military Departments are statutorily mandated and each of these officials and organizations is accountable to the Deputy Secretary of Defense, acting as the CMO, for the execution and improvement of the business operations within their areas of responsibility. The Department believes that it is important that the DCMO act as an advisor to synchronize, integrate, and align business operations and management structures from an enterprise perspective.

The GAO also stated that "there may not be continuity of leadership across administrations because the CMO and DCMO positions are appointed with undefined terms of office." The Department has acted in accordance with the 2008 National Defense Authorization Act while codifying the duties of the CMO and establishing the Office of the DCMO. The Department has also taken a number of steps to ensure that career senior executive service members are positioned both in OSD and the Military Departments to ensure continued execution of existing business operations improvement initiatives and focus on long-standing challenges.



The Department continues to maintain focus on business improvement and transformation issues as we strive to make the Department more efficient, effective, and responsive.



Elizabeth A. McGrath
Assistant Deputy Chief Management Officer

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