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# DEPARTMENT OF DEFENSE

# Sustained Leadership Is Critical to Effective Financial and Business Management Transformation

Statement of David M. Walker
Comptroller General of the United States

GAO-06-1006T

August 3, 2006

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# Sustained Leadership Is Critical to Effective Financial and Business Management Transformation

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# Highlights

Highlights of GAO-06-1006T, a testimony before the Subcommittee on Federal Financial Management, Government Information and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Department of Defense (DOD) bears sole responsibility for eight DOD-specific high-risk areas and shares responsibility for six governmentwide high-risk areas. These high-risk areas reflect the pervasive weaknesses that cut across all of DOD's major business operations. Several of the high-risk areas are inter-related, including, but not limited to, financial management, business systems modernization, and DOD's overall approach to business transformation. Billions of dollars provided to DOD are wasted each year because of ineffective performance and inadequate accountability. DOD has taken some positive steps to successfully transform its business operations and address these high-risk areas, but huge challenges remain.

This testimony discusses (1) pervasive, long-standing financial and business management weaknesses that affect DOD's efficiency; (2) some examples that highlight a need for improved business systems development and implementation oversight; (3) DOD's key initiatives to improve financial management, related business processes, and systems; and (4) actions needed to enhance the success of DOD's financial and business transformation efforts.

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## What GAO Found

DOD's pervasive financial and business management problems adversely affect the economy, efficiency, and effectiveness of its operations, and have resulted in a lack of adequate accountability across all major business areas. These problems have left the department vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint. Further evidence of DOD's problems is the long-standing inability of any military service or major defense component to pass the test of an independent financial audit because of pervasive weaknesses in financial management systems, operations, and controls. The following examples indicate the magnitude and severity of the problems.

**Illustrative Weaknesses in DOD's Financial Management and Business Operations**

| Business area | Problem identified |
|---|---|
| Military personnel | Hundreds of separated battle-injured soldiers were pursued for collection of military debts incurred through no fault of their own. Overpayment of pay and allowances (entitlements), pay calculation errors, and erroneous leave payments caused 73 percent of the reported debts. |
| Inventory | The Army had not maintained accurate accountability over inventory shipped to repair contractors. |
| Financial management | DOD's processes for recording and reporting costs for the Global War on Terrorism were inadequate, raising significant concerns about the overall reliability of DOD's reported cost data. |

Source: GAO.

To support its business operations, DOD invests billions of dollars each year to operate, maintain, and modernize its business systems. But despite this significant annual investment, GAO has continued to identify business system projects that have failed to be implemented on time, within budget, and with the promised capability. For example, in January 2006, GAO reported on problems with the implementation of the Defense Travel System—a project that was initiated in September 1998.

DOD's many high-risk challenges are years in the making and will take time to effectively address. Top management has demonstrated a commitment to transforming the department's business processes. In December 2005, DOD issued its Financial Improvement and Audit Readiness Plan to guide its financial management improvement efforts. Also, DOD has developed an initial Standard Financial Information Structure, which is DOD's enterprisewide data standard for categorizing financial information. Because of the complexity and long-term nature of DOD transformation efforts, GAO would like to reiterate two missing critical elements that need to be in place if DOD's transformation efforts are to be successful. First, DOD should develop and implement a comprehensive, integrated, and enterprisewide business transformation plan. Second, GAO continues to support the creation of a chief management officer, with the right skills and at the right level within the department, to provide the needed sustained leadership to oversee the department's overall business transformation process.

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here to discuss key aspects of 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. The involvement of this Subcommittee is critical to ultimately ensuring public confidence in DOD as a steward that is accountable for its finances. DOD continues to confront pervasive, decades-old financial management and business problems related to its systems, processes (including internal controls), and people (human capital). Of the 26 areas on GAO's governmentwide "high-risk" list, 8 are DOD program areas, and the department shares responsibility for 6 other high-risk areas that are governmentwide in scope.[1] These problems serve to, among other things, preclude the department from producing accurate, reliable, and timely information with which to make sound decisions and accurately report on its trillions of dollars of assets and liabilities. Further, DOD's financial management deficiencies continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. In an effort to better manage DOD's resources, the Secretary of Defense has appropriately placed a high priority on transforming key business processes to improve their efficiency and effectiveness in supporting the department's military mission.

As per your request, my testimony will touch on three of the high-risk areas—financial management, business systems modernization, and DOD's overall approach to business transformation. I will provide perspectives on (1) some of the pervasive, long-standing financial and business management weaknesses that affect DOD's efficiency; (2) some examples that highlight a need for improved business systems development and implementation oversight; (3) DOD's key initiatives to improve financial management, related business processes, and systems; and (4) actions needed to enhance the success of DOD's financial and

[1] GAO, *GAO's High-Risk Program*, GAO-06-497T (Washington, D.C.: Mar. 15, 2006). DOD bears responsibility for the following eight high-risk areas: (1) DOD's overall approach to business transformation, (2) business systems modernization, (3) financial management, (4) the personnel security clearance process, (5) supply chain management, (6) support infrastructure management, (7) weapon systems acquisition, and (8) contract management. The department shares responsibility for the following six governmentwide high-risk areas: (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, and (6) real property.

business transformation efforts. My statement is based on our previous reports and testimonies. Our work was performed in accordance with generally accepted government auditing standards.

## Summary

DOD's pervasive financial and business management problems adversely affect the economy, efficiency, and effectiveness of its operations, and have resulted in a lack of adequate accountability across all major business areas. These problems have left the department vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint. Further evidence of DOD's problems is the long-standing inability of any military service or major defense component to pass the test of an independent financial audit because of pervasive weaknesses in financial management systems, operations, and controls. The following examples indicate the magnitude and severity of the problems.

- We found that hundreds of separated battle-injured soldiers were pursued for collection of military debts incurred through no fault of their own, including 74 soldiers whose debts had been reported to credit bureaus, private collection agencies, and the Treasury Offset Program. Overpayment of pay and allowances (entitlements), pay calculation errors, and erroneous leave payments caused 73 percent of the reported debts.[2]

- We found numerous problems with DOD's processes for recording and reporting costs for the Global War on Terrorism (GWOT), raising significant concerns about the overall reliability of DOD's reported cost data. As noted in our September 2005 report, neither DOD nor Congress know how much the war was costing and how appropriated funds were spent, or have historical data useful in considering future funding needs.[3] In at least one case, the reported costs may have been materially overstated. Specifically, DOD's reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related payroll information by as much as $2.1 billion, or 30 percent of the

[2] GAO, *Military Pay: Hundreds of Battle-Injured GWOT Soldiers Have Struggled to Resolve Military Debts*, GAO-06-494 (Washington, D.C.: Apr. 27, 2006).

[3] GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, GAO-05-882 (Washington, D.C.: Sept. 21, 2005).

amount DOD reported in its cost report.

Additionally, the department invests billions of dollars each year to operate, maintain, and modernize its business systems. But despite this significant annual investment, the department has been continually confronted with the difficult task of implementing business systems on time, within budget, and with the promised capability. For example, in December 2005,[4] we reported that the Army had not economically justified its investment in the Transportation Coordinators' Automated Information for Movement System (TC-AIMS) II, on the basis of reliable estimates of costs and benefits. TC-AIMS II was intended to be the single integrated system to automate transportation management function areas for the military services. As noted in our report, the most recent economic justification included cost and benefit estimates based on all four military services using the system. However, the Air Force and the Marine Corps have stated that they do not intend to use TC-AMIS II. Even with costs and benefits for all four services included, the analysis showed a marginal return on investment; that is, for each dollar spent on the system, slightly less than one dollar of benefit would be returned. The Army estimates the total life cycle cost of TC-AIMS II to be $1.7 billion over 25 years, including $569 million for acquisition and $1.2 billion for operation and maintenance. The Army reports that it has spent approximately $751 million on TC-AIMS II since its inception in 1995.

This example and others highlight the need for improved oversight of the billions of dollars DOD invests annually in the operation, maintenance, and modernization of its business systems. Further, in the past the department has also struggled with developing a business enterprise architecture to guide its business system development efforts. We reported in July 2005, that DOD, after almost 4 years and investing approximately $318 million, the architecture was not sufficient to effectively guide and constrain ongoing and planned systems investments.[5] To its credit, DOD has recognized these weaknesses and taken actions to improve its management control and accountability over business system investments.

[4] GAO, *DOD Systems Modernization: Uncertain Joint Use and Marginal Expected Value of Military Asset Deployment System Warrant Reassessment of Planned Investment*, GAO-06-171 (Washington, D.C.: Dec. 15, 2005).

[5] GAO, *DOD Business Systems Modernization: Long-standing Weaknesses in Enterprise Architecture Development Need to Be Addressed*, GAO-05-702 (Washington, D.C.: July 22, 2005).

Successful reform of DOD's fundamentally flawed financial and business management operations must simultaneously focus on its systems, processes, and people. DOD's top management has demonstrated a commitment to transforming the department and has launched key initiatives to improve its financial management processes and related business systems. For example, in December 2005, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan, to guide financial improvement and financial audit efforts within the department. Also, DOD has developed an initial Standard Financial Information Structure (SFIS), which is DOD's enterprisewide data standard for categorizing financial information. While DOD has made some encouraging progress in addressing specific challenges, it is still in the very early stages of a departmentwide reform that will take many years to accomplish.

DOD continues to make progress in several areas in its overall business transformation efforts. For example, DOD established the Defense Business System Management Committee (DBMSC) as DOD's primary transformation leadership and oversight mechanism, and created the Business Transformation Agency (BTA) to support the DBSMC. However, I believe that DOD still lacks several key elements that are needed to ensure a successful and sustainable transformation effort. In this regard, I would like to reiterate two critical elements needed if DOD is to succeed. First, as we have previously recommended, DOD should develop and implement an integrated and strategic business transformation plan. The lack of a comprehensive, integrated, enterprisewide action plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's business management transformation. Second, we continue to support the creation of a chief management officer (CMO) at the right level of the organization to provide the sustained leadership needed to achieve a successful and sustainable transformation effort. The CMO would serve as a strategic integrator to elevate and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, business systems, and financial management, while facilitating the overall business management transformation within DOD.

## Background

DOD is a massive and complex organization. Overhauling its business operations will take years to accomplish and represents a huge management challenge. In fiscal year 2005, the department reported that its operations involved $1.3 trillion in assets and $1.9 trillion in liabilities, more than 2.9 million military and civilian personnel, and $635 billion in net cost of operations. For fiscal year 2005, the department was appropriated approximately $525 billion.[6]

Large differences between the net cost of operations and amounts appropriated for any given fiscal year are not unusual in DOD. For the most part, they are attributed to timing differences. For example, net cost is calculated using an accrual basis of accounting (revenues and expenses are recorded when earned and owed, respectively) whereas appropriations are recorded on a cash basis (revenues and expenses are recorded when cash is received or paid.) Using the accrual basis versus the cash basis can result in DOD's reporting of revenues and expenses in different periods. For instance, DOD may have received in 2005 an appropriation for the acquisition of a weapon system but may not incur expenses or make payments from the appropriation until several years later. Also, DOD's net cost of operations includes non-cash expenses, such as depreciation related to buildings and equipment that will not require cash outlays until several years after the funds were appropriated. In addition, the department's recording of expenses related to environmental cleanups and pension and retiree health cost liabilities can occur many years before the appropriations to fund payment of those liabilities are received.

Execution of DOD's 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 operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business functions—using more than 3,700 business systems—related to major business areas such as weapon systems management, supply chain management, procurement, health care management, and financial management. The ability of these systems to operate as intended affects the lives of our warfighters both on and off the battlefield. For fiscal year 2006, Congress appropriated approximately $16 billion to DOD to operate, maintain, and modernize these business systems, and for fiscal year 2007, DOD has requested another $16 billion for this purpose.

[6] Of the fiscal year 2005 appropriation, approximately $78 billion was for the Global War on Terrorism and tsunami and hurricane relief efforts and about $39 billion was for permanent indefinite appropriations for retiree pensions and health care.

To assist DOD in addressing its modernization management challenges, Congress included provisions in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 [7] that were consistent with our recommendations for establishing and implementing effective business system investment management structures and processes. During the past year, DOD has embarked on a series of efforts to transform its business operations and further comply with the act. In February 2005, DOD chartered the DBSMC to oversee transformation. As the senior most governing body overseeing business transformation, the DBSMC consists of senior leaders who meet monthly under the personal direction of the Deputy Secretary of Defense to set business transformation priorities and recommend policies and procedures required to attain DOD-wide interoperability of business systems and processes.

In October 2005, DOD also established the BTA that is intended to advance DOD-wide business transformation efforts in general, but particularly with regard to business systems modernization. DOD believes it can better address agencywide business transformation—which includes planning, management, organizational structures, and processes related to all key business areas—by first transforming business operations that support the warfighter while also enabling financial accountability across DOD. The BTA reports directly to the vice chair of the DBSMC—the Under Secretary of Defense for Acquisition, Technology and Logistics—and includes an acquisition executive who is responsible for 28 DOD-wide business projects, programs, systems, and initiatives. The BTA is responsible for integrating and supporting the work of the Office of the Secretary of Defense principal staff assistants, some of whom function as the approval authorities and who chair the business system investment review boards (IRB). The IRBs serve as the oversight and investment decision-making bodies for those business capabilities that support activities in their designated areas of responsibility.

[7] Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851-1856 (Oct. 28, 2004) (codified in part at 10 U.S.C. § 2222).

## Pervasive Financial and Business Management Problems Affect DOD's Efficiency and Effectiveness

Since the first GAO report on the financial statement audit of a major DOD component over 16 years ago,[8] we have repeatedly reported that weaknesses in business management systems, processes, and internal controls not only adversely affect the reliability of reported financial data, but also the management of DOD operations. In March 2006,[9] I testified that 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. These issues were also discussed in the latest consolidated financial audit report.[10] To date, none of the military services or major DOD components has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems.

DOD's financial management problems are pervasive, complex, long-standing, deeply rooted in virtually all of its business operations, and challenging to resolve. The nature and severity of DOD's financial management, business operations, and system deficiencies not only affect financial reporting, but also impede the ability of DOD managers to receive the full range of information needed to effectively manage day-to-day operations. Such weaknesses have adversely affected the ability of DOD to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, and prevent fraud, as the following examples illustrate.

- We found that hundreds of separated battle-injured soldiers were pursued for collection of military debts incurred through no fault of their own, including 74 soldiers whose debts had been reported to credit bureaus, private collection agencies, and the Treasury Offset Program. Overpayment of pay and allowances (entitlements), pay calculation errors, and erroneous leave payments caused 73 percent of

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[8] GAO, *Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources*, GAO/AFMD-90-23 (Washington, D.C.: Feb. 23, 1990).

[9] GAO, *Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance*, GAO-06-406T (Washington, D.C.: Mar. 1, 2006).

[10] Department of the Treasury, *2005 Financial Report of the United States Government* (Washington, D.C.: Dec. 15, 2005).

the reported debts.[11]

- We identified numerous problems with DOD's processes for recording and reporting costs for the Global War on Terrorism raising significant concerns about the overall reliability of DOD's reported cost data. As discussed in our September 2005 report, neither DOD nor Congress know how much the war was costing and how appropriated funds were spent, or have historical data useful in considering future funding needs. [12] In at least one case, the reported costs may have been materially overstated. Specifically, DOD's reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related payroll information by as much as $2.1 billion, or 30 percent of the amount DOD reported in its cost report.

- In March 2006, we reported that DOD's policies and procedures for determining, reporting, and documenting cost estimates associated with environmental cleanup or containment activities were not consistently followed. Further, none of the military services had adequate controls in place to help ensure that all identified contaminated sites were included in their environmental liability cost estimates. DOD's reported liability of $64 billion is primarily for the cleanup of hazardous wastes at training ranges, military bases, and former defense sites; disposal of nuclear ships and submarines; and disposal of chemical weapons. These weaknesses not only affected the reliability of DOD's environmental liability estimate, but also that of the federal government as a whole. Uncertainties in environmental liabilities could materially affect the ultimate cost and timing of cleanup activities.[13]

- In December 2005, we reported that the Army had not maintained accurate accountability over inventory shipped to repair contractors, thereby placing these assets at risk of loss or theft. Although DOD policy requires the military services to confirm receipt of all assets shipped to contractors, we found that the Army did not consistently record shipment receipts in its inventory management systems. In an

[11] GAO-06-494.

[12] GAO-05-882.

[13] GAO, *Environmental Liabilities: Long-Term Fiscal Planning Hampered by Control Weaknesses and Uncertainties in the Federal Government's Estimates*, GAO-06-427 (Washington, D.C.: Mar. 31, 2006).

analysis of fiscal year 2004 shipment data obtained from two Army inventory control points, we could not reconcile shipment records with receipt records for 42 percent of the unclassified secondary repair item shipments, with a value of $481.7 million, or for 37 percent of the classified secondary repair item shipments, with a value of $8.1 million. These weaknesses in the Army's ability to account for inventory shipped to repair contractors increase the risk of undetected loss or theft because the Army cannot ensure control over assets after they have been shipped from its supply system. Moreover, inaccurate and incomplete receipt records diminish asset visibility and can distort on-hand inventory balances, leading to unnecessary procurement of items.[14]

- Over the years, DOD recorded billions of dollars of disbursements and collections in suspense accounts because the proper appropriation accounts could not be identified and charged. Because documentation needed to resolve these payment recording problems could not be found after so many years, DOD requested and received authority to write off certain aged suspense transactions. While DOD reported that it wrote off an absolute value of $35 billion or a net value of $629 million using the legislative authority, neither of these amounts accurately represents the true value of all the individual transactions that DOD had not correctly recorded in its financial records. Many of DOD's accounting systems and processes routinely offset individual disbursements, collections, adjustments, and correction entries against each other and, over time, amounts might even have been netted more than once. This netting and summarizing misstated the total value of the write-offs and made it impossible for DOD to identify what appropriations may have been under- or overcharged or to determine whether individual transactions were valid.[15]

- In May 2006, we reported that some DOD inventory management centers had not followed DOD-wide and individual policies and procedures to ensure they were retaining the right amount of contingency retention inventory. While policies require the centers to (1) use category codes to describe why they are retaining items in contingency inventory, (2) hold only those items needed to meet

[14] GAO, *Defense Inventory: Army Needs to Strengthen Internal Controls for Items Shipped to Repair Contractors*, GAO-06-209 (Washington, D.C.: Dec. 13, 2005).

[15] GAO, *DOD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs*, GAO-05-521 (Washington, D.C.: June 2, 2005).

current and future needs, and (3) perform annual reviews of their contingency inventory decisions, one or more centers had not followed these policies. For example, the Army's Aviation and Missile Command was not properly assigning category codes that described the reasons they were holding items in contingency inventory because the inventory system was not programmed to use the codes. We found that items valued at $193 million did not have codes to identify the reasons why they were being held, and therefore we were unable to determine the items' contingency retention category. We also found that some inventory centers have held items such as gears, motors, and electronic switches, even though there have been no requests for some of them by the services in over 10 years. By not following policies for managing contingency inventory, DOD's centers may be retaining items that are needlessly consuming warehouse space, and they are unable to know if their inventories most appropriately support current and future operational needs.[16]

- In June 2006, we reported that the military services had not consistently implemented DOD's revised policy in calculating carryover.[17] Instead, the military services used different methodologies for calculating the reported actual amount of carryover and the allowable amount of carryover since DOD changed its carryover policy in December 2002. Specifically, (1) the military services did not consistently calculate the allowable amount of carryover that was reported in their fiscal year 2004, 2005, and 2006 budgets because they used different tables (both provided by DOD) that contained different outlay rates for the same appropriation; (2) the Air Force did not follow DOD's regulation on calculating carryover for its depot maintenance activity group, which affected the amount of allowable carryover and actual carryover by tens of millions of dollars as well as whether the actual amount of carryover exceeded the allowable amount as reported in the fiscal year 2004, 2005, and 2006 budgets; and (3) the Army depot maintenance and ordnance activity groups' actual carryover was understated in fiscal years 2002 and 2003 because carryover associated with prior year orders was not included in the carryover calculation as required. As a result, year-end carryover data provided to decision

[16] GAO, *Defense Inventory: Actions Needed to Improve Inventory Retention Management*, GAO-06-512 (Washington, D.C.: May 25, 2006).

[17] Carryover is the dollar value of work that has been ordered and funded (obligated) by customers but not completed by working capital fund activities at the end of the fiscal year. Carryover consists of both the unfinished portion of work started but not completed as well as requested work that has not yet commenced.

makers who review and use the data for budgeting were erroneous and not comparable across the three military services.[18]

## Improved Oversight of DOD Business Systems Needed

The department is provided billions of dollars annually to operate, maintain, and modernize its stovepiped, duplicative, legacy business systems. Despite this significant investment, the department is severely challenged in implementing business systems on time, within budget, and with the promised capability. The Clinger-Cohen Act of 1996[19] and Office of Management and Budget guidance provide an effective framework for information technology (IT) investment management. They emphasize the need to have investment management processes and information to help ensure that IT projects are being implemented at acceptable costs and within reasonable and expected time frames and that they are contributing to tangible, observable improvements in mission performance. Effective project management and oversight will be critical to the department's success in transforming its business management systems and operations. Many of the problems related to DOD's inability to effectively implement its business systems on time, within budget, and with the promised capability can be attributed to its failure to implement the disciplined processes[20] necessary to reduce the risks associated with these projects to acceptable levels.[21] Disciplined processes have been shown to reduce the risks associated with software development and acquisition efforts and are fundamental to successful systems acquisition. While the department invests billions of dollars annually in its business systems, the following examples highlight the continuing problem faced by the department in successfully implementing business systems.

- *Logistics Modernization Program* (LMP). In May 2004, we first reported our concerns with the requirements management and testing

[18] GAO, *Defense Working Capital Fund: Military Services Did Not Calculate and Report Carryover Amounts Correctly*, GAO-06-530 (Washington, D.C.: June 27, 2006).

[19] Pub. L. No. 104-106, div. E, 110 Stat. 186, 679 (Feb. 10, 1996).

[20] Disciplined processes include a wide range of activities, including project planning and management, requirements management, risk management, quality assurance, and testing.

[21] Acceptable levels refer to the fact that any systems acquisition effort will have risks and will suffer the adverse consequences associated with defects in the processes. However, effective implementation of disciplined processes reduces the possibility of the potential risks actually occurring and prevents significant defects from materially affecting the cost, timeliness, and performance of the project.

processes used by the Army in the implementation of LMP and the problems being encountered after it became operational in July 2003.[22] At the time of our initial report, the Army decided that future deployments would not occur until it had reasonable assurance that the system would operate as expected for a given deployment. However, as we reported in June 2005, the Army's inability to effectively address the requirements management and testing problems hampered its ability to field LMP to other locations.[23] Our analysis disclosed that LMP could not properly recognize revenue or bill customers. Furthermore, data conversion problems resulted in general ledger account balances not being properly converted when LMP became operational in July 2003. These differences remained unresolved almost 18 months later. These weaknesses adversely affected the Army's ability to set the prices for the work performed at the Tobyhanna Army Depot. In addition, data conversion problems resulted in excess items being ordered and shipped to Tobyhanna. As noted in our June 2005 report, three truckloads of locking washers (for bolts) were mistakenly ordered and received and subsequently returned because of data conversion problems. At the request of the Chairman and Ranking Minority Member of the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, we have initiated an audit of the Army's efforts to achieve financial management visibility over its assets. One aspect of this audit will be to ascertain the Army's progress in resolving the previously identified problems with LMP.

- *Navy Enterprise Resource Planning (ERP)*. We reported in September 2005 that the Navy had invested approximately $1 billion in four pilot ERP efforts, without marked improvement in its day-to-day operations.[24] The four pilots were limited in scope and were not intended to be a corporate solution for resolving any of the Navy's long-standing financial and business management problems. The lack of a coordinated effort among the pilots led to a duplication of efforts in implementing many business functions and resulted in ERP solutions

[22] GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May. 27, 2004).

[23] GAO, *Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts*, GAO-05-441 (Washington, D.C.: June 30, 2005).

[24] GAO, *DOD Business Systems Modernization: Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures*, GAO-05-858 (Washington, D.C.: Sept. 29, 2005).

that carry out similar functions in different ways from one another. In essence, the pilots resulted in four more DOD stovepiped systems that did not enhance DOD's overall efficiency and resulted in $1 billion being largely wasted. While the current Navy ERP effort has the potential to address some of the Navy's financial management weaknesses, its planned functionality will not provide an all-inclusive, end-to-end corporate solution for the Navy. For example, the scope of the ERP project does not provide for real-time asset visibility of shipboard inventory. Asset visibility has been and continues to be a long-standing problem within the department. Furthermore, the project has a long way to go, with a current estimated completion date of 2011, at an estimated cost of $800 million.

- *Defense Travel System (DTS)*. As we reported in January 2006,[25] DTS continues to face implementation challenges, particularly with respect to testing key functionality to ensure that the system will perform as intended. Our analysis of selected requirements for one key area disclosed that system testing was not effective in ensuring that the promised capability was delivered as intended. For example, we found that DOD did not have reasonable assurance that flight information was properly displayed.[26] This problem was not detected prior to deployment of DTS because DOD did not properly test the system interfaces through which the data are accessed for display. As a result, those travelers using the system may not have received accurate information on available flights, which could have resulted in higher travel costs. Our report also identified key challenges facing DTS in becoming DOD's standard travel system, including the development of needed interfaces and underutilization of DTS at sites where it has been deployed. While DTS has developed 36 interfaces with various DOD business systems, it will have to develop interfaces with at least 18 additional business systems—not a trivial task. Additionally, the continued use of the existing legacy travel systems at locations where DTS is already deployed results in underutilization of DTS and affects the savings that DTS was planned to achieve.

- *Naval Tactical Command Support System (NTCSS)*. The Navy initiated the NTCSS program in 1995 to enhance the combat readiness

[25] GAO, *DOD Business Transformation: Defense Travel System Continues to Face Implementation Challenges*, GAO-06-18 (Washington, D.C.: Jan. 18, 2006).

[26] Flight information includes items such as departure and arrival times, airports, and the cost of the airline ticket.

of ships, submarines, and aircraft. To accomplish this, NTCSS was to provide unit commanding officers and crews with information about maintenance activities, parts inventories, finances, technical manuals and drawings, and personnel. According to the Navy, it spent approximately $1.1 billion for NTCSS from its inception through fiscal year 2005 and expects to spend another $348 million from fiscal years 2006 through 2009, for a total of approximately $1.45 billion. As discussed in our December 2005 report,[27] the Navy has not economically justified its ongoing and planned investment in NTCSS on the basis of reliable estimates of future costs and benefits. The most recent economic justification's cost estimates were not reliably derived, and return on investment was not properly calculated. In addition, independent reviews of the economic justification to determine its reliability did not occur, and the Navy has not measured whether already deployed and operating components of the system are producing expected value.

- *TC-AIMS II*. In December 2005, we reported that the Army had not economically justified its investment in TC-AIMS II on the basis of reliable estimates of costs and benefits. TC-AIMS II was intended to be the single integrated system to automate transportation management function areas for the military services.[28] As noted in our report, the most recent economic justification included cost and benefit estimates predicated on all four military services using the system. However, the Air Force and the Marine Corps have stated that they do not intend to use TC-AMIS II. Even with costs and benefits for all four services included, the analysis showed a marginal return on investment; that is, for each dollar spent on the system, slightly less than one dollar of benefit would be returned. The Army estimates the total life cycle cost of TC-AIMS II to be $1.7 billion over 25 years, including $569 million for acquisition and $1.2 billion for operation and maintenance. The Army reports that it has spent approximately $751 million on TC-AIMS II since its inception in 1995.

To effectively and efficiently modernize its nonintegrated and duplicative business operations and systems, it is essential for DOD to develop and use a well-defined business enterprise architecture. In July 2001, the

[27] GAO, *DOD Systems Modernization: Planned Investment in the Navy Tactical Command Support System Needs to Be Reassessed*, GAO-06-215 (Washington, D.C.: Dec. 5, 2005).

[28] GAO-06-171.

department initiated a business management modernization program to, among other things, develop the architecture. We have previously reported on DOD's long-standing architecture management weaknesses.[29] Despite spending almost 4 years and about $318 million, the architecture did not provide sufficient content and utility to effectively guide and constrain ongoing and planned business systems investments. DOD recognized the weaknesses that needed to be addressed and assigned a new business transformation leadership team in 2005. More specifically, as previously noted, in October 2005, DOD established BTA to advance DOD-wide business transformation efforts in general, but particularly with regard to business systems modernization.

## DOD's Key Initiatives to Improve Financial Management Processes and Business Systems

DOD's complex and pervasive weaknesses cannot be fixed with short-term solutions, but require ongoing and sustained top management attention and resources. DOD's top management has demonstrated a commitment to transforming the department and has launched key initiatives to improve its financial management processes and related business systems, as well as made important progress in complying with legislation pertaining to its business systems modernization and financial management improvement efforts. For example, we reported in May 2006[30] that DOD released an update to its business enterprise architecture on March 15, 2006, developed an updated enterprise transition plan, and issued its annual report to Congress describing steps taken and planned with regard to business transformation, among other things. These steps address several of the missing elements we previously identified relative to the legislative provisions concerning the architecture, transition plan, budgetary reporting of business system investments, and investment review. Further, we testified[31] that in December 2005 DOD had issued its FIAR Plan, a major component of its business transformation strategy, to guide financial management improvement and audit efforts within the department. In addition, DOD developed SFIS that will be its enterprisewide data standard for categorizing financial information to support financial management and reporting functions. While this progress better positions the department to address the business systems

[29] GAO-05-702.

[30] GAO, *Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed*, GAO-06-658. (Washington, D.C.: May 15, 2006).

[31] GAO-06-406T.

modernization and financial management high-risk areas, significant challenges remain, particularly in implementing its tiered accountability investment approach.

## DOD Issued Its Financial Improvement and Audit Readiness Plan

A major component of DOD's business transformation strategy is its FIAR Plan, issued in December 2005. The FIAR Plan was issued pursuant to section 376 of the National Defense Authorization Act for Fiscal Year 2006,[32] which for fiscal year 2006 limited DOD's ability to obligate or expend funds for financial improvement activities until the department submitted a comprehensive and integrated financial management improvement plan to congressional defense committees that (1) described specific actions to be taken to correct deficiencies that impair the department's ability to prepare timely, reliable, and complete financial management information; and (2) systematically tied such actions to process and control improvements and business systems modernization efforts described in the business enterprise architecture and transition plan. Further, section 376 required a written determination that each financial management improvement activity undertaken be (1) consistent with the financial management improvement plan and (2) likely to improve internal controls or otherwise result in sustained improvement in DOD's ability to produce timely, reliable, and complete financial management information. The act also required that each written determination be submitted to the congressional defense committees.

The FIAR Plan is intended to provide DOD components with a road map for achieving the following objectives: (1) resolving problems affecting the accuracy, reliability, and timeliness of financial information, and (2) obtaining clean financial statement audit opinions. Similar to the Financial Improvement Initiative, an earlier DOD improvement effort, the FIAR Plan uses an incremental approach to structure its process for examining operations, diagnosing problems, planning corrective actions, and preparing for audit. However, unlike the previous initiative, the FIAR Plan does not establish a specific target date for achieving a clean audit opinion on the departmentwide financial statements. Target dates under the prior plan were not credible. Rather, the FIAR Plan recognizes that it will take several years before DOD is able to implement the systems, processes, and other changes necessary to fully address its financial management weaknesses. This plan is an important and positive step that will help key

[32] Pub. L. No. 109-163, § 376, 119 Stat. 3136, 3213 (Jan. 6, 2006).

department personnel to better understand and address its financial management deficiencies.

As outlined in its FIAR Plan, DOD has established business rules and an oversight structure to guide improvement activities and audit preparation efforts. In December 2005, the U.S. Army Corps of Engineers, Civil Works, became the first major DOD component to assert, under DOD's new process and business rules, that its fiscal year 2006 financial statement information was reliable. An independent public accounting firm has been hired to perform this component's financial statement audit, under the oversight and direction of the DOD Inspector General. However, the effectiveness of DOD's FIAR Plan, as well as the department's leadership and business rules, in addressing DOD's financial management deficiencies will be ultimately measured by the department's ability to provide timely, reliable, accurate, and useful information for day-to-day management and decision making.

## DOD Developed an Initial Standard Financial Information Structure

Another key initiative is SFIS, which is DOD's enterprisewide data standard for categorizing financial information to support financial management and reporting functions. DOD has recently completed phase I of the SFIS initiative, which focused on standardizing general ledger and external financial reporting requirements. SFIS includes a standard accounting classification structure that can allow DOD to standardize financial data elements necessary to support budgeting, accounting, cost management, and external reporting; it also incorporates many of the Department of the Treasury's U. S. Standard General Ledger attributes. Additional SFIS efforts remain under way, and the department plans to further define key data elements, such as those relating to the planning, programming, and budgeting business process area.

DOD intends to implement SFIS using three approaches. One approach requires legacy accounting systems to submit detail-level accounting transactions that are to be converted to SFIS-equivalent data elements. The second approach applies to business feeder systems and will require incorporation of SFIS data elements within systems that create the business transactions. Lastly, accounting systems under development, including new enterprise resource planning systems, are required to have the ability to receive SFIS data as part of source transactions and generate appropriate general ledger entries in accordance with the U.S. Standard General Ledger.

## DOD Efforts to Control Business Systems Investments

To help improve the department's control and accountability over its business systems investments, provisions in the fiscal year 2005 national defense authorization act directed DOD to put in place a specifically defined structure that is responsible and accountable for controlling business systems investments to ensure compliance and consistency with the business enterprise architecture. More specifically, the act directs the Secretary of Defense to delegate responsibility for review, approval, and oversight of the planning, design, acquisition, deployment, operation, maintenance, and modernization of defense business systems to designated approval authorities or "owners" of certain business missions.[33] DOD has satisfied this requirement under the act. On March 19, 2005, the Deputy Secretary of Defense issued a memorandum that delegated the authority in accordance with the criteria specified in the act, as described above. Our research and evaluation of agencies' investment management practices have shown that clear assignment of senior executive investment management responsibilities and accountabilities is crucial to having an effective institutional approach to IT investment management.[34]

The fiscal year 2005 national defense authorization act also required DOD to establish investment review structures and processes, including a hierarchy of IRBs, each with representation from across the department, and a standard set of investment review and decision-making criteria for these boards to use to ensure compliance and consistency with DOD's business enterprise architecture. In this regard, the act required the establishment of the DBSMC—which serves as the highest ranking governance body for business system modernization activities within the department. As of April 2006, DOD identified 3,717 business systems and assigned responsibility for these systems to IRBs. Table 1 shows the systems by the responsible IRB and component.

[33] Approval authorities, including the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense; and the Deputy Secretary of Defense or an Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

[34] GAO, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, GAO-04-394G (Washington, D.C.: March 2004).

Table 1: DOD Systems by Investment Review Board and Component

| Investment Review Board | Air Force | Army | Navy | Defense Finance and Accounting Service | Other defense agencies | Total |
|---|---|---|---|---|---|---|
| Financial Management | 67 | 161 | 148 | 72 | 35 | 483 |
| Human Resources Management | 164 | 320 | 174 | 20 | 114 | 792 |
| Weapon System Life Cycle Management and Materiel Supply and Service Management | 780 | 730 | 406 | 1 | 168 | 2,085 |
| Real Property and Installations Life Cycle Management | 71 | 122 | 44 | 0 | 17 | 254 |
| Other | 65 | 0 | 26 | 0 | 12 | 103 |
| **Total** | **1,147** | **1,333** | **798** | **93** | **346** | **3,717** |

Source: GAO analysis of DOD data.

A key element of the department's approach to reviewing and approving business systems investments is the use of what it refers to as tiered accountability. DOD's tiered accountability approach involves an investment control process that begins at the component level and works its way through a hierarchy of review and approval authorities, depending on the size and significance of the investment. Military service officials emphasized that the success of the process depends on them performing a thorough analysis of each business system before it is submitted for higher-level review and approval. Through this process, the department reported in March 2006 that 226 business systems, representing about $3.6 billion in modernization investment funding, had been approved by the DBSMC—the department's highest-ranking approval body for business systems. According to the department's March 2006 report, this process also identified more than 290 systems for phaseout or elimination and approximately 40 business systems for which the requested funding was reduced and the funding availability periods were shortened to fewer than the number of years requested. For example, one business system investment that has been eliminated is the Forward Compatible Payroll (FCP) system. In reviewing the program status, the IRB determined that FCP would duplicate the functionality contained in the Defense Integrated Military Human Resources System, and it was unnecessary to continue investing in both systems. According to the department's fiscal year 2007 IT budget request, approximately $33 million was sought for fiscal year 2007 and about $31 million was estimated for fiscal year 2008 for FCP. Eliminating this duplicative system will enable DOD to use this funding for other priorities. The funding of multiple systems that perform the same function is one reason the department has thousands of business systems. Identifying and eliminating duplicative systems helps optimize mission performance and accountability and supports the department's transformation goals.

Furthermore, based on information provided by BTA program officials, there was a reduction of funding and the number of years that funding will be available for 14 Army business systems, 8 Air Force business systems, and 8 Navy business systems. For example, the Army's Future Combat Systems Advanced Collaborative Environment program requested funding of $100 million for fiscal years 2006 to 2011, but the amount approved was reduced to approximately $51 million for fiscal years 2006 to 2008. Similarly, Navy's Military Sealift Command Human Resources Management System requested funding of about $19 million for fiscal years 2006 to 2011, but the amount approved was approximately $2 million for the first 6 months of fiscal year 2006. According to Navy officials, this system initiative will be reviewed to ascertain whether it has some of the same functionality as the Defense Civilian Personnel Data System. Funding system initiatives for shorter time periods can help reduce the financial risk by providing additional opportunities for monitoring a project's progress against established milestones and help ensure that the investment is properly aligned with the architecture and the department's overall goals and objectives.

Besides limiting funding as part of the investment review and approval process, this process is also resulting in conditions being placed on system investments. These conditions identify specific actions to be taken and when the actions must be completed. For example, in the case of the Army's LMP initiative, one of the noted conditions was that the Army had to address the issues discussed in our previous reports.[35] In our May 2004 report, we recommended that the department establish a mechanism that provides for tracking all business systems modernization conditional approvals to provide reasonable assurance that all specific actions are completed on time.[36] The department's action is consistent with the intent of our recommendations.

Notwithstanding the department's efforts to control its business system investments, formidable challenges remain. In particular, the reviews of those business systems that have modernization funding of less than $1 million, which represent the majority of the department's reported 3,717

[35] GAO-04-615 and GAO-05-441.

[36] GAO-04-615.

business systems, are only now being started on an annual basis. The extent to which the review structures and processes will be applied to the department's 3,717 business systems is still evolving. Given the large number of systems involved, it is important that an efficient system review and approval process be effectively implemented for all systems. As indicated in table 1, there are numerous systems across the department in the same functional area. Such large numbers of systems indicate a real possibility for eliminating unnecessary duplication and avoiding unnecessary spending on the department's multiple business systems.

## Key Elements Needed to Guide DOD Transformation Efforts

While DOD's recent efforts represent positive steps toward improving financial management and changing DOD's business systems environment, the department still lacks key elements that are needed to ensure a successful and sustainable business transformation effort. We reiterate two major elements necessary for successful business transformation: (1) a comprehensive, integrated, and enterprisewide business transformation plan and (2) a CMO with the right skills and at the right level of the department for providing the sustained leadership needed to achieve a successful and sustainable transformation effort.

### Comprehensive, Integrated, and Enterprisewide Business Transformation Plan Not Developed

Although some progress has been made in business transformation planning, DOD still has not developed a comprehensive, integrated, and enterprisewide strategy or action plan for managing its overall business transformation effort. The lack of a comprehensive, integrated, enterprisewide action plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's business management transformation.

Since 1999, GAO has recommended a comprehensive, integrated strategy and action plan for reforming DOD's major business operations and support activities.[37] DOD's efforts to plan and organize itself to achieve business transformation are continuing to evolve. Critical to the success of these efforts will be top management attention and structures that focus on transformation from a broad perspective and a clear, comprehensive, integrated, and enterprisewide plan that at a summary level, addresses all of the department's major business areas. This strategic plan should cover

[37] GAO, *Defense Reform Initiative: Organization, Status, and Challenges*, GAO/NSIAD-99-87 (Washington, D.C.: Apr. 21, 1999).

all of DOD's key business functions; contain results-oriented goals, measures, and expectations that link institutional, unit, and individual performance goals and expectations to promote accountability; identify people with needed skills, knowledge, experience, responsibility, and authority to implement the plan; and establish an effective process and related tools for implementation. Such an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the department's key resource decisions.

DOD's leadership has recognized the need to transform the department's business operations. DOD released a major update to its business enterprise architecture in September 2005 and developed an updated transition plan in March 2006 for modernizing its business processes and supporting IT assets. The business enterprise architecture provides a foundational blueprint for modernizing business operations, information, and systems, while the enterprise transition plan provides a road map and management tool that sequences business systems investments in the areas of personnel, logistics, real property, acquisition, purchasing, and financial requirements.

However, while the enterprise transition plan is an important step toward developing a strategic plan for the department's overall business transformation efforts, it is still focused primarily on business systems. Business transformation is much broader; it encompasses areas such as support infrastructure, human capital, financial management, planning and budgeting, and supply chain management. DOD officials acknowledge that the enterprise transition plan may not have all of the elements of an overarching business transformation plan as we envision it. However, they consider the plan to be evolving.

## Sustained Leadership Is Needed

DOD continues to lack the sustained leadership at the right level to achieve successful and lasting transformation. We have testified on the need for a CMO on numerous occasions.[38] Because of the complexity and

[38] GAO, *Department of Defense: Long-standing Problems Continue to Impede Financial and Business Management Transformation*, GAO-04-907T (Washington, D.C.: July 7, 2004); *Department of Defense: Financial and Business Management Transformation Hindered by Long-standing Problems*, GAO-04-941T, (Washington, D.C.: July 8, 2004); *Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges*, GAO-05-140T (Washington, D.C.: Nov. 18, 2004); and *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, GAO-05-520T (Washington, D.C.: Apr. 13, 2005).

long-term nature of DOD's business transformation efforts, we reiterate the need for a CMO to provide sustained leadership and maintain momentum. Without formally designating responsibility and accountability for results, choosing among competing demands for scarce resources and resolving differences in priorities between various DOD organizations will be difficult and could impede DOD's ability to transform in an efficient, effective, and reasonably timely manner. In addition, it may be particularly difficult for DOD to sustain transformation progress when key personnel changes occur. The National Defense Authorization Act for Fiscal Year 2006[39] directs the department to study the feasibility of a CMO position in DOD. In this regard, the Institute for Defense Analysis has initiated a study and the results are due by December 2006. Further, in May 2006, the Defense Business Board recommended the creation of a Principal Under Secretary of Defense, with a 5 year term appointment, to serve as CMO. Additionally, in July 2006, a major global consulting firm recommended the concept of a chief operating officer be instituted in many federal agencies as the means to help achieve the transformation that many agencies have undertaken.[40]

To provide for senior-level leadership, the CMO would serve as the strategic, enterprisewide integrator of DOD's overall efforts to transform its business operations. The CMO would be an executive level II appointment, with a tenure of 5 to7 years and serve as the Deputy Secretary or Principal Under Secretary of Defense for Management. This position would elevate integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, IT management, financial management reform, and human capital reform while facilitating the overall business management transformation effort within DOD. It is important to note that theCMO would not assume the responsibilities of the undersecretaries of defense, the service secretaries, or other DOD officials for the day-to-day management of the department. Rather, the CMO would be responsible and accountable for planning, integrating, and executing the overall business transformation effort. The

[39] National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 907, 119 Stat. 3136, 3403 (Jan. 6, 2006).

[40] Tony Danker, Thomas Dohrmann, Nancy Killefer, and Lenny Mendonca, *How can American government meet its productivity challenge?* (Washington, D.C.: McKinsey & Company, 2006).

CMO also would develop and implement a strategic plan for the overall business transformational efforts.

The Secretary of Defense, Deputy Secretary of Defense, and other senior leaders have clearly shown a commitment to business transformation and addressing deficiencies in the department's business operations. During the past year, DOD has taken additional steps to address certain provisions and requirements of the fiscal year 2005 national defense authorization act, including establishing the DBSMC as DOD's primary transformation leadership and oversight mechanism, and creating the BTA to support the DBSMC, a decision-making body. However, these organizations do not provide the sustained leadership needed to successfully achieve business transformation. The DBSMC's representatives consist of political appointees whose terms expire when administrations change. Furthermore, it is important to remember that committees do not lead, people do. Thus, DOD still needs to designate a person to provide sustained leadership and have overall responsibility and accountability for this effort.

## Conclusion

DOD continues to face two formidable challenges. Externally, it must combat the global war on terrorism, and internally, it must address the long-standing problems of fraud, waste, and abuse. Pervasive, decades-old management problems related to its business operations affect all of DOD's major business areas. While DOD has taken several positive steps to address these problems, our previous work has uncovered a persistent pattern among DOD's reform initiatives that limits their overall impact on the department. These initiatives have not been fully implemented in a timely fashion because of the absence of comprehensive, integrated strategic planning; inadequate transparency and accountability; and the lack of sustained leadership. In this time of growing fiscal constraints, every dollar that DOD can save through improved economy and efficiency of its operations is important to the well-being of our nation and the legitimate needs of our warfighters. Until DOD resolves the numerous problems and inefficiencies in its business operations, billions of dollars will continue to be wasted every year. Furthermore, without strong and sustained leadership, both within and across administrations, DOD will likely continue to have difficulties in maintaining the oversight, focus, and momentum needed to implement and sustain the needed reforms to its business operations. In this regard, I would like to reiterate the need for a CMO to serve as the strategic and enterprisewide integrator to oversee the overall transformation of the department's business operations.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

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