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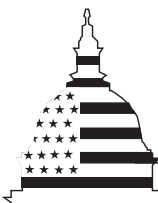
Report to the Ranking Minority  
Member, Committee on Governmental  
Affairs, U.S. Senate

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June 2001

# DEPARTMENT OF DEFENSE

## Status of Achieving Outcomes and Addressing Major Management Challenges



G A O

Accountability \* Integrity \* Reliability

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United States General Accounting Office  
Washington, DC 20548

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June 25, 2001

The Honorable Fred Thompson  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

Dear Senator Thompson:

As you requested, we reviewed the Department of Defense's (DOD) fiscal year 2000 performance report required by the Government Performance and Results Act of 1993 (GPRA) to assess the Department's progress in achieving selected outcomes that you identified as important mission areas for DOD.<sup>1</sup> We did not review DOD's fiscal year 2002 performance plan because it had not been issued. DOD is uncertain if the plan will be issued in this fiscal year because the Department is undergoing a major review of its national defense strategies and business operations, which may result in changes to the way DOD reports performance information. Thus, we are unable, at this time, to discuss DOD's fiscal year 2002 goals and strategies to achieve the selected outcomes. Also, we could not compare DOD's fiscal year 2002 performance plan with its fiscal year 2001 performance plan for the selected outcomes. These are the same outcomes we addressed in our June 2000 review of DOD's fiscal year 1999 performance report and fiscal year 2001 performance plan to provide a baseline by which to measure DOD's performance from year to year.<sup>2</sup> These selected outcomes are:

- The U.S. maintains technological superiority in key war-fighting capabilities.
- U.S. military forces are adequate in number, well qualified, and highly motivated.
- Combat readiness is maintained at desired levels.
- Infrastructure and operating procedures are more efficient and cost-effective.
- Reduced availability and/or use of illegal drugs.

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<sup>1</sup>This report is one of a series of reports on the 24 Chief Financial Officers (CFO) Act agencies' FY 2000 performance reports and FY 2002 performance plans.

<sup>2</sup> *Observations on the Department of Defense's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/NSIAD-00-188R, June 30, 2000).

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- Fewer erroneous payments to contractors.

As agreed, using the selected outcomes for DOD as a framework, we (1) assessed the progress DOD has made in achieving these outcomes and the strategies DOD has in place to achieve unmet performance goals and (2) compared DOD's fiscal year 2000 performance report with the Department's prior year performance report for these outcomes to identify improvements made. Additionally, we agreed to analyze how DOD addressed its major management challenges, including the governmentwide high-risk areas of strategic human capital management and information security that we and the DOD Inspector General had identified. Appendix I provides detailed information on how DOD addressed these challenges. Appendix II contains DOD's comments on a draft of our report.

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## Results in Brief

DOD's progress in achieving the selected outcomes is unclear. One of the reasons for the lack of clarity is that most of the selected program outcomes DOD is striving to achieve are complex and interrelated and may require a number of years to accomplish. Another, as we reported last year, is that DOD did not provide a full assessment of its performance. We also identified weaknesses in DOD's strategies for achieving unmet performance goals in the future.<sup>3</sup>

- Planned outcome: The U.S. maintains technological superiority in key warfighting capabilities

The extent to which the Department has made progress toward the outcome of maintaining U.S. technological superiority in key warfighting capabilities is unclear. As we reported last year, some of the performance goal's underlying measures—such as procurement spending and defense technology objectives—do not provide a direct link toward meeting the goal, thus making it difficult to assess progress. DOD's performance report does not reflect concerns raised within the Department about the adequacy of its strategy and the timely introduction of new technologies to operational forces.

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<sup>3</sup> Annual performance goals establish a measurable path to incremental achievement of larger strategic goals and outcomes. Performance goals are supported and evaluated by quantifiable and/or qualitative output, which is assessed using performance measures or indicators.

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- Planned outcome: U.S. forces are adequate in number, well qualified, and highly motivated

DOD's performance measures do not adequately indicate its progress toward achieving the outcome of ensuring that U.S. military forces are adequate in number, well qualified, and highly motivated. DOD's performance measures still do not fully measure how well DOD has progressed in developing military personnel or the extent to which U.S. military forces are highly motivated. With the exception of the enlisted recruiting area, DOD does not identify specific planned actions that it or the services will take to assist them in meeting unmet performance targets in the future. Also, DOD's performance report discusses generally the difficulties of the current retention environment, but the report contains little clear articulation of specific actions or strategies being taken to improve future retention.

- Planned outcome: Combat readiness is maintained at desired levels

The level of progress that DOD has made toward the outcome of maintaining combat readiness at desired levels is unclear. Although DOD met some performance measure targets, others had been lowered, were incomplete, or were not met, thus making an accurate assessment of progress difficult. Because DOD reported that it had met its force-level targets, it plans no significant changes or strategies in force structure for fiscal year 2001. However, we believe that force-level performance measures could be more complete and meaningful if they included measures for associated support forces with the measures for existing combat unit force levels.

- Planned outcome: Infrastructure and operating procedures are more efficient and cost-effective

The extent to which DOD has made progress toward the outcome of ensuring that infrastructure and operating procedures are more efficient and cost-effective is still unclear. DOD reported that it met many of its performance targets, such as disposing of property, reducing logistics response time, and streamlining the acquisition workforce. However, as we reported last year, the targets do not always hold up to scrutiny; and some targets that DOD reported as met had been lowered or were not met. For those measures that were not met, or that were lowered, DOD's performance report does not provide clear strategies for achieving them in the future.

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- Planned outcome: Reduced availability and/or use of illegal drugs

DOD's fiscal year 2000 performance report did not include performance goals or measures related to the outcome of reducing the availability and/or use of illegal drugs. Therefore, we had no basis to assess DOD's progress in achieving this outcome. DOD does, however, support U.S. and foreign law enforcement agencies in their efforts to reduce the availability and use of illegal drugs. It has lead responsibility for aerial and maritime detection and monitoring of illegal drug shipments to the United States. It also provides assistance and training to foreign governments to combat drug-trafficking activities. DOD's fiscal year 2000 performance report recognized counternarcotics as a crosscutting function and outlined DOD's responsibilities in this area. DOD has developed a set of performance results to determine the effectiveness of its counterdrug operations and make better use of limited resources.

- Planned outcome: Fewer erroneous payments to contractors

We had no basis to assess DOD's progress toward achieving this outcome because DOD had no performance goals directly related to achieving the outcome. However, this issue represents a significant problem for DOD. Under its broader goal of improving the efficiency of its acquisition processes, DOD has developed performance measures related to initiatives that may reduce the number of erroneous payments made to contractors. For example, DOD's performance report contains goals and measures for increasing the use of paperless transactions. While these measures reflect quantifiable assessments of the levels of usage for the contracting methods, they may not directly address whether the number of erroneous payments has been reduced. On a related issue, we reported in February of this year that overpayments continue to be a problem. We recommended actions DOD could take to reduce the overpayment problem and assure more timely repayment when overpayments do occur.<sup>4</sup>

In comparing DOD's fiscal year 2000 and 1999 performance reports, we noted that DOD has made several improvements. For example, it added more discussion on the importance of human resources in achieving

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<sup>4</sup> *Contract Management: Excess Payments and Underpayments Continue to Be a Problem at DOD* (GAO-01-309, Feb. 22, 2001).

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DOD's performance objectives and summarized how DOD's performance metrics responded to each of the eight major management challenges. Further, in terms of data verification, presentation, and content, DOD's fiscal year 2000 report has an effective format that is understandable to a nondefense reader. However, the fiscal year 2000 report did not address several weaknesses that we had identified in the fiscal year 1999 report. For example, nine measures and indicators, which DOD reported to make infrastructure and operating procedures more efficient and cost-effective, are insufficient to assess whether DOD is making progress in streamlining its infrastructure. Since DOD has not changed or supplemented these and other measures, we continue to believe that DOD will have problems determining the effectiveness of its infrastructure reduction efforts.

DOD's fiscal year 2000 performance report also addresses major management challenges we identified, including the governmentwide high-risk areas of strategic human capital management and information security. Regarding strategic human capital management, the report includes discussions of initiatives DOD has taken or planned to (1) improve the quality of life for military members, such as improving and refining selected bonus programs, and (2) shape its future civilian workforce. Regarding information security, DOD's performance report did not provide any data showing measurable progress on this issue but did cite several actions to improve security, such as a new web security initiative to scrutinize information posted to DOD web sites. In addition, DOD's performance report discussed DOD's progress in resolving all but one of the other major management challenges that we had identified. DOD did not discuss its progress in resolving the following challenge: "Developing strategic plans that lead to desired mission outcomes." As noted in several other key challenges, sound plans linked to DOD's overall strategic goals are critical to achieving needed reforms. Inefficiencies in the planning process have led to difficulties in assessing performance in such areas as combat readiness and support infrastructure reduction. In addition, some of these management challenges—such as financial management—are crosscutting and may adversely affect DOD's ability to measure progress.

DOD is in the process of updating its strategic plan through the conduct of its Quadrennial Defense Review, which sets forth its mission, vision, and strategic goals. The review provides DOD another opportunity to include qualitative and quantitative information that could contribute to providing a clearer picture of DOD's performance. On the basis of last year's analysis of DOD's fiscal year 1999 performance report and fiscal year 2001 performance plan, we recommended that the Department include more

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qualitative and quantitative goals and measures in its annual performance plan and report to gauge progress toward achieving mission outcomes. DOD has not as yet fully implemented this recommendation. We continue to believe that the Secretary of Defense should adopt this recommendation as DOD updates its strategic plan through the review and prepares its next annual performance plan. By doing so, DOD can ensure that it has strategies that are tied to desired mission outcomes and are well thought-out for resolving ongoing problems, achieving its goals and objectives, and becoming more cost and results oriented.

In providing written comments on a draft of this report, DOD indicated that its annual GPRA report provides the Congress and the public an executive-level summary of key performance results over the past budget year. DOD pointed out that future GPRA submissions will refine its performance metrics to reflect priorities of the new defense strategy, but stressed that, although it does not want to mask deficiencies in how DOD manages performance, it does not want to emphasize shortfalls at the expense of true achievements. DOD stated that it would be helpful if we could provide a clearer definition of what standards of sufficiency will be applied in evaluating future submissions. As we reported in last year's assessment, we agree that the answer is not to simply measure more things in more detail. However, in many instances, for the outcomes identified by the Committee, DOD's report does not discuss strategies for achieving unmet goals and does not fully assess its performance. We believe that the best test of reasonableness or sufficiency to evaluate DOD's future progress resides in the requirements of GPRA itself, which requires, among other things, agencies to explain and describe, in cases where a performance goal has not been met, why the goal was not met. The requirement to submit a fiscal year 2002 performance plan, which DOD has yet to issue, also provides DOD with the opportunity to address these shortfalls. In that regard, we have issued guidance that outlines approaches agencies should use in developing performance plans.<sup>5</sup> These actions would place DOD in a position of continuously striving for improvement.

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## Background

GPRA is intended to shift the focus of government decisionmaking, management, and accountability from activities and processes to the

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<sup>5</sup> *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans* (GAO/GGD-10.1.20, Version 1, Apr. 1998); *Executive Guide: Effectively Implementing the Government Performance and Results Act* (GAO/GGD-96-118, June 1996).

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results and outcomes achieved by federal programs. New and valuable information on the plans, goals, and strategies of federal agencies has been provided since federal agencies began implementing GPRA. Under GPRA, annual performance plans are to clearly inform the Congress and the public of (1) the annual performance goals for agencies' major programs and activities, (2) the measures that will be used to gauge performance, (3) the strategies and resources required to achieve the performance goals, and (4) the procedures that will be used to verify and validate performance information. These annual plans, issued soon after transmittal of the President's budget, provide a direct linkage between an agency's longer-term goals and mission and day-to-day activities.<sup>6</sup> Annual performance reports are to subsequently report on the degree to which performance goals were met. The issuance of the agencies' performance reports, due by March 31, represents a new and potentially more substantive phase in the implementation of GPRA—the opportunity to assess federal agencies' actual performance for the prior fiscal year and to consider what steps are needed to improve performance and reduce costs in the future.<sup>7</sup>

The mission of the Department of Defense is to support and defend the Constitution of the United States; provide for the common defense of the nation, its citizens, and its allies; and protect and advance U.S. interests around the world. Defense operations involve over \$1 trillion in assets, budget authority of about \$310 billion annually, and about 3 million military and civilian employees. Directing these operations represents one of the largest management challenges within the federal government.

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<sup>6</sup>The fiscal year 2002 performance plan is the fourth of these annual plans under GPRA.

<sup>7</sup>The fiscal year 2000 performance report is the second of these annual reports under GPRA.



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## Assessment of the Department of Defense's Progress and Strategies in Achieving Selected Outcomes

This section discusses our analysis of DOD's progress in achieving outcomes and the strategies that DOD has in place, particularly human capital<sup>8</sup> and information technology, for accomplishing these outcomes. In discussing these outcomes, we have also provided information drawn from our prior work on the extent to which DOD provided assurance that the performance information it is reporting is credible.

In general, the extent to which DOD has made progress in achieving the six outcomes is unclear. In our opinion, one of the reasons for the lack of clarity is that most of the selected program outcomes DOD is striving to achieve are complex and interrelated and may require a number of years to accomplish. This condition is similar to what we reported last year on our analysis of DOD's fiscal year 1999 performance report and fiscal year 2001 performance plan. Further, with the new administration, DOD is undergoing a major review of its military strategy and business operations, which may result in changes to the way DOD reports performance information.

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## Technological Superiority in Key War-fighting Capabilities

The extent to which the Department has made progress toward the outcome of maintaining U.S. technological superiority in key war-fighting capabilities is difficult to assess. DOD's performance goal for this outcome is to transform U.S. military forces for the future. As we reported last year, some of the performance goal's underlying measures—such as procurement spending and defense technology objectives—do not provide a direct link toward meeting the goal, thus making it difficult to assess progress.

DOD's performance report does not reflect concerns raised within the Department about the adequacy of its strategy and institutional processes for transforming forces. We noted in a prior report that a transformation strategy is presented in the former Secretary of Defense's 2001 Annual Report to the President and the Congress.<sup>9</sup> However, the strategy does not clearly identify priorities or include an implementation plan and outcome-related metrics that can be used to effectively guide the transformation of

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<sup>8</sup>Key elements of modern human capital management include strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

<sup>9</sup> GAO/NSIAD-00-188R, June 30, 2000.

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U.S. forces and assess progress. This topic is currently being reviewed by the new administration. As we reported, a 1999 Defense Science Board study had recognized the need and called for such an explicit strategy, or master plan; a roadmap; and outcome-related metrics to assess progress. Also, a joint military service working group identified a need for a comprehensive strategy as an issue that the 2001 Quadrennial Defense Review must address. Further, the Defense Science Board, Joint Staff and unified command officials, joint military service working group, and others raised concerns about the ability of DOD's current institutional processes to turn the results of transformation initiatives into fielded capabilities in a timely manner. These processes—which include DOD's planning, programming, and budgeting system and weapons acquisition system—focus on near- or mid-term requirements and do not foster the timely introduction of new technologies to operational forces.

For each of the supporting performance measures, DOD's report describes data collection and verification measures. However, our work in this area has not addressed the reliability of DOD's data. Thus, we are unable to comment on the extent to which the reported performance information is accurate.

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## Developing and Motivating U.S. Military Forces

DOD's performance measures do not adequately indicate its progress toward achieving the outcome of ensuring that U.S. military forces are adequate in number, well qualified, and highly motivated. Therefore, we cannot judge the level of progress DOD has made in this area. DOD's performance goal for this outcome is to recruit, retain, and develop personnel to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges. DOD's performance measures still do not fully measure how well DOD has progressed in developing military personnel or the extent to which U.S. military forces are highly motivated. Although DOD's report identifies specific goals for recruiting and retention, the Department does not include human capital goals and measures aimed specifically at tracking the motivation or development of its personnel.

The level of progress toward meeting specific targets in the areas of enlisted recruiting and retention is mixed. The Air Force failed to meet its targets for first- or second-term retention, and the Navy did not meet its target for first-term retention. While most reserve components met or came in under their targets for enlisted attrition, the Army Reserve did not stay within its attrition target. On the positive side, the services met or exceeded their targets for enlisted recruiting and recruit quality. However,

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DOD's report showed that the target for active enlisted recruiting was revised downward, enabling DOD to meet a goal it might otherwise have been unable to achieve. If such adjustments become commonplace, the same kind of force shaping problems that resulted from the intentional restriction of new accessions during the 1990s drawdown could result. Still other targets, such as for enlisted retention, are set at such aggregate levels that they could mask variations in retention by occupational area and skill levels, which would limit achieving the outcome of ensuring that U.S. military forces are adequate in number, well qualified, and highly motivated. As such, the enlisted retention goal provides only a partial measure of the military's ability to retain adequate numbers of personnel.

DOD's performance report realistically identified the likelihood of continued challenges in recruiting for the military services and in retention for the Navy and the Air Force. But it did not devote significant attention to identifying specific reasons why DOD missed certain targets. Likewise, with the exception of the enlisted recruiting area, the report did not identify specific planned actions that DOD or the services will take to assist them in meeting future performance targets. For enlisted recruiting, however, the services identified several actions to help them cope with this challenge. For example, the Army and the Navy have increased funding for recruiting and plan to offer enlistment bonuses of up to \$20,000. They also plan to continue allowing recruits to choose a combination of college fund and enlistment bonuses. The Army plans to experiment with innovative ways to expand the market for new recruits through programs like College First and GED Plus. And, the Air Force has instituted a college loan repayment program, increased enlistment bonuses to \$12,000, and added more recruiters.

With regard to retention, the Department's performance report discusses generally the difficulties of the current retention environment and the fiscal year 2000 enlisted retention challenges. However, the report contains little clear articulation of specific actions or strategies being taken to improve future retention. For example, the report noted that the Navy has established a Center for Career Development that is chartered to focus on retention, providing the fleet the necessary tools to retain Navy personnel. However, the performance report does not elaborate on what those tools are or how they are being enhanced. Similarly, the Air Force indicated that it held two retention summits in fiscal year 2000 and that initiatives resulting from those summits will facilitate achievement of fiscal year 2001 retention targets. However, the report does not cite specific initiatives that would be taken or when they would be put into place. DOD expects that fiscal year 2001 will continue to present retention

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challenges for the services' reserve components. The report, however, did not identify any specific actions or initiatives that would be taken to help address the challenge.

Finally, for each of its performance measures, DOD's report describes the data flow used to produce DOD's assessment. The procedures used to collect, verify, and validate the data cited in the report provide reasonable assurance that the information is accurate and reliable.

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## Maintaining Combat Readiness

The level of progress that DOD has made toward the outcome of maintaining combat readiness at desired levels is unclear. DOD's performance goals for this outcome are to maintain trained and ready forces and have strategic mobility.<sup>10</sup> Although DOD has met some performance measure targets for both goals, other targets are incomplete, have been lowered, or have not been met, thus making an accurate assessment of progress difficult. For example, DOD reported meeting its force-level targets for the performance goal of maintaining trained and ready forces. However, the targets do not provide a complete picture of the forces needed to respond to a full spectrum of crises, to include fighting and winning two major theater wars nearly simultaneously.<sup>11</sup> DOD's metric includes only combat forces for each service, and not the necessary support forces. In the Army's case, this means that DOD's metric captures only 239,000 of the 725,000 forces the Army projects it would deploy to two wars. The targets also do not capture other important attributes beyond the size of the force, such as the extent to which DOD has made the best possible use of its available resources. For example, DOD's plan does not set results-oriented goals for integrating the capabilities of the active, National Guard, and Reserve forces—even though each of these components is essential for mission effectiveness.<sup>12</sup>

As another example, DOD still has not been able to achieve its tank-mile training target of 800 miles of training per tank, conducted at various home stations, in Kuwait, and in Bosnia. Although DOD came closer to meeting the target in fiscal year 2000 than it did in fiscal year 1999—101 (17

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<sup>10</sup> The Strategic Mobility performance goal is supported by three metrics: airlift capacity, sealift capacity, and equipment repositioning. Our work enables us to comment on only airlift capacity.

<sup>11</sup> This assumption may change with the Secretary's defense review.

<sup>12</sup> *Force Structure: Army Is Integrating Active and Reserve Combat Forces, but Challenges Remain* (GAO/NSIAD-00-162, July 18, 2000).

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percent) more tank miles—it still fell short by nearly 100 training miles per tank. DOD reported that it failed to meet the targets because units were not available for training, units used training simulators instead of actual training, and resources were diverted from field exercises to other high priority needs such as upgrades and maintenance of key training ranges. While our recent work shows this to be true, we reported that the movement of training funds for other purposes had not resulted in the delay or cancellation of planned training events in recent years.<sup>13</sup>

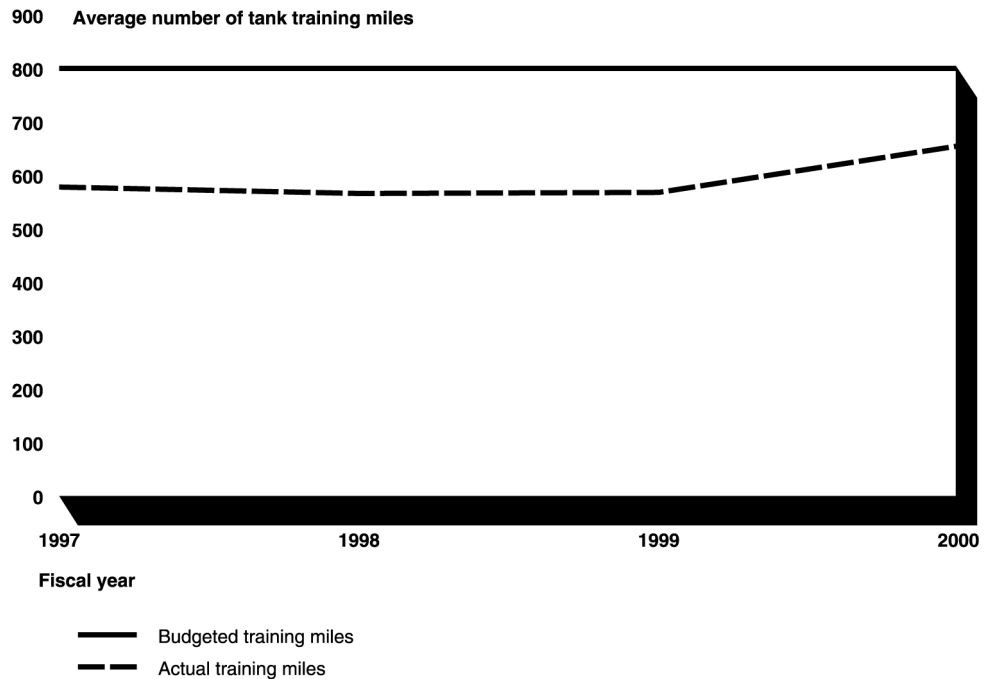
Further, data are not as reliable as they could be. DOD and the Army define the 800 tank-mile measure differently. DOD's definition includes tank-training miles conducted in Kuwait and Bosnia, while the Army's home station training measure excludes those miles.<sup>14</sup> Using the Army's home station training measure, it conducted 655 miles of training in fiscal year 2000, which is 145 miles or 18 percent short of its budgeted home station training goal. Figure 1 compares budgeted and actual Army home station tank training miles from fiscal year 1997 to fiscal year 2000.

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<sup>13</sup> *Defense Budget: Need to Better Inform Congress on Funding for Army Division Training* (GAO-01-902), expected to be released in summer 2001.

<sup>14</sup> The Army includes Bosnia miles in home station training, but the amount is minor—4 miles in fiscal year 2000.

**Figure 1: Average Number of Home Station Tank Training Miles Budgeted and Achieved, Fiscal Years 1997-2000**



Source: GAO.

For strategic mobility, DOD reported that it met targets for two of three underlying measures: airlift capacity, and land- and sea-based prepositioning. However, in the area of airlift capacity, DOD revised the performance targets downward from those that had been set in prior performance plans and last year's performance report. DOD reported that it revised the new targets to reflect updates to the planning factors for C-5 aircraft wartime performance. While it is appropriate for DOD to revise targets, as necessary, we reported that the new targets are significantly less than goals established in a 1995 Mobility Requirements Study Bottom-Up Review Update and even lower than a newly established total airlift capacity requirement of 54.5 million-ton miles per day established in DOD's Mobility Requirements Study 2005, issued in January 2001.<sup>15</sup> DOD's performance report contains targets of a total airlift capacity of 45.4 million-ton miles per day for military aircraft and the Civil Reserve Air

<sup>15</sup> *Military Readiness: Air Transport Capability Falls Short of Requirements* (GAO/NSIAD-00-135, June 22, 2000).

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Fleet, with 24.9 million-ton miles per day coming from military aircraft. By comparison, DOD's airlift capacity requirements are about 50 million-ton miles per day for total airlift capacity, with nearly 30 million-ton miles per day coming from the military. DOD's performance report does not explain how these new targets were set or how they differed from prior years' targets. It is also unclear whether or how DOD intends to meet the higher requirement of 54.5 million-ton miles per day.

Because DOD reported that it had met its force-level targets, it plans no significant changes or strategies in force structure for fiscal year 2001. However, we believe that force-level targets could be more complete and meaningful if they included associated support forces with existing combat unit force levels. For example, the lack of any target setting for Army support forces masks the Army's historic problem in fully resourcing its support force requirements, as well as more recent steps the Army has taken to reduce its shortfall level.

With respect to tank training strategies, in response to our recent recommendation, DOD agreed to develop consistent tank training performance targets and reports to provide the Congress with a clearer understanding of tank training.<sup>16</sup> Also, DOD has initiated a strategy to more clearly portray the number of tank training miles driven, and the Department is moving toward becoming more consistent with the Army's 800-tank mile measure. However, as stated above, DOD continues to include tank-training miles conducted in Kuwait in its definition of the measure, while the Army excludes those miles. DOD reports that the problems encountered in meeting fiscal year 2000 tank training objectives are not, for the most part, expected to recur in fiscal year 2001. However, the problems DOD describes are not unique to fiscal year 2000. Army units are now in their sixth year of deployments to the Balkans, which, as DOD stated, affects its training availability. Further, in at least 6 of the past 8 fiscal years (1993 through 2000), DOD has moved funds from division training for other purposes. For the most recent of those years—the 4-year period from fiscal years 1997 through 2000—DOD moved a total of almost \$1 billion of the funds the Congress had provided for training. DOD reports that an Army management initiative implemented in fiscal year 2001 will limit the reallocation of funds. However, at the time of our work, it was too early in the fiscal year to assess the initiative's success.

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<sup>16</sup> GAO-01-902, expected to be released summer 2001.

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Further, DOD has identified strategies for strategic airlift improvement, such as including a C-17 aircraft procurement program to provide additional airlift capacity and upgrading of C-5 aircraft components. We recently reported that the C-5 upgrades, however, were fiscal year 2000 proposals that are waiting to be funded in the 2001-2012 timeframe.<sup>17</sup> Thus, in the near term, this strategy would not likely result in significant increases in capacity.

For each of its performance measures, DOD's fiscal year 2000 performance report discussed the source and review process for the performance information. With one exception involving DOD's En Route System of 13 overseas airfields, DOD's data appear to be reasonably accurate. The En Route System is a critical part of DOD's ability to quickly move the large amounts of personnel and equipment needed to win two nearly simultaneous major theater wars, as required by the National Military Strategy. However, DOD's performance report excludes data on En Route System limitations from the measures it uses to assess performance in strategic mobility, resulting in an incomplete picture of its capabilities. Rapid mobilization of U.S. forces for major theater wars requires a global system of integrated airlift and sealift resources, as well as equipment already stored overseas. The airlift resources include contracted civilian and military cargo aircraft and the 13 En Route System airfields in Europe and the Pacific where these aircraft can land and be serviced on their way to or while in the expected war zones in the Middle East and Korea. We learned during a recent review of the En Route System that DOD includes measures of its performance in meeting goals for aircraft, sealift, and prepositioned equipment capacities in its measures of strategic mobility capability.<sup>18</sup> However, it does not include data on shortfalls in En Route System capacity, which are a major limiting factor on airlift capacity and overall performance in strategic mobility.

Officials from the Office of the Secretary of Defense told us that they do not include data on En Route System shortfalls because airfield capacity has not been considered a primary criterion for measuring performance in strategic mobility. However, DOD has reported that the chief limiting factor on deployment operations is not usually the number of available

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<sup>17</sup> *Military Readiness: Air Transport Capability Falls Short of Requirements* (GAO/NSIAD-00-135, June 22, 2000).

<sup>18</sup> *Military Readiness: More Management Forces Needed on Airfields for Overseas Deployments* (GAO-01-566, June 22, 2001).



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aircraft but the capability of en-route or destination infrastructure to handle the ground operations needed by the aircraft. In a recently issued report, we recommended that DOD begin to include information on En Route System limitations and their effects on strategic mobility in its performance reports.<sup>19</sup>

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## Streamlining Infrastructure and Operating Procedures

DOD's progress toward achieving the outcome of ensuring that infrastructure and operating procedures are more efficient and cost-effective remains unclear. The performance goals for this outcome are to streamline infrastructure through business practice reform and improve the acquisition process. DOD reported that it met many of its performance targets, such as disposing of property, reducing logistics response time and streamlining the acquisition workforce. However, as we reported last year, the targets did not always hold up to scrutiny; and some targets that DOD reported as met had been lowered or were not met.

For example, while DOD has reported meeting its targets for public-private competitions, we have found that delays have been encountered in initiating and completing planned studies that have the potential for reducing savings expected to be realized in the near-term. Additionally, changes have been made in overall study goals, creating some uncertainties about future program direction. For example, the Department recently reduced its plan to study 203,000 positions under Office of Management and Budget (OMB) Circular A-76 to about 160,000 positions while supplementing it with a plan to study 120,000 positions under a broader approach known as strategic sourcing.<sup>20</sup> Similarly, DOD reported that it had met its 99-month target cycle time for average major defense acquisition programs. However, compared to fiscal year 1999 results, the average cycle time actually increased by 2 months. We have reported numerous examples of questionable defense program schedules, such as with Army Comanche helicopter program delays. In this regard, our work has shown that DOD could benefit from the application of commercial best practices to ensure that (1) key technologies are mature before they are included in weapon system development programs, (2)

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<sup>19</sup> GAO-01-566, June 22, 2001.

<sup>20</sup> Strategic sourcing, as we use the term, involves functional or organizational assessments regarding the potential for consolidation, restructuring, reengineering, privatization, etc., of functions, activities, and services, but initially does not involve competition between the public and private sectors.

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limits are set for program development cycle times, and (3) decisions are made using a knowledge-based approach.<sup>21</sup>

As another example, DOD reported that it did not meet its cost growth measure. On average, reported costs rose in major defense acquisition programs by 2.9 percent during fiscal year 2000 compared to the goal of 1.0 percent. DOD explains the causes for the excessive cost growth but not the strategies to solve the problem. We have reported pervasive problems regarding, among other things, unrealistic cost, schedule, and performance estimates; unreliable data on actual costs; and questionable program affordability. Also, we have recommended that DOD leadership improve the acquisition of weapon systems by using more realistic assumptions in developing system cost, schedule, and performance requirements and approving only those programs that can be fully executed within reasonable expectations of future funding.<sup>22</sup>

DOD's fiscal year 2000 performance report sufficiently explains why a number of performance measures were not met but does not provide clear plans, actions, and time frames for achieving them. For example, DOD reported that no systemic problems would hinder it from meeting working capital fund and defense transportation documentation targets in the future. However, DOD believes it may have difficulty meeting supply inventory goals due to continuing concerns about the impact of inventory reductions on readiness. In the report, DOD acknowledges that it may have problems meeting some targets because it must balance its infrastructure reduction initiatives with efforts to enhance quality of life, improve recruiting and retention, and transform the military to meet the challenges of the 21st century.

For each of its performance measures, DOD's report discusses the source and review process for the performance information. The data appear to be credible, with some exceptions. For example, we previously reported that unreliable cost and budget information related to DOD's measure for the percentage of the budget spent on infrastructure negatively affects the Department's ability to effectively measure performance and reduce costs.<sup>23</sup> We also reported that significant problems exist with the

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<sup>21</sup> *Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001).

<sup>22</sup> *High Risk Series: An Update* (GAO-01-263, Jan. 2001).

<sup>23</sup> GAO/NSIAD-00-188R, June 30, 2000.

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timeliness and accuracy of the underlying data for the measure related to inventory visibility and accessibility.

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### Reduced Availability and/or Use of Illegal Drugs

We could not assess DOD's progress in achieving performance goals or measures because DOD's fiscal year 2000 performance report did not include performance goals or measures for this outcome. DOD does, however, assist U.S. and foreign law enforcement agencies in their efforts to reduce the availability and use of illegal drugs. It has lead responsibility for aerial and maritime detection and monitoring of illegal drug shipments to the United States. It also provides assistance and training to foreign governments to combat drug-trafficking activities. DOD's 2000 performance report recognized counternarcotics as a crosscutting function and outlined DOD's responsibilities in this area.

In a December 1999 report on DOD's drug control program, we recommended that DOD develop performance measures to determine the effectiveness of its counterdrug activities and make better use of limited resources.<sup>24</sup> In response to our recommendation, DOD developed a set of "performance results" that are compiled on a quarterly basis. These performance results are intended to (1) provide a useful picture of the performance results of individual projects, (2) facilitate the identification of projects that are not demonstrating adequate results, (3) allow an overall assessment of DOD's counterdrug program's results, and (4) describe those DOD accomplishments that directly support the performance goals delineated in the National Drug Control Strategy's Performance Measures of Effectiveness Plan. DOD is currently refining the performance results in an effort to improve its ability to measure the success or failure of counterdrug activities.

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### Fewer Erroneous Payments to Contractors

We had no basis to assess DOD's progress in achieving the outcome of making fewer erroneous payments to contractors because DOD had no performance goals directly related to the outcome. However, this issue represents a significant problem for DOD. Under its broader goal of improving the efficiency of its acquisition processes, DOD has developed performance measures that address related contracting issues. Specifically, the 2000 performance report contains goals and measures for increasing the use of paperless transactions. However, these measures do not directly address the outcome of fewer erroneous payments. While they

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<sup>24</sup> *Drug Control: Assets DOD Contributes to Reducing the Illegal Drug Supply Have Declined* (GAO/NSIAD-00-9, Dec. 21, 1999).

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do reflect quantifiable measures of the levels of usage for these contracting processes, they may not directly address whether the number of erroneous payments has been reduced.

On a related issue, we have reported over the last several years that DOD annually overpaid its contractors by hundreds of millions of dollars, constituting a significant problem. In February of this year, we reported that DOD contractors repaid \$901 million in overpayments in fiscal year 2000 to a major DOD contract payment center.<sup>25</sup> This represents a substantial amount of cash in the hands of contractors beyond what is intended to finance and pay for the goods and services DOD bought. For example, contractors returned \$351 million in overpayments in fiscal year 1999 to this DOD payment center. Contractor data indicate that 77 percent of that amount resulted from contract administration actions (see fig. 2).

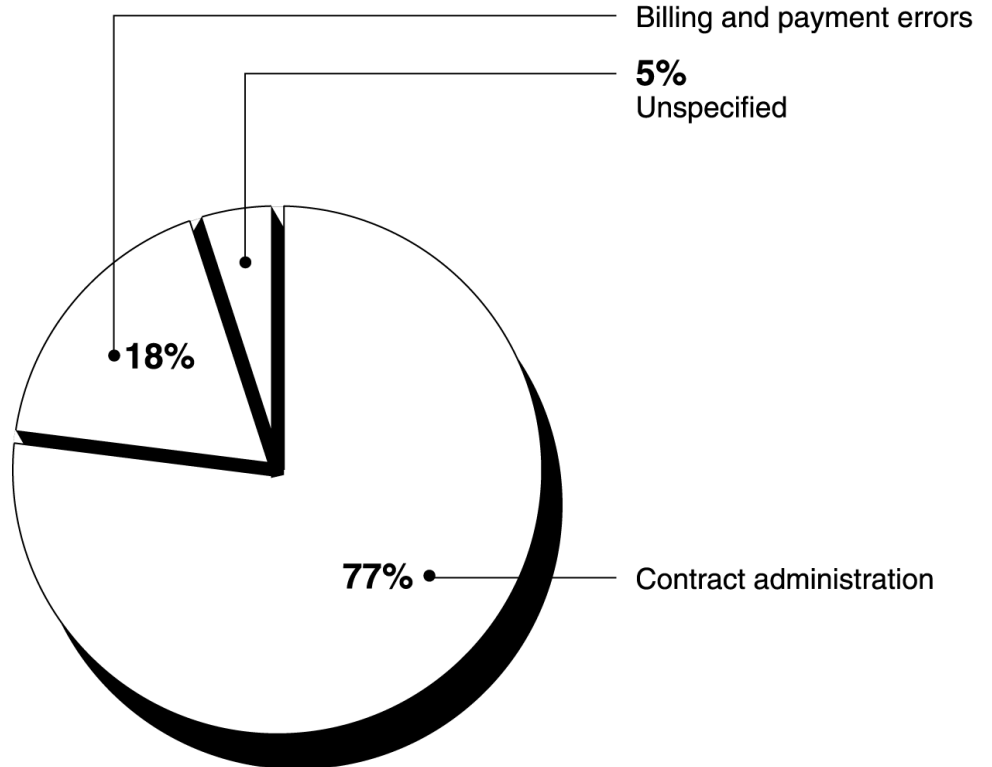
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<sup>25</sup> GAO-01-309, Feb. 22, 2001.

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**Figure 2: Sources of Excess Payments**

Percent of dollar value for excess payment repaid in FY 1999



Source: GAO.

However, DOD does not review available data on why this major category of overpayments occurs. Such a review is necessary if excess payments are to be reduced. Therefore, in our February 2001 report, we recommended that DOD routinely analyze data on the reasons for excess payments, investigate problem areas, and implement necessary actions to reduce excess payments. In responding to our recommendation, DOD stated that it would conduct an initial review of excess payment data and determine whether routine receipt and analysis of this data would be meaningful.

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## Comparison of DOD's Fiscal Year 2000 Performance Report With the Prior Year Report for Selected Outcomes

In comparing DOD's fiscal year 2000 performance report with its prior year report, we noted that DOD has made several improvements. For example, it added more discussion on the importance of human resources in achieving its performance objectives; summarized how its performance metrics responded to each of eight major management challenges it faces; and included a more in-depth explanation of each cross-cutting activity it is involved with, rather than just a listing of the responsible agencies. The eight major management challenges facing the Department are:

- Developing strategic plans that lead to desired mission outcomes.
- Hiring, supporting, and retaining military and civilian personnel with the skills to meet mission needs.
- Establishing financial management operations that provide reliable information and foster accountability.
- Effectively managing information technology investments.
- Reforming acquisition processes while meeting military needs.
- Improving processes and controls to reduce contract risk.
- Creating an efficient and responsive support infrastructure.
- Providing logistics support that is economical and responsive.

In terms of data verification, presentation, and content, DOD's fiscal year 2000 performance report has an effective format that is understandable to a nondefense reader. DOD also clarified some of its terminology. For example, it changed the term "performance goal" to "performance target" to remove confusion about what the annual performance goals are.

The fiscal year 2000 report, however, did not address several weaknesses that we identified in the fiscal year 1999 report. For example, DOD reported nine measures and indicators to make infrastructure and operating procedures more efficient and cost-effective. We believe that these measures are insufficient to assess whether DOD is actually making progress toward streamlining its infrastructure. Some measures, such as the number of positions subject to OMB Circular A-76 or strategic sourcing reviews, generally reflect status information rather than the impact that programs are having on the efficiency and cost-effectiveness of operations. Since DOD has not changed or supplemented these measures, we continue to believe that DOD will have problems determining how effective its infrastructure reduction efforts have been. Also, we have testified that DOD has undergone a significant downsizing of its civilian workforce. In part due to the staffing reductions already made, imbalances appear to be

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developing in the age distribution of DOD civilian staff.<sup>26</sup> The average age of this staff has been increasing, while the proportion of younger staff, who are the pipeline of future agency talent and leadership, has been dropping.

As another example, DOD's performance report has no outcome-oriented measures for working capital fund activities. The idea behind working capital funds is for activities to break even over time. Thus, if an activity has a positive net operating result one year, it will budget for a negative net operating result the next year. The measure DOD currently uses to assess its working capital fund operations is net operating results. This particular measure, however, is of little value for determining the outputs achieved for goals and services provided through the working capital fund activities. We believe that additional measures are needed to help determine operational effectiveness, particularly because these activities report about \$75 billion in annual revenues associated with their operations. For example, a good measure to determine the effectiveness of the supply management activity group could be the percentage of aircraft that are not mission capable due to supply problems.

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## DOD's Efforts to Address Major Management Challenges Identified by GAO

GAO has identified two governmentwide high-risk areas: strategic human capital management and information security. Regarding strategic human capital management, we found that DOD's performance report did not explain DOD's progress in resolving human capital challenges. However, the report included a description on the importance of human resources, such as the importance of total force integration and quality of life and personnel. With respect to information security, we found that DOD's performance report did not explain its progress in resolving its information security challenges. However, it states that specific goals, objectives, and strategies for improving DOD's management of information can be found in the Information Management Strategic Plan (<http://www.c3i.osd.mil>) discussed in appendix J of DOD's 2001 Annual Report to the President and the Congress.

In addition, GAO has identified eight major management challenges facing DOD. Some of these challenges are crosscutting issues. For example, improving DOD's financial management operations so that it can produce useful, reliable and timely cost information is essential if DOD is to

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<sup>26</sup> *Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management* (GAO/T-GGD/NSIAD-00-120, Mar. 9, 2000).

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effectively measure its progress toward achieving outcomes and goals across virtually the entire spectrum of DOD's business operations.

Although DOD's performance report discussed the agency's progress in resolving many of its challenges, it did not discuss the agency's progress in resolving the following challenge: "Developing strategic plans that lead to desired mission outcomes." As we reported in March 2001, sound strategic planning is needed to guide improvements to the Department's operations.<sup>27</sup> Without it, decisionmakers and stakeholders may not have the information they need to ensure that DOD has strategies that are well thought-out to resolve ongoing problems, achieve its goals and objectives, and become more results oriented. While DOD has improved its strategic planning process, its current strategic plan is not tied to desired mission outcomes. As noted in several of the other key challenges, sound plans linked to DOD's overall strategic goals are critical to achieving needed reforms. Inefficiencies in the planning process have led to difficulties in assessing performance in areas such as combat readiness; support infrastructure reduction; force structure needs; and matching resources to program spending plans. Appendix I provides detailed information on how well DOD addressed these challenges and high-risk areas as identified by both GAO and the DOD Inspector General.

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## Conclusions

Shortfalls in DOD's current strategies and measures for several outcomes have led to difficulties in assessing performance in areas such as combat readiness, support infrastructure reduction, force structure needs, and the matching of resources to program spending plans. DOD's fiscal year 2002 performance plan, which has yet to be issued, provides DOD with the opportunity to address these shortfalls. DOD is also in the process of updating its strategic plan through the conduct of its Quadrennial Defense Review, which sets forth its mission, vision, and strategic goals. The review provides DOD with another opportunity to include qualitative and quantitative information that could contribute to providing a clearer picture of DOD's performance.

On the basis of last year's analysis of DOD's fiscal year 1999 performance report and fiscal year 2001 performance plan, we recommended that the Department include more qualitative and quantitative goals and measures in its annual performance plan and report to gauge progress toward

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<sup>27</sup> *Major Management Challenges and Program Risks: Departments of Defense, State, and Veterans Affairs* (GAO-01-492T, Mar. 7, 2001).



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achieving mission outcomes. DOD has not as yet fully implemented this recommendation.

We continue to believe that the Secretary of Defense should adopt this recommendation as it updates its strategic plan through the Quadrennial Defense Review and prepares its next annual performance plan. By doing so, DOD can ensure that it has strategies that are tied to desired mission outcomes and are well thought-out for resolving ongoing problems, achieving its goals and objectives, and becoming more cost and results oriented.

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## Scope and Methodology

As agreed, our evaluation was generally based on the requirements of GPRA; the Reports Consolidation Act of 2000; guidance to agencies from OMB for developing performance plans and reports (OMB Circular A-11, Part 2); previous reports and evaluations by us and others; our knowledge of DOD's operations and programs; our identification of best practices concerning performance planning and reporting; and our observations on DOD's other GPRA-related efforts. We also discussed our review with agency officials in DOD's Office of Program Analysis and Evaluation and with the DOD Office of Inspector General. The agency outcomes that were used as the basis for our review were identified by the Ranking Minority Member, Senate Governmental Affairs Committee as important mission areas for the agency and do not reflect the outcomes for all of DOD's programs or activities. Both GAO, in our January 2001 performance and accountability series and high risk update, and DOD's Inspector General in December 2000 identified the major management challenges confronting DOD, including the governmentwide high-risk areas of strategic human capital management and information security. We did not independently verify the information contained in the performance report, although we did draw from other GAO work in assessing the validity, reliability, and timeliness of DOD's performance data. We conducted our review from April 2001 through June 2001 in accordance with generally accepted government auditing standards.

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## Agency Comments and Our Evaluation

In a letter dated June 14, 2001, the DOD Director for Program Analysis and Evaluation provided written comments on a draft of this report. DOD indicated that its annual GPRA report provides the Congress and the public an executive-level summary of key performance results over the past budget year. DOD stated that, together, the metrics presented in its report demonstrate how DOD's existing management practices enable it to recruit, train, equip, and field the most effective military force in the world. DOD said that we overlooked this fact in our draft report. However, DOD pointed out that future GPRA submissions will refine its performance

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metrics to reflect priorities of the new defense strategy, but it sees little value in adding large amounts of new measures auditors and others have proposed over the past 18 months. DOD reiterated that GPRA is not the sole venue for reporting performance results—it submits more than 900 reports annually to the Congress alone, many of which address issues highlighted in our draft report. DOD stressed that a key goal of the GPRA legislation is to increase public confidence in government and, although it does not want to mask deficiencies in how DOD manages performance, it does not want to emphasize shortfalls at the expense of true achievements. DOD stated that it would be helpful if we could provide a clearer definition of what standards of sufficiency will be applied in evaluating future submissions.

Notwithstanding DOD's statement that the metrics DOD presented in its performance report can enable it to have an effective military force, we continue to believe, for the reasons cited in our report, that DOD's progress in achieving the selected outcomes is still unclear. As we have recently recognized in our report on major performance and accountability challenges facing DOD,<sup>28</sup> our nation begins the new millennium as the world's sole superpower with military forces second to none, as evidenced by experiences in the Persian Gulf, Bosnia, and Kosovo. We also stated that the same level of excellence is not evident in many of the business processes that are critical to achieving DOD's mission in a reasonably economical, efficient, and effective manner. A major part of DOD's performance report focuses on outcomes related to these processes, the results of which are critical to DOD's ability to maintain its military capability.

As we reported in last year's assessment, we agree that the answer is not to simply measure more things in more detail. However, in many instances, for the outcomes identified by the Committee, DOD's report does not discuss strategies for achieving unmet goals and does not fully assess its performance. We believe that the best test of reasonableness or sufficiency to evaluate DOD's future progress resides in the requirements of GPRA itself, which requires, among other things, agencies to explain and describe, in cases where a performance goal has not been met, why the goal was not met. The requirement to submit a fiscal year 2002 performance plan, which DOD has yet to issue, also provides DOD with the opportunity to address these shortfalls. In that regard, we have issued

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<sup>28</sup> GAO-01-244, Jan. 2001.

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guidance that outlines approaches agencies should use in developing performance plans.<sup>29</sup> These actions would place DOD in a position of continuously striving for improvement. Appendix II contains DOD's comments.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to appropriate congressional committees; the Secretary of Defense; and the Director, Office of Management and Budget. Copies will also be made available to others on request.

If you or your staff have any questions, please call me at (202) 512-4300. Key contributors to this report were Charles I. Patton, Jr.; Kenneth R. Knouse, Jr.; Elizabeth G. Mead; Cary B. Russell; and Brian G. Hackett.

Sincerely yours,



Henry L. Hinton, Jr., Managing Director  
Defense Capabilities and Management

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<sup>29</sup> GAO/GGD-10.1.20, Version 1, Apr. 1998; GAO/GGD-96-118, June 1996.

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# Appendix I: Observations on the Department of Defense's Efforts to Address Its Major Management Challenges

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The following table identifies the major management challenges confronting the Department of Defense (DOD), which include the governmentwide high-risk areas of strategic human capital management and information security. The first column of the table lists the management challenges that we and/or DOD's Inspector General (IG) have identified. The second column discusses what progress, as discussed in its fiscal year 2000 performance report, DOD made in resolving its challenges along with our assessment. We found that DOD's performance report discussed the agency's progress in resolving many of its challenges but that it did not discuss the agency's progress in resolving the following challenges: Strategic Planning, Other Security Concerns, and Health Care.

**Appendix I: Observations on the Department  
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**Table 1: Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report
<p><b>GAO-designated governmentwide high risk</b></p> <p><u>Strategic Human Capital Management</u></p> <p>GAO has designated strategic human capital management as a high-risk area across the government.</p> <p>In a series of reports and recent testimonies, we identified a number of human capital challenges regarding DOD's workforce.<sup>a</sup> These include problems with recruiting and retaining qualified military personnel and significant downsizing of the civilian workforce without adequate workforce planning.</p> <p>(In addition, DOD's IG also cited several military and civilian human capital issues that need to be addressed and has recently included human capital as 1 of 10 significant management challenges facing DOD.)</p>	<p>Progress toward resolving recruiting and retention challenges for military personnel are discussed in the outcomes section of this report. DOD's 2000 performance report identifies several initiatives that the services intend to implement to address recruiting challenges. These initiatives include increasing funding for recruiting, increasing enlistment bonuses, continuing to allow recruits to choose a combination of college fund and enlistment bonuses, instituting a college loan repayment program and other initiatives aimed at attracting more of the college-bound population, and adding more recruiters.</p> <p>DOD did not have any performance measures/indicators regarding its overall civilian workforce. It briefly addressed its civilian workforce requirements as a "related issue" toward the end of its report, and made reference to chapter 10 of the 2001 Annual Report to the President and the Congress for details. In the annual report, DOD cited a four-part strategy to deal with its civilian workforce challenges: research into what is happening; planned recruitment and accession management; development and retention; and careful transition management.</p>
<p><u>Information Security</u></p> <p>Our January 2001 high-risk update noted that the agencies' and governmentwide efforts to strengthen information security have gained momentum and expanded. Nevertheless, recent audits continue to show federal computer systems are riddled with weaknesses that make them highly vulnerable to computer-based attacks and place a broad range of critical operations and assets at risk of fraud, misuse, and disruption.</p> <p>(The DOD IG has also identified this area as a significant management challenge.)</p>	<p>DOD did not provide any data showing measurable progress for this issue in fiscal year 2000. However, DOD's report did provide information indicating that DOD had taken actions to improve information security such as (1) implementing a new web security initiative to scrutinize information posted to DOD web sites; (2) updating the DOD public key infrastructure policy; and (3) undertaking several new initiatives to respond to cyber attacks.</p> <p>A number of these actions are discussed in DOD's 2001 Annual Report to the President and the Congress. However, DOD information security officials acknowledge that DOD systems and networks are more vulnerable than DOD would like; and, as we have reported,<sup>b</sup> the DOD information assurance program has made progress, but problems have kept the program from meeting its goals. For example, planning and coordination of security management technologies and operations are not consistent throughout DOD.</p>

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**Appendix I: Observations on the Department  
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**Major management challenge**

**GAO-designated major management challenge**

Strategic Planning Shortfalls

While DOD has improved its strategic planning process, its strategic plan is not tied to desired mission outcomes. Sound plans linked to DOD's overall strategic goals are critical to achieving needed reforms. Inefficiencies in the planning process have led to difficulties in assessing performance in such areas as combat readiness, support infrastructure reduction, force structure needs, and the matching of resources to program spending plans.

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**Progress in resolving major management challenges as  
discussed in the fiscal year 2000 performance report**

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This challenge is not addressed in the 2000 performance report.

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**GAO- and IG-designated major management challenges**

Contract Management Reform

DOD spends over \$130 billion a year contracting for goods and services. We and the DOD IG (under its acquisition management challenge) continue to identify risks in contracting. DOD continues to experience significant challenges relating to contract management, including (1) maintaining a skilled acquisition workforce, (2) ensuring competition in the acquisition of services, (3) preventing erroneous and improper payments being made to its contractors, (4) implementing commercial practices for contract pricing, and (5) managing health care contracts.

DOD has attempted to measure selected changes to its contracting processes by establishing key metrics, including (1) the percentage of purchases made by purchase card, (2) the percentage of paperless contracting and payment transactions, and (3) the percentage of reduction in acquisition workforce personnel.

According to DOD officials, DOD plans to meet its contract performance goals for 2001. However, these metrics do not measure many of the significant challenges to improve processes and controls for reducing contract risk. For example, the metric on personnel reductions does not consider the impact of these reductions in contract surveillance, assess the mix of skills maintained, or assess the level and quality of training provided to DOD personnel.

More information concerning erroneous payments to contractors is discussed in the outcomes section of this report.

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Financial Operations Reforms

The results of DOD's fiscal year 2000 financial audit demonstrate that DOD continues to confront serious and pervasive weaknesses in its financial management systems, operations, and controls. These weaknesses, taken together, continue to represent the largest single obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. None of the military services or major DOD components has yet passed the test of an independent financial audit. Further, these long-standing weaknesses hamper DOD's ability to produce useful, reliable, and timely information for day-to-day management and decisionmaking, including its ability to effectively measure performance, reduce costs, and maintain adequate funds control.

DOD's Fiscal Year 2000 Performance Report reflects a revision to its previous financial performance metrics related to the performance goal, "Improve Financial and Information Management." Specifically, while retaining measures relating to compliant finance and accounting systems and achieving unqualified financial audit opinions, DOD's FY 2000 report added a measure to track how quickly noncompliant feeder systems are replaced with compliant systems. Expanding DOD's performance reporting focus to include tracking feeder systems is an important and appropriate addition. DOD reported meeting or exceeding its 2000 goals for the existing performance measures on compliant finance and accounting systems and achieving unqualified financial audit opinions. DOD did not establish 2000 goals for the new performance measure on compliant feeder systems. According to this year's DOD Financial Management Improvement Plan, this year was used to establish a "baseline" for monitoring systems' compliance with requirements.

While the current finance, accounting, and feeder system-by-system compliance orientation may well result in improved financial

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**Appendix I: Observations on the Department  
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**Major management challenge**

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**Progress in resolving major management challenges as  
discussed in the fiscal year 2000 performance report**

management operations and systems, fundamental reform is unlikely unless it is also undertaken as part of a broader reform goal. DOD's financial management improvement efforts should be measured against an overall goal of effectively supporting DOD's basic business processes, including appropriately considering related business process systems interrelationships. Successful reengineering—a comprehensive, integrated reform of all DOD business support operations (including its financial, acquisition, logistics and other business support functions)—will be essential if DOD is to effectively address a deep-rooted organizational emphasis on maintaining “business as usual” across the Department.

In addition, we are also concerned that DOD's fiscal year 2000 performance metric concerning obtaining unqualified audit opinions may impede putting meaningful, sustainable improvements in place. We have reported our concern that substantial efforts to work around DOD's serious system and control weaknesses to derive year-end balances for the purpose of obtaining clean audit opinions will not produce reliable and timely financial and performance information needed to manage DOD's everyday operations.<sup>c</sup>

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Information Technology Challenges

Effective management of information technology is key to implementing many of DOD's planned management reforms. However, significant management weaknesses in both systems modernization and systems security place the ultimate success of many reform initiatives at risk. Weaknesses in information technology management could seriously jeopardize operations and compromise the confidentiality, integrity, or availability of sensitive information.

We have reported that fundamental management controls, such as integrated enterprise architectures, disciplined management practices, and mature system development processes, are still not being implemented on a systemic basis within the Department.<sup>a</sup> Also, DOD's systems modernization efforts remain on GAO's high-risk list. In addition, the DOD IG has reported that the Department's five-year record in implementing the Clinger-Cohen Act is “somewhat disappointing” and has also reported information technology (IT) management as a principal management challenge.

Although DOD's fiscal year 2000 performance report does not provide a quantitative measurement of progress towards addressing this challenge, the report does indicate that the Department is taking some action toward this objective. For example, in fiscal year 2001 DOD intends to issue a policy that delineates the roles and responsibilities of DOD's Chief Information Officer in implementing information resource management reforms, and that defines the relationship of these officers to other key DOD managers. The performance report includes a qualitative measure of the DOD's progress in implementing Goal 3 of its information management strategic plan: reform DOD IT management processes to increase efficiency and mission contribution.<sup>d</sup> This goal is intended to improve IT management. However, as currently specified, the performance indicator is neither an outcome-oriented nor quantifiable metric that allows DOD to establish targets and measure its success in meeting these goals. Until DOD defines such a metric, measuring its progress in improving IT management will be difficult.

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Acquisition Reform

The weapons systems acquisition process continues to be a high-risk area. Notwithstanding ongoing reform, the process is still too slow and costly. Pervasive problems persist regarding the process to acquire weapons; cost, schedule, and performance estimates; program affordability; and the use of high-risk acquisition strategies such as acquiring weapons based on optimistic assumptions about the maturity and availability of enabling technologies.

This challenge is discussed in the outcomes section of this report.

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**Appendix I: Observations on the Department  
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**Major management challenge**

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**Progress in resolving major management challenges as  
discussed in the fiscal year 2000 performance report**

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In addition, the DOD IG considers the overall acquisition process for goods and services to be a significant management challenge given the fact that DOD has initiated an unprecedented number of major improvement efforts, including at least 40 significant acquisition reform initiatives. The IG reported concerns related to the proper oversight and feedback on new processes.

Support Infrastructure Inefficiencies

Since the Cold War, DOD has reduced its forces by 25 percent and closed many bases to reduce its operations and support infrastructure. While these efforts resulted in savings, the percentage of DOD's budget spent on its infrastructure has remained relatively constant between fiscal year 1996 and fiscal year 2001 at around 60 percent.

This challenge is discussed in the outcomes section of this report.

DOD has introduced a number of initiatives aimed at (1) making its operations and support infrastructure smaller, more efficient, and more responsive to warfighter needs and (2) creating savings for other needs like weapons modernization. However, because of continued inefficiencies in its support infrastructure, this continues as a high-risk area for DOD.

Logistics Support Inefficiencies

While the current logistics system gets the job done, it is often described as a brute force process that is uneconomical and inefficient. Although DOD has progressed in improving logistics support, especially through the application of best inventory management practices, serious weaknesses persist throughout its logistics activities; and it is unclear to what extent its ongoing management improvement initiatives will overcome these weaknesses. A key area of the logistics process that remains high risk is inventory management. DOD continues to spend more than is necessary to procure and manage inventory, yet at the same time items are not available when needed.

DOD used the following three measures in its fiscal year 2000 performance report to assess progress towards making its logistics support functions more efficient:

- logistics response time,
- visibility and accessibility of DOD material assets, and
- disposal of excess National Defense Stockpile inventory and reduction of supply inventory.

According to the report, DOD is currently developing a measure for customer wait time.

DOD reports that it exceeded its goals in each of these areas, with the exception of reducing its supply inventory. DOD expects to have problems meeting goals for this measure in the future due to concerns about the impact of inventory reductions on readiness.

We believe these measures are appropriate for gauging progress. However, we are concerned with the overall management of the logistics reform efforts. Currently, the services and defense agencies have about 400 ongoing individual initiatives to improve logistics support. Yet, DOD has not developed an overarching plan that integrates individual service efforts into a single, DOD-wide implementation strategy. According to DOD officials, DOD's planned new logistics architecture will provide this integration. If done properly, we believe this architecture will help guide and control DOD's reform efforts.

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**Appendix I: Observations on the Department  
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**Major management challenge**

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**Progress in resolving major management challenges as  
discussed in the fiscal year 2000 performance report**

**IG-designated major management challenges**

Other Security Concerns

In addition to the threats posed by unauthorized intrusions into DOD information systems, a wide range of other threats confront DOD. These include terrorism against U.S. personnel and facilities and the disclosure or theft of sensitive military technology. Recent work by the DOD IG highlighted continuing problems with DOD's security clearance program and export control policies. Additionally, the IG noted that more attention is needed for other issues, including properly demilitarizing equipment before disposal, ensuring computers being sold or transferred outside of DOD contain no classified material, and controlling the access of contractors and visitors to technical information at military engineering organizations and laboratories.

This challenge is not directly addressed in the 2000 performance report. However, the report does describe the more general issue of terrorism and weapons of mass destruction in domestic incidents as a crosscutting activity and states that the Federal Emergency Management Agency serves as the lead federal agency. According to the performance report, during peacetime, DOD coordinates all of its consequence management activities through the Assistant to the Secretary of Defense for Civil Support, who plans and coordinates with 26 other federal agencies and the Federal Emergency Management Agency.

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Health Care

The DOD health care system reportedly costs over \$16 billion annually and serves approximately 8.2 million eligible beneficiaries through its health care delivery program, TRICARE. The DOD IG reported three major challenges for this area: cost containment, data integrity, and transitioning to managed care. Cost containment is challenged by the continued lack of good cost information combined with significant levels of health care fraud. Data integrity in management information systems has been a persistent problem that affects health care program effectiveness and efficiency. The transition to managed care is challenged by incomplete, incorrect information being provided to Service members and by older beneficiaries being without accessibility to health care resources because of DOD downsizing.

This challenge is not addressed in the 2000 performance report.

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Readiness

The DOD IG reported that there is fairly broad consensus that readiness shortfalls exist, although the extent of impairment to mission capability is unclear. Indicators of readiness problems include spare parts shortages; significant backlogs for depot maintenance and real property maintenance; concerns related to recruiting, retention and morale; disproportionately numerous deployments for some units; unanticipated high operating tempos; and equipment availability problems.

This challenge is discussed in the outcomes section of the report.

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**Appendix I: Observations on the Department  
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Management Challenges**

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<sup>a</sup>*Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001); *Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management* (GAO/T-GGD/NSIAD-00-120, Mar. 9, 2000); *Major Management Challenges and Program Risks: Departments of Defense, State, and Veterans Affairs* (GAO-01-492T, Mar. 7, 2001); and *Human Capital: Major Human Capital Challenges at the Departments of Defense and State* (GAO-01-565T, Mar. 29, 2001).

<sup>b</sup>*Information Security: Progress and Challenges to an Effective Defense-wide Information Assurance Program* (GAO-01-307, Mar. 30, 2001).

<sup>c</sup>GAO-01-263, Jan. 2001.

<sup>d</sup>The Department of Defense Information Management Strategic Plan, Oct. 19, 1999.

# Appendix II: Comments From the Department of Defense



PROGRAM ANALYSIS  
AND EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE  
1800 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-1800

June 14, 2001



Mr. Charles I. Patton, Jr.  
Director, Defense Capabilities and Management Team  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Patton:

This is the Department of Defense (DoD) response to the GAO draft report, "DEPARTMENT OF DEFENSE: Status of Achieving Outcomes and Addressing Major Management Challenges," dated June 8, 2001 (GAO Code 350063/OSD Case 4012).

As you know, Secretary Rumsfeld believes performance measures are a powerful management tool. The Department's annual GPRA report provides Congress and the public an executive-level summary of key performance results achieved over the past budget year. Together, the metrics presented in the performance report demonstrate how DoD's existing management practices enable it to recruit, train, equip, and field the most effective military force in the world—a fact overlooked in the GAO draft report.

Future GPRA submissions will refine the Department's performance metrics to reflect the priorities of the new defense strategy. However, we do not envision incorporating large numbers of additional metrics into GPRA. The Department sees little value in adding the almost 100 new measures auditors and others have proposed over the past 18 months. The Department's position remains that GPRA is not the sole venue for reporting performance results. As Secretary Rumsfeld noted recently, DoD submits more than 900 reports annually to Congress alone, many of which address the issues highlighted in the draft GAO report.

We will continue to consult with Congress and GAO, so that our GPRA activities reflect a full and effective implementation of the law. In doing so, we would find it helpful if the GAO could provide us a clearer definition of what standards of sufficiency will be applied in evaluating the Department's future submissions.

Finally, I would like to restate that a key goal of the GPRA legislation is to increase public confidence in government. While we do not want to mask deficiencies in how the Department might manage performance, neither do we want to emphasize shortfalls at the expense of true achievements. In a broader sense, the Department's successes over the last decade in reassuring allies and friends of the United States, deterring aggression, and prevailing in actual conflicts are also important, if more difficult to quantify, indicators of the U.S. military's overall performance.

  
Barry M. Watts  
Director



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