DEPARTMENT OF DEFENSE

Long-standing Problems Continue to Impede Financial and Business Management Transformation

Why GAO Did This Study

GAO has previously reported on the Department of Defense's (DOD) financial management and business related problems and key elements necessary for successful reform. Although the underlying conditions remain fundamentally unchanged, DOD continues to be confronted with pervasive problems related to its systems, processes (including internal controls), and people (human capital). These problems impede DOD's ability to operate its numerous business operations in an efficient and effective manner. The Subcommittees asked GAO to provide its views on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD, (2) the underlying causes of DOD business transformation challenges, and (3) DOD's business transformation efforts. The GAO report released today highlights the challenges and impediments facing the department as it continues to transform its financial and business management operations.

In addition, GAO reiterates the key elements to successful reform: (1) an integrated business management transformation strategy, (2) sustained leadership and resource control, (3) clear lines of responsibility and accountability, (4) results-oriented performance, (5) appropriate incentives and consequences, (6) an enterprise architecture to guide reform efforts, and (7) effective monitoring and oversight.

www.gao.gov/cgi-bin/getrpt?GAO-04-907T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9505 (kutzg@gao.gov) or Keith Rhodes, (202) 512-6412 (rhodesk@gao.gov).
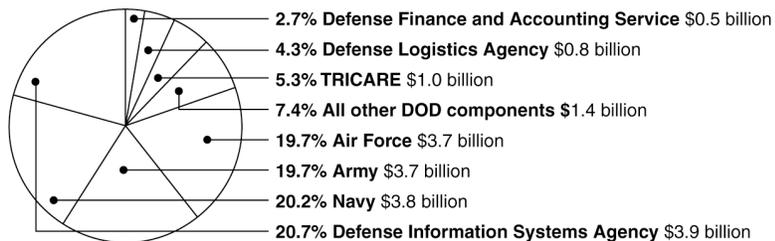
What GAO Found

DOD's leadership remains committed to transforming the department's business operations. Overhauling decades-old financial management and business-related problems of one of the largest and most complex organizations in the world is a daunting challenge. DOD's financial and business management weaknesses have resulted in billions of dollars in annual wasted resources in a time of increasing fiscal constraint. These weaknesses exist despite DOD requesting approximately $19 billion in fiscal year 2004 to operate, maintain, and modernize its reported 2,274 nonintegrated business systems. At a March 2004, hearing, DOD's Comptroller stated that the actual number of systems could be twice the number reported.

DOD's Fiscal Year 2004 $19 Billion Business System Budget Request

- 2.7% **Defense Finance and Accounting Service** $0.5 billion
- 4.3% **Defense Logistics Agency** $0.8 billion
- 5.3% **TRICARE** $1.0 billion
- 7.4% **All other DOD components** $1.4 billion
- 19.7% **Air Force** $3.7 billion
- 19.7% **Army** $3.7 billion
- 20.2% **Navy** $3.8 billion
- 20.7% **Defense Information Systems Agency** $3.9 billion

Source: GAO analysis of DOD IT budget request for fiscal year 2004.

As DOD continues to develop and implement a business enterprise architecture and establish control over its business systems investments, the underlying operational conditions remain unchanged. GAO found that DOD continues to spend billions of dollars on business systems that will not result in corporate solutions to its long-standing problems such as total asset visibility. GAO reviewed two such systems: the Defense Logistics Agency's Business Systems Modernization project and the Army's Logistics Modernization Program. GAO found that both projects encountered problems that, if not corrected, will result in two more nonintegrated systems that do not resolve DOD's long-standing financial and business management problems.

To improve the likelihood of meaningful, broad-based reform at DOD, GAO has previously testified that a senior management position should be established to manage and oversee DOD's business transformation efforts. Further, in the report released today, GAO proposes that Congress shift the control and accountability for business system investments from the DOD components to the recently created functional areas known as domains. DOD disagrees with this concept, explaining that its portfolio management process would provide the appropriate control over business system investments. In GAO's view, providing the funding to the domains would be one way of overcoming DOD's embedded culture and parochial operations and help preclude spending billions on duplicative, nonintegrated systems.

_____ **United States General Accounting Office**