



Highlights of [GAO-04-941T](#), a testimony before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, United States Senate

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 Subcommittee 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.

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 measures, (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-04-941T

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)

DEPARTMENT OF DEFENSE

Financial and Business Management Transformation Hindered by Long-standing Problems

What GAO Found

DOD's senior civilian and military leaders are committed to transforming the department and improving its business operations and have taken positive steps to begin this effort. However, overhauling the financial management and related business operations of one of the largest and most complex organizations in the world represents a daunting challenge. Six DOD program areas are on GAO's "high risk" list, and the department shares responsibility for three other governmentwide high-risk areas. DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also to provide accurate and timely information for management and Congress to use in making informed decisions. Further, the lack of adequate accountability across all of DOD's major business areas results in billions of dollars in annual wasted resources in a time of increasing fiscal constraint.

Impact of Weaknesses in Human Capital Management, Internal Control, and Systems

Business area affected	Problem identified
Military pay	Ninety-four percent of mobilized Army National Guard soldiers GAO investigated had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and had a negative impact on retention.
Logistics	Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, resulting in a discrepancy of \$1.2 billion between the materiel shipped and the acknowledgement by the activity that the materiel was received.
Travel	Seventy-two percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and 73 percent were not properly justified.
Property	New JSLIST chem-bio suits sold on the Internet for \$3 while at the same time DOD was buying them for over \$200. Further, thousands of defective suits declared excess by DOD were improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.
Contract payments	Some DOD contractors were abusing the federal tax system, with little or no consequence. As of September 2003, DOD had collected only \$687,000 of unpaid federal taxes through a mandated levy program. GAO estimated that at least \$100 million could be collected annually through effective implementation of the levy on DOD contract payments.
Systems	The department invested \$179 million on two failed system efforts that were intended to resolve its long-standing disbursement problems.

Source: GAO.

Four underlying causes impede reform: (1) lack of sustained leadership, (2) cultural resistance to change, (3) lack of meaningful metrics and ongoing monitoring, and (4) inadequate incentives and accountability mechanisms. To address these issues, GAO offers two suggestions for legislative action. First, a senior management position should be established to manage and oversee DOD's financial and business management transformation efforts. Second, in a recent report GAO proposes that Congress shift the control and accountability for business systems investments from the DOD components to the recently created functional areas known as domains. DOD disagrees and stated that its portfolio management process would provide the needed control over business system investments. In GAO's view, providing the funding to the domains would be one way of overcoming DOD's parochial operations and help preclude spending billions on nonintegrated systems.