



Highlights of [GAO-08-462T](#), a testimony before the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

The Department of Defense (DOD) has stewardship over an unprecedented amount of taxpayer money—with about \$546 billion in discretionary budget authority provided thus far in fiscal year 2008, and total reported obligations of about \$492 billion to support ongoing operations and activities related to the Global War on Terrorism from September 11, 2001, through September 2007. Meanwhile, DOD is solely responsible for 8 high-risk areas identified by GAO and shares responsibility for another 7 high-risk areas. GAO designated DOD's approach to business transformation as high risk in 2005. DOD's business systems modernization and financial management have appeared on the list since 1995. Deficiencies in these areas adversely affect DOD's ability, among other things, to assess resource requirements; control costs; ensure accountability; measure performance; prevent waste, fraud, and abuse; and address pressing management issues.

Based on previously issued GAO reports and testimonies, this testimony focuses on the progress DOD has made and the challenges that remain with respect to overall business transformation, business systems modernization, and financial management capabilities improvements. GAO has made recommendations to improve DOD's business transformation efforts and DOD's institutional and program-specific management controls. DOD has largely agreed with these recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-462T](#). For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

DEFENSE BUSINESS TRANSFORMATION

Sustaining Progress Requires Continuity of Leadership and an Integrated Approach

What GAO Found

DOD's senior leadership has shown a commitment to transforming DOD's business operations and taken steps that have yielded progress in many respects, especially during the past two years. To sustain its efforts, DOD still needs (1) a strategic planning process and a comprehensive, integrated, and enterprisewide plan or set of plans to guide transformation and (2) a full-time, term-based, senior management official to provide focused and sustained leadership. Congress has clearly recognized the need for executive-level attention and, through the National Defense Authorization Act for fiscal year 2008, has designated the Deputy Secretary of Defense as DOD's Chief Management Officer (CMO), created a Deputy CMO position, and designated a CMO for each military department. Among other things, DOD will need to clearly define roles and responsibilities, accountability, and performance expectations. However, DOD still faces the challenge of ensuring that its CMO can give the position full-time focus and continuity of leadership. In that respect, GAO continues to believe the CMO should be codified in statute as a separate position with the appropriate term to span administrations.

To comply with legislative requirements aimed at improving business systems modernization, DOD continues to update its business enterprise architecture and has established and begun to implement corporate investment review structures and processes. However, DOD has not achieved the full intent of the legislative requirements. The business enterprise architecture updates are not complete enough to effectively and efficiently guide and constrain business system investments across all levels of DOD. Although DOD issued a strategy for "federating" or extending its architecture to the DOD components, the components' architecture programs are not fully mature to support this. With respect to investment review structures and processes, DOD lacks policies and procedures for aligning investment selection decisions and relevant corporate- and component-level guidance. For example, DOD's business systems investment policies and procedures do not link investment selection decisions with investment funding decisions. Meanwhile, DOD components continue to invest billions of dollars in thousands of new and existing business system programs.

DOD has taken steps towards developing and implementing a framework for improving its capability to provide timely, reliable, and relevant financial information for analysis, decisionmaking, and reporting. Specifically, DOD is defining and implementing a standard DOD-wide financial management data structure and enterprise-level capabilities to facilitate reporting and comparison of financial data across DOD. In 2007, DOD refined its strategy for achieving auditable financial statements, emphasizing verification and validation of sustained improvements and assessments of new systems to identify risks that, if not mitigated, may impede the achievement of clean financial statement audit opinions. While these efforts may improve the consistency and comparability of DOD's financial reports, a great deal of work to ensure the reliability of the data itself remains before financial management transformation will be achieved.