



Highlights of [GAO-05-140T](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

In March 2004, GAO testified before this Subcommittee on the impact and causes of financial and related business weaknesses on the Department of Defense's (DOD) operations and the status of DOD reform efforts. GAO's reports continue to show that fundamental problems with DOD's financial management and related business operations result in substantial waste and inefficiency, adversely impact mission performance, and result in a lack of adequate transparency and appropriate accountability across all major business areas. Over the years, DOD leaders have initiated a number of efforts to address these weaknesses and transform the department. For years, GAO has reported that DOD is challenged in its efforts to effect fundamental financial and business management reform, and GAO's ongoing work continues to raise serious questions about DOD's chances of success. The Subcommittee asked GAO to provide a current status report on DOD's progress to date and suggestions for improvement. Specifically, GAO was asked to provide (1) an overview of the impact and causes of weaknesses in DOD's business operations, (2) the status of DOD reform efforts, (3) the impact of recent legislation pertaining to DOD's transformation and financial improvement initiatives, and (4) suggestions for improving DOD's efforts to improve the reliability of its financial information.

www.gao.gov/cgi-bin/getrpt?GAO-05-140T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9095 or kutzg@gao.gov.

DEPARTMENT OF DEFENSE:

Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges

What GAO Found

Although senior DOD leaders have shown commitment to transformation as evidenced by key initiatives such as human capital reform, the Business Management Modernization Program, and the Financial Improvement Initiative, little tangible evidence of improvement has been seen in DOD's business operations. Overhauling the business operations of one of the largest and most complex organizations in the world represents a huge management challenge, especially given the increased demands on our military forces. However, this challenge can be met if DOD employs key elements, such as a comprehensive and integrated business transformation plan. Six DOD program areas are on GAO's high-risk list, and the department shares responsibility for three other governmentwide high-risk areas. Substantial weaknesses in DOD business operations adversely affect its ability to provide timely, reliable management information for DOD and Congress to use in making informed decisions. Further, the lack of adequate transparency and appropriate accountability across all of DOD's major business areas results in billions of dollars annually in wasted resources in a time of increasing fiscal challenges.

Examples of the Impact of Business Management Problems at DOD

Business area affected	Problem identified and its impact
Military pay	782 of the 829 mobilized Army National Guard and Reserve soldiers from 14 case study units 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, including cannibalization of vehicles for parts and duplication of requisitions.
Travel	Ineffective controls over DOD's centrally billed travel accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper or fraudulent ticket claims, and issuance of tickets based on invalid travel orders.
Program planning	Overly optimistic planning assumptions used to estimate DOD's annual budget request limit visibility of projected costs. As a result, DOD has too many programs for the available dollars, which often leads to program instability, increased costs, and program termination.

Source: GAO.

Four underlying causes impede reform: (1) lack of clear and sustained leadership for overall business transformation efforts, (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 reiterates the key elements to successful reform that are embodied in our prior recommendations and two suggestions for legislative action. First, GAO suggests that a senior management position be established to provide strong and sustained leadership over all major transformation efforts. Second, GAO proposes that business systems modernization money be appropriated to designated approval authorities responsible and accountable for system investments within DOD business areas. Absent this unified responsibility, authority, accountability, and control of funding, the current transformation efforts are likely to fail.