



## Testimony

Before the Subcommittee on Federal Financial Management,  
Government Information, Federal Services, and  
International Security, Committee on Homeland Security  
and Governmental Affairs, U.S. Senate

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# DEFENSE BUSINESS TRANSFORMATION

## A Full-time Chief Management Officer with a Term Appointment Is Needed at DOD to Maintain Continuity of Effort and Achieve Sustainable Success

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Highlights of [GAO-08-132T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Department of Defense (DOD) continues to face significant challenges in resolving its many long-standing business challenges. DOD is solely responsible for eight high-risk areas and shares responsibility for another seven governmentwide areas on GAO's high-risk list. GAO designated DOD's approach to business transformation as high risk in 2005 because (1) DOD's improvement efforts were fragmented, (2) DOD lacked an enterprisewide and integrated business transformation plan, and (3) DOD had not appointed a senior official at the right level with an adequate amount of time and appropriate authority to be responsible for overall business transformation efforts. A recent DOD directive designated the current Deputy Secretary of Defense as DOD's chief management officer (CMO). Successful overall business transformation, however, will require full-time leadership that is focused solely on the integration and execution of these efforts, over the long term, to resolve pervasive weaknesses that have left DOD vulnerable to waste, fraud, and abuse at a time of increasing fiscal constraint.

This testimony is based on previous and ongoing GAO work and discusses (1) the impact of DOD's long-standing business challenges on DOD and the warfighter, and (2) the progress DOD has made and actions needed to achieve sustainable success in its business transformation efforts. This testimony also provides an update on DOD-specific high-risk areas.

To view the full product, including the scope and methodology, click on [GAO-08-132T](#). For more information, contact Sharon Pickup, at (202) 512-9619 or [pickups@gao.gov](mailto:pickups@gao.gov).

# DEFENSE BUSINESS TRANSFORMATION

## A Full-time Chief Management Officer with a Term Appointment Is Needed at DOD to Maintain Continuity of Effort and Achieve Sustainable Success

### What GAO Found

The persistence and magnitude of DOD's business transformation challenges highlight the fact that the status quo is unacceptable and that, without focused and sustained leadership to guide the overall business transformation effort, the department will continue to waste billions of dollars annually. Within DOD, business transformation is broad, encompassing people, planning, processes, organizational structures, and technology. DOD's pervasive and long-standing business weaknesses adversely affect the department's economy, efficiency, and effectiveness, and have resulted in a lack of adequate accountability across all of its major business areas. Ultimately, these weaknesses affect the department's ability to support the warfighter, including the availability of equipment and weapon systems, the cost and performance of contractors supporting the warfighter, and the assessment of resource requirements.

#### Illustrative Weaknesses in DOD's Business Operations

Business area	Impact on department and warfighter
Weapon Systems Acquisition	Weapon development problems have delayed deliveries to the warfighter by several years on average. It is a predictable phenomenon that can be remedied with better knowledge at key decision points. However, standing in the way is a range of long-standing challenges Congress will have to address.
Contract Management	While DOD relies heavily on contractors to undertake major reconstruction projects and provide support to the military, ineffective contract design, management, and oversight leads to increased costs and poor outcomes.
Financial Management	Unreliable cost information affects DOD's ability to assess resource requirements, control costs, assess performance, evaluate programs, and set appropriate fees to recover costs where required.

Source: GAO.

DOD's senior leadership has shown a commitment to transforming the department's business operations. Two critical actions, among others, however, are still needed to change the status quo. DOD has yet to establish (1) a strategic planning process that results in a comprehensive, integrated, and enterprisewide plan or set of plans to help guide transformation, and (2) a senior official who can provide full-time attention and sustained leadership to transformation. Broad-based consensus exists among GAO and others that DOD needs a full-time and term-based senior management official to provide focused and sustained leadership over its overall business transformation efforts, both within and across administrations. Also, various legislative proposals call for senior-level attention to these efforts. While DOD recently assigned CMO duties to the current Deputy Secretary of Defense, this does not ensure full-time attention or continuity of leadership. GAO continues to believe a CMO position should be codified in statute as a separate position, at the right level, and with the appropriate term in office. In the absence of a CMO with these characteristics, and an enterprisewide plan to guide business transformation efforts, it is highly unlikely that DOD will ever get the most out of every taxpayer dollar it invests to better support the warfighter in times of growing fiscal constraint.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be before this Subcommittee to discuss the status of the Department of Defense's (DOD) efforts to transform its business operations and why further action is needed to maintain continuity of effort, change the status quo, and achieve sustainable success. Since the first financial statement audit of a major DOD component was attempted almost 20 years ago, we have reported that weaknesses in business operations not only adversely affect the reliability of reported financial data, but also the economy, efficiency, and effectiveness of DOD's operations. In fact, DOD continues to dominate our list of high-risk programs designated as vulnerable to waste, fraud, and abuse of funds, bearing responsibility, in whole or in part, for 15 of 27 high-risk areas.<sup>1</sup> Eight of these areas are specific to DOD and include DOD's overall approach to business transformation, as well as business systems modernization, financial management, the personnel security clearance process, supply chain management, support infrastructure management, weapon systems acquisition, and contract management. Collectively, these high-risk areas relate to DOD's major business operations which directly support the warfighters, including how they are paid, the benefits provided to their families, and the availability and condition of equipment they use both on and off the battlefield.

Given the current security environment and growing longer-range fiscal imbalance facing our nation, DOD, like other federal agencies, will increasingly compete for resources in a fiscally constrained environment in the future. Commitments are clearly growing both abroad, with our involvement in ongoing operations in Iraq and Afghanistan, as well as at home, with efforts to provide homeland security. However, our nation is threatened not only by external security threats, but also from within by large and growing fiscal imbalances over time due primarily to our aging population and rising health care costs. Absent policy changes to cope with rising health care costs and known demographic trends, a growing imbalance between expected federal spending and revenues will mean escalating and ultimately unsustainable federal deficits and debt levels. As I have stated previously, our nation is on an imprudent and unsustainable fiscal path. Given this scenario, DOD cannot afford to continue on the course of reduced efficiencies, ineffective performance, and inadequate accountability in connection with its business operations. With its annual

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: Jan. 31, 2007).

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base budget approaching \$500 billion, along with total reported obligations of about \$462 billion to support ongoing operations and activities related to the global war on terrorism since the September 11th attacks through July 2007, the department has clearly been given stewardship over unprecedented amounts of taxpayer money. DOD must do more to get the most from every dollar it is given.

Transformation in any organization is a long-term process, especially in an organization as large and as complex as DOD. I continue to believe that DOD's senior leadership has shown a commitment to address long-standing weaknesses and transform its business operations. Congress, under the leadership of this Subcommittee and others, has conducted oversight, passed legislation, and codified many of our prior recommendations, particularly with respect to DOD's modernization of its business systems.<sup>2</sup> Since then, DOD has devoted substantial resources and made important progress toward establishing key transformation entities and processes to guide business activities. DOD's current approach is clearly superior to its prior approach; however, progress has been inconsistent and a number of challenges remain. Most importantly, DOD has not taken what could be considered one of the single most critical steps, which is to provide the full-time attention and sustained leadership needed to guide business transformation efforts. To that end, DOD needs a chief management officer (CMO), codified in statute as a separate position, at the right level, and with the adequate amount of time and appropriate authority to be responsible and accountable for its business transformation efforts.<sup>3</sup> As I will discuss later, DOD recently assigned chief management officer duties specifically to the current Deputy Secretary of Defense, and therefore it appears these responsibilities will expire when that individual leaves the department. In my view, subsuming the duties within the other responsibilities of the current Deputy Secretary essentially represents the status quo and will not provide the continuity of effort and full-time focus that is necessary to effectively further achieve and sustain success in connection with DOD's overall business transformation effort.

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<sup>2</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. §§ 186 and 2222).

<sup>3</sup>GAO, *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, [GAO-07-1072](#) (Washington, D.C.: Sept. 5, 2007).

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Our work shows that DOD will continue to face difficulty in achieving better outcomes in its business operations and ultimately optimizing support to the warfighter until it adopts a better leadership approach to guide its business transformation efforts. My testimony today will touch on the various high-risk areas for which DOD is responsible, paying special attention to the department's overall approach to business transformation. I will provide perspectives on (1) the impact DOD's pervasive and long-standing business challenges have on the department and the warfighter, and (2) the progress DOD has made and the actions needed to achieve sustainable success in its business transformation efforts. I will also provide an update on remaining DOD-specific high-risk areas that highlight the need for continued attention.

My statement is based on our previous reports and testimonies, as well as some of our current, ongoing efforts. Our work was performed in accordance with generally accepted government auditing standards.

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## Summary

DOD spends billions of dollars to sustain key business operations intended to support the warfighter, including systems and processes related to financial management, weapon systems acquisition, the supply chain, support infrastructure, and contract management. We have reported for years on pervasive and long-standing weaknesses in these areas that adversely affect the economy, efficiency, and effectiveness of the department, result in the lack of accountability and substantial waste, and impede efforts to effectively support the warfighter. Specific illustrative examples of these problems include the following:

- *Financial management.* Continuing weaknesses in DOD's ability to properly record transactions and reconcile its disbursement activities have adversely impacted the reliability of DOD's reported cost data. Unreliable cost information affects DOD's ability to assess resource requirements, control and reduce costs, assess performance, evaluate programs, and set appropriate fees to recover costs where required.
- *Weapon systems acquisition.* DOD's planned investment in new weapons has doubled from \$750 billion in 2001 to \$1.5 trillion today. Yet, the problems remain the same: development time typically grows by 20 percent and development costs typically grow by 30 percent reducing qualities and delaying delivery to the warfighter. It is a fixable problem that will, among other things, require a commitment to following a knowledge-based approach to major systems design, development, and production.

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- *Supply chain management.* U.S. ground forces experienced shortages of critical supply items, such as tires and body armor, while the Air Force simultaneously invested billions of dollars on inventory that was not needed for requirements.
  - *Contract management.* While DOD relies extensively on contractors to undertake major reconstruction projects and provide logistical support to the military, ineffective contract design, management, and oversight leads to increased costs and poor contract outcomes.

Overall, these long-standing weaknesses in DOD's business areas have (1) resulted in a lack of reliable information needed to make sound decisions and report accurately on its operations; (2) hindered operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to significant amounts of fraud, waste, abuse, and mismanagement.

Transforming DOD's business operations is an absolute necessity in the context of an increasingly demanding security environment and the pressures of our nation's long-term fiscal outlook. Further, the current deployment of tens of thousands of servicemembers, civilians, and contractor personnel to support ongoing operations overseas provides an even greater sense of urgency for the department to aggressively address weaknesses in its business operations and achieve transformation goals in the near and long term. DOD's senior leadership has demonstrated a commitment to transforming the department's business operations, and has taken many steps in the last few years to further this effort. For example, DOD has made progress in creating transformational entities to guide its efforts, such as the Defense Business Systems Management Committee and the Business Transformation Agency, as well as the development of plans and other tools. However, two critical actions, among others, are still needed to put DOD on a sustainable path to success. DOD has yet to establish (1) a strategic planning process that results in a comprehensive, integrated, and enterprisewide plan or set of plans to help guide transformation and (2) a senior official who can provide full-time attention and sustained leadership to the overall business transformation effort. Broad-based consensus exists among GAO and others that DOD needs a full-time and term-based senior management official to provide focused and sustained leadership over business transformation efforts, although differing views exist concerning specific characteristics of the position. Various legislative proposals before the Congress call for senior-level attention to business transformation, and we continue to believe a CMO at DOD should be codified in statute as a

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separate position, at the right level, and with the appropriate term in office to provide full-time focus and sustained leadership over the long term, both within and across administrations. While DOD has recently designated the current Deputy Secretary of Defense as the department's CMO and assigned related duties to this individual, this step essentially perpetuates the status quo and does not ensure full-time attention and continuity of leadership. In the absence of a CMO with an appropriate term who can provide focused attention and a comprehensive, integrated, and enterprisewide plan to guide its transformation efforts, it is highly unlikely that DOD will ever get the most out of every dollar it invests to better support the warfighter in times of growing fiscal constraints.

In addition to DOD's overall approach to business transformation, ensuring effective transformation of other areas within DOD that we have identified as high-risk will require continued attention and sustained leadership over a number of years to be successful. For example, DOD continues to be challenged in its efforts to transform its financial management systems which are nonintegrated, stovepiped, and not capable of providing decision makers with accurate and reliable information, thus adversely affecting the department's ability to control costs, ensure basic accountability, anticipate future costs, and measure performance. Further, while progress has been made in DOD's business systems modernization efforts, DOD has not fully defined and consistently implemented the full range of management controls needed to effectively and efficiently ensure that its business systems investments are the right solutions for addressing its business needs. While DOD has made some progress in addressing its supply chain management problems, the department faces many significant challenges in successfully implementing its changes and measuring performance. In the area of weapon systems acquisition, recurring problems with cost overruns and scheduled delays have resulted in a reduction on return on investment at a time when the nation's fiscal imbalance is growing. Furthermore, our work has found that DOD is unable to ensure that it is using sound business practices to acquire the goods and services needed to meet the warfighters' needs, creating unnecessary risks and paying higher prices than justified, and its long-standing problems with contract design, management, and oversight have become more prominent as DOD's reliance on contractors to provide services continues to grow.

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## Background

DOD is one of the largest and most complex organizations in the world. Overhauling its business operations will take many years to accomplish and represents a huge and possibly unprecedented management challenge. Execution of DOD's operations spans a wide range of defense

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organizations, including the military services and their respective major commands and functional activities, numerous large defense agencies and field activities, and various combatant and joint operational commands that are responsible for military operations for specific geographic regions or theaters of operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business functions—using thousands of business systems—related to major business areas such as weapon systems management, supply chain management, procurement, health care management, and financial management. The ability of these systems to operate as intended affects the lives of our warfighters both on and off the battlefield.

To address long-standing management problems, we began our high-risk series in 1990 to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. Historically, high-risk areas have been designated because of traditional vulnerabilities related to their greater susceptibility to fraud, waste, abuse, and mismanagement. As our high-risk program has evolved, we have increasingly used the high-risk designation to draw attention to areas associated with broad-based transformation needed to achieve greater economy, efficiency, effectiveness, accountability, and sustainability of selected key government programs and operations. DOD has continued to dominate the high-risk list, bearing responsibility, in whole or in part, for 15 of our 27 high-risk areas. Of the 15 high-risk areas, the 8 DOD-specific high-risk areas cut across all of DOD's major business areas. Table 1 lists the 8 DOD-specific high-risk areas and the year in which each area was designated as high risk. In addition, DOD shares responsibility for 7 governmentwide high-risk areas.<sup>4</sup>

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<sup>4</sup>See [GAO-07-1072](#). DOD shares responsibility for the following seven governmentwide high-risk areas: (1) disability programs, (2) ensuring the effective protection of technologies critical to U.S. national security interests, (3) interagency contracting, (4) information systems and critical infrastructure, (5) information-sharing for homeland security, (6) human capital management, and (7) real property management.



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**Table 1: Years When Specific DOD Areas on GAO’s 2007 High-Risk List Were First Designated as High Risk**

<b>DOD Area</b>	<b>Year designated as high risk</b>
DOD approach to business transformation	2005
DOD personnel security clearance program	2005
DOD support infrastructure management	1997
DOD business systems modernization	1995
DOD financial management	1995
DOD contract management	1992
DOD supply chain management	1990
DOD weapon systems acquisition	1990

Source: GAO.

GAO designated DOD’s approach to business transformation as high risk in 2005 because (1) DOD’s improvement efforts were fragmented, (2) DOD lacked an enterprisewide and integrated business transformation plan, and (3) DOD had not appointed a senior official at the right level with an adequate amount of time and appropriate authority to be responsible for overall business transformation efforts. Collectively, these high-risk areas relate to DOD’s major business operations, which directly support the warfighter, including how servicemembers get paid, the benefits provided to their families, and the availability of and condition of the equipment they use both on and off the battlefield.

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## DOD's Pervasive and Long-standing Financial Management and Business Weaknesses Affect the Department's Efficiency and Effectiveness and Ultimately Impact DOD's Ability to Support the Warfighter

The persistence and magnitude of DOD's business transformation challenges underscore the fact that the status quo is unacceptable, and without focused and sustained leadership to guide business transformation, the department will continue to waste billions of dollars every year. Within DOD, business transformation is broad, encompassing people, planning, processes, organizational structures, and technology in all of DOD's major business areas. DOD spends billions of dollars to sustain key business operations intended to support the warfighter. DOD's pervasive and long-standing weaknesses in its financial management and business operations adversely affect the economy, efficiency, and effectiveness of DOD's operations, and have resulted in a lack of adequate accountability across all the department's major business areas. Every dollar that DOD could save through improved economy and efficiency of its operations is important to the fiscal well-being of our nation, and ultimately can be used to support the needs of the warfighter. DOD's high-risk areas have real world implications for our men and women in uniform, including how the future needs of ongoing operations are estimated, the availability and condition of the equipment they use both on and off the battlefield, and the performance of contractors paid to provide logistical support to servicemembers in theater, as the following examples illustrate:

- *Financial management.* Continuing material weaknesses in DOD's business processes, systems, and controls have adversely affected the reliability of the department's reported financial information and the department's ability to manage its operations. To its credit, the department initiated the "Check It" Campaign in July 2006 to raise awareness throughout the department on the importance of effective internal management controls. However, until the impact of this campaign and other efforts, including its financial improvement and audit readiness (FIAR) effort, begin to significantly transform and improve DOD's business operations, the department will continue to suffer weaknesses in the reliability and usefulness of its management information as illustrated by the examples below.
  - The lack of reliable asset information, including cost, location, and condition, necessary to effectively (1) safeguard assets from physical deterioration, theft, or loss; (2) account for the acquisition and disposal of these assets; (3) ensure that the assets are available for use when needed; (4) prevent unnecessary storage and maintenance costs, or purchase of assets already on hand; and (5) determine the full costs of programs that use these assets.

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- DOD's inability to estimate with assurance key components of its environmental and disposal liabilities and support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. Problems in accounting for liabilities affect the determination of the full cost of DOD's current operations and the extent of its liabilities. Also, improperly stated environmental and disposal liabilities and weak internal control supporting the process for their estimation affect the department's ability to determine priorities for cleanup and disposal activities and to appropriately consider future budgetary resources needed to carry out these activities.
  - Continuing weaknesses in DOD's ability to properly record transactions and reconcile its disbursement activities have adversely impacted the reliability of DOD's reported cost data. Unreliable cost information affects DOD's ability to control and reduce costs, assess performance, evaluate programs, and set appropriate fees to recover costs where required. Improperly recorded disbursements could result in misstatements in the financial statements and in certain data provided by DOD for inclusion in The Budget of the United States Government concerning obligations and outlays. Further, inadequacies in DOD's systems and processes for recording and reporting obligation data related to ongoing operations in support of the global war on terrorism have contributed to uncertainty regarding the reliability of reported costs. Our reviews found a number of problems, including long-standing deficiencies in DOD's financial management and business systems, incorrectly categorized or omitted obligations, and the reporting of large amounts of obligations in miscellaneous "other" categories.<sup>5</sup> Without transparent and accurate cost reporting, neither DOD nor Congress can reliably know how much the war is costing, examine details on how funds are spent, or have historical data useful in considering future needs. DOD has taken positive steps in response to our recommendations intended to improve the reliability and accuracy of its cost reports, and therefore cost reporting continues to evolve.

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<sup>5</sup>GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, [GAO-05-882](#) (Washington, D.C.: Sept. 21, 2005) and *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, [GAO-07-76](#) (Washington, D.C.: Nov. 13, 2006).

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- These financial management problems continue to be exacerbated by the department's inability to implement business systems with the desired capability. For example, the Army's Logistics Modernization Program has been beset with problems virtually since its initial implementation in July 2003. For instance, as we reported in July 2007, the program cannot accurately recognize revenue and bill customers, and its inability to implement effective business processes has adversely affected the reliability of its financial reports.<sup>6</sup>
  - *Weapon systems acquisition.* DOD weapon system programs typically take longer to field and cost more to buy than planned, placing additional demands on available funding. For example, we reviewed 27 weapon programs that were in the research, development, test and evaluation phase and noted that since development began the costs had increased by almost \$35 billion, or 33.5 percent, over the first full estimate. The same programs have also experienced an increase in the time needed to develop capabilities. The consequence of cost and acquisition cycle time growth is often manifested in a reduction of the buying power of the defense dollar. As costs rise and key schedule milestones are delayed, programs are sometimes forced to reduce quantities, resulting in a reduction in buying power and a reduction in capability delivered to the warfighter. It is a predictable and recurring phenomenon that can be remedied with more attention to separating wants from needs and better knowledge at key decision points. With a weapon investment portfolio of \$1.5 trillion, DOD cannot settle for the same kind of outcomes it has gotten in the past.
  - *Supply chain management.* Systemic deficiencies in DOD's supply support for U.S. ground forces have led to critical supply shortages during war operations. At the outset of Operation Iraqi Freedom and periodically throughout the campaign, DOD has experienced difficulties in providing U.S. ground forces with critical items such as tires, body armor, and Meals-Ready-to-Eat.<sup>7</sup> In addition, our review of the Air Force's inventory management practices found problems that hindered its ability to efficiently and effectively maintain its spare parts inventory for military equipment.<sup>8</sup> For example, we found that from fiscal years 2002 through

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<sup>6</sup>GAO, *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, [GAO-07-860](#) (Washington, D.C.: July 27, 2007).

<sup>7</sup>GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, [GAO-07-308SP](#) (Washington, D.C.: Jan. 9, 2007).

<sup>8</sup>GAO, *Defense Inventory: Opportunities Exist to Save Billions by Reducing Air Force's Unneeded Spare Parts Inventory*, [GAO-07-232](#) (Washington, D.C.: Apr. 27, 2007).

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2005, an average of 52 percent (\$1.3 billion) of the Air Force's secondary on-order inventory was not needed to support on-order requirements. Furthermore, we also reported that the Army plans to invest about \$5 billion over the next several years to develop and implement business systems to better track inventory items without a clear, integrated strategy, Armywide enterprise architecture, or concept of operations to guide this investment. Challenges remain in coordinating and consolidating distribution and supply support in theater, which could lead to similar types of supply problems experienced in Operation Iraqi Freedom in future military operations.

- *Contract management.* DOD has relied extensively on contractors to undertake major reconstruction and logistical support to its troops in Iraq. Service contracts have grown by nearly 80 percent in a decade, both at home and abroad. In some cases, contractors have begun work without the key terms and conditions of contracts, including projected costs, being defined within required time frames. Problems with poor planning, insufficient leadership and guidance, inadequate numbers of trained contracting personnel, and limited oversight contribute to ineffective contract management controls.<sup>9</sup> For example, a program official for the Logistics Civil Augmentation Program (LOGCAP)—DOD's largest support contract—noted that if adequate staffing had been in place, the Army could have realized substantial savings through more effective reviews of new requirements.<sup>10</sup> Furthermore, we recently found that sole-source contracts for security contractors on installations were found to be 25 percent higher than past contracts awarded competitively.<sup>11</sup> In addition, DOD does not have a sufficient number of oversight personnel, in deployed locations and elsewhere, which precludes its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively at each location where work is being performed. For example, officials responsible for contracting with the Multi-National Force—Iraq (MNF-I) stated that they did not have enough contract oversight personnel and quality assurance representatives to allow MNF-I to reduce the Army's use of the LOGCAP contract by awarding more sustainment contracts for base operations support in Iraq.<sup>12</sup> Further, a lack

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<sup>9</sup>GAO-07-308SP.

<sup>10</sup>GAO, *Defense Acquisitions: Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services*, GAO-07-832T (Washington, D.C.: May 10, 2007).

<sup>11</sup>GAO-07-832T.

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of training for military commanders hinders their ability to adequately plan for the use of contractor support and inhibits the ability of contract oversight personnel to manage and oversee contracts and contractors who support deployed forces.

As these examples point out, weaknesses in DOD's business operations span most of the department's major business areas and negatively impact the department's efficiency and effectiveness and affect its ability to support the warfighter. Overall, these long-standing weaknesses in DOD's business areas have (1) resulted in a lack of reliable information needed to make sound decisions and report accurately on its operations; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, abuse, and mismanagement.

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**DOD Has Made Progress in Addressing Its Business Transformation Efforts, but Critical Actions are Needed to Provide Comprehensive, Integrated, and Strategic Planning and Focused and Sustained Leadership**

Due to the impact of the department's business weaknesses on both the department and the warfighter, DOD's leaders have demonstrated a commitment to making the department's business transformation a priority and have made progress in establishing a management framework for these efforts. For example, the Deputy Secretary of Defense has overseen the establishment of various management entities and the creation of plans and tools to help guide business transformation at DOD. However, our analysis has shown that these efforts are largely focused on business systems modernization and that ongoing efforts across the department's business areas are not adequately integrated. Furthermore, key characteristics of the management framework have yet to be institutionalized or defined in directives. In addition, DOD lacks two crucial features that are integral to successful organizational transformation—(1) a strategic planning process that results in a comprehensive, integrated, and enterprisewide plan or interconnected plans, and (2) a senior leader who is responsible and accountable for business transformation and who can provide full-time focus and sustained leadership.

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<sup>12</sup>GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

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## DOD Has Made Progress in Addressing Its Business Transformation Challenges

DOD's senior leadership has shown commitment to transforming the department's business operations, and DOD has taken a number of positive steps to begin this effort. In fact, because of the impact of the department's business operations on its warfighters, DOD recognizes the need to continue working toward transformation of its business operations and provide transparency in this process. The department has devoted substantial resources and made important progress toward establishing key management structures and processes to guide business systems investment activities, particularly at the departmentwide level, in response to congressional legislation that codified many of our prior recommendations related to DOD business systems modernization and financial management.<sup>13</sup>

Specifically, DOD has made progress in establishing a management framework for business transformation by creating various governance and management entities and developing plans and tools to help guide transformation. In the past few years, DOD has established the Defense Business Systems Management Committee, investment review boards, and the Business Transformation Agency to manage and guide business systems modernization. The Defense Business Systems Management Committee and investment review boards were statutorily required by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 to review and approve the obligation of funds for defense business systems modernization, depending on the cost and scope of the system in review. The Business Transformation Agency was created to support the top-level management body, the Defense Business Systems Management Committee, and to advance DOD-wide business transformation efforts.

Additionally, DOD has developed a number of tools and plans to enable these management entities to help guide business systems modernization efforts. The tools and plans include the business enterprise architecture and the enterprise transition plan. The business enterprise architecture is a tool or blueprint intended to guide and constrain investments in DOD organizations and systems as they relate to business operations. It provides a thin layer of corporate policies, capabilities, standards, and rules and focuses on providing tangible outcomes for a limited set of enterprise-level (DOD-wide) priorities. The enterprise transition plan is currently considered the highest level plan for DOD business

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<sup>13</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. §§ 186 and 2222).

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transformation. According to DOD, the enterprise transition plan is intended to summarize all levels of transition planning information (milestones, metrics, resource needs, and system migrations) as an integrated product for communicating and monitoring progress, resulting in a consistent framework for setting priorities and evaluating plans, programs, and investments.

Our analysis of these tools, plans, and meeting minutes of the various transformational management entities shows that these efforts are largely focused on business systems modernization, and that this framework has yet to be expanded to encompass all of the elements of the overall business transformation. Furthermore, DOD has not clearly defined or institutionalized in directives the interrelationships, roles and responsibilities, or accountability for the various entities that comprise its management framework for overall business transformation. For example, opinions differ within DOD as to which senior governance body will serve as the primary body responsible for overall business transformation. Some officials stated that the Defense Business Systems Management Committee would serve as the senior-most governance entity, while others stated that the Deputy's Advisory Working Group, a group that provides departmentwide strategic direction on various issues, should function as the primary decision-making body for business transformation. Additionally, opinions differ between the two entities regarding the definition of DOD's key business areas, with the Defense Business Systems Management Committee and the Business Transformation Agency using a broader definition of business processes than that of the Deputy Advisory Working Group and its supporting organizations. Until such differences are resolved and the department institutionalizes a management framework that spans all aspects of business transformation, DOD will not be able to integrate related initiatives into a sustainable, enterprisewide approach and to resolve weaknesses in business operations.



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## Critical Actions Are Needed to Provide Comprehensive, Integrated, and Strategic Planning and Focused and Sustained Leadership for DOD's Overall Business Transformation Efforts

### DOD Lacks a Strategic Planning Process That Results in a Comprehensive, Integrated, and Enterprisewide Plan or Set of Plans

As we have testified and reported for years, a successful, integrated, departmentwide approach to addressing DOD's overall business transformation requires two critical elements: a comprehensive, integrated, and enterprisewide plan and an individual capable of providing full-time focus and sustained leadership both within and across administrations, dedicated solely to the integration and execution of the overall business transformation effort.

DOD continues to lack a comprehensive, integrated, and enterprisewide plan or set of linked plans for business transformation that is supported by a comprehensive planning process, and guides and unifies its business transformation efforts. Our prior work has shown that this type of plan should help set strategic direction for overall business transformation efforts and all key business functions; prioritize initiatives and resources; and monitor progress through the establishment of performance goals, objectives, and rewards.<sup>14</sup> Furthermore, an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the department's key resource decisions.

While various plans exist for different business areas, DOD's various business-related plans are not yet integrated to include consistent reporting of goals, measures, and expectations across institutional, unit, and individual program levels. Our analysis shows that plan alignment and integration currently focuses on data consistency among plans, meaning that plans are reviewed for errors and inconsistencies in reported information, but there is a lack of consistency in goals and measurements among plans. For example, our analysis of the March 2007 enterprise transition plan showed that the goals and objectives in that plan were not clearly linked to the goals and objectives in the most recent Quadrennial Defense Review, which is DOD's highest-level strategic plan. Additionally, the enterprise transition plan is not based on a strategic planning process. For example, it does not provide a complete assessment of DOD's

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<sup>14</sup>See for example, [GAO-07-1072](#); GAO, *Defense Business Transformation: A Comprehensive Plan, Integrated Efforts, and Sustained Leadership Are Needed to Assure Success*, [GAO-07-229T](#) (Washington, D.C.: Nov. 16, 2006); *Department of Defense: Sustained Leadership Is Critical to Effective Financial and Business Management Transformation*, [GAO-06-1006T](#) (Washington, D.C.: Aug. 3, 2006); and *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, [GAO-05-520T](#) (Washington, D.C.: Apr. 13, 2005).

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progress in overall transformation efforts aside from business systems modernization. The plan also does not contain results-oriented goals and measures that assess overall business transformation. Other entities such as the Institute for Defense Analyses, the Defense Science Board, and the Defense Business Board have similarly reported the need for DOD to develop an enterprisewide plan to link strategies across the department for transforming all business areas and thus report similar findings as our analysis. DOD officials recognize that the department does not have an integrated plan in place, although they have stated that their intention is to expand the scope of the enterprise transition plan to become a more robust enterprisewide planning document and to evolve this plan into the centerpiece strategic document. DOD updates the enterprise transition plan twice a year, once in March as part of DOD's annual report to Congress and once in September, and DOD has stated the department's goal is to evolve the plan to that of a comprehensive, top-level planning document for all business functions. DOD released the most recent enterprise transition plan update on September 28, 2007, and we will continue to monitor developments in this effort.

**DOD Lacks a Full-time and Term-based Senior Management Official to Provide Focus and Sustained Leadership for the Overall Business Transformation Effort**

DOD has not established a full-time and term-based leadership position dedicated solely to the business transformation effort. We have long advocated the importance of establishing CMO positions in government agencies, including DOD, and have previously reported and testified on the key characteristics of the position necessary for success.<sup>15</sup> In our view, transforming DOD's business operations is necessary for DOD to resolve its weaknesses in the designated high-risk areas, and to ensure the department has sustained leadership to guide its business transformation efforts. Specifically, because of the complexity and long-term nature of business transformation, DOD needs a CMO with significant authority, experience, and a term that would provide sustained leadership and the time to integrate its overall business transformation efforts. Without formally designating responsibility and accountability for results, reconciling competing priorities among various organizations and prioritizing investments will be difficult and could impede the department's progress in addressing deficiencies in key business areas.

Furthermore, a broad-based consensus exists among GAO and others that the status quo is unacceptable and that DOD needs a full-time and term-based senior management official to provide focused and sustained

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<sup>15</sup>See for example [GAO-07-1072](#), [GAO-07-310](#), [GAO-07-229T](#), and [GAO-06-1006T](#).

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leadership for its overall business transformation efforts, although differing views exist concerning the specifics of the position, such as term limit and the level of the position within the department. Congress directed DOD to commission studies of the feasibility and advisability of establishing a deputy secretary of defense for management to oversee the department's business transformation process. As part of this effort, the Defense Business Board and the Institute for Defense Analyses both supported the need for a senior executive to be responsible for DOD's overall business transformation efforts.<sup>16</sup> Additionally, this matter is now before Congress as it prepares to deliberate on pending legislation that calls for statutorily establishing a CMO at DOD. Both the current House and Senate versions of the Fiscal Year 2008 Defense Authorization legislation contain provisions for assigning responsibility for DOD's business transformation efforts to a senior-level position within the department, although the versions differ in certain details. The Senate version calls for the Deputy Secretary of Defense to take on the additional duties of the CMO position while also establishing a Deputy CMO position at the Executive Level III; the House version would require the Secretary of Defense to assign CMO duties to a senior official at or above the under secretary level.

DOD has recently taken action on the issue of establishing a CMO position at DOD; however, we believe this action does not go far enough to change the status quo and ensure sustainable success. We recognize the commitment and elevated attention that the Deputy Secretary of Defense and other senior leaders have clearly shown in addressing deficiencies in the department's business operations. For example, the Deputy Secretary has overseen the creation of various business-related entities, such as the Defense Business Systems Management Committee and the Business Transformation Agency, and has been closely involved in monthly meetings of both the Defense Business Systems Management Committee and the Deputy's Advisory Working Group, a group that provides departmentwide strategic direction on various issues. Most recently, DOD issued a directive on September 18, 2007, that assigned CMO responsibilities to the current Deputy Secretary of Defense.<sup>17</sup> In our view, subsuming the duties within the responsibilities of the individual currently

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<sup>16</sup>Defense Business Board, *Governance-Alignment and Configuration of Business Activities Task Group Report* (Washington, D.C.: May 31, 2006) and Institute for Defense Analyses, *Does DOD Need a Chief Management Officer?* (Alexandria, Va.: Dec. 2006).

<sup>17</sup>DOD Directive 5105.02, *Deputy Secretary of Defense* (Sept. 18, 2007).

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serving as the Deputy Secretary represents the status quo and will not provide full-time attention or continuity as administrations change. While the Deputy Secretary may be at the right level, the substantial demands of the position make it exceedingly difficult for the incumbent to maintain the focus, oversight, and momentum needed to resolve business operational weaknesses, including the high-risk areas. Furthermore, the assignment of CMO duties to an individual with a limited term in the position does not ensure continuity of effort or that sustained success will be ensured both within and across administrations.

In the interest of the department and the American taxpayers, we maintain that the department needs a separate, full-time CMO position over the long term in order to devote the needed focus and continuity of effort to transform its key business operations and avoid billions more in waste each year. Therefore, we continue to believe that the CMO position at DOD should be:

- Codified in statute as a separate and full-time position. The CMO should be a separate position from the Deputy Secretary of Defense in order to provide full-time attention to business transformation. The CMO would be responsible and accountable for planning, integrating, and executing DOD's overall business transformation effort. The CMO also would develop and implement a strategic plan for overall business transformation. It should become a permanent position to ensure continuity of business transformation efforts, with the specific duties authorized in statute.
- Designated as an Executive Level II appointment. The CMO should be at Executive Level II and report directly to the Secretary of Defense so that the individual in this position has the stature needed to successfully address integration challenges, adjudicate disputes, and monitor progress on overall business transformation across defense organizations.
- Subject to an extended term appointment. The CMO's appointment could span administrations to ensure transformation efforts are sustained across administrations. Because business transformation is a long-term and complex process, a term of at least 5 to 7 years is recommended to provide sustained leadership and accountability.

In the absence of a CMO with these characteristics to focus solely on the integration and execution of business transformation efforts, and an enterprisewide plan to guide these efforts, it is highly unlikely that DOD will ever resolve its pervasive weaknesses and get the most out of every

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dollar it invests in these times of growing fiscal constraint to better support the warfighter. Transforming DOD's business operations is an absolute necessity in the context of an increasingly demanding security environment and the pressures of our nation's long-term fiscal outlook. Further, the current deployment of tens of thousands of servicemembers, civilians, and contractor personnel to support ongoing operations provides an even greater sense of urgency for the department to aggressively address weaknesses in its business operations and achieve transformation goals in the near and long term.

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## DOD-Specific High-Risk Areas Highlight the Need for Further Change and Transformation in the Department

I would like to discuss the remaining seven programs and activities within DOD that have been designated as high risk. Some of these areas have remained on the high-risk list for nearly 20 years and have continued to be a challenge for DOD, while others have newly emerged as a challenge for the department in more recent years. The remaining high-risk areas include DOD's financial management, business systems modernization, personnel security clearance program, support infrastructure management, supply chain management, weapon systems acquisition, and contract management. Each area was added to our high-risk list due to weaknesses that make DOD more vulnerable to waste, fraud, and abuse. DOD has made progress in addressing each of these areas, but serious challenges remain that will require continued attention and sustained leadership over a number of years to achieve success.

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## DOD Financial Management

DOD's pervasive financial and related business management and system deficiencies adversely affect its ability to assess resource requirements; control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent and detect fraud, waste, and abuse; and address pressing management issues. Therefore, we first designated DOD financial management as high risk in 1995.

A major component of DOD's business transformation effort is the defense Financial Improvement and Audit Readiness (FIAR) Plan, initially issued in December 2005 and updated periodically pursuant to section 376 of the National Defense Authorization Act for Fiscal Year 2006.<sup>18</sup> Section 376 limited DOD's ability to obligate or expend funds for fiscal year 2006 on

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<sup>18</sup>Pub. L. No. 109-163, § 376, 119 Stat. 3136, 3213 (2006).

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financial improvement activities until the department submitted a comprehensive and integrated financial management improvement plan to the congressional defense committees. Section 376 required the plan to (1) describe specific actions to be taken to correct deficiencies that impair the department's ability to prepare timely, reliable, and complete financial management information and (2) systematically tie these actions to process and control improvements and business systems modernization efforts described in the business enterprise architecture and transition plan. The John Warner National Defense Authorization Act for Fiscal Year 2007 continued to limit DOD's ability to obligate or expend funds for financial management improvement activities until the Secretary of Defense submits a determination to the committees that the activities are consistent with the plans required by section 376.<sup>19</sup>

DOD intends the FIAR Plan to provide DOD components with a framework for resolving problems affecting the accuracy, reliability, and timeliness of financial information, and obtaining clean financial statement audit opinions. In its June 2007 FIAR Plan update, DOD introduced a change in its audit strategy in which it moved from a line item approach to a segment approach for addressing its financial management weaknesses and achieving auditability. According to the limited information provided in the June update, DOD has loosely defined a segment as a business process (Civilian Pay), financial statement line item (Cash and Other Monetary Assets), group of related financial statement line items (Fund Balance with Treasury, Accounts Payable, and Accounts Receivable), or a sub-line (Military Equipment). According to DOD officials, the FIAR Plan and the enterprise transition plan are key efforts in improving financial information for decision makers and obtaining unqualified (clean) audit opinions on their annual financial statements. According to the DOD FIAR Director, the September 2007 FIAR Plan update, which the department intends to release by mid-October 2007, and the March 2008 update of the FIAR Plan, are expected to provide more details on DOD's new audit strategy and respective changes in its business rules and oversight process for ensuring that its goals are achieved. We cannot comment on specific changes in DOD's audit strategy until we have had an opportunity to review these more substantive updates of the FIAR Plan.

We will continue to monitor DOD's efforts to transform its business operations and address its financial management deficiencies as part of

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<sup>19</sup>Pub. L. No. 109-364, § 321, 120 Stat. 2083 (2006).

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our continuing DOD business enterprise architecture work and our oversight of DOD's financial statement audit.

Furthermore, the department invests billions of dollars annually to operate, maintain, and modernize its over 2,900 business systems, including financial management systems. Despite this significant investment, the department is severely challenged in implementing business systems on time, within budget, and with the promised capability. As previously reported,<sup>20</sup> many of the department's business systems are nonintegrated, stovepiped, and not capable of providing department management and Congress with accurate and reliable information on DOD's day-to-day operations. Effective process improvement and information technology investment management and oversight will be critical to the department's success in transforming its business management systems and operations. Many of the problems related to DOD's inability to effectively implement its business systems on time, within budget, and with the promised capability can be attributed to its failure to implement the disciplined processes necessary to reduce the risks associated with these projects to acceptable levels.<sup>21</sup> Disciplined processes have been shown to reduce the risks associated with software development and acquisition efforts and are fundamental to successful systems acquisition.

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## DOD Business Systems Modernization

DOD is still not where it needs to be in managing its departmentwide business systems modernization. Until DOD fully defines and consistently implements the full range of business systems modernization management controls (institutional and program-specific), it will be not be positioned to effectively and efficiently ensure that its business systems and information technology services investments are the right solutions for addressing its business needs, that they are being managed to produce expected capabilities efficiently and cost effectively, and that business stakeholders are satisfied.

For decades, DOD has been challenged in modernizing the thousands of timeworn business systems. We designated DOD's business systems modernization program as high risk in 1995. Since then, we have made

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<sup>20</sup>GAO-06-1006T and GAO-07-229T.

<sup>21</sup>Disciplined processes include a wide range of activities, including project planning and oversight, requirements management, risk management, and testing.

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scores of recommendations aimed at strengthening DOD's institutional approach to modernizing its business systems, and reducing the risks associated with key business system investments. In addition, in recent legislation, Congress included provisions that are consistent with our recommendations, such as in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005. In response, the department has taken, or is taking, actions to implement both our recommendations and the legislative requirements, and as a result has made progress in establishing corporate management controls, such as its evolving business enterprise architecture (BEA), corporate investment management structures and processes, increased business system life-cycle management discipline on its largest business system investments, and leveraging highly skilled staff on its largest business system investments.

However, much more remains to be accomplished to address this high-risk area, particularly with respect to ensuring that effective corporate approaches and controls are extended to and employed within each of DOD's component organizations (military departments and defense agencies). To this end, our recent work has highlighted challenges that the department still faces in "federating" (i.e., extending) its corporate BEA to its component organizations' architectures, as well as in establishing institutional structures and processes for selecting, controlling, and evaluating business systems investments within each component organization. Beyond this, making sure that effective system acquisition management controls are actually implemented on each and every business system investment also remains a formidable challenge, as our recent reports on management weaknesses associated with individual programs have disclosed.<sup>22</sup> Among other things, these reports have identified program-level weaknesses relative to architecture alignment, economic justification, and performance management.

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<sup>22</sup>See for example, [GAO-07-860](#); *DOD Needs to Ensure That Navy Marine Corps Intranet Program Is Meeting Goals and Satisfying Customers*, [GAO-07-51](#) (Washington, D.C.: Dec. 8, 2006); *Defense Travel System: Reported Savings Questionable and Implementation Challenges Remain*, [GAO-06-980](#) (Washington, D.C.: Sept. 26, 2006); *DOD Systems Modernization: Uncertain Joint Use and Marginal Expected Value of Military Asset Deployment System Warrant Reassessment of Planned Investment*, [GAO-06-171](#) (Washington, D.C.: Dec. 15, 2005); and *DOD Systems Modernization: Planned Investment in the Navy Tactical Command Support System Needs to be Reassessed*, [GAO-06-215](#) (Washington, D.C.: Dec. 5, 2005).



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More specifically, we recently reported<sup>23</sup> that DOD has continued to take steps to comply with legislative requirements and related guidance pertaining to its business systems modernization high-risk area, and that these steps addressed several of the missing elements that we previously identified relative to, for example, its BEA, enterprise transition plan, business system investment management, and business systems budgetary disclosure. However, we reported that additional steps were still needed to fully comply with legislative requirements and relevant guidance.

- The latest version of the BEA does a good job of defining DOD-wide corporate policies, capabilities, rules, and standards, which are essential to meeting the act's requirements. However, this version had yet to be augmented by the DOD component organizations' subsidiary architectures, which are also necessary to meeting statutory requirements and the department's goal of having a federated family of architectures. Compounding this are our reports showing the military departments' architecture programs were not mature and the strategy that the department had developed for federating its BEA needed more definition to be executable.<sup>24</sup> To address these limitations, we made recommendations aimed at ensuring that DOD's federated BEA provides a more sufficient frame of reference to optimally guide and constrain DOD-wide system investments. DOD agreed with these recommendations and has since taken some actions, such as developing an updated draft of its federation strategy, which according to DOD officials, addresses our recommendations but has yet to be released.
- The March 2007 enterprise transition plan continued to identify more systems and initiatives that are to fill business capability gaps and address DOD-wide and component business priorities, and it continues to provide a range of information for each system and initiative in the plan (e.g., budget information, performance metrics, and milestones). However, this version still does not include system investment information for all the defense agencies and combatant commands. Moreover, the plan does not sequence the planned investments based on a range of relevant factors,

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<sup>23</sup>GAO, *DOD Business Systems Modernization: Progress Continues to Be Made in Establishing Corporate Management Controls, but Further Steps Are Needed*, [GAO-07-733](#) (Washington, D.C.: May 14, 2007).

<sup>24</sup>GAO, *Business Systems Modernization: Strategy for Evolving DOD's Business Enterprise Architecture Offers a Conceptual Approach, but Execution Details Are Needed*, [GAO-07-451](#) (Washington, D.C.: Apr. 16, 2007); and *Enterprise Architecture: Leadership Remains Key to Establishing and Leveraging Architectures for Organizational Transformation*, [GAO-06-831](#) (Washington, D.C.: Aug. 14, 2006).

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such as technology opportunities, marketplace trends, institutional system development and acquisition capabilities, legacy and new system dependencies and life expectancies, and the projected value of competing investments. According to DOD officials, they intend to address such limitations in future versions of the transition plan as part of their plans for addressing our prior recommendations.<sup>25</sup> DOD recently released its September 2007 version of the plan which, according to DOD, continues to provide time-phased milestones, performance metrics, and statement of resource needs for new and existing systems that are part of the BEA and component architectures, and includes a schedule for terminating old systems and replacing them with newer, improved enterprise solutions. We have yet to review the updated transition plan.

- The department has established and has begun to implement legislatively directed investment review structures and processes.<sup>26</sup> However, it has yet to do so in a manner that is fully consistent with relevant guidance.<sup>27</sup> Specifically, the department has yet to fully define a range of policies and procedures needed to effectively execute both project-level and portfolio-based information technology investment management practices. For example, while DOD has established an enterprisewide information technology investment board that is responsible for defining and implementing its business systems investment governance process, it has not fully defined the policies and procedures needed for oversight of and visibility into operations and maintenance-focused investments. Accordingly, we made recommendations aimed at improving the department's ability to better manage the billions of dollars it invests annually in its business systems. DOD largely agreed with these recommendations and has since undertaken several initiatives to strengthen business system investment management. For example, it has drafted and intends to shortly begin implementing a new Business Capability Lifecycle approach that is intended to consolidate management of business system requirements, acquisition, and compliance with architecture disciplines into a single governance process. Further, it has established an Enterprise Integration directorate in the Business Transformation Agency to support the implementation of Enterprise

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<sup>25</sup>See [GAO-07-733](#).

<sup>26</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. § 2222).

<sup>27</sup>GAO, *Business Systems Modernization: DOD Needs to Fully Define Policies and Procedures for Institutionally Managing Investments*, [GAO-07-538](#) (Washington, D.C.: May 11, 2007).

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Resource Planning systems by ensuring that best practices are leveraged and BEA-related business rules and standards are adopted.

- The department has continued to review and approve business systems as directed in legislation. As of March 2007, the department reported that its senior investment review body had approved 285 such systems. However, the military departments reported that their review and approval processes were still evolving and that additional work was needed for them to mature. Because of the importance of the military departments' investment management structures and processes, we have ongoing work to determine their maturity.

Beyond having a well-defined federated architecture for the business mission area and business systems investment management policies and procedures across the department, the more formidable challenge facing DOD is how well it can implement these and other acquisition management controls for each and every business system investment and information technology services outsourcing program. In this regard, we have continued to identify program-specific weaknesses.

Most recently, for example, we reported that the Army's approach for investing about \$5 billion over the next several years in its General Fund Enterprise Business System, Global Combat Support System-Army Field/Tactical,<sup>28</sup> and Logistics Modernization Program did not include alignment with Army enterprise architecture or use of a portfolio-based business system investment review process.<sup>29</sup> Moreover, we reported that the Army did not have reliable processes, such as an independent verification and validation function, or analyses, such as economic analyses, to support its management of these programs. We concluded that until the Army adopts a business system investment management approach that provides for reviewing groups of systems and making enterprise decisions on how these groups will collectively interoperate to provide a desired capability, it runs the risk of investing significant resources in business systems that do not provide the desired functionality and efficiency.

We also reported that the Navy's approach for investing in both system and information technology services, such as the Naval Tactical Command

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<sup>28</sup>Field/tactical refers to Army units that are deployable to locations around the world, such as Iraq or Afghanistan.

<sup>29</sup>[GAO-07-860](#).

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Support System (NTCSS)<sup>30</sup> and Navy Marine Corps Intranet (NMCI),<sup>31</sup> did not include effective program performance management. For NTCSS, we reported that, for example, earned value management, which is a means for determining and disclosing actual performance against budget and schedule estimates, and revising estimates based on performance to date, had not been implemented effectively. We also reported that complete and current reporting of NTCSS progress and problems in meeting cost, schedule, and performance goals had not occurred, leaving oversight entities without the information needed to mitigate risks, address problems, and take corrective action. We concluded that without this information, the Navy cannot determine whether NTCSS, as it was defined and was being developed, was the right solution to meet its strategic business and technological needs. For NMCI, we reported that performance management practices, to include measurement of progress against strategic program goals and reporting to key decision makers on performance against strategic goals and other important program aspects, such as examining service-level agreement satisfaction from multiple vantage points and ensuring customer satisfaction, had not been adequate. We concluded that without a full and accurate picture of program performance, the risk of inadequately informing important NMCI investment management decisions was increased.

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## DOD Personnel Security Clearance Program

We first designated DOD's personnel security clearance program as a high-risk area in January 2005. The designation followed about 20 years of our reports documenting delays in determining clearance eligibility and other clearance-related challenges. The type of information accessed by individuals with clearances and the scope of DOD's clearance program are two factors to consider in understanding the risk present in this area. For example, personnel with clearances can gain access to classified information that could cause damage to U.S. national defense and foreign relations through unauthorized disclosure. In our 1999 report, we noted that the damage had included intelligence personnel being killed, critical information being compromised, and U.S. military forces being put at risk.<sup>32</sup> Furthermore, problems with DOD's program have effects outside of

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<sup>30</sup>GAO-06-215.

<sup>31</sup>GAO-07-51.

<sup>32</sup>GAO, *DOD Personnel: Inadequate Personnel Security Investigations Pose National Security Risks*, GAO/NSIAD-00-12 (Washington, D.C.: Oct. 27, 1999).

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the department. DOD is responsible for about 2.5 million security clearances issued to servicemembers, DOD civilians, and industry personnel who work on contracts for DOD and 23 other federal agencies.

Our reports have documented a wide variety of problems present in DOD's clearance program. Some of the problems that we noted in our 2007 high-risk report included (1) DOD's consistently inaccurate projections of clearance requests and their negative effects on workload planning and funding, (2) incomplete and delayed investigative reports from the Office of Personnel Management (OPM)—DOD's primary provider of clearance investigations, and (3) DOD personnel (namely, adjudicators) granting clearance eligibility despite data missing from the investigative reports used to make such determinations. While some of those findings were reported on data which are now over 1 ½ years old, our May 2007 testimony noted that problems continue to exist such as OPM not fully counting all of days required for investigations and limited information being provided to Congress on reinvestigations for clearance updating. Delays in determining initial clearance eligibility can increase the cost of performing classified work, and delays in updating clearances may increase the risk to national security. Additionally, incomplete investigative or adjudicative reports could undermine governmentwide efforts to achieve clearance reciprocity (e.g., an agency accepting a clearance awarded by another agency).

High-level attention has been focused on improving the personnel security clearance processes in DOD and governmentwide. Since June 2005, the Office of Management and Budget's (OMB) Deputy Director of Management has been responsible for improving the governmentwide processes. During that time, OMB has overseen, among other things, the issuance of reciprocity standards, the growth of OPM's investigative workforce, and greater use of OPM's automated clearance-application system. An August 9, 2007, memorandum from the Deputy Secretary of Defense indicates that DOD's clearance program is drawing attention at the highest levels of the department. Specifically, streamlining security clearance processes is one of the 25 DOD transformation priorities identified in the memorandum. Another indication of high-level involvement in addressing clearance problems is a memorandum of agreement that seeks to develop, in phases, a reformed DOD and intelligence community security clearance process that allows granting high-assurance security clearances in the least time at the lowest reasonable cost. While the Office of Director of National Intelligence and the Office of the Under Secretary of Defense posted a request for information on the Federal Business Opportunities' website for August 7

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through September 4, 2007, the request indicated that they plan to deliver “a transformed, modernized, and reciprocal security clearance process that is universally applicable” to DOD, the intelligence community, and other U.S. government agencies no later than December 31, 2008.

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## DOD Support Infrastructure Management

Since 1997, we have identified DOD’s management of its support infrastructure as a high-risk area because infrastructure costs continue to consume a larger than necessary portion of its budget. We have frequently reported in recent years on the long-term challenges DOD faces in managing its portfolio of facilities, halting the degradation of facilities, and reducing unneeded infrastructure to free up funds to better maintain enduring facilities and meet other needs. DOD officials have likewise been concerned for several years that much of the department’s infrastructure is outdated, inadequately maintained, and that DOD has more infrastructure than needed, which affects its ability to devote more funds to weapon systems modernization and other needs the department deems critical. Inefficient management practices and outdated business processes also have contributed to the problem.

While DOD has made progress and expects to continue making improvements in its support infrastructure management, DOD officials recognize they must achieve greater efficiencies. To its credit, the department has continued to give high-level emphasis to reforming its support operations and infrastructure, including continued efforts to reduce excess infrastructure, promote transformation, and foster jointness through the base realignment and closure (BRAC) process. Also, DOD is updating its Defense Installations Strategic Plan to better address infrastructure issues, and has revised its installations readiness reporting to better measure facility conditions, established core real property inventory data requirements to better support the needs of real property asset management, and continued to modify its suite of analytical tools to better forecast funding requirements for the sustainment and restoration of facilities. It also has achieved efficiencies through demolishing unneeded buildings at military installations and privatizing military family housing.

Our work examining DOD’s management of its facilities infrastructure shows that much work remains for DOD to fully rationalize and transform its support infrastructure to improve operations, achieve efficiencies, and allow it to concentrate its resources on the most critical needs. For example, we have reported that the cleanup of environmental contamination on unneeded property resulting from prior BRAC rounds

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has been a key impediment to the transfer of these properties and could be an issue in the transfer and reuse of unneeded property resulting from the 2005 BRAC round.<sup>33</sup> Impediments to transfer continue to be related primarily to a variety of interrelated environmental cleanup issues, including limited technology to address unexploded ordnance and protracted negotiations on compliance with environmental regulations. We have also recently reported that projected savings from past BRAC rounds have been significantly overstated.<sup>34</sup> During recent visits to installations in the United States and overseas, service officials continue to report inadequate funding to provide base operations support and maintain their facilities. They express concern that unless this is addressed, future upkeep and repair of many new facilities to be constructed as a result of BRAC, overseas rebasing, and the Army's move to the modular brigade structure will suffer and the facilities' condition and base services will deteriorate. We have also found that DOD's outline of its strategic plan for addressing this high-risk area had a number of weaknesses and warranted further clarification and specification. For example, DOD's outline does not identify DOD's short- and long-term goals or the desired end state for its facilities infrastructure—information critical for a meaningful plan. Instead, the outline focuses on completing administrative actions and producing paper products, and it does not describe how the completion of these actions and products will directly affect DOD infrastructure, including major support functions, and ultimately meet DOD's short- and long-term goals. We will continue to meet with OMB and DOD officials to discuss the department's efforts in addressing this high-risk area.

Through future work examining DOD's strategic plan for this area and through our monitoring of DOD base realignment and closures, overseas rebasing, and the sustainment and operations of military installations and facilities, we will be able to determine what other work needs to be done to assist DOD in its efforts to improve the management of its support infrastructure. As demands on the military continue to change and increase, organizations throughout DOD will need to continue

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<sup>33</sup>GAO, *Military Base Closures: Opportunities Exist to Improve Environmental Cleanup Cost Reporting and to Expedite Transfer of Unneeded Property*, [GAO-07-166](#) (Washington, D.C.: Jan. 30, 2007).

<sup>34</sup>GAO, *Military Base Closures: Projected Savings from Fleet Readiness Centers Likely Overstated and Actions Needed to Track Actual Savings and Overcome Certain Challenges*, [GAO-07-304](#) (Washington, D.C.: June 29, 2007).

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reengineering their business processes and striving for greater operational effectiveness and efficiency. Having a comprehensive, long-range plan for its infrastructure that addresses facility requirements, recapitalization, and maintenance and repair will help DOD provide adequate resources to meet these requirements and improve facility conditions and base services.

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## DOD Supply Chain Management

The availability of spare parts and other critical supply items that are procured and delivered through DOD's supply chain network affects the readiness and capabilities of U.S. military forces, and can affect the success of a mission. Moreover, the investment of resources in the supply chain is substantial, amounting to more than \$150 billion a year according to DOD, and supply inventory levels have grown by 35 percent from \$63.3 billion in fiscal year 2001 to \$85.6 billion in fiscal year 2006. While DOD has taken a number of positive steps toward improving its supply chain management, it has continued to experience weaknesses in its ability to provide efficient and effective supply support to the warfighter. Consequently, the department has been unable to consistently meet its goal of delivering the "right items to the right place at the right time" to support the deployment and sustainment of military forces. As a result of weaknesses in DOD's management of supply inventories and responsiveness to warfighter requirements, supply chain management has been on our high-risk list since 1990. Our prior work over the last several years has identified three focus areas that are critical to resolving supply chain management problems: requirements forecasting, asset visibility, and materiel distribution.

Beginning in 2005, DOD developed a plan to address long-term systemic weaknesses in supply chain management. Since the January 2007 update of the high-risk series, DOD has made progress in developing and implementing supply chain management improvement initiatives in its supply chain management plan. However, the long-term time frames for many of these initiatives present challenges to the department in sustaining progress toward substantially completing their implementation. The plan also lacks outcome-focused performance measures for many individual initiatives as well as its three focus areas: requirements forecasting, asset visibility, and materiel distribution. Together, these weaknesses limit DOD's ability to fully demonstrate the results it hopes to achieve through its plan.

Our recent work has also identified problems related to the three focus areas in DOD's plan. In the requirements area, for example, the military services are experiencing difficulties estimating acquisition lead times to



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acquire spare parts for equipment and weapon systems, hindering their ability to efficiently and effectively maintain spare parts inventories for military equipment. In March 2007, we reported that 44 percent of the services' lead time estimates varied either earlier or later than the actual lead times by at least 90 days. Overestimates and underestimates of acquisition lead time contribute to inefficient use of funds and potential shortages or excesses of spare parts. Challenges in the asset visibility area include the lack of interoperability among information technology systems, problems with container management, and inconsistent application of radio frequency identification technology, all of which make it difficult to obtain timely and accurate information on assets in theater. In the materiel distribution area, challenges remain in coordinating and consolidating distribution and supply support within a theater. Furthermore, we recently reviewed DOD's joint theater logistics initiative, which is aimed at improving the ability of a joint force commander to direct various logistics functions, including distribution and supply support activities. Our work raises concerns as to whether DOD can effectively implement this initiative without reexamining fundamental aspects of its logistics governance and strategy. In this respect, joint theater logistics may serve as a microcosm of some of the challenges DOD faces in resolving supply chain management problems.

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## DOD Weapon Systems Acquisition

For more than a decade, we have identified DOD's acquisition of major weapon systems as high risk. The weapon acquisitions process continues to produce systems that are the best in the world but cost more than first promised, take longer to field than first promised, and do less than first promised. Weapon acquisitions are demanding a larger share of the DOD budget at a time when the nation's fiscal imbalance is growing. DOD has doubled its planned investment in new weapon systems from approximately \$750 billion in 2001 to almost \$1.5 trillion in 2007. During the same period, the government's total liabilities and unfunded commitments have increased from about \$20 trillion to about \$50 trillion. In this context, DOD simply must maximize its return on investment to provide needed capabilities to the warfighter and to provide the best value to the taxpayer. We have found that knowledge at key decision points is critical in the development of new weapon systems if they are to meet their promised costs, schedules, and capabilities—in other words, using a knowledge-based approach to acquisitions. The link between knowledge and cost is real and predictable. It provides three choices for decision makers: (1) accept the status quo, (2) require demonstrations of high knowledge levels before approving individual programs, or (3) increase cost estimates to accurately reflect consequences of insufficient

knowledge. With over \$880 billion remaining to invest in the current portfolio of major systems, the status quo is both unacceptable and unsustainable.

The inability to deliver new weapon systems at promised times and costs has significant consequences for both the taxpayer and the warfighter. When time and costs increase, quantities often decrease to compensate. The result is the warfighter gets less capability than planned and the taxpayer’s dollar does not go as far. For example, table 2 depicts the following programs that experienced both cost increases and quantity decreases:

**Table 2: Examples of Reduced Buying Power (constant 2007 dollars)**

<b>Programs</b>	<b>Initial estimate</b>	<b>Initial quantity</b>	<b>Latest estimate</b>	<b>Latest quantity</b>	<b>Percentage of unit cost increase</b>
Future Combat Systems	\$85.5 billion	15 systems	\$131.7 billion	15 systems	54.1
V-22 Osprey Aircraft	\$36.9 billion	913 aircraft	\$50.0 billion	458 aircraft	170.2
Evolved Expendable Launch Vehicle	\$16.0 billion	181 vehicles	\$28.6 billion	138 vehicles	134.7
Expeditionary Fighting Vehicle	\$8.4 billion	1,025 vehicles	\$13.2 billion	593 vehicles	171

Source: GAO.

DOD knows what to do to achieve more successful outcomes but finds it difficult to apply the necessary discipline and controls or assign much-needed accountability. DOD has written into policy an approach that emphasizes attaining a certain level of knowledge at critical junctures before managers agree to invest more money in the next phase of weapon system development. This knowledge-based approach should result in evolutionary—that is incremental, manageable, and predictable—development and inserts several controls to help managers gauge progress in meeting cost, schedule, and performance goals. However, as we reported in our March 2007 report on selected DOD weapon systems, DOD has not been employing the knowledge-based approach, proceeds with lower levels of knowledge at critical junctures, and attains key elements of product knowledge later in development than specified in DOD policy. In particular, the department accepts high levels of technology risk at the start of major acquisition programs. DOD’s acquisition community often

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takes on responsibility for technology development and product development concurrently. Without mature technologies at the outset, a program will almost certainly incur cost and schedule problems. Without mature technologies, it is difficult to know whether the product being designed and produced will deliver the desired capabilities or, alternatively, if the design allows enough space for technology integration. Our work has shown that very few DOD programs start with mature technologies.

We continue to annually assess DOD's weapon system acquisition programs, and the breadth of our work gives us insights into a broad range of programs as well as the overall direction of weapon system acquisitions. In examining our defense work, we have observed 15 systemic acquisition challenges facing DOD—which we have included as appendix I to my statement. DOD is depending on the weapons currently under development to transform military operations for the 21st century. As we have recently reported, the complexity of DOD's transformational efforts is especially evident in the development of several megasystems or major weapon systems that depend on the integration of multiple systems—some of which are developed as separate programs—to achieve desired capabilities.<sup>35</sup> This strategy often requires interdependent programs to be developed concurrently and to be closely synchronized and managed, as they may, for example, depend on integrated architectures and common standards as a foundation for interoperability. If dependent systems are not available when needed, then a program could face cost increases, schedule delays, or reduced capabilities. Furthermore, the larger scope of development associated with these megasystems produces a much greater fiscal impact when cost and schedule estimates increase.

The current fiscal environment also presents challenges for DOD's plans to transform military operations. As the nation begins to address long-term fiscal imbalances, DOD is likely to encounter considerable pressure to reduce its investment in new weapons. Within DOD's own budget, investment in new weapon systems competes with funds needed to replace equipment and sustain military operations in Iraq and Afghanistan. The nation's long-term fiscal imbalances also will likely place pressure on DOD's planned investment in major weapon systems. As entitlement programs like Social Security, Medicare, and Medicaid consume a growing

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<sup>35</sup>GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, GAO-07-406SP (Washington, D.C.: Mar. 30, 2007).

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percentage of available resources, discretionary programs—including defense—face competition for the increasingly scarce remaining funds. Sustaining real, top-line budget increases in any discretionary program will be difficult in this constrained resource environment. DOD budget projections conform to this tightening framework by offsetting growth in procurement spending with reductions in research and development, personnel, and other accounts. The minimal real increases projected in defense spending through fiscal year 2011 depend on these offsets. However, these projections do not reflect recent experience, nor do they take into account higher than anticipated cost growth and schedule delays, which can compound the fiscal impact and affordability of DOD’s planned investment.

Program approvals in DOD have also shown a decided lack of restraint. DOD’s requirements process generates more demand for new programs than fiscal resources can support. DOD compounds the problem by approving so many highly complex and interdependent programs. Once too many programs are approved, the budgeting process must broker trades to stay within realistic funding levels. Because programs are funded annually and departmentwide, cross-portfolio priorities have not been established, competition for funding continues over time, forcing programs to view success as the ability to secure the next funding increment rather than delivering capabilities when and as promised. DOD recognizes this dilemma and has embraced best practices in its policies, instilled more discipline in requirements setting, strengthened training for program managers, and reorganized offices that support and oversee programs. However, this intention has not been fully implemented and it has not had a material effect on weapon system programs. To translate policy into better programs, several additional elements are essential, including having a sound business case for each program that focuses on real needs and embodies best practices, sound business arrangements, and clear lines of responsibility and accountability.

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## DOD Contract Management

DOD’s management of its contracts has been on our high-risk list since 1992. Our work has found that DOD is unable to ensure that it is using sound business practices to acquire the goods and services needed to meet warfighters’ needs, creating unnecessary risks of paying higher prices than justified. DOD’s long-standing problems with contract management have become more prominent as DOD’s reliance on contractors to provide services continues to grow.

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Recently, I have been quite vocal about the large and growing long-range structural deficits the federal government faces. Given this fiscal reality, it is imperative that DOD gets the best return it can on not only major weapon systems, but also on its investments in goods and services. In our recent testimony we noted that within the federal government, DOD is the largest purchaser of a variety of goods and services.<sup>36</sup> In fiscal year 2006 DOD spent about \$297 billion, or 71 percent of the more than \$400 billion spent by the federal government, on goods and services to equip and support the military forces, but is not able to ensure it is using sound business practices to acquire the goods and services needed to meet the warfighters' needs.

In November 2006, we reported that DOD's approach to managing service acquisitions has tended to be reactive and has not fully addressed the key factors for success at either the strategic or transactional level.<sup>37</sup> At the strategic level, DOD has yet to set the direction or vision for what it needs, determine how to go about meeting those needs, capture the knowledge to enable more informed decisions, or assess the resources it has to ensure departmentwide goals and objectives are achieved. Actions at the transactional level continue to focus primarily on awarding contracts and do not always ensure that user needs are translated into well-defined requirements or that postcontract award activities result in expected performance. In June 2007, we reported that DOD used time-and-materials contracts, one of the riskiest contract types for the government because they could be awarded quickly and labor hours or categories can be adjusted if requirements are unclear or funding uncertain.<sup>38</sup> Even though these contracts call for appropriate government monitoring of contractor performance, there were wide discrepancies in the rigor with which monitoring was performed and most of the contract files we reviewed did not include documented monitoring plans. DOD also used undefinitized contract actions (UCA) to rapidly fill urgent needs. While this is permitted in a variety of circumstances, we reported in June 2007 that DOD did not meet the definitization time frame requirement of 180 days after award on

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<sup>36</sup>GAO, *Federal Acquisitions and Contracting: Systemic Challenges Need Attention*, [GAO-07-1098T](#) (Washington, D.C.: July 17, 2007).

<sup>37</sup>GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006).

<sup>38</sup>GAO, *Defense Contracting: Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts*, [GAO-07-273](#) (Washington, D.C.: June 29, 2007).

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60 percent of the 77 UCAs we reviewed.<sup>39</sup> Since DOD tends to obligate the maximum amount of funding permitted—up to 50 percent of the not-to-exceed amount—immediately at award of UCAs, contractors may have little incentive to quickly submit proposals. Lack of timely negotiations contributed significantly to DOD’s decision on how to address \$221 million in questioned costs on the \$2.5 billion Restore Iraqi Oil contract.<sup>40</sup> All 10 task orders for this contract were negotiated more than 180 days after the work commenced. As a result, the contractor had incurred almost all its costs at the time of negotiations, which influenced DOD’s decision to pay nearly all of the questioned costs.

Additionally, DOD management and oversight of contractors continues to be problematic for two reasons: inadequate numbers of trained contract oversight personnel and second, insufficient training for those officials responsible for contract oversight.

On multiple occasions, we and others have reported on the challenges caused by DOD’s lack of contract management and oversight personnel. For example, in our June 2004 report on Iraq contract award procedures, we found that inadequate acquisition workforce resources presented challenges to several agencies involved in Iraq reconstruction efforts and, at times, resulted in inadequate oversight of contractor activities.<sup>41</sup> Similarly, in 2004, we reported that administrative contracting officers from the Defense Contract Management Agency, who were responsible for monitoring the LOGCAP contract in Iraq, believe that they needed an increase in the number of qualified staff to fully meet their oversight mission.<sup>42</sup> In an April 2005 report, we found that DOD, faced with an urgent need for interrogation and other services in support of military operations in Iraq, turned to the Department of the Interior for contract assistance. However, numerous breakdowns occurred in the issuance and

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<sup>39</sup>GAO, *Defense Contracting: Use of Undefined Contract Actions Understated and Definitization Time Frames Often Not Met*, [GAO-07-559](#) (Washington, D.C.: June 19, 2007).

<sup>40</sup>GAO, *Defense Contract Management: DOD’s Lack of Adherence to Key Contracting Principles on Iraq Oil Contracts Put Government Interests at Risk*, [GAO-07-839](#) (Washington, D.C.: July 31, 2007).

<sup>41</sup>GAO, *Rebuilding Iraq: Fiscal year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

<sup>42</sup>GAO, *Military Operations: DOD’s Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

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administration of the orders for these services, including inadequate oversight of contractor performance.<sup>43</sup>

More recently, in December 2006 we reported that DOD does not have sufficient numbers of contractor oversight personnel at deployed locations, which limits its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively.<sup>44</sup> For example, an Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. In addition, officials responsible for contracting with MNF-I stated that they did not have enough contract oversight personnel and quality assurance representatives to allow MNF-I to reduce the Army's use of the LOGCAP contract by awarding more sustainment contracts for base operations support in Iraq. Additionally, a Defense Contract Management Agency official responsible for overseeing the LOGCAP contractor's performance at 27 installations in Iraq told us he was unable to personally visit all 27 locations himself during his 6-month tour in Iraq. As a result, he was unable to determine the extent to which the contractor was meeting the contract's requirements at each of those 27 sites. Moreover, he only had one quality assurance representative to assist him. The official told us that in order to properly oversee this contract, he should have had at least three quality assurance representatives assisting him. The contracting officer's representative for an intelligence support contract in Iraq told us he was also unable to visit all of the locations that he was responsible for overseeing. At the locations he did visit he was able to work with the contractor to improve its efficiency. However, because he was not able to visit all of the locations at which the contractor provided services in Iraq, he was unable to duplicate those efficiencies at all of the locations in Iraq where the contractor provided support.

Since the mid-1990s, our work has shown the need for better pre-deployment training for military commanders and contract oversight personnel on the use of contractor support. Training is essential for military commanders because of their responsibility for identifying and validating requirements to be addressed by the contractor. In addition, commanders are responsible for evaluating the contractor's performance and ensuring the contract is used economically and efficiently. Similarly,

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<sup>43</sup>GAO, *Interagency Contracting: Problems with DOD's and Interior's to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: Apr. 29, 2005).

<sup>44</sup>[GAO-07-145](#).

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training is essential for DOD contract oversight personnel who monitor contractor performance for the contracting officer.

As we reported in 2003, military commanders and contract management and oversight personnel we met in the Balkans and throughout Southwest Asia frequently cited the need for better preparatory training.<sup>45</sup> Additionally, in our 2004 review of logistics support contracts, we reported that many individuals using logistics support contracts such as LOGCAP were unaware that they had any contract management or oversight roles.<sup>46</sup> Army customers stated that they knew nothing about LOGCAP before their deployment and that they had received no pre-deployment training on their roles and responsibilities in ensuring that the contract was used economically and efficiently. In July 2005 and again in June 2006, we reported that military units did not receive any training on private security contractors in Iraq and the military's roles and responsibilities regarding private security contractors.<sup>47</sup>

In our December 2006 report, we noted that many officials responsible for contract management and oversight in Iraq stated that they received little or no training on the use of contractors prior to their deployment, which led to confusion over their roles and responsibilities.<sup>48</sup> For example, in several instances, military commanders attempted to direct (or ran the risk of directing) a contractor to perform work even though commanders are not authorized to do so. Such cases can result in increased costs to the government.

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Mr. Chairman and Members of the Subcommittee, this concludes my statement. I would be happy to answer any questions you may have at this time.

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<sup>45</sup>GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, [GAO-03-695](#) (Washington, D.C.: June 24, 2003).

<sup>46</sup>[GAO-04-854](#).

<sup>47</sup>GAO, *Rebuilding Iraq: Actions Needed to Improve the Use of Private Security Providers*, [GAO-05-737](#) (Washington, D.C.: July 28, 2005) and *Rebuilding Iraq: Actions Still Needed to Improve the Use of Private Security Providers*, [GAO-06-865T](#) (Washington, D.C.: June 13, 2006).

<sup>48</sup>[GAO-07-145](#).



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# Appendix I: Systemic Acquisition Challenges at the Department of Defense

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1. Service budgets are allocated largely according to top line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.
2. Capabilities and requirements are based primarily on individual service wants versus collective Defense needs (i.e., based on current and expected future threats) that are both affordable and sustainable over time.
3. Defense consistently overpromises and underdelivers in connection with major weapons, information, and other systems (i.e., capabilities, costs, quantities, and schedule).
4. Defense often employs a “plug and pray approach” when costs escalate (i.e., divide total funding dollars by cost per copy, plug in the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).
5. Congress sometimes forces the department to buy items (e.g., weapon systems) and provide services (e.g., additional health care for non-active beneficiaries, such as active duty members’ dependents and military retirees and their dependents) that the department does not want and we cannot afford.
6. DOD tries to develop high-risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high-risk technology development activities in low-cost environments, (i.e., technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge.
7. Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, smaller quantities, and reduced contractor accountability.
8. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.
9. Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers (e.g., cost plus, cancellation charges).

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10. Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and the department presents potential conflicts of interest.
  11. The acquisition workforce faces serious challenges (e.g., size, skills, knowledge, and succession planning).
  12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e., cost, quality, and schedule).
  13. Inadequate oversight is being conducted by both the department and Congress, which results in little to no accountability for recurring and systemic problems.
  14. Some individual program and funding decisions made within the department and by Congress serve to undercut sound policies.
  15. Lack of a professional, term-based Chief Management Officer at the department serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.

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