

The background of the slide is a collage of US dollar bills, including \$100, \$50, and \$20 bills, arranged in a pattern that suggests movement and value. The bills are slightly faded and overlaid on a dark blue gradient at the top and bottom.

# **Transforming DOD Business Operations**

**Gene L. Dodaro  
Defense Finance 2008  
October 27, 2008**

# Outline

- GAO Efforts to Assist Upcoming Transition
- Fiscal Challenges Facing DOD
- Opportunities to Improve DOD's Business Operations

# No Ordinary Transition: Dynamics Shaping our Environment

- A nation at war and facing first homeland security change
- Near-term and long-term economic challenges
  - Financial Turmoil
  - Economic Slowdown
  - Long-term fiscal imbalance as backdrop
- Personnel and Performance Challenges

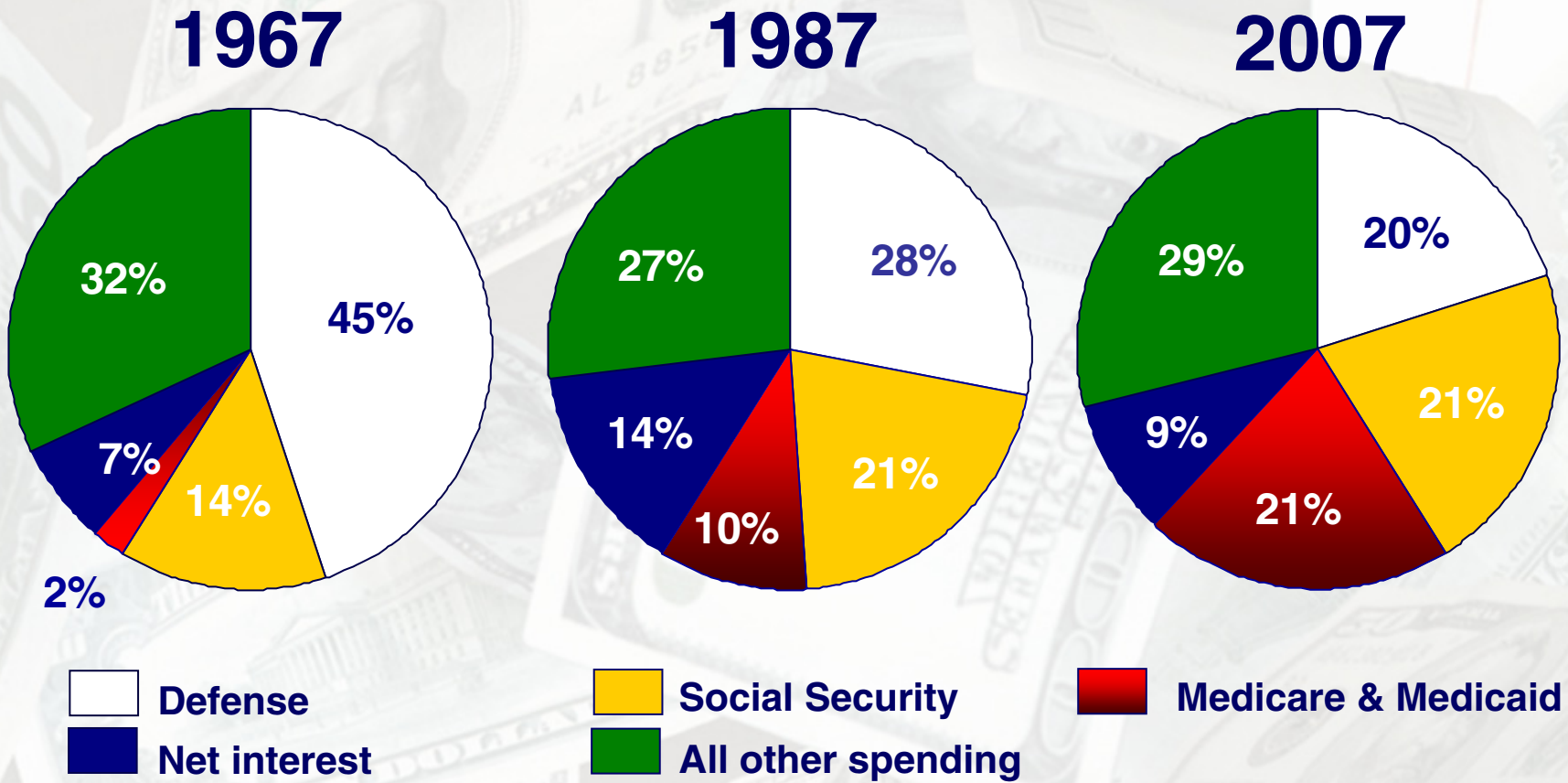
# Near Term: GAO Role in Financial Rescue

- Oversight role critically important in Economic Stabilization Act
- Congress turned to GAO
- Auditors of FDIC, FHFA and government wide statements
- Advice and analysis in reassessing regulatory structure

# Long Term: GAO Simulations on Federal Fiscal Path

- Short term issues require responses
- Long term unsustainable path will ultimately need attention
- Need to reexamine base, reform entitlements and review revenue structures

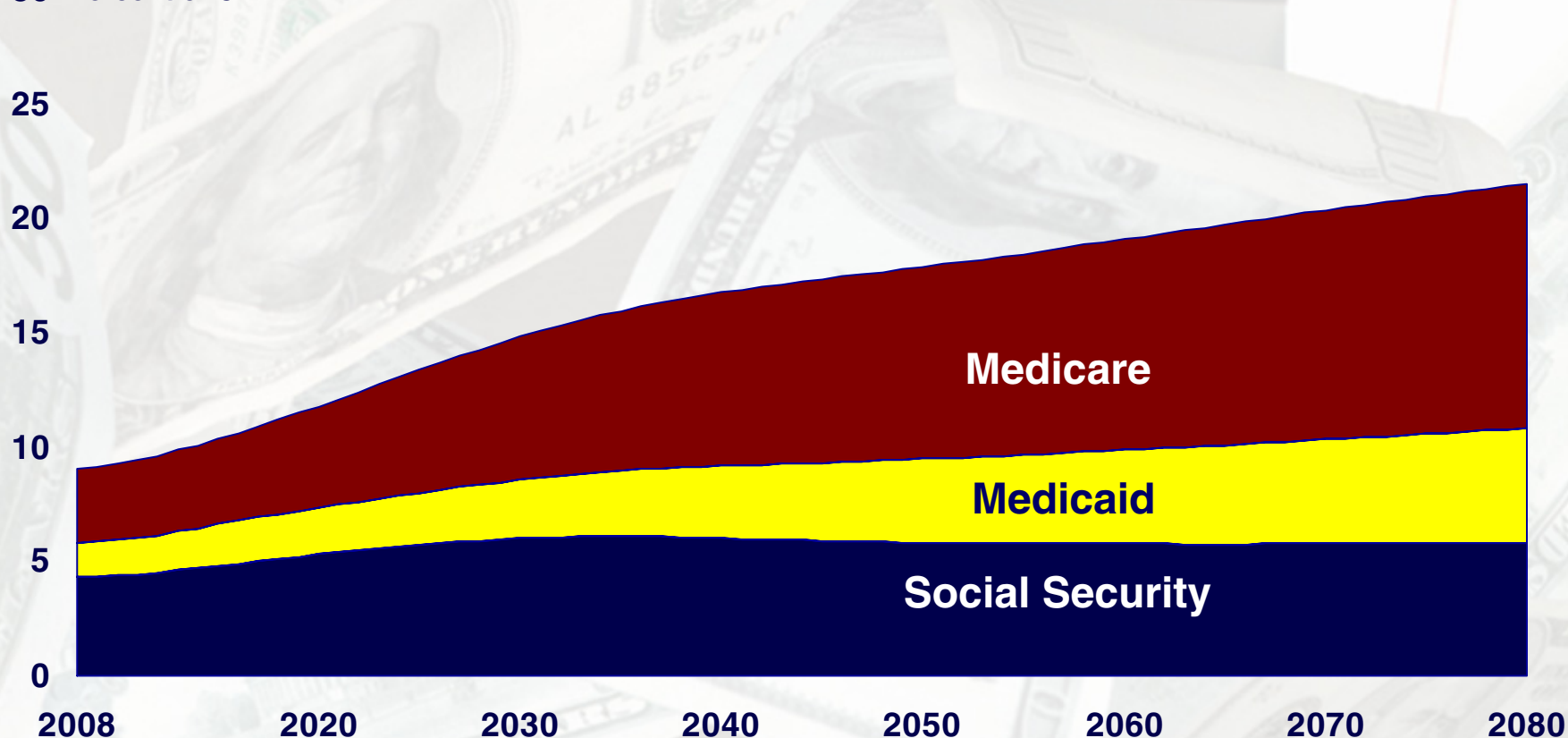
# Composition of Federal Spending



Source: GAO analysis of data from the Office of Management and Budget.

# Social Security, Medicare, and Medicaid Spending as a Percent of GDP

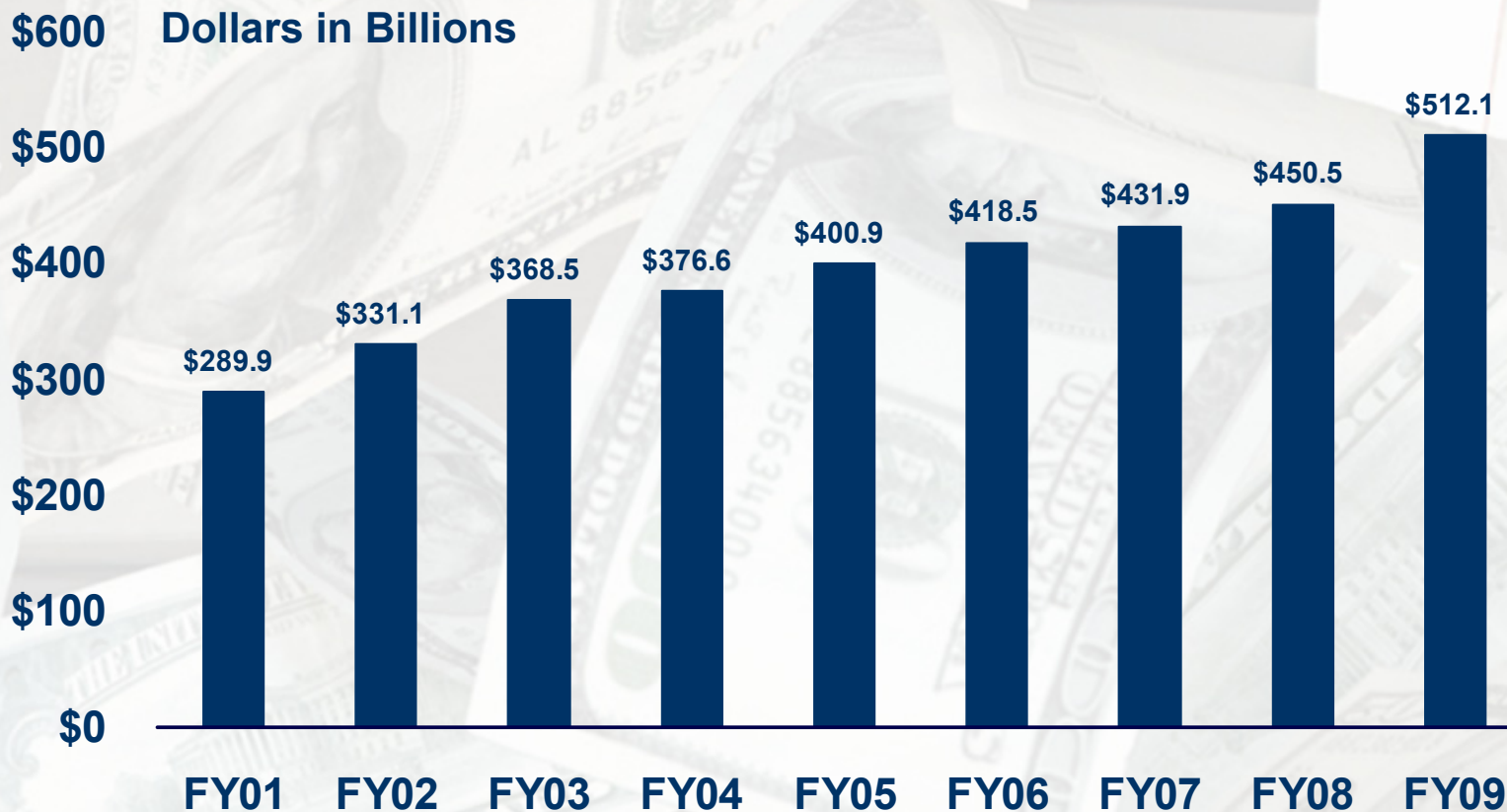
30 Percent of GDP



Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Note: Social Security and Medicare projections based on the intermediate assumptions of the 2008 Trustees' Reports. Medicaid projections based on CBO's January 2008 short-term Medicaid estimates and CBO's December 2007 long-term Medicaid projections adjusted to reflect excess cost growth consistent with the 2008 Trustees intermediate assumptions.

# DOD Budget Authority FY 2001-2009 (Excluding Global War on Terror)



Source: DOD.

Note: amounts in nominal dollars.



# Transition: GAO Objectives

- Provide insight into pressing national issues
- Highlight the growing need for innovative, integrated approaches to solve national and global challenges
- Document targeted opportunities to conserve resources that can be applied to new initiatives
- Underscore critical capacity-building needs in individual agencies that will affect implementation of whatever new priorities are pursued
- Help inform the management improvement agendas of Congress and the new administration
- Update High Risk list

# DOD Faces Growing Fiscal Challenges

- DOD faces a number of near-term and long-term fiscal pressures
  - Extended operations have taken a toll on readiness; rebuilding will be complex and costly
  - Rising personnel costs for pay, benefits, and health care
  - Significant cost growth in weapon systems programs
  - At same time, DOD is pursuing broad-based initiatives
    - Reshape and grow the force
    - Modernize and transform capabilities

# Opportunities Exist to Improve DOD's Business Operations

- Achieving affordable defense plan requires greater fiscal discipline
- Billions of dollars spent to sustain key DOD business operations
- Since first attempt at financial statement audit of a major DOD component 20 years ago, GAO has reported weaknesses in DOD's business side

# Opportunities Exist to Improve DOD's Business Operations

## DOD High Risk Areas

- Overall (Management) Approach to Business Transformation
- Business System Modernization
- Personnel Security Clearance Program
- Support Infrastructure Management
- Financial Management
- Supply Chain Management
- Weapons Systems Acquisition
- Contract Management

# Excess Secondary Inventory

- DOD estimates investment in its supply chain is more than \$150 billion a year
- Value of secondary inventory (spare parts) has grown by tens of billions of dollars, but substantial amounts are excess
- Difficulties in estimating lead times cause inefficient use of funds, and potential shortages/excesses
- Need to strengthen accountability and management of secondary inventory

# Weapons System Cost and Schedule Growth

- Funding in DOD investment accounts (RDT&E and procurement) has significantly increased since 2000
- Problems, such as cost growth and schedule delays, continue
- More money did not make existing programs well and additional unexecutable programs got started
- Across-the-board improvements require fundamental changes to requirements, funding, and acquisition systems

(Fiscal year 2008 dollars)

	Fiscal Year	
	2000	2007
Annual funding in investment accounts	\$112 billion	\$184 billion
Total commitments for Major Defense Acquisition Programs	\$790 billion	\$1.6 trillion

Source: GAO analysis of DOD data.

# Contract Management Challenges

- DOD is increasingly relying on contractors to provide services to help meet critical missions and support acquisition functions
- DOD spent more than \$315 billion acquiring goods and services in fiscal year 2007, more than double what it spent 6 years earlier.
- Weaknesses lead to poor outcomes
  - Lack of well defined requirements
  - Use of ill suited business arrangements
  - Inadequate number of trained acquisition/oversight personnel
- Need to strengthen workforce training/capacity and reexamine mix, roles, and responsibilities of military, civilian, and contractors

The background of the slide is a collage of various US dollar bills, including \$100, \$50, and \$20 bills, arranged in a somewhat chaotic but overlapping pattern. The bills are rendered in a light, semi-transparent style, allowing the text to stand out clearly.

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## On the Web

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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