



Highlights of [GAO-09-460T](#), a testimony to before the Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) spends billions of dollars to sustain key business operations intended to support the warfighter. In January, GAO released its 2009 high-risk series update report for the 111th Congress. This series emphasizes federal programs and operations that are at high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement and has also evolved to draw attention to areas associated with broad-based transformation needed to achieve greater efficiency, effectiveness, and sustainability. Of the 30 high-risk areas identified by GAO across government, DOD bears sole responsibility for eight defense specific high-risk areas and shares responsibility for seven other high-risk areas—all of which are related to its major business operations.

The Committee asked GAO to provide its views on (1) actions needed to achieve measurable outcomes in DOD's high-risk areas and (2) DOD's progress in strengthening its management approach for business transformation, including establishing the Chief Management Officer (CMO) position. GAO was additionally asked to highlight information regarding the high-risk area related to contract management at the Department of Energy's (DOE) National Nuclear Security Administration.

To view the full product, click on [GAO-09-460T](#). For more information, contact Janet St. Laurent at (202) 512-4402 or stlaurentj@gao.gov or Paul Francis at (202) 512-2811 or francispa@gao.gov

DOD'S HIGH-RISK AREAS

Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes

What GAO Found

Longstanding weaknesses in DOD's business operations adversely affect the department's economy, efficiency, and effectiveness, and have resulted in a lack of adequate accountability. As a result, DOD continues to experience cost growth in many of these areas and wastes billions of dollars annually that could be freed up for higher priority needs. DOD's senior leadership has shown a commitment to transforming business operations, and taken many steps to address weaknesses. However, additional actions are needed to achieve and sustain progress.

Business Area	Impact on department and warfighter
Weapon Systems Acquisition	Major defense acquisition programs continue to take longer, cost more, and deliver fewer quantities and capabilities to the warfighter than planned. Compared to initial estimates, costs for DOD's fiscal year 2007 portfolio of 95 major programs grew by \$295 billion or 26 percent. On average, current programs experienced a 21-month delay in delivering initial capabilities, reflecting a 5-month increase over fiscal year 2000 programs.
Contract Management	From fiscal years 2001 and 2008, DOD's obligations for contracts have more than doubled to \$387 billion, but its workforce that manages and oversees contracts grew by only about 1 percent. As the largest civilian contracting agency, DOE spends about 90 percent of its budget on contracts. Weaknesses in contract management at both DOD and DOE, such as unsound business practices, inadequate numbers of oversight personnel, and the lack of training result in increased costs and risks.
Supply Chain Management	DOD 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 its forces. Also, the military services have billions of dollars in excess inventory due to weaknesses in forecasting demand. For fiscal years 2004 to 2007, the Army and Navy held a combined annual average of \$11 billion in inventory that was excess to requirements.
Financial Management	System deficiencies and other pervasive challenges in DOD's financial management operations impact its ability to control costs, ensure accountability, and measure performance, thus limiting DOD's ability to prevent and detect fraud, waste, abuse, and improper payments. To date, none of the military services have received favorable financial statement audit opinions.

Source: GAO

DOD has taken some steps to establish the CMO and other key positions, but still lacks some critical elements to strengthen its management approach. The National Defense Authorization Act for Fiscal Year 2008 codified the CMO position, created a Deputy CMO, directed that CMO duties be assigned to the Under Secretary of each military department, and required a strategic plan for business operations. DOD has yet to clearly define the roles, responsibilities, and relationships among key positions, including the Deputy CMO and military department CMOs. Also, its first plan, issued in July 2008, lacks clear goals, objectives, and performance measures. As DOD's approach continues to evolve, GAO remains open to the possibility of further progress. However, because of the roles and responsibilities currently assigned to key positions, it is still unclear whether DOD will provide the long-term sustained leadership needed to address significant challenges in its business operations.