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VULNERABILITIES TO WASTE, FRAUD, AND ABUSE: GENERAL ACCOUNTING OFFICE VIEWS ON NATIONAL DEFENSE AND INTERNATIONAL RELATIONS PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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VULNERABILITIES TO WASTE, FRAUD, AND ABUSE: GENERAL ACCOUNTING OFFICE VIEWS ON NATIONAL DEFENSE AND INTERNATIONAL RELATIONS PROGRAMS

WEDNESDAY, MARCH 7, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Kucinich, Otter, Putnam, and Clay.

Staff present: Lawrence J. Halloran, staff director and counsel; J. Vincent Chase, chief investigator; R. Nicholas Palarino, senior policy advisor; Robert Newman and Thomas Costa, professional staff members; Jason M. Chung, clerk; David Rapallo, minority counsel; and Earley Green, minority assistant clerk.

Mr. SHAYS. This hearing of the Subcommittee on National Security, Veterans Affairs and International Relations is now in session.

The hearing is entitled, "Vulnerabilities to Waste, Fraud, and Abuse: GAO's Views on National Defense and International Relations Program."

This morning the subcommittee welcomes an important witness, David M. Walker, the Comptroller General of the United States. As head of the General Accounting Office [GAO], he is an invaluable partner in our oversight of Federal departments and programs.

Recent updates to the GAO performance and accountability and high-risk series of reports provide Congress and the new administration a detailed road map for reform. Those reports sound a warning that long-simmering management weaknesses, cultural inertia, and fiscal excess pose an immediate threat to our ability to meet national goals. It is a warning we ignore at our peril, as today's mere challenges and risks inexorably drive tomorrow's crisis.

At the Department of Defense [DOD], unjustifiably optimistic planning assumptions feed an over-subscribed weapons system acquisition menu, stretching development cycles and inflating costs. Leakage from cold war business systems and inventory controls drains resources needed to defend our global interests in a shrinking world.

Operation and maintenance costs for aging equipment and unneeded infrastructure sap our ability to recruit, train, house, and arm a modern mobile force.

At the Department of Defense, human capital management deficiencies seen in varying degrees Government-wide yield a U.S. presence abroad increasingly ill-suited to new diplomatic missions. Those posted overseas remain vulnerable to cyclic feast or famine funding of Embassy security measures.

We will hear similar findings of financial system weaknesses and a lack of result-oriented management at the Department of Veterans Affairs. This extensive body of work by the GAO demands our attention. These are not abstract or academic conclusions, but a thorough and thoughtful analysis of the systemic challenges and risks confronting those charged with stewardship of national programs and public resources.

As we undertake our oversight mission to improve the effectiveness and efficiency of national defense, international relations, and veterans' programs, the fundamental issues discussed today will guide our work.

Again, we welcome Mr. Walker and we look forward to his testimony.

We are joined by Mr. Putnam, the vice chairman of the committee, and Mr. Otter, as well.

Would either of you like to be recognized, or should we begin?

Mr. PUTNAM. Not at this time.

Mr. SHAYS. OK.

Mr. Walker, if you would stand, what we'll do is we'll administer the oath to you and anyone else who might possibly be asked to respond, so if everyone would just stand and raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. For the record, they all have responded in the affirmative.

To our transcriber, if we have one of you step forward, we'll have them give you their card.

Mr. Clay, welcome to our hearing. I'm happy to recognize you, or we can begin with the testimony.

Mr. CLAY. Let's just begin.

Mr. SHAYS. OK. Thank you.

You're on. And let me just say, Mr. Walker, you are our only witness, and so the 5-minute rule won't apply. What we'll do is we'll just keep ticking the 5-minutes to give you a sense of where we are at, but you go until you have made your points.

STATEMENTS OF DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY STEPHEN P. BACKHUS, DIRECTOR, HEALTH CARE; JESS T. FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE; HENRY L. HINTON, JR., MANAGING DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT; GARY L. JONES, DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT; ALLEN LI, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT; KATHERINE V. SCHINASI, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT; JEFFREY C. STEINHOFF, MANAGING DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE; DAVID R. WARREN, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT; AND JOEL C. WILLEMSEN, MANAGING DIRECTOR, INFORMATION TECHNOLOGY

Mr. WALKER. Thank you. It will take about 10 minutes or so, Mr. Chairman. I think I can cover some very important information in that period of time. I appreciate that.

Mr. SHAYS. Great. Well, we'll roll it.

Mr. WALKER. Sounds great. Thank you.

Thank you, Mr. Chairman and members of the committee. I'm pleased to appear before you today in order to discuss a number of major management challenges and program risks dealing with the Department of Defense, Department of Veterans Affairs, and Department of State. Obviously, we will be happy to answer any questions related to these or any other departments that are within your jurisdiction.

As you mentioned, Mr. Chairman, my remarks, to a great extent, are based upon the most recent GAO performance, accountability and high-risk series update, which was issued in January of this year. I would like to commend you at the outset for holding these hearings. Quite candidly, Mr. Chairman, I don't think there is enough oversight going on, and I think that these reports, the performance, accountability and high-risk series that we have provided and which we update every 2 years, provide an outstanding framework for such oversight hearings, and I'm pleased to have a chance to cover these departments with you here today.

Mr. Chairman, we are facing three key transitions at the present point in time. We have a new administration, a new 107th Congress, and we are at the dawn of a new millennium. The world has changed dramatically in the last decade, and it will change even more in the decades to come.

We face increased globalization, rapid technological advances, shifting demographics, changing security threats, a variety of quality of life considerations. All of these are prompting a fundamental need to reassess our approach to Government. They are requiring us to fundamentally reassess what Government does and how Government does business in the 21st century.

This is especially important from a budgetary standpoint, as well, and I would like to set the framework for this performance and accountability issue by providing a brief budgetary framework, which I think is important for you to see.

While everybody knows that the short-term budget surpluses have improved, meaning for the next 10 years, the simple fact of the matter is that the long-term budget situation has gotten worse,

primarily due to escalating health care costs and the effects of the demographic tidal wave associated with the aging of the baby boom generation.

I would like to commend to you, if I could, this first bar graph that I have used before the Finance Committee, the Budget Committees, and Ways and Means from time to time. What this will show you is the line graph represents Federal revenues as a percentage of the economy—year 2000, which obviously was last year; 2030 and 2050—based upon CBO projections and based upon the Social Security and Medicare trustees' best estimate projections of the cost of those programs.

As you can see, we have a surplus right now, but if we save every dime of the Social Security surplus or every penny, and if Congress decides to spend the on-budget surplus, meaning either through tax cuts or spending increases or a combination thereof, this is the picture that we will face in the year 2030 and 2050—a cut of discretionary spending by roughly one-half by the year 2030, and a decapitation of discretionary spending, as well as member expenditures.

The point is simple, and that is we need to be prudent about what happens with the surplus today. Second, we need to reform entitlement programs. And, third, we need to make sure that every Government department, agency, and program is operating as economically, as efficiently, and effectively as possible, because we are going to face increasing budget pressures in the future due to known demographic trends.

In fact, one of the things that has happened to DOD, for example, since 1962, the significant decline in the budget allocation to DOD has almost dollar-for-dollar been re-allocated to health care, social security and interest on the debt since 1962, and health care costs are only going one way, and that's up.

And so, with that, I think it is important to recognize that there are long-range budget challenges that we face, which means we have to focus on what Government does and how Government does business in the 21st century. My testimony will focus on how Government does business, because the answer to what Government does is fundamentally a decision for elected officials.

What I would like to do, Mr. Chairman, is to get right into the issues for these specific departments and agencies, and I will put up a board to be able to help in that regard.

As you know, in our overall reports on Government performance and accountability, we've said that there are basically five things that need to be done to maximize Government's performance and accountability. First, to give high priority to implementing the existing management reforms that were enacted in the 1990's; second, to fundamentally reassess and re-engineer the Federal Government's approach to people or human capital strategy; to attack areas subject to higher vulnerability for fraud, waste, abuse, and mismanagement, which is our high-risk list—there are 22 different programs or functions on that; to address other challenges, the other balance of the 93 in our performance and accountability series; and to engage in a number of other actions designed to better position us for the future.

If I can, let me talk about these three departments and agencies and provide an overview that may prompt some questions.

First, DOD. I'm a Teddy Roosevelt fan, TR, and, as you know, Teddy Roosevelt used to have a saying, "Speak softly and carry a big stick." Arguably, the State Department is the department that speaks softly; the Defense Department is the department that carries the big stick. And, obviously, VA is the department that takes care of those who have defended us in the past, and I think it is important to keep that in perspective.

Let's start with DOD. I don't think there is any question that the Department of Defense and the military forces that it is responsible for are the best in the world. We are an "A" on effectiveness as it relates to fighting and winning armed conflicts when those forces have to be brought to bear.

At the same point in time, the Department of Defense is a "D-plus" as it relates to economy and efficiency. In fact, the Department of Defense has 6 of the 22 Federal high-risk areas its confines. It also is experiencing challenges with regard to human capital, which is a Government-wide challenge; computer security area, which is also a Government-wide challenge; it has other information technology challenges; serious financial management challenges; faces a number of excess infrastructure challenges; the acquisitions process is fundamentally broken; the contracts process has got problems; and logistics, as well.

And let me touch on a few, just to give you an example.

In the human capital area DOD is having increasing difficulty in attracting an adequate number of recruits. It is having problems with pilots. It is having problems with its acquisitions work force. It is having problems with regard to information technology and a variety of other areas. It was down-sized significantly in the 1990's, but it was done so in a way where there was not effective work force planning, and, as a result, over 50 percent of DOD's work force is over 50, and a significant percentage of its work force is going to be eligible to retire in the civilian work force within the next 4 years. There are major succession planning challenges, as well as major challenges with regard to attracting and retaining skilled personnel, both in the uniformed as well as the civilian area.

With regard to information technology, computer security is a major challenge for the Government, as a whole, but particularly DOD. In fact, if we can hold up one chart that relates to information technology, as well as financial management, this is a diagram of just the major systems that DOD has only dealing with contractor and vendor pay.

If you wonder why they have a problem accounting for things, it is because they have so many free-standing, independent legacy systems that nonnot communicate with each other. As a result, it is no wonder that they have extreme difficulty in being able to account for the over $300 billion worth of resources that they are provided each year. This also provides challenges in conjunction with contract management. It also illustrates challenges associated with logistics and inventory management.

For example, in the logistics area, they may have the item but they may not know where it is, or how many they have. Now,

what's the result of that? They may order it when they don't need it. They may not be able to access it when they need it for operational purposes.

We are talking about significant sums of money here.

With regard to financial management, it is a basic tenet of accountability. The Department of Defense is provided over $300 billion a year. That is taxpayer money. There needs to be accountability over the use of that money, and there is a fundamental problem at DOD with regard to that, and I hope and pray that by the end of my 15-year term, which is about 12½ years from now, that the Government will obtain a clean opinion not only on DOD's financial statements but also on the Federal Government's consolidated financial statements. I can assure you that it won't happen on a consolidated basis until DOD is in a position to get a clean opinion on its financial statements, because it is so large, so material, and the problems are so fundamental.

Infrastructure—DOD has an estimated 23 percent excess infrastructure. That's money that could be used for readiness. That's money that could be used for quality of life support for out troops.

Now, we all understand that there are difficulties associated with base closures, but there is significant excess infrastructure there. Inter-agency coordination, the need to coordinate more with State with regard to drug interdiction, anti-terrorism; also with VA with regard to health care, dealing with the health care needs of the veterans and retired dependents population.

In the acquisitions area, DOD's practices are fundamentally inconsistent with commercial best practices. The result? Billions wasted, significant delays and compromised performance standards. DOD already has wants that far exceed projected resource availability. We need to be following commercial best practices for acquisitions unless there is a clear and compelling reason from the national security standpoint not to. Unfortunately, DOD all too frequently is motivated by, "Get the money, spend the money, hit the milestone that was set years ago, irrespective of the results of the testing, irrespective of whether or not one might question whether there should be a delay in order to further assess."

This, as I said, results in billions wasted and a lot of other adverse consequences.

From the contracting standpoint, DOD faces challenges with regard to not having enough people with the necessary skills and knowledge to effectively manage outside contractor activity. There are inadequate incentives for contractors to pay, to reimburse when there are overpayments, and there is inadequate accountability when they fail to do so.

Logistics, I have already addressed this area.

Health care—one example on health care would be the issue of—recently Congress decided to expand DOD's responsibility for providing health care to some of its retirees. One of the issues that we need to look at in Government is, while that coverage might need to be provided, who is in the best position to provide it? Should it be DOD or should it be VA? The fact of the matter is, the type of care provided by most DOD physicians is acute care—broken bones, the types of injuries that you might expect from the uniformed force and a younger force. At the same point in time, retir-

ees, to the extent that they have to take care of retirees, the type of care provided to retirees is fundamentally different, and, quite frankly, in many regards you might argue that the VA might be in a better position to provide that type of care.

I might note that VA has a bunch of excess capacity at the same point in time, and therefore that might help to soak up some of that excess capacity.

I'll touch on a few issues just with State and VA and then summarize, Mr. Chairman.

At State you see a number of challenges they've faced. Probably most fundamental is in the human capital area—a real problem from the standpoint of attracting and retaining an adequate number of Foreign Service officers. Believe it or not, they still have, by and large, an "up or out" policy—that if you don't end up getting promoted to a certain level within a certain timeframe, you're out. Now, I question whether or not that makes sense in today's world. Most professional services firms threw out that policy 10 to 20 years ago, and I think it is time for the State Department to re-look at that policy, as well.

With regard to infrastructure, State faces challenges with regard to infrastructure. We're in every major country on Earth, and—really, every country on Earth. At the same point in time, we are facing challenges with regard to Embassy security. Maybe the time has come where we need to think about do we need to have physical presence everywhere? Should we be considering a regional structure, hub-and-spoke concept with regard to our infrastructure around the world as a way to enhance security, improve economy, especially in a time of significant technological capabilities?

With regard to VA, clearly VA faces major human capital challenges dealing with nurses and a variety of other health care positions. They also face excess infrastructure. Take Chicago, for example. VA has four hospitals in Chicago. Now, the difficulty is that the veterans' population is actually going down, so we have this excess capacity. There is an opportunity, if the Congress so desires, to be able to take resources that could be achieved from the reduced cost and the additional asset recovery from that excess capacity and to redeploy those resources for quality of care to our Nation's veterans. That's an area that needs to be focused on, as well.

Again, what are they there for? Quality of care. And I think we need to re-look at our asset allocation in that regard.

The disability programs with regard to VA continue to be a fundamental challenge in how long it takes to be able to process these claims, and I think the time may well have come, as well, to kind of reassess the definition of disability in a knowledge-based economy.

A number of Members of the Senate and a number of Members of the House are disabled veterans, and yet they are continuing to make major contributions to our country, and I think the definition of disability is something that probably needs to be looked at not only just for VA, but, frankly, for the disability insurance program under OASDI, as well.

If I can, Mr. Chairman, let me just summarize and then go to Q and A.

While our short-term budget situation looks better, our long-term budget situation is worse. This is the time that we need to be asking what should Government do and how should Government do business in the 21st century. There are tremendous opportunities to improve economy, efficiency, and effectiveness in these three critically important departments. The fact of the matter is that every dollar that is wasted is a dollar that is not available for legitimate needs for the missions of these departments and agencies.

In some cases, we're talking about nothing less than a fundamental cultural transformation in how these agencies do business, focused much more on results rather than activities, and in order to accomplish that we're going to have to have committed and sustained leadership from the executive branch, targeted resource allocations to address some of these fundamental problems, and much more active and ongoing oversight from the Congress than historically has been the case.

And that's why, again, Mr. Chairman, I must commend you for having this hearing, and I hope that many of your colleagues will end up emulating you and following up with regard to a number of other areas.

Mr. Chairman, I could speak for some time on this issue, but what I'd rather do is just to go to your Q and A's so I can make sure that I am focusing on the issues that are of most interest to you and the other members of the committee.

Mr. SHAYS. Thank you.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you, Mr. Walker.

[The prepared statement of Mr. Walker follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform, House of Representatives

For Release on Delivery
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MAJOR MANAGEMENT CHALLENGES AND PROGRAM RISKS

Departments of Defense, State, and Veterans Affairs

Statement of David M. Walker
Comptroller General of the United States

GAO-01-492T

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss major management challenges and program risks confronting selected federal agencies. As requested, my testimony today will focus on (1) the range of governmentwide challenges and opportunities the 107th Congress and the new administration face to enhance performance and accountability of the federal government, (2) the major management challenges and program risks facing three key agencies--the Departments of Defense (DOD), State, and Veterans Affairs (VA)--who fall under the jurisdiction of this Subcommittee, and (3) whether these departments are meeting performance and accountability goals and measurements that are required under the Government Performance and Results Act of 1993 (GPRA). Appendix I lists the major management challenges for each of the three key agencies.

Our testimony is derived, in part, from a special series of reports we recently issued on this subject entitled *Performance and Accountability Series: Major Management Challenges and Program Risks* in January of this year. The series, listed in appendix II, contains separate reports on 21 agencies--one on each of the cabinet departments and on most major independent agencies as well as the U.S. Postal Service. As a companion to this series, we have also issued our *High-Risk Series: An Update,* which discusses those government operations and programs that our work has identified as "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement.

MAJOR MANAGEMENT CHALLENGES: THE GOVERNMENTWIDE PERSPECTIVE

Mr. Chairman, I want to commend you for holding this hearing at this particular time and discussing these issues because we are engaged in three important transitions. First, we are ending one presidential administration and beginning another. Second, we are at the outset of the 107th Congress. Third, we are at the dawn of a new millennium. As our nation moves into the 21st century, the 107th Congress and the new administration face an array of challenges and opportunities to enhance the performance and assure the accountability of the federal government for the benefit of all Americans. Increased globalization, rapid technological advances, shifting demographics, changing security threats, and various quality of life considerations are prompting fundamental changes in the environment in which the government operates. These trends are placing a premium on increasing strategic planning, using integrated approaches, enhancing results-orientation, improving responsiveness, and ensuring accountability within the federal government.

At the same time, the current projected trend of budget surpluses presents both an opportunity and an obligation for the legislative and executive branches of government to look at a range of fundamental policy and fiscal issues in advance of the forthcoming demographic tidal wave associated with the retirement of the "baby boom" generation. This includes comprehensively

reassessing what government does and how government does business in the 21st century. It also includes focusing on the longer term fiscal implications of current programs and policies and a range of existing and emerging major management challenges and program risks confronting the federal government. For example, entitlement programs currently represent approximately 41 percent of the federal budget, up from 31 percent in 1962. At the same time, defense spending currently represents about 16 percent of the federal budget, down from about 50 percent in 1962. Some of these changes can be explained by the end of the Cold War, but not all of them. One of the less publicized stories is that most of the decline in defense spending over the years has been used to pay for additional health spending (for example, Medicare and Medicaid). Our most fundamental long-range budget challenge is how to control mandatory spending, which now accounts for about two-thirds of all federal spending, up from about one-third in 1962.

We have many initiatives underway to help the Congress and the executive branch meet the challenges to the well-being and financial security of the American people, address security threats facing our nation, and deal with the issues raised by global interdependence.

With regard to improving overall government performance and accountability, the main actions needed to shape an efficient and effective federal government for the 21st century are as follows:

- First, give high priority to fully implementing existing legislative reforms essential to modernizing performance management, financial accountability, and information technology practices.

- Second, address the urgent need to revamp the federal government's entire strategic approach to human capital (people) management before the erosion of government's capacity to perform more dramatically undermines agencies' abilities to efficiently and effectively serve the American people.

- Third, continue to attack government activities at particular risk of fraud, waste, abuse, and mismanagement in order to save billions of dollars, improve services and programs, and strengthen public confidence and trust in government.

- Fourth, confront critical challenges facing individual departments and agencies in carrying out their missions.

- Fifth, pursue organizational approaches that recognize the reality of evolving global, technological, workforce, and other dynamics and needs associated with a transition to a knowledge-based economy.

Beyond addressing this fundamental management foundation, however, lie certain added dimensions to the challenge of governing in the 21st century. Among these are

- promoting a more sustainable longer term budget and economic outlook to help safeguard the ability of future generations to afford the commitments of today and make decisions regarding the role of the federal government in the future given our aging society; and

- taking advantage of the window of opportunity presented by the current improvement in the federal government's financial position not only to reassess fiscal policies, but also to (1) review options for improving the efficiency and effectiveness of individual federal programs, (2) thoroughly reassess what government does and how government does business, and (3) revisit targeting approaches that distribute assistance to beneficiaries by recognizing the differences between wants, needs, and affordability.

It is also important to reach a consensus on needed changes and forge executive/legislative partnerships to promote effective implementation of agreed upon goals--both on the policy front and with regard to certain management reforms that are central to strengthening the performance and accountability of our federal government. For example, progress achieved to date in improving financial and information management and a results-oriented focus has only been attained through the use of a solid legislative framework and concerted, sustained executive and congressional attention. In this regard, congressional oversight is essential to further progress. Now is the opportune time to review, revise, and reinvigorate the oversight process to help address today's challenges and prepare our country for tomorrow.

In many government agencies, the transition to modern performance management, and along with it, to strategic human capital management, will require a cultural transformation that will take time. Changing what agencies do and how they do business is tough work. Many government organizations need to become less hierarchical, process oriented, stove piped, and inwardly focused than they have in the past. They will need to be more partnerial, results oriented, integrated, and externally focused in the future. To change in a meaningful and lasting manner, most people believe that one needs to have a "burning platform." Stated differently, we must convince people that they and their organizations must change or there are likely to be serious consequences.

For the three agencies we are focusing on today--Defense, State, and VA--we have identified and reported management challenges that have hampered the economy, efficiency, and effectiveness of their support functions in carrying out their missions. To their credit, each of the agencies has implemented a number of changes to improve their operations, but much more needs to be done, especially in connection with the Defense Department. These challenges, many of which have been long-standing in scope, also underscore the critical role that the principles of performance-based management, as embraced in GPRA, can play in successfully providing the products, services, and results that taxpayers expect.

CHALLENGES FACING THE DEPARTMENT OF DEFENSE

While DOD has the most effective warfighting force in the world, the same level of excellence is not evident in many of the business processes that are critical to the achievement of the Department's mission in a reasonably economical, efficient, and effective manner. In addition to the governmentwide challenges in the human capital and computer security areas, we consider all or part of six areas relating to DOD's financial management, information technology, acquisitions, contracts, support infrastructure, and logistics to be high risk.

Performance and Accountability Challenges

- Developing strategic plans that lead to desired mission outcomes
- Hiring, supporting, and retaining military and civilian personnel with the skills to meet mission needs
- Establishing financial management operations that provide reliable information and foster accountability
- Effectively managing information technology investments
- Reforming acquisition processes while meeting military needs
- Improving processes and controls to reduce contract risk
- Creating an efficient and responsive support infrastructure
- Providing logistics support that is economical and responsive

Strategic Planning Shortfalls

Sound strategic planning is needed to guide improvements to DOD's operations. It also sets the fundamental direction of the agency, its purpose, what it hopes to achieve, and how it will do it. Without strategic planning, decisionmakers and stakeholders may not have the information they need to ensure that the Department has strategies that are well thought-out for resolving ongoing problems, achieving its goals and objectives, becoming more results oriented, and ensuring its accountability for the several hundred billion dollars annually allocated to the Department. While the Department has improved its strategic planning process, its strategic plan is not tied to desired mission outcomes. As noted in several of the other key challenges, sound plans linked to the Department's overall strategic goals are critical to achieving needed reforms. Inefficiencies

in the planning process have led to difficulties in assessing performance in areas such as combat readiness, support infrastructure reduction, force structure needs, and the matching of resources to program spending plans.

Since the mid-1980s, we have reported that DOD employs overly optimistic planning assumptions in its budget formulation. As a result, DOD all too frequently has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program reductions and terminations. Moreover, optimistic planning makes defense priorities unclear because tough decisions and trade-offs between needs and wants are avoided. Until DOD presents realistic assumptions and plans in its future budgets, the Congress will lack the accurate and realistic information it needs to properly exercise its decision-making and oversight responsibilities. To help overcome inefficiencies in DOD's strategic planning processes and to promote more realistic budgeting, DOD must follow results-oriented management principles in performing the next Quadrennial Defense Review in 2001. To provide a clear picture of DOD's performance, we also recommend that DOD include more qualitative and quantitative goals and measures in its annual performance plan and report to gauge progress toward achieving mission outcomes.

Human Capital Challenges

Given the large number of military and civilian personnel within the Department, human capital management represents a huge challenge that impacts virtually every major activity. DOD is dealing with military personnel issues such as shortages of junior officers for the career force, problems in retaining certain skills (such as intelligence analysts, computer programmers, pilots, and acquisition workforce personnel), and the military services' failure to meet recruiting goals. The Department also faces significant challenges in managing its civilian workforce. For example, the sizable reduction in civilian personnel since the end of the Cold War has led to an imbalance in age, skills, and experience that is jeopardizing certain acquisition and logistics capabilities within DOD.

Moreover, over a third of DOD's current employees are more than 50 years old and approaching retirement. According to a February 2000 Defense Science Board Task Force study on Human Resources Strategy, approximately 58 percent of DOD's civilian workforce will be retirement eligible by 2005. The net effect is a workforce that is not balanced by age or experience and that risks the orderly transfer of institutional knowledge. Although we cannot say what the appropriate balance between younger and older employees should be, the continuing increase in the number of retirement-age employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

The Department has initiatives to address military and civilian human capital issues. However, to guide individual initiatives and link them together, we recommended that DOD assess the

relative success and cost-effectiveness of the services' recruiting strategies and put tools in place for measuring success in reducing attrition.

Also, in recent testimony, we noted that DOD should better align its civilian human capital management with its strategic planning and core business practices. For example, during our work on the early phases of the DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base. Others have registered concerns about the fairness of the competitive sourcing process and whether a level playing field exists for competition between the public and private sector. In that regard, I have been legislatively mandated to convene a panel of experts to study the transfer of commercial activities currently performed by government employees to federal contractors, a procedure commonly known as "contracting out" or "outsourcing."

Financial Operations Reforms

While improved in recent years, financial management remains a high-risk area for DOD. For fiscal year 2000, no major part of the Department's operations passed the test of an independent financial audit because of pervasive weaknesses in its financial management systems, operations, and controls, including an inability to compile financial statements that comply with generally accepted government accounting principles. Also, despite genuine progress, ineffective asset accountability and lack of internal controls continue to adversely affect visibility over weapon systems and inventories. Further, unreliable cost and budget information negatively affects DOD's ability to effectively measure performance, reduce costs, and maintain adequate fund control. As we recently testified, we are concerned that many of the planned financial management improvement initiatives are designed to result in a one-time, year-end number for financial statement purposes. As such, they will not result in the production of timely, reliable, and useful financial and performance information for ongoing use by management. In addition, the Department's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements.

To address these deficiencies, in the short term, DOD needs to focus on improving its basic processes and controls to better manage its every day operations. In the long term, a sustained commitment from the highest levels of DOD leadership--a commitment that must extend to the next administration--will be needed to overhaul DOD's financial systems and to ensure that personnel throughout the Department share the common goal of establishing financial management systems and processes that can not only produce financial statements that can withstand the test of an audit, but also routinely generate timely and reliable financial information for day-to-day management purposes.

Information Technology Challenges

Effective management of information technology is also key to implementing many of DOD's planned management reforms. However, significant management weaknesses in this area place the ultimate success of many reform initiatives at risk. Effective systems modernization requires the Department to implement fundamental management controls, such as integrated enterprise architectures, disciplined investment management practices, and mature system development and acquisition processes, that ensure mission performance and accountability. However, this is not occurring on a systematic basis within DOD. The Department recognizes that improvements are needed in information technology management, such as comprehensive and integrated enterprise architectures to guide and direct its modernization efforts and structured and disciplined processes for selecting and controlling business technology options. Equally important, we have also recommended that the Department ensure that corrective actions are taken to address identified computer security vulnerabilities and more accurately and realistically define the responsibilities, mechanisms, and expected outcomes of its efforts to manage and integrate information assurance throughout DOD. These vulnerabilities could seriously jeopardize operations and compromise the confidentiality, integrity, or availability of sensitive information.

Acquisition Reform

Acquiring modern, effective, reliable, and safe weapons for the military forces is central to accomplishing DOD's mission. However, the weapon systems acquisition process continues to be a high-risk area. Notwithstanding ongoing reform initiatives, the process is still too slow and costly. Pervasive problems persist regarding the process to acquire weapons; cost, schedule, and performance estimates; program affordability; and the use of high-risk acquisition strategies such as acquiring weapons based on optimistic assumptions about the maturity and availability of enabling technologies. Our work also shows that leading commercial firms are getting the kinds of outcomes from their development of new products that the Department seeks. Specifically, these firms are developing increasingly sophisticated products in significantly less time and at a lower cost than their predecessors. Valuable lessons can be learned from the commercial sector and applied to the development of weapon systems. Leading commercial firms expect that their program managers will deliver high quality products on time and within budget. We believe DOD should be required to apply these types of practices in its acquisition management processes except in cases where there is a clear and compelling national security reason not to.

Contract Management Reform

Closely related to the weapon systems acquisition process is the contracting for goods and services. This is also a high-risk area at DOD. Over the last few years, several broad-based changes, including the establishment of key metrics, have been made to acquisition and contracting processes and management to improve Department and contractor relationships and rules. But we and the DOD Inspector General continue to identify risks in contracting, including (1) improving oversight and accountability in the acquisition of services, (2) preventing erroneous and improper payments being made to its contractors, (3) implementing commercial practices for contract pricing, and (4) managing health care contracts. Without effective control

over its contract management activities, DOD will continue to risk erroneously paying contractors millions of dollars and perpetuating other financial management and accounting control problems.

Weak systems and controls also leave the Department vulnerable to fraud and improper payment. For example, DOD continues to overpay contractors, although the full extent of overpayments is not known. Under current law, contractors are not required to inform DOD of the overpayment or to return the money prior to DOD issuing a formal demand letter requesting repayment. In effect, the overpayment provides an interest free loan to the contractor. Contractors should be required to notify the government of overpayments when they become aware of them and to return the money promptly upon becoming aware of the overpayments. If they do not return the money promptly, there should be some economic consequence. We have testified that the application of commercial best practices, such as the use of more cost-effective buying strategies for commercial spare parts, can improve acquisition and contracting processes and help reduce contract risk.

Support Infrastructure Inefficiencies

Regarding specific operations challenges, DOD has to address inefficiencies in its support infrastructure. Again, while progress has been made in this area, more needs to be done if the Department expects to reduce infrastructure costs and improve business operations through its reform initiatives. After the Cold War, the defense force structure and military spending were reduced, and the Department realized it must make its operations and support infrastructure smaller, more efficient, and more responsive to warfighter needs and to create savings for other needs like weapons modernization. Although the Department has reduced its forces by about 25 percent and closed many bases, the percentage of its budget spent on support infrastructure has remained relatively constant. Because of continued inefficiencies in its support infrastructure, this continues as a high-risk area for the Department. The effectiveness of many civilian agencies has also been undermined by outmoded organizational structures that drain resources needed to make improvements to mission delivery capabilities. We recommended that the Department develop and implement a comprehensive, integrated, and long-range plan to sustain and fully implement its reform initiatives and also right-size and recapitalize its facilities infrastructure.

Addressing facilities infrastructure will also require DOD to reach an agreement with the Congress regarding the need for additional base realignment and closure rounds. The Secretary of Defense and other officials have expressed concern that the Department continues to retain more infrastructure than needed, despite four base closure rounds between 1988 and 1995. Defense officials have proposed two additional rounds of base closures and estimates new savings of $3.4 billion a year once realignment and closure actions were completed and the costs of implementing these actions were offset by savings. Our work has shown that, despite limitations in precision, past base realignment and closure recommendations will result in substantial savings once implementation costs have been offset and net savings begin to accrue. Further, we also found that the majority of communities surrounding bases that were closed from

1988 through 1995 were faring well economically in relation to the national average. For example, as of 1997, 68 percent of the communities had average or lower unemployment compared with 60 percent in 1988. The infrastructure problems in civilian agencies also suggest the possible relevance of a civilian facility closure and realignment process.

Logistics Support Inefficiencies

Providing economical and responsive logistics support is also central to achieving the Department's mission. While the system gets the job done, it is often described as a brute force process that is uneconomical and inefficient. Although DOD has progressed in improving logistics support, especially through the application of best inventory management practices, serious weaknesses persist throughout its logistics activities, and it is unclear to what extent its ongoing reengineering management improvement initiatives will overcome them. A key area of the logistics process that remains high risk is inventory management. The Department continues to spend more than necessary to procure and manage inventory. As of September 30, 1999, DOD records showed that the Department had inventory on order valued at about $1.6 billion that would not have been ordered based on current requirements. At the same time, DOD has experienced equipment readiness problems because of a lack of key spare parts. For years, insufficient spare parts have been recognized as a major contributor to aircraft performing at lower mission capable rates than expected. Again, sound integrated plans for achieving logistics reforms are central to making improvements.

To enhance DOD's reengineering efforts, we have recommended that DOD develop an overarching plan that integrates the individual service and defense agency logistics reengineering plans to include an investment strategy for funding reengineering initiatives and details for how DOD plans to achieve its final logistics system end state. We also recommended that DOD reassess its schedule for testing, evaluating, and implementing the initiatives; establish a methodology showing the savings or improvements that come from reengineering concepts; and reassess its approach for addressing various combat command concerns, such as the presence of increasing numbers of contractor personnel on the battlefield. Also, to improve inventory management, we recommended that DOD make more use of supply-chain best management practices similar to those used in the private sector to help cut costs and improve customer service.

Observations on DOD's GPRA Performance Plan and Report

DOD has made substantial progress in improving its GPRA reporting. For example, DOD identified and discussed the roles of federal agencies in crosscutting activities, added more information on its efforts to ensure the credibility of its performance information, and included initial goals and performance measures for financial management. However, the extent to which DOD has achieved the key program outcomes is not completely clear in its fiscal year 1999 performance report and fiscal year 2001 performance plan. One of the reasons for the lack of clarity is that most of the key program outcomes DOD is striving to achieve are complex and interrelated and may require a number of years to accomplish. Another, however, is that DOD

did not provide a full assessment of its performance. The report does not include any performance goals and measures related to several key outcomes. Also, reported measures often did not address a cost-based efficiency aspect of performance, making it difficult for DOD to fully assess the efficiency as well as effectiveness of its performance. Additionally, DOD's performance report and plan did not include goals or measures to assess progress in overcoming a major management challenge confronting the Department, namely contracting. We recommended that the Secretary of Defense enhance DOD's fiscal year 2002 performance plan and fiscal year 2000 performance report by considering additional qualitative and quantitative information in the areas cited by our analysis.

CHALLENGES FACING THE DEPARTMENT OF STATE

In carrying out its mission, the Department of State faces a number of significant performance and accountability challenges, as our work has shown. In addition to the governmentwide challenges in the human capital and computer security areas, the State Department's challenges cover a wide spectrum of U.S. government operations around the world affecting Americans at home and abroad.

Performance and Accountability Challenges

- Improve the security and maintenance of U.S. facilities overseas
- Help decrease the level of illegal drugs entering the United States
- Address the threats illegal immigration continues to pose to Americans at home
- Address additional challenges to building a high-performing organization

Embassy Security

State's most critical infrastructure need is to enhance the protection of U.S. embassies and other overseas facilities in response to the increased threat due to terrorism. State has taken many steps to upgrade security at its diplomatic missions around the world since the 1998 bombings in Africa. These improvements include deploying hundreds of additional security agents overseas and enhancing physical security through a variety of means. In addition, State has begun replacing some of its most vulnerable embassies and consulates with more secure facilities. State estimates that it will cost $15 billion over 10 to 15 years for projects in more than 180 locations. Our work has shown that State will face several challenges in administering this extensive security construction program, including right-sizing its overseas posts; improving long-term

planning for the program; and working with the Congress in charting the future course, priorities, and funding levels for the program. Right-sizing of overseas posts, which may include use of relatively large regional or "hub" embassies, with smaller embassies in other locations, may have potential for reducing overall security costs and vulnerabilities. We recommended that State develop a long-term, capital construction plan to assist decisionmakers in reaching consensus on the program. Successful implementation of overseas security enhancements and construction activities will improve the safety and security of U.S. employees working abroad.

Drug Control

Illegal drugs, primarily cocaine and heroin, continue to threaten the health and well-being of American citizens. The principal source of cocaine and heroin entering the United States is South America, and specifically Colombia. In 1993, the United States developed a policy designed to reduce the production of illegal drugs in South America and stem their flow through Latin America and the Caribbean. Our work has shown that billions of dollars invested by the United States and foreign countries to carry out this policy have resulted in the arrest of major drug traffickers and the seizure of large amounts of drugs, but the availability of drugs in the United States has not been materially reduced. To continue to attack this problem, the Congress recently provided more than $1 billion in counternarcotics assistance to Colombia, which State will largely oversee. In October 2000, we reported that State had experienced difficulty effectively managing past assistance to Colombia and recommended that State develop implementation plans to ensure that the new assistance is well managed and used effectively. We also noted that a sustained long-term commitment will be necessary to notably reduce the level of illegal drugs entering the United States. Ultimately, to successfully implement an international drug control strategy, State will have to coordinate with numerous agencies, including Defense, Justice, and Treasury.

Illegal Immigration

State is responsible for providing expeditious visa processing overseas to qualified applicants. State, in conjunction with the U.S. Immigration and Naturalization Service, must also prevent the entry of those who are a danger to U.S. security or are likely to remain in the United States illegally. Over the years, State has introduced new technologies, equipment, and controls designed to improve visa processing and reduce the incidence of fraud. However, based on our work and that of State's Office of Inspector General, visa processing remains a significant challenge for the Department. The reasons for these problems include staffing shortages, inexperienced staff, insufficient staff training, and difficulties in managing visa antifraud programs. State recognizes that it must remain vigilant in these areas to further reduce the vulnerability of the visa system and has several initiatives underway or completed to counter visa fraud.

Additional Challenges

In addition to the specific performance challenges cited previously, State faces several other agencywide performance and accountability challenges that hamper its ability to become a high-performing organization. These challenges are (1) better utilizing the 1993 Government Performance and Results Act process to help achieve its objectives, (2) enhancing communication and information technology and security, (3) improving financial management, (4) adopting modern human capital practices, and (5) restructuring the U.S. overseas presence to improve the efficiency and effectiveness of operations. State has recognized these challenges and has demonstrated a commitment to addressing them, as follows:

- State has improved its strategic and performance planning to better capture its goals and measures, but its performance reporting needs to better demonstrate progress toward meeting its goals.

- State has implemented many of our information technology and security recommendations; however, new challenges have emerged as State embarks on developing an interagency technology platform with its inherent security risks.

- State has made progress toward its goal of improving financial systems but still needs to bring its systems into full compliance with federal financial systems requirements and resolve internal control weaknesses. Unlike previous financial reports, State was on time in issuing its financial statement report that contained an unqualified opinion on its fiscal year 2000 financial statements. However the auditors reported that State's financial management systems were not in compliance with the Federal Financial Management Improvement Act of 1996, which requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management system requirements. Further, a material weakness and several reportable conditions in its internal controls remain unresolved.

- Consistent with our studies of best practices in high performance organizations, State's in-house studies highlighted the importance of developing a human resource strategy that is in line with its mission. For example, the Overseas Presence Advisory Panel convened by the Secretary of State concluded that State needed to reform its human resource practices because it does not currently have the flexibility, resources, or strategic organization required to support its mission.

- Over the years, we have recommended that State reassess its overseas structure in light of changing political, economic, security, and technological requirements, and, this effort is currently underway.

We believe that addressing these issues will be critical to State's ability to effectively carry out U.S. foreign policy.

Observations on State's GPRA Performance Plan and Report

As required by GPRA, State has clearly articulated its strategic and diplomatic readiness goals of regional security, economic growth, and more. Our review of State's performance plans for fiscal years 1999 through 2001 indicates that State continues to improve its planning but additional improvements are needed to measure and assess performance in a meaningful way. State's fiscal year 2001 performance plan provides much more detail on its intended performance compared to prior years' plans. However, State's approach of listing individual performance goals and measures by bureau does not lend itself to assessing the agency's performance as a whole. Further, the Department has not developed overall priorities for achieving its strategic goals, and, consequently, has no overall basis for allocating resources to priorities.

The Department's fiscal year 1999 performance report, the first one required under GPRA, lists numerous foreign policy accomplishments from the signing of peace agreements to trade agreements, but it does not adequately demonstrate State's level of success or participation in achieving the desired outcomes. Additionally, it was unclear how much the Department contributed to some of the outcomes it discussed or how unmet goals would be achieved in the future. For example, under the regional stability strategic goal, the performance report states that "U.S. access to Persian Gulf oil resources continued uninterrupted" but does not identify how the Department has contributed to that positive outcome. Under expanding foreign markets, State did not indicate how it would meet its unmet targets for completing bilateral investment treaties with target countries.

CHALLENGES FACING THE DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs' mission reflects the nation's historic commitment to care for veterans, their families, and their survivors. VA administers a variety of programs, including one of the world's largest health care systems. The Department estimates that, in fiscal year 2000, it spent about $42 billion--more than 80 percent of its total budget--to provide health care services to 3.6 million veterans and to pay disability compensation and pensions to over 2.5 million veterans and their families and survivors. In addition to the governmentwide challenges in the human capital and computer security areas, VA faces several performance and accountability challenges.

Performance and Accountability Challenges

- Ensure timely and equitable access to quality VA health care
- Maximize VA's ability to provide health care within available resources
- Process veterans' disability claims promptly and accurately
- Develop sound agencywide management strategies to build a high-performing organization

Health Care Access

Over the past several years, VA has undertaken many initiatives to improve veterans' overall access to VA-provided health care, such as shifting its emphasis from inpatient to outpatient primary care and increasing the number of outpatient clinics it operates. VA has also undertaken efforts to improve the quality of the care it provides, including introducing patient safety initiatives. However, several areas require continued emphasis if VA is to achieve its goals. For example, VA cannot ensure that veterans receive timely care at VA medical facilities. Nor can it ensure that it has maintained the capacity to provide veterans who have spinal cord injuries, serious mental illnesses, or other special needs the care that they require, as mandated by the Congress. VA must also assess its capacity to provide long-term care for its aging veteran population and respond to emerging health care needs, such as treating veterans for hepatitis C. At the same time, VA is facing a potential shortage of skilled nurses—if nationwide projections for the next several years bear out, which could have a significant effect on VA's quality of care initiatives.

To begin to respond to these concerns, VA must address long-standing weaknesses in the quality and reliability of its workload and cost data. Without good data, VA cannot link its strategic planning to areas that need improvement or emphasis, appropriately budget for and allocate funds and other resources, or measure its performance in providing care for all veterans enrolled in its health care system. We have made recommendations related to improving data on waiting times and services for disabled veterans. More specifically, we recommended that VA determine the extent and causes of waiting times and then develop a spending plan with initiatives that would solve the identified problems, as well as enhance monitoring of potential service delivery problems for veterans.

Health Care Resource Utilization

To expand care to more veterans and respond to emerging health care needs, VA must continue to aggressively pursue opportunities to use its health care resources--including its appropriation of about $20 billion--more wisely. VA has reduced its per-patient costs--one of its key performance measures--by 16 percent, but it could achieve additional efficiencies by realigning capital assets and human capital based on changing demographics and veterans' health care needs. For example, VA needs to further modify its infrastructure to support its increased reliance on outpatient health care services and expand its use of alternative methods for acquiring support services, such as food and laundry. VA spends as much as one-quarter of its annual health care budget to operate and maintain about 4,700 buildings and 18,000 acres of property. Savings achieved from eliminating or reducing unneeded facilities could be reinvested toward providing more and better care to veterans. However, the ability to close unneeded facilities may not totally be within VA's control and, ultimately, a nonpartisan commission similar to DOD's base closure process may be necessary.

VA also needs to pursue additional opportunities with DOD to determine cost-effective ways to serve both veterans and military personnel, including sharing services and facilities. For example, opportunities exist to jointly procure pharmaceuticals, medical supplies, and equipment that each now procures separately. In addition, VA must ensure that it collects the money it is entitled to from third-party payers for health care services they have provided to veterans whose conditions are not service-connected.

To start to realize these efficiencies, VA has committed to systematically assessing its future infrastructure and health care services needs within its 22 Veterans Integrated Service Networks as well as continuing to involve key officials in its strategic planning efforts and decision-making processes. We have made several recommendations to VA that would help improve its infrastructure planning, provide more cost-effective support services, and enhance sharing with DOD.

Disability Compensation

VA must also turn around its long-standing difficulties in ensuring timely and accurate decisions on veterans' claims for disability compensation. Veterans with a broad array of conditions, ranging from combat injuries to chronic illnesses (such as diabetes) incurred or aggravated while on active duty, are eligible for compensation. VA has improved its quality assurance system in response to our recommendations, but large and growing backlogs of pending claims and lengthy processing times persist. Moreover, veterans are raising concerns that claims decisions are inconsistent across VA's 57 regional offices. VA is taking steps to improve its information systems, performance measures, training strategies, and processes for reviewing claims accuracy. However, VA also needs better analyses of its processes in order to target error-prone types of cases and identify processing bottlenecks – as well as determine if its performance goals are realistic. In addition, although VA disability payments are intended to compensate for potential

losses in earnings capacity, VA's outmoded rating schedule reflects the industrial economy of 1945 rather than today's knowledge-based economy.

VA also needs to be vigilant in its human capital strategies to ensure that it maintains the necessary expertise to process claims as newly hired employees replace many experienced claims processors over the next 5 years. VA's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government.

Management Capacity

Finally, VA has much more work to do to become a high-performing organization and increase veterans' satisfaction with its services. It must revise its budgetary structure and develop long-term, agencywide strategies for ensuring an appropriate information technology infrastructure and sound financial management. If its budgetary structure linked funding to performance goals, rather than program operations, VA and the Congress would be better positioned to determine the Department's funding needs. VA's information technology strategy, which aims to provide veterans and their families coordinated services, must be successfully executed to ensure that VA can produce reliable performance and workload data and safeguard financial, health care, and benefits payment information. Last, similar to most other major agencies, VA's financial management strategies must ensure that its systems produce reliable cost data and address material internal control weaknesses and Federal Financial Management Improvement Act requirements. In this regard, VA received an unqualified opinion on its consolidated financial statements for fiscal years 2000 and 1999. However, the auditor identified computer security and integrated financial management system and control issues as material weaknesses and reported that VA was not in substantial compliance with federal financial management systems requirements under the Federal Financial Management Improvement Act of 1996.

Observations on VA's GPRA Performance Plan and Report

Overall, VA's fiscal year 1999 performance showed progress in providing quality health care at a reasonable cost. On the other hand, VA has not made significant progress in restructuring its health care infrastructure. The performance goals were objective, measurable, quantifiable, and generally results-oriented. For cases in which goals were not met, the performance report provided means and strategies for achieving future goals. In addition, the report provides means and strategies for achieving future goals that VA considers most important. VA revised its health care performance goals and measures for fiscal years 2000 and 2001 to reflect actual fiscal year 1999 performance as well as VA's latest evaluation of how to best measure its success. VA also made other changes, including dropping and adding performance goals, because some goals were unrealistic, too many goals made it difficult to focus on the more outcome-oriented ones, and some goals were met early.

VA failed by substantial margins to meet its fiscal year 1999 performance goals for timely and accurate processing of veterans' disability compensation and pension benefit claims. The performance reports explained why it failed to meet its goals and provided means and strategies for meeting its future goals. VA also revised its performance goals for fiscal years 2000 and 2001 to make them more realistic. Although its goals are objective, measurable, and quantifiable, VA is still developing results-oriented goals for the compensation and pension programs.

SUMMARY

This is a particularly opportune time to look at the management challenges facing the federal government and especially as we did today, the challenges facing the Departments of Defense, State, and Veterans Affairs. This is a time of transition for the Congress and the administration. As our nation moves into the 21st century, the 107th Congress and the new administration face an array of challenges and opportunities to enhance the performance and ensure the accountability of the federal government for the benefit of all Americans. We should seize the opportunity to address the governmentwide challenges, including addressing such issues as what the government does and how the government should do business in the 21st century. At the same time, we have an obligation to look beyond the near term to prolonged fiscal challenges including such things as the long-term implications of today's decisions and the impacts of the coming demographic tidal wave.

Specifically, as it relates to DOD, State, and VA, the agencies have taken actions to address the various challenges we have identified. However, as we have noted today, much more needs to be done and this is particularly the case for DOD. For example, DOD is working to improve its weapon systems acquisition process, but it still needs to create a better environment for starting and managing weapon systems development programs. Similarly, State is working to improve security at its diplomatic missions around the world by deploying hundreds of additional security agents overseas and replacing some of its vulnerable embassies and consulates with more secure facilities, but faces several challenges in administering the extensive security construction program. In addition, VA is working to improve veterans' overall access to VA-provided healthcare, but it still must continue to aggressively pursue opportunities to use its health care resources more wisely.

Effectively addressing governmentwide and specific challenges will require sustained attention by the Congress and the administration over a period of years. In our report on *Major Management Challenges and Program Risks: A Governmentwide Perspective*, we lay out various approaches that have provided effective oversight of key management challenges such as the year 2000 challenge and implementation of key legislation on government performance results, financial management, and information technology management. We also suggest other mechanisms that could be used to facilitate oversight.

The stakes are high, and we stand ready to help the Congress and the administration to address these management challenges by providing professional, objective, and constructive assistance. Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you or other members of the Subcommittee may have.

MANAGEMENT CHALLENGES

	DOD	STATE	VA
Strategic Challenges			
Planning	X	X	X
Human Capital	X	X	X
Information Technology	**X**	X	X
Financial Management	**X**	X	
Infrastructure	**X**	X	X
Interagency Coordination	X	X	X
Operational Challenges			
Acquisition	**X**		
Contracts	**X**		
Logistics	**X**		
Embassy Security		X	
Drug Control		X	
Illegal Immigration		X	
Health Care	X		X
Disabilities Programs			X

Note: **Bold "X"** indicates all or a portion of this area was deemed to be high risk in GAO's January 2001 High-Risk Series update (GAO-01-263). The **Human Capital** and **Information Technology** challenges are in bold to indicate that they are governmentwide high-risk areas.

Source: GAO's Performance and Accountability and High-Risk Series and Government Performance and Results Act reports.

PERFORMANCE AND ACCOUNTABILITY SERIES

Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO-01-241).

Major Management Challenges and Program Risks: Department of Agriculture (GAO-01-242).

Major Management Challenges and Program Risks: Department of Commerce (GAO-01-243).

Major Management Challenges and Program Risks: Department of Defense (GAO-01-244).

Major Management Challenges and Program Risks: Department of Education (GAO-01-245).

Major Management Challenges and Program Risks: Department of Energy (GAO-01-246).

Major Management Challenges and Program Risks: Department of Health and Human Services (GAO-01-247).

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO-01-248).

Major Management Challenges and Program Risks: Department of the Interior (GAO-01-249).

Major Management Challenges and Program Risks: Department of Justice (GAO-01-250).

Major Management Challenges and Program Risks: Department of Labor (GAO-01-251).

Major Management Challenges and Program Risks: Department of State (GAO-01-252).

Major Management Challenges and Program Risks: Department of Transportation (GAO-01-253).

Major Management Challenges and Program Risks: Department of the Treasury (GAO-01-254).

Major Management Challenges and Program Risks: Department of Veterans Affairs (GAO-01-255).

Major Management Challenges and Program Risks: Agency for International Development (GAO-01-256).

Major Management Challenges and Program Risks: Environmental Protection Agency (GAO-01-257).

Major Management Challenges and Program Risks: National Aeronautics and Space Administration (GAO-01-258).

Major Management Challenges and Program Risks: Nuclear Regulatory Commission (GAO-01-259).

Major Management Challenges and Program Risks: Small Business Administration (GAO-01-260).

Major Management Challenges and Program Risks: Social Security Administration (GAO-01-261).

Major Management Challenges and Program Risks: U. S. Postal Service (GAO-01-262).

High-Risk Series: An Update (GAO-01-263).

(350051)

Mr. SHAYS. We have been joined by Mr. Kucinich, who is the ranking member of the committee. I'm going to call on him in a second. But first I'll provide Mr. Putnam the opportunity to ask some questions.

Mr. Putnam, let me just do the UCs. We have this housekeeping thing we need to get taken care of.

I ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and that the record remain open for 3 days for that purpose.

Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statements in the record.

Without objection, so ordered.

Mr. Putnam, you have the floor.

Mr. PUTNAM. Thank you, Mr. Chairman.

And thank you, Mr. Walker. I heard your presentation in the Budget Committee and now again this morning, and I'm always intrigued by your insight into the operations of Government.

When we talk about the Department of Defense, certainly you are aware that the President has called for a top-to-bottom review of operations looking for inefficiencies and looking for better ways of conducting the Nation's business.

Is it your impression that the direction that the President has given will reveal the inadequacies that we can address to make the Department of Defense a high-performing agency, high-performing department, or will something more comprehensive be necessary?

Mr. WALKER. I think it is in the early stages, Mr. Putnam. My view is two-fold. No. 1, the President has announced the intention to fundamentally reassess national security strategy, then to look at national military strategy, then to be able to take a look at how that will impact, what type of platforms do we need, what type of force structure, what type of deployment, etc. That's clearly important because that's the fundamental part of the strategic plan. What's the mission? How are you going to accomplish your mission?

But, in addition to that, the President has also noted his interest, as has Secretary Rumsfeld, in trying to deal with some of the systemic problems that have been years in the making at the Department of Defense dealing with the overall business process, in general, and financial management, in particular.

The jury is out as to how they are going to go about approaching that. Clearly, there has to be a lot more attention from the top on a sustained basis than there has been in the past, and, quite frankly, there has to be a lot more active and ongoing congressional oversight in order to make things happen.

We are talking about problems that have been years in the making and are going to take years to correct, and we may need to be looking for different mechanisms for reporting to the Congress and to the executive branch, where they lay out a game plan, where they have key milestones, and where there is periodic reporting back and accountability for hitting those key milestones, or for reporting why they are not hitting the milestones and what they are going to do in order to try to get back on track. That has not been

the case historically, and I think ultimately it may have to be the case in order to get the problem solved.

Mr. PUTNAM. As your GAO report has indicated, Congress has allocated and Department of Defense has redirected substantial expenditures for improving recruitment, improving retention. What is your opinion on the success of those measures and how we can improve our military forces' recruitment and retention rates?

Mr. WALKER. Well, first, the services did better this past year than the year before, and yet they're still facing serious challenges. A lot of the reasons they did better is because they allocated a lot more resources into recruitment. Unfortunately, they have not really effectively come up with measures in order to ascertain what is working and what is not working, and that's something that they need to do. It's not just a matter of putting more money on it, but it is trying to be able to measure which type of activities are generating positive outcomes, if you will, and so they need to do more in trying to track their actions and their resource investments with the type of results that they get from them. They have not done a very good job on that to date, and that's something they need to work on.

Mr. PUTNAM. Thank you.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

What we're going to do is do 5 minutes first round and then we'll do 10 minutes the second and 10 the third and whatever.

Mr. Kucinich. If you'd like to have a little extra time to read any part of your statement, we're happy to do that, or we can put it in the record.

Mr. KUCINICH. Thank you, Mr. Chairman. I'll submit the statement for the record, but I have some questions that will derive from the statement.

Thank you very much, Mr. Walker, for being here.

There are 26 areas that you designated as high-risk 2 years ago, 6—more than any other agency—belong to Department of Defense. Now, within those six areas you highlighted billions and billions of dollars that were unaccounted for or wasted because of duplication or fraud or simply thrown away. You mentioned, for example, the Department of Defense could not match $22 billion worth of expenditures to the items they purchased. You also mentioned that the Navy had no financial information on $7.8 billion of inventory aboard ships, and that it wrote off as loss over $3 billion worth of in-transit inventory.

Now, these same six DOD areas were deemed high-risk in your report of 4 years ago, as well as many agencies on your list who have come and gone. You know, you've had many agencies come and go, but DOD appears to be a fixture, and it appears that we're not limited only to the high-risk reports in finding evidence of DOD waste.

In May 2000, a different GAO report found that the DOD has nearly $37 billion of equipment it doesn't need.

In March 2000, the DOD Inspector General reported that, of $6.9 trillion in Pentagon accounting entries, $2.3 trillion were not supported by enough evidence to determine their validity.

Indeed, no major part of the Defense Department has ever been able to pass an independent audit.

It seems to me that, you know, as you come before Congress regularly to update us on the status of the Department of Defense in one category after another, that it might be time to ask some more fundamental questions, and that is: how does the lack of consistent financial management and accountability for the trillions of dollars which the American people spend on defense, how does that equate with the entire concept of national defense? I mean, how do the American people know that the entire Department of Defense isn't failing in its effort?

You know, we see some materiel. We see planes that occasionally fall out of the sky. But what do we—what about the concept of national defense, in light of this report and reports of the last few years?

Mr. WALKER. Well, first, Mr. Kucinich, I think it is important to know that some people view some of these issues as, "Well, you know, they've got some management problems and"——

Mr. KUCINICH. How do you view them?

Mr. WALKER. I think they are serious and I think they are very important. They are important from several standpoints.

No. 1, I think there is a basic responsibility for any department, no matter what the department is, to provide adequate accountability over taxpayer resources, especially when you are talking about the amounts of money involved here.

No. 2, we are going to be, after the demographic tidal wave hits, under increasing budget pressures, and therefore we are going to need to make sure that we are getting the most out of every dollar that is invested.

No. 3, I think that you've got a situation where, for example, if you don't have an adequate inventory control system, then you are buying things you don't need, you can't access things when you do need to use them for operational purposes, and so these problems have real consequences.

Candidly, I think, Mr. Kucinich, is that, while people have placed more attention on this in the last several years—and, in fairness, I have to say that. There has been more attention placed on trying to deal with some of these issues, especially in the financial management area, and there has been some progress made.

I think we really need to significantly increase the amount of attention and the amount of accountability associated with dealing with these systemic and longstanding problems in order to get the job done.

Mr. KUCINICH. Well, let me ask you this: are we dealing with a bureaucracy that is just too big? Should—is this an argument, if we're going back over the years, Mr. Chairman, is this an argument for restructuring the departments and breaking them down into smaller departments that might be more easily manageable?

I mean, when you look at this contracting vendor pay system that you put up there, it is incomprehensible. And is this an argument for restructuring our whole approach to defense so that we can have a manageable system here?

It seems that we have—there's a sense in which the system, itself, is inherently unmanageable. Would you comment on that?

Mr. WALKER. First, I think that what really needs to be done first is to get to complete the national security strategy, the national military strategy, which is the quadrennial review, which will be the framework for what DOD is supposed to do. And then the question is how best to accomplish it.

My personal opinion is, before you get into those issues about how many services you need and whether you want to spend all——

Mr. KUCINICH. I didn't ask how many services are needed; I'm asking——

Mr. WALKER. Right.

Mr. KUCINICH [continuing]. Whether or not you think, based on the years that GAO has been studying this, that there isn't an argument, a prima facie case here for creating a whole new structure and to cut through this obvious inability of the Department of Defense to function, given its size. Is it too big?

Mr. WALKER. I think that something that could be done short of that is, for example, you might end up forming some type of a task force to address a number of these fundamental problems, the task force could be comprised of high-level people within the Department and outside the Department who could end up focusing on specific things that have to be addressed, have milestones that have to be hit, that have periodic reporting within the executive branch and the legislative branch and hold them accountable for it. That has not happened.

I think if we are really going to get to the root cause of these problems we're going to have to do something along those lines in order to increase the visibility and the accountability over making progress in this area.

In some cases there will need to be some targeted investments as it relates to systems to modernize these systems and to come up with integrated information systems rather than continuing to try to spend—throw a lot of money at legacy systems that we're never going to be able to effectively get to where we need to be.

Mr. SHAYS. Mr. Walker, I am going to ask some questions.

Mr. WALKER. Sure.

Mr. SHAYS. And we're trying to not stop for the vote. It's just a journal vote.

When I look at this chart, you know, I'm inclined to say it is not very clear to me, but, one, it would be helpful for you to get some of the points there and tell me what they do, just to bring some sense to it for me. And then I'd love to know what best business practices would be at GE. Would GE's look more complex or would it look less complex?

Mr. WALKER. Well, it would be less complex because basically what you have here—and I would say somebody can get more detail, but let me give you an overview first.

Mr. SHAYS. While you're doing that, would you give her card so she—the transcriber.

Mr. WALKER. Jeff Steinhoff.

Mr. SHAYS. OK.

Mr. WALKER. As you know, Mr. Chairman, DOD has 500 bases in over 137 countries, a number of services, and historically what has happened is each has done its own thing. Each has created its

own systems, and therefore you have a number of independent, free-standing information systems that are not integrated, that don't talk to each other, which is one of the reasons that you have a lot of these reconciliation problems.

Jeff, I would ask you to provide some more perspective.

Mr. STEINHOFF. Yes. Basically, the systems are nonstandard, and each service has its own coding structure.

I testified, Mr. Chairman, before you last year on this, and we had the one example where I believe there were 66 characters to enter one transaction, and those characters and the way they would be set up would differ by service. There's a lot of rivalry between the services and a cultural issue that each entity develops its own systems.

So you end up with what are here 22 major systems that can't communicate between each other. They weren't designed to work together. You have 80 percent of the basic financial information coming from non-financial systems. Many of those 22 are non-financial systems. And that information was never really derived to provide the degree of control you want.

So you've got a lack of standardization, you've got a very complex environment, you have these 22 major systems, and you have a host of other systems that are feeding into those 22 systems.

In fiscal year 1999, the Defense Financial Accounting Service processed $157 billion of payment transactions, and $51 billion of those, or $1 in $3, was an adjustment to a previous transaction. You would find no business in the world that would be entering one-third of their transactions as adjustments. So they have a great deal of trouble getting it right and getting the information from system to system, and it is a very difficult process. They have to work through processes you would not see in the private sector.

Mr. SHAYS. If something wasn't auditable—if you had an auditable system but you needed to improve it because it was too much paperwork or so on, but you had an auditable system, something you could verify, you would try to keep the old and then move forward with the new.

What makes sense in terms of keeping the old here? In other words, I'm told that we can't verify practically any transaction.

And I'll come back to you.

Mr. WALKER. Let me make a general comment and then have Jeff relate the detail on DOD.

We have that in certain departments and agencies right now. We have departments and agencies right now that get clean opinions on their financial statement. But the way that they get clean opinions on their financial statement is they undertake heroic measures whereby they are doing a bunch of manual activity and coming up with a bunch of different adjustments months after the end of the year in order to put the auditors in a position to say that, all right, the numbers as of 6 months ago are accurate and the numbers for the year that ended 6 months ago are accurate; however, they can't tell you the numbers for today. That is part of the problem.

A lot of people look at the clean opinion as the end game. It is an important milestone. But you need to deal, as you are pointing out, Mr. Chairman, with the underlying problem. You need to deal with the systems. You need to integrate the systems. You need to

make sure that you've got the proper controls in place. You need to focus on your processes, your controls, before you end up designing a new system because you want to have an efficient and effective process that is being automated before you end up going out and abandoning what you already have. So you have to run them parallel.

Mr. SHAYS. Yes. I may be getting a little off subject, but I'm going to come around. What I'm trying to understand—and you touched on it somewhat, but what I'm trying to understand is basically we were told at one time—and I'm embarrassed to use this number because I think it is wrong, but we were told there were 7 trillion transactions—trillion, not bill, trillion—and you're nodding your head. And that, to me, is incomprehensible.

What that says to me, though, is that almost all the transactions basically are not able to be digested in a way that you can verify it.

So what my question really was, if the system is so bad, why even bother to maintain any records or keep any system? Why not just start totally fresh? And that's—that may seem like a naive question, but that's my question.

Mr. WALKER. Can I come back on that and then have Jeff answer? It is better to have something than nothing. On the other hand, you shouldn't be investing a whole lot of money trying to improve all of these legacy independent systems.

Mr. SHAYS. OK.

Mr. WALKER. You need to do what you can with what you have, but you need to go to something totally different. You need an integrated system that tears down a lot of these walls and barriers, that builds in a number of effective controls, and that you only have to enter the data once.

One of the reasons we have so many different transactions is because we have multiple parties entering the same data into different systems, which leads to a lot of the reconciliation problems because some do it better than others.

Jeff.

Mr. STEINHOFF. Basically, what you have is you have a world-class systems challenge that goes far beyond the financial system and really gets to all the management systems in Defense.

What has happened over the years is billions and billions of dollars have been spent on enhancing systems. There have been a number of legendary systems failures where they have invested large sums of money only to have to stop the systems development, so there has been a recognition for a long time of problems. It has never been done in a disciplined fashion. Each service and components within services sort of do their own thing. They have their own idea of what's needed and how to operate. You don't have an overall systems architecture for the department on which to really place a platform for these systems, so, as Mr. Walker pointed out, they are not integrated or tied together.

Right now, for example, there are huge initiatives ongoing to overhaul the logistics systems, which are a very important part of the vendor pay and contracting process and the accountability side. There are different systems initiatives, depending on what service you are in. And the services might have multiple initiatives ongo-

ing. At the same time, there's a lot of financial management initiatives. These type of initiatives have never been managed in an orderly manner, and you've got to have leadership at the top where top management is vested in this.

Defense had some success in the year 2000 crisis when they addressed that challenge by vesting it at the top of the organization.

Mr. SHAYS. I'm going to want shorter answers.

Mr. STEINHOFF. OK.

Mr. SHAYS. And I'd love to make sure they key onto my question.

Mr. STEINHOFF. OK.

Mr. SHAYS. And then you have a lot you want to tell me, in addition.

Is this system causing the problem or the result of the problem?

Mr. WALKER. It is part of the cause of the problem. The fact that you have a number of independent systems that have been created that are not integrated, that is one of the primary causes of the problem.

Mr. SHAYS. OK. But now answer this question. I don't know—give me what CAPS is, or STARS, or something. Tell me the logical transaction that I would understand it, and then tell me what's illogical.

Mr. Steinhoff.

Mr. STEINHOFF. I'd have to provide that to you. I can't really address the specifics of a transaction.

Mr. SHAYS. Do you have one of the charts?

Mr. STEINHOFF. Yes.

Mr. SHAYS. You have one of the charts there.

Mr. STEINHOFF. Yes.

Mr. SHAYS. Here you go. You know what? Since I don't know any of them, you could just make it up and I'd—[laughter.]

Mr. STEINHOFF. We don't do that nowadays, sir.

Mr. SHAYS. That's true. I was testing.

Mr. STEINHOFF. There are plenty that do do it.

Mr. SHAYS. I was testing you.

Mr. STEINHOFF. The STANFIN system is the standard financial system.

Mr. SHAYS. Which one? Which one? Tell me——

Mr. STEINHOFF. STANFIN.

Mr. SHAYS. Tell me where I'm looking. If 12 is——

Mr. STEINHOFF. The bottom corner.

Mr. SHAYS. No. This looks like a clock, so it's 4.

Mr. STEINHOFF. Southeast corner.

Mr. SHAYS. No. You guys can talk southeast. I'm——

Mr. STEINHOFF. It's 5.

Mr. SHAYS. I'm 4. OK.

Mr. STEINHOFF. And what you have is you have——

Mr. SHAYS. Now, what is that?

Mr. STEINHOFF. It's called "STANFINS."

Mr. SHAYS. And what is it?

Mr. STEINHOFF. That's the Standard Financial System.

Mr. SHAYS. OK.

Mr. STEINHOFF. And you have information coming to that system, and also to this DJAS system, which also deals with standard financial data.

Mr. SHAYS. And I see nothing going out. And, unfortunately, I'm going to have to temporarily adjourn. When Mr. Kucinich gets in, he's going to start taking the gavel and just proceed.

Mr. WALKER. OK.

Mr. SHAYS. So we're at a recess.

[Recess.]

Mr. KUCINICH [assumes Chair]. Chairman Shays has asked me to reconvene, and so he will be back from the vote, but in the meantime I think we can continue with the questions.

And what I'd like to know, Mr. Walker, there were some statements that you made in your comments, and I would like to go back over them. You said that, while the Department has improved its strategic planning process, its strategic plan is not tied to desired mission outcomes. And you further state that DOD "employs overly optimistic planning assumptions in its budget formulation," and that, as a result, "DOD all too frequently has too many programs for the available dollars." Finally, you point out that this optimistic planning, "Makes Defense priorities unclear because tough decisions and tradeoffs between needs and wants are avoided."

Now, just by itself this assessment is devastating, but, taken in the context of what we talked about earlier as far as the Pentagon's accounting problems, this is kind of a nightmare. If the Pentagon is not considering mission outcomes and thinking realistically in planning programs and spending, on what basis could it possibly be making decisions?

Mr. WALKER. What is happening, Mr. Kucinich, is that all too frequently the decisions that are being made are being made by independent, free-standing units—for example, the Army versus the Navy versus the Air Force, each independently coming up with what they think they need in order to be able to achieve what they believe is their role, function, and mission in the broader context.

What needs to happen, to a much greater extent than has happened historically, is we need to start at the top. What is the national security strategy? What is the national military strategy? What does that mean from the standpoint of platforms, forces? Those requirements—there's interaction, obviously, but those come down and have to get coordinated within an overall budget context.

If you look at the sum of all the——

Mr. KUCINICH. Has that ever been done.

Mr. WALKER. Not effectively. The answer is no, not effectively.

Mr. KUCINICH. Has it been done rhetorically?

Mr. WALKER. In theory it——

Mr. KUCINICH. Done in theory?

Mr. WALKER. In theory it has been done, in practice it hasn't been done.

Mr. KUCINICH. But we don't fund in theory, we fund in fact.

Mr. WALKER. And then what happens, Mr. Kucinich, is you take the individual wants of the services—take weapons systems. You add up all the wants and the cost of the wants, and they clearly exceed what the funding is available and projected to be available. There has to be a process to identify that up front in the aggregate to be able to make those tradeoffs earlier on than historically has been the case, because the failure to do that means that you have a huge expectation gap. You've got the services trying to come up

here and get money for a bunch of things that they don't have the funding for and they may not ever get it. And, therefore, that means that you end up—you spend a lot of money on something that may not ever become operational or you have to buy a lot less quantities than otherwise you think you needed to achieve your mission. It is fundamentally broken.

Mr. KUCINICH. Well, I think every member of the committee would support my statement when I say we all appreciate the job which the men and women who have committed themselves to service in the armed forces do. I mean, it is a great honor to serve one's country in any capacity, and we appreciate the work of the men and women. That's why it is confounding to see circumstances where we may be wasting billions of dollars on materiel and we have men and women who serve our country fighting for decent housing and not having—some of them on food stamps. I mean, it is tough to see that contradiction, especially in a report such as yours.

I wonder how many people work for the GAO on tracking what's going on at the Department of Defense?

Mr. WALKER. We have about 3,100 people that work for the GAO, and we have more than one team that focuses on the Department of Defense. We have a Defense Capabilities and Management team, which is several hundred people. We have an Acquisition Sourcing and Management Strategies team where we have several hundred people, so it depends. I mean, we have a number of projects going on at any one point in time.

Mr. KUCINICH. Who interprets that web of contract and vendor pay systems? How many people? How many people did it take to come up with that analysis?

Mr. WALKER. I don't know how many people, but I can tell you this—I don't know if it is interpretable. That's the whole point. I think the whole point is what we have here is a situation where a single transaction, which I think this illustrates, has to be entered multiple times because, rather than having an integrated information system, which is what most modern corporations would have now, where you enter the data once, it goes to a number of other subsystems, it has to be entered independently, which by definition means a lot more activity, a lot more opportunity for error.

Mr. KUCINICH. So does this—would you go over again what this actually represents? Does this represent——

Mr. WALKER. This represents the major information systems that the Department of Defense has dealing solely with contractor and vendor pay—in other words, for paying contractors and paying vendors.

Mr. KUCINICH. Right.

Mr. WALKER. That's how many different systems they have. The arrows illustrate where all the data has to be entered into these different systems in order for them to do what their intended job is.

Mr. KUCINICH. Do you ever wonder how you can have so many systems here and have so much lack of accountability simultaneously? Does that ever—is there some kind——

Mr. WALKER. I'm not, you know——

Mr. KUCINICH. Is there some kind of principle, mystical principle of management and accounting at work here that we mere mortals cannot perceive?

Mr. WALKER. Candidly, I think what has to happen, Mr. Kucinich, is, as Mr. Steinhoff mentioned a few minutes ago, we need to recognize that these challenges, the six high-risk areas—financial management, information technology, acquisitions management, etc.—the six that we've laid out are important, they deal with billions of dollars. Those are dollars that could be used for readiness. Those are dollars that could be used for quality of life. And we need to elevate these issues to the highest levels of the Department of Defense to look at it from a strategic standpoint at the very top. We need to have reporting and accountability mechanisms within the executive branch, as well as to the legislative branch, to demonstrate that there is a plan with key milestones that progress is being made, and if it is not, then what is the problem and what are you going to do to address it. That has not historically occurred. And if we are going to solve the problem, we are going to have to do something along those lines.

Mr. KUCINICH. How often do you issue reports?

Mr. WALKER. Well, we issue reports every day. We issue our performance accountability and high-risk series, which is the basis for this hearing, every 2 years. We will issue an update every 2 years.

Mr. KUCINICH. Would it be—do you think it would be more helpful to Congress if you provided even more-frequent updates on this, because 2 years can slip by before we ask these questions again. You know, obviously, 4 years have slipped by before we got to this moment, and we find ourselves in the same place.

In a way, despite all these efforts that are being made, it kind of sounds like a variation of the old placard,"The hurrier I go the behinder I get." And I'm just wondering how, Mr. Chairman, would the GAO recommend the Department of Defense undertake a path toward trying to straighten out this intricate web of accounting and financial management practices.

Mr. WALKER. Well, I know that Secretary Rumsfeld has stated publicly that it is his intention to make financial management one of his top priorities. The question is how is he going to go about accomplishing that. I think that one of the things that needs to happen is that it is going to have to be elevated to at least the deputy secretary level. There is going to have to be some type of task force mechanism, or whatever, that forces all these different silos to come together for the greater good, that has an overall strategic plan with key milestones on how they are going to address this. There has to be accountability within the executive branch, not just within DOD, but to the Office of the President, OMB, etc. And there has to be accountability to Congress, and I think it has got to be more frequently than every 2 years.

Mr. SHAYS [resumes Chair]. Let me do this. Thank you for taking over.

Mr. Clay, you have the floor and you have a good 10 minutes, plus, if you'd like it.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. Walker, you mentioned in your testimony that it's either GAO or DOD thinks you have about 27 percent excess infrastruc-

ture. You are advocating that there be another round of realignment and base closures, correct?

Mr. WALKER. We have said in the past, Mr. Clay, that we think there is excess capacity; that if you could address that excess capacity you could free up the resources for readiness, for the troops, and for other priority purposes.

Mr. CLAY. Let me ask you about the previous round of base closures. You—is the property being sold, or what's happening to the excess property that went through the closure process?

Mr. WALKER. I'm going to ask Mr. Hinton, who is head of Defense Capabilities and Management team, to come up, because he was here when the last round occurred and I was not.

Mr. HINTON. It is still evolving, Mr. Clay. Some of this is staying within the public sector, some of it is going to the private sector, but not as much as DOD had estimated would be sold has been sold. You know, going through base closures has been a bit of a problematic economic issue for some of the communities. But what we've seen through our work is that there has been recovery over a period of time in those communities that have been affected, and progress has been made. We have been periodically looking at those areas where the bases were closed and what has been happening since then, so there has been—well, there was a lot of anxiety at the time the closure decisions are made. Over time we have seen the economies rebound.

Mr. CLAY. Well, let me bring your attention to a site in my district. It's the old ADCOM site in St. Louis.

Mr. HINTON. Yes.

Mr. CLAY. You know, between GAO and DOD, the buck just keeps getting passed on who is responsible for the site. Now, it needs to be cleaned up. I think GAO or DOD has neglected the facility, which is in the heart of an economically depressed community, the local community, and I would like to see it cleaned up. It is a 60-year-old ammunitionsite that, at its height, provided ammunition for World War II. And so the local community is trying to redevelop that site. We would like some assistance from GAO to help us clean up the site, to help repair it for future development.

Can you all take a look at this issue and then report back to me on what is possible?

Mr. HINTON. Yes, sir. We would be happy to come up and meet with you and your staff and see what it is we can do. As you know, one of the criteria that is considered when they go through base closure decisions is the impact on the communities, and one of those is the environmental impact——

Mr. CLAY. Sure.

Mr. HINTON [continuing]. And that's exactly what you are referring to, and I think we could come up and see what we could do to help you out.

Mr. CLAY. I mean, is that GAO's policy is that they do take a look at economically depressed areas and try to determine whether it is possible to assist those local communities in getting the land prepped and for future development?

Mr. WALKER. Mr. Clay, our job, as you know, is to work for the Congress to get the facts on various of these issues and to present it to the Congress such that you can consider that in conjunction

with your Constitutional responsibilities, and such that the Department of Defense and other agencies can consider it with regard to setting their priorities and what their actions are.

I think one point you mentioned is, if you do end up having a base closure, whether and to what extent you can end up utilizing that property for development and for other purposes to a great extent has to do with what is the environmental condition of that property.

To the extent the property has been used, you know, previously to store ammunition and things of that nature, there are obviously costs that have to be incurred in order to clean that up, in order to be able to rectify that situation, and there are potential liabilities that a developer would be concerned about, making sure that it is being taken care of or that they don't unduly expose themselves to liability if the Government is not willing to assume that responsibility.

So we have done work on that where we've gotten the facts, where we've laid out the facts, but obviously we are not directly involved in the cleanup or making the related decisions.

Mr. CLAY. Well, I would like to hear from your staff on this issue and would like to meet with you. It is of serious concern to us in the St. Louis community and we'd like to sit down with you.

Let me also ask you about your outside contractors. Have you been able to get any refunds on contractors? You talked about overcharging of contractors. Were you able to——

Mr. WALKER. Last year, as I recall, there was about $900 million in funds that were refunded by contractors to the Department of Defense due to over-payments. That is down from historically what it has been, but it is still too high.

Part of the problem here, Mr. Clay, is not just the issue of the systems and the controls that we've talked about before, but, believe it or not, right now we have some perverse incentives. We have a situation where the Government ends up having to pay penalties if it doesn't promptly pay. On the other hand, if the contractor has been overpaid, they do not have an affirmative responsibility to tell the Government that they have overpaid. In addition to that, if they don't end up telling the Government and if they don't refund the money within a reasonable period of time, they are not charged any interest.

Therefore, we have an unlevel playing field, which is something that I think we need to take a look at, and we would be happy to converse with you or any other Members that are interested in that if you so desire.

Mr. SHAYS. Would the gentleman yield just a second?

Mr. CLAY. I'm finished, Mr. Chairman.

Mr. SHAYS. OK. Just with this latter point, if you could give us some guidance as to whether Mr. Horn's committee or another—Mr. Horn would be dealing with that. I mean, this is—we saw this in the medical area. It just blew my mind. And we weren't able to, on major bidding on medical, we weren't able to charge the competitive rate. We were only allowed to change the rate if it was—the term, not just excessive, "grossly excessive." If we were paying an excessive rate, we did not have the legal rate to change it, only if it was grossly excessive.

And when you tell me what you just told me now, I kind of would have thought by now we would have been dealing with it.

This is in Defense. You're saying if a contractor is paid, they don't have to notify they were overpaid. They don't have to return the money. And only if they are found out do they have to return the money without interest.

Mr. WALKER. Correct.

Mr. SHAYS. Is that your statement?

Mr. WALKER. That's my understanding. That's correct.

Mr. STEINHOFF. That's right.

Mr. SHAYS. Now, if Mr. Horn doesn't take this up, we need to take it up. Staff could just make the particular note on that.

Mr. WALKER. That would be great, Mr. Chairman. I will follow it and find out if he is planning to. If not, I will get back to you. Either way, I'll get back to you.

Mr. SHAYS. Great. Thank you.

Now, when—I guess, Mr. Clay, the one beautiful thing about GAO—and there are many—is that it reports to all of Congress but particularly to this committee, not to this subcommittee but to the Government Reform Committee. That's the primary committee it reports to. And they can be of tremendous service.

Since this has a particular concern to your District, please let our staff know in a meeting and we can followup, as well, and add a little impetus, as well.

Mr. CLAY. I'd appreciate that.

Mr. SHAYS. We'll be happy to help you out, as well.

Mr. CLAY. Being a freshman Member.

Mr. SHAYS. You are no more a freshman Member. And the mere fact he would say that proves to me he's not a freshmen. The freshmen don't want to admit it. The ones who really know what they're doing play off on it.

Mr. CLAY. Thank you.

Mr. SHAYS. Thank you. I'm sorry. I'm going to get you back, Mr. Steinhoff. Just I want to—I have a feeling this is Mr. Horn's area, that he's going to focus a lot of time and attention. But I just want you to—you gave me—at 4:30 you gave me the StanFins, and that seemed to be reporting documents, too. It didn't seem that it provided information anywhere else, unless I'm wrong here.

Mr. STEINHOFF. Let me try the MOCAS one.

Mr. SHAYS. Which one? Tell me which one?

Mr. SHAYS. This is the upper left-hand corner.

Mr. SHAYS. Oh, no, you can——

Mr. STEINHOFF. It's 11:00

Mr. WALKER. It's 11:55.

Mr. SHAYS. It's 11. OK.

Mr. STEINHOFF. Or 11.

Mr. SHAYS. OK.

Mr. STEINHOFF. And I will say that——

Mr. SHAYS. And what does that stand for?

Mr. STEINHOFF. It is the——

Mr. SHAYS. I'm not testing you.

Mr. STEINHOFF [continuing]. Mechanization of Contract Accounting System.

Mr. SHAYS. OK.

Mr. STEINHOFF. This is the major system that is used for contractor payments. The system was developed back in the 1950's and 1960's. They've had many initiatives to overhaul the system, and this system reports out data to nine other systems and brings in data from five systems, not always in standard formats. And this is the system that causes or is part of the cause of overpayments, the kind of overpayments you just mentioned. This is a system that deals with the need to re-enter transactions many times.

Mr. SHAYS. OK. And tell me what doesn't have to be here. Just give me an example of something that doesn't need to be here.

Mr. STEINHOFF. It probably all needs to be here with the current system they have.

Mr. SHAYS. OK.

Mr. WALKER. What needs to happen, Mr. Chairman, I believe, is that, rather than having all of these independent and free-standing systems that independently require data entry—in other words, in order for these systems to operate in the example that Mr. Steinhoff gave, if you want that data in a particular system you have to enter it separately in each system for that system to accomplish its stated purpose.

What has to happen is that you may need that information, but you should only enter it once. We need to look at the enterprise architecture for the Department of Defense on what it takes, not only from the standpoint of financial management, but also mission performance, and we need to design a system that provides all this information where you can reduce, ideally to one, the number of data entries in order to be able to get this information.

Mr. SHAYS. I'm just going to have counsel ask a question or two.

Mr. WALKER. Sure.

Mr. HALLORAN. In that regard, at 1, the standard procurement system, GAO is doing some work for the subcommittee on that subject, and my understanding is that it is meant to be standard, it is meant to bring some standardization and replace some of these major systems. How many and to what extent? And can you give us a flash briefing on where that stands?

Mr. WALKER. Joel Willemsen, who is head of our information technology area, will address that.

Mr. SHAYS. Identify your name again, please.

Mr. WILLEMSEN. Yes.

Mr. SHAYS. Thank you.

Mr. WILLEMSEN. Mr. Chairman, we are doing work for your subcommittee on the standard procurement system, a DOD effort that began about 7 years ago to replace approximately 76 unique procurement systems throughout the Department.

What we are finding——

Mr. SHAYS. Some of these, right?

Mr. WILLEMSEN. In part some of those, in part additional systems at various components throughout the Department of Defense.

The goal is laudable. Let's try to standardize. Let's try to have common data elements so that we can avoid the situation that Mr. Walker talked about—entering data repeatedly and then not being able to aggregate them in an accurate form.

What we are initially finding as part of the ongoing work for you is that, even with the standard procurement system, there appears to be multiple versions of the system throughout the components within the Department of Defense, raising additional concerns again about standardization, the ability to aggregate accurately, concerns about cost.

This was initially intended to be a commercial, off-the-shelf system with some customization, but, to the extent that individual components now want to address their own parochial needs, that will further enhance customization of various versions.

Mr. WALKER. What has to happen in part is that there is a natural human tendency that everybody thinks that they are special and that they have special needs, both individuals and organizations. But what has to happen, as I mentioned before, is that we need to elevate a lot of these issues to the highest levels of the Department of Defense such that there can be some discipline to assure that there is commonality and that we are focusing on what there is a universal need for and resisting attempts by these individual silos to basically take something that was intended to be standard and make it customized to where, in effect, we have not accomplished the intended objective.

Mr. SHAYS. Mr. Walker, you have opportunity to appear before a lot of committees, and I want to take advantage of your being here.

I am—I don't use the word "frustrated" often, but I—it is a bit frustrating because there is so much we could be asking you. And I don't mean to just focus on this to the extent of excluding other things, but I do want to at least get a certain threshold of information so I feel like I can go on.

Is it conceivable that—this just deals with contract and vendor pay. It doesn't deal with paying benefit of employees and things. Is it conceivable that this chart is made—we think it is complex looking at it and DOD has provided it and we can laugh at it, but if they really were—is this accurate, or would it be even more complex if they, you know, gave us some of the nuances here? I mean, are there—you mentioned there are other units. I don't know how to refer to them. Other units, other agencies, other departments, other subsystems?

Mr. WILLEMSSEN. Other components within the department.

Mr. SHAYS. Other components?

Mr. WILLEMSSEN. Yes. I mean——

Mr. SHAYS. And so the answer to the question is there—are other components in here, it is more complex than this?

Mr. WILLEMSSEN. These represent the major systems.

Mr. SHAYS. OK.

Mr. WILLEMSSEN. So there are many other systems that are——

Mr. WALKER. Subsystems.

Mr. WILLEMSSEN. Subsystems.

Mr. SHAYS. OK. Fair enough. So it really is more complex than even this.

Mr. WILLEMSSEN. Right.

Mr. SHAYS. When I was on the Budget Committee for 10 years, and yet on this committee, I didn't learn until I was in the Budget Committee about the $7.6 trillion of unsubstantiated transactions

or unaccounted transactions. I can't get a handle on $7 trillion. If you had said $7 million I would say that it was outrageous, or $7 billion I'd say that's crazy, but $7 trillion is almost beyond my comprehension.

I don't know how you could even have that many transactions. Are you basically—in figuring that out, are we basically multiplying every transaction they could have and saying none of them are accountable? How do we get to that number, $7.6?

Mr. WALKER. That's dollars, isn't it, Mr. Chairman, the $7.6.

Mr. SHAYS. Right. I'm sorry.

Mr. WALKER. The dollars.

Mr. SHAYS. But it is 7.6 in dollars, excuse me, in a $300 billion budget.

Mr. WALKER. I believe what it is—and I would ask others to jump in—is that it is illustrative of the fact that you can take a single transaction and, because of how their systems are designed, have to enter it multiple times——

Mr. SHAYS. Right.

Mr. WALKER [continuing]. In multiple systems, which gives you that multiplier effect. And then that's how you can have such a huge number.

Mr. SHAYS. OK. That seems clearer. It also seems self-evident, even to someone like myself, that if you have so many transactions you open the way up for lots of error and you increase your cost significantly and your information would be less accurate.

Mr. WALKER. You increase cost, you reduce accuracy, you undercut accountability, and a number of other things.

Mr. SHAYS. Is it possible some of that is by design?

Mr. WALKER. It is possible that some of it is by culture.

Mr. SHAYS. OK. Same thing.

Mr. WALKER. People want to be able to control their span of control, they want to own their information. That's very possible. And if there's not direction from the top that forces things to be looked at from an enterprise perspective, from a Department-wide perspective, then people are going to end up doing what they think they need or what they want.

Mr. SHAYS. So the real issue, then, if we are trying to be change agents, is not to bring in the best systems but to figure out how to change the culture, and that introduces—I mean, there must be people who—I mean, I know there are who have expertise in trying to change culture. But is it—so I guess what I'd be interested to know is how are we going to change this. And have you been asked to recommend how we change this? You've commented on it, but have you been asked to——

Mr. WALKER. There has been increasing interest on behalf of a number of Members in saying how are we going to break out of this current situation, and there have been a number of Members that have asked us to take a look at do we have any specific recommendations.

I alluded to, for example, the possibility of needing to establish some type of high-level group within the Department that would be—not only comprised of people within the Department, but other stakeholders outside the Department—for example, OMB—to be able to develop operational plans with key milestones for address-

ing some of these systemic problems that would end up reporting within the executive branch on their progress, and it would also report to the Congress.

We'd be happy to work with you on that, Mr. Chairman, but I think we are going to have to have a different approach and we're going to have to have more transparency and we're going to have to have more accountability, both in the executive branch as well as the legislative branch, if we are going to solve this problem.

Mr. SHAYS. Now, I would have thought that the 1993 Results Act would have led to some solution.

Mr. WALKER. Well, part of the question is how do they develop this strategic plan. Is it bottom-up or is it top-down? In addition, what mechanisms do you have in place to reconcile the differences of opinion between the various different units within the Department of Defense?

Clearly, the Results Act can be a tool to help in this kind of situation.

Mr. SHAYS. Do we have——

Mr. WALKER. But you've got to hold people accountable and you've got to have it in the Results Act, in fact, I don't know that DOD's updated plan even has a resolution of all these high-risk areas within its plan, which would be a fundamental problem if it doesn't.

Do you recall?

Mr. STEINHOFF. I don't believe that the plan does cover all of the areas. They do have many plans. They have a 900-page financial management plan. They've got lots of plans that don't tie together.

Mr. WALKER. If I can, Mr. Chairman, I think you've hit on an excellent point. One of the things that we have recommended is that, as part of the strategic plan, anything that we deem to be high risk should be part of that strategic planning process as part of GPRA. They ought to have specific ways that they are going to address each area and get that off the high-risk list.

Mr. SHAYS. When we had our hearing last week on the degradation of national security as it related to our doing security checks, there was all the requests coming in and then there was the issue of whether the office could handle all the security background checks, both the new and old. But one thing that wasn't happening was that they are not getting consistently requests from the different branches because the branches have to pay money every time they have these requests.

But then what we learned is there is no one, so we had the office that was working on this issue, but the people who weren't in the room were 16 or 17 different units that utilize these services—more than 16—in DOD, and what was clear was that there was no central urging on the part of the Secretary's office, itself.

So are we saying here that we're not sure the Secretary is buying into this—I mean, his office past, now, present, in dealing with this issue?

Mr. WALKER. It is too early to say what Secretary Rumsfeld is going to do here. I do know that he is on record as having said that the financial management issue will be one of his top priorities. That's a positive sign. But it is not just a matter of if it is a high priority as how are you going to end up effectuating these changes,

given past history, given the cultural challenges, and the other things that we've described.

Mr. SHAYS. Well, he knows the culture. He has been there a while.

Mr. WALKER. That's correct.

Mr. SHAYS. And it hasn't changed much. But he is going to have to and his office is going to have to actively, I gather, convince all these different components and all the branches and the sub-branches, sub-units within the branches, to give up the desire to just design it perfectly for themselves.

So one of the things I am getting from this hearing is a reinforcement of what I learned last week—that some of these major crisis areas are going to take the Secretary's office to buy in big time.

I want to recognize Mr. Kucinich, but beforehand I just want to finish up.

It strikes me that if we had $7.6 trillion that we can't really follow consistently, that—is this $7.6 down to $4?

Mr. STEINHOFF. In order to prepare their fiscal year 1999 financial statement, the DOD made 17,000 entries or adjustments valued at $7.6 trillion resulting in a financial report that couldn't be audited. Of that amount, $2.3 trillion were found by the Inspector General to be unsupported.

The numbers for this year are not good, a bit better. It was $4.5 trillion this year, approximately 2,000 entries for 1.1 trillion could not be verified; they were not supported.

Mr. SHAYS. So we went from $7.6 of total dollars, non-supportable $2.3——

Mr. STEINHOFF. Right.

Mr. SHAYS [continuing]. This past year?

Mr. STEINHOFF. It is $4.5 trillion, 21,000 entries or adjustments to prepare financial reports, and $1.1 trillion was found by the Inspector General to be unsupported.

Mr. SHAYS. OK. Mr. Walker, if you were running a company where you had this kind of inability to have supported document, would you be removed from your job or would you be sent to jail? What would happen? In that range, what would happen?

Mr. WALKER. At a minimum I think my job would be at risk, and if I was a public company I would say my stock price would probably tank.

Mr. SHAYS. And you'd have a lot of lawsuits.

Mr. WALKER. Shareholder suits, in all likelihood.

Mr. SHAYS. Yes. Well, OK, I have enough here to know what I think our committee needs to do. We, one, need to work with Mr. Horn, but also to just see where this is in the Office of the Secretary in terms of their concern.

But what's going to start to happen is I support, for instance, national service, and three out of the seven audits—out of the seven different areas, three were auditable, two were close to being auditable, and two weren't. Some people voted against national service because they said until it could be totally auditable it wasn't going to get their support. But they obviously wouldn't use the same criteria with Defense, and that's what I think Defense has been able to get away with. We need national defense so we're just going to do it anyway. In other words, we're going to keep put-

ting money in. We're not going to—this is going to be not as high profile.

Mr. WALKER. There has got to be a consequence. There has got to be accountability. And that is not only within the executive branch, but that is also from the legislative branch.

Mr. SHAYS. Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

I want to direct attention to issues relating to compressed schedules that were implemented by the Ballistic Missile Defense Organization, and I think that I remember in some of your material that you comment that the compressed schedule implemented by BMDO has made the program vulnerable to delays, and I just wonder what effect has this schedule had on costs.

Is there anyone there that knows?

Mr. WALKER. I will be happy, Mr. Kucinich, to provide it for the record.

Mr. KUCINICH. OK, if you could, because General Kadish was in front of the committee at one point and he stated that cost estimates for the program have gone up over $10 billion to $40 billion from an estimate of $28.7 billion 1 year earlier, and the BMDO has more recently quoted an even higher figure when contacted by my office.

Mr. WALKER. Mr. Kucinich, if I could make an important point that relates directly to your question, we have found in our best practices work with regard to acquisitions that there are certain fundamental systemic problems within the Department of Defense about how they go about designing, testing, and procuring major weapons systems, and it is not just weapons systems, it is other platforms, as well, that aren't weapons systems, like trailers, for example.

Many times what will end up happening is that they will not prove the technologies and they will not adequately test the technologies before they go into production stage, and what that causes——

Mr. KUCINICH. Is that what happened with the V–22?

Mr. WALKER. In all likelihood, yes.

Mr. KUCINICH. Is that what happened with the V–22?

Mr. WALKER. Yes, Mr.——

Mr. KUCINICH. And is that—would the going ahead and beginning production of the Comanche helicopter before adequate operational testing began, would that be another example?

Mr. WALKER. It is a systemic problem whereby people will set milestones, get the money, spend the money, hit the milestones, in many cases will end up compromising the testing or compromising or waiving performance standards, and the result of that is escalating cost, delays and reduced capacity.

Mr. KUCINICH. You know, Mr. Chairman, it just occurs to me, is GAO ever involved in kind of, like, counseling of these Departments at the beginning, at the inception of this process? Because if we—you know, here we are doing a grisly post-mortem of a system that is so convoluted as to defy human comprehension, but is there a point at which an entry-level—you give some guidance to any of these Departments?

Mr. WALKER. Yes, there is, and let me tell you what we are doing, Mr. Kucinich. I have been joined by Katherine Schinasi, who is the lead on our best practices work in this area. But let me just say for the record we believe in constructive engagement. We believe in trying to work with these departments and agencies to help solve the problems. I mean, what we are here to do is——

Mr. KUCINICH. Do you believe they are listening to you?

Mr. WALKER. Well, sometimes they do. Some do a better job than others. And one of the key areas that we've done work on here is that we have looked at commercial best practices for world-class enterprises in the private sector and how they go about designing new systems and new platforms. Obviously, they are not designing the same thing the Department of Defense is, but, on the other hand, there are certain commercial best practices.

We have provided those to the Department of Defense. We have done work to demonstrate how the Department of Defense's approach to this issue is fundamentally at odds with what prevailing commercial best practices are, and we've demonstrated that results in the additional cost, compromised performance standards, etc. We are trying to get them to adopt commercial best practices unless there is a clear and compelling national security reason to take shortcuts because we face a threat that we have to take higher risk to address. We then may have to do some things quicker than otherwise we might like in order to meet a threat.

Katherine, I would like you to maybe expound on that a little bit.

Mr. KUCINICH. OK. I——

Mr. WALKER. Mr. Kucinich, did you want to come back on that or——

Mr. KUCINICH. Go ahead, please.

Ms. SCHINASI. Yes. As Mr. Walker said, you asked about how well they are doing. I think we see at the policy level and at some of the higher levels, what it is that we have been talking about.

Mr. KUCINICH. You know, Mr. Chairman, I'm just wondering if there is a—sort of like a—before we enter into the contracting process, is there, like, a checklist that GAO provides for guidance for the Department of Defense? You do have such a thing?

Ms. SCHINASI. That is some of the work that we have been doing, and you raise the point that is very important, and that is before you start a program, you need to make sure that everything is in order, because once you start that program, you lay down point estimates of costs that are 20 years out, that you have no way of knowing whether you can make or not.

Mr. KUCINICH. Mr. Chairman, I think what would be helpful, and our committee—of the many services I expect this committee to do for the American taxpayer, it might be helpful to take, let's say, one system, you know, whether it would be the F–22 or FAD or V–22 or Comanche or whatever, and follow it through from its thought to the discussion phase to talking about the possible going forward with it all the way down, from one—from the initial idea all the way through to procurement and operation.

It would be interesting to do that just to kind of get an idea of how this system works with one single acquisition, just one item. It might be instructive. You may have already done that.

Mr. WALKER. If I can, Mr. Chairman, let me take 2 minutes max and I'll give an illustration on a system that is let's just say not as controversial as some of the other ones that we might talk about, and also this is a historical example so it is not before the Congress at the present point in time.

This is a trailer. It has been referred to as a "war wagon" by some of your colleagues. We used this as an example before the Armed Services Committee a year ago as to what the systemic problem is.

What happened here is that the Army several years ago, noted that it had some extra money left over at the end of the year. The Army had its want list, and one of the things that it wanted was a new trailer to be able to use with the Humvee, so it decided that it would end up contracting for a trailer. And, since the Army is unique, they did not go out and look at what was commercially available on the marketplace. They decided that they needed to design a special trailer, so they issued a contract but they did not do adequate testing, which is a common problem in many of these systems, before they went into a production phase with the contractor.

The result is that roughly 12,000 of these were produced at a cost of roughly $11,000 each—that's real money. When they were produced they hooked them onto the Humvee and one of two things happened. Either, A, they didn't stay hooked, which is a hazard, or, B, they did but they did damage to the Humvee, and so, as a result, all but about 300 were in a warehouse for an extended period of time.

Now, in fairness to the Army, they have decided not to procure any more of these any time soon and they have taken steps to try to be able to deal with this problem such that they will not damage the Humvee or will not come unhooked during operation.

This trailor is clearly not something where there would be a clear and compelling national security reason to hurry up on, and yet, nonetheless, they hurried up on it. That is part of the culture.

Now, the question is who is accountable for this. What consequence, if anything, occurred as a result of this? I would be willing to bet there was no accountability for this.

Now, this is not a lot of money for DOD in relative terms. Well, in my terms it is. It is, however, over $100 million. They are going to be able to use this because they are making some modifications. But think about applying this same concept to systems where we're talking over $100 billion over a life cycle.

This is a systemic problem. We have come up with proposed solutions. The Department of Defense has told us they agree with us conceptually but in practice they are not being followed.

Mr. KUCINICH. Mr. Chairman, I appreciate your indulgence, and I just want to, as I conclude here, just go back to some really more fundamental questions.

Are the people of this country getting the defense they are paying for?

Mr. WALKER. We have the world's best military forces. We could get more for the dollars that the taxpayers are investing for readiness, the quality of life of our troops, and a variety of other factors if we dealt with some of these systemic problems.

We could also recognize that we could close the delta between wants, needs, and what we are ultimately going to be able to afford to pay for if we deal with some of these systemic problems.

Mr. KUCINICH. Well, but, you know, with all due respect, while I give credit to the men and women who serve in the armed forces and I appreciate your similar respect for them, you don't mean to say that the Department of Defense is doing better than other agencies with respect to their financial management and accounting?

Mr. WALKER. On financial management, your colleague, Congressman Horn, gave them an F last year. They'll——

Mr. KUCINICH. What do you give them?

Mr. WALKER. They're failing on financial management.

Mr. KUCINICH. Are they worse than any other agencies that you know of?

Mr. WALKER. Probably so.

Mr. KUCINICH. You know, the—just to say that we are the best, you know, doesn't really address the issue, though. I mean, you are addressing the issue definitively when you say that $1 out of every $3 that is spent is hard to account for. That's pretty serious. And, as good as our defense is—and I think the American people would respect that we are a very powerful Nation—when you have so much fraud, waste, and mismanagement, you know, you have to raise the questions.

And I'd conclude with this, Mr. Chairman, and that is that, you know, we are into financial management and accounting here, but I think also another interesting field of endeavor that we could look to for support of an analysis is philosophy because—and perhaps quantum physics.

In quantum physics, when you look at holography, if you look at it you catch a wave, just one wave that reflects on the whole design, the whole pattern. And you've given us a number of waves, so to speak, on this interference pattern we call this Department of Defense. Pretty grim.

You know, Napoleon and I think Clauswitz both argued about a type of warfare and analyzing warfare that say that if there is a weakness in a line anywhere that is where you can create chaos along the entire line.

It appears that you have disclosed a type of weakness in our national defense which cannot but help to resound throughout the entire defense structure from one end to the other, which goes to the reasons why planes fall out of the sky. These things don't just happen.

And so when we look at the design, Mr. Chairman, and these design questions, we really, I think, have to stay focused on what has been created here and ask the more fundamental question about should the structure be different, not should we defend our country or not. There is no one who is going to argue that question. But we have a system here that appears to be highly vulnerable, and if it is vulnerable, Mr. Chairman, if it is vulnerable at the accounting level, then it has to be vulnerable at the operational level. There is no way to separate the two. They are, in fact, aspects of the same process. And I defy anyone to refute that, either in principle, philosophy, or in fact.

Mr. SHAYS. Mr. Walker, I am going to come back to this for the last time.

Mr. KUCINICH. Thank you.

Mr. SHAYS. Thank you.

Mr. SHAYS. The $7.6 trillion—and I just want to understand what that $7.6 trillion represents and I'll get off it, but I just am having a hard time understanding why the $7.6 went to $4.5. I think I understand it, but, Mr. Steinhoff, first of all, what does the $7.6 figure represent? It's multi-year expenditures, so it is not a $300 billion budget that we're talking about?

Mr. STEINHOFF. It was the attempt that DOD had—let's take this as being fiscal year 1999——

Mr. SHAYS. OK.

Mr. STEINHOFF [continuing]. And they were trying to prepare a set of consolidated financial statements. DOD did not have what is called a "general ledger accounting system" that brings in all the accounts.

Mr. SHAYS. So it is for a particular fiscal year?

Mr. STEINHOFF. Yes, this is for fiscal year 1999.

Mr. SHAYS. OK. And——

Mr. STEINHOFF. Mr. Walker mentioned the heroic effort before. This was their attempt at a heroic effort.

Mr. SHAYS. So they had to redo the books to a tune of $7.6 trillion to get the unsupported transactions down to $2.3 trillion? Is that what you're saying?

Mr. STEINHOFF. No. In order to prepare their financial reports—I'll give you a simple example. They would go out and they would call around. They call this a "data call." They would call various commands and say, "How much property do you have" and a command might report in, "Oh, I've got $100 million worth of property," so they would record that transaction.

Then they would go around to a bunch of commands and get these numbers, record all those transactions. Those are all individual entries.

Then they would roll it up to the next level and they'd say, "OK, from all these levels how much did we get?" Well, here's another $400 million worth of transactions. They would keep rolling up the number until they had what they called a "consolidated number." So that's why you have $7.6 trillion that really defies logic. They have a $300 billion budget. They've got about $1 trillion of assets. How could they have $7.6 trillion? But it's just rolling up the same numbers over and over again and entering them in different systems.

Mr. SHAYS. Why did the number come down to $4.5? And what's the ultimate number? Do we want it down to zero? I mean, in other words, I'm missing what the number really represents.

Mr. Walker, do you understand what my dilemma is?

Mr. WALKER. I think I understand. Let me take a shot.

They had to end up executing a number of transactions. Many times they had to execute the same transactions multiple times to be able to account for it in the different systems that they had, and when they did that, in the end of all the transactions that they made, there were a subset of those transactions that they did not have adequate documentation to be able to support them.

In other words, somebody in the field said, "I've got this. You need to put us down for this," but they didn't have supporting documentation for it, and so they are going based upon assertions rather than based upon fact and hard evidential matter.

Mr. SHAYS. There's no secret number that if you have a $3 billion budget you should have so many dollars worth of transaction? There's no number?

Mr. WALKER. No.

Mr. SHAYS. OK.

Mr. WALKER. But it is a lot lower than theirs, I can assure you.

Mr. SHAYS. Well, it's got to be. But you had 1,700 adjustments when you had $7.6 trillion to get unsupported transactions at $2.3, and now you have $4.5 trillion and you had 2,100 adjustments. You even had more adjustments to then get to the number of $1.7 unsupported.

Mr. STEINHOFF. It is probably—you probably—it is hard to compare it and say 1 year is better than the other in absolute terms. It appears that 2000 is better than 1999.

Mr. SHAYS. Right.

Mr. STEINHOFF. However, no one really knows and they haven't analyzed if there is, in fact, an improvement. They don't know whether they really had all the transactions. The Inspector General basically stated they could not determine that the numbers were fairly stated, so in neither year could DOD really prepare an auditable financial report. It is just that there is a difference between the 2-years in the amount and dollar value of adjusted transactions they processed.

Mr. SHAYS. Let me just ask you, is the key number the $4.5 in this last year or the $1.7?

Mr. STEINHOFF. I think both numbers are key. I think there is no reason that they should have $4.5 trillion of these type of adjustments, and the $1.1 trillion that's unsupported is the more serious number, but they shouldn't have either number. They shouldn't have a system that operates in that manner. The books should be kept during the year and you should have very few adjustments at year end.

Mr. WALKER. The $1.1 trillion is a much more serious number.

Mr. SHAYS. The $1.7?

Mr. STEINHOFF. The $1.1.

Mr. WALKER. Which year are you talking about, Mr. Chairman?

Mr. SHAYS. For fiscal year 1999.

Mr. STEINHOFF. It is $4.5 trillion and $1.1 trillion for fiscal year 2000. The fiscal year 1999 numbers were $7.6 trillion and $2.3 trillion.

Mr. WALKER. For 2000. Right. And that's for 2000. The $1.1 trillion is obviously much more serious because you've got the transaction but you don't have the documentation to support it, so you don't really know if it is right or it is not right. You've entered transactions, you don't know if it is right or not.

I guess the bottom line is this is not the way to do business and we shouldn't be spending a whole lot of time and resources trying to make these systems work. We need to move forward, dealing on a much higher level, come up with an enterprise architecture that deals with it more comprehensively rather than trying to fix this.

Mr. SHAYS. I have a little better sense of this. I just—it just blows my mind that the unsupported documentation is basically—transactions are almost three times what the budget is. In an annual budget of $300 billion, you have nearly——

Mr. WALKER. But, of course, transactions aren't just for expenditures, they are also for assets. As you know, we have a balance sheet——

Mr. SHAYS. OK.

Mr. WALKER. You've also got the activity for the year, which are your revenues and costs.

Mr. SHAYS. Right.

Mr. WALKER. So there could be balance sheet transaction, too.

Mr. SHAYS. Just talk to me a little about inventory. Have we made progress with keeping track of inventory? Which direction are we headed?

Mr. WALKER. This is Dave Warren.

Mr. WARREN. Yes, we have made some progress to reduce the level of inventory; however, there are significant problems that still exist.

Mr. SHAYS. Would you expand on that?

Mr. WARREN. We still continue to buy too much inventory, perhaps $1.6 billion last year.

Mr. SHAYS. Now, each branch, each unit, they all have different ways of keeping track of it? Do we have some standardization in terms of our inventory?

Mr. WARREN. Basically done on—as the chart would show, a separate manner for each one.

Mr. SHAYS. OK. And is there one person in DOD that is responsible to get a handle on this? Is anybody empowered, or is it—are we going back to the different branches and sub-units within the branches to try to get a handle on it?

Mr. WARREN. Goes back to the individual services. OSD provides overall guidance, policy guidance; however, it is the individual services that implement.

Mr. SHAYS. So, Mr. Walker, this again is one of your crisis issues, right?

Mr. WALKER. It is one of the high-risk areas. That's correct.

Mr. SHAYS. All right, high-risk areas. Tell me, this obviously isn't news to you, but what is coming through is a theme that says, "We're not seeing a lot of progress." This is of concern to you, but it is not showing up, evidently, in a central way in DOD. It is still being handled in a very fragmented way.

If that is the case, we are still going to end up with charts like we had before. I mean, isn't that true?

Mr. WALKER. That's true, and that's why I think what has to happen is it needs to be elevated to the highest levels of DOD. We need to have a task team or some structure that is focused on resolving these six high-risk areas. It needs to be an integral part of their strategic planning. It needs to involve other people in the executive branch, including OMB and other players that have a stake here. And it needs to provide periodic reporting back to the Congress to make sure that satisfactory progress is being made.

Providing policy direction, quite frankly, just doesn't get the job done. I mean, we're talking about the need for sustained attention

at the highest levels. It is very tough work. You can't rely on the individual services to do it. The job is just not going to get done if you do that. They have a role to play, but you've got to drive it from the top.

Mr. SHAYS. With DOD it is usually the policy of the Secretary to come to the full committees and not the subcommittees, and I'm just struck by the fact that in what we are starting to look at it is really going to take action from the Secretary, and it may mean, one, that we get the full committee to do exactly what we are doing right now and get the Secretary to come and sit next to you and hear it up front, or maybe a proactive meeting where we go with you and others to see the Secretary, you know, with Members of Congress, themselves, and maybe Inspector Generals in some cases to say, "We need some central focus on these key issues."

And it might be helpful for you to not necessarily write a report—I mean, I almost think the report you should be writing is not that it is not happening, but why isn't it happening. I mean, that would be the more interesting report. How come these things continue to fester? And it may be that when you ask your people to look into that issue that you will then have a plan of action that can, you know, bring change.

Mr. WALKER. Well, I have corresponded with Secretary Rumsfeld, and he has agreed to meet to talk about a number of the challenges that we see at the Department, and I think that is an encouraging sign. He obviously has to get his team in place. The Department of Defense, as well as many other departments, don't have their second and third-level key players in.

From a practical standpoint, the Secretary has to care about this. The Secretary has to support any related effort. In reality, it is probably going to be driven by the Deputy Secretary. But it has got to be at that level. You have other players who will contribute, but if you get it below that level you're just not going to get the job done.

Mr. SHAYS. The Deputy Secretary is basically the Under-Secretaries in the other departments, the person who really runs the operations, is focused on the operational side of DOD?

Mr. WALKER. Well, the Deputy Secretary of Defense, which typically assists in policy, but deals with operations issues, as well.

Mr. SHAYS. OK. We talked a little about financial management. In terms of the inventory, what I'm hearing from you, Mr. Warren, is that it is pretty much the same and people are trying to get a handle on it in a very fragmented way?

Mr. WARREN. Yes. For example, there is an overall effort at the Department level to come up with a logistics architecture. That is an OSD initiative. Within the individual services, there are 400 initiatives underway. The overall architecture, however, is not linked to those 400 initiatives, and that's an example very similar to what we shared in the financial management area.

Mr. SHAYS. So it is destined to fail?

Mr. WARREN. Pardon?

Mr. SHAYS. It is destined to fail?

Mr. WARREN. I would say the likelihood is very great. Yes, sir.

Mr. SHAYS. So we've done inventory and the financial management. If you don't mind, I'd like to just get in another area.

The whole issue of bases, you said—was the 23 percent over-utilization excess bases, excess—what was the 23 percent?

Mr. WALKER. DOD has stated that they believe that they have 23 percent excess base capacity—in other words, more base capacity than they need.

Mr. SHAYS. What is the significance of that?

Mr. WALKER. Well, the significance of that, it means that they are spending money every year to maintain bases and capacity that they don't need. For every dollar that they spend on this, it means a dollar that is not available for readiness, for quality of life for the troops, or to close the delta on the major weapons systems to the extent that they need those weapons systems.

In addition to having to pay to maintain these facilities, it also means that there is asset recovery that potentially we could be achieving through the disposition of these properties that don't have significant environmental problems such that we could save the cost that could be redeployed and we could recover the asset values that could then be redeployed for whatever purpose that Congress felt was appropriate.

Mr. SHAYS. Is it possible, besides not closing bases because of political questions, that we are not closing them because of environmental problems, as well?

Mr. WALKER. There are environmental issues associated with some of these properties. There is no question about it, as was mentioned by Mr. Clay. I mean, I don't know all the facts in that particular circumstance and I will provide it to Mr. Clay, but there are bases that have been closed that, if they have significant environmental problems, if you are going to develop that property or if a developer is going to step forward and want to be able to assume any risk. They are going to have to be reasonably assured that, A, the environmental situation has been taken care and that, second, that their liability is going to be limited, you know, in some way in case there is something that is pre-existing their ownership that has not been effectively resolved. And so yes, this is an issue that has to be looked at.

There have been success stories, though. I mean, for example, Cameron Station down in Alexandria has been successfully redeveloped. In addition, in Charleston they've done a lot in Charleston, and in other areas. So it is facts and circumstances.

Mr. SHAYS. We have weapons systems that turned out to be more expensive, No. 1. And, No. 2, we have such a large number of weapons systems that if we added up the entire cost it would clearly break the budget, so what we do is we stretch it out beyond the 5-years so it doesn't show up in a 5-year budget.

Have you been asked and/or have you done a report that adds up all these weapons systems to figure out what they would cost, and what they would cost if we logically did it in a way that didn't add to the cost? In other words, we stretch it out it makes it more expensive, but if we logically funded this program, logically funded all of these, this is what it would add up to be.

Mr. WALKER. I believe that we have—Katherine, please. Katherine Schinasi.

Ms. SCHINASI. We've not looked at the total picture of cost, but we have taken parts—for example, looking at the tactical Air

Force. You know, if you bought out the systems that you originally planned, what would that cost you?

But what we find often when we look at these programs is that the total program cost stays the same but the quantities that you are able to get for that total program cost are significantly diminished because of the unit cost increases.

Mr. SHAYS. And so—OK. And how do I say your last name?

Ms. SCHINASI. Shanasi [phonetic].

Mr. SHAYS. That's why I called you Katherine, not because you are a female.

Ms. SCHINASI. Katherine is fine.

Mr. SHAYS. No, it isn't.

Mr. WALKER. I did the same thing, Mr. Chairman, at first.

Mr. SHAYS. I know you did. Schinasi.

Ms. SCHINASI. Yes.

Mr. SHAYS. OK. It's a nice name.

Ms. Schinasi, you are saying, though, so the overall cost doesn't go up, but what we purchase goes down, but that obviously has impact because if we wanted so many planes we have to find another plane somewhere else.

Ms. SCHINASI. Right.

Mr. SHAYS. So——

Ms. SCHINASI. On the original—the way we look at it is that we cut a deal originally and we say, "For this much money we are going to get this much product." The parameters of that deal change as you go through a system. With almost every program that we look at, that original deal about "we're going to get this much for this much" falls apart.

Mr. WALKER. Part of it is because the reason that we articulated before, is that what happens is you design a system that is very advanced with unproven technologies in order to sell it. The contractor then will bid based upon that, but then what ends up happening is there is not enough testing done, or, if testing is done, the performance requirements many times aren't met and so they are waived, and before you know you're not getting nearly as much as you thought you were going to get, they can't do nearly what you thought they were going to do, but, in addition to that, they are costing you a lot more per unit than you thought you were going to have to pay, which is another problem because we have an aging fleet.

I mean, if you look at the average age of, for example, TACAIR—tactical aircraft—it is a real challenge.

Mr. SHAYS. That's a good lead-in.

Mr. HALLORAN. Yes. Could we stay with that for a second, because you did say you had costed out the entire tactical air plan so far. Could you be more detailed than that in terms of what those projections are? And, in the same vein, the acquisition reform has been—there are many offices and many plans for acquisition reform.

Ms. SCHINASI. Right.

Mr. HALLORAN. Many attempts at it. What have—and I know that GAO has some recent work on the aging fleet that says that the current TAC airplanes might not even solve the aging problem.

What kind of breakthrough acquisition reform proposals are you considering or recommending?

Ms. SCHINASI. I'll take the reform piece and then I'll turn to the other piece of it.

When we look at the reforms, what we've seen is that, although a lot of initiatives have been proposed, there's really not much that goes to the issue that we talked about earlier, which is the culture and the environment. What you need to do is change the incentives that exist for people to behave the way they behave. It is a very rational system when looked at in one way because people act rationally, when programs are begun, programs are a revenue generator for the Department, and so you want to start that program to be able to attract the funds to your service.

And so you make decisions based on very little knowledge, if any, and you are overly optimistic and you under-estimate cost.

Mr. HALLORAN. So would you call it a fundamental problem unaddressed in acquisition reform—that is, the launching of a program prematurely? I mean, I think of the commercial——

Ms. SCHINASI. Yes.

Mr. HALLORAN [continuing]. Work you've done, that no company would launch a toaster before they knew it was going to make toast.

Ms. SCHINASI. That's right. And we talk about the need to understand what your requirements are and to be able to make tradeoffs between those requirements and the technologies that either you have in hand or you know you will have in hand, and it is not until that point that you really are able to set the baselines that allow you to get what it is that you say you need.

Mr. WALKER. I think there is another problem and it has to do with the culture that the chairman talked about before and the fact that things tend to go more bottom-up rather than top-down in some of these critical decisions.

In some cases there is what I would call an, "I have a dream," philosophy on behalf of some of the services. I mean, we are a country that has tremendous capabilities and resources. With enough time and enough money, we can do just about anything, but the question is what we need to do again is say, "All right, what is national security strategy? What is national military strategy?" How does that translate with regard to the number of platforms we need, the type of platforms that we need, the number of forces, the role of the forces, the deployment of the forces?

We need to do more of that top-down to say, for example, if you take TACAIR, we clearly can't afford all three of these TACAIR systems. All right? So the first question you have to say is, "Well, which ones do we need based upon national security strategy, national military strategy," because what will happen if we don't do that is you'll get a little bit of all three but not enough of any. You may get some that you don't need but not enough of what you really do need. That's how the system works.

Mr. SHAYS. That sounded very poetic. I need to do an op-ed piece, and I am going to liberally quote you.

Mr. WALKER. Feel free, Mr. Chairman.

Mr. SHAYS. OK. Plagiarize, rather.

So the bottom line here, though, is the Secretary must know this because this is what we are looking at right now. I mean, he—I mean, we all know it, frankly, so, I mean, our moment of truth is occurring right now. And if we are going to have a tax cut and we are going to have those other things, there is tremendous incentive to just get a handle on it.

Mr. LI. Mr. Chairman.

Mr. SHAYS. Yes?

Mr. LI. On the issue of the tactical fighters, and specifically as it relates to the original question that you raised in terms of how big is the breadbox, I can at least tell you a part of that breadbox. Looking at tactical aircraft, the message that we gave a few weeks ago was that we are planning to spend over $300 billion, and after spending $300 billion our fleet will be older than it is today. That is the basic message. So——

Mr. SHAYS. And why will it be older than it is today?

Mr. LI. Because we will be able to buy fewer airplanes. The existing fleet that we have today is aging. We are going to have to keep some of those for mission purposes. And, as a result—as you know, as I have testified before you last year with regard to the F–22—that's a very expensive airplane and we are not going to be able to buy as many to replace on a one-for-one basis. So we will have fewer of those airplanes.

Mr. SHAYS. Right.

Mr. LI. And so the issue now is let's understand that our fleet will be aging, despite our investment of over $300 billion.

Mr. WALKER. But part of the issue there is coming back to national security strategy and national military strategy. How many air wings do we need? What type of platforms do we need for these various wings based upon likely threats that we may have to face during the lifespan of these systems?

For example, the joint strike fighter is intended to be purchased in large numbers. If you purchased large numbers with interoperability, which is what joint strike fighter is intended to be, then you theoretically can end up meeting the needs of multiple services and you might be able to make more of a dent in the average age of the fleet because of the numbers and the average cost, if you will, associated with the platform.

You are obviously not going to make progress on the average age of the fleet and the numbers with the F–22 platform, but that doesn't mean you don't need it. That's a decision that has to be made based upon reassessing strategy, the likely threats and utilization needs for that platform.

Mr. SHAYS. One of the—before we get off defense, is there another area? We talked about management bases, inventory, and weapons systems. Is there another area in DOD before we go to State and VA? Is there anyone behind you that has something to share that we might need to——

Mr. WALKER. Well, I think all of the departments and agencies have problems in the people area, in the human capital area. When you get right down to it, there are three key things that you have to get right if you are going to maximize performance and assure accountability—people, process, and technology. DOD has a challenge in all three, and the people challenge is, in fact, our greatest

challenge as it relates to performance and accountability within the Government.

This is the systemic approach that has to be taken and the leadership commitment that is necessary to deal with these problems.

Mr. SHAYS. I'm struck by one point that you seem to be making that I think it must be the challenge for DOD, and that is you talk about weapons systems that are basically designed in process and you are not sure in the end if they are going to be able to do what they are required to do. But in the process of doing that we are trying to speed up the—we are doing that, in part, to speed up the process, which was another reason why we do it. You gave a few others—political reasons, and so on. And that is so we don't end up with a weapons system that is basically obsolete by the time we are into production.

I gather, though, that any weapons system we have would be—will be obsolete, in one sense—not obsolete compared to what our—I guess that's a bad use of the word, because it won't be obsolete versus our potential adversaries, because they won't even have it, but we could make—with the knowledge, technology we have at that point, we could make a better plane than the one we are producing, even though it is a new plane.

Mr. WALKER. Right. We could have done better, potentially. Part of the——

Mr. SHAYS. I mean, yes, what I'm just basically saying is, if it takes 10 years to do it, by the time we produce that plane after 10 years the technology and materials and everything would have enabled us to have built a better plane, but then that would be 10 years later. I mean, what we know technology-wise would make that plane obsolete, but in terms of our adversaries that won't happen.

Mr. WALKER. Right. I mean, obviously, with the rapidly evolving technologies, then you are always going to face the challenge that by the time you have designed, produce, deploy any particular platform, you are going to have technologies available that, you know, potentially could make that platform better.

I mean, we face that to a much greater extent today than we have in the past because of how rapidly the new generations of technology are coming out. That might argue to say there needs to be a certain investment on an ongoing basis with regard to R&D that could be considered, you know, not necessarily attached to a particular platform, to be able to take the advantage of that R&D, consider it for existing platforms as well as new platforms, given the rapid changes in technology.

Mr. SHAYS. Let me try to—I'm going to try to, in 10 minutes, cover other territory and let you go.

Mr. WALKER. Sure.

Mr. SHAYS. But what I would like to suggest is that we know some hard things DOD has to do. There are big issues. But you also gave one or two suggestions that aren't as hard.

I mean, for instance, a contractor who is given more money than they should be given, I would think that at least they would pay the interest, and if they knew it there should even be a penalty. There should be a penalty associated with accepting money they know they shouldn't accept.

Now, that may be a harder one to pass, but our committee has been very successful with the same staff I have now when we oversaw HCFA and health care, and we were the major motivators for making health care fraud a Federal offense—State and Federal, it was a Federal offense. And we just didn't make it from State to State. It has made a wonderful difference.

There are a lot of things our committee can do to push change, and if you've got some easy things we'll write them up in report and push the committees of cognizance. And I think you know we have a track record in doing that.

My only point is, if you come up with some simple things—"Why don't they?" "It has happened for years. We've never made—" I'd love to know the things that we should have done years ago and that would be relatively simple. I have a feeling your people have a list of them. So that's one request.

The other request is I would like to help you push DOD central, the Secretary's office, the central command people to take a more-active role in some of these things that we've talked about.

Let me just quickly—with State Department, you made reference to the fact that it is up and out—excuse me, if you don't move up, you're out. Just elaborate on that a bit more.

Mr. WALKER. There historically has been a culture within many organizations in the private sector and some in the public sector, State being one, where you are expected to progress to certain levels within certain lengths of time, and if you don't end up doing that then the assumption has always been there is an adequate supply below who can do that, so we're going to force you out.

However, I think the assumption that there is an adequate supply below, has been revisited in hte private sector, and it is time that it is revisited in the public sector. We have a very strong economy. We have slowing of work force growth. The amount of money that we invest in these Foreign Service officers is significant. I mean, the taxpayers have a significant investment.

Mr. SHAYS. So we see people retiring in their mid-50's because they didn't move up?

Mr. WALKER. Well, even before that. I mean, they might end up leaving the Foreign Service even before normal retirement age because they haven't been able to make it to a certain level within a certain period of time, and yet they could be performing very well at the level that they are at now, so part of that is a cultural transformation in changing how we go about dealing with people issues.

Mr. SHAYS. Do you have any sense from State that this is a concern to them and they've focused on this, or is this a concern to you but not them?

Mr. WALKER. I think it is becoming a concern to them. As you know, there was a recent report that was done, a national security report—I guess it was the Hart-Rudman Report—that talked about a number of the people challenges that are being experienced not just by the State Department but also by DOD. I am heartened to say that in the last year there has probably been more focus on these people issues in the last year than in the last 10 years, and so I think we are starting to get some attention.

Mr. SHAYS. Can we deal with State with regional Embassies that people have to go to get visas and so on? What would you suggest?

Just an office that would be in a country if someone needed to get a visa?

Mr. WALKER. Well, I think we need to fundamentally step back and say, "What are we trying to accomplish? What do we need to do? And how can we best go about doing that in this modern age of technology?"

A lot of things like visa processing, there are plenty of things that can be done remotely using technology to decrease the need for infrastructure and people in particular locations.

Jess Ford has joined me, who can touch base——

Mr. SHAYS. Do you want to speak to that? So we don't need an Embassy or we don't need a consulate's office to allow for someone to potentially get a visa? Don't they have to come in and be interviewed and that kind of stuff?

Mr. FORD. Yes, they do—well, except for the countries where we have visa waivers. There's about 20-some-odd countries where we have waivers where that is not required. But what we're really talking about is the possibility of consolidating a lot of administrative functions, that you don't have to necessarily have a budget officer or a financial officer at every single post, particularly the smaller posts.

Mr. SHAYS. So you could have an ambassador potentially representing or focused on three countries, that you have one structure. You might have a field office, but it is one Embassy?

Mr. FORD. Right.

Mr. SHAYS. Other countries must do that.

Mr. FORD. They do.

Mr. SHAYS. And the United States doesn't?

Mr. WALKER. No, but obviously we are the only super-power on Earth and——

Mr. SHAYS. I understand.

Mr. WALKER. But these are things that we are looking at to try to make sure that people are at least considering. There are obviously pros and cons. But one of the cultural challenges that we face in Government is there is a tendency for people to say, "Well, we want to do it the way we have been doing it," and there is a tendency not to look outside the box to say, "Well, what are we trying to accomplish?" And, given all these changes in technology and given changes that are affecting us in a variety of ways, is there a better way to do it? Is there a more economical, efficient, effective way to do it? And that's what we are trying to spur is to get people to do that, not only at DOD but at State, VA, and other places.

Mr. SHAYS. What else about State that you'd want me to just have the committee focus our concern on?

Mr. WALKER. Well, we've talked about Embassy security and we've got information that is noted in there.

Mr. SHAYS. Information technology—we've gone to Embassies where they still have their computers in boxes after 6 months because they haven't had anyone to put them in and they can't connect—one Embassy in Europe can't connect to another Embassy in Europe. It just flows to the State.

Mr. WALKER. They have major issues with regard——

Mr. SHAYS. And they still use Wang, right?

Mr. FORD. Wang systems have pretty much been replaced now.

Mr. SHAYS. In the last year?

Mr. FORD. In the last couple of years.

Mr. SHAYS. OK.

Mr. WALKER. The fact is they have major technology challenges and it is not just with regard to the hardware, itself, but it is also, as you say, the people to be able to upgrade and install and deal with those issues.

They've had some challenges also with regard to security. We've all known and seen related stories in the paper over the last 6 months or so.

Mr. SHAYS. Yes. We are really getting into the security side and I feel pretty comfortable that we begin to know at least the problem there.

What other area?

Mr. WALKER. I think those are the big ones, Mr. Chairman.

Mr. SHAYS. How about with VA before we go?

Mr. WALKER. Let me add one thing on State. State is an example of an agency who received a clean opinion on their financial statements for fiscal year 2000, which was just announced, so they have an unqualified opinion, but they have a number of material control weaknesses, they have a number of compliance issues, and they are also having to undertake a number of heroic measures in order to be able to get that clean opinion, and so they have a number of underlying problems they have to deal with, as well, because basically——

Mr. SHAYS. Heroic measures don't mean manipulating the books, do they?

Mr. WALKER. Pardon me?

Mr. SHAYS. Heroic measures don't mean manipulating the books?

Mr. WALKER. No. It just means doing a lot of things after year end manually.

Mr. SHAYS. OK.

Mr. WALKER. You know that, frankly, if you had your systems design and your controls in place at the outset, you wouldn't have to do. It is a much smaller scale than the Department of Defense, but similar challenges.

Mr. SHAYS. I wanted to note that Mr. Gilman has a question, the former chairman of the International Relations Committee, and we'll pass that on to you.

Just quickly, what is the—what would I need to have our committee focus on in the VA?

Mr. WALKER. I think the issues on VA, they've got human capital challenges, no question. They've got excess infrastructure issues where there are amounts there that could be redeployed for quality of care for our veterans. They have some major challenges associated with the disability programs, not only the processing of the claims associated with disability but, as I mentioned before, it may be time, for the country as a whole to step back and re-look at the entire issue of disabilities. What is disability in a knowledge-based economy? How can we help some of these veterans be able to contribute to our society as they have in the past and probably want to do now? But if they can't, then obviously we want them to get their benefits. There is no question about that.

Mr. SHAYS. I'd appreciate it if your staff—by the way, your staff is terrific, and we really appreciate what you do and what your staff does. I mean, we get quick responses. We get honest responses.

Mr. WALKER. Just the facts, Mr. Chairman.

Mr. SHAYS. No bull. You can stop there. There's no bull. And you all have helped us, I think, do a much better job, and so we appreciate it a lot.

If any of you want to stay around and just mention to the staff some other points we didn't touch on, I do think it is better probably for us to break up so you don't have to wait and finish up that way, so we'll adjourn. I thank you. I'm going to rush off.

Mr. WALKER. Thank you, Mr. Chairman.

[Whereupon, at 12:20 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

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