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The Honorable Richard K. Armey
Majority Leader
House of Representatives

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

The Honorable Dan Burton
Chairman, Committee on Government
Reform and Oversight
House of Representatives

The Honorable Bob Livingston
Chairman, Committee on Appropriations
House of Representatives

Subject: The Results Act: Observations on DOD's Draft Strategic Plan

On June 12, 1997, you asked us to review the draft strategic plans submitted by cabinet departments and selected major agencies to facilitate consultations with the Congress as required by the Government Performance and Results Act of 1993 (the Results Act). This letter is our response to that request concerning the Department of Defense (DOD).

Objectives, Scope, and Methodology

Our overall objective was to review and evaluate DOD's draft strategic plan. Specifically, you asked us to review the draft plan and assess (1) whether it complies with the act's requirements and its overall quality, (2) whether it reflects DOD's key statutory authorities, (3) whether it reflects interagency coordination of crosscutting functions, (4) whether it addresses major management problems we have previously identified, and (5) whether DOD's data and information systems can provide reliable information about performance.

The Secretary of Defense states in DOD's May 1997 Quadrennial Defense Review (QDR) report that the report will serve as DOD's overall strategic planning document and is intended to fulfill the requirements of the Results Act. On June 23, 1997, the Secretary submitted to the congressional authorization committees and the Senate and House

Appropriations Committees a letter summarizing how DOD believes the QDR complies with Results Act planning requirements. Congressional staff asked us to review this summary letter for compliance with the Results Act. Since the letter describes how DOD believes the QDR meets strategic planning requirements, we analyzed both the letter and the QDR report together and refer to them in this letter as DOD's draft strategic plan. We sought to determine whether the letter and the QDR report, taken together, contained the elements that were required by the Results Act and the other elements you asked us to look for in agencies' plans. We did not evaluate the assumptions underlying the QDR report and made no judgment about them or whether the QDR report met the purposes of the National Defense Authorization Act for Fiscal Year 1997, which required the review. We are, however, evaluating certain aspects of the QDR report in a separate review.

Our overall assessment of DOD's draft strategic plan (the May 1997 QDR report and the June 1997 summary letter) was generally based on our knowledge of DOD's operations and programs, our numerous reviews of DOD, and other information available at the time of our assessment. Specifically, the criteria we used to determine whether the draft plan complied with the requirements of the Results Act were the act itself, supplemented by the Office of Management and Budget's (OMB) guidance on developing the plans (Circular A-11, Part 2). To make judgments about the overall quality of the draft plan and its elements, we used our May 1997 guidance for congressional review of the plans as a tool.[1] To determine whether the draft plan contained information on interagency coordination and addressed major management challenges, we relied on our general knowledge of DOD's operations and programs and the results of our previous reports. A list of our major related products on DOD operations is included at the end of this letter.

As you requested, we coordinated our work on DOD's key statutory authorities and DOD's capacity to provide reliable information with the Congressional Research Service and the DOD Inspector General's office, respectively. We did our work between July 7 and July 25, 1997, in accordance with generally accepted government auditing standards.

Background

DOD has a $250 billion budget, which is 15 percent of the federal budget and an estimated 3.2 percent of the U.S. gross domestic product, to provide for national security. It currently has 1.45 million active duty

[1]Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (GAO/GGD-10.1.16, May 1997).

military personnel, 900,000 military reserve personnel, and 800,000 civilian personnel. In addition to the Army, the Navy, the Air Force, the Marine Corps, the Office of the Secretary of Defense, and the Joint Chiefs of Staff, DOD includes 24 defense agencies, such as the Defense Logistics Agency and the Defense Special Weapons Agency. With 10 active Army divisions, 3 Marine expeditionary forces, 13 active Air Force fighter wings, 202 bombers, 11 active aircraft carriers, 10 active naval air wings, 12 amphibious ready groups, 73 attack submarines, 128 surface combatant ships, and reserve units and other equipment, and with 200,000 of its troops overseas, DOD maintains worldwide influence.

DOD has been involved in strategic planning for many years, and the QDR is the fourth major review of the military since the end of the Cold War.[2] DOD intended the QDR to be a fundamental and comprehensive examination of America's defense needs from 1997 to 2015, including potential threats, strategy, force structure, readiness posture, military modernization programs, defense infrastructure, and other elements of the defense program. Additional planning efforts are underway or planned, however. Included in these efforts are

- a separate force structure assessment, which is required by the National Defense Authorization Act for Fiscal Year 1997 to be undertaken by a nonpartisan, independent national defense panel and provided to Congress no later than December 1997;
- a report on defense reforms, which is to be provided by a DOD task force in November 1997; and
- a report with recommendations on DOD headquarters and cross-service occupational specialties, which is to be provided in August 1997.

Planning is a dynamic process, and the ongoing and planned activities, along with any additional input from OMB, congressional staff, and other stakeholders, could result in changes to DOD's plan. It is important to recognize that, under the Results Act, a plan is not due until September 30, 1997. Furthermore, the Results Act anticipated that it may take several planning cycles to perfect the process and that the plan due September 30 itself would be continually refined as various planning cycles occur. Thus, our comments reflect a snapshot status of DOD's plan at this time.

The Results Act requires an agency's strategic plan to contain six critical components. They are (1) a comprehensive mission statement;

[2]The other three reviews were the 1991 Base Force Review, the 1993 Bottom-Up Review, and the 1995 Commission on Roles and Missions of the Armed Forces.

(2) agencywide long-term goals and objectives for all major functions and operations; (3) approaches (or strategies) and the various resources needed to achieve the goals and objectives; (4) a relationship between the long-term goals and objectives and the annual performance goals; (5) an identification of key factors, external to the agency and beyond its control, that could significantly affect the achievement of the strategic goals; and (6) a description of the program evaluations used to establish or revise strategic goals and a schedule for future program evaluations.

Results in Brief

DOD's draft plan includes discussions of each of the six critical components required in strategic plans. Overall, while some of the plan's components are of higher quality than others, the plan represents an adequate start for addressing the requirements of the Results Act. Of note, the draft plan contains a succinct mission statement and general goals and objectives that cover DOD's major functions and operations. However, the overall plan could be improved by clarifying sections, adding information, and improving the plan's format. For example, the plan's overall quality could be enhanced by

- stating more completely and explicitly its strategies for achieving each goal and including schedules for initiating and completing significant actions;
- discussing more clearly how external factors link to and could affect achieving its goals;
- describing in more detail the program evaluations used in establishing its strategic goals and identifying the key issues to be addressed in future evaluations;
- addressing what DOD has done or plans to do to resolve its persistent management problems, including specific steps it plans to take, the time frames and resources needed to implement its plans, and identification of any external factors that could impede resolution;
- beginning now to work closely with Congress and other stakeholders in developing performance goals and measures;
- identifying programs and activities that crosscut with other agencies' programs and discussing how those efforts are being coordinated; and
- developing one clear and succinct document primarily based on the QDR and formatted to correspond with the Results Act's requirements and the other expectations for Results Act plans.

Further, to its credit, DOD's plan included some discussion of formidable management problems DOD currently faces. These problems are important

because they could affect DOD's ability to meet its strategic goals and objectives. However, DOD's discussions of management problems could be more complete. For example, the significant problems DOD faces with managing its contract operations were not discussed. Additionally, DOD's major concern about the reliability of program-related and financial management information systems does not mention how data limitations would affect its ability to measure performance and ultimately to effectively manage its programs.

Addressing these areas would provide decisionmakers and stakeholders the information necessary to ensure that DOD has strategies that are well thought-out for resolving ongoing problems, achieving its goals and objectives, and becoming more results-oriented, as expected by the Results Act.

DOD's Draft Plan Discusses the Act's Requirements but Could Elaborate on Some Components

DOD's draft plan includes discussions of each of the six critical components required in strategic plans. Overall, while some of the plan's components are of higher quality than others, the plan represents an adequate start for addressing the requirements of the Results Act. However, its plan could be improved if it were to more closely follow the guidance provided in OMB Circular A-11 and to include more comprehensive discussions for each of the required components. Two exceptions are the mission statement, which succinctly states DOD's mission, and the general goals and objectives, which cover DOD's major functions and operations.

Mission Statement

A mission statement provides an agency focus by explaining why it exists and what it does. OMB Circular A-11 states that an agency's mission statement should briefly define the basic purpose of the agency, with particular focus on its core programs and activities. DOD's draft plan includes a concise mission statement that meets this criterion. It states, "The mission of the Department of Defense is to support and defend the Constitution of the United States, to provide for the common defense of the United States, its citizens and its allies, and to protect and advance U.S. interests around the world."

Goals and Objectives

DOD's draft plan covers its major functions and operations under the following six goals and objectives:

1. Harness the unmatched capabilities of the U.S. armed forces to

- shape the international security environment in favorable ways by promoting regional stability, preventing crises and reducing threats, and deterring adversaries on a day-to-day basis;
- respond to the full spectrum of crises—from deterrence to smaller-scale contingency operations to major theater war—when it is in the U.S. interests to do so and maintain the capability to deter and, if necessary, defeat large-scale, cross-border aggression in two distant theaters in overlapping time frames, preferably in concert with regional allies; and
- prepare now to meet the challenges of an uncertain future by transforming U.S. combat capabilities and support structures to be able to shape and respond effectively well into the 21st century.

2. Recruit and retain well-qualified military personnel and provide them with an equal opportunity and a high quality of life.

3. Support friends and allies by sustaining and adapting security alliances, enhancing coalition warfighting, and forging military relationships that protect and advance U.S. security interests.

4. Pursue a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities, exploits the Revolution in Military Affairs,[3] and supports the joint operational concepts delineated in Joint Vision 2010.[4]

5. Maintain the U.S. edge in combat readiness while seeking efficiencies and improved operating procedures. 6. Fundamentally reengineer DOD and achieve a 21st century infrastructure by reducing costs and eliminating unnecessary expenditures while maintaining required military capabilities across all DOD mission areas. Employ modern management tools and exploit the Revolution in Business Affairs.[5]

[3]The Revolution in Military Affairs refers to efforts to develop the improved capabilities needed to significantly enhance joint military operations, particularly improved information and command and control capabilities that can provide DOD an advanced, secure, open command, control, communications, computers, intelligence, surveillance, and reconnaissance capability.

[4]Joint Vision 2010 is the Joint Chiefs of Staff's conceptual template for how America's armed forces plan to channel the vitality and innovation of their people and leverage technological opportunities to achieve new levels of effectiveness in joint warfighting. It develops four operational concepts for fighting in the early 21st century—dominant maneuver, precision engagement, full dimensional protection, and focused logistics.

[5]The Revolution in Business Affairs refers to DOD's efforts to reengineer its infrastructure and business practices, such as outsourcing and privatizing a wide range of support activities and reducing unneeded standards and specifications.

The Results Act requires an agency's plan to include outcome-related goals and objectives that relate to the agency's general goals and objectives for its major functions and operations. Also, our May 1997 guidance for congressional review of agencies' strategic plans states that an agency's strategic goals should explain what results are expected from the agency's major functions. DOD's goals address its major mission-related functions—preparing for and defending the United States and its interests—and generally appear to be oriented to outcomes. However, DOD's goals are expressed in terms that may make it difficult for DOD to translate them into quantitatively measurable performance goals so that stakeholders and decisionmakers can determine whether the goals are actually being achieved.

Strategies and the Resources Needed to Achieve Goals and Objectives

DOD's draft plan includes considerable discussion of the strategies it will use to achieve its goals and objectives. However, although the discussions in general could be more complete and explicit, discussions are more informative for some goals than for others. The draft plan also discusses in general the resources that will be needed to achieve the goals, such as a stable budget, the number of military and civilian personnel, the force structure, and some of the technologies. It does not, however, contain the schedules for initiating or completing significant strategy actions that OMB Circular A-11 guidance requires in agencies' strategic plans. DOD could improve the plan and provide stakeholders and decisionmakers a more complete understanding of its strategies by fully and explicitly listing the strategies for achieving each of its general goals and objectives and including, where feasible, schedules for initiating and completing significant strategy actions.

One of the more informative presentations of strategies to achieve a goal was DOD's discussion of its sixth goal—fundamentally reengineering DOD. Our work has shown that it will be key for DOD to continue working to change its culture to one that is more acceptive of modern business practices to successfully implement this strategy. Among DOD's strategies for this goal are (1) outsourcing certain Defense Logistics Agency functions; (2) consolidating Defense Information Service Agency information processing centers; (3) conducting public-private competitions for certain depot maintenance work; (4) streamlining the security investigative process at the Defense Investigative Service; (5) taking maximum advantage of acquisition reform; (6) increasing cooperative development programs with allies; (7) competing, outsourcing, or privatizing military department infrastructure functions

that are closely related to commercial enterprises; (8) reducing unneeded standards and specifications; (9) integrating process and product development; and (10) increasing the use of commercial technology, dual-use technology, and open systems. Further, DOD expects additional reengineering ideas and recommendations to result from an August 1997 report on the study of headquarters and cross-service occupational specialties and in a November 1997 report from the Task Force on Defense Reform. Another of its strategies for reengineering is to seek legislation for two more base realignment and closure rounds and relief from the statutory requirement that at least 60 percent of depot maintenance activities be done in DOD depots. DOD also plans to make additional legislative proposals to further streamline and increase efficiency in its operations.

On the other hand, DOD's discussion for its second goal—recruiting and retaining well-qualified military personnel and providing them an equal opportunity and a high quality of life—was less informative. The draft plan notes that DOD (1) has identified where policy or practice changes that will improve quality-of-life can be made and will implement them; (2) remains committed to funding pay raises and other compensation; (3) will make every effort to continue its commitment to provide adequate funding in areas such as housing, community and family support, transition assistance as further reductions are made in military forces, and morale and recreation activities; and (4) will continue placing a priority on educational assistance.

Relating Annual Performance Goals to General Goals and Objectives

DOD's draft plan represents a good start toward trying to link DOD's general goals with quantitatively measurable annual performance goals or descriptions of what would represent progress toward achieving general goals. Such a linkage is important because it would allow Congress to judge whether DOD is achieving its goals. The Results Act calls for quantifiable performance measures, if feasible. If such measures are not feasible, however, the act allows, with authorization from OMB, for the use of descriptive statements of both a minimally effective and a successful program. The draft plan states that its annual performance plan, which the Results Act first requires for fiscal year 1999 and is not yet completed, will include the required performance measures or descriptive statements along with the general goals to which they relate. However, DOD's goals are expressed in terms that may make it difficult for DOD to translate them into quantitatively measurable performance goals that will enable stakeholders and decisionmakers to determine the extent to which they are actually

being achieved. That could be the reason some measures DOD is currently planning to use measure resource inputs or outputs rather than results. For example, DOD currently plans to compare the force structure it will need with the force structure included in its future budgets as a measure of achieving its first goal—shaping the international security environment, responding to crises, and preparing now to meet uncertain future challenges. As another example, DOD plans to report the number of major joint exercises conducted during a fiscal year as one measure of its fifth goal—maintaining the U.S. edge in combat readiness. DOD's draft plan notes that it plans to work with key stakeholders in developing the Results Act performance plan that is first required for fiscal year 1999. By beginning now to work closely with Congress and other stakeholders to develop its performance measures and goals, DOD might improve the specificity with which it could relate general goals and objectives and performance goals and measures in its strategic plan and also better assure that its annual performance plan, when completed, will meet the purposes of the Results Act.

Key External Factors

OMB Circular A-11 points out that agencies' achievement of their goals and objectives can be influenced by certain external factors that exist, occur, or change over the time period covered by their plans. The circular notes that these factors can be economic, demographic, social, or environmental in nature. It states that the strategic plan should describe each external factor, indicate its link with a particular goal(s), and describe how achieving the goal could be affected by the factor.

DOD's draft plan identified the following factors it believes are external and could influence the achievement of its goals and objectives:

- The uncertainty of the international environment, particularly the potential emergence of a regional great power or near-peer competitor in the 1997-2015 time frame or of "wild card" scenarios, such as the unanticipated emergence of new technological threats, for which the United States is unprepared.
- The possibility that Congress may not enact legislative changes DOD included among its strategies for achieving its sixth goal about fundamentally reengineering the Department, particularly authority for two more base realignment and closure-type processes to help reduce DOD infrastructure and relief from the statutory requirement to perform at least 60 percent of depot maintenance activities in DOD depots.

- The possibility that annual appropriations could fall below the $250 billion per year, adjusted for inflation, which DOD says will be needed to achieve its goals. (We believe this should not be considered an external factor, because receiving a reasonable budget is the basis of an agency's strategic plan under the Results Act.)

DOD could improve the draft plan by clearly discussing the linkage of each external factor with the goals and the effect of each external factor on the goals. DOD's draft plan does not clearly link the international environment factor with particular goals or discuss the implications on goal achievement. The draft plan does indicate that if the legislative changes are not made and savings in infrastructure costs are not realized, DOD may not have the level of procurement funding it will need to achieve its fourth goal—modernizing the force. DOD plans to use savings from reducing infrastructure to increase its procurement funding from the $42.6 billion it requested for fiscal year 1998 to $60 billion a year by fiscal year 2001.

Program Evaluations

The Results Act requires an agency's plan to include a description of the program evaluations that were used in establishing its strategic goals and to lay out a schedule for future program evaluations. OMB's Circular A-11 guidance calls for a brief description of the program evaluations that were used in preparing the plan and for the plan to outline (1) the general scope and methodology for planned future evaluations, (2) key issues to be addressed, and (3) a schedule for future evaluations.

Although DOD's draft plan identifies various reviews DOD relied on in developing the draft, particularly reviews of strategy, force structure, readiness, modernization, infrastructure, human resources, and information operations and intelligence, it does not clearly discuss how program evaluations were used in establishing the strategic goals. A clear and complete discussion would improve the plan. Additionally, although the draft plan states that future evaluations will be done annually in the May to September time frame, it does not clearly outline the key issues to be addressed. Including a fuller discussion of the key issues to be addressed is another way the draft plan could be improved.

Observations on the Overall Quality of the Plan

Although the draft plan discusses each of the six Results Act's requirements, the overall quality of the plan could be improved by incorporating the suggestions discussed in the prior sections. For example, we noted the plan could be improved if DOD more completely and

explicitly stated its strategies for achieving each goal and included schedules for initiating and completing significant strategy actions.

Additionally, we believe that the plan's overall quality would be significantly enhanced if the entire plan was presented in one clear and succinct document formatted in sections to correspond to the six critical components required in the plans and included the additional factors, such as major management problems and crosscutting functions, that you indicated should be discussed in agencies' plans.

DOD's was the only draft agency strategic plan we obtained that used a planning document prepared to meet another requirement for its Results Act plan. Other agencies' draft plans were prepared specifically to meet the requirements of the Results Act. We understand the Secretary of Defense's intent to use the results of the QDR in meeting the strategic planning requirements of the Results Act. However, as DOD's draft plan is currently constructed, two documents are required for stakeholders and decisionmakers to fully understand the degree to which DOD complies with Results Act strategic planning requirements—the QDR report and the June 23, 1997 summary letter that describes how the QDR meets the requirements by linking the requirements to the QDR report. We think that one document—a stand alone strategic plan prepared specifically to meet the requirements of the Results Act, regardless of the base from which it was drawn—could significantly improve stakeholders' and decisionmakers' understanding of how DOD is meeting the strategic planning requirements of the Results Act.

DOD's Statutory Responsibilities Are Reflected in Its Mission, Goals, and Objectives

DOD's strategic plan does not discuss the major pieces of legislation that serve as the basis for its mission statement. However, in its statements of mission, goals, and objectives, DOD's plan reflects its broad statutory defense responsibilities. DOD's statutory responsibilities are primarily found in title 10 of the United States Code. The organizational structure of the Department of Defense was established by the National Security Act of 1947. The current structure also reflects the Goldwater-Nichols Department of Defense Reorganization Act of 1986, which modified how DOD's mission is implemented. With the Secretary of Defense as its head, DOD is composed of several entities, including the three military departments. The Secretary is vested with the authority, direction, and control of the Department (10 U.S.C. 113), but it is the component military departments, not the Secretary, that are vested with the specific authorities reflected in DOD's mission statement and goals. Generally, these

authorities pertain to the defense of the United States, supporting national policies, implementing national objectives, and waging war (10 U.S.C. §§ 3062, 5062, and 8062). Additionally, the secretaries of the military departments, while subject to the authority, direction, and control of the Secretary of Defense, have broad governance over their respective departments in such areas as recruiting, organizing, equipping, supplying, and training (10 U.S.C. §§ 3013, 5013, and 8013).

Including Crosscutting Activities Would Improve DOD's Strategic Plan

Crosscutting functions are not identified as such in DOD's draft plan, nor are the statutes that authorize DOD operations in areas of concern to other federal agencies specifically mentioned. A key area where coordination with other agencies is essential to the accomplishment of DOD's mission is in the development and implementation of national security strategy and the shaping of the international environment. In addition to DOD, other agencies with key roles include the Department of State, the National Security Council, the Arms Control and Disarmament Agency, the Department of Energy, and to a lesser extent, the U.S. Agency for International Development. For example, failed or failing states such as Somalia, the former Yugoslavia, and Albania create instability, internal conflict, and humanitarian crises that require a joint and coordinated response by several U.S. agencies. Moreover, DOD, State, and other agencies cooperate in a number of programs and activities aimed at helping to shape the international environment. These include security assistance programs, the International Military Education and Training program, and other international arms agreements. While DOD's draft strategic plan acknowledges that DOD's efforts in these areas are clearly integrated with U.S. diplomatic efforts, the extent and mechanisms for cooperation and coordination are not described.

The federal government's adaptive responses over time to new needs and problems have also contributed to fragmentation and overlap in a host of other program areas. DOD, for example, has crosscutting programs in such diverse areas as education, telemedicine, personnel security, environmental compliance, export promotion, and community development, among others. Although DOD's plan touches briefly on biological and chemical threats, its interaction with other agencies on these matters, such as assisting the Attorney General in an emergency situation, is not dealt with in detail. Similarly, DOD's plan does not discuss its interaction with various law enforcement agencies in our country's war on drugs. For example, the plan does not mention that DOD is the lead agency for the detection and monitoring of aerial and maritime transit of

illegal drugs in support of the counterdrug activities of federal, state, local, and foreign law enforcement agencies or that it is authorized to share information with and make equipment available to law enforcement agencies. Further, although DOD and other agencies involved with environmental issues have experimented with a wide range of partnerships in recent years, the plan does not discuss these efforts.

Consultation and coordination are important for these and other crosscutting programs because successfully meeting program goals may depend on actions by both DOD and partner agencies. In the environmental area, for example, cooperative efforts with other agencies, conservation organizations, and concerned citizens can be an important tool in ensuring timely and cost-effective environmental protection. Overlapping and fragmented programs waste scarce funds, confuse and frustrate program customers, and limit the overall effectiveness of the federal effort. Additionally, the Results Act's focus on results implies that federal programs contributing to the same or similar results should be closely coordinated to ensure that goals are consistent, and as appropriate, program efforts are mutually reinforcing. Therefore, we believe DOD's strategic plan should include a discussion of crosscutting programs to provide decisionmakers and other stakeholders the information necessary to help ensure that DOD has designed well thought-out strategies in consultation with partner agencies to achieve programmatic and other goals.

Strategic Plan's Coverage of Major Management Challenges Is Mixed

Over the years, we, the DOD Inspector General, and the services' inspectors general have reported on major management problems that DOD faces in carrying out its mission. More recently, in our high-risk series report[6] and related testimony,[7] we noted that DOD has long-standing management problems in six high-risk areas: financial management, information technology, weapon systems acquisition, contract management, infrastructure, and inventory management. DOD also reported material internal control weaknesses related to all of these areas except weapon systems acquisition and infrastructure in its fiscal year 1996 Federal Managers' Financial Integrity Act report to the President and Congress. It is important for DOD to correct these management problems because every dollar it spends inefficiently is one less dollar it has to spend on modernizing its forces and keeping them ready to perform their missions.

[6]High-Risk Series: An Overview (GAO/HR-97-1, Feb. 1997).

[7]DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).

DOD has taken or plans actions to correct most of these problems and has made progress in some areas. For example, in response to our recommendations, DOD implemented certain commercial practices in its inventory management area, such as direct vendor delivery for medical[8] and food[9] items, and states in the plan that it will continue to take advantage of business process improvements being pioneered in the private sector. DOD, to its credit, also included some discussion in the draft plan of what it is doing or plans to do to resolve most of these problems.

The extent of DOD's coverage of these persistent management problems (high-risk areas) in its draft plan is mixed, however, as noted in table 1. In determining the extent of coverage given these areas, we considered several factors, including whether DOD's draft plan identified (1) the actions it had taken, was taking, or planned to take to resolve the problems; (2) the time frames for correcting the problems; (3) the resources needed to resolve the problems; and (4) any external factors that might impede DOD's efforts.

Using these criteria, the high-risk area with the best coverage—infrastructure—lists several steps DOD has taken or is planning to take, such as requesting authority for two additional rounds of base realignments and closures; restructuring laboratories and research, development, and test facilities; outsourcing and privatizing noncore activities; and taking advantage of private sector practices, among others. It includes time frames, needed resources, and external factors for some but not all elements of its strategy to resolve this problem. In the area with the least coverage—contract management—the plan merely states that DOD will streamline vendor pay but does not discuss how past control problems over contract expenditures are being or will be addressed.

Most of the other management problems lack specificity in terms of steps DOD will take to resolve them, time frames for resolution, needed resources, or external factors that could affect successful resolution. At a minimum, in problem areas where DOD has taken successful corrective actions, it would be useful for DOD to discuss how it addressed the problems and intends to prevent them from resurfacing. The plan could identify other problems where DOD may have had less success and discuss how it plans to resolve them. Such details could be useful in determining

[8]DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58, Dec. 5, 1991).

[9]DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110, June 6, 1993).

the extent to which these persistent management problems could impede DOD's efforts to achieve its goals and objectives or its efforts at measuring performance. DOD could significantly improve its strategic plan by including this degree of specificity, since its ability to successfully implement the Results Act could be hampered by these persistent management problems.

Table 1: Extent to Which Persistent Management Problems Are Covered in DOD's Strategic Plan

High-risk area	The problem	Coverage in the plan
Financial management	DOD does not have adequate financial management processes in place to produce the information it needs for making decisions affecting its operations and accountability.	Partial. The plan states that DOD plans to consolidate and outsource much of this function.
Information management and technology	DOD spends billions annually on information technology but makes system selections without appropriately analyzing costs, benefits, and technical risks; establishing realistic project schedules; or considering how business process improvements could affect technology investments.	Partial. The plan states that DOD plans to consolidate 16 large information processing centers into 6 but lacks specific discussion of how it will ensure the systems are compatible and the data produced are reliable.
Weapon systems acquisition	Wasteful practices, including establishing questionable requirements for weapon systems; projecting unrealistic cost, schedule, and performance estimates; and beginning production before adequate testing has been completed, add billions of dollars to defense weapon systems acquisition costs.	Partial. The plan states DOD will take maximum advantage of acquisition reform but lacks specificity on how the reforms are expected to address the problems.
Contract management	Inadequate controls over contract expenditures risk millions of dollars in overpayments to contractors.	None. The plan does not discuss how controls will be strengthened, only that DOD will streamline vendor pay.
Infrastructure	In recent years, DOD has undergone substantial downsizing in force structure but commensurate reductions in operations and support costs have not been achieved.	Partial. The plan discusses specific steps DOD is taking or plans to take to reduce infrastructure and quantifies the expected reductions.
Inventory management	Fundamental control deficiencies in inventory management systems and procedures make DOD vulnerable to billions of dollars in unneeded inventory.	Partial. The plan discusses DOD initiatives such as Joint Total Asset Visibility and the Global Combat Support System but lacks specifics and time frames.

DOD Does Not Have Reliable Information for Helping Achieve Its Goals or Measuring Its Results

A lack of reliable management information is a serious problem throughout DOD. Until the DOD can reliably obtain such information, its ability to effectively oversee and manage its vast operations, including developing and implementing a viable strategic plan for achieving the performance measurement objectives of the Results Act, will continue to be impaired. If DOD is to obtain reliable management information, it must overcome a number of challenging problems, particularly those in the critical areas of financial management and information systems technology.

DOD has acknowledged a departmentwide problem in accumulating accurate and complete cost accounting information. Without reliable cost and other management information, DOD will be limited in its ability to establish reasonable performance measures and to reliably assess progress against these measures across the spectrum of its operations. As DOD faces difficult decisions associated with balancing scarce resources with critical needs, accurate, reliable, and timely information on financial aspects of performance will be particularly important to consider in judging program results. In addition, DOD has had only limited success in implementing departmentwide information technology initiatives. Yet, many of the goals and objectives included in the DOD's draft plan rely heavily on the effective use of information technology.

DOD Faces Considerable Challenge If It Is to Develop Reliable Financial Information

Financial statements, prepared and audited in accordance with the Chief Financial Officers' (CFO) Act, provide an annual scorecard to measure DOD's progress in resolving its financial management reporting deficiencies. Since 1991, several of the military services and major DOD components have attempted to prepare financial statements in accordance with the CFO Act's requirements. None of the financial statements prepared by the military services or major DOD components have been sufficiently reliable to withstand the scrutiny of a financial statement audit. In addition, auditors found that DOD's first attempt to prepare departmentwide financial statements for fiscal year 1996 were unauditable due to problems within DOD's accounting systems and internal control structure.

Deficiencies identified in auditors' reports have prevented DOD managers from obtaining reliable financial information needed for sound decisionmaking across the spectrum of the Department's financial operations. In addition, auditors have consistently found that DOD financial data available for decisionmaking have been adversely affected because

many basic control procedures either were not in place or were not followed. Auditors have also reported that DOD lacks reliable information on billions of dollars of disbursements as well as on other critical areas of the Department's operations.

Our and DOD auditors' reports have confirmed that DOD does not have accurate cost data for almost all of its assets, such as inventories of equipment, aircraft, and missiles, nor can DOD accumulate reliable information on the cost of its business activities and critical operations. For example, auditors have reported that DOD managers did not have accurate information on actual operating and capital costs to consider when making decisions to replace or upgrade weapon systems or on the actual costs associated with base closure and realignment decisions. Our reports have also disclosed that pervasive weaknesses in DOD's general computer controls placed DOD at risk of improper modification or loss of sensitive financial data. In addition, as discussed in the following section, DOD's information system efforts, including systems relied on to provide financial data, will be critical to reliably measuring performance. DOD relies on an estimated 10,000 automated systems to carry out its mission, including accounting, finance, logistics, personnel, budgetary, and other management information. Few of these systems are effectively tied together. DOD has acknowledged that its financial operations are plagued with duplicative processes and are slow and error prone.

DOD has recognized the importance of tackling these financial management deficiencies and has many initiatives planned or underway that are intended to address them. One of the major initiatives directed at improving its cost accounting capabilities was the establishment of a set of working capital funds intended to focus attention on the total costs of carrying out certain critical DOD business operations, including helping to better manage the costs associated with maintaining DOD's weapon systems. However, DOD's efforts in this area have been plagued with implementation problems. For example, past financial reports on the funds' operations were not sufficiently reliable to determine whether they met their financial goal of operating on a break-even basis. DOD has also begun an initiative directed at better ensuring that senior DOD managers play a more active role in correcting poor controls.

To its credit, DOD has also recognized business process reengineering as a key element in its financial management reform initiatives. However, we have expressed concern over whether reengineering efforts have focused largely on greater use of technology within existing processes and

organizations. Using this approach may not result in the radical improvements in processes and practices—and associated financial management information—DOD envisioned.

We believe that DOD's draft plan could be significantly enhanced by addressing how it will ensure that financial data used to measure and manage program performance are complete, reliable, and timely. At a minimum, DOD's strategic plan could include a discussion of what DOD has done, is doing, and plans to do to address financial data problems, particularly those highlighted through the annual public scorecard provided by the CFO Act financial statement audits, and the ease or difficulty it anticipates in obtaining financial data needed to assist in measuring results. Because of the widespread nature of acknowledged financial management deficiencies and the large number of DOD components relied on to carry out the DOD's financial operations, it is also critical for DOD's plan to address the development of actions to unite the organizational support and commitment of DOD's logistics, personnel, accounting, and budget components.

DOD Faces Considerable Challenge in Managing Information Technology If It Is to Achieve Its Goals

Many of DOD's general goals and objectives rely on the effective use of information technology to obtain the stated goal, as well as to measure progress toward its achievement. For example, DOD's sixth goal—to fundamentally reengineer the Department to reduce infrastructure costs by using modern management tools and exploiting the Revolution in Business Affairs—will require fundamental changes in the underlying support systems. Further, DOD's first strategic goal for harnessing the capabilities of the U.S. armed forces also relies on the effective use of information technology. For example, in discussing in its draft plan the critical enablers necessary to sustain military capabilities, DOD states that "our global communications must allow for the timely exchange of information, data, decisions, and orders. . . The ability to gather, process, and disseminate an uninterrupted flow of reliable and precise information anywhere in the world and under any conditions is a tremendous strategic and military advantage." To achieve this capability, DOD must develop computer systems and communications channels that interoperate seamlessly, develop and enforce data standards, and greatly reduce system redundancy.

We have consistently reported that DOD has not succeeded in its efforts to modernize its information infrastructure. In fact, we placed DOD's Corporate Information Management (CIM) initiative on our list of

government information management and technology programs at high risk. CIM was intended, in large part, to reengineer key business processes and reduce the number of redundant DOD systems. With CIM, DOD intended that business services such as logistics and health care would be improved and that costs would be greatly reduced. This effort has not succeeded, in part, because of DOD's difficulty in managing large-scale technology initiatives across the Department. The prevailing culture too frequently demands unique solutions at each organizational level.

The Clinger-Cohen Act was enacted in 1996 to foster better management of technology resources at all levels by encouraging strong leadership in technology management oversight, calling for effective controls over technology investments, and requiring agencies to consider alternatives before making substantial investments in technology upgrades or systems modernization. Because DOD's strategic goals are so fundamentally linked to technology and because DOD has experienced significant difficulties in managing technology initiatives, we believe its strategic plan would be significantly enhanced by more explicitly linking these goals to a strategy for improving management and oversight through implementation of the Clinger-Cohen Act.

Additionally, DOD should recognize the dramatic impact the year 2000 problem[10] will likely have on computer operations throughout the agency—including the mission critical applications identified in its draft strategic plan. Our initial review of DOD components' response to the year 2000 problem has been mixed. While some small segments within DOD are responding well to the issue, other organizational units face a potential disaster unless planning and implementation activities are dramatically improved.

Finally, DOD needs to recognize in its plan that many of its individual systems are extremely vulnerable to data loss, unwanted browsing, and loss of access due to computer hacking. Our 1996 report showed that DOD suffered over 250,000 hacker attacks in 1995, with over 60 percent of the attacks successfully gaining access.[11] In discussing the global security environment, DOD's draft plan recognizes that information warfare capability is one of a number of areas of "particular concern," especially as

[10]On January 1, 2000, many computer systems, including DOD and defense contractor systems, if not adequately modified, will either fail to run or malfunction simply because the equipment and software were not designed to accommodate the change of the date to the new millennium.

[11]Information Security: Computer Attacks at Department of Defense Pose Increasing Risks (GAO/AIMD-96-84, May 22, 1996).

it involves vulnerabilities that could be exploited by potential opponents. Again, this problem is so pervasive throughout DOD and so critical to successful implementation of its goals that we believe its plan should specifically address this issue.

Agency Comments and Our Evaluation

On July 30, 1997, we provided a draft of this letter to DOD for comment. On July 31, 1997, we met with Department officials, who agreed that DOD's strategic plan could be improved in some respects. They indicated that as DOD's planning processes move forward, DOD will consider the suggestions made in our letter.

Regarding our discussion on crosscutting federal agencies' programs, DOD officials stated that DOD coordinates and cooperates with other federal agencies extensively as part of its ongoing strategic planning process. They believed such coordination and cooperation were consistent with DOD's effort to make the most efficient use of government resources.

Regarding our discussion on persistent management problems, the officials said that addressing persistent management problems in an agency's strategic plan is not required by the Results Act. They noted, however, that each management problem identified in our letter is being actively addressed in DOD. Much of the detail, they said, can be found in underlying DOD strategic plans, such as the DOD Logistics Strategic Plan, which provides DOD managers and stakeholders with comprehensive planning information. They added that DOD managers, oversight bodies, and stakeholders can get a better understanding of how the Department is addressing these areas by referring to these lower-level plans. DOD officials said that the persistent management problems mentioned in our letter are addressed in the following lower level-plans.

- Financial Management: DOD Chief Financial Officer's Financial Management Report and 5 Year Plan 1996-2000 and the Defense Finance and Accounting Service, Accounting Systems Strategic Plan (Apr. 1997).
- Information Management and Technology: DOD Information Technology Management Plan (Mar. 1997).
- Weapons Systems Acquisition: Acquisition Reform - Mandate for Change (Feb. 1994); Defense Acquisition Pilot Programs Annual Report (1996); Acquisition Reform Benchmarking Group Final Report (June 1997); and DOD's Three Year Acquisition Goals as a designated National Performance Review Reinvention Impact Center (RIC) (July 1997).

- Contract Management: Defense Logistics Agency Performance Report (May 1997).
- Infrastructure: the Secretary of Defense commissioned a report from the Task Force on Defense Reform, which is due in November 1997.
- Inventory Management: DOD Logistics Strategic Plan (June 1996); update expected in October 1997.

We did not evaluate or comment in this letter on DOD's efforts to address persistent management problems or its coordination and cooperation with other agencies on crosscutting programs. Our point is that DOD could improve its draft strategic plan by including more of a discussion of these topics. With respect to major management problems, we recognize that this type of information is not specifically required to be included in DOD's plan. However, as we state in our letter, DOD's persistent management problems could impede its efforts to achieve its goals and objectives and to measure performance. Therefore, we continue to believe that DOD's strategic plan should include a more extensive discussion of the steps it has taken or plans to take to resolve its management problems.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 30 days from its issue date. At that time, we will send copies of this letter to the Minority Leader of the House of Representatives; Ranking Minority Members of your Committees; the Chairmen and Ranking Minority Members of other Committees that have jurisdiction over DOD activities; the Secretary of Defense; and the Director, Office of Management and Budget. Copies will be made available to others on request.

Please contact me at (202) 512-8412 or Ken Knouse at (202) 512-9280 if you or your staff have any questions concerning this letter. Major contributors to this report are listed in enclosure I.

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