

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

DOD TRANSFORMATION

CHALLENGES AND OPPORTUNITIES

The Honorable David M. Walker
Comptroller General of the United States

Army War College
February 12, 2007



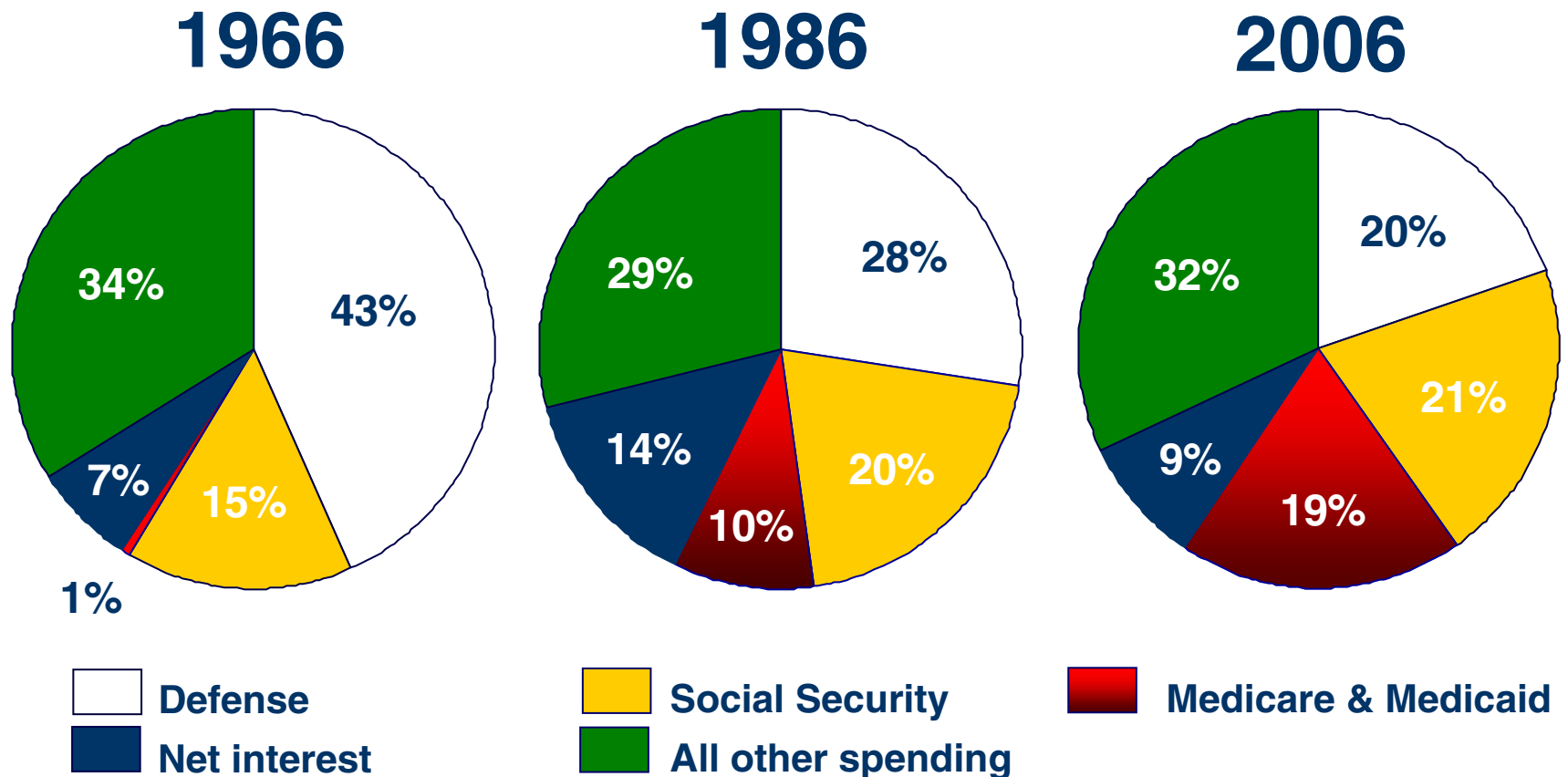
Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 12 FEB 2007		2. REPORT TYPE N/A		3. DATES COVERED -	
4. TITLE AND SUBTITLE DOD Transformation Challenges and Opportunities				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) National Guard Bureau Info Resource Center, J6/CIO 1411 Jefferson Davis Highway Arlington, VA 22202-3231				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release, distribution unlimited					
13. SUPPLEMENTARY NOTES The original document contains color images.					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT SAR	18. NUMBER OF PAGES 47	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

The Case for Change

The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:

- Past fiscal trends and significant long-range challenges
- Rising public expectations for demonstrable results and enhanced responsiveness
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices

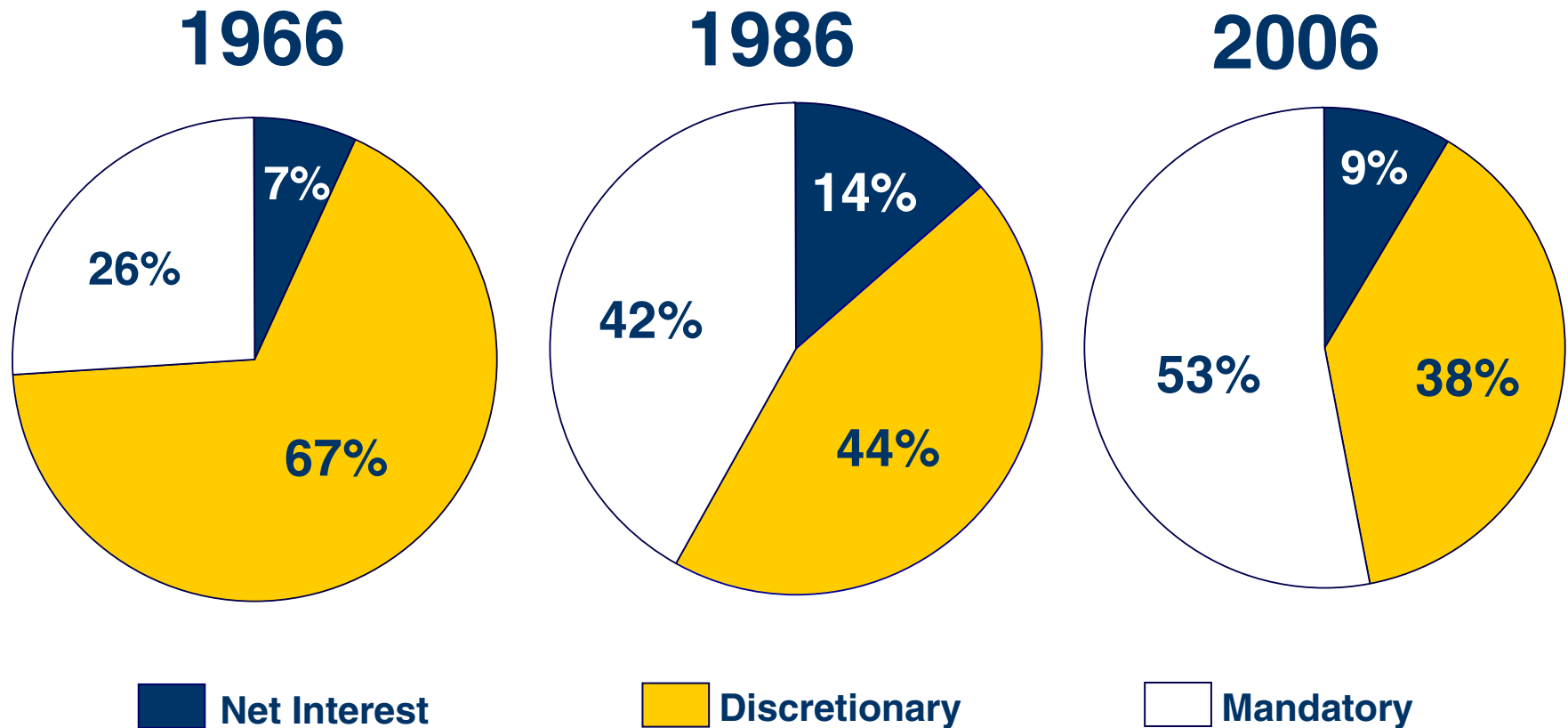
Composition of Federal Spending



Source: Office of Management and Budget.

Note: Numbers may not add to 100 percent due to rounding.

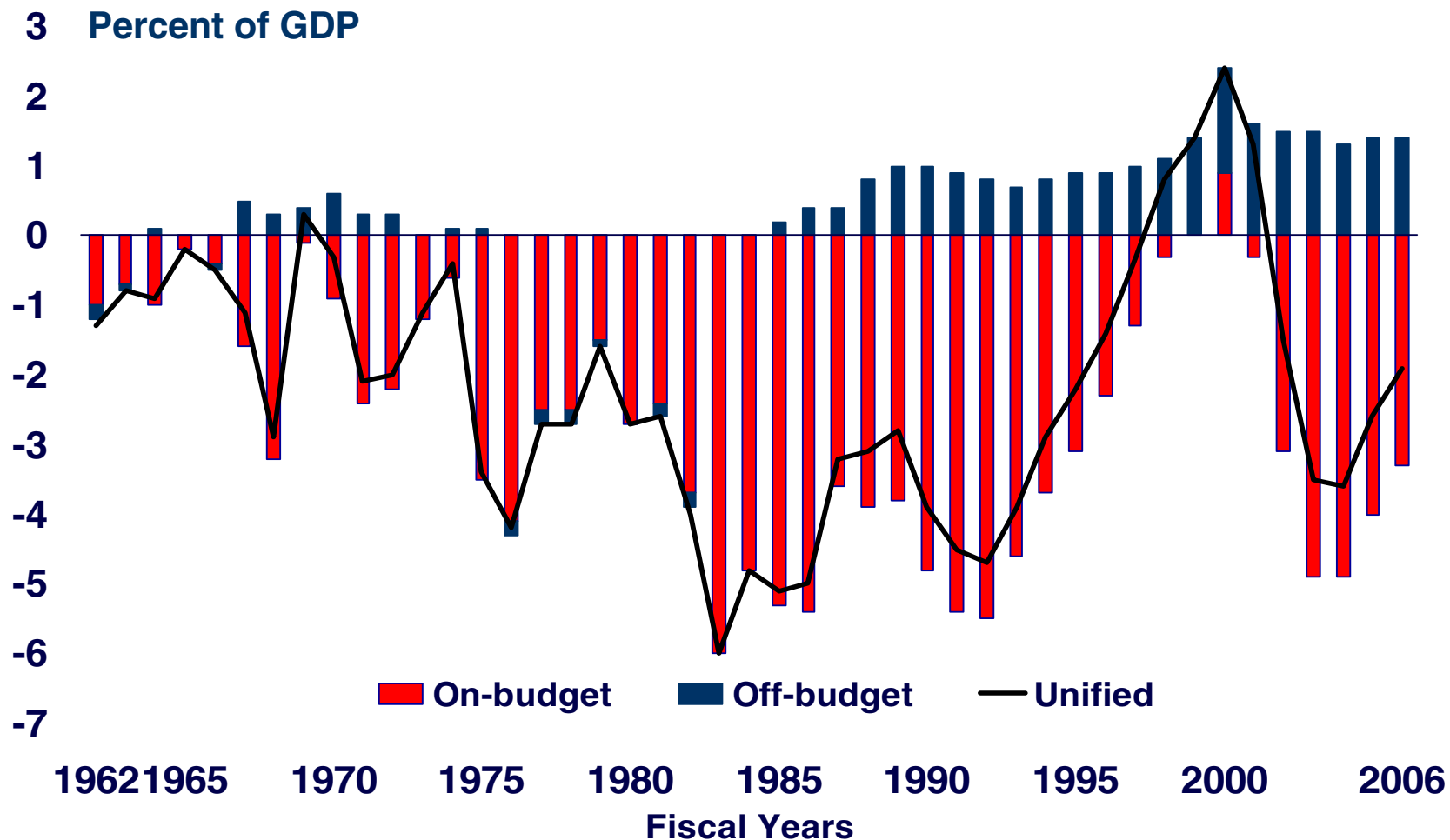
Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2006



Source: Office of Management and Budget, Department of the Treasury and the Congressional Budget Office.

Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
On-Budget Deficit	(494)	(434)
Unified Deficit ^a	(318)	(248)
Net Operating Cost ^b	(760)	(450)

Sources: The Office of Management and Budget and the Department of the Treasury.

^aIncludes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

^bFiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

Major Reported Long-Term Fiscal Exposures (\$ trillions)

	2000	2006	% Increase
• Explicit liabilities	\$6.9	\$10.4	52
• Publicly held debt			
• Military & civilian pensions & retiree health			
• Other			
• Commitments & contingencies	0.5	1.3	140
• E.g., PBGC, undelivered orders			
• Implicit exposures	13.0	38.8	197
• Future Social Security benefits	3.8	6.4	
• Future Medicare Part A benefits	2.7	11.3	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	--	7.9	
Total	\$20.4	\$50.5	147

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30. Totals may not add due to rounding. Percentage increases are based on actual data and may differ from increases calculated from rounded data shown in table.

Understanding the Size of Major Reported Fiscal Exposures

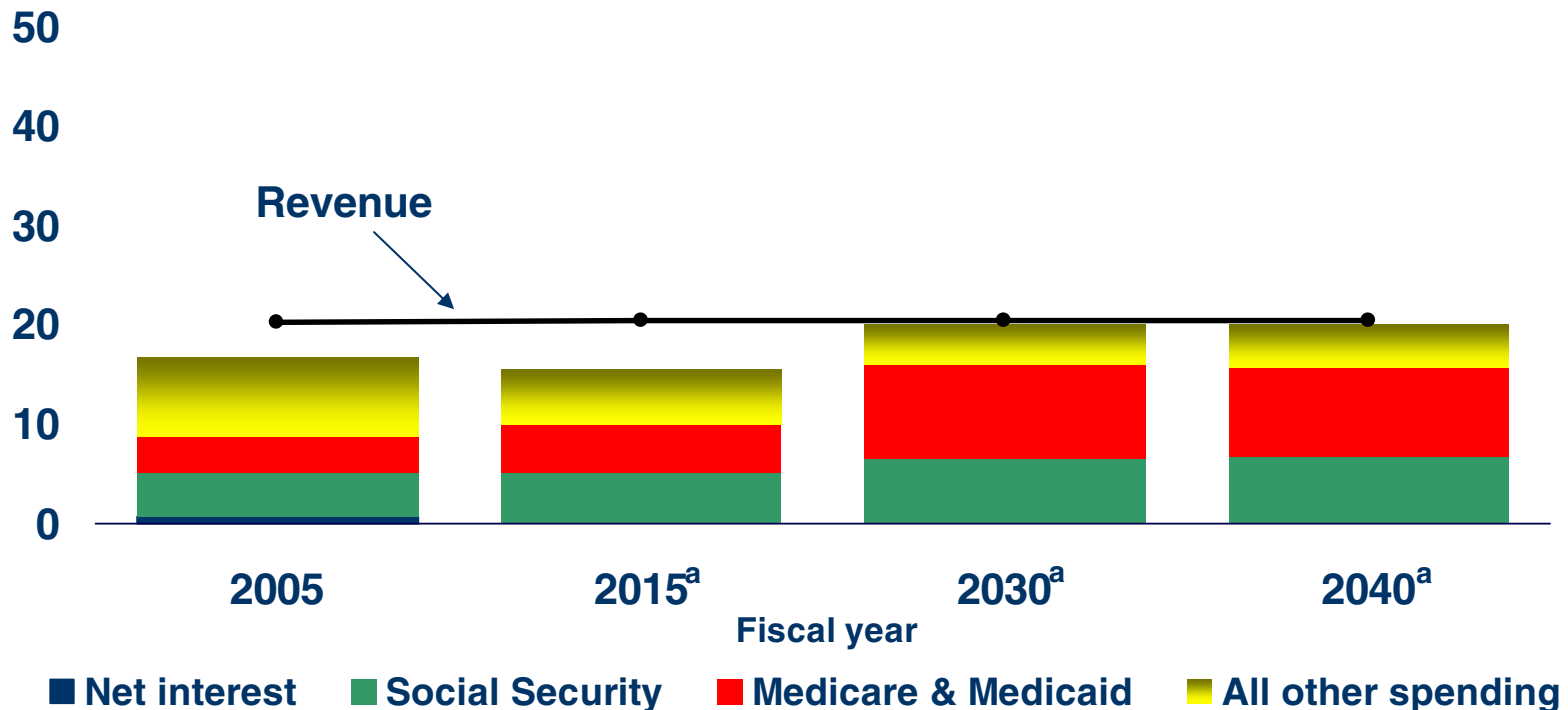
Our fiscal burden can be translated and compared as follows:

	2006
Major reported fiscal exposures	\$50.5 trillion
Total household net worth	\$53.3 trillion
Ratio of fiscal exposures to net worth	95 percent
Burden	
Per person	\$170,000
Per full-time worker	\$400,000
Per household	\$440,000
Income	
Median household income	\$46,326
Disposable personal income per capita	\$31,519
Ratio of household burden to median income	9.5

Sources: GAO analysis of data from the Department of the Treasury, Federal Reserve Board, U.S. Census Bureau and Bureau of Economic Analysis.

Composition of Spending as a Share of GDP Under Baseline Extended (January 2001)

Percent of GDP

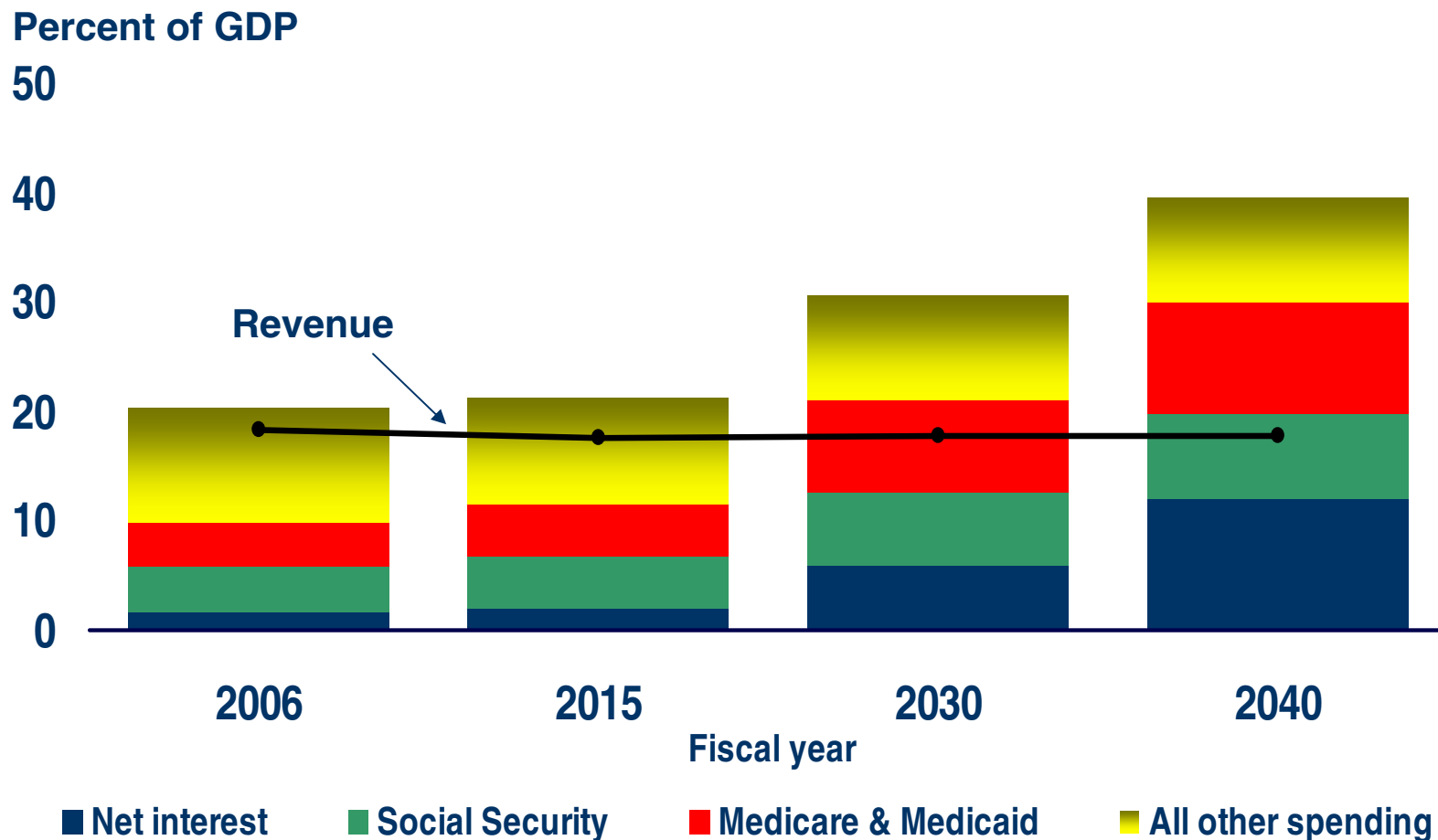


Source: GAO's January 2001 analysis.

^aAll other spending is net of offsetting interest receipts.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2007
and All Expiring Tax Provisions are Extended



Source: GAO's January 2007 analysis.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by 60 percent or
 - Raising federal taxes to 2 times today’s level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)**

Solutions Require Active Involvement from both the Executive and Legislative Branches

Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
 - Serving as a framework for related strategic planning efforts
 - Enhancing performance and accountability reporting
 - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
 - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally.

Key National Indicators: Where the World's Sole Superpower Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

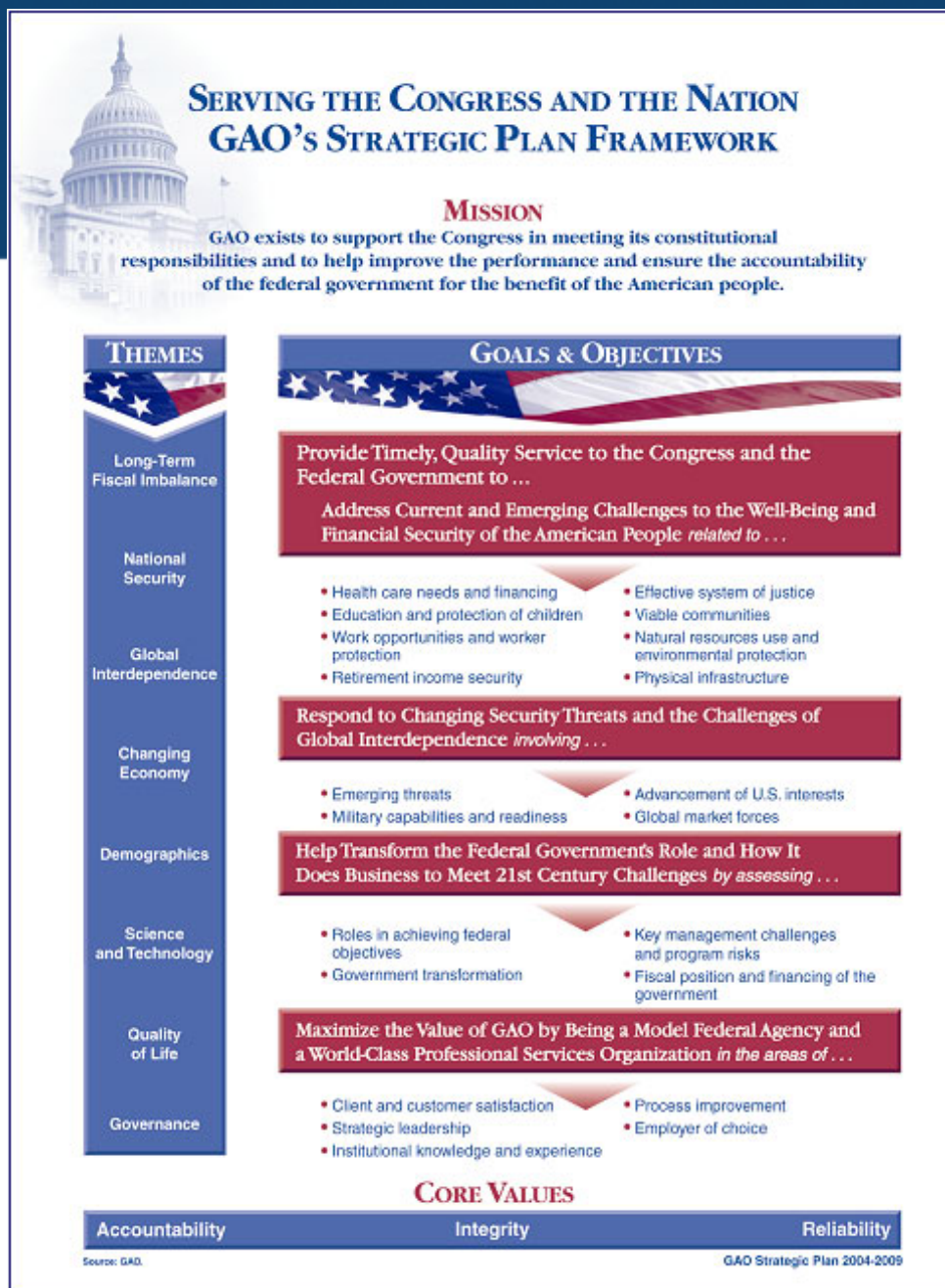
16 OUT OF 28

OECD Categories for Key Indicators (2006 OECD Factbook)

• Population/Migration	• Energy	• Environment	• Quality of Life
• Macroeconomic Trends	• Labor Market	• Education	• Economic Globalization
• Prices	• Science & Tech.	• Public Finance	

Source: 2006 OECD Factbook.

GAO's Strategic Plan



Source: GAO.

GAO's High- Risk List 2007

Addressing Challenges in Broad-based Transformations

	Year Designated
• Strategic Human Capital Management ^a	2001
• Managing Federal Real Property ^a	2003
• Protecting the Federal Government's Information Systems and the Nations' Critical Infrastructures	1997
• Implementing and Transforming the Department of Homeland Security	2003
• Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
• DOD Approach to Business Transformation^a	2005
• DOD Business Systems Modernization	1995
• DOD Personnel Security Clearance Program	2005
• DOD Support Infrastructure Management	1997
• DOD Financial Management	1995
• DOD Supply Chain Management	1990
• DOD Weapon Systems Acquisition	1990
• FAA Air Traffic Control Modernization	1995
• Financing the Nation's Transportation System ^a (New)	2007
• Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests ^a (New)	2007
• Transforming Federal Oversight of Food Safety ^a (New)	2007

Managing Federal Contracting More Effectively

• DOD Contract Management	1992
• DOE Contract Management	1990
• NASA Contract Management	1990
• Management of Interagency Contracting	2005

Assessing the Efficiency and Effectiveness of Tax Law Administration

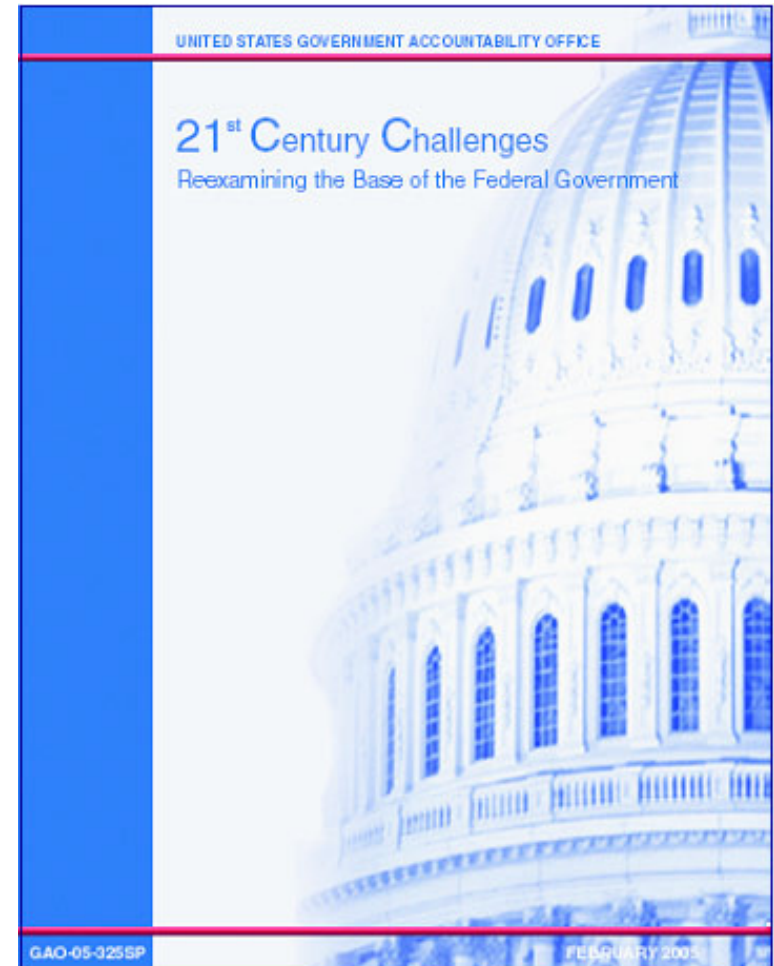
• Enforcement of Tax Laws ^a	1990
• IRS Business Systems Modernization	1995

Modernizing and Safeguarding Insurance and Benefit Programs

• Modernizing Federal Disability Programs ^a	2003
• Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program	2003
• Medicare Program ^a	1990
• Medicaid Program ^a	2003
• National Flood Insurance Program ^a	2006

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



Source: GAO.

Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

Measuring success

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

Targeting benefits

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

Affordability and cost effectiveness

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

Best practices

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Illustrative 21st Century Questions: National Defense

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?
- Can DOD afford to invest in transformational systems such as the Future Combat System and national missile defense at the same time it continues to pursue large investments in legacy systems such as the F-22A and new systems like the Joint Strike Fighter, especially if cost growth and schedule delays continue at historical rates?
- Given the global availability of rapidly advancing technology, does DOD need to reconsider its approach for identifying critical technologies and protecting those technologies from being exploited in order to maintain its military superiority?

Illustrative 21st Century Questions: National Defense

- Given the growing encumbrance of pay and benefit costs, especially health care, within DOD's budget, how might DOD's recruitment, retention, and compensation strategies (including benefit programs) be reexamined and revised to ensure that DOD maintains a total military and civilian workforce with the mix of skills needed to execute the national security strategy while using resources in a more targeted, evidence-based, and cost-effective manner?
- Do the role, size, and structure of forces and capabilities comprising the strategic triad need to be adjusted to meet the challenges of providing strategic deterrence in the new security and fiscal environment?
- Does DOD need to create a senior management position responsible and accountable for taking a strategic, integrated, and sustained approach to managing the day-to-day business operations of the department, including ongoing efforts to transform DOD's business operations and address the many related and longstanding high-risk areas? Should specific qualifications requirements and periods of tenure or terms be established for selected DOD positions related to key business operations?

Securing, Stabilizing, and Rebuilding Iraq: GAO's Audit Approach and Findings

- Since 2003, GAO has issued 67 Iraq-related reports and testimonies
- Our analysis of the National Strategy for Victory in Iraq recommended that the National Security Council improve the strategy by articulating clearer roles and responsibilities, including key metrics and milestones, specifying future contributions, and identifying current costs and future resources
- In our examination of the cost of U.S. military operations abroad, we recommended that the Secretary of Defense improve the transparency and reliability of DOD's Global War on Terror (GWOT) obligation data. We also recommended that DOD build more funding into the baseline budget once an operation reaches a known level of effort and costs are more predictable
- In assessing the capabilities of Iraqi security forces, we found that overall security conditions in Iraq have deteriorated despite increases in the numbers of trained and equipped security forces. A complete assessment of Iraqi security forces' capabilities is dependent on DOD providing GAO with the readiness levels of Iraqi units

Securing, Stabilizing, and Rebuilding Iraq: GAO's Audit Approach and Findings (cont'd)

- We found that DOD faces significant challenges in maintaining U.S. military readiness for overseas and homeland missions and in sustaining rotational deployments of duty, especially if the duration and intensity of current operations continue at the present pace
- In assessing the impact of ongoing military operations in Iraq on military equipment, we found that the Army and the Marine Corps have initiated programs to reset (repair or replace) equipment and are likely to incur large expenditures in the future
- In reviewing efforts to secure munitions sites and provide force protection, we recommended that DOD conduct a theater wide survey and risk assessment of unsecured conventional munitions in Iraq and incorporate storage site security into strategic planning efforts
- In assessing acquisition outcomes, we found that DOD often entered into contract arrangements with unclear requirements, which posed additional risks to the government. DOD also lacked the capacity to provide sufficient numbers of contracting, logistics, and other personnel, thereby hindering oversight efforts

Key Oversight Areas for the 110th Congress

Examples of targets for near-term oversight:

- Reducing the tax gap
- Addressing governmentwide acquisition and contracting issues
- Transforming the business operations of the Departments of Defense

Examples of policies and programs that are in need of fundamental reform and re-engineering:

- Reviewing U.S. and coalition efforts to stabilize and rebuild Iraq and Afghanistan
- Ensuring a strategic and integrated approach to prepare for, respond to, recover, and rebuild from catastrophic events
- Reforming the tax code

Examples of governance issues that should be addressed to help ensure an economical, efficient, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century:

- Reviewing the need for various budget controls and legislative process revisions in light of current deficits and our long-range fiscal imbalance
- Pursuing the development of key national indicators
- Reviewing the impact and effectiveness of various management reforms

Suggested DOD Related Oversight Areas for the 110th Congress

- Address acquisition and contracting issues.
- Transform business operations, including addressing all related “High Risk” areas.
- Enhance information sharing, accelerate transformation, and improve oversight related to the Nation’s intelligence agencies.
- Strengthen efforts to prevent proliferation of nuclear, chemical, and biological weapons and their delivery systems (missiles).
- Ensure a successful transformation of the nuclear weapons complex.
- Review U.S. and Coalition efforts to stabilize and rebuild Iraq and Afghanistan, including how these efforts are to be funded.
- Assess overall military readiness, transformation efforts, and existing plans to assure the sustainability of the All-Volunteer Force.

Note: From November 17, 2006 letter to the 110th Congress (GAO-07-235R)

Trans *FORMATION*

Webster's definition

**An act, process, or instance of
change in structure appearance,
or character**

**A conversion, revolution,
makeover, alteration, or
renovation**

The Objective of Transformation

Creating a more positive future by maximizing value and mitigating risk within current and expected resource levels

The Objective of Transformation for DOD

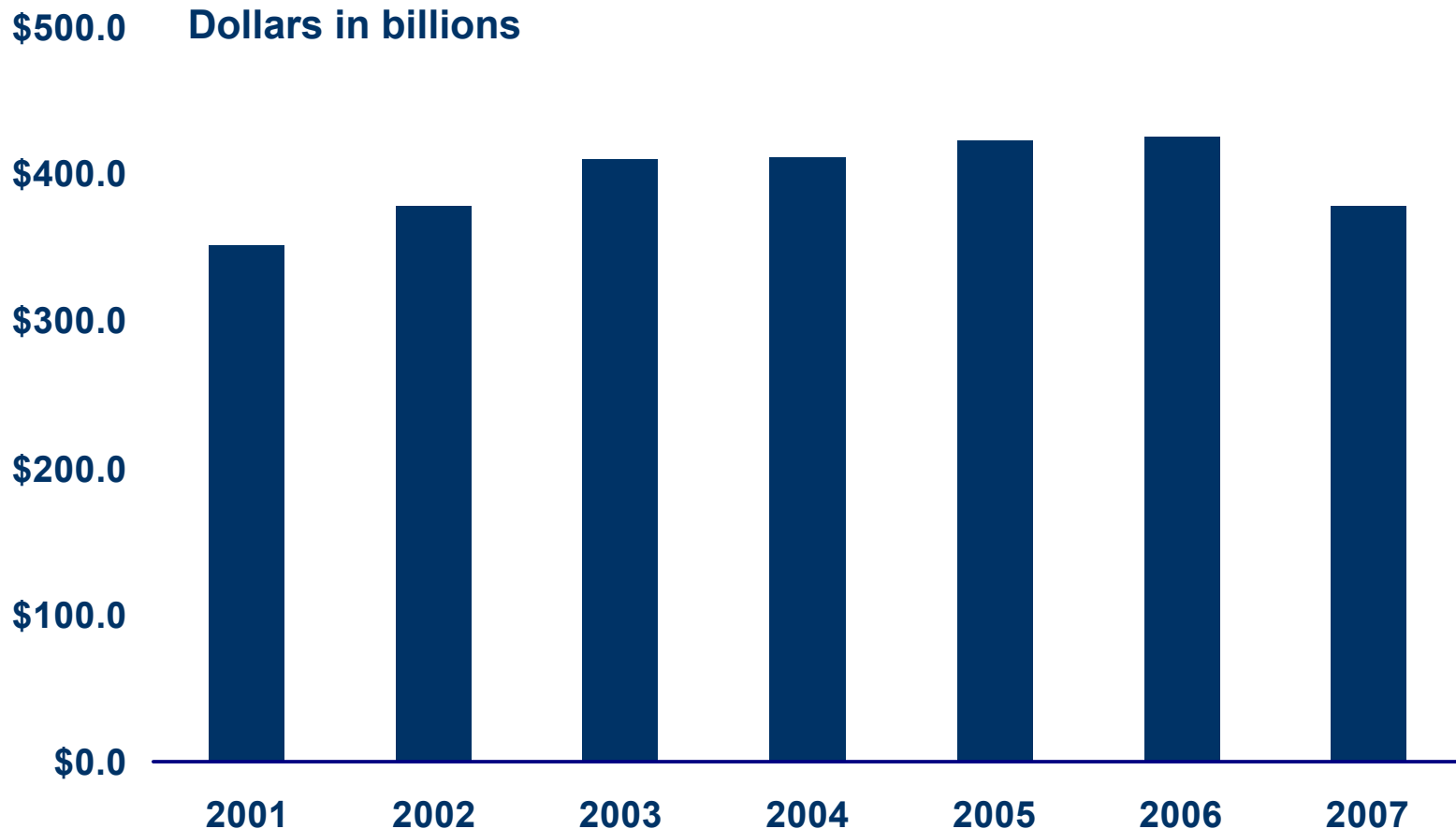
Creating the future of warfare and protecting our national security while improving how the department, including all of its various component parts, does business in order to support and sustain our position as the world's preeminent military power within current and expected resource limits

DOD Faces the Challenge of Balancing Near Term and Long Term Wants, Needs, and Affordability

- In FY 2007 constant dollars, DOD's regular budget has grown from about \$351 billion in FY 2001 to about \$425 billion in FY 2006. To date, DOD's FY 2007 regular budget is funded at about \$378 billion, with decisions on additional funding for military construction and other programs still pending. Supplemental funding for the Global War on Terrorism (GWOT) has added hundreds of billions of dollars to DOD's available budgetary resources.
- Near term, DOD is paying for the GWOT and facing challenges in maintaining readiness.
- Long term, DOD must address military pay and benefits and weapons modernization and force transformation, which may not be affordable or sustainable.
- DOD's efforts to transform its business systems and processes will take many years to achieve, but could free up resources through efficiencies and reduction in waste.

DOD's Regular Budget Growth (Excluding GWOT)

DOD Regular Appropriation FY 2001-2007

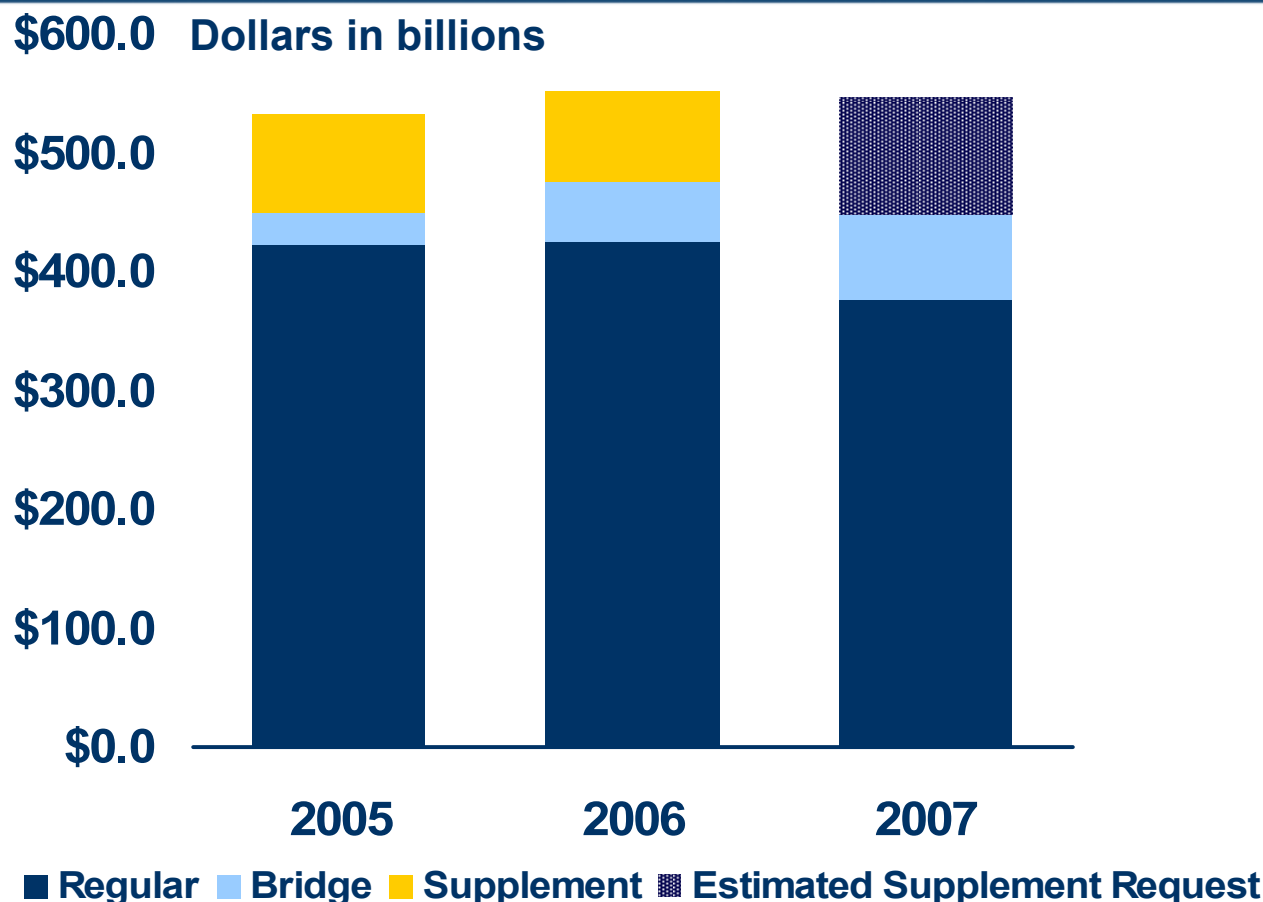


Source: GAO analysis of Congressional Research Service data.

Note: The FY 2007 figure does not include funding for military construction and other programs, which is being considered in a single appropriations bill that has not yet been passed. All amounts are in constant 2007 dollars.

Total Budgetary Resources Provided to DOD

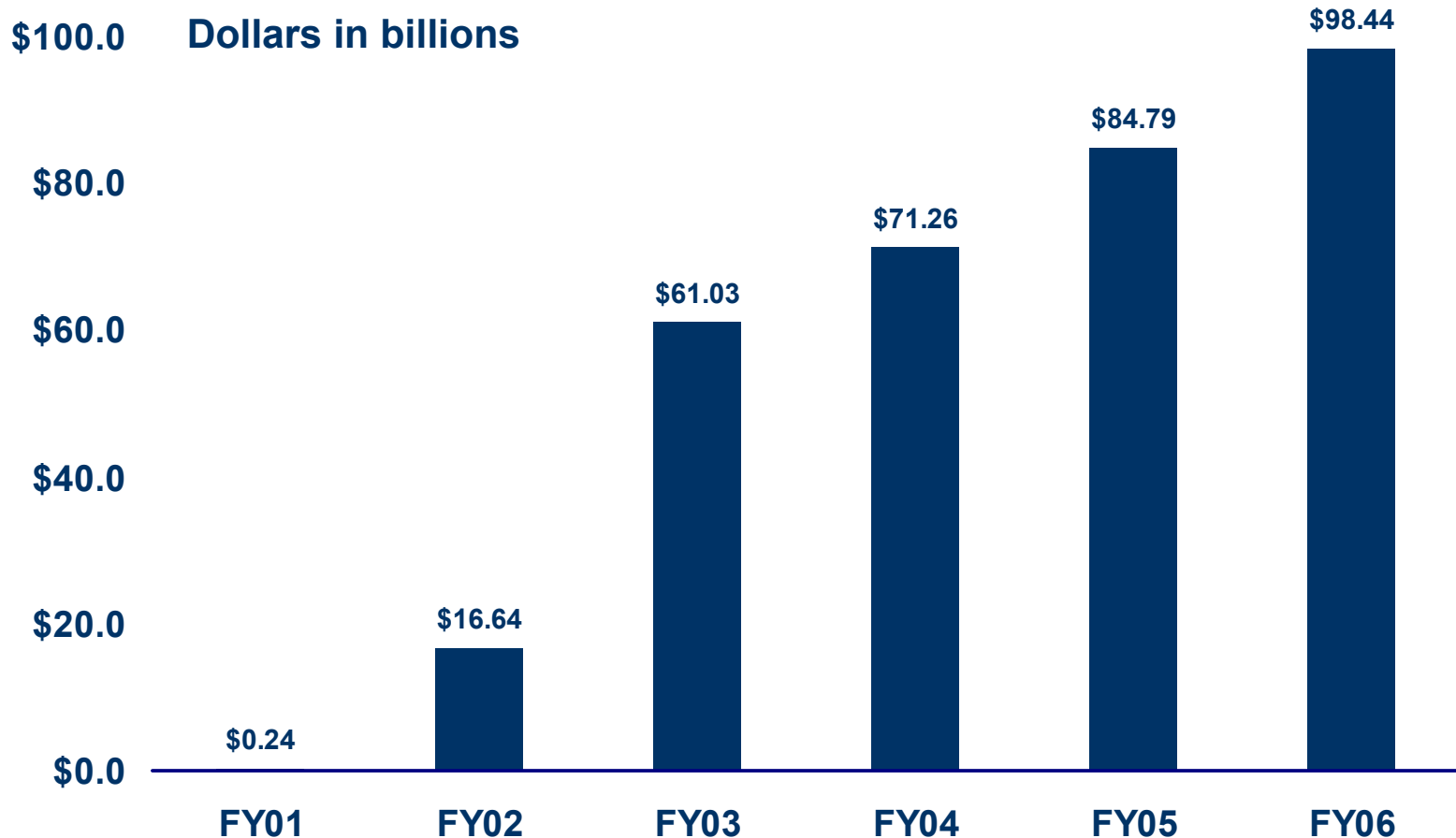
Total Defense Resources FY 2001-2007 (as of January 2007)



Source: GAO analysis of Congressional Research Service data.

Notes: Bridge, or Title IX, is the section of DOD's regular defense appropriation that outlines emergency spending provisions for operations in support of GWOT. The figure shown for the FY 2007 regular appropriation does not include funding for military construction and other programs, which is being considered in a single appropriations bill that has not yet been passed. DOD's FY 2007 supplemental request, not yet submitted, has been estimated at about \$100 billion. All amounts are in constant 2007 dollars.

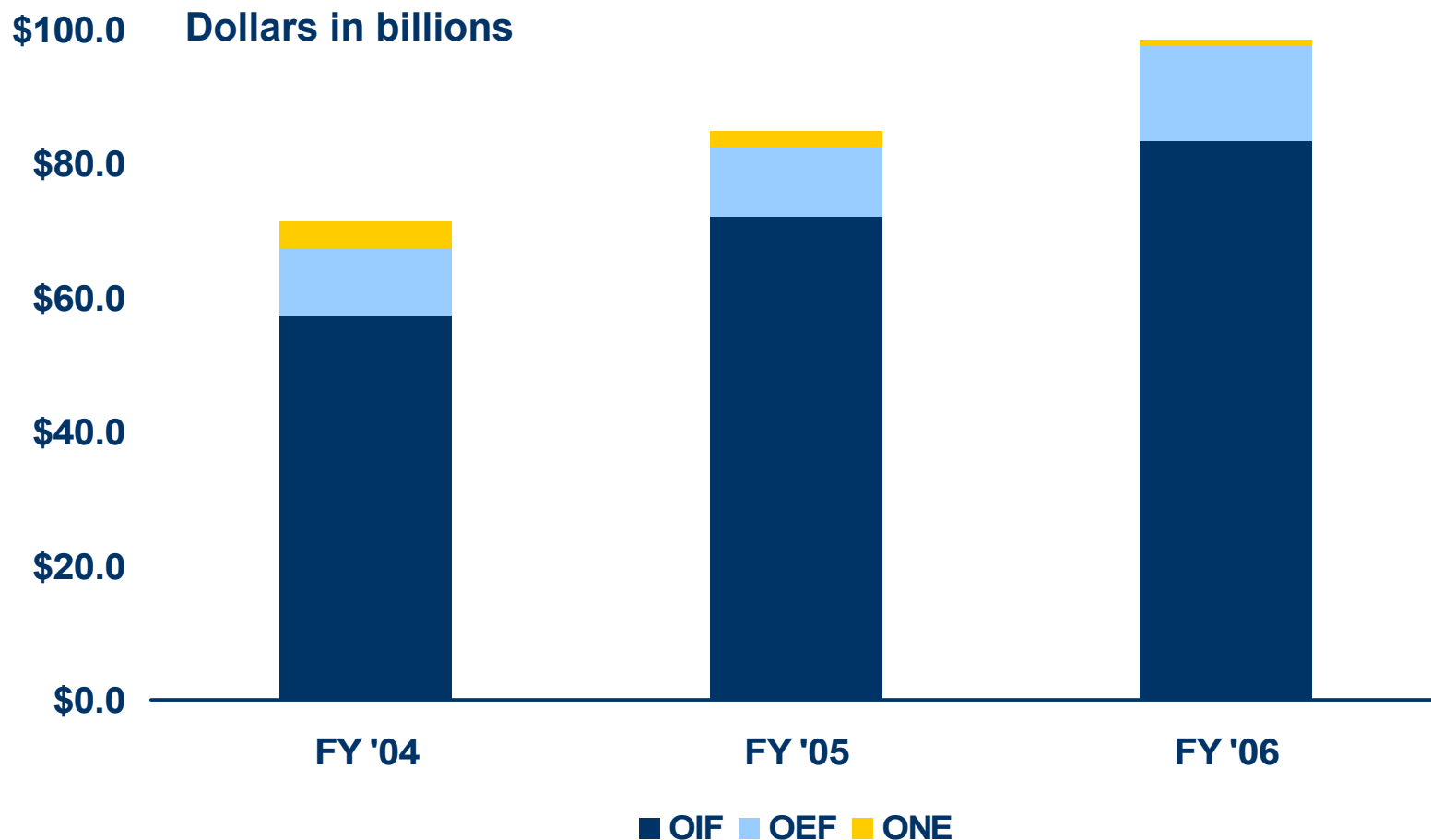
DOD's Reported GWOT Obligations for FY 2001 thru FY 2006



Source: GAO analysis of DOD data.

Note: Reported GWOT obligations include Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom. Figures do not include about \$17.9 billion obligated in FY 2001-2003 that DOD did not include in its cost reports, or any obligations for classified activities. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that they may not accurately reflect the true dollar value of GWOT obligations.

DOD's Reported GWOT Obligations by Operation for FYs 2004, 2005, 2006



Source: GAO.

Notes: GAO has assessed the reliability of DOD's obligation data and found significant problems, such that they may not accurately reflect the true dollar value of GWOT obligations.

Increased Budget Transparency Needed

- Based on recent DOD guidance, the rules governing what can be included in the FY 2007 supplemental funding request have been expanded to include items not strictly limited to ongoing operations, but to overall efforts related to the larger war on terror.
- The lines between what is being funded through annual and supplemental appropriations are becoming increasingly blurred, making it difficult for decision makers to understand and balance DOD's wants, needs, and affordability.
- To provide greater transparency over its budget, DOD should consider moving certain GWOT costs into the baseline budget to assist decision makers in weighing priorities and trade-offs when making financial decisions.
- DOD needs to take stronger actions to control GWOT costs by setting general parameters to guide commanders' and services' cost control efforts.
- GAO has found significant reliability problems with the GWOT cost data, which impedes the ability of Congress and others to make informed decisions about GWOT costs and related funding needs.

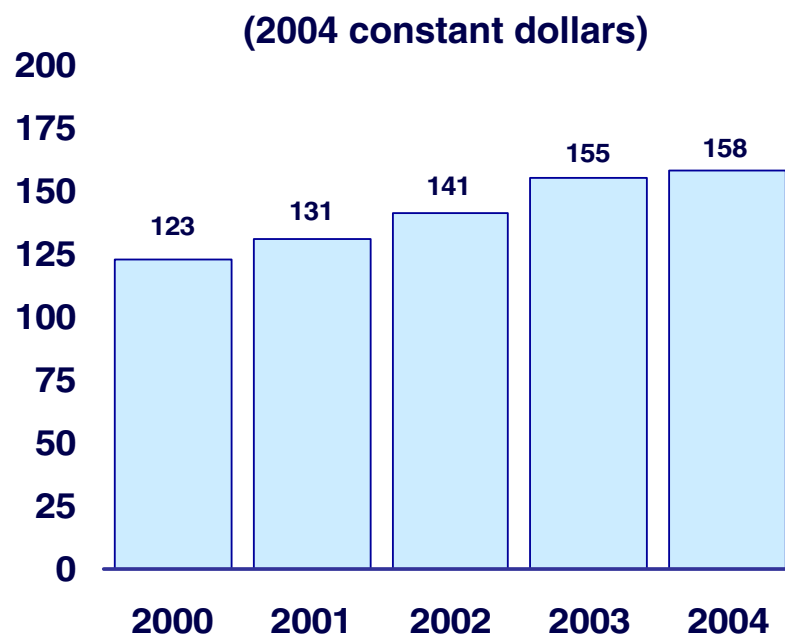
Balancing Wants, Needs and Affordability: Maintaining Near Term Readiness

- Readiness is being measured against two different standards 1) the traditional war time missions that units are expected to undertake based on their structure, and 2) their currently directed missions—primarily, supporting operations in Iraq and Afghanistan.
- Although there are some concerns with deployed units, the deployed units are in better shape to undertake the currently directed missions than non-deployed units because they receive priority for personnel and equipment.
- When measured against traditional war time missions, there are readiness concerns (equipment, personnel, and training) for both deployed and non-deployed units.

Balancing Wants, Needs and Affordability: Reexamining Active Duty Personnel Pay and Benefits

- The cost of active duty pay and benefits was \$158 billion in fiscal year 2004 and growing.
- Enhanced pay and benefits, including health care costs, increased costs to an average of \$111,783 per person.
- DOD needs to assess the affordability and sustainability of the compensation system and the reasonableness and appropriateness of the allocation to cash and benefits and whether changes could more efficiently achieve recruiting and retention goals.

Total Compensation Costs for Fiscal Years 2000-2004



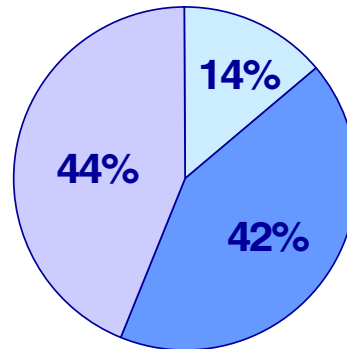
Source: GAO-05-798.

Note: Our calculations include supplemental funding for the Global War on Terrorism. Since fiscal year 2002 over 100,000 mobilized reservists were paid out of the cash compensation. If you considered these personnel, the average costs to provide compensation would be about \$5,000 per capita lower.

Balancing Wants, Needs and Affordability: Reexamining Health Care Benefits

- The cost of TRICARE more than doubled from FY01 to FY05.
- Costs have grown due to increases in enrollment, benefits, medical inflation, and GWOT.
- TRICARE does not fully utilize market incentives to shape utilization.
- TRICARE has low enrollment fees, deductibles, and other beneficiary expenses compared to other plans.

TRICARE Beneficiaries in Fiscal Year 2005

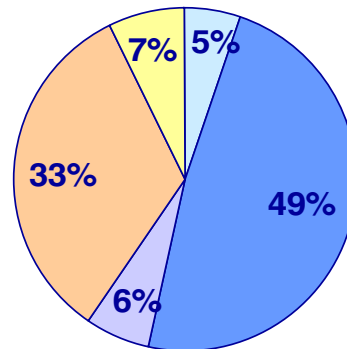


14%: TRICARE for Life retirees and dependents (generally age 65 and older)

42%: Active duty personnel and dependents

44%: Retirees and dependents (generally under age 65)

DOD Estimates of Factors Contributing to Increases in DOD's Health Care Costs, 2001-2005



5%: Other Congressionally-Mandated Benefit Changes

49%: TRICARE for Life

6%: GWOT

33%: Medical Inflation

7%: Increase in Retirees and Dependents Under 65

Source: GAO-07-48 (top pie),
GAO analysis of DOD data (bottom pie).

Balancing Wants, Needs and Affordability: Funding Weapons Modernization and Force Transformation

- From fiscal years 2001 to 2006, DOD has doubled its planned investments in new systems from about \$700 billion to nearly \$1.4 trillion, but this has not produced more stability or better outcomes.
- DOD is also restructuring forces to execute operations in the new security environment more effectively. This includes such efforts as Army modularity, which has grown in cost from an estimated \$28 billion in 2004 to \$52.5 billion as of April 2006.

DOD Continues to Confront Pervasive, Longstanding Management Problems Related to Its Business Operations

- **Management weaknesses cut across all of DOD's major business areas, and its approach to business transformation was designated as high risk in 2005.**
- **Examples of longstanding issues include:**
 - Supply chain management has been designated high risk since 1990
 - Weapons System Acquisition was also designated high risk in 1990
 - Financial Management has been designated as high-risk since 1995

Selected Potential DOD Transformation Related Actions

- Revise the current approach to developing national military strategy (e.g., order, integration)
- Take a longer range, and more enterprise-wide approach to program planning and budget integration (e.g., life cycles, opportunity costs)
- Employ a more strategic and integrated approach to business information system efforts and financial audit initiatives
- Differentiate between war fighting and business systems development, implementation, and maintenance (e.g., resource control, project approval)
- Focus on achieving real success in connection with financial management efforts (e.g., systems, controls, information, compliance and opinions)
- Employ a total force management approach to planning and execution (e.g., military, civilian, contractors)

Selected Potential DOD Transformation Related Actions

(cont'd)

- Get the design and implementation of the NSPS right, including modernizing and integrating the DOD, Service, domain, unit, and individual performance measurement and reward systems
- Revise the process for developing and communicating key changes (e.g., DOD transformation, NSPS)
- Reduce the number of layers, silos, and footprints
- Recognize the difference between approving and informing
- Review and revise current military compensation policies and practices (e.g., more targeted and market-based)
- Strengthen emphasis on horizontal and external activities (e.g., partnerships)
- Create a Chief Management Officer to drive the business transformation process

Systemic Defense Acquisition Challenges

1. **Service budgets are allocated largely according to top line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.**
2. **Capabilities and requirements are based primarily on individual service wants versus collective Defense needs** (i.e. based on current and expected future threats) that are both affordable and sustainable over time.
3. **Defense consistently over-promises and under-delivers in connection with major weapons, information, and other systems** (i.e. capabilities, costs, quantities, schedule).
4. **Defense often employs a “plug and pray approach” when costs escalate** (i.e. divide total funding dollars by cost per copy, plug the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).
5. **Congress sometimes forces the department to buy items** (e.g. weapons systems) **and provide services** (e.g. additional health care for non-actives) **that the department does not want and we cannot afford.**

Systemic Defense Acquisition Challenges (cont'd)

6. **DOD tries to develop high risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high risk technology development activities in low cost environments** (i.e. technology development is not separated from product development). **Program decisions to move into design and production are made without adequate standards or knowledge.**
7. **Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved.** As a result, too much time passes, threats may change, and/or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, fewer quantities and reduced contractor accountability.
8. **Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.**
9. **Contracts typically do not accurately reflect the complexity of projects nor appropriately allocate risk between the contractors and the taxpayers** (e.g. cost plus, cancellation charges).
10. **Key program staff rotate too frequently thus promoting myopia and reducing accountability** (i.e. tours based on time versus key milestones). **Additionally, the revolving door between industry and the Department presents potential conflicts of interest.**

Systemic Defense Acquisition Challenges (cont'd)

- 11. The acquisition workforce faces serious challenges (e.g. size, skills, knowledge, succession planning).**
- 12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e. cost, quality, schedule).**
- 13. Inadequate oversight is being conducted by both the Defense Department and the Congress which results in little to no accountability for recurring and systemic problems.**
- 14. Some individual program and funding decisions made within the Department and by the Congress serve to undercut sound policies.**
- 15. Lack of a professional, term-based CMO at DOD serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.**

Key Leadership Attributes Needed for These Challenging and Changing Times

- *Courage*
- *Integrity*
- *Creativity*
- *Partnership*
- *Stewardship*

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

DOD TRANSFORMATION

CHALLENGES AND OPPORTUNITIES

The Honorable David M. Walker
Comptroller General of the United States

Army War College
February 12, 2007



On the Web

Web site: www.gao.gov/cghome.htm

Contact

Paul Anderson, Managing Director, Public Affairs
AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office
441 G Street NW, Room 7149
Washington, D.C. 20548

Copyright

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.