

Part 4:
**Inspector General Summary
of Management Challenges**

Inspector General Summary of Management Challenges

The Reports Consolidation Act of 2000, Public Law 106-531, permits the Secretary of Defense to submit a consolidated report to the President, to the Director of the Office of Management and Budget, and to Congress within 150 days of the end of the fiscal year, which “shall include a statement prepared by the agency’s inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency, and briefly assesses the agency’s progress in addressing those challenges.” Based on audits, investigations, and inspections, the Inspector General has identified nine major challenges facing the Department of Defense. These challenges remain unchanged from those identified in the DoD Performance and Accountability Report for Fiscal Year 2002, and are discussed in more detail below, along with this Inspector General’s brief assessment of the Department’s “progress in addressing those challenges.” The challenges are:

- Joint Warfighting and Readiness,
- Homeland Defense,
- Human Capital,
- Information Technology Management,
- Streamlined Acquisition Processes,
- Financial Management,
- Health Care,
- Logistics, and
- Infrastructure and Environment.

Due to its size and the diversity of its programs and activities, the Department of Defense is the most complex organization in government. The breadth of the challenges

identified by the Office of the Inspector General attest to this complexity.

Improving management and performance of Defense programs has been a priority of the Secretary of Defense. Last year the Department developed a legislative program to modernize and transform DoD operations.

As Secretary Rumsfeld explained:

“We are working to promote a culture in the Defense Department that rewards unconventional thinking - a climate where people have freedom and flexibility to take risks and try new things. We are working to instill a more entrepreneurial approach to developing military capabilities, one that encourages people to behave less like bureaucrats; one that does not wait for threats to emerge and be ‘validated,’ but rather anticipates them before they emerge- and develops and deploys new capabilities quickly, to dissuade and deter those threats.”¹

In furtherance of the transformation process, the Secretary of Defense has established the following legislative priorities for Fiscal Year 2005:²

- Successfully Pursue the Global War on Terrorism,

¹ Remarks as Prepared for Delivery by Secretary of Defense Donald H. Rumsfeld, For the House Armed Services Committee, Wednesday, February 5, 2003.

² September 24, 2003, Memorandum from the Secretary of Defense, “Legislative Priorities for Fiscal Year 2005”

- Strengthen Combined/Joint Warfighting Capabilities,
- Transform the Joint Force,
- Optimize Intelligence Capabilities,
- Counter the Proliferation of Weapons of Mass Destruction,
- Improve Force Manning,
- Develop New Concepts of Global Engagement,
- Sustain Homeland Security,
- Streamline DoD Processes, and
- Reorganize DoD and the USG to Deal with Pre-War Opportunities and Post-War Responsibilities.

The challenges identified by the Office of the Inspector General parallel and support the Secretary of Defense’s priorities. For example, the priorities of “Strengthen Joint Warfighting Capabilities,” and “Homeland Security” are directly identified by the Office of the Inspector General as challenges, and the priority to “Streamline DoD Business Processes” is intrinsic in many of the major challenges that face the Department.

The President’s Management Agenda includes five initiatives to help government work better. The five initiatives are Management of Human Capital, Improved Financial Management, Budget and Performance Integration, Competitive Sourcing, and Expanded Electronic Government. The major challenges identified by the Office of the Inspector General in the areas of Human Capital, Information Technology Management, Streamlined Acquisition Processes, Financial Management, and Logistics encompass these initiatives.

Joint Warfighting and Readiness

In order for U.S. forces to operate jointly in conflict, they must also train and operate together in peacetime. Ensuring that U.S. forces are ready to carry out assigned missions is the preeminent responsibility and challenge of the DoD. A wide variety of Defense functions, particularly in the personnel management, logistics, and acquisition areas, directly support and impact joint warfighting and military readiness. Many of the other management challenges encompass those functions that support joint warfighting and readiness issues.

Inspector General Assessment of Progress

In assessing progress by the Department in this area, as in many of the other management challenges, it must be recognized that improvement is an ongoing process. The establishment of the Joint Forces Command will improve joint warfighting and readiness. However, the Command is only starting on initiatives to improve this capability. Likewise, DoD leadership has recognized the need to design and produce new systems with joint warfighting requirements in mind. Joint Vision 2020 states that interoperability is a mandate for the future joint force especially for communications, logistics, and information technology. To attain Joint Vision 2020 and reduce the risk of building stovepipe systems, the Defense Components are being required to develop and retrofit DoD systems into common interoperable and secure systems. While progress is being made to promote jointness, greater attention is needed in several areas.

Discussion

An Office of the Inspector General report on implementation of interoperability and information assurance policies for acquisition of DoD weapon systems pointed out the need for consistent guidance and a process to measure and assess interoperability. Otherwise, DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable systems to satisfy the needs of the joint warfighter. The Director, Joint Staff agreed with the report and also commented that there was a fundamental issue beyond the audit “that DoD is not effectively structured to effect the organizing, training, and equipping of joint capabilities. There is no joint process responsible for developing and acquiring joint command and control systems and integrating capabilities.”

Although readiness is frequently assessed in exercises and inspections, multiple independent reviews by the Office of the Inspector General and by the Military Department Audit Agencies indicate that the readiness reporting system is cumbersome, subjective, and not fully responsive to the needs of senior decision makers. In fiscal year 2003 there were 21 reports on joint warfighting and readiness. Office of the Inspector General reports on Active, Reserve, and National Guard Components identified readiness issues related to the accurate reporting of preparedness for chemical and biological defense. The Naval Audit Service also issued reports on the need to improve readiness reporting for selected aircraft, submarine, and marine forces. The Department is implementing a new DoD Readiness Reporting System that will be the primary means by which the DoD Components will measure and report on their readiness to execute the missions

assigned to them by the Secretary of Defense.

The proliferation of biological and chemical technology and material has provided potential adversaries with the means to challenge directly the safety and security of the United States and its military. The Chemical and Biological Defense Program is an excellent example of a program supporting joint warfighting to ensure that military personnel are the best equipped and best prepared forces in the world for operating in battle space that may feature chemically and biologically contaminated environments. The program development of common masks, the Joint Service Lightweight Integrated Suit Technology ensembles, and an integrated suite of chemical and biological detection equipment are noteworthy examples of eliminating service stovepipes and related overlapping costs in order to promote jointness. The Commander, U.S. Central Command exhibited a high degree of joint warfighting expertise in its chemical and biological defense program. The U.S. Naval Forces, Central Command, located in Bahrain enacted a vigorous and comprehensive program, not only for naval personnel, but also for the other services, DoD civilians, and dependents as well.

The Office of the Inspector General has continued its strong presence in ensuring adequate oversight of chemical and biological defense issues. Since we began working on this issue in 1994, the Department has made significant strides in improving the quality of chemical and biological defense equipment, the individual and unit training, and equipping of military units. Although much progress was made, additional program improvements were needed. The Office of the Inspector General reported on issues with the logistics and

maintenance of chemical and biological protective equipment in the U.S. Pacific Command, the acquisition of chemical detection equipment, the management of the chemical demilitarization program, and the readiness of U.S. forces to operate in a chemical and biological warfare environment. The need for adequate decontamination equipment and training for its use in a chemical and biological contaminated environment was identified as a key requirement to improve readiness of the forces. The Army Audit Agency and Naval Audit Service reported on the need to improve Army and Marine Corps unit-level training for chemical and biological defense and provide additional support for chemical and biological defense to forward-stationed DoD civilians and contractors. In reports, the General Accounting Office has concluded that chemical and biological defense equipment, training, and medical problems persisted, and if not addressed, were likely to result in a degradation of U.S. warfighting capabilities. The Department must significantly improve on the availability of licensed medical chemical and biological countermeasures for Force Health Protection. Moreover, the technologies for medical products against endemic infectious diseases needs to be leveraged with the technologies that support biological warfare medical counter measures.

A primary challenge of the intelligence community is to refocus intelligence priorities to strengthen intelligence capabilities for the 21st century. Inherent in this refocusing is providing timely and actionable intelligence to the warfighter. During fiscal year 2003, the Office of the Inspector General issued seven reports that were directly focused on improving intelligence support to the warfighter. The report on intelligence support to personnel

recovery operations found a lack of oversight, guidance, and direction related to the intelligence support to personnel recovery. The lack of oversight, guidance, and direction resulted in disjointed and incomplete training, operations support, and intelligence production and collection. In view of the possibility of hostilities with Iraq, DoD immediately began implementing our recommended corrective actions. A report on coalition intelligence disclosure policy for the Global War on Terrorism identified the need for improved coordination and information sharing. Approximately 80 DoD organizations or groups are involved in, or working on, some aspect of coalition information sharing resulting in a pattern of duplication that adversely affects coalition information sharing. DoD is taking action to resolve these issues. Another report on intelligence support to in-transit force protection identified a lack of coordination for intelligence support to force protection activities among new organizations, programs, and systems established to provide intelligence support. Appropriate actions have been taken by the responsible organizations or are ongoing as a result of the final report.

The Office of the Inspector General also works to promote the readiness of our nation's warfighters through a sustained emphasis on proactively identifying and prosecuting contractors engaged in providing substandard and non-conforming equipment and parts. The Defense Criminal Investigative Service continues to make product substitution one of its top priorities. This mission has become more difficult over the past several years due to a lack of direct Federal Government quality control at contractor facilities, therefore requiring a much greater reliance on the integrity of the contractor.

DoD lacks comprehensive policy, guidance and training concerning roles, missions, functions, and relationships of Combatant Command Inspectors General. This significantly inhibits the ability of these Inspector Generals to perform their duties in support of the Combatant Commands. The DoD Office of the Inspector General is acting in concert with the Joint Staff, Combatant Command, and Military Department Inspectors General on three fronts to provide the guidance and training required by these Joint Inspectors General. The Office of the Inspector General will lead an effort to update DoD Directive 5106.4, "Inspectors General of the Unified and Specified Combatant Commands" to improve its relevance to operations. In conjunction with this initiative, the Office of the Inspector General will document the Joint Inspector General practices and procedures and codify them in formal policy. Additionally, the Office of the Inspector General will assess the needs of the Combatant Command Inspectors General for joint Inspector General training and develop a joint Inspector General training curriculum that leverages ongoing efforts to respond to their specific requirements.

Homeland Defense

The start of Operation Iraqi Freedom has heightened the level of threat from adversaries who may use nuclear, chemical, and biological weapons, and weapons of mass disruption such as information warfare attacks on the Defense information structure. Homeland security has been a priority across the Federal government and significant initiatives such as the establishment of the Department of Homeland Security and, within the Department of Defense, the creation of an Assistant Secretary of

Defense for Homeland Defense, should improve the coordination of policy and resources directed to protecting the United States.

Inspector General Assessment of Progress

The Department is making progress on improving Homeland security. The recent establishment of the Assistant Secretary of Defense for Homeland Defense and the U.S. Northern Command, with a mission of homeland defense and civil support, are laudatory actions. These new organizations are in the process of addressing the multifaceted threats to the United States. Both the DoD audit community and the criminal investigative community have contributed to the Department's efforts to enhance Homeland security. Reports issued by the Office of the Inspector General as well as by the General Accounting Office have covered topics such as the need to strengthen efforts to improve information sharing by Federal authorities to state and city governments, the need for taking action to improve the efficiency of mobilization for Reserve Forces, and the need to enhance transportation security efforts. For every report that identifies an issue needing attention, the Department is taking positive actions in order to better protect American citizens.

Discussion

One of the many issues addressed in Homeland security is the ability of the United States to ensure continuity of government should such an attack occur. The Office Secretary of Defense Continuity of Operations Plan is the cornerstone document detailing the procedures and responsibilities that would ensure that the Secretary of Defense could maintain the essential functions of the Department of

Defense during times of crisis. The Office of the Inspector General issued a report concluding that the Office Secretary of Defense continuity of operations plan, if executed, would ensure Office Secretary of Defense continuity of operations, though improvements in communication and coordination processes would increase the effectiveness of the Office Secretary of Defense continuity of operations plan.

Information security is a cornerstone of Homeland security. The information security threat to DoD systems and to other public and private sector systems on which national security depends is greater than ever. Its sources include foreign governments, terrorist groups, disgruntled government or contractor employees, vandals, criminals with financial motives, and mere curiosity seekers. The challenge to DoD is to minimize vulnerabilities without losing the advantages of open, interconnected systems with large numbers of users. Because of the constantly evolving threat and the sheer size of DoD information operations, the Department needs to be both highly flexible and systematic in its approach to information security. Although the DoD is a leader in resolving many aspects of this complex problem, we continue to find a wide range of security weaknesses.

Since fiscal year 2001, the Government Information Security Reform Act has required that each agency obtain an independent assessment of its security posture. In fiscal year 2001 and fiscal year 2002, the Office of the Inspector General evaluated the security posture based on an independently selected subset of information systems, and a summary of the Office of the Inspector General review was provided to DoD for inclusion in its report to the Office of Management and Budget. The

fiscal year 2002 review assessed the accuracy of the data DoD used in fiscal year 2001 to report the security status for 560 information technology systems. DoD reported invalid data on the security status of systems for an estimated 370 systems. Further, although the requirement for systems to obtain security certification and accreditation has existed since 1997, we estimate that only 101 of 560 systems met the requirement. Consequently, the Office of Management and Budget and DoD managers do not have dependable information to ascertain the degree to which information security controls exist in systems.

In conjunction with the Inspectors General of the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, the National Reconnaissance Office and the National Security Agency, the Office of the Inspector General also assessed the adequacy and effectiveness of the DoD intelligence agencies' information assurance policies and procedures. We have made numerous recommendations to improve the Defense agencies' information assurance program. Each of the DoD intelligence agencies have taken aggressive steps to improve their information assurance posture, but more improvements are needed.

The Chairman of the Joint Chiefs of Staff stated that the paradigm driving the maintenance of information has changed from the Cold War "need to know" to the Global War on Terror "need to share." While information security remains an important issue, information sharing is now critical to our intelligence, counter-terrorism, and critical infrastructure protection efforts. The Department needs to address the challenges associated with information collection from sources of ever increasing diversity, as well as providing

access to timely and useful sensitive information to other Federal agencies, state governments, and local law enforcement.

Two reports by the Office of the Inspector General on exporting technology underscored the need for continued emphasis in this area. In addition, the DoD continues to work with other agencies to improve the controls over exports of sensitive technology. In this regard, the Congress can help by reauthorizing the long-expired Export Administration Act so that national policy objectives are clear and the controls are completely consistent with those objectives.

The Defense Criminal Investigative Service has partnered with the Bureau of Immigration and Customs Enforcement, Department of Homeland Security, in order to circumvent the illegal transfer of technology critical to the defense infrastructure. Defense Criminal Investigative Service has expanded the use of the undercover technique as a means to identify and successfully prosecute those involved in the area of technology transfer. A series of Office of the Inspector General reports identified the need to improve the policy and security and export controls over biological agents at Defense laboratories and medical facilities. A classified interagency summary report issued by Office of the Inspector General about controls over select biological agents identified the following systemic issues: physical security, personnel access controls, inventory accountability and controls, emergency disaster plans, registration with the Centers for Disease Control and Prevention, import and export of agents, training, management oversight, and policies and procedures.

The Cooperative Threat Reduction Program was initiated to reduce the threat posed by

weapons of mass destruction in the former Soviet Union. Under the program, the United States assists former Soviet Union states in building facilities and operating programs to safeguard, transport, and ultimately destroy chemical, biological, and nuclear weapons, delivery systems, and infrastructure. Adequate controls for the program are vital to ensuring that the limited program funds are used effectively. The lack of adequate controls was clearly demonstrated in an Office of the Inspector General report. The review showed that although DoD spent \$99 million to design and begin construction of a facility to eliminate solid rocket motors, the facility would not be constructed because of local opposition in the Russian Republic where the facility was to be built. Adequate inspections and firm agreements were not in place. On the positive side, DoD has taken several steps to reduce risks in the execution of ongoing and future projects. One initiative undertaken is the development of a Joint Requirements Implementation Plan. DoD has implemented a phased approach to project execution to further reduce DoD risks. DoD also shifted the risk to Russia by agreeing to reimburse Russia after the solid rocket motors are destroyed.

In September 2003, the Deputy Secretary of Defense realigned Critical Infrastructure Protection Oversight to the Assistant Secretary of Defense for Homeland Defense. The Assistant Secretary of Defense for Homeland Defense will focus on the planning and execution of DoD activities and the use of resources in preventing and responding to threats to infrastructures and assets critical to DoD missions.

In response to concern expressed by the Deputy Under Secretary of Defense (Installations and Environment) that fire department and emergency services had not

been reviewed to assess their ability to respond to new and realistic threats, such as weapons of mass destruction, the Office of the Inspector General conducted an evaluation of the DoD Fire and Emergency Services Program. The evaluation identified that additional missions, increased deployments, National Guard and Reserve Component mobilizations, and inefficient hiring processes have adversely impacted fire department staffing. Additionally, the Office of the Inspector General found that the Military Departments did not give priority to fire fighting apparatus during the budget process resulting in apparatus being under funded by \$550 million, over-age, and sometimes nonfunctional.

To support the Department's efforts to enhance homeland security and to wage the global war on terrorism, the Defense Criminal Investigative Service is (1) participating in the regional Federal Bureau of Investigation Joint Terrorism Task Forces and the National Joint Terrorism Task Forces; (2) placing investigative emphasis on Terrorism, Homeland Security, Technology Protection, Industrial Espionage and Computer Network Defense issues; (3) committing nearly 30 percent of the agent corps directly to these high priority missions in support of the warfighter; and (4) rotating two agents every 90 days to an Iraq Detail, in direct support of the Coalition's Provisional Authority. The Department needs to coordinate the law enforcement and counterintelligence efforts associated with supporting the regional Joint Terrorism Task Forces and the National Joint Terrorism Task Force command center.

DoD is lacking in the coordination of both counterintelligence and law enforcement information from both within the Department and in coordination with other Federal Agencies. The establishment of the

Joint Task Force-Computer Network Operations, and the Law Enforcement and Counterintelligence Center to coordinate and deconflict computer intrusion information, operations, and investigations has been a major step forward in this area. However, this needs to be expanded beyond the boundaries of computer network defense to include all counterintelligence and law enforcement information, operations, and investigations. The Counterintelligence Field Activity is undertaking this tremendous effort, but this will require the total support of all of the DoD entities, without reservation. The DoD Computer Network Defense Regulation should be used as the boiler-plate to establish and mandate the reporting and coordination of all law enforcement and counterintelligence information within DoD, and to establishing one entity within the Department to serve as the point of contact for this effort.

Human Capital

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, encouraged to engage in intelligent risk taking, and thus capable of handling the emerging technologies and threats of the 21st century. The Department has 2.6 million active duty and reserve men and women under arms and a civilian workforce of 680,000. The President's fiscal year 2003 budget projects a civilian workforce of 615,000 by fiscal year 2007. The size of DoD and the wide variety of skills needed to meet this challenge are complicating factors, as are the constraints posed by Federal Government civilian personnel management rules. Also, the 1990s were a period of downsizing and reduced hiring, which led to an aged

workforce. The current average age in most civilian job series is late forties. In some job series, such as quality assurance specialists and test range engineers, the average age is well over fifty. The aging workforce is highlighted by the fact that 66 percent of the workforce will be eligible to retire by fiscal year 2006. The Department must identify and maintain a balanced basic level of skills to maintain in-house capabilities and meet the challenges of the 21st century. The continuing increase in the number of retirement-age employees could make it difficult for DoD to maintain an institutional memory and to infuse its workforce with new and creative ideas and to develop the skilled civilian workers, managers, and leaders it will need to meet future requirements.

Inspector General Assessment of Progress

Overall, the Department is making progress on many fronts to improve human capital. The Department's legislative proposal for The National Security Personnel System is strongly supported by the Office of the Inspector General because it will create the flexibilities needed to manage the 21st century workplace. Other positive initiatives the Department has undertaken to transform its forces include adopting a capabilities-based approach to planning based on clear goals and to improve the linkage between strategy and investments. The Department recognized the need for a strategic plan for the civilian workforce by publishing the Department's first civilian human resources strategic plan. The strategic plan imparts the Department's direction with its vision, values, principles, critical success goals and objectives. The General Accounting Office has done considerable work in the area of Strategic Human Capital Management. In its High-Risk Series, the General Accounting Office

reported that despite considerable progress over the past two years, today's human capital strategies are not appropriately constituted to meet the current and emerging challenges or to drive the needed transformation across the Federal Government. The problem is a set of policies and practices that are not strategic, and are viewed as outdated and over regulated. Wherever the General Accounting Office and the audit community have identified a problem with Human Capital, the Department has initiated aggressive corrective actions.

Discussion

On June 17, 2003, the General Accounting Office announced that it was beginning a review of the DoD Strategic Workforce Planning for Civilians. The review would determine the extent to which DoD and the Military Departments have developed and implemented strategic workforce plans for civilians to meet future requirements; what actions DoD has taken to ensure the credibility of the workforce data and analysis used in these plans; and what best practices and challenges affect the development and implementation of the plans.

During fiscal year 2003, the DoD audit community issued 20 reports addressing human capital issues. Pursuant to a requirement contained in the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107), the Office of the Inspector General issued a report on a review of DoD Compliance with the Uniformed and Overseas Citizens Absentee Voting Act. The review found that the Federal Voting Assistance Program Office had developed guidance and resources needed for effective and compliant DoD implementation of the Act; however, the

effectiveness of the Military Departments' voting assistance programs varied at locations visited. Although each Military Department had a plan for implementing the voting assistance program, the effectiveness of the Military Departments' programs varied for the November 2002 election at the 10 locations visited.

The Military Department Audit Agencies issued reports concerning use of Marine Corps military personnel to perform non-military functions, time and attendance practices, Air Force personnel demographic data, and unemployment compensation for former Air Force civilian employees.

DoD could have made better use of quality assurance resources by assessing its use of quality assurance specialists. The Defense Contract Management Agency needs to evaluate how its quality assurance specialists are being used, considering the following factors:

- the Defense Contract Management Agency workforce is small and getting smaller,
- more contracts are being awarded to smaller contractors,
- the number of contractors doing business with DoD has nearly doubled in the last 5 years,
- the average age of the Defense Contract Management Agency quality workforce is 52.6 years, and
- ratios of contracts to quality assurance specialists are increasing, resulting in too much work for each to accomplish.

Information Technology Management

The key to success on the modern battlefield and in internal business activities is the

ability to produce, collect, process, and distribute information. Data must be accurate, timely, secure, and in usable form. The huge scale, unavoidable complexity, and dynamic nature of DoD activities make them heavily dependent on automated information technology. This dependence has proven to be a major challenge because DoD management techniques have not kept pace with the continual growth in information user requirements and the shortened life spans of technologies before obsolescence. Much of the DoD success in meeting the Secretary of Defense's priorities and the major management challenges will depend on effective and efficient information technology management.

Inspector General Assessment of Progress

Progress is positive in addressing the challenge of information technology management. The Business Management Modernization Program was established in 2003 in recognition of the need to manage information technology systems acquisitions and modernization from an enterprise perspective. The new program should help provide the oversight needed to instill discipline in the acquisition and modernization process. Further, in response to the President's Management Agenda initiative on Expanded Electronic Government, the Department has also increased the quality of business cases and the visibility into its information technology portfolio. The audit reports issued on Information Technology Management by the Office of the Inspector General were also received in a positive manner by the Department as areas deserving attention.

Discussion

During fiscal year 2003, 24 audit reports continued to indicate a wide range of

management problems in systems selected for review. The important systems for which management improvements were recommended included the U.S. Army Corps of Engineers Management Information System and the Army's All Source Analysis System. The acquisition oversight of the All Source Analysis System was insufficiently emphasized, with the result that the Army deployed system components that did not satisfy user requirements.

One Office of the Inspector General report on the Global Command and Control System—Joint Operation Planning and Execution System— found the fielding of the most current version, Joint Operation Planning and Execution System 21, had fallen 46 months behind schedule because of insufficient project oversight. The Defense Information Systems Agency, the Program Manager for Joint Operation Planning and Execution System 21, agreed to provide greater attention to integrated logistics support planning and increase use of baseline management and performance-based service contracting.

In addition, auditors began reporting on progress in developing the DoD business enterprise architecture necessary to respond to Office of Management and Budget and congressional requirements, as well as to support its transforming initiatives. Auditors found that DoD has neither a single DoD-wide definition of a business management information technology system nor a systems inventory to support the business enterprise architecture initiative. This condition also makes the budgeting process for DoD information technology investment opaque to senior managers and impedes DoD responsiveness to Office of Management and Budget data calls and interdepartmental initiatives. DoD needs to

do more work in better managing information technology investments using the business enterprise architecture initiative as a foundation.

Challenges confronting the Department of Defense in the area of information security are discussed under the topic of Homeland Security.

Streamline Acquisition Processes

No other organization in the world buys the amount and variety of goods and services as the DoD. In fiscal year 2002, the Department spent \$200 billion on acquisitions. On average every working day, the Department issues more than 20,000 contract actions valued at \$692 million and makes more than 5,000 purchase card transactions valued at \$26 million. There are about 1,600 weapon acquisition programs valued at \$2.1 trillion over the collective lives of these programs. The amount spent to procure services, \$77 billion in fiscal year 2001, grew to \$93 billion in fiscal year 2002 as DoD Components continued to expand outsourcing pursuant to the Federal Activities Inventory Reform Act of 1998 and the President's Management Agenda initiatives. The management challenge is, despite this huge scale, to provide materiel and services that are superior in performance, high in quality, sufficient in quantity, and reasonable in cost.

Inspector General Assessment of Progress

Overall the Department has made continuous progress over the past decade in streamlining the acquisition process. The Office of the Inspector General has

partnered with DoD on improving numerous acquisition processes. Despite progress, the sheer volume of acquisitions and the numerous annual changes in regulations and processes for the acquisition professional make this a long-term challenge.

Discussion

The Department needs to be vigilant in investigating procurement fraud to optimize the financial resources appropriated for national defense. During the course of investigations, Defense Criminal Investigative Service needs to identify areas of weakness uncovered within the procurement system that are vulnerable to fraudulent activity, and ensure that they are adequately addressed.

During fiscal year 2003, the DoD internal audit community issued 116 reports that addressed a range of continuing acquisition issues. The Defense Contract Audit Agency continued to assist contracting officers through contract audits that have identified \$3.2 billion of questioned costs and funds put to better use for the first half of fiscal year 2003. These monetary benefits reduce program costs and the need for additional appropriations.

To streamline a portion of the enormous process for buying goods and services, DoD participates in the Federal purchase card program for micro-purchases (\$2,500 and less) and contract payments. Paperwork, time, and other administrative costs are reduced when the purchase card is used. However, a lack of controls over purchase card use diminished the benefits derived from the program by allowing fraud and misuse to occur unchecked. A fiscal year 2003 Office of the Inspector General “Summary Report on the Joint Review of Selected DoD Purchase Card Transactions” detailed the collaborative efforts between

DoD managers, auditors, and investigators to develop automated techniques to detect purchase card fraud and misuse. In a review of 1,357 cardholders, the automated techniques helped to expose 182 cardholders who had expended about \$5 million in questionable transactions.

Problems continue to exist in the award and administration of contracts for professional, administrative, and management support services. Contracting officials continue to award contracts for services without following prescribed procedures. Audit reports found problems with either nonuse of historical information for defining requirements, inadequate competition or questionable sole-source awards, inadequate contract surveillance, or noncompliance with Truth in Negotiations Act procedures.

To streamline the acquisition process and to comply with the Federal Acquisition Streamlining Act of 1994, DoD has encouraged the use of performance-based payments as a means to finance fixed-price contracts. Performance-based payments offer incentives to contractors and the Government. Contractors need only to meet agreed-upon performance milestones to receive payments (that include profit) up to 90 percent of the contract price and the Government only has to ensure that the agreed-upon performance occurred. Performance-based payments provide the potential for quicker payments to the contractor and a reduction in administrative costs for DoD. Challenges, however, exist relating to the performance-based payments initiative. An Office of the Inspector General report on “Administration of Performance-Based Payments Made to Defense Contractors” showed instances in which DoD did not have documentation to support more than \$4.1 billion in performance-based payments. DoD stated

that corrective actions were underway and that future performance-based payments would have adequate documentation to show that performance occurred.

Competitive sourcing is one of the five Government-wide initiatives in the President's Management Agenda. The President stated, "Government should be market-based—we should not be afraid of competition, innovation and choice. I will open government to the discipline of competition." According to the President's Management Agenda, nearly half of all Federal employees perform tasks that are readily available in the commercial marketplace and, historically, the Federal Government has realized savings in the range of 20 to 50 percent when Federal Government and private sector service providers compete to perform those functions. Audits showed problems with the contentious process of comparing the cost of in-house performance to private sector performance.

A General Accounting Office report on Space Systems Acquisition Management Policy showed that although the new DoD space acquisition policy may help provide more consistent and robust information on technologies, requirements, and cost; the benefits might be limited. The General Accounting Office reported that the new policy does not alter the DoD practice of committing major investments before knowing what resources will be required to deliver promised capability. The General Accounting Office stated that their work has repeatedly shown that the concurrency of development of leading edge technology within product development increases the risk that significant problems will be discovered as the system is integrated and built.

Other Office of the Inspector General reports showed that management of the Aviation Into-Plane reimbursement card and contracting procedures with small businesses (Historically Underutilized Business Zones) needed improvement.

The Army Audit Agency issued reports on service contracts, property accountability procedures, the Government Purchase Card Program, and the Risk Management Program for the Stryker Vehicle System. The Naval Audit Service reviewed acquisition issues on configuration management, Risk Assessments of Naval Systems Acquisition and Acquisition Logistics, the Navy Travel Card Program, commercial activity studies, and other areas. The Air Force Audit Agency also issued reports on purchase cards, commercial activity studies, and acquisitions such as weather observation services, controls over contractor access to Air Force installations, and computer equipment.

Financial Management

The President's Management Agenda has initiatives on Improved Financial Performance and Budget and Performance Integration. These initiatives will help focus the Department on the Financial Management challenge. The Department's financial statements are among the largest and most complex and diverse financial statements in the world. The Department's fiscal year 2003 financial statements include \$1.1 trillion in assets and \$1.6 trillion in liabilities. The Department has 1.4 million active duty military personnel, 680,000 civilian employees, 1.2 million military personnel in the National Guard and Reserve, and 2.0 million retirees and families receiving benefits. The Department operates from more than 6,000 locations in

more than 146 countries and includes more than 600,000 buildings and structures. The Defense Finance and Accounting Service processed 12.3 million invoices, recorded 121 million accounting entries, paid 5.9 million people, and disbursed \$416.1 billion in fiscal year 2003. The DoD audit community issued 135 reports during fiscal year 2003 to improve financial management.

In addition to the Department-wide financial statements, the Department is responsible for preparing and obtaining an audit opinion for nine component financial statements. The Department is also responsible for preparing financial statements for three intelligence agencies.

Inspector General Assessment of Progress

In fiscal year 2003, the Department made greater progress in addressing the challenge of improving financial management than in any other year since passage of the Chief Financial Officers Act. A senior level partnership was forged among the Deputy Director for Management, Office of Management and Budget; the Comptroller General, the Under Secretary of Defense (Comptroller)/Chief Financial Officer; and the DoD Inspector General to address the financial management challenges in DoD. The problems are being identified and the partnership is jointly bringing the resources to bear to identify solutions. Further, for the first time, all the major financial statements identified the impediments to obtaining an opinion and the costs and timeframes for overcoming the impediments.

Discussion

The Department faces financial management problems that are complex, long-standing, pervasive, and deeply rooted in virtually all

business operations throughout the Department. These financial management problems have impeded the Department's ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. The problems have also prevented the Department from receiving a clean opinion on its financial statements. The Office of Management and Budget anticipates that the Department will be the only agency covered under the Chief Financial Officer Act that will not receive a clean opinion in fiscal year 2003.

The General Accounting Office has identified six high-risk areas within the Department. Three of the six high-risk areas (financial management, systems modernization, and inventory management) directly impact the Department's ability to get a clean audit opinion on its financial statements. Additionally, the Office of the Inspector General has identified 11 material control weaknesses that directly impact the Department's ability to get a clean opinion on its financial statements including: financial management systems; fund balance with treasury; inventory; operating material and supplies; property, plant and equipment; government furnished material and contractor acquired-material; military retirement health care liabilities; environmental liabilities; intragovernmental eliminations and other accounting entries; statement of net cost; and statement of financing. The Department's high-risk areas and material control weaknesses will prevent the Federal Government from achieving a clean opinion on their consolidated financial statements in fiscal year 2003.

Of these high-risk areas and material control weaknesses, the most significant problem is the Department's financial management

systems. The Department currently relies on approximately 2,300 systems, including accounting, acquisition, logistics, and personnel systems, to perform its business operations. Many of these financial management systems do not comply substantially with Federal financial management system requirements. In addition, there is little standardization across the Department. Multiple systems perform the same task, identical data is stored in multiple systems, data is manually entered into multiple systems, and there are many work-arounds and off-line records to translate data from one system to another.

To address this problem, Congress included requirements in the National Defense Authorization Act for fiscal year 2003, which required the Department to develop a business enterprise architecture and a transition plan for implementing the business enterprise architecture. The Act requires the business enterprise architecture to describe an information infrastructure that would enable the Department to achieve certain capabilities, such as complying with all Federal accounting, financial management, and reporting requirements; integrating accounting, budgeting, and information systems; and routinely providing timely, accurate, and reliable financial and management data for management decision making. The Department has delivered the initial version of the business enterprise architecture and transition plan; however, much work remains.

The President's Management Agenda also contains initiatives for improving the Department's financial performance. The President's Management Agenda directs the Office of Management and Budget to work with the Department to provide reliable, timely, and useful information to support

operating, budgeting, and policy decisions. The initiatives to ensure reliability include obtaining and sustaining clean audit opinions for the Department and its components. Timeliness initiatives include re-engineering reporting processes, instituting quarterly financial statements, and accelerating end-of-year reporting. Initiatives for enhancing usefulness include requiring comparative financial reporting, and reporting specific financial performance measurements.

The Office of the Inspector General is working closely with the Department to address the administration's requirement for accelerated submission of audited financial statements. Recently, the Office of the Inspector General, at the request of the Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, completed a study of the "size and scope" of requirements to audit the Department's financial statements, and established a long-term audit strategy for auditing the Department's annual financial statements. If the recommendations from this study are implemented by all parties concerned, the Under Secretary of Defense (Comptroller)/Chief Financial Officer anticipates a clean opinion for the fiscal year 2007 financial statements. We support the high priority the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service are giving to providing accurate, timely, and reliable financial statements.

Health Care

The DoD military health system challenge is to provide high quality health care in both peacetime and wartime. The DoD military health system must provide quality care for

approximately 8.7 million eligible beneficiaries within fiscal constraints and in the face of price growth pressure that has made cost control difficult in both the public and private sectors. The DoD military health system was funded at \$26.6 billion in fiscal year 2003, including \$16.2 billion in the Defense Health Program appropriation, \$5.6 billion in the Military Departments' military personnel appropriations Defense Health Program personnel, \$0.2 billion for military construction, and \$4.6 billion from the DoD Medicare-Eligible Retiree Health Care Fund to cover the costs of health care for Medicare eligible retirees, retiree family members and survivors.

Inspector General Assessment of Progress

The DoD has been aggressively moving forward on improving health care while attempting to control costs. New contracts for TRICARE, the Department's military health system provider, and improved coordination and sharing of DoD and Department of Veterans Affairs health care resources highlight actions to improve delivery of health care and control costs. Further, the DoD has reacted positively to initiate corrective actions whenever the audit community identified problems in health care management.

Discussion

During fiscal year 2003, the DoD audit community issued 12 reports addressing issues such as DoD and Department of Veterans Affairs resource sharing, franchise business activity contracts, third party collections, and medical conference costs. Fraud is also a factor in controlling health care costs. During fiscal year 2002, \$2.3 million was identified for recovery to the TRICARE Management Activity as a result of criminal investigations. In

addition, TRICARE Management Activity received \$1.8 million in administrative recoupments. However, total fraud judgment dollars declined in fiscal year 2002, primarily because of a shift in DoD investigative priorities to homeland security and anti-terrorist activities after the September 11, 2001, attacks.

The primary peacetime challenges for the DoD military health system in 2004 will be implementing the new TRICARE managed care contracts, developing a fair and accurate process for making Base Realignment and Closure recommendations, and ensuring compliance with the Health Insurance Portability and Accountability Act. Three TRICARE managed care contracts valued at \$6.4 billion were awarded on August 21, 2003. Those three contracts will be phased in over a 14-month period beginning September 1, 2003, replacing the current seven contracts. Each award requires transferring some of the region to a new managed care contractor. The results of the Base Realignment and Closure initiative will impact the numbers and types of medical facilities that will make up the DoD military health system. Office of the Assistant Secretary of Defense for Health Affairs and Military Department medical personnel have a major role in determining the future of the DoD military health system through participation in the Medical Joint Cross Service Group. Compliance with the Health Insurance Portability and Accountability Act is to be done in three phases. The first phase, protection of patient health information, was required to be implemented by April 2003. The second phase, standardized electronic transactions, is scheduled for implementation in October 2003. Implementing the third phase, safeguarding patient health information, requires completing tasks in fiscal year 2004 for the

safeguards to be in place by spring of 2005.

The primary readiness challenges include the readiness of the forces and the readiness of the medical staff and units. Readiness of the forces means ensuring that all deployable forces are individually medically ready to perform their missions before deploying, while deployed, and upon their return. The Office of the Assistant Secretary of Defense for Health Affairs has developed a new standard for individual and unit medical readiness, and commanders should be held responsible for ensuring their forces meet this standard. Readiness of the medical staff and units includes ensuring that medical staff can perform at all echelons of operation and the units have the right mix of skills, equipment sets, logistics support, and evacuation capabilities. Metrics will need to be developed to assess relative readiness levels.

In addition to the peacetime and readiness challenges, the President's Management Agenda for fiscal year 2002 identified nine agency-specific initiatives. One of the specific initiatives was the coordination of the DoD and the Department of Veterans Affairs medical programs and systems. This issue is further addressed in Section 721 of the National Defense Authorization Act for fiscal year 2003, which requires coordination and sharing of DoD and the Department of Veterans Affairs health care resources. Effective October 1, 2003, DoD and Veterans Affairs are each required to contribute \$15 million to the DoD-Veterans Affairs Health Care Sharing Incentive Fund to finance future sharing initiatives. In addition, Section 722 of the National Defense Authorization Act for fiscal year 2003 required DoD to contribute \$3 million in fiscal year 2003, \$6 million in fiscal year 2004, and \$9 million in later years to cover a "health care resources

sharing and coordination project." We believe the sharing requirement will benefit both agencies and reduce costs. We addressed this initiative in a recently released audit. Other audits have identified additional DoD and Department of Veterans Affairs sharing opportunities.

Logistics

The DoD logistics support operations for supplies, transportation, and maintenance costs more than \$80 billion a year. This includes \$40 billion, and nearly 700,000 military and civilian personnel and several thousand private sector firms, involved in the maintenance of more than 300 ships; 15,000 aircraft and helicopters; 1,000 strategic missiles; and 350,000 ground combat and tactical vehicles, and hundreds of thousands of additional mission support assets. In addition, DoD maintains an inventory of items such as clothing, engines, and repair parts valued at an estimated \$63 billion to support the warfighter. The purpose of logistics is to reliably provide the warfighter with the right material at the right time to support the continuous combat effectiveness of the deployed force.

Inspector General Assessment of Progress

The challenge of making DoD a world-class logistics provider is vast, but valuable progress is being made. The Department has a strategic plan and numerous pilot programs to help improve logistics. The DoD audit community is assisting the Department in evaluating new business processes and in identifying additional processes needing reform.

Major logistics initiatives include Performance Based Logistics, Future Logistics Enterprise and Base Realignment

and Closure. The September 2001 Quadrennial Defense Review mandated implementation of performance based logistics in support of weapon systems. The objectives of the Performance Based Logistics initiative are to compress the supply chain, eliminate non-value-added steps, and improve readiness for major weapon systems and commodities. The Future Logistics Enterprise is a series of six initiatives that were launched in September 2001 by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness). The Future Logistics Enterprise is the DoD strategic vision to accelerate logistics improvement to enhance support to the warfighter. The primary objective of the Future Logistics Enterprise is to ensure consistent, reliable support that meets the warfighter requirements through enterprise integration and end-to-end customer service. The objective of the Base Realignment and Closure initiative is to realign the DoD military base structure and examine and implement opportunities for greater joint activity. The Office of the Inspector General is performing a series of audits in support of the Performance Based Logistics and Future Logistics Enterprise initiatives. In addition, the Office of the Inspector General is providing assistance to DoD in support of its supply and storage and industrial Base Realignment and Closure Joint Cross Service Groups that are analyzing common business-oriented support functions.

Discussion

During fiscal year 2003, 69 DoD audit community reports addressed a broad range of logistics issues. Topics included maintenance depot materiel control deficiencies, international DoD airfreight tenders, transportation subsidies, inventory management, contractor logistics support,

and the implementation of the Future Logistics Enterprise Condition Based Maintenance initiative.

One Office of the Inspector General report found that DoD had not made effective use of the North Atlantic Treaty Organization Maintenance and Supply Organization to obtain logistics support on weapon systems held in common by North Atlantic Treaty Organization nations. As a result, the Military Departments could incur surcharges when using existing weapon system partnership agreements. For example, the Army could incur about \$1 million in additional costs for its projected fiscal year 2004 helicopter component maintenance and repair workload. Also, the Navy could experience reduced readiness while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize the additional potential benefits of consolidated procurement of supplies, storage, and services offered by using the North Atlantic Treaty Organization Maintenance and Supply Organization.

The term “performance-based logistics contract” means a contract in which the contractor shall meet reliability, availability, and responsiveness requirements for logistical support, resulting in improved product effectiveness while reducing total ownership costs. DoD policy is to aggressively pursue Performance Based Logistics as the preferred method of providing weapon system logistics support. All new weapons should use Performance Based Logistics if justified by business case analysis and all legacy weapons should transition to Performance Based Logistics by 2005 if justified by business case analysis. Based on two Office of Inspector General audits of one military service, some

business case analyses used to support Performance Based Logistics decisions have used unreliable and questionable data and may have overstated the likely benefits of Performance Based Logistics. Also, DoD management had not developed effective metrics to evaluate Performance Based Logistics performance, both technical and cost.

Infrastructure and Environment

The challenge in managing the 638 major military installations and other DoD sites is to provide reasonably modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. In the past year, the Army and the Navy completely reorganized the way they manage their installations. With the stand up of the Army's Installations Management Agency and the Navy's Commander of Naval Installations, those two Military Departments shifted authority and responsibility for installation sustainment and the associated funding. The Military Departments need to evaluate and measure the impacts on readiness, installation funding, and installation programs to judge the effectiveness of the organizations.

This challenge is complicated by the need to minimize spending on infrastructure, so that funds can be used instead on weapons modernization and other priorities. Unfortunately, there is an obsolescence crisis in the facilities area itself, and environmental requirements are continually growing. Further, The DoD maintains more facility infrastructure than needed to support its forces. DoD estimates there is 20 to 25 percent more base capacity than needed. Maintaining those facilities diverts scarce

resources from critical areas.

Inspector General Assessment of Progress

The DoD has struggled with an aging and excess infrastructure for decades. However, the Department has been making progress this year in defining all of the infrastructure problems as it begins the Base Realignment and Closure process for 2005. The planned oversight and breadth of Base Realignment and Closure 2005 far exceeds prior Base Realignment and Closure efforts in 1989, 1991, 1993 and 1995.

Discussion

Transformation through Base Realignment and Closure poses a significant challenge and opportunity for DoD. Base Realignment and Closure 2005 should eliminate excess physical capacity and convert DoD infrastructure into a more efficient structure that provides opportunities for greater joint activity. As part of the challenge, DoD must meet the timelines established in law and use certified data that are accurate and complete to develop the recommendations. Another critical aspect of the Base Realignment and Closure challenge facing DoD is to have a fair and accurate process that will withstand General Accounting Office and Base Realignment and Closure Commission scrutiny.

The Defense Department is the world's largest steward of properties, responsible for more than 46,425 square miles in the United States and abroad—nearly five and-a-half times the size of the state of New Jersey—with a physical plant of some 621,850 buildings and other structures valued at approximately \$600 billion. These installations and facilities are critical to supporting our military forces, and they

must be properly sustained and modernized to be productive assets. The goal of the Department is a 67-year replacement cycle for facilities. The replacement cycle was reduced from a recapitalization rate of 192 years to 101 years in fiscal year 2002. However, fiscal year 2003 funding levels will only allow recapitalization on a 149-year cycle.

At the start of fiscal year 2001, the Military Departments owned 1,612 electric, water, wastewater, and natural gas systems worldwide. The Department has implemented an aggressive program to privatize utility systems and set a milestone of privatizing at least 65 percent of the available utility systems by September 2004. In addition, while installation commanders must strive to operate more efficiently, they must do so without sacrificing in areas that enhance their ability to operate in the event of a terrorist attack on our homeland. Comprehensive plans for preventing sabotage and responding to attacks on water or power at military installations will be complicated by civilian control of utilities.

The DoD has an estimated \$55.7 billion in environmental liabilities as of June 30, 2003. This daunting task seems to be never ending, and indeed, liabilities may be increased when installations are selected for closure. DoD continues to attempt to correct past material control deficiencies in estimating environmental liabilities, and in performing a comprehensive inventory of unexploded ordnance on inactive DoD ranges and calculating the resulting environmental liability. Accordingly, DoD continues to need to improve documentation and supervisory review of environmental liability estimates.

The DoD audit agencies issued 39 reports on infrastructure and environmental issues

during fiscal year 2003. The reports addressed topics such as the DoD alternative fuel vehicle program, explosives safety program oversight, privatization of family housing, implementation of the Rural Development Act of 1972, and protection of the European Theater's Nuclear Command and Control System and capabilities against radio frequency threats.