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DEFENSE MANAGEMENT

Opportunities Exist to Improve DOD's Reform Efforts

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Capabilities and Management

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GAO@100 Highlights

Highlights of [GAO-21-532T](#), a testimony before the Committee on Armed Services, U.S. Senate

Why GAO Did This Study

DOD spends billions of dollars each year to maintain key business operations and defense-wide agencies and programs intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. The department's approach to transforming these business operations is linked to its ability to perform its overall mission, directly affecting the readiness and capabilities of U.S. military forces.

This testimony summarizes GAO's past work related to DOD's efforts to improve the management of its business operations. Specifically, this testimony discusses DOD's efforts to (1) improve data and baselines to monitor and inform reform efforts; (2) establish clear roles, responsibilities, and authorities for leading reform efforts, and dedicate resources to these efforts; and (3) reliably demonstrate progress in its reform efforts. This statement is based on GAO's body of work issued from 2017 through 2020 on DOD management and business reform issues.

What GAO Recommends

In prior work on which this testimony is based, GAO recommended that DOD improve its performance measures related to various reform efforts, and standardize cost-savings documentation to ensure that reported savings are consistent with DOD's definitions of reform, among other things. DOD concurred with the recommendations.

View [GAO-21-532T](#). For more information, contact Elizabeth Field at (202) 512-2775 or FieldE1@gao.gov.

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Opportunities Exist to Improve DOD's Reform Efforts

What GAO Found

The Department of Defense (DOD) has long sought to reform its enterprise business operations—such as its processes to manage contracts, finances, and supply chain— but faces challenges in improving department-wide management. DOD has taken some actions to improve its business operations data, but remains limited by the lack of reliable cost data, affecting its ability to monitor and inform its reform efforts. Having reliable data to identify baseline costs of the department's business and management functions and to measure progress has been a key challenge facing DOD, but one the department is trying to address. As GAO reported in November 2020, DOD has made progress in setting baseline costs of certain activities, such as logistics and real estate management. Further, DOD has ongoing efforts to develop baselines for all of the department's enterprise business operations that should enable it to better monitor reform progress. However, DOD needs better data about how it performs its business functions. For example, in September 2018, GAO reported that DOD's efforts to reduce inefficiencies in human resources services were hampered by inconsistent performance data across the six organizations that provide these services. DOD has ongoing efforts to address GAO's recommendations.

DOD still needs clear roles, responsibilities, authorities and dedicated resources to support reform. GAO has found that demonstrating sustained leadership commitment—including through ensuring that those responsible for leading change have clearly defined and documented roles, responsibilities, and authorities—is imperative for successful business transformation. GAO has assessed many of DOD's organizational structures over the decades, including the recently eliminated Chief Management Officer (CMO) position. GAO found that, while Congress had given the CMO both significant responsibilities and authorities, DOD had not resolved unanswered questions about how those authorities would be carried out, nor communicated the CMO's roles and responsibilities department-wide. GAO also identified instances where CMO reforms were hampered by a lack of resources. As DOD moves to an organization without the CMO position, which was eliminated in 2021, clarifying the roles and responsibilities of those tasked with managing business reform remains important.

DOD could also improve its efforts to reliably demonstrate progress toward meaningful reform. DOD has reported achievements from some of its department-wide efforts, such as its reported \$37 billion in savings from fiscal years 2017 to 2021. However, GAO reported in November 2020 that while DOD's reported savings were largely reflected in its budget materials, the underlying analyses were not always well documented and the savings were not always consistent with the department's definitions of reform. For example, one reform initiative was based on delaying military construction projects that, according to DOD officials, allowed DOD to fund higher priorities. If a delayed project is still planned, however, the costs will likely be realized in a future year and are not a reflection of business process reform. DOD concurred with GAO's recommendations to establish a process to standardize development and documentation of such cost savings, and ensure that reported savings are consistent with the department's definitions of reform.

Chairman Reed, Ranking Member Inhofe, and Members of the Committee:

Thank you for the opportunity to discuss the Department of Defense's (DOD) management challenges and opportunities to improve its reform efforts. DOD spends billions of dollars each year to maintain key business operations and defense-wide agencies and programs intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. The department's approach to transforming these business operations is linked to its ability to perform its overall mission, directly affecting the readiness and capabilities of U.S. military forces. We have previously identified achieving greater efficiencies in defense business operations as one of the key mission challenges facing the department.¹ Further, DOD's approach to business transformation is among the areas identified in our High-Risk report due to weaknesses that adversely affect DOD's efficiency and effectiveness and render its operations vulnerable to waste, fraud, and abuse.²

My testimony today provides information on DOD's efforts to improve the management of its business operations. Specifically, I will summarize our prior work addressing DOD's efforts to (1) improve data and baselines to monitor and inform reform efforts; (2) establish clear roles, responsibilities, and authorities for leading reform efforts, and dedicate resources to these efforts; and (3) reliably demonstrate progress through meaningful reform efforts.

This statement is based on our body of work issued from 2017 through 2020 addressing DOD management and business reform issues. To perform this work, we reviewed DOD documentation, interviewed DOD officials, and assessed DOD's efforts and reform initiatives against relevant criteria. More detailed information on our objectives, scope, and methodology for that work can be found in the issued reports.

¹GAO, *Department of Defense: Actions Needed to Address Five Key Mission Challenges*, [GAO-17-369](#) (Washington, D.C.: June 13, 2017).

²GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021). DOD's approach to business transformation has been on GAO's High-Risk List since 2005.

DOD Has Taken Some Actions but Remains Limited by the Lack of Reliable Cost Data, Affecting Its Ability to Monitor and Manage Its Reform Efforts

We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our prior work has found that having reliable data, including baselines, on the cost of the department's business and management functions has been a key challenge facing the department, but one the department is trying to address. For example, in September 2018 we reported that DOD could not demonstrate that it had met several cost savings requirements mandated by the National Defense Authorization Act for Fiscal Year 2016, in part because there were no established baseline costs against which to measure any reductions.³

DOD has made some progress in this area, as we reported in November 2020.⁴ In that report we found that DOD's baselines established in response to requirements in the John S. McCain National Defense Authorization Act for Fiscal Year 2019 addressed most of the elements required by that act.⁵ For example, the baselines included the number of civilian and military personnel, systems, and other resources associated with the activities covered by the act. However, the cost baselines, which were to determine the cost of performing four activities—civilian resource management, logistics management, services contracting, and real estate management—also had limitations, which DOD acknowledged. For example, DOD's estimates of the cost of performing the four activities included only labor and information technology costs associated with each activity. According to DOD officials, this was because DOD's

³GAO, *Defense Efficiency Initiatives: Observations on DOD's Reported Reductions to Its Headquarters and Administrative Activities*, [GAO-18-688R](#) (Washington, D.C.: Sept. 24, 2018).

⁴GAO, *Defense Reform: DOD Has Made Progress, but Needs to Further Refine and Formalize Its Reform Efforts*, [GAO-21-74](#) (Washington, D.C.: Nov. 5, 2020). DOD's approach to business transformation has been on GAO's High-Risk List since 2005.

⁵Pub. L. No. 115-232, § 921 (2018). The act required DOD to, among other things, develop a reporting framework to establish a baseline for the cost to perform certain covered activities: civilian resource management, logistics management, services contracting, and real estate management.

financial data do not attribute costs to the four specific activities required by the act.

In another reform effort, known as DOD's Defense-Wide Review, DOD established baselines for organizations within the Office of the Secretary of Defense and select defense agencies and DOD field activities (DAFA). We corroborated these baselines, reported in DOD's January 2020 Defense-Wide Review report, with organization and function data provided by the department.

In addition, DOD has ongoing efforts to develop baselines for all of the department's enterprise business operations that should enable it to better track the resources devoted to these operations and reform progress. In November 2020 we reported that we had observed a demonstration of the analytical tools designed to help DOD track reforms, including a tool that visualizes and details the costs associated with business operations.⁶ Though still in progress, this effort shows promise in meeting the need we previously identified, including as part of our High-Risk report, for consistent baselines for DOD's reform efforts. In particular, the use of a methodology that is repeatable over time and in alignment with the department's existing lines of business should help the department better manage its enterprise business operations and measure the progress of its reform efforts. We will continue to assess DOD's efforts to develop valid and reliable cost baselines as part of our ongoing work to monitor its progress in addressing the DOD Approach to Business Transformation High-Risk area.

In addition to needing reliable data on the cost of performing its enterprise business operations, DOD needs better data about how it performs these functions in order to manage them more efficiently and effectively. For example, in our September 2018 report on DOD's defense agencies and DOD field activities, we reported that there was fragmentation and overlap among the DAFAs that provide human resources services to other defense offices or organizations.⁷ We identified at least six organizations within DOD, including three DAFAs and the three military departments, that provided human resources services to other defense

⁶GAO-21-74.

⁷GAO, *Defense Management: DOD Needs to Address Inefficiencies and Implement Reform across Its Defense Agencies and DOD Field Activities*, GAO-18-592 (Washington, D.C.: Sept. 6, 2018).

agencies or organizations. One DAFA—the Defense Security Cooperation Agency—was a customer of all six.

DOD had established a reform team to reduce inefficiencies within the human resources function, but the team was hampered in these efforts because of inconsistent data. For example, the Defense Finance and Accounting Service, Defense Logistics Agency, and Washington Headquarters Service—three DAFAs that provide human resources services—each submitted data on its performance in filling open positions into department-wide information systems. This information is used to develop an overall DOD time-to-hire measure of the department’s performance against the government-wide goal of 80 days to fill a job opening. However, at the time of our report, the ways in which each DAFA developed this measure, and other measures to assess its own performance, differed. For instance, one DAFA measured 12 different phases of the entire process to fill a job opening, with a different measure for each of the 12 phases. Other DAFAs chose to begin or end their measurement process at different points within the hiring process. As a result, the measures used by human resources providers to determine the timeliness and quality of the services provided to customers were not consistent across the providers.

This inconsistent set of performance data inhibited the department’s ability to determine the optimal model for department-wide delivery of human resources services. We recommended that DOD collect consistent performance information and comprehensive overhead cost information. DOD concurred with these recommendations and has ongoing efforts to address them, such as implementing a plan to improve civilian hiring and to deploy a new related information technology system. According to DOD officials, they department expect to complete these efforts this fiscal year.

DOD Still Needs Clear Roles, Responsibilities, Authorities, and Dedicated Resources to Support Reform

In our 2003 report on results-oriented cultures at federal agencies, we noted that people are at the center of any serious change management

initiative.⁸ This includes top leadership, which must drive the transformation. Demonstrating sustained leadership commitment—including through ensuring that those responsible for leading change have clearly defined and documented roles, responsibilities, and authorities—is imperative for successful business transformation.

For more than a decade, DOD and Congress have experimented with different organizational structures to try to facilitate successful business reforms within the department. We have assessed many of these structures and the reform initiatives that have come out of them. A key finding of this work is the need for senior leaders to be empowered to implement business transformation efforts by ensuring that they have clear roles, responsibilities, authorities, and resources.

Most recently, we assessed DOD’s implementation of the Chief Management Officer (CMO) position created under the National Defense Authorization Act for Fiscal Year 2017.⁹ Although the CMO position was subsequently eliminated in the National Defense Authorization Act for 2021, DOD’s implementation of this position illustrates some of the challenges in ensuring that officials leading reform efforts are sufficiently empowered to do this work.¹⁰ For example, we found that while Congress had given the CMO both significant responsibilities and authorities—subject to the authority, direction, and control of the Secretary and Deputy Secretary of Defense—DOD had not resolved unanswered questions about exactly how the CMO’s responsibilities and authorities would be carried out. For example, the National Defense Authorization Act for Fiscal Year 2019 directed the Secretary of Defense, acting through the CMO, to reform DOD’s enterprise business operations across all organizations and elements of the department with respect to any activity relating to civilian resources management, logistics management, services contracting, or real estate management.¹¹ Fulfilling these responsibilities depended, in part, on the CMO’s visibility into the business operations of all components of the department, including the military departments, as well as the ability to identify and execute DOD-

⁸GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

⁹GAO, *Defense Business Operations: DOD Should Take Steps to Fully Institutionalize the Chief Management Officer Position*, [GAO-19-199](#) (Washington, D.C.: Mar. 14, 2019).

¹⁰Pub. L. No. 116-283, § 901 (2021).

¹¹Pub. L. No. 115-232, § 921 (2018).

wide business reforms, including those that may affect the military departments.

Congress addressed the issue of the CMO's relationship to the military departments, authorizing the CMO—subject to the authority, direction, and control of the Secretary of Defense and Deputy Secretary of Defense—to direct the secretaries of the military departments and the heads of all other elements of DOD on matters for which the CMO has responsibility. However, we found that DOD leadership had not determined how the CMO would exercise this authority in instances where the military departments had concerns or disagreed with decisions that the CMO made. We identified two instances in which the lack of a determination as to how the CMO was to direct the business-related activities of the military departments had led to questions about the respective roles and authorities of the CMO and the military departments as they related to business reform. In one case, officials from the military departments questioned the CMO's authority to make binding decisions; in the other, the military departments sought to pursue reform activities without CMO involvement and oversight, even though the CMO had responsibility for leading DOD's enterprise business reform efforts.

We also found through our prior work instances in which the CMO's efforts to implement reform initiatives were hampered by a lack of resources. In January 2019 we reported that DOD had established reform teams led by senior officials throughout the department charged with identifying and implementing initiatives to consolidate the department's business operations.¹² However, the Office of the CMO did not request funding for reform team initiatives, in part because officials had initially planned to use available funding from the savings generated by the initiatives to fund the development and implementation of other initiatives. Office of the CMO officials later recognized the need for the initiatives to obtain funding separate from any savings realized, but had not developed an approach to do so. As a result, reform teams reported lacking the funding needed to implement some of their initiatives. We recommended that DOD establish a process to identify and prioritize funding to implement its cross-functional teams' business reform initiatives. DOD concurred with our recommendation, and DOD officials told us they have updated their processes to address this recommendation, but as of

¹²GAO, *Defense Management: DOD Needs to Implement Statutory Requirements and Identify Resources for Its Cross-Functional Reform Teams*, [GAO-19-165](#) (Washington, D.C.: Jan. 17, 2019).

February 2021 we were awaiting more detailed documentation of this updated process.

As noted, in the National Defense Authorization Act for Fiscal Year 2021 Congress eliminated the CMO position, signaling a new chapter in DOD business reform.¹³ As we noted in our March 2021 High-Risk update, clarifying roles and responsibilities for reform will continue to be important for the department to maintain progress in its reform efforts.¹⁴ In January 2021 the Deputy Secretary of Defense issued a memorandum providing an initial roadmap for dividing the responsibilities of the CMO, but it will require specific implementing guidance.¹⁵ As the CMO's roles and responsibilities are transferred to other officials, ensuring that those officials have the necessary authorities to drive change, that their roles and responsibilities are clearly defined and communicated, and that they have the resources they need to implement reform, will be important to sustaining progress in this area.

DOD Could Improve Its Efforts to Reliably Demonstrate Progress toward Meaningful Reform

DOD must also take action to more clearly and reliably demonstrate progress through its reform efforts. In recent years, DOD has reported notable achievements from some of its department-wide business reform efforts. For example, the department reported \$37 billion in savings from fiscal years 2017 to 2021, including \$5.9 billion from its Defense-Wide Review—its assessment of organizations within the Office of the Secretary of Defense and selected DAFAs—and \$31.1 billion from the department's broader business reform efforts.

However, DOD could do more to demonstrate in a reliable manner its progress in its reform efforts. We reported in November 2020 that while DOD's reported savings were largely reflected in its budget materials—reflecting an improvement as compared with prior reform efforts we had reviewed—the underlying analyses were not always well documented and the savings were not always consistent with the department's definitions of reform.¹⁶ For example, one reform initiative was based on delaying military construction projects, thereby enabling the department to fund higher priorities, according to DOD officials. However, if a delayed project

¹³Pub. L. No. 116-283, § 901 (2021).

¹⁴[GAO-21-119SP](#).

¹⁵Deputy Secretary of Defense Memorandum, *Disestablishment of the Chief Management Officer of the DOD and Realignment of Functions and Responsibilities* (Jan. 11, 2021).

¹⁶[GAO-21-74](#).

is still planned, the costs will likely be realized in a future year, and do not really reflect a business process reform. We recommended that the department establish formal processes to standardize the development and documentation of cost savings and ensure that reported savings are consistent with the department's definitions of reform. DOD concurred with our recommendations, and we will be monitoring its progress in implementing them going forward.

In addition, our work has found cases in which DOD's estimates of the costs and savings from specific reform initiatives may not be reliable. DOD has since taken steps to improve those estimates, but some actions remain. For example, in April 2020 we reported that a DOD task force's business case analysis examining the potential consolidation of the defense resale organizations—the Defense Commissary Agency, Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Community Services—may not provide reliable savings and cost estimates.¹⁷ Specifically, we found that the task force may have overestimated potential savings from reducing the cost of goods sold and underestimated potential costs associated with information technology and relocating the four defense resale organizations to a new headquarters location. We recommended that DOD reassess and update as necessary its estimates for consolidation savings and costs. As of October 2020, DOD had updated its estimates of savings from reducing the cost of goods sold and the cost of relocation, but it had not yet updated its estimate of the information technology costs from consolidation.

In conclusion, DOD faces several key challenges and opportunities as it works to improve department-wide management and reform its operations. Our work across the federal government, including on High-Risk issues and fragmentation, overlap, and duplication, has shown the important role that congressional engagement—including through legislation—can play in making progress on the management challenges facing the federal government, including at DOD. Recent legislation offers the opportunity for DOD to address some of the challenges my testimony has identified. For example, provisions of section 911 of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 require DOD to take several actions to further management reform

¹⁷GAO, *Commissaries and Exchanges: DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations*, [GAO-20-418](#) (Washington, D.C.: Apr. 30, 2020).

at the department, including the development of policies, guidance, and a reporting framework for measuring the progress of the department in its reform efforts—to include establishing categories of reform, consistent metrics, and a process for prioritizing reform activities.¹⁸ As required by that section, we will be reviewing these policies, guidance, and reporting framework once DOD submits them in 2022.

I look forward to continuing to work with this committee and the department to help it address these challenges and make the most of these opportunities.

Chairman Reed, Ranking Member Inhofe, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or fielde1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Margaret Best (Assistant Director), Daniel Ramsey (Analyst in Charge), Jennifer Echard, Alexandra Edwards, Michael Holland, Richard Larsen, Jason Lee, Felicia Lopez, Michael Silver, Nathan Tranquilli, Sarah Veale, Cheryl Weissman, and Doris Yanger.

¹⁸Pub. L. No. 116-283 § 911 (2021).

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