

**GAO**

**Testimony**

Before the Subcommittee on Readiness  
Committee on Armed Services  
House of Representatives

For Release on Delivery  
Expected at  
10 a.m.  
Thursday,  
April 14, 1994

**DEFENSE MANAGEMENT  
INITIATIVES**

**Limited Progress in  
Implementing Management  
Improvement Initiatives**

Statement of David O. Nellesmann  
Director, Information Resources Management/National  
Security and International Affairs  
Accounting and Information Management Division



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present our views on two major Department of Defense (DOD) initiatives: the Defense Business Operations Fund and the Corporate Information Management (CIM) initiative. These initiatives, if implemented as intended, could improve the effectiveness of DOD's operations and produce cost savings and other efficiencies. To date, however, DOD has had only limited success in achieving the objectives of the Fund and CIM. Specifically, we will discuss DOD's progress in implementing these two initiatives and the problems that must be dealt with in order to achieve success.

In October 1991, DOD implemented the Defense Business Operations Fund, which consolidated the nine existing industrial and stock funds operated by the military services and DOD, as well as the Defense Finance and Accounting Service (DFAS), the Defense Industrial Plant Equipment Services, the Defense Commissary Agency, the Defense Reutilization and Marketing Service, and the Defense Technical Information Service.

The Fund's primary goal is to focus the attention of all management levels on the total costs of carrying out certain critical DOD business operations and the management of those costs. Better information on business operations should enable DOD management and the Congress to make more informed policy decisions. DOD estimates that in fiscal year 1995 the Fund will

have revenue of about \$77 billion, making it equivalent to one of the world's largest corporations.

DOD began its CIM initiative in October 1989. CIM entails a major effort to improve DOD operations and administrative support by streamlining business processes, upgrading information systems, and improving data administration and other technical areas. The initiative encompasses all DOD functional areas, including Command and Control, Finance, Material Management, Distribution, Procurement, and Human Resources. DOD spends a reported \$88 billion annually on these activities and estimated in 1991 that it would be able to save billions through implementation of CIM.<sup>1</sup>

Implementing sweeping management reforms such as the Fund and CIM is an extremely difficult endeavor. The success of such major management initiatives is key to DOD improving its business processes and thereby reducing its cost of operations.

Because DOD initially underestimated both the scope and complexity of operating the Fund, organizational resources were spread too thin to handle the planning and development of policies and procedures and to provide needed direction. In

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<sup>1</sup>We reported in 1991 that although some level of savings may be possible, DOD's estimated \$2.2 billion savings was not supported by any data or analysis. See Defense ADP: Corporate Information Management Savings Estimates Are Not Supported (GAO/IMTEC-91-18, February 22, 1991).

April 1993, the Secretary of Defense directed a review of the Fund. The review resulted in the development of the Defense Business Operations Fund Improvement Plan, which identifies the actions and related tasks to be taken to improve the operations of the Fund, assigns responsibility, and establishes milestones for completing the actions and tasks. As discussed in our March 9, 1994 report,<sup>2</sup> DOD has made some progress in correcting the Fund's problems. However, much work remains to be done since most of the corrective actions aimed at correcting the more difficult fundamental problems with the Fund's policies, procedures, financial reports, and systems are not scheduled to be completed until the end of fiscal year 1994 or in fiscal year 1995.

DOD's efforts to reengineer its business processes, standardize and integrate data, and improve its information systems under CIM have yielded mixed results to date. Over the past 4 years, DOD has had some success in implementing CIM in certain functional areas, such as Distribution and Health Affairs, but in other areas gains have been marginal.

DOD also does not know how much it has spent on CIM. While DOD has reported spending over \$9 billion annually on automated data processing costs, the portion attributable to CIM is difficult to

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<sup>2</sup>Financial Management: Status of the Defense Business Operations Fund (GAO/AIMD-94-80, March 9, 1994).

identify because most implementation efforts have not been funded or tracked centrally. Instead, funds are spent through a widely diverse set of activities and budgets.

CIM's objectives have not been achieved for the following reasons:

- DOD has not developed a cohesive, complete strategic plan for CIM that provides clear goals, objectives, responsibilities, and milestones, as well as performance measures to assess progress.
- DOD has concentrated on standardizing its systems rather than reengineering its business processes.
- DOD has not operated CIM in a manner that ensures continuous top management commitment and garners support among critical mid-level managers, thereby causing CIM to be perceived as a lower priority in DOD than its importance warrants.

FUND IS INTENDED TO IDENTIFY AND  
REDUCE THE COSTS OF OPERATIONS

The Fund has a business relationship with its customers, primarily the military services, that is modeled after private sector business operations. The Fund is to operate on a break-

even basis by recovering the full costs incurred in its operations. The Fund provides such goods and services as the (1) overhaul of ships, tanks, and aircraft and (2) sale of over 5 million types of vital inventory items, such as landing gears for aircraft. Many of these are essential to maintaining the military readiness of our country's weapon systems and military personnel.

Since the concept of the Fund was first put forth in February 1991, we have monitored and evaluated its implementation and operation. We continue to support the Fund's concept. However, as discussed in our previous reports and testimonies, DOD has not achieved the Fund's objectives because

- policies critical to the Fund's operations either were not developed or needed to be revised;
- the Fund's financial reports were inaccurate; and
- the cost accounting systems were fragmented, costly to maintain, and did not provide the cost information necessary for managers to better control costs.

To carry out the comprehensive and detailed review of the Fund's operations that the Secretary of Defense directed April 1993, DOD established a task force of 80 experts from varying levels of DOD

operations and management with financial and functional experience. The task force endorsed the continuation of the Fund, and DOD developed the Defense Business Operations Fund Improvement Plan. On September 24, 1993, the Deputy Secretary of Defense and the Secretaries of the Army, Navy, and Air Force approved the plan, which consists of 56 actions and 183 tasks aimed at improving the Fund's operations and addressing known deficiencies.

DOD HAS MADE SOME PROGRESS

IN IMPROVING FUND OPERATIONS

The National Defense Authorization Act for Fiscal Year 1994 requires that DOD report to the congressional Defense committees on its progress in implementing the plan and that we evaluate and report on that progress. DOD's February 1, 1994, progress report stated that significant progress had been made in improving Fund operations. We are encouraged that some progress is being made.

However, on March 9, 1994, we reported that (1) DOD's report covers only the first 3 months of a plan that will require several years to complete and (2) DOD completed only 18 of the 44 tasks covering the Fund's policies, procedures, and systems that were scheduled to be completed by December 31, 1993. Some tasks not completed included (1) developing Fund draft policy guidance on headquarters cost, military personnel cost, economic analysis

for capital projects, and adjustments to financial reports and (2) improving the monthly financial report, which provides information on revenue, costs, and profit/loss. It is critical that all tasks be completed within established time frames because undertaking many scheduled future tasks is contingent upon earlier tasks being completed promptly.

In our October 1993 letter to the Deputy Secretary of Defense, we expressed concern that DOD may not be able to meet the plan's milestones. DOD has not successfully completed past actions to correct the Fund's problems on schedule. For example, in May 1992, DOD issued the Defense Business Operations Fund Implementation Plan. This document indicated that all but one of the Fund's policies would be completed by September 1992. However, as discussed earlier, key policies have yet to be finalized. In another case, the National Defense Authorization Act for Fiscal Year 1993 required DOD to develop performance measures and corresponding goals for each of the Fund's business areas by March 1, 1993. DOD has developed performance measures for the Fund but has just begun developing the required corresponding goals for some business areas, such as the Defense Logistics Agency's supply management and distribution depots.

As we pointed out in our March 9, 1994, report, completing the following critical actions within the milestones prescribed by

the plan will provide check points on the progress DOD is making in completing the plan and improving the operations of the Fund.

-- Complete all Fund policies by December 31, 1994.

Subsequently, these policies need to be implemented in a uniform manner to help ensure that the Fund's business areas operate with standard policies and procedures. Given the immense size, complexity, and scope of the Fund's \$77 billion operations, the need for standard policies is particularly acute. Fund managers have lacked the necessary guidance to execute the day-to-day operations of the Fund's various business areas.

-- Select the systems to account for Fund resources by September 30, 1994, and begin implementing these systems by December 31, 1994. Implementing these systems, which is a long-term effort, will reduce the number of Fund systems and serve as the foundation for implementing a fully integrated system that is necessary to achieve the Fund's full potential. Since DOD will have to continue to rely on existing systems and reports in the near term, it is imperative that DOD pursue short-term efforts to improve the accuracy and reliability of existing data.

-- Improve the accuracy of the monthly financial reports that provide information on the financial results of each business

area by December 31, 1994. Our review of the Fund's fiscal year 1993 reports disclosed that they do not accurately reflect its financial condition or provide reliable information to management. Meaningful and reliable financial information is also essential for the Congress and the Office of Management and Budget to exercise their oversight responsibility.

Until the actions and tasks related to policies, procedures, and systems are completed and fully implemented, DOD will not be in a position to identify the total cost of operations, and managers will continue to lack the data needed to reduce these costs.

DOD INCREASED FUND CUSTOMERS' BUDGET  
REQUESTS BY BILLIONS OF DOLLARS

Full cost recovery, a principle of the Fund, requires the Fund to recover both the value of materials and the cost of operations, including overhead, through the sale of goods and services to customers. Our preliminary analysis shows that the Office of the Secretary of Defense-Comptroller increased the prices the Fund will charge customers in fiscal year 1995 by \$2.2 billion to recover the full cost of operations, including civilian pay increases, inflation, and costs incurred for voluntary early retirement separations for Fund employees.

To ensure that the Fund customers would have sufficient funds to cover these increased prices, DOD also increased the customers' fiscal year 1995 budget requests by a corresponding amount. Further, the Navy plans to transfer approximately \$535 million from its appropriations to the Fund rather than increasing prices by this amount in fiscal year 1995. We have discussed our analysis of the budget and rates for fiscal year 1995 with Office of the Secretary of Defense-Comptroller officials and they agreed with our assessment.

In the past, Fund business areas, especially supply management, have not recovered the full cost of operations. For example, in fiscal years 1993 and 1994, the Navy supply management business area provided rebates to its customers of approximately \$581 million and \$534 million, respectively. As a result, the Navy did not recover the total supply management cost. To recover the full cost of the Fund's supply management operations, DOD proposes to increase prices of supply items and the customers' budget requests by about \$762 million in fiscal year 1995.

One should not lose sight of the inherent value of the Fund which is to enhance cost control. Establishing prices based on total operating costs is essential to meet the Fund's objectives. As DOD identifies the Fund's total costs, DOD managers will have the information they need to begin to reduce these costs. Reducing

costs will not be an easy task and DOD managers will have to make difficult decisions. However, in doing so, DOD should not transfer the Fund's day-to-day business costs out of the Fund.

For example, DOD is considering removing DFAS and the Joint Logistics Systems Center (JLSC) from the Fund in fiscal year 1996. In our October 1993 letter to the Deputy Secretary of Defense, we pointed out that not including DFAS and JLSC costs eliminates certain basic business costs from the Fund's operations, including developing systems and performing accounting services that directly support the Fund and other activities. Excluding DFAS and JLSC costs from the prices charged will not eliminate or lower them, but merely shift these costs from the Fund to other appropriation account(s). This, in turn, will diminish the customer pressure on DFAS and JLSC to reduce the costs of their services. Subsequently, the National Defense Authorization Act for Fiscal Year 1994 directed DOD to include the operating costs of these two entities as part of the Fund. Consistent with the underlying Fund concept, DOD should be required to continue including these costs in the prices charged customers for the goods and services provided by the Fund.

FISCAL YEAR 1995 PRICES INCLUDE

RECOVERY OF PRIOR YEAR LOSSES

DOD currently estimates that at the end of fiscal year 1994 the Fund will have approximately \$1.7 billion in accumulated operating losses. This will mark the third consecutive year that the Fund will incur a loss. According to DOD's pricing policy, current year prices are to be adjusted to recover prior year losses.

However, increasing prices to recover prior losses is inconsistent with a basic tenet of the Fund--that prices should reflect the actual cost incurred in providing goods and services. Recovering past losses in this manner distorts the Fund's actual results of operations in a given year, diminishes the incentive for the Fund to operate efficiently, and makes it difficult to evaluate and monitor the Fund's status. In contrast, charging prices that reflect only the cost expected to be incurred for each year will enable DOD and the Congress to determine the cost of that year's operations and measure the performance of the Fund's activities for that period.

In our May 1993 testimony before this Subcommittee, we suggested that DOD be required to justify recovering prior year losses as part of the appropriation process. Losses could occur because anticipated savings from (1) the Defense Management Review

initiatives did not materialize or (2) anticipated productivity increases were not achieved. The justification should identify the specific reasons why a business area incurred a loss.

BUSINESS-TYPE REPORTS COULD ENHANCE

REPORTING ON FUND OPERATIONS

DOD has acknowledged that Fund financial reports are inaccurate. Good financial reporting, which gives management reliable information on the operating results, is imperative for successful Fund operation. Financial reports used effectively are an important tool to determine, understand, explain, and justify operating costs. Accurate reports on the Fund's operation would allow the analysis of trends, comparisons among similar business areas (such as depot maintenance for the military services), the measurement of budget execution, the formulation of budget requests, and the setting of realistic prices to charge customers. Meaningful and reliable financial reports are also essential for the Congress and the Office of Management and Budget in exercising their oversight responsibilities.

Our brief analysis of the fiscal year 1993 monthly financial reports disclosed that DOD is still experiencing difficulty in preparing accurate reports on the results of operations. For example, the Fund's fiscal year 1993 financial and budget reports

show amounts that differ by \$6.1 billion for net operating results. If the gains and losses in individual business areas are not netted, the gross difference is \$7.5 billion. Since the fiscal year 1993 net operating results are a key factor in setting the fiscal year 1995 prices the Fund will charge its customers, this lack of accurate financial reports not only distorts the result of operations but also impairs budget preparation.

A \$77 billion enterprise requires accurate business-type reports on operating results. Such reports should include a monthly income statement, balance sheet, and cash flow statement, similar to the annual financial reports required by the Chief Financial Officers (CFO) Act. In order to prepare accurate monthly reports, DOD will need to determine the specific information to be included in the reports and identify appropriate data sources to ensure consistent reporting of operating results for the Fund's various business areas. Preparing these reports on a monthly basis could help to improve the accuracy of the CFO reports and instill the discipline that is currently lacking. Because the fiscal year 1992 year-end financial statements were incomplete and audit trails were inadequate, the DOD Inspector General was unable to express an opinion on the Fund's financial statements in performing the audit required by the CFO Act.

IMPROVED SYSTEMS ARE KEY TO DOD

IMPROVING ITS FINANCIAL OPERATIONS

The Defense Business Operations Fund Improvement Plan states, and we agree, that the full achievement of the Fund's objectives "hinges on standardized and modernized finance and accounting systems." We are particularly concerned that the supply management business area systems do not report accurate data on the cost of goods sold.

By September 30, 1994, DOD plans to select from the existing Fund systems those that will be used to account for the Fund's costs and resources. DOD plans to begin implementing these systems for the Fund's operations by December 31, 1994. Many of the systems selected will have to be upgraded to produce useful and accurate cost information. Completing this process will take time. Given DOD's past history of difficulties in implementing systems, its planned time frames, though achievable, will have to be closely monitored.

DOD has cited its Corporate Information Management (CIM) initiative as the long-term solution to its system problems. One of CIM's objectives is to reduce or eliminate systems in the military services and DOD components that perform the same function. While CIM initially appeared to be a promising undertaking, as discussed below, it too has had limited success

to date in enhancing DOD's systems,<sup>3</sup> and it will be several years, at best, before the Fund's systems are fully implemented. Given today's environment of budget reductions, DOD cannot afford to let this critical effort fail.

Because of the pressing need for reliable data and the fact that the planned system improvement efforts will be a long-term venture, it is important for DOD, in the interim, to pursue short-term efforts to improve the quality of the information used to manage and prepare financial reports. During our financial audits and in previous reports on the Fund, we have stressed the need for DOD to improve existing operations and data quality and not wait for the implementation of new systems, which will take several years.

For example, the financial reports prepared during fiscal years 1992 and 1993 could have been improved if DOD had (1) exercised more discipline in following and enforcing existing policies and procedures, such as performing reconciliations and adhering to the revenue recognition policy, (2) routinely reviewed and analyzed its monthly reports to identify inaccuracies, and (3) taken the steps needed, such as providing additional guidance to field activities, to correct the identified problems.

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<sup>3</sup>Financial Management: Defense Business Operations Fund Implementation Status (GAO/T-AFMD-92-8, April 30, 1992).

The problems confronting the Fund are symptomatic of long-standing weaknesses in DOD's financial management operations. In a January 1994 annual report to the President and the Congress, DOD acknowledged that in the past its top management considered accounting, business-type efficiency, and indirect support functions to be of secondary importance. The report further noted that limited attention to improving financial management threatens our nation's combat forces because it creates problems that waste money needed now more than ever to sustain sufficient military readiness. The report's recognition of financial management problems is candid and forthright and represents a marked change in DOD's financial management philosophy. This changed attitude is a step in the right direction and should contribute to the ultimate success of DOD's reform initiatives, such as the Defense Business Operations Fund.

CIM IS INTENDED TO IMPROVE

DOD'S BUSINESS PROCESSES

CIM is intended to be primarily a top-down effort to simplify and improve functional processes by (1) documenting business goals, methods, and performance measures, (2) identifying and developing improved business processes and data requirements, and (3) evaluating and applying information technology to support these improved business processes. Conceptually, CIM emphasizes

continuous improvement of business methods and incremental gains through the use of techniques such as best practices.

In January 1991, the Deputy Secretary of Defense approved a CIM implementation plan developed by the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (C3I)--the Assistant Secretary of Defense is responsible for setting policy and implementing CIM. In August 1992, the Director of Defense Information issued draft guidance on improving business processes within functional areas. A basic intent of this plan and guidance is that DOD should manage and implement business improvements along functional lines. This would be a major change in DOD's management approach because each military service and DOD component has historically managed its own business functions, such as Procurement, Finance, and Health.

#### DEFENSE NEEDS A

#### CIM STRATEGIC PLAN

Initiatives of the complexity and magnitude of CIM cannot succeed without a well-conceived strategic plan. That plan should clearly articulate a vision, goals, responsibilities, target dates, and performance measures and describe how the initiative fits with other organizational priorities. We stated in 1991

that DOD needed to develop an overall strategy for concurrently achieving short-term and long-term CIM goals.<sup>4</sup>

Other organizations have similarly reported on the critical need for clear communication of DOD's plans and directions for CIM. In its January 28, 1993, report on CIM, the DOD Inspector General found that "the institutionalization of the CIM initiative is severely hampered by the lack of an overall CIM plan that is clearly presented to and understood by DOD managers and the subsequent inability to develop an effective consensus and support for the initiative by those same managers". In its February 3, 1994, draft report, Booz-Allen stated that efforts to improve DOD's business processes were "based more on individual initiative than a deliberate, organizational approach to increasing effectiveness or reducing costs".

DOD does not yet have a comprehensive strategic plan coordinating the large number of activities directed to achieving CIM objectives. As a result, no clear or consistent understanding of CIM exists and the initiative has not been effectively implemented. DOD's approach to CIM can be found in a number of documents, including a CIM implementation plan, draft guidance on functional process improvement, and a draft enterprise model for defining and integrating functions. Although the documents

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<sup>4</sup>Defense ADP: Corporate Information Management Initiative Faces Significant Challenges (GAO/IMTEC-91-35, April 22, 1991).

contain several aspects of an acceptable strategic plan, including organizational structure and milestones, none represent an overall CIM strategy. They do not relate technical and management improvement efforts to each other. In addition, they do not identify goals, define responsibilities and commensurate authority, specify tasks and target dates, and establish measures to assess performance and progress.

The need for performance measures is particularly important. DOD does not know how much it has spent on CIM or the savings achieved. Funding is scattered throughout the various components involved in CIM activities, and no quantitative means exist to assess current processes or measure progress when changes are made.

DOD is not currently tracking savings derived from CIM. We reported in October 1993 on the difficulty of validating and tracking savings resulting from initiatives or from other factors such as reduced workloads and changes in force structure.<sup>5</sup> However, without an assessment of costs and benefits, the large scale commitment of DOD resources to CIM is questionable. DOD officials questioned the feasibility and value of collecting cost data for all business process improvement and reengineering efforts. We believe, however, that obtaining cost information for major projects is critical. Existing cost justification

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<sup>5</sup>Defense Management Review (NSIAD-94-17R, October 7, 1993).

procedures, such as functional economic analysis, for making process and system investment decisions, combined with a post-audit of benefits obtained are important tools for determining the economic outcomes of the CIM initiative.

#### CIM IMPLEMENTATION APPROACH

##### PRODUCES MARGINAL PROGRESS

DOD has made some progress under CIM, but results achieved relate principally to standardizing information systems rather than making improvements to business processes or achieving technical gains in areas such as data administration. While both are important, DOD estimated that most of the projected savings from CIM would come from reengineering processes and integrating them across functional areas. Unless DOD focuses more on reengineering concurrent with its system improvement efforts, progress toward the significant benefits and cost savings projected for CIM will not be attained.

#### CIM Implementation Emphasizes

##### Selection of Migration Systems

DOD's current efforts for CIM are focused on a migration systems strategy whereby the best existing systems in each functional area are to be adapted for DOD-wide use. These systems will then be used (and modified as necessary) until DOD determines what

target or final systems it needs to support improved business processes. In November 1992, the Assistant Secretary of Defense for Production and Logistics issued the Logistics CIM Migration Master Plan. This plan established the selection of migration systems as a priority for the logistics business area. In October 1993, the Deputy Secretary of Defense signed a memorandum directing that migration system selection be accomplished for all CIM functions by early 1994.

DOD has stated it can achieve significant savings by eliminating thousands of existing (or legacy) systems and replacing them with standard (migration) systems. For example, in the Finance area, DOD has selected 8 migration systems and has identified 54 systems for elimination. DOD currently estimates savings of nearly \$800 million for 3 of the 8 migration systems. However, in some cases, DOD has not sufficiently analyzed whether implementing a migration system is technically feasible and cost-justified. To illustrate, the Acting Comptroller selected a Defense Logistics Agency system, the Defense Business Management System, in 1992 as DOD's cost accounting system to support the Fund without (1) evaluating the system's costs, benefits and technical risks, or (2) defining all of the features needed. Subsequently, the Principal Deputy Comptroller reversed this decision and directed an evaluation of alternative systems.

More Progress Needed Toward  
Reengineering Defense Business Areas

To maximize CIM's potential benefits, an Executive Level Group of high-level industry and DOD officials recommended that a top-down approach be adopted with emphasis on reinventing the way DOD runs its functional areas. This approach involves steps to identify processes and needed data, reengineer processes, standardize data, develop economic analyses to justify changes to the processes, identify systems and technology requirements, and develop automated systems to support the new processes.

Booz-Allen reported that DOD's progress in improving its business processes has been mixed and characterized DOD's efforts as unfocused and bottom-up, as opposed to top-down driven. The report noted that while DOD has made some improvements to its processes, most of these have "focused on local functional improvements, rather than the far-reaching change that can result in significant improvements throughout the Department."

Our evaluation of nine functional areas and activities showed that DOD-wide progress in implementing CIM has been disappointing. The areas had completed relatively few functional economic analyses or measures to assess their performance and progress in implementing changes to business processes. Some of the areas, however, had made progress in establishing

organizations to oversee improvement efforts and developing plans for implementing CIM within their specific functions.

Two functional areas, Health Affairs and Distribution, had made more overall progress than others. Efforts to consolidate the health area were well underway before CIM was established, which provided some DOD-wide consensus and a foundation for change. Under CIM, Health Affairs has focused significant attention on its Coordinated Care Program, designed to improve military health services and reduce escalating costs. DOD has recognized the need for an integrated planning and management database and completed an information systems plan for this program, thereby providing a foundation for continued improvements. In the supply distribution area, responsible senior managers are directing reengineering efforts and piloting and adopting commercial best practices.

In addition, the functional areas have made little progress in integrating reengineering efforts. Most efforts to improve business processes have occurred in "stovepipes" within functional areas with insufficient regard to their effect or relationship to other functional areas. However, DOD is developing its Enterprise Model to illustrate the interrelationships of the various functional areas and is attempting to use the model to demonstrate the importance of integration. In a February 26, 1994, letter, the Secretary of

Defense also emphasized the importance of this, noting that DOD must focus on cross-functional integration if it is to make truly significant improvements.

A JLSC review of the supply item purchase process illustrates the complexity of some processes and the critical need for integration. JLSC found that practices to prepare a supply contract, such as determining type and amount of items needed, fall under the Logistics CIM effort. Improving business practices performed after the supply contract is awarded is the responsibility of Procurement CIM. Improving accounting for supply contract expenditures falls under Financial CIM. However, each of these groups is basically operating independently. Each group's efforts must be carefully coordinated to not only ensure maximum gains, but also to preclude making isolated changes that may be detrimental to other functions.

#### Mixed Progress in CIM Technical Initiatives

To support the goals of CIM, DOD started several technical initiatives, including the software reuse<sup>6</sup> and data administration programs and the integrated computer-aided

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<sup>6</sup>Software reuse is the practice of using existing software components to develop new applications.

software engineering (I-CASE) acquisition.<sup>7</sup> DOD's goals for improving data administration include (1) improving the quality and timeliness of data and (2) encouraging data sharing, both within and outside DOD. The I-CASE acquisition--potentially costing over \$1 billion--is intended to provide standard software development tools to improve DOD software quality and reduce the costs of developing and maintaining software.

Concerning software reuse, one of DOD's major accomplishments is the development of the "DOD Software Reuse Initiative Vision and Strategy." This document, which was published in July 1992, lays out DOD's goals and strategies for changing the way it constructs software. However, as we reported previously, DOD must resolve significant technical, legal, and organizational issues in order to achieve the greatest benefits and savings from software reuse practices.<sup>8</sup>

DOD has made limited progress toward achieving the goals of the other two initiatives that we reviewed. The need to manage data as a corporate asset is essential to the success of CIM in achieving large-scale cost reductions and improved operations. However, as we previously reported, despite years of effort, DOD

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<sup>7</sup>DOD has many other CIM technical initiatives ongoing, including the electronic data interchange program and the Center for Functional Process Improvement Expertise.

<sup>8</sup>Software Reuse: Major Issues Need To Be Resolved Before Benefits Can Be Achieved (GAO/IMTEC-93-16, January 28, 1993).

has not determined what data it needs to manage on a DOD-wide basis.<sup>9</sup> As a result, DOD continues to be hindered by poor data management practices that impede the exchange, integration, and comparison of data used within and outside DOD. To address these problems, the Deputy Secretary issued a memorandum in October 1993 directing DOD components and agencies to complete data standardization within 3 years.

Concerning I-CASE, we previously reported that DOD's plan to procure and install I-CASE DOD-wide is risky and premature.<sup>10</sup> DOD awarded a contract for I-CASE to Lockheed Corporation in November 1993. However, DOD subsequently canceled the contract after it determined that Lockheed's proposal did not meet the mandatory requirements of the solicitation. DOD is now evaluating the remaining bidders' proposals and plans to award a new contract within a few months.

STRENGTHENED MANAGEMENT NEEDED TO  
ENSURE SUCCESS OF MANAGEMENT INITIATIVES

Correcting the problems that DOD has encountered with the Fund and CIM and that I have discussed today will require strong

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<sup>9</sup>Defense IRM: Management Commitment Needed to Achieve Defense Data Administration Goals (GAO/AIMD-94-14, January 21, 1994).

<sup>10</sup>Software Tools: Defense Is Not Ready to Implement I-CASE Departmentwide (GAO/IMTEC-93-27, June 9, 1993).

leadership. Top management will have to be involved and be accountable for results. This has not always been the case.

The Fund has been under the direction of the Office of the Comptroller since its inception. However, the Comptroller has not always had the DOD-wide support needed to effectively deal with and resolve the long-standing problems that the Fund inherited from the old stock and industrial funds and that have continued to impair the Fund operations. Nor has the DOD Comptroller always had the support necessary to institute and implement the Fund concept. DOD now appears to be recognizing the challenges it faces and the need to place priority on financial management improvements.

Because of the problems with the Fund operations, we suggested in our October 1993 letter to the Deputy Secretary of Defense that DOD appoint a Fund director. In response to that letter, DOD stated that it had an alternative management approach in place to resolve the Fund problems. Instead of a Fund manager, DOD has appointed the DOD Comptroller to oversee the implementation of the Fund's improvement plan. The Comptroller chairs the new Defense Business Operations Fund Corporate Board. The Corporate Board is comprised of functional and financial senior executives who represent the interest of the Fund and its customers-- primarily the military services. If DOD's managerial approach is to succeed, many components of DOD will have to work together

without the leadership of a single manager with overall responsibility and authority.

This management approach is extremely difficult to manage, particularly in a highly structured entity like DOD, and it is similar to the structure used when the Fund first began operations--a structure that did not function well. Because of this, we believe that periodic assessments are critical for the Secretary of Defense to determine whether the current management approach is resolving the Fund's problems within the time frames set forth in the plan. If the anticipated results are not achieved, DOD should reconsider the option of using a high-level Fund director, as we suggested in October 1993, to oversee the management of the Fund and the implementation of the Fund improvement plan.

In regard to CIM, our work and that of others has shown that (1) senior managers at the Office of the Secretary of Defense, military services, and DOD agencies are not uniformly committed to and supportive of CIM, (2) delegation of management authority has not been done or is unclear, and (3) resources for accomplishing tasks are divided among various activities with no central oversight or control. Further, considerable skepticism about the value of CIM continues to exist at DOD.

Some of this is to be expected when a well-established organization with deeply entrenched values is contemplating major changes. DOD has identified cultural barriers as a major obstacle to effective CIM implementation. Unless DOD's executive-level leadership and mid-level managers take a more active and visible role, broad acceptance and understanding of CIM will not occur and cultural opposition to change will continue. DOD should also consider obtaining the views of outside experts to provide an independent assessment of how best to overcome cultural barriers.

The Assistant Secretary of Defense for C3I is responsible for implementing CIM and thus is responsible for overseeing and integrating business process innovation within and across functional areas. However, the Assistant Secretary for C3I is only one of several individuals responsible for implementing CIM within their respective functional areas. Moreover, some of these individuals have higher organizational precedence within DOD than the Assistant Secretary for C3I. For example, the Comptroller is responsible for implementing CIM within the financial function and is by law assigned a higher precedence than all Assistant Secretaries. Accordingly, the Assistant Secretary for C3I does not have sufficient authority to oversee and coordinate improvements in functional areas other than Command and Control and is, therefore, unable to ensure that CIM goals will be realized.

Conditions for success will be maximized when overall responsibility and authority for CIM are held by an individual capable of integrating plans and priorities across functional areas, making decisions, and accepting responsibility. This responsibility should be placed at a high enough level to have the authority to cut across organizational lines and direct others assigned from the functional areas. The Booz-Allen draft report offered DOD similar advice when it noted in its recent study that a Chief Information Executive position is critical to ensuring effective management. According to the study, this official should promote DOD-wide management improvements by developing a strategy for effectively integrating improvements, eliminating duplicate efforts, and reducing costs.

In addition, we have advocated the establishment of a Chief Information Officer position to help strengthen agencies' information technology management. In our January 1994 testimony, we stated that a Chief Information Officer could (1) work with agency senior management to define strategic information management priorities and (2) support program officials in defining information needs and developing strategies, systems, and capabilities to meet those needs.<sup>11</sup> This official would provide an overall view and understanding of DOD's functional areas and their interrelationships, combined

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<sup>11</sup>Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OGC-94-1, January 27, 1994).

with knowledge of sound information management practices. This official would work closely with senior DOD leadership, including the Deputy Secretary of Defense, and the military service Secretaries, to help improve DOD's basic business planning, processes, and systems.

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Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

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