



December 2016

DEFENSE BUSINESS TRANSFORMATION

DOD Should Improve Its Planning with and Performance Monitoring of the Military Departments

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Why GAO Did This Study

While DOD maintains military forces with unparalleled capabilities, it continues to confront management weaknesses related to its business functions that support these forces. GAO designated DOD's approach to business transformation as high risk in 2005 because DOD had not taken steps to achieve business reform on a strategic, department-wide basis.

This report (1) describes the roles and responsibilities established by DOD and the military departments for overseeing business transformation and the continuity of leadership in senior business transformation positions, (2) assesses the extent to which DOD has coordinated with the military departments to align strategic planning efforts for business transformation, and (3) evaluates the extent to which the DOD DCMO has used the Defense Business Council to effectively monitor department-wide performance. GAO reviewed documentation, including summaries from Defense Business Council meetings, and interviewed cognizant officials.

What GAO Recommends

GAO recommends that DOD define a role for the military department CMOs or DCMOs in DOD's strategic planning process, and align DOD's and the military departments' goals and objectives for business transformation in its Agency Strategic Plan. GAO also recommends that DOD take action to improve its monitoring of the military departments' performance. DOD concurs with GAO's recommendations.

View GAO-17-9. For more information, contact Zina D. Merritt at (202) 512-5257 or merritz@gao.gov.

What GAO Found

The Department of Defense (DOD) and the military departments have established roles and responsibilities for senior business transformation positions, such as Chief Management Officers (CMOs) and Deputy CMOs (DCMOs), who are responsible for business transformation efforts—actions to increase the efficiency of or to decrease the costs associated with DOD's business functions, such as acquisitions and logistics. However, DOD has had challenges retaining individuals in some positions, as shown in the figure.



Source: GAO analysis of Department of Defense (DOD) and military department information. | GAO-17-9

DOD and the military departments have issued strategic or business transformation plans, but DOD has not coordinated with the military departments to align their strategic planning efforts for business transformation with those of the department. For example, the military department CMOs or DCMOs do not have a defined role in DOD's strategic planning process to develop department-wide business transformation goals and objectives. Further, DOD has not aligned the military departments' goals and objectives to those of the department in DOD's Agency Strategic Plan. Leading practices for results-oriented management state that goals should align throughout an organization. In doing so, DOD would be better positioned to ensure that the military departments' strategic planning—as well as goals and objectives—directly contribute to those of the department.

The DOD DCMO has used DOD's principal business governance forum—the Defense Business Council—to monitor some department-wide business transformation efforts, but has not effectively monitored the military departments' performance on business transformation efforts. For example, defense business systems certification and approval initiatives were the most frequently discussed forum items since October 2015, while military department performance on business transformation efforts were not discussed. The DOD DCMO instead relied on the military departments to conduct their own performance monitoring. GAO found that the Council's charter does not specifically outline its responsibility for monitoring the military departments' performance. Without improved department-wide monitoring, DOD may not be well-positioned to assess the overall impact of its efforts to achieve business transformation.

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Abbreviations

CMO	Chief Management Officer
DCMO	Deputy Chief Management Officer
DOD	Department of Defense
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Congressional Addressees

As agencies across the federal government embark on large-scale organizational change needed to address 21st century challenges, there is a compelling need for leadership to provide the continuing, focused attention essential to completing these multiyear transformations. While the Department of Defense (DOD) maintains military forces with unparalleled capabilities, it continues to confront pervasive, decades-old management weaknesses related to its business functions—including outdated processes and systems—that support these forces.¹ Given the complexity and magnitude of the challenges facing DOD in improving business operations, we reported in 2005 the need for a Chief Management Officer (CMO) with significant authority and experience to sustain progress on these issues.² The CMO within a federal agency can help elevate, integrate, and institutionalize responsibility for key management functions and focus concerted attention on long-term business transformation efforts.³ In 2007, we stated that Congress should consider enacting legislation to establish a separate, full-time CMO position at DOD with significant authority and experience and a sufficient term to provide focused and sustained leadership and momentum over business transformation efforts.⁴

¹DOD considers the following areas its eight business functions: financial management, acquisitions, defense security enterprise, installations and environment, logistics, human resources and health care management, security cooperation, and enterprise information technology infrastructure.

²GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

³GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, [GAO-08-34](#) (Washington, D.C.: Nov. 1, 2007).

⁴GAO, *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, [GAO-07-1072](#) (Washington, D.C.: Sept. 5, 2007). We define business transformation efforts as actions taken by DOD to increase the efficiency of DOD business function programs, or to decrease costs associated with these programs. These efforts include consolidating business systems or decreasing acquisition costs across DOD.

In May 2007, DOD designated the Deputy Secretary of Defense as the CMO for DOD. Subsequently, Congress included a provision in the National Defense Authorization Act for Fiscal Year 2008 to formally codify the Deputy Secretary of Defense as the DOD CMO, establish a new position known as the Deputy Chief Management Officer (DCMO) to assist the Deputy Secretary, and name the Under Secretaries of the military departments as CMOs of their respective organizations.⁵ The military departments also established DCMO positions to assist the CMOs with overseeing their business operations. In addition, Congress passed the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 that required the secretary of each military department to establish an Office of Business Transformation and to develop business transformation plans, with measurable performance goals and objectives, to achieve an integrated management system for the business operations of each military department.⁶ Further, DOD has issued guidance stating that the DOD DCMO should coordinate with the military department CMOs to identify and exchange the information necessary to facilitate the execution of the responsibilities of the DOD CMO.⁷

Since 2005, we have reported on DOD's and the military departments' progress in implementing their management approach for business transformation. For example, in January 2011, we reported that DOD had taken positive steps, including filling or establishing key positions such as the DOD DCMO, the military department CMOs, and the military department DCMOs, and establishing governance forums. However, we also reported that DOD had made limited progress in its strategic planning efforts.⁸ We recommended, among other things, that DOD issue guidance to establish a strategic planning process for updating DOD's and the military departments' plans for business transformation. DOD generally concurred with our recommendations, but has not fully

⁵Pub. L. No. 110-181, § 904 (2008).

⁶Pub. L. No. 110-417, § 908 (2008).

⁷DOD Directive 5105.02, *Deputy Secretary of Defense* (Feb. 18, 2015), and DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008), outline the responsibilities of the DOD CMO and DCMO.

⁸GAO, *Defense Business Transformation: DOD Needs to Take Additional Actions to Further Define Key Management Roles, Develop Measurable Goals, and Align Planning Efforts*, GAO-11-181R (Washington, D.C.: Jan. 26, 2011).

addressed them. Further, in February 2013, we found that DOD had not established clear and specific management responsibility, accountability, and control over business transformation efforts and applicable resources across its business functions.⁹ We recommended, among other things, that DOD define its performance management approach and better develop its plan for business transformation. DOD generally concurred with our recommendations, but has not fully addressed them.

We conducted this work under the authority of the Comptroller General to address issues of broad interest to the Congress. Our work focused on how DOD and the military departments—the Departments of the Army, Navy, and Air Force (hereafter Army, Navy, and Air Force)—have implemented their business transformation efforts.¹⁰ This report (1) describes the roles and responsibilities established by DOD and the military departments for overseeing their business transformation efforts and the continuity of leadership in senior business transformation positions; (2) assesses the extent to which DOD has coordinated with the military departments to align their strategic planning efforts for business transformation with those of the department; and (3) evaluates the extent to which the DOD DCMO has used DOD's principal business governance forum—the Defense Business Council—to effectively monitor department-wide performance.¹¹ We also examined the extent to which the military departments have monitored the progress of their business transformation efforts, and report on this issue in appendix I.

To describe the roles and responsibilities established by DOD and the military departments for overseeing their business transformation efforts and the continuity of leadership in senior business transformation positions, we reviewed DOD and military department guidance and

⁹GAO, *Defense Business Transformation: Improvements Made but Additional Steps Needed to Strengthen Strategic Planning and Assess Progress*, GAO-13-267 (Washington, D.C.: Feb. 12, 2013).

¹⁰The Marine Corps' business transformation efforts are part of the Navy's efforts.

¹¹The Defense Business Council's membership consists of senior leaders across the business functions who meet to discuss issues related to the management and improvement of defense business operations. The Defense Business Council serves as DOD's principal governance forum for vetting issues related to the management and improvement of department-wide business operations, including the monitoring of performance.

organizational charts.¹² We used this information to identify established roles and responsibilities as well as the structure of organizations to implement their business transformation efforts. We also interviewed DOD and military department business transformation officials to understand their roles and responsibilities in carrying out business transformation efforts. Further, we assessed the continuity of leadership in the DOD and the military department CMO and DCMO positions against leading practices for implementing the CMO position in the federal government.¹³

To assess the extent to which DOD has coordinated to align its strategic planning efforts for addressing business transformation with those of the military departments, we reviewed the strategic planning process outlined in DOD's Agency Strategic Plan for Fiscal Years 2015-2018 (hereafter the Agency Strategic Plan) to determine the extent to which the military department CMOs and DCMOs had a defined role in the process, and the extent to which the military departments' goals and objectives for business transformation were included in the plan. We interviewed DOD DCMO officials, military department business transformation officials, and representatives from Principal Staff Assistant offices responsible for reporting progress on performance goals in DOD's Agency Strategic Plan to understand the extent to which the military department CMOs and DCMOs played a role in DOD's strategic planning process for developing DOD's Agency Strategic Plan.¹⁴ We also reviewed strategic or business transformation plans for the military departments to determine the extent

¹²Army Regulation 5-1, *Management of Army Business Operations*, (Nov. 12, 2015); DOD Directive 5105.02, *Deputy Secretary of Defense* (Feb. 18, 2015); Department of the Air Force, Headquarters Air Force Mission Directive 1-2, *Under Secretary of the Air Force* (May 24, 2012); Secretary of the Navy Instruction 5430.7Q, *Assignment of Responsibilities and Authorities in the Office of the Secretary of the Navy* (Aug. 17, 2009); and DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

¹³GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, GAO-08-34 (Washington, D.C.: Nov. 1, 2007).

¹⁴The Principal Staff Assistants are the Under Secretaries of Defense; the DCMO; the General Counsel of DOD; the Inspector General of DOD; and the Assistant Secretaries of Defense, Assistants to the Secretary of Defense, and Office of the Secretary of Defense Directors and equivalents who report directly to the Secretary of Defense or the Deputy Secretary of Defense.

to which their goals and objectives for business transformation have been aligned to department-wide goals and objectives in DOD's Agency Strategic Plan.¹⁵ We evaluated the extent to which DOD coordinated with the military departments to align their strategic planning efforts for business transformation goals and objectives against leading practices for results-oriented management.¹⁶

To evaluate the extent to which the DOD DCMO has used DOD's principal business governance forum—the Defense Business Council—to effectively monitor department-wide performance, we reviewed DOD guidance and governance forum charters for responsibilities related to performance management. We reviewed meeting summaries from the 26 Defense Business Council meetings that took place from January 2015 through August 2016 to determine the extent to which this forum monitored the military departments' progress in achieving their business transformation goals. We reviewed each meeting summary and assessed the frequency with which the Defense Business Council meetings addressed initiatives or issues, such as DOD headquarters-related efficiency, defense business systems certification and approval, and financial management and auditability, as well as department-wide and military department strategic planning and performance information. We chose January 2015 because our February 2015 review had examined Defense Business Council agendas from calendar years 2013 and

¹⁵Department of the Army, *Army Business Strategy 2017-2021* (June 2016); Department of the Air Force, *USAF Strategic Master Plan* (May 2015); and Department of the Navy, *Department of the Navy Transformation Plan FY 2014-2016* (July 2, 2014).

¹⁶GAO, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could Be Strengthened*, GAO-04-919 (Washington, D.C.: Sept. 13, 2004). In this report, we identified attributes from our prior work on results-oriented management that we believed were some of the most important for accurately assessing the strengths and weaknesses of programs and making improvements. This prior work indicates that agencies that are successful in achieving business transformation goals, such as those being focused on by DOD in its plans, strive to establish practices and performance systems at all levels of that agency that include the following seven key attributes: (1) aligns goals and measures with agency and department-wide goals; (2) assigns accountability for achieving results; (3) demonstrates results; (4) provides a comprehensive view of agency performance; (5) links resource needs to performance; (6) discusses data quality; and (7) provides contextual information.

2014.¹⁷ We used August 2016 as our end date because it was the most recent month at the time of our review. We also interviewed DOD DCMO officials and military department business transformation officials to better understand their efforts to monitor performance. We evaluated DOD's performance management efforts against DOD Directive 5105.82, which outlines the responsibilities of the DOD DCMO, the *Standards for Internal Control in the Federal Government* for monitoring performance measures,¹⁸ and the DOD DCMO's responsibilities as the Performance Improvement Officer.¹⁹

To examine the extent to which the military departments have monitored the progress of their business transformation efforts (app. I provides additional information), we reviewed military department guidance as well as governance forum charters for responsibilities related to performance management. We also observed a total of seven meetings of business transformation governance forums across the military departments to determine how each department established forums to address business transformation. Specifically, we observed three meetings of the Army Business Council; one meeting of the Navy Provider Enterprise Executive Committee; two meetings of the Air Force Enterprise Senior Working Group; and one meeting of the Air Force Enterprise Process Improvement Council. We did not observe a meeting of the Navy Business Transformation Council because it meets at the discretion of the chair and, according to Navy business transformation officials, met

¹⁷GAO, *Defense Business Transformation: DOD Has Taken Some Steps to Address Weaknesses, but Additional Actions Are Needed*, GAO-15-213 (Washington, D.C.: Feb. 11, 2015).

¹⁸See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1, 1999). These standards were in effect prior to fiscal year 2016 and cover DOD's data from January 2015 through September 2015. The standards were subsequently updated. The updated standards went into effect on October 1, 2015, and cover DOD's data from October 2015 through August 2016. See GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

¹⁹The GPRA Modernization Act of 2010 (GPRAMA) requires the head of each agency, in consultation with the agency's Chief Operating Officer, to designate a senior executive as the agency's Performance Improvement Officer. See Pub. L. No. 111-352 (2011). The DOD DCMO serves as the agency Performance Improvement Officer under GPRAMA and is to advise and assist the CMO in areas such as performance measurement and planning. See DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

infrequently over the course of our review. We also observed two meetings of the Financial Improvement and Audit Readiness Governance Board, DOD's senior-level governance forum on auditability, to determine how the military departments monitored their progress in achieving audit readiness. Observations from these meetings are not generalizable to all governance forum meetings at the military departments, but provide important insight into the process for conducting the meetings.

We conducted this performance audit from May 2015 to December 2016 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.

Background

DOD's Long-Standing High-Risk Management Challenges

We have identified management challenges over the past decade associated with DOD's approach to business transformation. Our body of work has found that weaknesses in key DOD systems and processes adversely affect DOD's efficiency and effectiveness, and hinder the department's ability to reallocate resources for higher-priority needs. In 2005, we designated DOD's approach to business transformation as high risk because DOD had not taken the necessary steps to achieve and sustain business reform on a broad, strategic, department-wide, and integrated basis.²⁰ We have also designated other areas that span several of DOD's business functions as high risk because of their vulnerability to fraud, waste, abuse, and mismanagement. Figure 1 shows when these areas were added to the High-Risk List and the status, as of our February 2015 High-Risk Update, of DOD addressing the five criteria for removal from the list—leadership commitment, capacity, action plan, monitoring, and demonstrated progress.

²⁰ GAO-05-207.

Figure 1: Department of Defense (DOD) High-Risk Areas, Years Added to the High-Risk List, and Status of DOD Addressing Five Criteria for Removal



Source: GAO February 2015 High-Risk Update. | GAO-17-9

Note: Agencies must meet the following five criteria to be removed from GAO's High-Risk List: (1) a strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective-action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures. "Met" means actions have been taken that meet the criterion and that there are no significant actions that need to be taken to further address this criterion. "Partially Met" means some, but not all, necessary actions have been taken to meet the criterion. "Not Met" means few, if any, actions have been taken toward meeting the criterion.

Since placing DOD's approach to business transformation on our High-Risk List in 2005, we have reported on DOD's progress every 2 years through our High-Risk Updates.²¹ We define the scope of this high-risk area as encompassing the activities of the DOD CMO and DCMO in engaging with responsible leaders to influence and provide oversight of business transformation efforts across DOD's business functions to achieve progress. In our February 2015 High-Risk Update, which is our most recent update, we evaluated DOD's approach to business transformation against five criteria for removal and assigned a rating of met, partially met, or not met.²² We also identified, in an August 2014

²¹GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: February 2015); *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: February 2013); *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011); *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009); *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007); and *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

²²"Met" means actions have been taken that meet the criterion and that there are no significant actions that need to be taken to further address this criterion. "Partially Met" means some, but not all, necessary actions have been taken to meet the criterion. "Not Met" means few, if any, actions have been taken toward meeting the criterion.

letter to DOD, 13 actions and outcomes across these five criteria that we believed DOD should take to address long-standing weaknesses in its business transformation efforts. Table 1 shows the status of DOD addressing the five criteria for removal from the High-Risk List, as well as examples of findings and related actions we stated DOD needs to take, as of our February 2015 High-Risk Update.²³

Table 1: Status of the Department of Defense (DOD) Addressing Five Criteria for Removal of Its Approach to Business Transformation from the High-Risk List and Examples of Findings and Actions DOD Needs to Take, as of the GAO February 2015 High-Risk Update

Criteria	Status	Examples of findings	Examples of actions DOD needs to take
Leadership commitment	Partially met	DOD has taken steps to demonstrate its leadership commitment for business transformation, but turnover and the ongoing reorganization within the Office of the DOD Deputy Chief Management Officer (DCMO) presents challenges for DOD to demonstrate effective leadership for this high-risk issue.	Fill key leadership positions and demonstrate how these positions directly support efforts to strengthen business functions and implement change and accountability across these functions.
Capacity	Partially met	The Office of the DOD DCMO has not fully assessed whether there are critical gaps in its capacity to monitor DOD's business transformation efforts, specifically personnel with the skills needed to collect and analyze performance information.	Complete the ongoing human capital gap analysis and take action to address any identified gaps to ensure that DCMO staff have the knowledge, skills, and abilities to analyze and clearly communicate complex data for decision making.
Action plan	Not met	DOD has not developed a corrective-action plan to address business transformation weaknesses and associated root causes.	Complete the development of a corrective-action plan that identifies roles and responsibilities for implementing corrective actions across DOD's business functions, among other things.
Monitoring	Not met	DOD has not established a process to monitor progress toward achieving business transformation efforts across all business functions and does not have a clear or comprehensive set of performance measures to assess progress.	Refine existing performance measures and update as needed to ensure that the measures assess progress in achieving all key business transformation initiatives, and hold owners of DOD's business functions accountable for providing input into performance targets.

²³GAO-15-290.

Criteria	Status	Examples of findings	Examples of actions DOD needs to take
Demonstrated progress	Not met	While the DOD CMO and the Office of the DOD DCMO are working to improve DOD's approach toward business transformation, their efforts are in the early stages and the impact on the department is unclear.	Make substantial progress in implementing a corrective-action plan that includes measures addressing the root causes of weaknesses in business functions and details how corrective actions designed to improve DOD business functions will be implemented.

Source: GAO February 2015 High-Risk Update. | GAO-17-9

Note: "Met" means actions have been taken that meet the criterion and that there are no significant actions that need to be taken to further address this criterion. "Partially Met" means some, but not all, necessary actions have been taken to meet the criterion. "Not Met" means few, if any, actions have been taken toward meeting the criterion.

In addition to our High-Risk Updates, we have issued several reports on DOD's approach to business transformation. Examples of these findings and related recommendations include:

- In February 2013, we found that DOD had not established clear and specific management responsibility, accountability, and control over business transformation efforts and applicable resources across its business functions.²⁴ We also found that DOD did not have an integrated plan for business transformation with specific goals, measures, and accountability mechanisms to monitor performance and achieve progress. We recommended that DOD 1) ensure that its plan for business transformation include a description of the key business transformation challenges to be addressed, sufficient context for why specific goals and strategies were chosen, and measures to address core activities; and 2) further define its performance management approach by outlining elements such as how it will consider various sources of performance information along with the results of its strategic management plan to monitor progress in achieving business goals. DOD generally concurred with our recommendations and has taken some steps to address them. For example, DOD DCMO officials stated that the office contracted with a consulting group to establish a standard methodology to properly, effectively, and efficiently conduct strategic planning and performance management across DOD. DOD DCMO officials stated that they would use the consulting group's findings to help draft guidance for a

²⁴ GAO-13-267.

department-wide strategic planning and performance management process. As of September 2016, this guidance had not been issued.

- In February 2015, we reported that DOD had not implemented several leading performance management practices for federal agencies to help ensure additional progress in addressing business transformation weaknesses.²⁵ We also found that DOD had not effectively monitored the progress of its business transformation efforts. We recommended that DOD document and communicate priorities for its business transformation efforts, oversee the development of a corrective-action plan, and develop clear and comprehensive performance measures that are aligned with strategic goals to monitor the progress of DOD's business transformation efforts. DOD concurred with our recommendations and has taken some steps to address them. For example, in July 2015, DOD issued an Agency Strategic Plan that presents the department's strategic goals, objectives, and performance management framework. DOD DCMO officials plan to issue an updated Agency Strategic Plan, but had not done so as of September 2016.

Statutory Requirements for DOD Strategic Planning

In 1993, Congress passed the Government Performance and Results Act of 1993 (GPRA), which required federal agencies to develop strategic plans with long-term goals; performance plans with annual goals and measures; and reports on prior-year performance.²⁶ Congress subsequently amended GPRA with the GPRA Modernization Act of 2010 (GPRAMA), which includes several provisions intended to increase federal agencies' use of performance information to improve their performance and results.²⁷ Under GPRAMA, the Deputy Secretary of Defense, as CMO and Chief Operating Officer, is responsible for improving the management and performance of the agency. The DOD DCMO serves as the agency Performance Improvement Officer under GPRAMA and is to advise and assist the CMO in areas such as performance measurement and planning.²⁸ GPRAMA also requires

²⁵GAO-15-213.

²⁶Pub. L. No. 103-62 (1993).

²⁷Pub. L. No. 111-352 (2011).

²⁸See Pub. L. No. 111-352 (2011) and DOD Directive 5105.82 *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

agencies to develop an Agency Strategic Plan that contains, among other things, a comprehensive mission statement covering the major functions and operations of the agency, as well as general goals and objectives, including outcome-oriented goals, for the major functions and operations of the agency.

In addition, the National Defense Authorization Act for Fiscal Year 2008 requires the Secretary of Defense, acting through the DOD CMO, to develop a strategic management plan for DOD.²⁹ At a minimum, the plan is required to include:

- Performance goals and measures for improving and evaluating the overall efficiency and effectiveness of DOD's business operations and achieving an integrated management system for business support areas within DOD;
- Key initiatives to be undertaken by DOD to achieve its performance goals;
- Procedures to monitor DOD's progress in meeting its performance goals and measures;
- Procedures to review and approve plans and budgets for changes in business operations, including any proposed changes to policies, procedures, processes, and systems, to ensure the compatibility of such plans and budgets with DOD's strategic management plan; and
- Procedures to oversee the development of as well as review and approve all budget requests for defense business systems.

²⁹Pub. L. No. 110-181, § 904 (2008).

DOD and the Military Departments Have Established Roles and Responsibilities for Senior Business Transformation Positions, but Have Not Retained Leadership Consistency

DOD Established Roles and Responsibilities for Senior Positions to Oversee Business Transformation

DOD and the military departments have established roles and responsibilities for senior positions responsible for overseeing business transformation efforts, such as their CMOs and DCMOs, but have not consistently retained individuals in some of those positions. As required by law, DOD established and filled its CMO and DCMO positions and issued guidance to further detail the roles and responsibilities of these positions. In addition, the military departments established roles and responsibilities for their CMO, DCMO, and, in the case of the Army, Director for the Office of Business Transformation for similar purposes. Over the years, however, DOD has faced challenges in retaining consistent leadership in some of these positions.

As required by law, DOD established and filled senior positions to oversee business transformation. Additionally, DOD issued departmental guidance to further detail roles and responsibilities and established an office in part to oversee business transformation efforts. The National Defense Authorization Act for Fiscal Year 2008 designated the Deputy Secretary of Defense as the DOD CMO and also established the DCMO position to assist the DOD CMO in effectively and efficiently organizing the business operations of DOD. In 2007, the Secretary of Defense assigned the Deputy Secretary of Defense as the CMO for the department. In 2010, the Senate confirmed the appointment of the first DOD DCMO.

DOD issued departmental guidance to further detail the roles and responsibilities of the CMO and DCMO. According to departmental guidance, the DOD CMO is responsible for ensuring that the department's business functions are optimally aligned to support DOD's mission.³⁰ Additionally, the CMO authorizes the DCMO as the Principal Staff Assistant to issue policy and guidance regarding matters relating to the management and improvement of DOD's business operations. Further, the DOD DCMO is responsible for coordinating with officials in

³⁰DOD Directive 5105.02.

the Office of the Secretary of Defense, with those responsible for DOD's business functions, and with the military department CMOs through overseeing investment reviews, building analytic capabilities, and measuring performance. Table 2 summarizes the roles and responsibilities of the DOD CMO and DCMO.

Table 2: Roles and Responsibilities of the Department of Defense (DOD) Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO)

Roles and Responsibilities of the DOD CMO
<ul style="list-style-type: none">• Ensure DOD's core business functions are optimally aligned to support DOD's warfighting mission• Oversee the development of a department-wide strategic plan• Chair the Deputy's Management Action Group, which is used to make crosscutting departmental management decisions• Improve DOD management and performance under the GPRA Modernization Act of 2010 (GPRAMA)
Roles and Responsibilities of the DOD DCMO
<ul style="list-style-type: none">• Develop and maintain the defense business enterprise architecture, as well as integrate business operations• Issue DOD policy and guidance in instructions as assigned by the CMO• Advise the Secretary of Defense on performance goals and measures and assess progress against those goals• Coordinate with the military department CMOs to identify and exchange the information necessary to facilitate the execution of the responsibilities of the DOD CMO• Co-chair the Defense Business Council, which oversees DOD's business functions and identifies business process improvements• Serve as the agency Performance Improvement Officer and assist the CMO in performance measurement and planning under GPRAMA

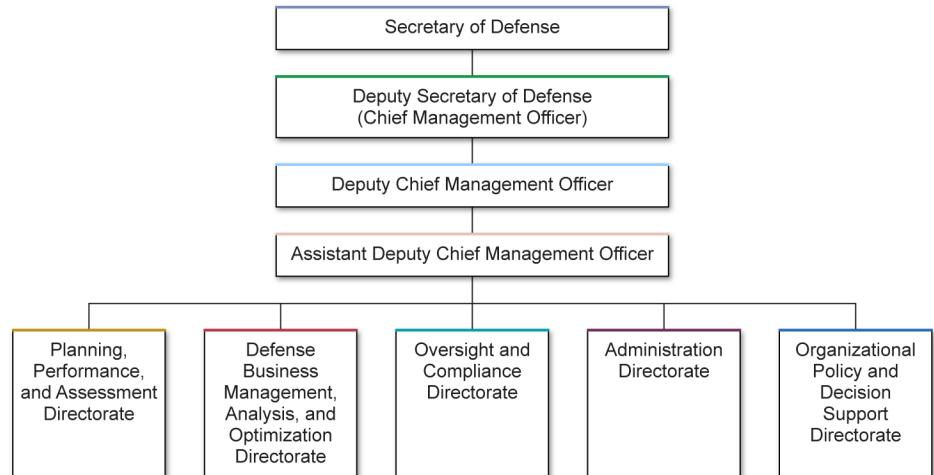
Source: GAO analysis of DOD guidance and legislation. | GAO-17-9

Note: Information is from DOD Directive 5105.02 and 5105.82 and memorandums, and 31 U.S.C. §1123 and 10 U.S.C. §§ 132 and 2222.

Within the Office of the DCMO, DOD established five directorates that address, among other things, department-wide business operations, including the department's business transformation efforts, as illustrated in figure 2. In December 2013, the Secretary of Defense issued a memo that broadened the responsibilities of the Office of the DCMO to facilitate better coordination and integration of DOD's business operations.³¹ For example, the Secretary of Defense realigned the Office of the Director of Administration and Management and its subordinate elements and resources within the Office of the DOD DCMO to better enable the DOD DCMO to fulfill his or her responsibilities.

³¹Secretary of Defense Memorandum, *Results of the Office of the Secretary of Defense Organizational Review* (Dec. 4, 2013).

Figure 2: Organizational Chart for the Department of Defense (DOD) Office of the Deputy Chief Management Officer



Source: GAO analysis of DOD information. | GAO-17-9

Note: The following directorates have responsibilities for addressing business operations department wide: Planning, Performance, and Assessment Directorate; Defense Business Management, Analysis, and Optimization Directorate; and Organizational Policy and Decision Support Directorate.

The Military Departments Established Roles and Responsibilities for Their CMO and DCMO Positions to Oversee Business Transformation Efforts

As required by law, the military departments established and filled senior positions to carry out each department's business operations, including overseeing business transformation efforts. The National Defense Authorization Act for Fiscal Year 2008 required the secretaries of the military departments to designate the department Under Secretaries as CMOs with primary responsibility for business operations.³² The military departments have identified CMOs and established DCMO positions. In addition, the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 required the secretary of each military department to establish an Office of Business Transformation to assist the CMO in carrying out his or her duties and required the CMO to appoint a director of the Office of Business Transformation.³³ The Navy and Air Force DCMOs serve as the director of their respective Offices of Business Transformation, while

³²Pub. L. No. 110-181, § 904 (2008).

³³Pub. L. No. 110-417, § 904 (2008).

the Army has both a DCMO and a Director of its Office of Business Transformation.

All of the military departments have issued guidance outlining the roles and responsibilities of their respective CMO, DCMO, or Director of Office of Business Transformation.³⁴ Table 3 summarizes their key roles and responsibilities.

Table 3: Examples of Key Roles and Responsibilities of the Army, Navy, and Air Force Chief Management Officers (CMOs), Deputy Chief Management Officers (DCMOs), and Director of Office of Business Transformation

Position	Department of the Army	Department of the Navy	Department of the Air Force
CMO	<ul style="list-style-type: none">• Provides guidance and oversight on behalf of the Army's business transformation activities• Oversees the development of business transformation plans• Co-chairs the Army Management Action Group^a	<ul style="list-style-type: none">• Has primary responsibility for business operations and performs duties to effectively and efficiently organize the business operations of the Navy• Chairs the Navy Business Transformation Council^c	<ul style="list-style-type: none">• Manages Air Force business operations• Directs and oversees the Air Force DCMO and the Office of Business Transformation
DCMO	<ul style="list-style-type: none">• Oversees the business operations, processes, and policies for the CMO• Co-chairs the Army Business Council^b	<ul style="list-style-type: none">• Supervises the Office of Business Transformation• Oversees and coordinates the Navy's business processes	<ul style="list-style-type: none">• Manages the Office of Business Transformation• Supervises all matters related to management of business operations• Carries out enterprise-wide transformation initiatives and associated activities• Oversees programs to improve the overall effectiveness and efficiency across missions and functions• Chairs the Enterprise Senior Working Group and Enterprise Process Improvement Council^d

³⁴Army Regulation 5-1; Navy Instruction 5430.7Q; and Headquarters Air Force Mission Directive 1-2.

Position	Department of the Army	Department of the Navy	Department of the Air Force
Director, Office of Business Transformation	<ul style="list-style-type: none"> • Leads the Office of Business Transformation • Executes business transformation initiatives • Develops the Army Business Management Strategy for the CMO and oversees implementation and performance measures • Administers enterprise performance measurement and assessment • Co-chairs the Army Business Council 	The Navy DCMO also serves as the director of the Office of Business Transformation	The Air Force DCMO also serves as the director of the Office of Business Transformation

Source: GAO analysis of Army, Navy, and Air Force guidance. | GAO-17-9

Note: This table shows examples of key roles and responsibilities of the CMO, DCMO, and Director of Office of Business Transformation positions at the military departments. These positions have other roles and responsibilities related to oversight of defense business systems and continuous process improvement initiatives, for example.

^aThe Army Management Action Group serves as a regular forum for senior Army leadership to vet and synchronize enterprise-level strategy, policy, or management issues, among other things.

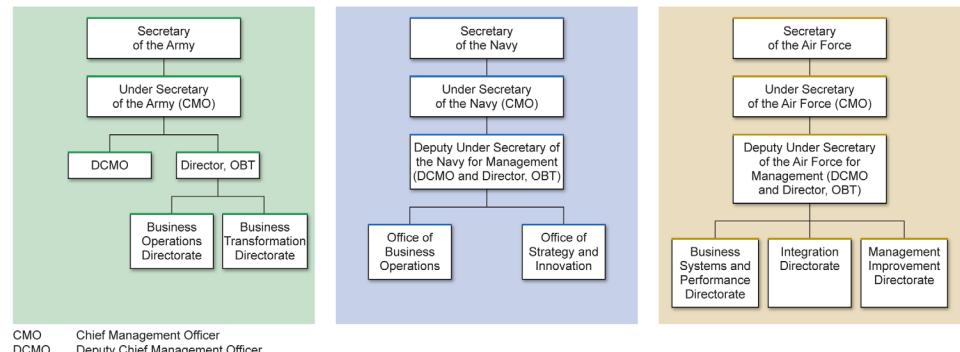
^bThe Army Business Council is an intra-Army forum that advises the Army's CMO on business operations, policy development, and the implementation of an integrated management framework.

^cThe Navy Business Transformation Council serves as a senior-level forum to assess, approve, and accelerate business transformation efforts that cross organizational boundaries or business functions.

^dThe Air Force Enterprise Senior Working Group is a forum that addresses business process reengineering and information technology investment planning and control. The Air Force Enterprise Process Improvement Council is a forum that addresses continuous process improvement efforts across the Air Force.

The military departments have also established directorates or offices to address business transformation issues, as illustrated in figure 3. For example, within its Office of Business Transformation, the Army established the Business Operations and Business Transformation Directorates, and according to Army business transformation officials had 42 full-time positions addressing business transformation issues as of July 2016. Within the Navy, the Office of the Deputy Under Secretary of the Navy for Management oversees business transformation efforts. As of September 2016, Navy DCMO officials stated that the Navy had 24 full-time positions addressing business transformation. The Air Force oversees business transformation efforts through its Business Systems and Performance Directorate, Integration Directorate, and Management Improvement Directorate, and as of July 2016 had 29 personnel addressing business transformation issues in these directorates, according to Air Force DCMO officials.

Figure 3: Organizational Charts for the Military Departments' Offices of Business Transformation



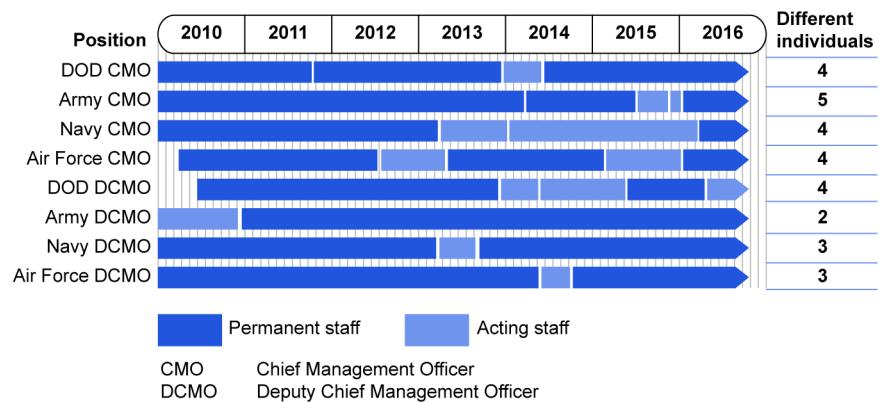
Source: GAO analysis of military department information. | GAO-17-9

DOD and the Military Departments Have Not Retained Consistent Senior Leadership in Some Positions That Oversee Business Transformation Efforts

DOD and the military departments have faced challenges retaining consistent senior leadership in some positions that oversee their business transformation efforts. In our February 2015 High-Risk Update, we reported that turnover and ongoing reorganization within the Office of the DOD DCMO presented challenges for DOD to demonstrate effective leadership for this high-risk issue.³⁵ DOD's rating for leadership commitment to business transformation went from "met" in our February 2013 High-Risk Update to "partially met" in our February 2015 High-Risk Update as a result of leadership changes in the department. Figure 4 shows that DOD and the military departments have experienced a range of turnover in their CMO and DCMO positions since 2010 when all of the positions were filled for the first time. For example, there has been less turnover in the military department DCMO positions than there has been in the DOD DCMO position.

³⁵ GAO-15-290.

Figure 4: Turnover in Chief Management Officer (CMO) and Deputy CMO (DCMO) Positions since 2010



Source: GAO analysis of Department of Defense (DOD) and military department information. | GAO-17-9

Note: For the DOD CMO, DOD DCMO, and military department CMO positions, permanent staff refers to those individuals who were nominated by the President and confirmed by the Senate. Individuals filling the military department DCMO positions are not appointed by the President or confirmed by the Senate. As a result, we relied on the military departments to identify when the individuals filled the DCMO position in a permanent or acting capacity.

To strengthen DOD's oversight of its business transformation efforts, Congress passed and the President enacted a provision in the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 to convert the DOD DCMO to the Under Secretary of Defense for Business Management and Information, effective February 2017.³⁶ The Under Secretary of Defense for Business Management and Information would also serve as the department's Performance Improvement Officer and Chief Information Officer. In February 2015, we reported that this new position is expected to provide greater authority to supervise management of business operations and help DOD, among other things, to further demonstrate its commitment to addressing business transformation efforts.³⁷

In May 2016, the House of Representatives passed a bill for the National Defense Authorization Act for Fiscal Year 2017 that, if enacted, would delay the effective date of the Under Secretary of Defense for Business

³⁶See Pub. L. No. 113-291, § 901 (2014).

³⁷GAO-15-213.

Management and Information position to February 1, 2018.³⁸ In June 2016, the U.S. Senate passed a bill for the National Defense Authorization Act for Fiscal Year 2017 that would, among other things, rename the Under Secretary of Defense for Business Management and Information to the Under Secretary of Defense for Management and Support.³⁹ The Senate bill would also, if enacted, create a new position, the Assistant Secretary of Defense for Information, who would serve as the Chief Information Officer and report directly to the Secretary and Deputy Secretary of Defense. DOD DCMO officials stated that senior DOD leadership has discussed strategies for implementing the position, but given the uncertainties associated with pending proposed legislation, DOD—at the time of our review—had not made final decisions regarding the implementation of the new position of Under Secretary of Defense for Business Management and Information. We will continue to monitor whether this new position is implemented and if so, provides the focused and sustained leadership needed to achieve DOD’s business transformation efforts.

³⁸H.R. 4909, § 846 (2016).

³⁹S. 2943, § 901 (2016). This legislation would also transfer oversight of defense agencies that perform key business functions, such as the Defense Logistics Agency and the Defense Contract Audit Agency, to the Under Secretary of Defense for Management and Support.

DOD and the Military Departments Have Issued Strategic or Business Transformation Plans, but DOD Has Not Coordinated with the Military Departments to Align Business Transformation Efforts

DOD and the military departments have issued strategic or business transformation plans. However, DOD has not coordinated with the military departments to align their strategic planning efforts for business transformation with those of the department. To conform with the GPRA Modernization Act of 2010 (GPRAMA) and the National Defense Authorization Act for Fiscal Year 2008, DOD developed an Agency Strategic Plan. In July 2015, DOD issued its most recent strategic plan, the Agency Strategic Plan for Fiscal Years 2015-2018, which presents the department's strategic goals, objectives, and performance management framework that DOD intends to use to evaluate its effectiveness and inform its management decisions. DOD's Agency Strategic Plan also serves as the department's highest-level plan for improving DOD's business operations and outlines the department's priority business goals, objectives, measures, and initiatives.

DOD's Agency Strategic Plan identifies five strategic goals that have associated strategic objectives, performance goals, agency priority goals, or cross-agency priority goals, as well as performance indicators with targets for assessing progress.⁴⁰ In addition, for each of those goals,

⁴⁰Pub. L. No. 111-352, § 6 (2011), codified at 31 U.S.C. § 1121(b). GPRAMA significantly enhanced the Government Performance and Results Act of 1993, Pub. L. No. 103-62 (1993). Every 2 years, GPRAMA requires agency heads from the agencies identified by the Chief Financial Officers Act of 1990, as amended, or those agencies as otherwise determined by the Office of Management and Budget, to identify agency priority goals from the performance goals of the agency. These goals should reflect the highest priorities of the agency as determined by the agency head. 31 U.S.C. § 1120(b)(1). For fiscal years 2016 through 2017, DOD established six agency priority goals, including reforming the acquisition process, improving DOD energy performance, and realigning major DOD headquarters activities, among others. Cross-agency priority goals are areas where progress can be improved through increased cross-agency coordination.

DOD identifies “goal owners” who are responsible for ensuring success and reporting progress on these goals.⁴¹

Based on our analysis, we found that the military department CMOs or DCMOs do not have a defined role in DOD’s strategic planning process for developing department-wide goals and objectives to address business transformation, which is outlined in DOD’s Agency Strategic Plan. DOD’s Agency Strategic Plan states that leaders at all levels throughout DOD should coordinate and take action to institutionalize DOD’s strategy and realize efficiencies. The plan also states that the Office of the DCMO is responsible for leading a collaborative strategic planning effort among the Office of the Secretary of Defense, DOD components, and other stakeholders, with a focus on integrated performance goals, measures, and key programs, among other things. DOD’s Agency Strategic Plan describes DOD’s management strategy, which is intended to institute an approach to providing DOD leadership with a linkage between performance management and resourcing decisions through strategy, plans, monitoring, and reporting. As part of the strategy, DOD’s Agency Strategic Plan further states that DOD should engage the following stakeholders: senior leadership, government partners, the public, and performance goal owners. The plan states that the Principal Staff Assistants are responsible for developing and managing the execution of business goals and initiatives, but does not state that the military department CMOs or DCMOs have a role in developing these goals. Table 4 shows the roles and responsibilities of the various governance

⁴¹The goal owners are the Under Secretary of Defense for Policy, Under Secretary of Defense for Personnel and Readiness; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; Under Secretary of Defense for Comptroller/Chief Financial Officer; DOD Chief Information Officer; DOD DCMO; and the Force Structure, Resources, and Assessment Directorate in the Joint Chiefs of Staff. The Office of Management and Budget’s 2012 guidance implementing GPRAMA established a strategic review process in which agencies, beginning in 2014, were to conduct leadership-driven, annual reviews of their progress toward achieving each strategic objective established in their agency strategic plans. In July 2015, we identified practices federal agencies can employ to facilitate effective strategic reviews and illustrated aspects of those practices through examples from the strategic review processes conducted at selected agencies. We excluded DOD from this review because the department had not published strategic objectives related to its 2014 strategic goals at the time of our selection process. See GAO, *Managing for Results: Practices for Effective Agency Strategic Reviews*, GAO-15-602 (Washington, D.C.: July 29, 2015).

forums and stakeholders involved in the strategic planning process for managing and implementing DOD's Agency Strategic Plan.

Table 4: Roles and Responsibilities of Governance Forums and Stakeholders in the Department of Defense (DOD) Strategic Planning Process for Managing and Implementing DOD's Agency Strategic Plan

Stakeholder	Roles and Responsibilities
Deputy's Management Action Group ^a	Acts on behalf of the Deputy Secretary of Defense for executing a common management approach across DOD
Defense Business Council	Provides unified direction and leadership for DOD's business mission area, including approving the Agency Strategic Plan
Fourth Estate Working Group and military departments ^b	Prioritize investments in functional and cross-functional transformation initiatives
DOD Deputy Chief Management Officer	Oversees the development and execution of an integrated Agency Strategic Plan and facilitates the monitoring, analysis, and reporting of results
Principal Staff Assistants ^c	Develop and manage the execution of business goals and initiatives
Components and agencies	Implement and report on initiative performance and progress

Source: DOD's Agency Strategic Plan for Fiscal Years 2015-2018. | GAO-17-9

^aThe Deputy's Management Action Group serves as the Deputy Secretary of Defense's principal forum for making crosscutting department management decisions.

^bThe Fourth Estate Working Group serves as a governance forum that provides cross-functional review, guidance, and leadership to effectively and efficiently manage and discuss issues for DOD Fourth Estate business transformation efforts as well as provide DOD Fourth Estate business mission area oversight.

^cThe Principal Staff Assistants are the Under Secretaries of Defense; the DCMO; the General Counsel of DOD; the Inspector General of DOD; and the Assistant Secretaries of Defense, Assistants to the Secretary of Defense, and Office of the Secretary of Defense Directors and equivalents who report directly to the Secretary of Defense or the Deputy Secretary of Defense.

The DOD DCMO and military department business transformation officials stated that the military department CMOs and DCMOs played a limited role in the development of the goals and objectives in DOD's Agency Strategic Plan. DOD DCMO officials stated that they provided a draft of DOD's Agency Strategic Plan to the military departments for input but otherwise did not coordinate with the military department CMOs or DCMOs on the development of the plan. DOD DCMO officials explained that the goal owners are responsible for coordinating with military department officials within their respective business functions when developing goals and objectives identified in DOD's Agency Strategic Plan. Representatives from the goal owners we met with confirmed that they coordinated with officials in the respective business functions within the military departments to develop and report on their goals and objectives, but did not coordinate with the military department CMOs or DCMOs. For example, goal owner representatives from the Office of the Under Secretary of Defense for Comptroller/Chief Financial Officer

instead coordinated with financial management and comptroller officials within the military departments. Military department business transformation officials stated that their role in the development of DOD's Agency Strategic Plan included reviewing a draft of the plan or discussing the plan at a Fourth Estate Working Group meeting.

In addition, DOD's Agency Strategic Plan does not demonstrate how the military departments' goals and objectives for business transformation are aligned with those for DOD. According to DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense*, the DOD DCMO should work in close coordination with the military department CMOs to identify and exchange the information necessary to facilitate execution of the responsibilities of the DOD CMO, who is responsible for overseeing the development of the department-wide strategic plan. Also, leading practices for results-oriented management state that a key attribute of success is that performance goals and measures—such as those in the military departments' business transformation plans—should align and have a clear relationship with higher-level department-wide goals and objectives.⁴² Such alignment is important in ensuring that agency efforts are properly linked with goals and objectives (and thus contribute to their accomplishment) and in assessing progress toward achieving goals. DOD's Agency Strategic Plan states that the plan sets the strategic priorities for DOD, and the plan serves as the department's highest-level plan for improving DOD's business operations; however, the Agency Strategic Plan does not identify the military departments' goals and objectives for business transformation and how they align to department-wide goals and objectives.

⁴² [GAO-04-919](#). In this report, we identified attributes from our prior work on results-oriented management that we believed were some of the most important for accurately assessing the strengths and weaknesses of programs and making improvements. This prior work indicates that agencies that are successful in achieving business transformation goals, such as those being focused on by DOD in its plans, strive to establish practices and performance systems at all levels of that agency that include the following seven key attributes: (1) aligns goals and measures with agency and department-wide goals; (2) assigns accountability for achieving results; (3) demonstrates results; (4) provides a comprehensive view of agency performance; (5) links resource needs to performance; (6) discusses data quality; and (7) provides contextual information.

Further, the military departments have issued plans with strategic or business transformation goals and objectives. However, the plans have not demonstrated how the military departments' goals and objectives align to current department-wide goals and objectives in DOD's Agency Strategic Plan. For example, in June 2016, the Army issued its Army Business Strategy for 2017-2021 to provide a strategic foundation to improve the Army's business operations; in July 2014, the Navy issued its Department of the Navy Transformation Plan for Fiscal Years 2014-2016 to establish the Navy's transformation priorities; and in May 2015, the Air Force issued its Strategic Master Plan to provide consistent direction across all Air Force portfolios. While the Army Business Strategy identifies the Army's goals and objectives for business transformation and states that they are directly aligned with the Army's Strategic Plan, the Army Business Strategy does not demonstrate how its goals and objectives align with those in DOD's Agency Strategic Plan. In addition, the Department of the Navy Transformation Plan identifies the Navy's goals and objectives for business transformation. The Navy issued its plan prior to the issuance of DOD's Agency Strategic Plan and, as a result, aligns the plan's goals to department-wide goals in DOD's strategic management plan—the department-wide plan for business transformation that was superseded by DOD's Agency Strategic Plan in July 2015. Further, the Air Force Strategic Master Plan sets the strategic goals and objectives for the Air Force, but was also issued prior to DOD's Agency Strategic Plan and as a result does not demonstrate how the plan's goals and objectives align to those in DOD's Agency Strategic Plan.

Though not documented in the plans, military department business transformation officials stated that they ensured that their plans' goals and objectives align or at least do not conflict with department-wide goals and objectives in DOD's Agency Strategic Plan. However, these officials stated that they view DOD's Agency Strategic Plan as setting goals and objectives for the Office of the Secretary of Defense, and as a result the Agency Strategic Plan's goals and objectives are not the primary drivers of the military departments' business transformation efforts.

DOD DCMO officials have acknowledged challenges with coordinating strategic planning and identifying priorities between the various business transformation stakeholders. These officials further noted that DOD is a large, complex department, and it is challenging to have all of its components, including the military departments, follow the department-wide goals and objectives outlined in DOD's Agency Strategic Plan. The officials stated that the Office of the DOD DCMO contracted with a consulting group to establish a standard methodology to properly,

effectively, and efficiently conduct strategic planning and performance management across DOD. DOD DCMO officials stated that they would use the consulting group's findings to help draft guidance for a department-wide strategic planning and performance management process, but as of September 2016, the Office of the DOD DCMO had not yet issued such guidance. Several military department business transformation officials told us that they were supportive of aligning business transformation goals and objectives throughout DOD and noted that this approach would create better alignment of effort. In addition, DOD DCMO officials stated that DOD plans to issue an updated Agency Strategic Plan by September 2016. Based on our review of related documentation, DOD does not have plans to revise its strategic planning process to define the military department CMOs' or DCMOs' role in developing department-wide goals and objectives for business transformation, or to align the military departments' goals and objectives for business transformation with those of DOD in the Agency Strategic Plan. Defining a role for the military department CMOs or DCMOs in DOD's strategic planning process for developing department-wide goals and objectives and coordinating with these entities to align the military departments' goals and objectives for business transformation with those of the department would better position DOD to ensure that the military departments' efforts directly contribute to the business transformation goals and objectives of the department.

DOD Established the Defense Business Council as Its Principal Business Governance Forum, but Has Not Used the Forum to Effectively Monitor the Military Departments' Performance

The DOD DCMO has used the Defense Business Council—DOD's principal forum for vetting issues related to the improvement and management of department-wide business operations—to monitor some, but not all, business transformation efforts across the department. Specifically, we found that the DOD DCMO has not used the Defense Business Council to monitor performance related to the business transformation efforts of the military departments outside of defense business systems issues and DOD headquarters-related efficiency initiatives.

DOD DCMO Has Used the Defense Business Council to Monitor Some Department-Wide Business Transformation Efforts

The DOD DCMO is a co-chair the Defense Business Council, which is comprised of senior-level DOD civilian and military department officials and serves as DOD's principal governance forum for vetting issues related to the management and improvement of business operations across the department, including department-wide performance. The DOD DCMO has used the Defense Business Council to monitor some business transformation efforts, such as DOD's agency priority goals. The Acting DOD DCMO noted that because of the size and complexity of the department, he focuses department-wide performance monitoring on the current set of DOD requirements and priorities. Instead, he relies on the military departments to conduct their own monitoring. Examples of how the Defense Business Council has addressed some of department's statutory requirements and priorities related to business operations include:

- **Certification and approval of defense business systems:** Congress included provisions in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 that require DOD to implement a business system investment review process for certifying and approving business systems.⁴³ The DOD DCMO oversees DOD's process for certifying business systems expenditures including recommending to the CMO methodologies and measurement criteria to better synchronize, integrate, and coordinate business operations to ensure alignment in support of the warfighting mission. As part of the business system certification process, each military department is required to prepare an organizational execution plan that identifies and prioritizes business system investments. At a minimum, organizational execution plans are required to address, among other things, strategic alignment, performance measures, and business portfolio accomplishments. The military department DCMOs brief the Defense Business Council on their organizational execution plans for certification and approval of their military department's defense business systems. The DOD DCMO is also responsible for developing and maintaining the department's enterprise architecture for its business mission area.
- **Headquarters-related efficiency initiatives:** Since 2014, in part to respond to congressional direction, DOD has undertaken initiatives

⁴³Pub. L. No. 108-375, § 332 (2004), codified as amended at 10 U.S.C. § 2222.

intended to improve the efficiency of its business processes, which include headquarters organizations, and to identify related cost savings. Initiatives related to these efforts include:

- *Business Process and System Reviews*: These reviews of selected Office of the Secretary of Defense-related organizations are intended to assess business processes and supporting systems.
- *Office of Secretary of Defense Organizational Delayering Initiative*: This review of Office of the Secretary of Defense-related organizations is intended to reduce layers of management and staff.
- *Services Requirements Review Boards*: Established in January 2016 pursuant to DOD Instruction 5000.74, these boards are intended to assess whether valid requirements remain for contracted services and whether opportunities exist to better employ the funds.
- *Review of the Organization and Responsibilities of DOD*: This department-wide review is intended to recommend changes to organizational relationships and authorities.
- **Financial improvement and audit readiness initiatives**: DOD has been unable to prepare auditable department-wide financial statements. The National Defense Authorization Act for Fiscal Year 2010 mandated that DOD develop and maintain a Financial Improvement and Audit Readiness plan that, among other things, describes the actions needed to ensure that DOD's financial statements are validated as audit ready by September 30, 2017.⁴⁴ The DOD DCMO monitors business systems investments and strategies for the financial management business systems portfolio through the Defense Business Council and co-chairs the Financial Improvement and Audit Readiness Governance Board.

In addition, the military department DCMOs and business transformation officials cited some specific examples of how the Defense Business Council has helped them address defense business systems issues. These examples include:

⁴⁴Pub. L. No. 111-84, § 1003 (2009).

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- **Army:** The Army is working to implement an Integrated Pay and Personnel System to resolve numerous issues relating to improper and inaccurate military pay and personnel processing activities. The current Army practice relies on the Defense Finance and Accounting Service for a large number of products and services that support the payment of military members. The Army elevated this issue to the Defense Business Council. In June 2015, the Defense Business Council worked with the Army to develop a charter and working group to assess the capabilities required by the Defense Finance and Accounting Service and to identify potential laws, regulations, and barriers that could impact this support. Senior Army business transformation officials said that the Defense Business Council has been able to help them resolve the challenges they were experiencing with the Defense Finance and Accounting Service and move forward with implementing the Integrated Pay and Personnel System.
 - **Navy:** In November 2015, the Navy conducted an assessment of its Enterprise Resource Planning system to determine the resources required to sustain the system.⁴⁵ The Navy's assessment concluded that better governance and management of the requirements setting and sustainment process were necessary to manage the implementation and sustainment of large information technology systems. The Navy briefed this assessment to the Defense Business Council in January 2016 so that the other military departments could leverage the Navy's lessons learned.
 - **Air Force:** In July 2015, the Air Force DCMO elevated an issue related to the relationship between service providers and users. The Air Force DCMO proposed to the Defense Business Council the establishment of a senior leaders' forum to evaluate future service requirements and capabilities that could be provided by the defense agencies. The Defense Business Council tasked a group comprised of senior representatives to develop a framework and implementation schedule to address this issue.

⁴⁵An Enterprise Resource Planning system is an automated system using commercial off-the-shelf software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as general ledger accounting, payroll, and supply-chain management.

DOD DCMO Has Not Used the Defense Business Council to Effectively Monitor the Military Departments' Performance on Business Transformation Efforts

Based on our analysis of Defense Business Council meeting summaries from January 2015 to August 2016, the DOD DCMO did not use the Defense Business Council to monitor performance related to the business transformation efforts of the military departments outside of defense business systems certification and approval and DOD headquarters-related efficiency initiatives with its existing responsibilities. From January 2015 to August 2016, the DOD DCMO co-chaired 26 Defense Business Council meetings, and table 5 illustrates to what extent statutory requirements, department-wide strategic planning and performance information, and military department strategic planning and performance information were addressed during these meetings.

Table 5: GAO Analysis of Frequency of Initiatives Addressed at Department of Defense (DOD) Meetings of the Defense Business Council

Initiative/issue	2015 (January-August)	2016	Total
DOD Deputy Chief Management Officer (DCMO) statutory requirements			
Certification and approval of defense business systems ^a	25	17	42
Headquarters-related efficiency initiatives	11	2	13
Financial improvement and audit readiness initiatives	6	1	7
DOD strategic planning and performance information			
	5	2	7
Defense agencies and Fourth Estate issues^b			
	6	1	7
Military department strategic planning and performance information			
	0	0	0

Source: GAO analysis of DOD information. | GAO-17-9

Note: We reviewed summaries from 26 Defense Business Council meetings that took place from January 2015 through August 2016. The total column in the table is greater than the number of meeting summaries we reviewed because more than one initiative or issue may be discussed at a meeting.

^aDiscussions of business system functional strategies and business system certification are included in the total for "defense business systems certification and approval."

^bDOD defines the Fourth Estate as DOD organizations, other than the military services, that have DOD manpower resources. These organizations include the Office of the Secretary of Defense; the defense agencies; DOD field activities; the Office of the DOD Inspector General; the Joint Staff; and the combatant commands.

The military departments have strategic or business transformation plans that contain performance measures. While the Defense Business Council discussed performance information regarding DOD's agency priority

goals prepared by Office of the Secretary of Defense officials at 7 meetings from January 2015 to August 2016, the Defense Business Council did not discuss efforts to monitor military department strategic planning and performance information for the military departments outside of defense business systems certification and approval or DOD headquarters-related efficiency initiatives.⁴⁶ Some military department business transformation officials with whom we spoke said that the Defense Business Council was focused primarily on monitoring efforts on defense business systems certification. Also, military department business transformation officials stated that they do not provide performance information to the DOD DCMO for the department-wide strategic planning and agency priority goal briefings that are conducted by the Defense Business Council.

DOD officials have acknowledged that the Defense Business Council meetings could be used more effectively to monitor the performance of department-wide business transformation efforts. In October 2015, the DOD DCMO and other senior DOD DCMO officials stated that until recently the Defense Business Council had been focused entirely on defense business systems and that the scope was starting to expand to include newer DOD headquarters-related efficiency initiatives. However, defense business systems certification and approval initiatives were still the most frequently addressed items since October 2015, and department-wide and military department strategic planning and performance information has been addressed at only 7 meetings since January 2015. DOD DCMO officials said that they conducted a quarterly performance review in August 2016. Military department performance

⁴⁶In September 2015, we reported that six agencies we reviewed—including DOD—generally did not publicly report on how they ensured the accuracy and reliability of performance information used to measure progress on their agency priority goals. We recommended, among other things, that all six of the agencies work with the Office of Management and Budget to describe on Performance.gov how they are ensuring the quality of the performance information for their agency priority goals, and that all of the agencies, except the Department of Homeland Security, describe this information in their annual performance plans and reports. DOD partially concurred with the recommendations, has taken action in response, but has not fully implemented them. See GAO, *Managing for Results: Greater Transparency Needed in Public Reporting on the Quality of Performance Information for Selected Agencies' Priority Goals*, GAO-15-788 (Washington, D.C.: Sept. 10, 2015).

information was not covered in the review.⁴⁷ Further, in July 2016, the Acting DOD DCMO stated that DOD does not have a “dashboard” (i.e., centralized way) to track the monitoring of department-wide performance measures related to business operations across the entire department, including the military departments. Office of the Secretary of Defense officials who are responsible for collecting performance information for the department and reporting to the Defense Business Council stated that they were not aware that the military departments had DCMOs responsible for overseeing business operations and monitoring performance and were not coordinating with the military department DCMOs when collecting department-wide performance information.

DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense*, states that the DOD DCMO is to recommend to the Deputy Secretary of Defense methodologies for integrating and coordinating business operations across the department, to advise the Secretary of Defense on performance goals and measures, and to assist senior officials in DOD with ensuring that strategic plans, goals, and measures are aligned to DOD strategic goals, among other things.⁴⁸ In addition, *Standards for Internal Control in the Federal Government* state that agencies need activities to monitor performance measures so that

⁴⁷GPRAMA requires that federal agencies review progress on their agency priority goals at least once a quarter and that these reviews be conducted by top agency leaders, involve agency priority goal leaders and other contributors, and be used to identify at-risk goals and strategies to improve performance. In July 2015, we reported that of the 23 agencies we surveyed, most reported conducting data-driven reviews consistent with requirements, guidance, and leading practices. However, we found that some agency practices—including those of DOD—were inconsistent with requirements or guidance. As a result, we recommended that DOD modify its processes to ensure that review meetings are (1) led by the agency head or Chief Operating Officer; (2) used to review progress on all agency priority goals at least once a quarter, discuss at-risk goals and improvement strategies, and assess whether specific program activities, policies, or other activities are contributing to goals as planned; and (3) used by participants to identify, agree upon, and document and track follow-up actions. DOD generally concurred with our recommendations. See GAO, *Managing for Results: Agencies Report Positive Effects of Data-Driven Reviews on Performance but Some Should Strengthen Practices*, GAO-15-579 (Washington, D.C.: July 7, 2015).

⁴⁸DOD Directive 5105.82.

appropriate actions can be taken.⁴⁹ Finally, GPRAMA states that the DOD DCMO as the Performance Improvement Officer shall, among other things, advise and assist the agency leadership to ensure that the mission and goals of the agency are achieved through strategic planning and performance measurement to improve results. However, the DOD DCMO has not used the Defense Business Council, as DOD's principal governance forum for vetting issues related to the management and improvement of business operations across the department, including department-wide performance, to effectively monitor the military departments' performance on business transformation efforts. This is in part because the charter does not specifically assign responsibility to the council for doing so and does not reflect the responsibilities of the DOD DCMO to monitor performance across the entire department, including the military departments, as DOD's Performance Improvement Officer. Without improving the monitoring of the military departments' performance, DOD will be unable to fully know the status of department-wide performance management efforts across key business areas and may not be well-positioned to assess the overall impact of its efforts to achieve business transformation.

Conclusions

Long-standing management weaknesses related to DOD's approach to business transformation adversely affect DOD's efficiency and effectiveness and hinder the department's ability to address higher-priority needs. DOD and the military departments have taken some steps to address these weaknesses and to coordinate on some business transformation efforts. However, DOD has not defined a role for the military department CMOs or DCMOs in DOD's strategic planning process for developing department-wide goals and objectives for business transformation in its Agency Strategic Plan, the current department-wide strategic plan. Moreover, the DOD DCMO has not coordinated with the military department CMOs or DCMOs to align the military departments' goals and objectives for business transformation

⁴⁹See GAO, *Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1* (Washington, D.C.: November 1999). These standards were in effect prior to fiscal year 2016 and cover DOD's data from January 2015 through September 2015. The standards were subsequently updated. The updated standards went into effect on October 1, 2015, and cover DOD's data from October 2015 through August 2016. See GAO, *Standards for Internal Control in the Federal Government, GAO-14-704G* (Washington, D.C.: Sept. 10, 2014).

with department-wide goals and objectives within DOD's Agency Strategic Plan. While we recognize that DOD is a large, complex department, defining a role for the military department CMOs or DCMOs in DOD's strategic planning process and aligning the military departments' goals and objectives for business transformation with department-wide goals and objectives is consistent with leading practices for results-oriented management and are important steps to ensuring that the military departments' goals and objectives directly contribute to department-wide goals and objectives.

Further, the Defense Business Council has not monitored performance information related to the military departments' business transformation efforts outside of defense business systems certification and approval and headquarters-related efficiency initiatives. As DOD's Performance Improvement Officer, the DOD DCMO is responsible for monitoring performance across the entire department, including the military departments. Taking action to improve the DOD DCMO's monitoring of the military departments' performance—such as by revising the Defense Business Council's charter to make the council responsible for monitoring the military departments' progress in achieving their business transformation efforts—would help enable DOD to fully know the department's performance management efforts across key business areas and better position DOD to assess the overall impact of department-wide efforts to achieve business transformation. This could result in a more effective implementation of GPRAMA that also could provide DOD with critical information to address management challenges. In light of DOD's continued management challenges—in particular, its turnover in its senior business transformation positions—taking these steps will further enhance DOD's ability to strategically focus the department's business transformation efforts on the highest priority areas and demonstrate tangible results in addressing long-standing business challenges.

Recommendations for Executive Action

The Deputy Secretary of Defense, in his capacity as the CMO and as part of DOD's strategic planning process, should take the following two actions:

- define a role for the military department CMOs or DCMOs in developing department-wide goals and objectives for business transformation, and

-
- coordinate with the military department CMOs or DCMOs to align the military departments' goals and objectives for business transformation with department-wide goals and objectives, including in DOD's Agency Strategic Plan.

The Deputy Secretary of Defense, in his capacity as the CMO and in coordination with the DOD DCMO, should take action, as appropriate and necessary, to improve the monitoring of the military departments' performance on business transformation efforts. This could be done by revising the Defense Business Council's charter to make the council responsible for monitoring such performance to reflect the responsibilities of the DOD DCMO to monitor performance across the entire department.

Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix II, DOD concurred with our recommendations. DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Deputy Secretary of Defense, and the Deputy Chief Management Officer. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202)-512-5257 or merritt@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.



Zina D. Merritt
Director
Defense Capabilities and Management

List of Addressees

The Honorable John McCain
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Jason Chaffetz
Chairman
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Military Departments Have Taken Steps to Monitor the Progress of Business Transformation Efforts

The military departments have established governance forums to oversee some business operations, and the military department DCMOs and business transformation officials have taken steps to monitor the progress of business transformation efforts related to business systems and financial auditability. Table 6 summarizes the purpose of the military department governance forums and provides examples of roles and responsibilities for performance management related to business transformation as cited in the forums' charters.

Table 6: Military Department Governance Forums and Examples of Roles and Responsibilities for Performance Management Related to Overseeing Business Transformation

Military department	Governance forum	Purpose of forum	Examples of performance management roles and responsibilities
Army	Army Business Council	Advises the Army Chief Management Officer on Army business operations, policy development, and implementation of an integrated management framework	<ul style="list-style-type: none">Synchronize, integrate, and improve business processes and practices to achieve effective and efficient outcomes for the Army, including the development and execution of performance assessment and reviews of spending
Navy	Business Transformation Council	Assesses, approves, and accelerates business transformation efforts that cross organizational boundaries and/or business functions	<ul style="list-style-type: none">Identify performance metrics to evaluate progress toward desired outcomes and support the development of business transformation reports that identify progress toward business transformation goals
	Provider Enterprise Executive Committee	Exercises governance of efforts across the Navy to deliver future capability and capacity and support current readiness at best cost	<ul style="list-style-type: none">Develop collective output and performance metrics for delivery of platforms, systems, manpower, and infrastructure
Air Force	Enterprise Senior Working Group	Supports business process reengineering and information technology investment planning and control	<ul style="list-style-type: none">Ensure the development of rational, outcome-oriented performance measuresIncorporate Department of Defense's (DOD) performance results to track progress against strategic goals and measures, and hold leaders accountable for resultsSupport the identification, implementation, and measurement of Agency Priority Goals
	Enterprise Process Improvement Council	Supports continuous process improvement efforts across the Air Force	<ul style="list-style-type: none">Review and advise on the DOD and Air Force strategic improvement initiatives to ensure alignment with DOD and Air Force strategy, performance goals, and enterprise transformation plans

Source: GAO analysis of charters for military department governance forums. | GAO-17-9

We observed seven governance forum meetings across the military departments: three of the Army Business Council, one of the Navy Provider Enterprise Executive Committee, two of the Air Force Enterprise Senior Working Group, and one of the Enterprise Process Improvement

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Council.¹ Table 7 summarizes examples of issues discussed at the forums we observed.

Table 7: GAO Observations from Meetings of Military Department Governance Forums

Military department governance forum	Number of meetings GAO observed ^a	Examples of issues discussed
Army Business Council	3	<ul style="list-style-type: none">• Status of the Army's Enterprise Resource Planning system• Status update on the Army's business initiatives
Navy Provider Enterprise Executive Committee	1	<ul style="list-style-type: none">• Update on the findings from the department's study of the effectiveness and efficiency of the Navy Enterprise Resource Planning system
Air Force Enterprise Senior Working Group	2	<ul style="list-style-type: none">• Status of the Air Force's efforts to identify duplication across the department's business systems• Status of conditions or actions related to the certification of Air Force business systems
Air Force Enterprise Process Improvement Council	1	<ul style="list-style-type: none">• Overview of process changes related to financial management and readiness

Source: GAO observations of military department governance forums. | GAO-17-9

^aWe observed these meetings from July 2015 through December 2015.

We found examples of steps that the military departments have taken to monitor their business systems, such as the implementation of their large, department-wide business systems called enterprise resource planning systems.² Examples of what steps the military departments have taken include:

- **Army:** The Army DCMO stated that deploying the Army's Enterprise Resource Planning systems on schedule and within budget is the Army's primary business transformation priority. The Director of the Army's Office of Business Transformation receives quarterly updates on the status of the Enterprise Resource Planning systems through the Army Business Council. These briefings discuss recent and near-

¹We did not observe a meeting of the Navy Business Transformation Council. According to Navy officials, it meets on an as-needed basis and met once over the course of our review.

²An Enterprise Resource Planning system is an automated system using commercial off-the-shelf software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as general ledger accounting, payroll, and supply-chain management.

term milestones and the program schedule, budget, and performance. Army business transformation officials stated that they have demonstrated progress since December 2014 toward implementing the department's Integrated Pay and Personnel System by reducing current business processes for personnel actions from 147 to 30.

- **Navy:** The Navy DCMO established a planning working group in December 2014 to oversee its Enterprise Resource Planning system. The Navy DCMO chairs the working group, which, among other things, is intended to ensure the successful sustainment of the Navy Enterprise Resource Planning system and provide oversight of sustainment goals and work plans. Further, the Navy DCMO Office has conducted assessments of the benefits, efficiency, and effectiveness of its Enterprise Resource Planning system. According to the most recent assessment conducted in November 2015, the Navy DCMO identified \$17 million to \$22 million in potential savings—or 11 percent to 15 percent of the annual costs to sustain its system—through potential improvements in contractor productivity.
- **Air Force:** The Air Force developed the Service Development and Delivery Process to assess whether new systems are needed to address business process efficiencies. The Air Force DCMO uses this process to monitor business system investments. Also, the Air Force conducts reviews of its business systems for duplication. Air Force business transformation officials stated that by 2022 the Air Force's goal is to eliminate 150 of the department's approximately 550 business systems.

In addition, the military department business transformation officials stated that they monitor the status of their audit readiness efforts through governance forums or regular briefings within their departments. The Air Force DCMO co-chairs an executive steering committee that monitors the Air Force's status in achieving financial auditability, and the Army DCMO co-chairs the Army Audit Committee, which is an Army senior-leader forum that discusses challenges and issues related to achieving and sustaining audit readiness for the Army. Navy financial management officials stated that the Navy DCMO holds monthly meetings with senior Navy leadership that discuss ongoing audit readiness activities and the status of the Navy's progress in achieving audit readiness. Further, Army financial management officials stated that they brief the Army DCMO on a weekly basis about the status of corrective actions related to audit readiness. Financial management officials at all of the military departments stated that the DCMOs' monitoring of their respective departments' progress in achieving audit readiness has helped hold officials accountable for making progress within the military departments.

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Moreover, the military department DCMOs monitor the progress of each department's audit readiness efforts through participation in DOD's Financial Improvement and Audit Readiness Governance Board. The DOD DCMO co-chairs the Financial Improvement and Audit Readiness Governance Board, which serves as DOD's senior governance forum overseeing audit readiness efforts. The National Defense Authorization Act for Fiscal Year 2010 mandated that DOD develop and maintain a Financial Improvement and Audit Readiness plan that, among other things, describes the actions needed to ensure that DOD's financial statements are validated as audit ready by September 30, 2017.³ Military department DCMOs and financial management officials update the DOD DCMO and DOD Comptroller on each department's status in becoming audit ready and how each is addressing corrective actions or findings and recommendations from completed audits. We observed two meetings of the Financial Improvement and Audit Readiness Governance Board during which the military department DCMOs discussed time frames related to each department's audit readiness efforts and clarified DOD policy for audit issues such as property valuation.

³Pub. L. No. 111-84, § 1003(a) (2009).

Appendix II: Comments from the Department of Defense



**DEPUTY CHIEF MANAGEMENT OFFICER
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WASHINGTON, DC 20301-9010**

November 21, 2016

Ms. Zina D. Merritt
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Ms. Merritt,

This is the Department of Defense response to the Government Accountability Office (GAO) draft report GAO-17-9, “DEFENSE BUSINESS TRANSFORMATION: DoD Should Improve Its Planning with and Performance Monitoring of the Military Departments,” dated September 20, 2016 (GAO Code 100114).

The Department concurs without comment on the recommendations in the report.

Sincerely,

TILLOTSON.DAVID.III.1109966815
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Appendix III: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact named above, Tina Won Sherman (Assistant Director), Johana Ayers, Tracy Barnes, Timothy DiNapoli, Gina Flacco, Michael Holland, James Kernen, Asif Khan, Anne Kruse, Amanda Miller, Meghan Perez, Richard Powelson, Jared Sippel, Amie Lesser, and Sarah Veale made key contributions to this report.

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