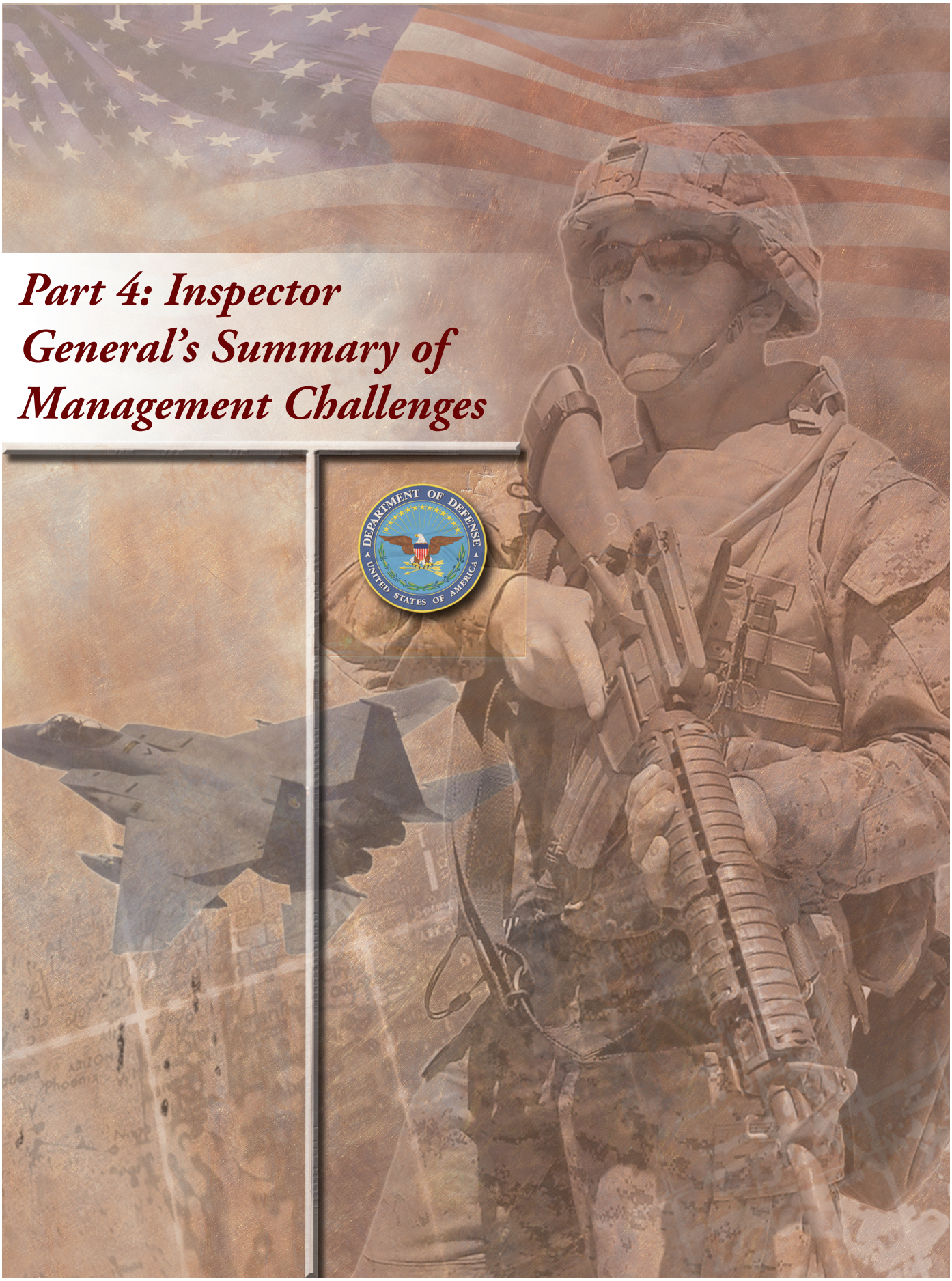
Part 4: Inspector General's Summary of Management Challenges



Part 4. Inspector General's Summary of Management Challenges

This part of the report contains the complete text of the Inspector General's summary of the most significant management challenges facing the Department. Management's response to the Inspector General's assessment is at the end of this section.

The management challenges that the Inspector General (IG) identified, based on audits, investigations, and inspections, fall into nine major areas. These areas, which have been identified in the Department of Defense (DoD) Performance and Accountability Reports since fiscal year (FY) 2002, remain significant challenges. The challenge areas, summarized here and in past Performance and Accountability Reports, are as follows:

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

Joint Warfighting and Readiness

U.S. forces continue to transform to meet the threats of the 21st century and beyond. The ongoing efforts by the Services, incorporating the lessons learned of Operations Iraqi Freedom and Enduring Freedom, focus on evolving the armed forces to meet all threats, the conventional threat as well as the asymmetrical threat. But unlike previous eras, the United States finds itself with another type of readiness being required of its armed forces; the ability to conduct peacekeeping and stabilization operations. Although other management challenges encompass areas that impact joint warfighting and readiness issues, the synergy of those other management challenges will determine the extent to which the United States will be able to achieve its national objectives through joint operations.

Discussion

Our review of the management of National Committee for Employer Support of the Guard and Reserve identified several areas where controls can be improved to ensure that Reserve component personnel continue to receive support while they serve their country. Similarly, the Department's oversight of that program can also be improved.

We have also reviewed areas and identified issues in areas such as requirements generation, training, and adapting to meet changing conditions in the Department. One hurdle the armed forces face is being able to meet any threat, while operating within strict resource constraints. If the Department becomes involved in stabilization or peacekeeping operations, the resources required could be great. If that were to happen while operations in Iraq and Afghanistan continue, the Department could face difficult issues about troop strengths, recruiting and retention, and equipment readiness. In addition, the current situations involving the nuclear programs of North Korea and Iran present additional resource requirements.

DoD lacks comprehensive policy, guidance, and training concerning roles, missions, functions, and relationships of Combatant Command IGs. This significantly inhibits the ability of these IGs to perform their duties in support of the combatant command commanders. DoD Office of Inspector General (OIG) is collaborating with the Inspectors General of the Joint Staff, Combatant Commands, and Military Departments to provide the desired training and guidance for this community of IGs. DoD OIG organized and supervised the

development of the Joint/Combatant Command IG course. The first class for this course was held from August 29 to September 2, 2005.

Inspector General Assessment of Progress

The Department continues to make progress in the area of Joint Warfighting and Readiness. However, much is still to be done, and the Department cannot afford to ignore new, and in some cases recurring, situations that will require its attention. The recent announcement of bases identified for closures will enable the armed forces to shape and focus their force structure in a way that will provide greater flexibility in responding to threats. The announced drawdown, and coinciding reorganization of forces in the European and Pacific theaters will add to the ability of the armed forces to respond as required. The OIG, as well as the U.S. Government Accountability Office (GAO), the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency each have covered topics related to improving the ability of the armed forces to respond to threats to the United States. During the past 5 years we have seen inconsistent and poor guidance used in selected programs of the Department. For example, reviews of depot repair, logistics support, and weather programs have each shown where improvements can be made.

The lessons of Operations Iraqi Freedom and Enduring Freedom have served as reminders that joint also means the full integration of the Reserve components into operations. This full participation presents unique concerns, many revolving around dependent family members that do not always confront the Active components. Many of those issues will persist despite the best efforts of the armed forces. Although the Department is taking positive actions in order to increase its warfighting ability and readiness posture, opportunities to improve continue to exist.

Homeland Defense

The Department defines "threat" as any circumstance or event with the potential to cause harm. The global war on terror continues to heighten the level of threat from adversaries to the United States. Direct threats to the Homeland infrastructure are obvious and the DoD has been very successful in addressing those threats. However, greater challenges are presented by threats from sources such as (1) dual-use items, (2) weapons of mass destruction in the former Soviet Union, (3) lengthy personnel background security clearance checks, (4) critical infrastructure protection, and (5) "9/11."

Discussion

Dual Use Items. Dual-use items are items that can be used for both commercial and military purposes. The items may take the form of technology, software, and chemical or biological items and could be used to cause harm to the United States.

Controlling the use and transfers of dual-use items poses a significant undertaking for the Department. This undertaking is significant because controls over dual-use items are handled on a case-by-case basis and blanket rules or regulations may not be applicable. For example, teaching someone about a technology might be a legitimate technology transfer but showing the same person specifically how to produce the technology could be extremely risky to the Nation's defense. Thus, the Department is faced with identifying sub-components of systems that may be transferred legitimately. Determining the risks and benefits of transfers challenges the Department to develop controls over transfers of dual-use items in each of the following areas:

- Federal laboratories' compliance with the deemed export (a deemed export of technology or computer source code takes place when it is released to a foreign person within the United States) licensing requirements,

- Policies and procedures for developing, maintaining, and revising lists of controlled exports,
- Export licensing and review agencies' efforts to modernize and interface their automated licensing systems,
- Enforced export controls for both dual-use items and munitions (dual-use items can be used for either commercial or military purposes), and
- The Federal Government's deemed exports control laws and regulations and the export licensing process for chemical and biological commodities.

Threat Reduction. The Department continued to experience challenges in its threat reduction program. During the past 4 years, we have evaluated implementation of the Cooperative Threat Reduction Program. That program was initiated to reduce the threat posed by weapons of mass destruction in the former Soviet Union by providing assistance to former Soviet states in building facilities and operating programs to safeguard, transport, and ultimately destroy chemical, biological, and nuclear weapons, delivery systems, and infrastructure.

The Department has not sufficiently managed implementation and execution of cooperative threat reduction projects. Adequate controls for the program and its projects are vital to ensuring that the limited funds are used effectively.

Personnel Security Clearances. Obtaining timely personnel security clearances for DoD military and civilian employees is a challenge. Since at least the 1990s, GAO has documented problems with DoD personnel security clearance process, particularly problems related to backlogs and the delays in determining clearance eligibility. Since FY 2000, the Department has declared its personnel security investigations program to be a systemic weakness. In FY 2004, GAO added the personnel security clearance process to its list of High Risk Areas. In February 2005, the investigative portion of the personnel security clearance process transitioned to the Office of Personnel Management (OPM) in an effort to improve the process. Both GAO and the OIG have issued reports documenting the backlog of investigations. The Department is involved in an unprecedented transformation of the personnel security program. The scope of this initiative includes: personnel transfers and training; establishing and disestablishing offices; modifying and creating information systems; issuing new policies, and selecting contractors. The effort to transform is extraordinarily time consuming and must occur in an environment where demand for security clearances continues to exceed the Department's capacity.

Critical Infrastructure Protection. In September 2003, the Deputy Secretary of Defense realigned Critical Infrastructure Protection (CIP) oversight to the Assistant Secretary of Defense for Homeland Defense (ASD(HD)). The ASD(HD) was tasked to focus on the planning and execution of DoD resources in preventing and responding to threats to infrastructures and assets critical to DoD missions. Subsequently, the ASD(HD) requested that the OIG assist them in meeting their CIP responsibilities by evaluating the proposed CIP policy and organization; validating the efficiency and effectiveness of the vulnerability assessment methodologies; reviewing procedures related to vulnerability assessments for data collection and analysis, implementing corrective actions, and sharing lessons learned. Consequently, we announced our CIP Evaluation Program in June 2004 to assess the Defense Critical Infrastructure Program with emphasis on assets exposed to high-risks. In February 2005, the DoD OIG presented the final briefing to ASD(DH) and recommended a series of organizational changes and process improvements for the CIP program.

ASD(HD) accepted and endorsed all of the recommendations. Implementing the recommendations will present a number of management challenges. For example, the DoD must be organized to perform its mission and also provide assistance to civil agencies in the event of another terrorist attack. Organizational changes

will need to be made to ensure compliance with news laws and executive guidance. Furthermore, the transformation process will need to consider human capital and resource requirements commensurate with program responsibilities and mission requirements. Lastly, the ASD(HD) will need to develop a consolidated approach for addressing responsibility, authority, and funding for the protection of Defense infrastructure both within the continental U.S. and overseas.

"9/11." The challenge is to improve response capability. The intelligence community, the DoD, and the Department of Transportation should be able to respond to a future similar event or another significant event.

Inspector General Assessment of Progress

The Department must always be aware of and vigilant in protecting the United States and its interests so the challenge of Homeland defense will likely change over time but not diminish. While the areas described require continued vigilance, the Department has made some progress in each.

Dual Use Items. In 2005, the interagency review of export licensing resulted in a positive report on the Department's process for reviewing export licenses. The Department is working with other Federal entities to expand the control list for several biological commodities. The Department must continue to thoroughly analyze the U.S. interests when participating in transfer of dual-use technology, software, chemical, and biological items.

Threat Reduction. Key oversight positions were vacant for about 5 years and oversight responsibilities were not clearly defined. However, in July 2004, a Senior Business Officer position was filled and additional oversight responsibility resides in that position. In April 2005, the Cooperative Threat Reduction Integrating Contracts Business Processes Guide that requires additional control procedures in contracting was released.

Personnel Security. The Department made changes in the area of personnel security clearances but it is uncertain whether those changes represent progress. The Department transferred responsibility for investigations to OPM and retained adjudicative responsibility. Like personnel security investigations, adjudications are backlogged. It is unclear how the Department proposes to overcome the shortage of appropriately skilled and trained personnel in the Federal and private sectors to accomplish background investigations and clearance eligibility adjudications. The OIG review of the requesting activities' role in impeding the overall clearance process will identify additional areas for progress to be made.

Critical Infrastructure Protection. The OIG examined the process used to identify critical nuclear command and control facilities and equipment. The report discussed needed improvements in DoD policy oversight and management.

9/11. The OIG conducted an accountability review of intelligence community activities before and after the attacks of September 11, 2001. The report concluded that there was no evidence of omission, commission, or failure by the National Security Agency personnel to meet professional standards, but the overall effectiveness of the agency counterterrorism mission was limited because it was inadequately resourced.

The OIG report on DoD forensic capabilities and incident reporting discussed how the DoD prepared after-action information related to the events of the 9/11 terrorist attacks and identified weaknesses in the DoD's ability to sufficiently capture and report on actions taken to respond to a future similar event or another significant event.

The Office of the Assistant Secretary of Defense for Homeland Defense and the U.S. Northern Command worked effectively to coordinate Departmental Homeland defense policy and resources. Initiatives to coordinate policy and resources at the Federal level with the Department of Homeland Security are underway.

The Defense Criminal Investigative Service (DCIS) also plays an important role in the global war on terror. DCIS continues to participate actively in several Joint Terrorism Task Force (JTTF) initiatives nationwide. Additionally, DCIS maintains a full time liaison position with the National JTTF located with the National Counterterrorism Center in Northern Virginia. DCIS HQs and field agents continue to respond to inquires and investigative assistance requests from all levels of law enforcement in regards to DoD resources and involvement in JTTF matters.

Human Capital

The challenge in the area of human capital is multifaceted. The DoD must ensure that civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, encouraged to engage in intelligent risk taking, and capable of functioning in an integrated work environment and handling the emerging technologies and threats of the 21st century. That challenge involves ensuring that the Department's workforce planning is focused on acquiring, developing and retaining a total workforce to meet the needs of the future including contractor workforce. The Department employs over 3.38 million civilian and military personnel, with an annual financial investment of over $100 billion. The challenges of managing such a large workforce plus contractor personnel include the need for the Department to identify and maintain a balanced level of skills to maintain core defense capabilities and meet the 21st century challenges and threats. Without focused recruiting, knowledge management programs, and a transparent personnel system, the DoD may have difficulty hiring, developing, training, and retaining high quality people to become skilled soldiers, workers, managers, and leaders.

Discussion

The Department's challenge in human capital include four major areas: recruiting and retaining military personnel, implementing the National Security Personnel System (NSPS), minimizing disruption from Base Realignment and Closure (BRAC), and ensuring compliance with restrictions on post-government employment activities.

Military Personnel. The DoD has three major military operations that require significant military personnel. As pointed out in the section on Joint Warfighting and Readiness, new operations of any kind including stabilization or peacekeeping could further stress personnel resources. In addition to overall personnel recruitment and retention, the DoD faces continued challenge in filling "hard-to-recruit/hard to retain" occupations. The GAO reported that unlike 2004, 2005 has not seen the Department exceed or reach recruitment goals.

National Security Personnel System. As recently as July 2005, the GAO reported on challenges it identified that the DoD would face in implementing the National Security Personnel System. Among the challenges are providing adequate resources to implement the system, ensuring effective communication in implementing and evaluating the system, involving key players effectively, and sustaining committed leadership. GAO recommended creating a position and appointing a chief management official to lead NSPS and other initiatives.

BRAC. In closing and realigning installations the Department is likely to lose general and specialized

skills as a result of personnel choosing to leave the workforce rather than move. The challenge for the Department is to plan for the losses and provide for the replacement of the skills so it minimizes disruption to defense operations.

Post-Government Employment Activities. Compliance with restrictions on post-government employment activities is another challenge the Department faces as it strives to maintain a high standard of integrity and public confidence. Disclosure of a Pentagon acquisition official's violation of post-employment guidelines prompted Members of Congress and senior level DoD officials to question whether current training and information provided to employees are sufficient to prevent similar irregularities. GAO issued an April 2005 report on the "Defense Ethics Program: Opportunities Exist to Strengthen Safeguards for Procurement Integrity," (Report No. GAO-05-341), which stated the Department of Defense lacks information to evaluate the DoD training and counseling process.

Inspector General Assessment of Progress

Military Personnel. The Department has used bonuses extensively to make enlistment and reenlistment more attractive. In addition to monetary bonuses, the Department offers educational opportunities of various kinds to attract recruits. The services have increased the number of recruiters as a means of reaching more people. GAO is reviewing the DoD efforts to recruit and retain military personnel and plans to report its findings this Fall.

National Security Personnel System. The DoD is phasing in the NSPS, the system designed to change how the Department hires, pays, promotes, disciplines, and fires its civilian workforce to make practices more in line with personnel practices in the private sector. The Department has conducted meetings with employees, unions, and other affected parties and has formed working groups to identify and develop options and alternatives for NSPS. The Department has adjusted its implementation schedule to better effect the changes needed for the program. It has developed communications to target groups within the Department and methodologies to gauge effectiveness. The Department efforts to gain support from the unions has not been successful and remains a major challenge within the area.

BRAC. Decisions regarding loss of human capital skills are contingent on the decisions of the BRAC Commission and approval of the of the Commission's list. Progress on planning for the loss of skills is pending.

In recognition that human capital is a crucial area within the DoD, the OIG continued its audit team dedicated to the area of human capital.

Information Technology Management

The Department defines information technology (IT) as a tool that enables the Department to perform its mission and support functions effectively and efficiently. In June 2004, the DoD Chief Information Officer (CIO) developed a strategic plan for the management and acquisition of IT. The goals of the strategic plan are to:

- Develop and implement an IT infrastructure,
- Share data and information,
- Improve business processes and train people, and
- Develop and maintain information assurance practices.

Discussion

The Department IT goals present a management challenge regarding IT action plans to implement and assess the Department's IT strategy.

IT Infrastructure. The Department has a strategy for improving bandwidth, communication capabilities, using commercial software, and developing an enterprise architecture. However, the strategy does not identify responsible officials, establish metrics, or require the development of action plans to implement the strategy or identify necessary changes to the strategy. Further, the Department has a stated goal to eliminate internal software design activities in favor of commercial-off- the shelf-software; however, if the Department acquires software on a cost-effective basis, internal design activities will cease to exist when they cannot deliver better quality than commercial sources in conformance with the President's Management Agenda on using performance and results to make decisions.

Data and Information. The Department has a stated goal to make information readily available to those who need it in a useable format. However, the strategy does not require the development of an action plan to assign responsibilities and the metrics to assess progress. The plan also does not state whether the requirement pertains to existing data in legacy systems. Historically, many system developers have opted not to convert legacy data because of the high costs attached.

Business Processes and People. The Department has established the Business Management Modernization Program to ensure the development of standard information systems. The plan lists the CIO and Chief Financial Officer as proponents of the process; however, the plan does not define the roles of the Services and Defense Agencies. Further, the plan does not discuss an action plan that defines the role of these key players as well as the necessary metrics to assess the program. The plan does describe the actions the DoD is taking to train DoD personnel; however, it does not provide a mechanism to assess the progress made.

Information Assurance. The Department has developed five priorities for information assurance: protecting information, defending systems and networks, providing situational awareness, improving information assurance capabilities, and creating a professional information assurance workforce. However, an action plan does not exist to assess the effectiveness of these initiatives.

Inspector General Assessment of Progress

In April 2005, GAO identified business system modernization as a High-Risk Area. Under the business systems modernization area, GAO stated that the Department framework was good but lacked a comprehensive and integrated plan of action. We agree based upon our review of the IT strategic plan. The Department should develop action plans to implement and refine the solutions made in the IT strategic plan. Those action plans should incorporate audit community recommendations.

The OIG reported on the DoD intelligence agencies security status for the Federal Information Security Management Act. Further, an OIG audit of Defense Contract Management Agency information technology security posture for selected programs disclosed systemic weaknesses in IT security at four selected agency field offices, including problems with the certification and accreditation process, contingency planning, incident response programs, and security awareness training.

In December 2004, the Department agreed to develop and implement a Plan of Action and Milestones to manage and close identified security performance weaknesses in information technology security. The first step toward that end is a policy memorandum establishing the process. The OIG received the policy memorandum for review on August 18, 2005.

Acquisition Processes and Contract Management

The Department buys the largest amount and biggest variety of goods and services in the world in support of its mission to preserve and defend the security of the nation. In FY 2004, the DoD spent $254 billion on acquisitions. On an average every working day, the DoD issues more than 25,000 contract actions, valued at $923 million, and makes more than 195,000 credit card transactions, valued at $44 million. There are about 1,500 weapon acquisition programs valued at $2.2 trillion over the collective lives of these programs. The amount spent to procure services, $77 billion in FY 2001, grew to $123 billion in FY 2003 as the DoD continued to expand its need for support to the private sector. In addition, in FY 2004, the DoD sent about 24,000 Military Interdepartmental Purchase Requests valued at $8.56 billion to the General Services Administration (GSA) for the purchases of goods and services. The management challenge is, despite this huge scale, to provide required materiel and services that are superior in performance, high in quality, sufficient in quantity, and reasonable in cost. Every acquisition dollar that is not prudently spent results in the unavailability of that dollar to fund the top priorities of the Secretary of Defense.

Discussion

Maintaining an effective and sustainable acquisition workforce in light of changing acquisition strategies and vehicles, prior downsizing, and an aging workforce, is a challenge. The OIG is reviewing the implications of these changes on the ability of the acquisition workforce to effectively manage the billions of dollars expended on acquisitions.

The Department must be vigilant in investigating procurement fraud and violations of procurement integrity rules to optimize the financial resources appropriated for national defense. The investigations of violations of the Procurement Integrity Act by the former Principal Deputy Secretary of the Air Force for Acquisition and Management and the former Chief Financial Officer for the Boeing Company and their impact on acquisition programs highlight the need for continued training for acquisition professionals. Adverse actions taken by very few people can cause delay for major acquisition programs, impede quick delivery of new capabilities to the warfighter, and adversely affect the public perception of the integrity of the acquisition process.

The OIG conducted an accountability review of all members of the Office of the Secretary of Defense and the Air Force to determine what happened, who was accountable, and what actions must be taken to prevent a situation like the Boeing KC-767A tanker aircraft lease from happening again. The report identified the DoD and Air Force officials accountable. Although required to do so by DoD directive, the identified officials did not comply with the DoD 5000 series of guidance, the Federal Acquisition Regulation, and the Office of Management and Budget circulars during their efforts to lease the tanker aircraft. To prevent reoccurrences of this situation, the Department of Defense must change the cultural environment in its acquisition community to ensure that the proper control environment is reestablished and followed for major weapon-system acquisitions.

The Department continues to experience a variety of shortcomings in its approach to program office and contractor designs. Significant shortcomings have occurred in placing controls in the contracting process and contract terms over life-cycle costs, in particular of designs. For example, because of cost overruns on chemical-agent disposal facilities, the Congress required the Department to certify that life-cycle costs of a specific facility would not exceed $1.5 billion in FY 2002 constant dollars. The overarching problem was that the program manager ignored the facility life-cycle cost limitation that the Department certified to the Congress, resulting in the acquisition not being executable and

affecting the ability of the Department to meet its commitments.

The audit community continued to identify ways that the Department could improve acquisition of weapon system programs, including the following examples:

- Identify quantity requirements, determine weapon system affordability, obtain satisfactory operational test results, and obtain authority to operate before making investment decisions (OIG audits of the EA-6B Improved Capability III Program and Extended Range Guided Munition Program); and
- Implement effective management internal controls (OIG audits of 16 Navy and Air Force acquisition category II and III programs valued at $7.7 billion).

The Department also has significant challenges regarding purchases the GSA made for the Department. Military Interdepartmental Purchase Requests valued at about $406 million that were used primarily in the fourth quarter of FY 2004 did not comply with the U.S. Constitution, appropriations law, and the Federal Acquisition Regulation for making purchases through the GSA. Of 75 purchases:

- 68 purchases lacked acquisition planning to determine that contracting through the GSA was the best alternative available;
- 74 purchases did not have adequate interagency agreements outlining the terms and conditions of the purchases;
- 38 purchases were funded improperly, the requesting DoD organization either did not have a bona fide need for the requirement in the year of the appropriation, or did not use the correct appropriation to fund the requirements; and
- 44 purchases were not supported by an adequate audit trail.

In the GSA transactions, between $1 billion to $2 billion in Department funds were used that were no longer available.

The Defense auditing community is heavily involved in helping the Department aggressively pursue savings through the use of credit cards and reduce its vulnerability to misuse. In reports and testimony, the OIG DoD and the GAO identified where the Department needed to increase focus on negotiating discounts and to leverage $7.2 billion in DoD purchase card spending in order to achieve hundreds of millions of savings. The OIG DoD reported that controls over purchase card use were not properly implemented and were ignored by senior management at the Space and Naval Warfare Information Technology Center, New Orleans. This incident occurred between FY 1999 and FY 2002 and the OIG DoD officially closed the report for follow-up purposes on April 22, 2005. The Washington Headquarters Services revealed that agency employees made about $1.7 million of fraudulent purchases and $201,000 of improper purchases with purchase cards to including computer games, coffee mugs, radios, and power tools.

Combating government procurement fraud remains a priority for Defense Criminal Investigative Organizations. For example, the provision of sub-standard or defective products that are meant to support and/or protect our warfighters constitutes 15 percent of the 1,610 DCIS open cases as of August 1, 2005.

Inspector General Assessment of Progress

Overall, the Department has made progress improving numerous acquisition processes. Despite progress, the growing volume of acquisitions, the decrease in the number of acquisition personnel, and the numerous annual changes in regulations and processes for the acquisition professional make

this a long-term challenge. During the last year, one DoD agency was developing a processing and exploitation system when a better and cheaper system already existed. In addition, the Department has had to react to previously unidentified problems related to the acquisition of major systems, such as the KC-767A Tanker aircraft and C-130J aircraft, contracting for Operation Iraqi Freedom and use of multiple-award schedule contracts from other Federal agencies. The DoD positively reacts after problems are identified; however, the sheer volume of contracting creates a challenge of correcting the problems.

The Department needs to continue with vigilant investigations of allegations of corrupt acquisition, both criminally and administratively. Undoubtedly, the works of a few to undermine the integrity of the acquisition process can setback the success of millions of acquisition actions within the department.

Proactive efforts of the DoD OIG data mining group and the Department purchase card program office have been increasing senior leadership involvement and improving management controls over the purchase card program. For example, the DoD reduced the number of purchase cards by 47 percent, from 214,000 to 114,000. Also, the Department developed a standardized training program for card holders and billing officials and improved the policies, guidance, and controls on purchase card use.

Financial Management

The Department of Defense financial management environment is probably the most complex and diverse in the world. Its FY 2004, financial statements included $1.2 trillion in assets, $1.7 trillion in liabilities, total budgetary resources of more than $1 trillion, and $605 billion in Net Cost of Operations. In FY 2004, the Defense Finance and Accounting Service, the Department's accounting services provider, on behalf of the Department: paid 12.6 million commercial invoices, made 6.9 million travel payments, processed 104 million payments to 5.9 million people (including benefits to retirees and families), made $455 billion in disbursements, managed $13.5 billion in foreign military sales, managed $226.5 billion in military retirement trust fund, and accounted for 282 active DoD appropriations.

In FY 2004, as in recent years, the Office of Management and Budget (OMB) required the Department to prepare Department-wide financial statements and obtain an audit opinion on them and on eight DoD component financial statements, including the Military Retirement Trust Fund, the Corps of Engineers and the general funds and working capital funds for the Army, Air Force, and Navy. Of those, only the Military Retirement Trust Fund received an unqualified opinion. The others, including the DoD agency-wide financial statements, received a disclaimer of opinion, and have never received other than a disclaimer of opinion. Three intelligence agencies also prepare financial statements at the direction of the Senate Select Committee on Intelligence.

Discussion

The Department faces financial management challenges that are complex, long-standing, and pervade virtually all its business operations, affecting the ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Because the DoD's financial management problems are so significant, the GAO has stated that DoD's financial management deficiencies, taken together, represent a major impediment to achieving an unqualified opinion on the U.S. Government's consolidated financial statements.

GAO identified DoD financial management as

a High Risk Area in 1995, a designation that continues to date, and which, together with the High Risk Areas of business systems modernization (designated a High Risk Area in 1995), and supply chain management (designated a High Risk Area in 1990) directly affect the Department's ability to attain an unqualified audit opinion on its financial statements. Additionally, GAO designated the DoD Approach to Business Transformation as a new High Risk Area for 2005 because the DoD lacked an integrated strategic planning approach to business transformation. In its June 30, 2005, Executive Branch Management Scorecard, OMB assessed the status of the Department's financial performance as "Unsatisfactory". The Scorecard also assessed the Department's progress at implementing the Financial Performance component of the President's Management Agenda as "Unsatisfactory".

The DoD OIG has previously identified several material control weaknesses that reflect some of the pervasive and long-standing financial management issues faced by the DoD and which also directly impact the Department's ability to attain an unqualified opinion on its financial statements. These include:

- **Financial Management Systems:** Of the material control weaknesses, the most significant is the Department's financial management systems. The Department currently relies on an estimated 4,000 systems, including accounting, acquisition, logistics, personnel, and management systems, to perform its business operations. Many of those financial management systems do not substantially comply with Federal financial management systems requirements. The DoD financial management and feeder systems were not designed to adequately support various material amounts on the financial statements. These systemic deficiencies in financial management and feeder systems and inadequate DoD business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.
- **Fund Balance with Treasury:** DoD did not resolve financial and reporting inconsistencies to accurately report Fund Balance with Treasury and inconsistencies continue to exist related to: in-transit disbursements; problem disbursements, including unmatched disbursements and negative unliquidated obligations; unreconciled differences in suspense accounts; and unreconciled differences between U.S. Treasury records and DoD.
- **Inventory:** The DoD process for inventory valuation does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific transactions. Additionally, the DoD does not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale.
- **Operating Materials and Supplies:** The DoD continues to expense significant amounts of operating material and supplies when purchased instead of when they were consumed.
- **Property, Plant, and Equipment:** The DoD's legacy property and logistic systems were not designed to capture acquisition cost, costs of modifications and upgrades, or calculate depreciation. In addition, value of DoD Property, Plant, and Equipment is not reliably reported because of a lack of supporting documentation.
- **Government-Furnished Material and Contractor-Acquired Material:** The DoD is unable to comply with applicable requirements for Government-Furnished Materials and Contractor Acquired Materials. As a result, the value of DoD property and material in the possession of contractors is not reliably reported.
- **Environmental Liabilities:** Environmental liability estimates were unreliable because certain DoD activities did not have effective controls in place to ensure adequate audit trails and supporting documentation for estimates, comply with established guidance in developing estimates, maintain reliable feeder and coordination systems, document supervisory review of estimates, and establish quality control programs.

- **Intragovernmental Eliminations:** Because DoD's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations, the DoD made unsupported adjustments because it was unable to reconcile most intragovernmental transactions.
- **Other Accounting Entries:** The DoD continues to enter material amounts of unsupported accounting entries.
- **Statement of Net Cost:** Current financial processes and systems do not capture and report accumulated costs for major programs based on performance measures identified under the requirements of the Government Performance and Results Act.
- **Statement of Financing:** The DoD is unable to reconcile budgetary obligations to net costs without making adjustments.

The Department's material control weaknesses will prevent the Federal Government from achieving an unqualified opinion on the FY 2005 consolidated financial statements. Because the FY 2002 National Defense Authorization Act limits the audit procedures that the DoD OIG can perform on DoD financial statements to those procedures consistent with DoD management's representations as to their reliability, and the DoD has consistently represented that the Department's financial statements are not reliable, additional material control weaknesses may exist which have not been specifically identified.

Inspector General Assessment of Progress

One significant measure of the ongoing progress in the area of financial management would be the Department's ability to obtain an unqualified audit opinion on its financial statements. Though sound financial management goes beyond obtaining an unqualified audit opinion, the President's Management Agenda has recognized that obtaining an unqualified opinion is a strong indicator of a well-managed organization. The DoD is far from reaching this goal as demonstrated by the audit opinions received by the Department and its components on their FY 2005 financial statements. The Department established a goal to achieve an unqualified audit opinion in FY 2007. However, GAO has concluded that an unqualified FY 07 audit opinion remains simply a goal for which there is not yet a clearly defined, well-documented, and realistic plan to achieve. However, the Department's ongoing initiatives in the area of financial management improvement as subsequently described indicate that DoD management is aggressively responding to the significant and pervasive financial management issues and is positioning itself to leverage planned systems and business improvements to achieve sustainable and long-term solutions.

The Department's plans to improve financial management is captured by its emphasis on the core business mission of Financial Management as one of five core business missions of the Business Management Modernization Program, which was established to transform business operations to achieve improved warfighter support while enabling financial accountability across the Department. One of DoD's business enterprise priorities, financial visibility, incorporates six Financial Management core business capabilities, including Financial Reporting. The Financial Reporting component will focus on the ability to provide relevant financial visibility and real-time information dashboards for DoD decision makers and to summarize financial information for the purpose of producing mandatory reports in compliance with regulatory requirements and discretionary reports in support of other requirements. The Department is making efforts to comply with specific and recent congressional mandates requiring the DoD to make concrete progress in improving its systems and business processes. One such legislation, the Ronald W. Reagan National Defense Authorization Act for fiscal year 2005, requires the DoD to develop well-defined business enterprise architecture and a transition plan by September 30, 2005, to cover all defense

business systems and related business functions and activities that is sufficiently defined to effectively guide, constrain, and permit implementation of a corporate-wide solution and is consistent with the policies and procedures established by the OMB. Further, the act requires the development of a transition plan that includes not only an acquisition strategy for new systems, but also a listing of the termination dates of current legacy systems that will not be part of the corporate-wide solution, as well as a listing of legacy systems that will be modified to become part of the corporate-wide solution for addressing DoD's business management deficiencies.

During FY 2005, the Office of Undersecretary of Defense (Comptroller) established the Financial Improvement and Audit Readiness (FIAR) committee to prepare a FIAR plan which will provide a roadmap for financial improvement activities and auditability. Some of the goals of the FIAR plan include the establishment of a single, comprehensive and collaboratively managed financial improvement plan, and improving the visibility of financial improvement activities, progress, accomplishments, and audit opinion timeframes. The plan currently focuses on four primary areas: military equipment, real property, environmental liabilities, and health care. Additionally, the Department has developed business rules, which if implemented as planned, should clearly establish a process for ensuring that corrective actions, as described in the DoD component plans, are implemented and validated in order to minimize the Department's risk of unsupported claims by DoD components that reported financial information is auditable.

Health Care

The DoD Military Health System (MHS) challenge is to provide high quality health care in both peacetime and wartime. The MHS must provide quality care for approximately 9.2 million eligible beneficiaries within fiscal constraints while facing growth pressures, legislative imperatives and inflation that have made cost control difficult in both the public and private sectors. The DoD challenge is magnified because the MHS must also provide health support for the full range of military operations. Part of the challenge in delivering health care is combating fraud. As of August 1, 2005, health care fraud constitutes 9 percent of the 1,610 DCIS open cases.

The increased frequency and duration of military deployments further stresses the MHS in both the Active and Reserve components. The MHS was funded at $30.7 billion in 2005, including $18.2 billion in the Defense Health Program appropriation, $6.4 billion in the Military Departments' military personnel appropriations, $0.2 billion for military construction, and $5.9 billion from the DoD Medicare Eligible Retiree Health Care Fund to cover the costs of health care for Medicare eligible retirees, retiree family members and survivors.

Discussion

Two of the primary challenges for the MHS in 2006 will be to begin implementing the BRAC recommendations and completing the medical readiness review.

The results of the BRAC initiative will impact the numbers and types of medical facilities that will make up the MHS. The concurrent evaluation of transformational options will result in the realignment of capabilities and resources to increase the effectiveness of the MHS.

A major challenge related to medical readiness remains the completion of a Medical Readiness Review (MRR) being overseen by a steering group co-chaired by the offices of the Under Secretary of Defense for Personnel and Readiness and the Director, Program Analysis and Evaluation. The

MRR will identify medical readiness and personnel management capabilities required by the National Security Strategy and related transformation of war fighting. The MRR will examine how the capabilities will be delivered in wartime and maintained in peacetime and how the MHS will be sized for both foreign and domestic response. Ongoing challenges include providing capability for readiness of the deploying forces and the readiness of the medical staff and units. Readiness of the force means that all deployable forces are medically ready to perform their missions before deploying, while deployed, and upon return. Readiness of the medical staff and units includes ensuring that medical staff can perform at all echelons of operation and the units have the right mix of skills, equipment sets, logistics support, and evacuation and support capabilities. The Assistant Secretary of Defense (Health Affairs) requested that the DoD OIG review the medical readiness reporting system. We will begin that review in 2006. As with most DoD functions, the MHS continues to face the challenge of increased joint operations and management.

The FY 2004 National Defense Authorization Act authorized temporary provisions to expand TRICARE health and dental coverage for Reserve component members and families. The FY 2005 National Defense Authorization Act permanently extended health care benefits for Reserve component members and their family members. The challenge of keeping reservists medically ready to deploy continues due to the frequency and duration of Reserve deployments.

In addition to the peacetime and readiness challenges, the President's Management Agenda for FY 2002 identified nine agency specific initiatives. One of the specific initiatives was the coordination of the DoD and the Department of Veterans Affairs (VA) medical programs and systems. This issue is further addressed in Section 721 of the National Defense Authorization Act for FY 2003, which requires coordination and sharing of the DoD and the VA health care resources. Effective October 1, 2003, the DoD and VA are each required through 2007 to contribute annually $15 million to the DoD Veterans Affairs Health Care Sharing Incentive Fund to finance future sharing initiatives. Section 722 of the National Defense Authorization Act for FY 2003 required the DoD to contribute $3 million in FY 2003, $6 million in FY 2004, and $9 million in later years to cover a "health care resources sharing and coordination project." We believe the sharing requirement will benefit both agencies and reduce costs. The FY 2003 National Defense Authorization Act also assigned the GAO responsibility for annually assessing the coordination effort and reporting to Congress.

During FY 2005, the DoD audit community issued 15 reports addressing health care issues such as personnel requirements, medical laboratories, third party collections, financial management, provider productivity, deployment health assessment, base realignment and closure, patient movement, the medical acquisition process, global war on terrorism funding, and tactical medical support.

Inspector General Assessment of Progress

The MHS has been moving forward on improving health care while attempting to control costs. MHS has made significant progress in implementing new TRICARE contracts. TRICARE transitioned from 12 regions and 7 contracts in the United States to 3 regions and 3 contracts. The contracts provide incentives for customer satisfaction and include the managed care support contractors as partners in support of medical readiness. Transition to the new contracts is complete; however, some issues still exist that are being addressed in the administration of the TRICARE program, particularly at the regional level.

The Medical Joint Cross Service Group completed its base realignment and closure process for medical facilities and has submitted recommendations to the Secretary. The MHS must now await final decisions

of the BRAC Commission, the Congress and the President before implementation can begin.

The MRR continues. Four working groups have been established to address: medical readiness capabilities, casualty estimation, capability metrics, and medical resources. Considerable progress has been made by the group. The MRR is scheduled to be completed in 2006 and should help ensure that medical requirements are included in operational planning rather than being addressed after the fact.

The Military Health System Executive Review (or MHSER) commissioned a study in 2004 that has helped to articulate improvements in process and management for the MHS. This work is called the Local Authorities Work Group recommendations. These 24 items comprise an agenda for transformation of business process at the local (market) and MTF level.

The MHSER also sanctioned the formation of the Office of MHS Transformation, which has been approved by the Deputy Secretary of Defense. The Office will stand up for a period of two years and will have as its agenda the implementation of the MRR, BRAC and the above-mentioned Local Authorities Work Group recommendations. The Transformation Office is intended to coordinate fully all of the various but inter-related transformational ideas into a comprehensive package. The effort will work under the Assistant Secretary of Defense (Health Affairs) and will be led, staffed and supported by members from MHS.

The Department also made progress toward implementing a fully integrated pharmacy program by developing a uniform formulary. Having a uniform process will make the pharmacy benefit more cost effective and will comply with the FY 2000 National Defense Authorization Act. The implementation of Federal ceiling prices for drugs has stalled because the issue is in litigation with industry. Some companies in the industry have challenged the Government's legal right to control prices by establishing ceilings. Resolving this in court will be a challenge to the Department because the DoD can realize millions of dollars of savings in pharmacy costs dispensed in the retail venue.

Progress is also being made with DoD/VA sharing initiatives. In FY 2004, 57 proposals were submitted for consideration for the DoD-Veteran Affairs Health Care Sharing Incentive Fund and 12 joint initiatives were approved with funds already released for the initiatives. Proposals are currently being considered for FY 2005 initiatives. In addition, seven sites were selected for resource sharing demonstration projects in three functions: budget and financial management, coordinated staffing and assignment, and medical information and information management. The VA/DoD Health Executive Council is monitoring the demonstration projects. The demonstrations will continue through FY 2007.

One of the major challenges identified last year was implementation of the Health Insurance Portability and Accountability Act (HIPAA). The Department made progress implementing HIPAA. A MHS-wide training program was developed and made available on the web. The MHS policy implementing the HIPAA National Provider Identifier (NPI) final rule was established in January 2005. The NPI will identify providers throughout the United States health care system in HIPAA covered standard electronic transactions. Full implementation of HIPAA remains an ongoing challenge within the MHS as well as in the industry.

Lastly, the DoD Quadrennial Defense Review (QDR) will provide the MHS the opportunity to formalize the personnel, infrastructure and process improvement ideas the MHS is pursuing as part of its transformational agenda. Medical transformation in the QDR is worked as part of the Integrated Process Team for Business Practices/Processes. The Integrated Process Team is designed to improve

DoD business practices. Results from the QDR will provide clarity to the agenda and a timeline for implementation of BRAC, Local Authorities Work, and the MRR.

Logistics

The challenge of logistics is to provide the right force the right personnel, equipment, and supplies in the right place, at the right time, and in the right quantity, across the full range of military operations. To meet this challenge, the Department is continuously transforming logistics by assessing best practices and evaluating new concepts that will provide the joint warfighter with support for all functions. Overall, DoD logistics is a $90 billion per year activity, involving over a million people. The Department provides supplies, transportation, and maintenance for a vast inventory of ships, aircraft, helicopters, ground combat and tactical vehicles, and thousands of additional mission support assets.

Discussion

Transformation of logistics capabilities poses a significant challenge to the Department. The Department's transformed logistics capabilities must support future joint forces that are fully integrated, expeditionary, networked, decentralized, adaptable, capable of decision superiority, and increasingly lethal. Additionally, transformed logistics capabilities must support future joint force operations that are continuous and distributed, across the full range of military operations.

Since its approval in 2003, Focused Logistics is the DoD's approved joint logistics functional concept to achieve logistics capabilities in support of distributed adaptive operations. The concept defines broad joint logistics capabilities that are necessary to deploy, employ, sustain, and re-deploy forces across the full spectrum of operations. The emergence and maturation of advanced logistics concepts and technology developments require that the DoD continuously reevaluate its logistics transformation strategy and reconcile such concepts as focused logistics, force-centric logistics enterprise, and sense and respond logistics. Together these logistics concepts and the identified initiatives for implementation will remain the DoD's challenge to a successful logistics transformation.

One particular challenge for the DoD is supply chain management. The GAO identified supply chain management as a High Risk Area due to weaknesses uncovered in certain key aspects, such as distribution, inventory management, and asset visibility. GAO has reported on numerous problems associated with supply chain management, such as shortages of items due to inaccurate or inadequately funded war reserve requirements and the DoD's lack of visibility and control over the supplies and spare parts it owns.

The DoD has taken actions to improve the supply chain management, such as assigning new organizational responsibilities for distribution, developing a logistics transformation strategy, and implementing other specific process improvements. However, the DoD must be vigilant in ensuring that the strategy for logistics transformation is continuously reevaluated and that new initiatives and systems are adequately funded and effectively implemented.

In late 2003, 28 members of Congress sent a letter to the Department of Defense Inspector General that expressed concerns about reports regarding alleged lack of support for Guard units deployed in Iraq and Afghanistan. The letter requested that we conduct an assessment in five logistical areas: potable water, organizational clothing and equipment (desert combat uniforms and desert boots), food/food service, in-theater medical/dental care, and access to communications with family members. The signatories of the letter also wanted to know if there was disparity of support between

the Reserve component forces and the Active forces. In response to this Congressional request, the DoD OIG conducted and recently completed an evaluation of the support provided to mobilized Army National Guard and U.S. Army Reserve units in the requested areas of logistics. Although the Army encountered significant logistical challenges to initiate and conduct sustained land combat operations in Operation Enduring Freedom and Operation Iraqi Freedom, the team concluded that support was adequate in the areas evaluated. There was no evidence of systemic disparity between support provided to Reserve component soldiers and to Active component soldiers, beyond the disparities "by design" associated with the tiered readiness system. The Army is transforming the policies and procedures of the tiered readiness system to the Active Component/Reserve Component Force Generation Model.

Another challenge for the DoD is ensuring that the President's Management Agenda's initiative on improved financial performance is adhered to while simultaneously implementing the specific initiatives for transforming DoD logistics. Several of DoD's initiatives, including business management modernization, performance-based logistics, and end-to-end distribution may require significant investment to fulfill transformation. The DoD must ensure that financial data are used to manage, make course corrections, maximize resources, and ensure that programs achieve expected results and work towards continual improvement.

Inspector General Assessment of Progress

The Department has made progress towards meeting its goal of transforming logistics through numerous initiatives. However, that progress is tempered by the sheer magnitude of logistics operations that will continue to make it a long-term challenge. To this goal, the Inspector General has evaluated such areas as performance-based logistics, business systems modernization, and inventory management.

Implementation of performance-based logistics has been at a slow pace. The DoD and the military services have issued policy and procedures for implementation of performance-based logistics. However, our review of performance-based logistics for the Javelin, H-60 Seahawk Helicopter, and the Joint Surveillance Target and Attack Radar System show that challenges still abound in the areas of developing effective business case analyses, performance-based agreements with warfighters, and ensuring that costs are reduced. A review of the Business System Modernization Program for the Defense Logistics Agency found favorable results in mission performance and information assurance; however, challenges still exist in addressing usability issues.

Lastly, a review of the initiatives for minimizing inventory to support special program requirements found that although actions had been taken to minimize investment in inventory to support special program requirements, the Defense Logistics Agency needs to expand its pilot program to reduce special program requirement procurement quantities in several of its defense supply centers.

In the near future, the Inspector General will also provide assessments of DoD's initiatives for airlift and sealift transportation, customer wait time, and weapon system requirements.

Infrastructure and Environment

The challenge in managing approximately 3,700 military installations and other DoD sites is to provide reasonably modern, habitable, and well-maintained facilities, which cover a spectrum from test ranges to housing. The Department's review of our defense and security needs resulted in transforming our force structure and prompting a corresponding new base structure.

This challenge of a new base structure is complicated by the need to minimize spending on infrastructure so funds can be used instead on defense capability. Unfortunately, the Department has an obsolescence crisis in facilities and environmental requirements have continually grown. Furthermore, the Department will need to efficiently and effectively implement the Base Realignment and Closure 2005 recommendations to eliminate excess capacity which will free up dollars to be used for other purposes.

Discussion

Implementing the results of "Transformation through Base Realignment and Closure 2005" will pose a significant challenge for the Department. However, implementation of Base Realignment and Closure 2005 will also provide an opportunity for the Department to eliminate excess physical capacity, transform DoD infrastructure into a more efficient structure, and provide cost savings. As part of the challenge, the Department must efficiently and effectively implement the Commission's recommendations to obtain optimal savings in the most efficient manner and with the least disruption to the Department. Until the final decisions are made, the Department will not know the full impact of the Transformation through Base Realignment and Closure.

The Department is the largest steward of properties in the world, responsible for more than 30 million acres in the United States and abroad with a physical plant of some 571,900 buildings and other structures valued at approximately $646 billion. Those installations and facilities are critical to supporting our military forces, and must be properly sustained and modernized to be productive assets. The goal of the Department is a 67-year replacement cycle for facilities and the current program would achieve that level in FY 2008. The replacement cycle was reduced from a re-capitalization rate of 136 years in FY 2004 to 107 years in FY 2005.

Beginning in 2001, the Secretary of Defense launched an executive assessment of the DoD safety program and challenged the senior leaders to reduce in two years the accident mishap rate by 50 percent. Overall responsibility for the project was tasked to the Under Secretary of Defense for Personnel and Readiness, who subsequently chartered the Defense Safety Oversight Council (DSOC) to facilitate oversight of DoD's efforts to achieve the Secretary's goal. In late 2004, DSOC deliberations concluded the 50 percent reduction goal may not be achievable. Recognizing this possibility, the Deputy Under Secretary of Defense for Readiness requested the DoD IG's assistance and asked us to conduct an evaluation/review of the DoD safety program. In November 2004, the Inspections and Evaluations Directorate announced an evaluation plan that addresses all aspects of the safety program—culture, leadership, policies, organizational structure, resources, exceptional practices, and lessons learned. Although the evaluation process is proceeding on schedule, several challenges lie ahead. One challenge is to insure appropriate resources are available to complete the project in a timely manner. Another challenge to keep all stakeholders of the military departments and offices of the Secretary of Defense, including the DSOC, informed on the project's progress and preliminary analyses. A third challenge is to establish the DoD Safety Commission. The Secretary of Defense's approval to establish this Federal Advisory Safety Commission is pending. The commission will be used to review and validate the evaluation team's findings and recommendations and to offer additional observations and suggestions.

In today's environment, the Department will also need to consider additional security measures in DoD buildings. The DoD is in the process of implementing the "DoD Minimum Antiterrorism Standards for Buildings" for new and existing inhabited buildings. The Department will need to spend additional funds for security purposes if the antiterrorism standards for buildings are fully

implemented. The amount of funds the Department needs to implement the standards is unknown at this time.

As of 2nd Quarter, FY 2005, the Military Departments owned 1,865 electric, water, wastewater, and natural gas systems worldwide. The Department has implemented an aggressive program that is on track to complete privatization decisions on 90 percent of the available water, sewage, electric, and gas utility systems by September 2005. In addition, while installation commanders must strive to operate more efficiently, they must do so without sacrificing their ability to operate in the event of a terrorist attack on our homeland. Civilian control of utilities complicates comprehensive plans for preventing sabotage and responding to attacks on water and power at military installations.

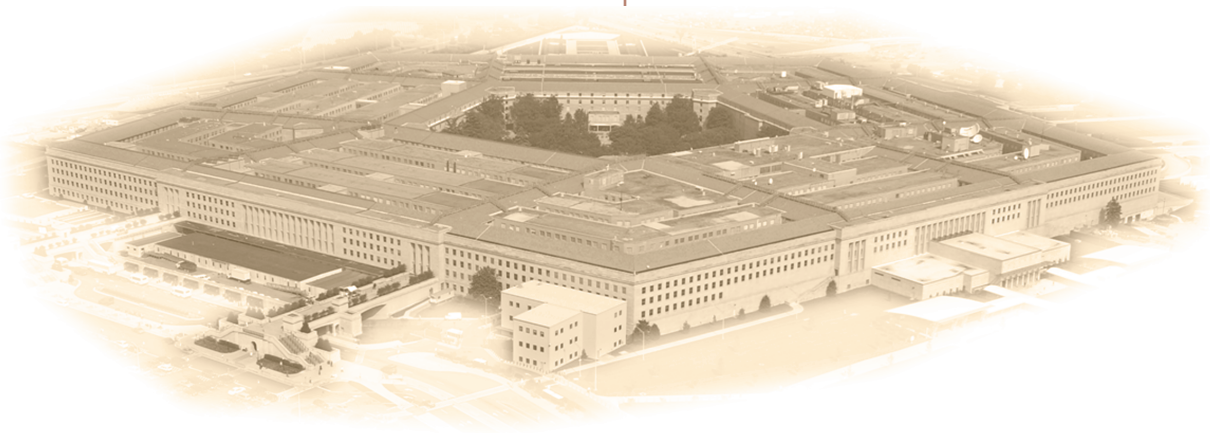
As of June 30, 2005, the DoD has an estimated $64.2 billion in environmental liabilities. The Department continues to correct past material control deficiencies in identifying and tracking sites with environmental liabilities and maintaining audit trails for financial liability estimates. The Department needs to improve documentation and supervisory review of environmental liability estimates. The Base Realignment and Closure 2005 decisions will affect the amount and extent of environmental liabilities. At this juncture it is too early to know how much cleanup is required for the bases closing or how long the cleanup will take to complete.

Installation restoration (clean-up) practices at active installations and clean-up activities at closing installations are the DoD's biggest environmental expenditures. Restoration and clean up goals will be difficult to achieve anytime soon in light of fall-out from the FY 2005 round of Base Realignment and Closure and the Global Posture Initiative. The Inspections and Evaluations Directorate will review and evaluate policy and processes for sustaining the environment while protecting DoD's requirement to be mission ready. The Department of Defense is increasingly challenged to conduct the realistic training necessary to produce combat-ready forces. The operations tempo supporting combat operations increases the stress to installations and training range infrastructure. Creating sustainable DoD installations and ranges is critical to ensure mission success while reducing the stresses on the natural and developed environment. Effective environmental management systems will positively impact all elements of the risk management framework and help the Department achieve sustainable installations and ranges.

Inspector General Assessment of Progress

The Department completed the BRAC process within their required timeframe but needs to wait on the decisions made by the Commission, President, and Congress before it can move out on the recommendations. The outcome will affect the amount of excess capacity the Department ultimately reduces, the amount of savings available for other uses, and the amount of environmental cleanup needed. The Secretary's recommendations for the Base Realignment and Closure 2005 exceeded the prior BRAC efforts in 1989, 1991, 1993, and 1995. The Department of Defense Office of Inspector General spent a great deal of effort on oversight of the 2005 BRAC process which resulted in very minimal oversight of other infrastructure and environment areas.

Management's Response to the Inspector General's Assessment

In general, we agree with the Inspector General's summary of the management challenges faced by the Department. The nine areas he identified are long-standing problems that defy quick fixes. We have plans in place to resolve each of the areas, but we recognize that it will take time and resources to address the problems inherent in the Department. We are pleased to note that the Inspector General has recognized our progress.

For the most part, the Inspector General's list echoes the Government Accountability Office's (GAO) most recent High-Risk List for government operations. GAO, for example, considers human capital, homeland security, and infrastructure protection as government-wide challenges not unique to the DoD. The President's Management Agenda also addresses many of the areas identified by the Inspector General as government-wide opportunities for improvement. Part 1 of this report, Management's Discussion and Analysis, addresses the issues raised by the Inspector General.