



INSPECTOR GENERAL

U.S. Department of Defense

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Department of Defense

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Performing the Duties of the Inspector General

for a hearing on

**“Top Management and Performance
Challenges Identified Government-wide by
the Inspector General Community”**

**Before the
Committee on Oversight and Government Reform
U.S. House of Representatives
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Chairman Gowdy, Ranking Member Cummings, and members of the committee. Thank you for inviting me to appear before you today, along with my Inspector General (IG) colleagues who lead the Council of Inspectors General on Integrity and Efficiency (CIGIE). We are all appreciative of the committee's longstanding interest in, and support for, the important work of IGs.

In this statement, I will discuss the Department of Defense Office of Inspector General's (DoD OIG) report on the "Top DoD Management Challenges - Fiscal Year 2018" I defer to my colleagues' joint statement to provide an overview and key information on the CIGIE report being released today, entitled "CIGIE Report on Top Management and Performance Challenges Facing Multiple Federal Agencies." I will focus my testimony this morning on the DoD OIG's Top Management Challenges Report. I will provide the committee a brief description of how we create the report, what we use it for, what the challenges are, as well as a brief description of a few of these challenges.

Creation of the DoD OIG's Top Management Challenges Report

The Reports Consolidation Act of 2000 requires each federal IG to prepare an annual statement that summarizes what the IG considers the "most serious management and performance challenges facing the agency." According to that Act, our summary of the Top DoD Management Challenges is required to be included in the DoD's Annual Financial Report.

We believe this is an important requirement. The preparation of our report helps the DoD OIG to more effectively fulfill our critical mission, which is to detect and deter waste fraud and abuse in DoD programs and operations; to promote the economy, efficiency, and effectiveness of DoD programs; and to help ensure ethical conduct throughout the DoD.

That mission is a challenging task for the DoD OIG, given the size, breadth and importance of DoD operations. The budget of the DoD is now approximately \$700 billion annually. The DoD has \$2.4 trillion in assets. Including active duty and reserve military members, and civilian personnel, the DoD has more than 3 million individuals in it. The DoD is now engaging in several overseas contingency operations, including the effort to defeat the Islamic State of Iraq and the Levant (ISIS) and other extremist groups in Iraq, Syria, Afghanistan, and elsewhere.

The DoD OIG provides oversight throughout the DoD. To perform our mission, the DoD OIG employs approximately 1700 employees and contractors. That may sound like a lot of staff, but it is not, given the size, scope, and complexity of the DoD.

In addition to performing this oversight, we also have the responsibility to provide guidance, oversight, and policy for more than 15,000 Military Service and Defense Agency oversight employees, including Service IGs and Auditors General, Defense Agency IGs, DoD Military Criminal Investigative Organizations, Defense Intelligence Agency IGs, and other auditors, evaluators, and investigators throughout the DoD.

I have been in the IG community for almost 20 years. For eleven years I was the Department of Justice Inspector General (from 2000 to 2011), and now, for more than two years performing the duties of the Acting Inspector General of the DoD. I believe that IGs provide important oversight throughout the federal government, and I am proud of the accomplishments

of many IGs. It is not a job designed to make us popular. But we can provide tremendous value and play an important role in improving government operations.¹

The annual statement describing the top management challenges facing our agencies is a critical tool in performing our missions. Preparing our annual summary of the Top DoD Management Challenges is a DoD OIG team effort that draws upon the expertise, judgment, and talent of many individuals throughout our organization. They have vast experience in providing oversight of DoD operations, and they use that knowledge in identifying and describing the top challenges each year.

They identify the top DoD management and performance challenges based on a variety of factors, including DoD OIG oversight work and research; oversight work conducted by other DoD components; oversight work conducted by the Governmental Accountability Office (GAO); congressional testimony; and other important documents, such as the National Security Strategy and the DoD National Defense Strategy.

We also seek input from DoD leaders on what they consider to be the top challenges they face. While we consider their input, we identify the top management challenges independently, based on our own judgment.

DoD OIG's Use of Top Management Challenges Report

We do not simply draft this document as a paper or compliance exercise for inclusion in the DoD's Annual Financial Report. Rather, in recent years we have used our Top DoD Management Challenges report as an important research and planning tool to identify areas of risk in DoD operations and to decide where to allocate our limited oversight resources. We consider whether each proposed planned audit or evaluation would examine an aspect of one of the top challenges. We also ensure that each Top DoD challenge receives some oversight coverage. When we compile our annual Oversight Plan, we link the plan to the Top DoD Management Challenges. For that reason, in our annual oversight plan, we include our description of the top challenges facing the Department, and then we list each audit or evaluation that we intend to conduct under the challenge to which it pertains.²

Because our summary of top management challenges is forward looking and outlines the most significant management and performance challenges facing the DoD now and in the future, we recently changed the title of the report. In the past, we titled our document with the fiscal year for the financial statements when the top challenges were published. Now, we title the

¹ To describe the principles that I believe are important for the DoD OIG – as well as for other OIGs -- to fulfill our mission effectively, I recently wrote two articles entitled “The Seven Principles of Highly Effective Inspectors General,” and a second article entitled “Seven Additional Principles of Highly Effective Inspectors General.” I believe these principles apply to the work of IGs throughout government. The articles are available at: <http://www.law.columbia.edu/sites/default/files/microsites/public-integrity/348650509-seven-principles-of-highly-effective-inspectors-general.pdf> and http://www.law.columbia.edu/sites/default/files/microsites/public-integrity/seven_additional_principles_of_highly_effective_inspectors_general.pdf

² The link to our latest oversight plan, which incorporates the Top DoD Management Challenges is at: <http://www.dodig.mil/reports.html/Article/1377277/fiscal-year-2018-oversight-plan/>

document with the fiscal year to which the challenges pertain. As a result, our 2018 summary of Top DoD Management Challenges was included in the FY 2017 DoD Agency Financial Report that was published in the fall of 2017.

In addition, we now routinely provide our Top DoD Management Challenges report to new leaders when they arrive at the DoD. We believe this report provides them insight and a useful summary on what we see as risk areas within the DoD that they will be responsible for addressing. We have received many positive responses from the new leaders on the report's value.

FY 2018 Top DoD Management Challenges

I want to now turn to a brief description of the top management and performance challenges facing the DoD that we identified for FY 2018.³ They are:

1. Countering Strategic Challenges: North Korea, Russia, China, Iran, and Transnational Terrorism
2. Addressing Challenges in Overseas Contingency Operations in Iraq, Syria, and Afghanistan
3. Enabling Effective Acquisition and Contract Management
4. Increasing Cyber Security and Cyber Capabilities
5. Improving Financial Management
6. Maintaining the Nuclear Enterprise
7. Optimally Balancing Readiness, Modernization, and Force Structure
8. Ensuring Ethical Conduct
9. Providing Effective, Comprehensive, and Cost Effective Health Care
10. Identifying and Implementing Efficiencies in the DoD

First, it is important to note that these challenges are not necessarily in order of importance – they are all critical challenges that impact the DoD.

Second, by including these challenges on the list, we are not saying that the DoD is not taking steps to address them. In each challenge, we provide a description of the challenge, progress the DoD has made in meeting the challenge, areas where more progress is needed, and descriptions of DoD OIG and other oversight work relating to the challenge.

Third, many of the challenges are long-standing, difficult challenges that will endure. Each year, however, we eliminate or consolidate some challenges, and add new ones.

In my testimony this morning, I will not describe all ten of the Top DoD Management Challenges identified above. Rather, I will discuss challenges that are included in the CIGIE report, a challenge that is not in the CIGIE report but affects other CIGIE members, and some of the DoD specific challenges. While I will only highlight a few challenges in my testimony, I would be glad to answer Committee questions on any of them.

³ The link to our latest Top DoD Management Challenges report is at:
<http://www.dodig.mil/reports.html/Article/1377306/top-dod-management-challenges-fiscal-year-2018/>

Many of the DoD's top challenges overlap with, and are reflected in, CIGIE's list. For example, the CIGIE report identifies financial management as a challenge, as does the DoD OIG. The DoD is the only Federal agency that has never undergone a full financial statement audits. The lack of a clean audit opinion on DoD financial statements is the major impediment to a successful audit of the U.S. Government. Long-standing DoD financial management challenges also continue to impair the DoD's ability to provide reliable, timely, and useful financial and managerial information to support reported financial statement balances. Additionally, the lack of reliable financial information prevents its full use in operating, budgeting, and policy decisions.

The DoD's financial management challenges involve a complex array of issues, including maintaining documentation that supports recorded transactions; recording timely and proper accounting entries; maintaining a valid universe of transactions; operating with many decentralized and noncompliant information technology systems; accurately documenting business processes; implementing strong internal controls over accounting data and business operations; and eliminating the need for journal vouchers to force agreement of budgetary, financial, and accounting transactions and balances.

Earlier this year, the DoD certified that it was ready to initiate its first full financial statement audits and currently those audits are underway, but it is not likely that the DoD will receive a clean opinion this first year. The key for the DoD is to take timely corrective action on the deficiencies that will be identified in the audits, and to use the audits to improve financial management throughout the DoD. That is important for several reasons:

- to ensure that the Congress and the taxpayer know how the DoD is spending appropriated money;
- to provide the DoD more accurate financial information, which can help deter waste, fraud, and abuse;
- to provide greater visibility to DoD management on the location and amount of its property, equipment, munitions, and spare parts, which can avoid waste and inefficiencies;
- to ensure that DoD information technology systems, including financial systems, have adequate cybersecurity; and
- to help the DoD more efficiently and effectively manage DoD operations.

Several other DoD top challenges also overlap with some of the challenges on CIGIE's list. For example, the CIGIE report includes "Information Technology Security and Management" as a challenge identified by other IGs. Our report also identifies cyber security and cyber capabilities challenges that face the DoD. Both the CIGIE report and our Top DoD Management Challenges specifically note a shortage of qualified cybersecurity professionals within the federal government, and the competition with private industry to recruit and retain these professionals is acute. For the DoD, the shortage of cybersecurity staff can directly impact national security and the DoD's capacity to protect its networks from malicious cyber attacks. Although our report states that the DoD has made gains in growing the DoD's cybersecurity workforce, attracting and retaining a skilled cyber workforce remains a significant challenge.

The CIGIE report also identifies Procurement Management and Grant Management as a cross cutting challenge facing federal agencies. The DoD is the largest employer and purchaser

of goods and services in the federal government through contracts each year. For the DoD, acquisition and contract management have been identified high-risk areas for many years. Delivering weapons and technology systems on time and within budget continues to pose major management challenges for the DoD. Although Congress and the DoD have initiated reforms designed to improve the acquisition of major weapon systems, our report notes that many DoD programs fall short of cost, schedule, and performance expectations. As a result, the DoD often pays more than anticipated, buys less than expected, and in some cases delivers less capability than the DoD requires.

Compounding the acquisition and contracting challenges is the external threats targeting U.S. technologies—specifically, foreign attempts to obtain sensitive or classified information and technologies. The DoD must prevent the illegal transfer of operational and defense technologies.

Some top challenges we have identified in the DoD do not overlap with CIGIE’s list because of the nature of DoD’s operations. For example “Addressing Challenges in Overseas Contingency Operations in Iraq, Syria, and Afghanistan” is a key challenge for the DoD.

To provide comprehensive, coordinated, and whole-of-government oversight for OCOs, Congress enacted Section 8L of the Inspector General Act, as amended in 2013. Under this provision, CIGIE must designate a Lead IG from among the DoD IG, the Department of State IG, or the U.S. Agency for International Development IG to serve as the Lead IG to coordinate oversight and report on named OCOs.

The DoD IG is currently designated as the Lead IG for three OCOs: Operation Inherent Resolve (the effort to degrade and defeat ISIS in Iraq and Syria); Operation Freedom’s Sentinel (to counter terrorism in Afghanistan and to build partner capacity within the Afghan National Defense and Security Forces under NATO’s Resolute Support mission); and Operation Pacific Eagle (the effort to support the Philippine government’s fight against ISIS and other extremist groups).

Our OIGs conduct audits, evaluations, and inspections of projects and programs implemented in each area of the operation, formulate joint oversight plans, and issue quarterly reports to the United States Congress on the status of each OCO. This interagency structure is intended to take full advantage of the resources of existing IGs to coordinate oversight, without the need to incur the costs and delays of setting up and then disbanding new oversight organizations for each OCO. To fulfill our Lead IG responsibilities, we also coordinate closely with the GAO, the Special Inspector General for Afghanistan Reconstruction, other OIGs with OCO-related responsibilities, and other DoD oversight entities.

Another top management challenge facing the DoD that is not on CIGIE’s list is “Countering Strategic Challenges: North Korea, Russia, China, Iran, and Transnational Terrorism.” This is a longstanding but evolving challenge facing the DoD. As reflected in our most recent report, state and non-state actors present security challenges that have destabilized the post-Cold War international order, and the DoD must confront these challenges in close coordination with U.S. Allies and DoD interagency partners.

Finally, another challenge that I want to specifically highlight that is not unique to the DoD but is critically important is “Ensuring Ethical Conduct.” Ensuring ethical actions by DoD’s many employees poses a significant challenge. As a result, for the past several years we have identified this as one of the top management and performance challengers facing the DoD.

For example, ethical failures by DoD officials, public corruption investigations, and misconduct by a few DoD employees can undermine public confidence in the DoD, as well as foster an unwarranted perception about the overall character, ethics, dedication, and sacrifice of all DoD employees. At its core, ethical misconduct violates DoD core values and tarnishes the high standards of integrity expected of DoD personnel. Therefore, DoD leaders must continually strive to deter and prevent ethical lapses and misconduct, and hold accountable those individuals who violate the law, the standards of conduct, or other ethical requirements.

Emerging DoD Challenges

The DoD OIG is currently in the process of reassessing the DoD’s top management and performance challenges facing the DoD, as we begin to prepare our summary of Top DoD Management Challenges for FY 2019. We fully expect that certain challenges will remain prominently listed, such as addressing financial management, the need to counter strategic challenges from abroad, OCOs, and ensuring ethical conduct.

However, as we examine the DoD we need to recognize the new challenges that will arise next year and the years to come. For instance, increased budgets and troop level end strengths will challenge the DoD’s ability to effectively and efficiently recruit, train and retain both the military and civilian personnel necessary to achieve the DoD’s mission.

Other challenges are likely to rise in prominence or evolve. For example, with regard to nuclear deterrence, in the past, this challenge focused on DoD maintaining its current capacity. Now the challenge is focused on modernization and potentially increasing capacity. Other revolving issues that we are considering for the FY 2019 report include the need to implement efficiencies from DoD reform initiatives and challenges in health care. We will continue to assess rising and emerging challenges to make our top management challenges report useful and forward looking.

In closing, I want to thank the committee for your interest in, and support for the important work of IGs, CIGIE, and the DoD OIG. Also, thank you also for giving me the opportunity to participate in this hearing and to describe what we consider the top management challenges facing the DoD.

This concludes my statement and I would be glad to answer questions.