

Summary of Management Challenges

The “Reports Consolidation Act of 2000,” Public Law 106-531, requires the Inspector General to include a statement in the Agency’s combined financial and performance report of the most serious management and performance challenges facing the Agency. The Office of the Inspector General (OIG) identified challenges for supporting the Department’s dual wars on terrorism and bureaucracy. The challenges are Joint Warfighting and Readiness, Homeland Security, Human Capital, Information Technology Management, Streamlined Acquisition Processes, Financial Management, Health Care, Logistics, and Infrastructure and Environment. The challenges also parallel and support the Secretary of Defense’s top 10 priorities and the President’s Management Agenda initiatives.

In each area that the OIG identifies as a challenge there is a relationship to one or more of the Secretary’s top priorities. For example, the priorities of “Strengthen Joint Warfighting Capabilities,” and “Homeland Security” are directly identified as challenges, and the priority to “Streamline DoD Business Processes” is intrinsic in many of the challenges that face the Department.

In September 2002, the Secretary of Defense released his top ten priorities for the next 6 to 12 months.

- Successfully Pursue the Global War on Terrorism,
- Strengthen Joint Warfighting Capabilities,
- Transform the Joint Force,
- Optimize Intelligence Capabilities,
- Improve Force Manning,
- New Concepts of Global Engagement,
- Counter the Proliferation of Weapons of Mass Destruction,
- Homeland Security,
- Streamline DoD Business Processes, and
- Improve Interagency Processes, Focus, and Integration.

The President’s Management Agenda includes five initiatives to help government work better. The five initiatives--Management of Human Capital, Improved Financial Management, Budget and Performance Integration, Competitive Sourcing, and Expanded Electronic Government--are also identified within the challenges.

A myriad of Defense internal business operations provide direct or indirect support to the warfighters. The need to transform those support functions, chiefly by reducing

bureaucracy and applying modern information technology, has been recognized for several years, but reform efforts have had limited success, or have not yet been fully implemented. The terrorist attacks on our country, the ensuing military operations, and the compelling need to defend against emerging threats have added urgency to the needs to expedite management improvement and to use Defense resources wisely. If allowed to continue as is, the current organizational arrangements, processes, and systems will continue to drain scarce resources from the warfighters training, infrastructure, and operations. As Secretary of Defense Donald Rumsfeld stated in his “Bureaucracy to Battlefield” speech on September 10, 2001:

“Just as we must transform America's military capability to meet changing threats, we must transform the way the Department works and what it works on.”

“Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business. Let's make no mistake: The modernization of the Department of Defense is a matter of some urgency. In fact, it could be said that it's a matter of life and death, ultimately, every American's.”

“The old adage that you get what you inspect, not what you expect, or put differently, that what you measure improves, is true. It is powerful, and we will be measuring.”

Measuring improvement on the challenges is difficult when using high level or strategic performance measures because the Department lacks common processes and integrated systems that can produce quality information for decision making. As a consequence, Defense managers resort to using performance metrics that are assembled from data calls, ad hoc queries, and makeshift analysis. The Office of the Inspector General (OIG) can and does provide assistance to the Department by independently assessing the quality and reliability of data used to measure the progress of improvement efforts.

Joint Warfighting and Readiness

In order for U.S. forces to operate jointly in conflict, they must also train and operate together in peacetime. Ensuring that U.S. forces are ready to carry out assigned missions is the preeminent responsibility and challenge of the DoD. A wide variety of Defense functions, particularly in the personnel management, logistics, and acquisition areas, directly support and impact joint warfighting and military readiness. Many of the other management challenges encompass those functions that support joint warfighting and readiness issues.

The DoD needs to design and produce new systems with joint warfighting requirements in mind. Joint Vision 2020 states that interoperability is a mandate for the future joint force especially for communications, logistics, and information technology. To attain Joint Vision 2020 and reduce the risk of building stovepipe systems, the Defense Components are required to develop and retrofit DoD systems into common interoperable and secure systems. An OIG report on implementation of interoperability and

information assurance policies for acquisition of DoD weapon systems pointed out the need for consistent guidance and a process to measure and assess interoperability. Otherwise, DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable systems to satisfy the needs of the joint warfighter. The Director, Joint Staff agreed with the report and also commented that there was a fundamental issue beyond the audit “that DoD is not effectively structured to affect the organizing, training, and equipping of joint capabilities. There is no joint process responsible for developing and acquiring joint command and control systems and integrating capabilities.”

Although readiness is frequently assessed in exercises and inspections, multiple independent reviews by the OIG and by the Service Audit Agencies indicate that the readiness reporting system is cumbersome, subjective, and not fully responsive to the needs of senior decision makers. In FY 2002 there were 27 reports on joint warfighting and readiness. OIG reports on Active, Reserve, and National Guard units identified readiness issues related to the accurate reporting of preparedness for chemical and biological defense. The Naval Audit Service also issued reports on the need to improve readiness reporting for selected aircraft, submarine, and marine forces. The Department is implementing a new DoD Readiness Reporting System that will be the primary means by which the DoD Components will measure and report on their readiness to execute the missions assigned to them by the Secretary of Defense.

The proliferation of biological and chemical technology and material has provided potential adversaries with the means to challenge directly the safety and security of the United States and its military. The Chemical and Biological Defense Program is an excellent example of a program supporting joint warfighting to ensure that military personnel are the best equipped and best prepared forces in the world for operating in battle space that may feature chemically and biologically contaminated environments. The program development of common masks, the Joint Service Lightweight Integrated Suit Technology ensembles and an integrated suite of chemical and biological detection equipment are noteworthy examples of eliminating service stovepipes and related overlapping costs in order to promote jointness. The Commander, U.S. Central Command exhibited a high degree of joint warfighting expertise in its chemical and biological defense program. The U.S. Naval Forces, Central Command, located in Bahrain enacted a vigorous and comprehensive program for not only naval personnel, but also for the other services, DoD civilians, and dependents as well.

The OIG has continued its strong presence in ensuring adequate oversight of chemical and biological defense issues. Since we began working on this issue in 1994, the Department has made significant strides in improving the quality of chemical and biological defense equipment, the individual and unit training, and equipping of military units. Although much progress was made, additional program improvements were needed. The OIG reported on issues with the logistics and maintenance of chemical and biological protective equipment in the European Command and Central Command, and the acquisition of the chemical agent detector. The need for a joint inventory management tool at the unit-level for chemical and biological equipment was identified

as a key requirement to improve readiness of the forces. The Army Audit Agency and Naval Audit Service reported on the need to improve Army and Marine Corps unit-level training for chemical and biological defense and provide additional support for chemical and biological defense to forward-stationed DoD civilians and contractors. In five reports, the GAO concluded that chemical and biological defense equipment, training, and medical problems persisted, and if not addressed, were likely to result in a degradation of U.S. warfighting capabilities.

Homeland Security

As the events of September 11, 2001, have reminded us, the geographic position of the United States will not provide immunity from direct attack on its people, territory, or infrastructure. The range of means that adversaries may use includes nuclear, chemical, and biological weapons and weapons of mass disruption, such as information warfare attacks on the Defense information structure. The DoD is engaged in a wide range of activities to strengthen homeland security, but longstanding problems such as backlogged personnel security clearance investigations remain a concern.

Eight GAO reports identified the following improvements needed for Homeland Security: security for shipments of ammunition, accountability over missiles and munitions, port security, and installation development and exercise of weapons of mass destruction preparedness plans.

Information security is a cornerstone of Homeland Security. The information security threat to DoD systems and to other public and private sector systems on which national security depends is greater than ever. Its sources include foreign governments, terrorist groups, disgruntled government or contractor employees, vandals, criminals with financial motives, and mere curiosity seekers. The challenge to DoD is to minimize vulnerabilities without losing the advantages of open, interconnected systems with large numbers of users. Because of the constantly evolving threat and the sheer size of DoD information operations, the Department needs to be both highly flexible and systematic in its approach to information security. Although the DoD is a leader in resolving many aspects of this complex problem, we continue to find a wide range of security weaknesses.

Since FY 2001 the Government Information Security Reform Act required that each agency obtain an independent assessment of its security posture. In FY 2001 and FY 2002 the OIG evaluated the security posture based on an independently selected subset of information systems, and a summary of the OIG review was provided to DoD for inclusion in its report to the Office of Management and Budget. The FY 2002 review assessed the accuracy of the data DoD used in FY 2001 to report the security status for 560 information technology systems. DoD reported invalid data on the security status of systems for an estimated 370 systems. Further, although the requirement for systems to obtain security certification and accreditation has existed since 1997, we estimate that only 101 of 560 systems met the requirement. Consequently, the Office of Management

and Budget and DoD managers do not have dependable information to ascertain the degree to which information security controls exist in systems.

During FY 2002, the DoD audit community issued 22 reports and the GAO issued 2 reports related to the requirements of the Government Information Security Reform Act. Reports identified security issues for the Air Force Medical Treatment Facility Systems, the Computerized Accounts Payable System, and several other financial systems processing millions of transactions.

Four reports by the OIG and GAO on exporting technology underscored the need for continued emphasis in this area. In addition, the DoD continues to work with other agencies to improve the controls over exports of sensitive technology. In this regard, the Congress can help by reauthorizing the long-expired Export Administration Act so that national policy objectives are clear and the controls are completely consistent with those objectives.

A series of OIG reports identified the need to improve the policy and security of controls over biological agents at Defense laboratories and medical facilities.

The Cooperative Threat Reduction (CTR) Program was initiated to reduce the threat posed by weapons of mass destruction in the former Soviet Union. Under the program, the United States assists former Soviet Union states in building facilities and operating programs to safeguard, transport, and ultimately destroy chemical, biological, and nuclear weapons, delivery systems, and infrastructure. Adequate controls for the program are vital to ensuring that the limited program funds are used effectively. The lack of adequate controls was clearly demonstrated in an OIG review that showed a recently completed \$95 million facility in Siberia for converting rocket fuel to nonmilitary purposes now sits idle because Russia began using the rocket fuel for space launches during construction of the facility without informing DoD. Adequate inspections and firm agreements, in this case to provide the rocket fuel for conversion, were not in place. Extensive measures have been taken since March 2001 to add adequate controls including: the Under Secretary of Defense (Policy) requested an OIG audit of this project; all pending CTR projects have been scrubbed to identify instances of reliance on Russian obligations; in July 2002 an extensive executive review of all CTR projects in Russia was conducted; another review is scheduled for January 2003; and DoD proposed amendments to implementing agreements to make Russian obligations legally binding and increase audit and inspection rights for the U.S.

Human Capital

The challenge in the area of human capital is to ensure that the DoD 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 thus capable of handling the emerging technologies and threats of the 21st century. The Department has 2.6 million active duty and Reserve men and women under arms and a civilian workforce of nearly

700,000. The size of DoD and the wide variety of skills needed to meet this challenge are complicating factors, as are the constraints posed by Government civilian personnel management rules. Also, the 1990s were a period of downsizing and reduced hiring, which led to an aged workforce. The current average age in most civilian job series is late forties. In some job series, such as quality assurance specialists and test range engineers, the average age is well over fifty. The aging workforce is highlighted by the fact that 66 percent of the workforce will be eligible to retire by 2006.

The Department recognized the need for a strategic plan for the civilian workforce by publishing the first civilian human resources strategic plan this year. This filled a longstanding gap. The DoD is a world leader in uniform military training. In civilian training DoD made strides in focusing on leadership development by establishing the Defense Leadership and Management Program. Achieving an appropriate mix of in-house and contractor personnel, better analysis of workload and staffing requirements, and more effective workforce incentives will promote far greater efficiency and effectiveness.

The Department initiated many positive actions for the President's Management Agenda initiative of Management of Human Capital. The Department is requiring military personnel to perform their core mission of warfighting and transferring support functions to the private sector. For example, a Naval Audit Service report identified that the Service Week portion of boot camp could be eliminated because the recruits spent that week performing commercial type work. Eliminating the Service Week from boot camp allowed 50,000 enlisted sailors to report earlier to the fleet. There were major headquarters reductions, planned reorganizations, and reductions in the number of managers. Thousands of additional civilian positions are being made available for outsourcing. The Department is also improving its recruitment efforts through intern recruitment initiatives and by providing additional funding for development programs. For example, the Air Force budgeted funds for FY 2003 specifically for the purposes of paying recruitment bonuses and student loan repayments for critical skills such as scientists and engineers.

Some of the poor decisions, noncompliance with procedures, and incomplete actions reported by auditors are caused by staffing shortages or inadequate training. This is especially noticeable in contracting and contract administration activities, where the workforce was cut in half in the 1990s. This particular challenge is also evident in problems with inventory management, erroneous contractor payments, unreconciled contract payment and financial information, and weak controls over Government credit cards. During FY 2002 there were 12 reports addressing human capital issues. Reports often discuss a lack of staff or the need to retain experienced staff. The OIG reported that the Naval Air Systems Command Program for reporting and tracking defective repair parts was not effective because of the lack of adequate staff and lack of training. Another report identified an 8 percent processing error rate by the Washington Headquarters Services Human Resources Center of personnel actions that resulted in pay and other problems.

Information Technology Management

The key to success on the modern battlefield and in internal business activities is the ability to produce, collect, process, and distribute information. Data must be accurate, timely, secure, and in usable form. The huge scale, unavoidable complexity, and dynamic nature of DoD activities make them heavily dependent on automated information technology. This dependence has proven to be a major challenge because DoD management techniques have not kept pace with the continual growth in information user requirements and the shortened life spans of technologies before obsolescence. The President's Management Agenda initiative on Expanded Electronic Government will assist the Department in meeting this management challenge.

During FY 2002, 30 audit reports continued to indicate a wide range of management problems in systems selected for review. The important systems for which management improvements were recommended included the Defense Finance and Accounting Service Corporate Database, Defense Counterintelligence Information System, Wide Area Workflow, Joint Simulation System, Computerized Accounts Payable System, Military Airspace Management System, and USXPORTS Automation Initiatives.

For example, after years of development and \$166 million spent on the Defense Travel System, Preventive Health Care application, and Military Airspace Management System, they are either still not working or providing only a limited amount of their intended benefits. Those reports are reminders that bringing new systems online is difficult.

In addition, auditors reported ways to enhance compliance by Army, Navy, and Air Force Web sites with applicable guidelines for data content and privacy. Other issues include interoperability, data quality, crowding of the radio frequency spectrum, and protecting sensitive data.

Streamline Acquisition Processes

No other organization in the world buys the amount and variety of goods and services purchased by the DoD. In FY 2001 the Department spent \$175 billion through contracts and other instruments, using about 19,000 transactions per day. There are about 1,500 weapon acquisition programs valued at \$1.8 trillion over the collective lives of these programs. The amount spent to procure services, \$77 billion in fiscal year 2001, is increasing as DoD Components continue to expand outsourcing pursuant to the Federal Activities Inventory Reform Act of 1998 and the President's Management Agenda initiatives. The management challenge is, despite this huge scale, to provide materiel and services that are superior in performance, high in quality, sufficient in quantity, and reasonable in cost.

During FY 2002 the DoD internal audit community issued 83 reports that addressed a range of continuing acquisition issues. The Defense Contract Audit Agency continued to assist contracting officers through 40,142 contract audits that identified \$5.1 billion of questioned costs and funds put to better use. These monetary benefits reduce program costs and the need for additional appropriations.

There has been particular concern over the past two decades about the length of the acquisition cycle and the high per unit cost of weapon systems. For example, the V-22 Advanced Tiltrotor Aircraft (Osprey) has been under development since 1981, and the currently estimated production cost is \$65 million per plane. Despite years of development, the OIG reported that the V-22 hydraulics system performed at reliability rates significantly lower than predicted. Other audits have continued to reveal the lack of competition for service contracts. One report identified where the Navy exceeded the 5-year regulatory time limit for \$1 billion of environmental service contracts and thus did not benefit from recompeting the requirements. Abuse of the \$9.7 billion charge card program recently emerged as another special concern. The Department convened a special task force that included OIG auditors and investigators and issued a report calling for additional controls and instituting new policies of zero tolerance for abuse of credit cards.

Requirements computations and pricing continue as problems for spare parts. Another audit showed the Department did not effectively implement the changes related to obtaining certified cost and pricing data. Those audits provided continued indications that many of the acquisition reforms initiated over the past few years have not been fully or effectively implemented, often because the acquisition workforce is both understaffed and undertrained.

The continued depth of the problems are highlighted by mismatches between requirements and available funding, the continual lack of data to manage and oversee contracts and programs and types of contracts, and the relatively low priority given to improvement in contracting for services until very recently. For example, the Department could not provide Congress with data on goals and savings from the management of service contracts required by the Authorization Act.

It is vital that the DoD quality assurance programs ensure that the products delivered to our warfighters are of the highest quality. Recent reviews have shown that reductions in personnel and funds adversely affected the quality assurance programs. The Defense Logistics Agency Quality Manufacturer's List and Quality Products List Program aims to increase product quality and reliability and buying productivity, and to enhance logistics management operations by establishing a list of vendors that received manufacturing line audits and are certified as providing high quality critical items. An OIG report showed that 42 percent of the audits were not accomplished for 1,196 vendors manufacturing lines needing certification. Some certifications were 8 years overdue. A lack of staff to perform the audits and certifications resulted in a higher risk of receiving nonconforming parts. Similarly, a lack of staff for the Navy Product Quality Deficiency Program resulted in as many as 1.4 million potentially nonconforming items in the inventory.

Another report identified where the Navy and Defense Logistics Agency failure to enforce contract specifications resulted in the purchase of \$12 million of mattresses for ships that were not fire resistant.

Financial Management

The President's Management Agenda has initiatives on Improved Financial Performance and Budget and Performance Integration. These initiatives will help focus the Department on the Financial Management challenge. The Department's financial statements are the largest and most complex and diverse financial statements in the world. The Department prepares nine primary financial statements, and an additional three financial statements are now required for the intelligence agencies. In comparison, the most number of financial statements prepared by another Federal agency is four. The Department's FY 2001 financial statements include \$707 billion in assets, excluding the value of weapon systems, and \$1.4 trillion in liabilities. The DoD audit community issued 116 reports during FY 2002 to improve financial management.

Improving financial performance means ensuring fiscal control over financial and physical assets; avoiding fraud and misappropriation of funds; distributing resources effectively; efficiently making millions of payments per year; integrating budget and performance data; and providing timely, accurate, and useful financial information for management and oversight. This challenge will be one of the most difficult for the DoD to master. Contributing factors have included the lack of adequate systems to compile, integrate, and distribute fiscal reports; the unparalleled complexity of the DoD accounts structure; a past proclivity to bypass official accounting systems to generate financial information; and lack of sustained top management interest in fundamental financial management reform during the 1990s.

The Department has made a bold decision to pause the modernization efforts of financial management systems and invest significant funding in developing a new and far more comprehensive system architecture. The financial modernization program will address consolidating the functions performed by about 1,800 disparate systems and likely result in a more manageable family of integrated systems, designed to provide useful information to managers for decision-making. Clean audit opinions on year-end financial statements will come later. This will parallel requirements in the National Defense Authorization Act for FY 2002, which prohibits unproductive efforts to compile and audit financial statements whose managers assert there are material problems precluding reliance on them. The OIG has consistently advocated a primary focus on financial systems, and we welcome the new strategy.

The Department has also continued to work on correcting material weaknesses such as intergovernmental transactions, environmental and health care liabilities, and payment problems that preclude clean audit opinions. For example, unmatched disbursements have decreased by approximately 80 percent to \$1.4 billion.

The Department's ongoing efforts to address its problems with financial systems and data are critical to the success of performance based budgeting because meaningful links between performance results and resources consumed are only as good as the underlying data. Consistent with the initiative and to further improve the Planning, Programming, and Budget System, the DoD Components were requested to incorporate performance metrics into the FY 2004 budget. Although DoD has several initiatives underway to develop and improve the Department's ability to measure performance, it has been constrained by the lack of a 2002 performance plan and performance measures and the inability to directly tie goals to supporting financial data. Without good performance measures, the impact that additional resources have on levels of output cannot adequately be determined. In many instances, DoD managers do not have access to useful financial data to support them in measuring outcomes.

The OIG is working with the Department to address the administration's requirement for accelerated submission of audited financial statements. The OIG reviewed and streamlined the audit processes and cooperatively established, with the Department, interim due dates to ensure that the Department can meet the accelerated due dates in FYs 2003 and 2004. The extent of cooperation the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Defense Finance and Accounting Service has provided to the OIG for improving financial systems and statements is unparalleled in the history of the OIG.

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 8 million eligible beneficiaries within fiscal constraints and in the face of price growth pressure that has made cost control difficult in both the public and private sectors. The MHS was funded at approximately \$25 billion in FY 2002, including about \$5.8 billion in military personnel appropriations and \$3.6 billion for the newly implemented TRICARE for Life program.

During FY 2002, the DoD audit community issued 12 reports addressing issues such as the Armed Services Blood Program, Navy fleet hospital requirements, resource sharing between DoD health care facilities and systems, use of reprocessed medical single-use devices, pharmaceutical management, and other matters. Fraud is also a factor in controlling health care costs. Health care fraud continued to be a high DoD investigative priority. During 2001, the TRICARE Management Activity recouped \$11.3 million as a result of criminal investigative recoveries.

A primary challenge for the MHS in 2003 will be transitioning to the next generation of TRICARE support contracts. Currently there are seven managed care support contracts for TRICARE. These multibillion-dollar service contracts are at or near the end of their planned existence. Significant changes will occur in the next generation of contracts, and the success of the new contracts will greatly impact the ability of MHS to control health

care cost while maintaining access and quality standards. A related issue is the TRICARE Prime Remote program that provides health care to active duty service members and their families while assigned at remote locations not served by the traditional direct care portion of the MHS.

The President's Management Agenda for FY 2002 includes nine agency-specific initiatives. One of the specific initiatives is the coordination of the DoD and Department of Veterans Affairs (DVA) medical programs and systems. In addition, the National Defense Authorization Act for FY 2003 tasks the General Accounting Office to develop reports on progress and impediments to DoD and DVA sharing of resources. We believe the sharing requirement will benefit both agencies and reduce costs.

The increased use of Reserve forces in ongoing operations raises another significant issue for the MHS. The health status of the Reserve force, to include dental status, has provided a significant deployment challenge to DoD. In addition to the deployment status, the Reserve forces present unique health care challenges because of their limited eligibility to use the MHS. Families of reservists that relied on TRICARE when the sponsor was deployed experienced difficulties in obtaining medical care.

Logistics

The DoD logistics support operations for supplies, transportation, and maintenance costs \$82 billion a year. This includes \$40 billion for the maintenance of more than 300 ships; 15,000 aircraft; 1,000 strategic missiles; and 250,000 ground combat vehicles. The purpose of logistics is to reliably provide the warfighter with the right material at the right time to support the continuous combat effectiveness of the deployed force. The Department has a strategic plan and numerous pilot programs to help improve logistics. The scope alone makes business process reform a challenge. However, audits continue to demonstrate that DoD can substantially improve the efficiency and cost effectiveness of purchasing and managing items for wholesale and retail supply inventories that would more effectively support the warfighter.

Many weapon systems are over 25 years old and require ever increasing levels of maintenance. The increase in operational tempo since September 11, 2001, in turn increases the demands on the DoD logistics community to perform timely and efficient maintenance on aging weapons systems; provide adequate transportation capabilities; and ensure the availability of sufficient ready parts, materials, and supplies to support the warfighter.

The DoD maintenance and supply infrastructure is supported by more than 700,000 DoD military and civilian personnel as well as more than 1,000 private sector firms. Consistent with all of the Federal Government, this workforce is aging. As a result, DoD faces the challenge of recruiting, training, and retaining experienced personnel to continue to effectively perform logistics functions and avoid an acute loss of critical logistics skills.

During FY 2002, 59 audit reports addressed a broad range of logistics issues. Topics included deficiencies in the Joint Total Asset Visibility Program, accuracy of logistics data, asset accountability, contractor logistics support, war reserve requirements, and maintenance management systems.

Infrastructure and Environment

The challenge in managing the 638 major military installations and other DoD sites is to provide reasonably modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. This challenge is complicated by the need to minimize spending on infrastructure, so that funds can be used instead on weapons modernization and other priorities. Unfortunately, there is an obsolescence crisis in the facilities area itself, and environmental requirements are continually growing.

The DoD maintains more facility infrastructure than needed to support its forces. DoD estimates there is 20 to 25 percent more base capacity than needed. Maintaining those facilities diverts scarce resources from critical areas. An additional round of base closures in 2005 will help to eliminate this excess capacity. The challenge for the Department is to produce reliable data and metrics on which the Base Realignment and Closure Commission can make informed decisions.

The Defense Department is the world's largest steward of properties, responsible for more than 46,425 square miles in the United States and abroad—nearly five and-a-half times the size of the state of New Jersey—with a physical plant of some 621,850 buildings and other structures valued at approximately \$600 billion. These installations and facilities are critical to supporting our military forces, and they must be properly sustained and modernized to be productive assets. The goal of the Department is a 67-year replacement cycle for facilities. The replacement cycle was reduced from a recapitalization rate of 192 years to 101 years in FY 2002. However, for FY 2003 funding levels will only allow recapitalization on a 149 year cycle.

At the start of FY 2001, the Services owned 1,612 electric, water, wastewater, and natural gas systems worldwide. The Department has implemented an aggressive program to privatize utility systems and set a milestone of privatizing at least 65 percent of the available utility systems by September 2004. In addition, while installation commanders must strive to operate more efficiently, they must do so without sacrificing in areas that enhance their ability to operate in the event of a terrorist attack on our homeland. Comprehensive plans for preventing sabotage and responding to attacks on water or power at military installations will be complicated by civilian control of utilities.

The DoD has an estimated \$63 billion in environmental liabilities. This daunting task seems to be never ending, and indeed, liabilities may be increased when installations are selected for closure. One of the most significant cleanup challenges is that of unexploded ordnance on ranges. Compliance with environmental legislation such as that related to

the endangered species act, noise abatement, and air quality also challenges the Department's capability to balance being good stewards of the land while ensuring that our forces receive adequate training.

The DoD audit agencies issued 31 reports on infrastructure and environmental issues during FY 2002. The topics ranged from the DoD wastewater treatment systems, planned construction projects, fuel infrastructure requirements, expenditures on general and flag officer quarters, energy conservation, and environmental cleanup.

