

INSPECTOR GENERAL'S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR (FY) 2015

Each year, the Department of Defense Inspector General (DoD IG) prepares a statement summarizing the most serious management and performance challenges facing the Department and provides a brief assessment of the Department's progress in addressing these challenges.

For FY 2015, the DoD IG identified challenges in the following eight categories:

- Financial Management
- Acquisition Processes and Contract Management
- Joint Warfighting and Readiness
- Cyber Security
- Health Care
- Training and Equipping Afghan, Iraqi, and New Syrian Security Forces
- The Nuclear Enterprise
- Insider Threat

Detailed discussion of the DoD IG's statement and the Department management's response follows.

SUMMARY OF IDENTIFIED CHALLENGES

1. Financial Management	
1-1A. Achieving Financial Statement Audit Readiness	IG Summary of Challenge
<p>The Department's continuing financial management challenges impair its ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Gaps in the financial framework harm the accuracy, reliability, and timeliness of the data used by the Department's leadership. Improving and sustaining good financial management processes is critical to achieving auditable financial statements and receiving unmodified opinions.</p> <p>Achieving auditable financial statements is an ongoing, difficult task. The success of the DoD Financial Improvement and Audit Readiness (FIAR) effort depends on:</p> <ul style="list-style-type: none"> • Resolving material internal control weaknesses to ensure internal controls are designed and implemented properly, and are working effectively; • Evaluating and remediating controls for information technology (IT) systems that materially affect the financial statements, including Enterprise Resource Planning (ERP) systems, custom-built legacy systems, financial systems, and non-financial feeder systems; • Sustaining improvement in internal controls and systems to provide consistent and repeatable financial data used in decision making and reporting; and • Monitoring progress in achieving milestones, developing comprehensive improvement initiatives across DoD functional areas, and holding managers accountable for the timely implementation of those efforts. <p>Congress required the Department to validate the DoD Statement of Budgetary Resources (SBR) and the other DoD financial statements as audit ready by September 30, 2014, and September 30, 2017, respectively. However, the Department continues to struggle to implement business transformation efforts. Additional relevant mandates include:</p> <ul style="list-style-type: none"> • Public Law 111-383, Section 881, which requires the Department to establish interim milestones to achieve audit readiness of its financial statements earlier than September 30, 2017. These interim milestones for Military Departments and Defense Components call for each major element of the SBR, such as "civilian pay, military pay, supply orders, contracts, and the funds balance with the Treasury," to achieve audit readiness; • Public Law 112-81, Section 1003, which requires the Department have a plan to validate the SBR as audit ready by September 30, 2014. The plan must include interim objectives and a schedule of milestones for each Military Department and for the Defense agencies. The Department must develop and implement comprehensive improvement initiatives and monitor progress according to interim milestones. The Department may need to revise these initiatives and milestones as it identifies additional deficiencies and corrective actions as a result of the iterative FIAR process; • Public Law 112-239, Section 1005(b)(1), which requires that plans to achieve audit readiness of the SBR "by September 30, 2014, include steps to minimize one-time fixes and manual work-arounds, be sustainable and affordable, and not delay the full auditability of financial statements"; and • Public Law 113-66, Section 1003(a), which requires the Secretary of Defense to ensure a full audit of the DoD financial statements is performed for FY 2018 and the results of the audit are submitted to Congress not later than March 31, 2019. <p>Although the Department did not meet the 2014 deadline for full SBR audit readiness, the Department continues to make progress. Because the Department recognized it could not</p>	

achieve SBR audit readiness by 2014, it implemented an incremental approach to achieving SBR audit readiness. The Department chose to address SBR audit readiness by focusing on the current year information contained in the SBRs of the General Funds. Specifically, the FY 2015 SBR audits focus on current-year appropriation activity and transactions, which the Department calls the schedule of budgetary activity (SBA).

In December 2014, the Department awarded contracts to three independent public accounting (IPA) firms. The IPAs began audits of the Military Departments’ General Fund SBAs reporting FY 2015 appropriations with the DoD IG providing oversight. Additionally, the budgetary activities of several other Defense organizations are under SBA examinations or completing mock audits. The Department seeks to achieve audit readiness for the SBR by the 2017 deadline originally planned for all financial statements.

Meeting the 2017 deadline for audit ready financial statements remains a significant challenge, as the Department must also focus on the audit readiness of the remaining portions of the SBR, implementation of the ERP system, and achieving audit readiness for the full financial statements. Additionally, results of the FY 2015 SBA audits may identify additional internal control weaknesses that require corrective action, which may further delay the Department’s plans for achieving audit readiness.

The Department must continue to develop and implement a comprehensive plan, including interim objectives and a schedule of milestones, to achieve audit readiness of the full SBR for both the General and Working Capital funds. In addition, the interim objectives and milestones must address each major category of DoD assets, which includes general equipment, real property, inventory, and operating material and supplies, to achieve audit readiness of the full financial statements.

1-1B. Achieving Financial Statement Audit Readiness

IG Assessment of Progress

Although the Department is far from reaching an unmodified opinion on its financial statements, it has made progress. The DoD senior leadership has emphasized the importance of this goal and provided resources to achieve it. The DoD IG believes this increased senior leadership emphasis drives the Department’s ability to accomplish its internal milestones and progress toward full SBR audit readiness to meet the 2017 audit readiness mandates.

According to the [May 2015 FIAR Plan Status Report](#) (FPSR), unmodified SBA audit opinions are not expected in the initial years. However, proceeding with audits helps the Department uncover remaining challenges and exercises its audit support infrastructure. In FY 2015, the Department plans on spending approximately \$619 million on audit readiness, validations, and audits for activities such as:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., Defense Finance and Accounting Service);
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions;
- Supporting independent public accounting audit readiness validations and financial statement audits; and
- Additional financial and ERP systems.

Despite pervasive and longstanding DoD financial management challenges, the Army Corps of Engineers – Civil Works, and five other defense organizations received unmodified opinions on their FY 2014 financial statements, including the Defense Commissary Agency, Defense Contract Audit Agency, the Military Retirement Fund, Defense Financial Accounting Service, and Defense Health Agency Contract Resource Management. The Medicare-Eligible Retiree Health Care Fund received a modified opinion. The Department must sustain its achievements and advance in the remaining significant areas.

The Department continues to make progress toward meeting the audit readiness goals, as the Military Services have now asserted audit readiness on the General Fund SBA. The Department modified its strategy based on the U.S. Marine Corps (USMC) audit experience. The USMC encountered many challenges during this first type of audit, which resulted in disclaimers of opinion in FY 2010 and FY 2011, and an unmodified opinion in FY 2012 that was withdrawn in FY 2015 due to information discovered during the audit of the FY 2014 SBA. A disclaimer was issued for FY 2014. The USMC, the Navy, and the Department are using USMC’s experience to correct weaknesses, as well as prepare the other Military Services for their eventual SBR audits. The Marine Corps is planning for another SBA audit in FY 2015 and a full SBR audit in FY 2016. The Department remains committed to the Marine Corps’ incremental approach to achieving audit readiness on the SBR.

In January 2015, with the DoD IG providing oversight, the independent public accounting firms began audits of the Military Departments’ General Fund SBAs for their FY 2015 appropriations. The General Fund SBAs include financial transactions directly related to appropriations received in FY 2015 and do not include financial transactions for appropriations received in prior fiscal years. Additionally, the budgetary activities of most of the other Defense organizations are under SBA examinations or completing mock audits.

The May 2015 FPSR reported the Department has nearly 90 percent of its General Fund FY 2015 budgetary resources under audit and the remaining budgetary resources are being readied for audit. The Department has expanded its focus to include the Working Capital Funds and remaining financial statements. Additionally, the May 2015 FPSR reported the Department has expanded its audit readiness priorities from budgetary data reported on the SBR to all financial transactions reported on the balance sheet, statement of net cost, and statement of changes in net position. The Department also reported that achieving future audit readiness milestones will be a challenge for all components because of remaining financial management issues that cut across the Department.

The May 2015 FPSR recognized that the Department faces many difficult challenges to audit readiness. Some of the challenges are more easily resolved than others, but several will be difficult to address and are critical to success, including:

- Integration of service providers
- Systems audit readiness, such as dependency on legacy and service provider systems
- Attracting and retaining qualified personnel; and
- Audit-related impediments caused by the unique challenges of some business processes, sub-allotments, and sensitive activities which require a standard framework and process for the appropriate handling of classified and unclassified documents and data during audit.

1-1C. Achieving Financial Statement Audit Readiness

Department Response

The Department generally agrees with the DoD IG’s assessment of the Department’s status and progress in achieving financial statement audit readiness. The Department has made significant progress toward the full audit readiness and the September 30, 2017, deadline. Increased focus from senior leadership has been essential, and the Department is on track to meet its goals.

In FY 2015, the Department achieved a critical interim milestone when the Military Departments began audits of their General Fund Schedules of Budgetary Activity (SBAs). Additionally, most of the material, other Defense organizations went under SBA examination or completed mock audits of their budgetary activities. Going under audit is an essential part of the DoD audit strategy and is consistent with the feedback received from GAO, the DoD IG, and some members of Congress.

The FY 2015 audits are proving invaluable to the Department. The process allows the Department to test its audit infrastructure and highlights dependencies between organizations. Auditor-identified deficiencies are prioritized and carefully tracked. Audits also facilitate the workforce’s transition into an environment of being under annual audit.

Although limited in scope, the audits of current year budgetary funding are still huge undertakings, requiring considerable resources and triggering thousands of auditor requests. Other resources continue to be dedicated to audit readiness activities, such testing internal controls, migrating to an audit ready systems environment, and remediating remaining deficiencies. Working groups are forming to address critical path items. The Department is also working closely with standards setters, such as the Federal Accounting Standards Advisory Board (FASAB), to resolve long-standing policy issues and find a cost-effective way to prepare for an audit of DoD’s full financial statements.

Over the next two years, the Department will continue to expand the scope of audits while sustaining a stronger, more disciplined environment until all full audit readiness is achieved. Lessons learned from other federal agencies suggest that the first years auditing the full financial statements will not result in a positive opinion. However, the Department is committed to resolving all issues until a positive opinion is achieved and sustained.

1-2A. Modernizing Financial Systems (Enterprise Resource Planning)

IG Summary of Challenge

To develop effective financial management processes throughout the Department, the Department continues to implement new financial management systems and business processes. The DoD IG believes properly planned and integrated systems with strong internal controls are critical to providing useful, timely, and complete financial management data and achieving auditability. Timely and effective implementation of the ERP systems will enable the Department to achieve its financial improvement and audit readiness goals.

The Department noted in the 2015 FPSR that the ERP systems are essential to its audit readiness efforts. However, not all ERP systems will be fully deployed for the FY 2015 SBA audits or the 2017 readiness deadlines. This will require the Department to continue to rely on legacy systems. Specifically, the May 2015 FPSR reported that the “Department is moving toward a target systems environment that significantly reduces the number of legacy systems. However, many of the legacy systems scheduled to be replaced will not be replaced by the audit readiness deadline of September 30, 2017. The Department will undergo audit in FY 2018 using both legacy systems and systems that will be part of the Department’s target systems environment, including ERPs.”

1-2B. Modernizing Financial Systems (Enterprise Resource Planning)

IG Assessment of Progress

The Department plans to spend about \$15 billion to develop and implement ERP systems. These systems have incurred cost increases and schedule delays. The Department noted some ERP systems will not be fully deployed by the 2014 and 2017 audit readiness dates; therefore, it must continue to rely on legacy systems. Additionally, the Department plans to spend about \$60 million in FY 2015, and more than \$250 million over the next five years, on financial systems for activities such as designing, developing, and deploying audit-ready compliant systems as well as implementing cost-effective changes to legacy systems that will be part of the systems environment. Relying on legacy systems increases the risk that the audits of the FY 2015 SBAs may result in modified opinions and the Department will not meet the goal of full financial statement audit readiness by September 30, 2017. Reliance on legacy systems, compounded by schedule delays and poorly developed and implemented ERP systems, will diminish the savings expected from transforming operations through business system modernization.

Additionally, reliance on legacy systems and the number of unique instances of each system increases the cost of audits.

Furthermore, without fully deployed ERP systems, the Department will be challenged to produce reliable financial data and auditable financial statements without resorting to additional data calls and manual workarounds to provide financial data on a recurring basis. As a result, the Department may need to rely on a combination of ERP systems and legacy business and financial systems to conduct the SBA and SBR audits.

The Department has not reengineered its business processes to the extent necessary. Instead, it has often customized commercial ERP systems to accommodate existing processes. This creates a need for system interfaces and weakens controls built into each ERP system. The ERP systems were designed to replace numerous subsidiary systems, reduce the number of interfaces, standardize data, eliminate redundant data entry, and facilitate end-to-end business processes while providing a foundation for sustainable audit readiness. However, the numerous interfaces between the ERP systems and existing systems may be overwhelming and inadequately defined. Each interface presents a risk that the system might not function as designed, and prevents the linking of all transactions in an end-to-end process. The Department needs to ensure ERP system development addresses the required business processes and functions.

Without the effective and timely development and implementation of ERP systems and needed senior level governance, the Department will continue to struggle to improve its financial management processes; achieve long-term sustainability of those improvements; and provide accurate, timely, and meaningful financial management information for internal and external users.

Recent audits continue to find that system program managers have not configured systems to report U.S. Government Standard General Ledger financial data using the DoD Standard Financial Information Structure. Additional audits have found the Department has not sufficiently reengineered its business enterprise architecture processes nor incorporated the functionality in ERP systems. The Department has established certification requirements, and the Deputy Chief Management Officer and Deputy Chief Financial Officer have established validation and certification procedures for implementing Standard Financial Information Structure requirements and ensuring business process reengineering has taken place. However, these procedures were not stringent enough to ensure compliance.

In FY 2014, the Joint Interoperability Test Command began to verify financial management systems compliance. Specifically, Joint Interoperability Test Command began to perform compliance verifications across several areas, including DoD Chart of Accounts, U.S. Government Standard General Ledger transaction posting logic, Standard Financial Information Structure business rules, Defense Departmental Reporting System trial balance interface specifications, and Standard Line of Accounting and Standard Financial Information Structure 10.0 interfaces. Five systems were to undergo pilot testing before a more extensive program was implemented. Initial testing results indicate more needs to be done to ensure financial management systems comply with Treasury and DoD standards and policy.

1-2C. Modernizing Financial Systems (Enterprise Resource Planning)

Department Response

The Department is committed to supporting improvements to financial processes through the implementation of ERP systems. In support of these efforts, the Department has been working diligently to improve business processes, oversight of the development of the ERP systems, and implementation of formal business process reviews in support of auditability.

While it is true that legacy systems will continue to be employed during the development and full deployment of the ERP systems, the implementations that have already occurred throughout the Department have resulted in the ability to phase out dozens of legacy systems. Several of the Department’s ERP systems have been or will be implemented to support the 2017

auditability goal. However, where we are dependent on legacy systems, the Components' Financial Improvement Plans incorporate actions necessary to ensure that accurate, reliable financial information is reported.

Modernizing DoD business systems is a key aspect of our overall effort to achieve and sustain auditability. The Department plans to achieve the audit goals with a combination of both target and legacy systems. While taking pro-active steps to align individual ERP system programs with auditability outcomes, we also are focused on delivering audit-ready processes and controls that will remain outside the ERP systems. This will allow us to develop a sustainable business environment that can be cost-effectively audited.

The ERP system programs, by their very nature, are designed to:

- Handle detail transactions in a defined end-to-end process;
- Enforce process and execution standardization among implementing organizations;
- Manage consolidated business data in a single repository that allows centralized access control; and
- Facilitate the flow of information both within an organization and with external stakeholders.

These design principles within the ERP system directly enable capabilities essential to auditability, such as the ability to trace all transactions from source to statement; the ability to recreate a transaction; documented, repeatable processes and procedures; demonstrable compliance with laws, regulations and standards; and a control environment that is sufficient to reduce risk to an acceptable level.

Essentially, ERP system are acquired with industry best practices/"to-be" processes embedded within them. Each of the Department's ERP system programs went through significant, up-front blueprinting and gap analysis to determine which configuration or customization was necessary for the system to work within its particular business environment. The Department has focused on properly enforcing compliance with the target financial management environment, built on a backbone of the core ERP systems and aligned with the Business Enterprise Architecture's end-to-end processes. The Joint Interoperability Test Command testing of systems for compliance with standards is expanding to review over a dozen systems in both FY 2016 and FY 2017. This testing process also includes establishment of corrective action plans to resolve identified issues and for follow-up testing by the Joint Interoperability Test Command to validate corrective actions where needed.

The Department's investment management process ensures:

- Investments are aligned to functional strategies;
- Allow the Department to make more informed investment decisions;
- Eliminate legacy systems that are no longer required;
- Enhance interoperability; and
- Help the Department transform to an environment where business applications can be rapidly deployed on a common computing infrastructure.

The investment review process also ensures each investment is an appropriate use of taxpayer dollars and aligns to the Department's business architecture and our shared goal of delivering agile, effective and efficient business solutions that support and enable our warfighters.

To implement this investment management process, the Deputy Chief Management Officer issued guidance to ensure that the Department continues to treat its business system investments with the firmness of purpose and discipline that will enable cost savings to be redirected to critical operational needs of the warfighter. The guidance, updated annually, includes an integrated business framework to align broad Departmental strategy with functional and organizational strategy, to guide system implementations. The integrated business

framework utilizes Functional Strategies and Organizational Execution Plans (OEP), to help achieve the Department's target business environment.

The Financial Management (FM) Functional Strategy describes the Department's financial management business mission area's strategic vision, goals, target environment, and expected outcomes over the next five years. Key components of the FM functional strategy include: FM data standards, process/system improvements, and how we can leverage technology to assist the Department improve efficiency and effectiveness of FM processes.

In response to Principal Staff Assistant's (PSA) functional strategies, the Military Departments and Defense Agencies develop OEPs that describe how their business system portfolios will achieve the strategic directions and initiatives articulated in the strategy. The OEPs also provide more detailed information on how information technology investments align to the functional strategy initiatives.

1-3A. Improper Payments

IG Summary of Challenge

The Department's inadequate financial systems and controls hamper its ability to minimize improper payments. Improper payments, a longstanding problem in the Department, are often the result of unreliable data, a lack of adequate internal controls, or both. In addition, the pace of operations and volume of DoD spending creates additional risk for improper payments and hinders its ability to detect and recover those improper payments. These payments increase the likelihood of fraud. As a result, the Department lacks assurance that billions of dollars of annual payments are disbursed correctly. The Department faces difficulties in the completeness and accuracy of its improper payment reviews and the information reported. Additionally, the lack of an auditable SBR leaves the Department unable to reconcile outlays to the gross outlays reported in the SBR to ensure all required payments for reporting purposes have been captured. These areas require improvement before the Department will be able to provide complete and accurate information on its estimated amount of improper payments.

1-3B. Improper Payments

IG Assessment of Progress

Although the Department made strides to improve the identification and reporting of improper payments, and took many corrective actions to implement recommendations made by the DoD IG, more work is needed to improve controls over payments processed throughout the Department.

In May 2015, the DoD IG reported the Department complied with five of the six improper payment reporting requirements for FY 2014. Although improper payment rates for the reported payment programs were below the Office of Management and Budget established threshold, the Department did not achieve its improper payment reduction targets for one of eight payment programs with established targets. For the third consecutive year, the DoD Travel Pay Program did not meet its target rate. Failure to attain reduction targets indicates that additional corrective actions are needed to reduce improper payments. The DoD IG will perform oversight on the DoD Travel Pay Program to determine whether DoD actions to reduce improper payments in the DoD Travel Pay Program were effective.

In addition, the Department had deficiencies in the methodologies for two of the nine payment program areas that could affect the reliability of DoD's improper payments estimates. The DoD IG also recommended that the Department improve the statistical precision of improper payments estimates in seven of the DoD payment programs through the use of stratified sample designs.

DoD IG commends the Department for aggressively pursuing recovery of identified improper payments, but unless the Department continues to improve its methodology for reviewing its disbursements, it likely will not identify and accurately estimate the amount of improper

payments. As a result, the Department will miss opportunities to identify causes of and implement effective corrective actions to prevent future improper payments.

1-3C. Improper Payments

Department Response

The Department appreciates DoD IG’s recognition of our efforts to minimize improper payments and our aggressive pursuit to recover identified improper payments. The Department revised its sampling methodology to ensure it meets or exceeds the minimum requirements in accordance with the Financial Management Regulation to ensure compliance with Improper Payments Elimination and Recovery Act (IPERA), as amended, and as The Department has taken actions to develop corrective actions plans at the component level to improve the integrity of the post-payment review results, and we continue to take ownership to address the recommendations in the latest DoD IG and Government Accountability Office (GAO) reports.

While the Department continually strives to reduce improper payments, it should be noted that the payment error rates experienced in most of the Department’s programs are already low. The Department is taking steps to implement and enforce existing internal controls and working with the military services and components to implement effective front-end controls to prevent improper payments. Additionally, the Department plans to pilot a modernized travel system that will address many improper payment causes.

All of these actions, coupled with the Department’s progress toward achieving audit readiness, will increase public confidence in the Department’s stewardship of taxpayer dollars as well as strengthen the fundamentally sound DoD improper payments program.

2. Acquisition Processes and Contract Management

2-1A. Enhancing the Acquisition Workforce

IG Summary of Challenge

Ensuring that the acquisition workforce is adequately sized, trained, and equipped to meet the Department’s needs is an ongoing leadership challenge. The Department’s leadership acknowledges the importance of employing and managing its acquisition workforce to ensure the right personnel are in the right positions at the right time.

Since 2010, the Better Buying Power (BBP) initiatives have focused on improving acquisition performance. Specifically, BBP 2.0 focused on enhancing professionalism and equipping the Department’s acquisition professionals with the best tools to facilitate making solid acquisition decisions. In an effort to strengthen innovation and technical excellence, the Implementation Directive for BBP 3.0, Achieving Dominant Capabilities through Technical Excellence and Innovation, was released on April 9, 2015. BBP 3.0 strengthens the technical capability of and encourages innovation by the Department’s acquisition workforce to achieve greater efficiency and productivity. Considering the fiscal pressures on the Department, it continues to invest in expanding the capacity of the acquisition workforce. The Department must improve procurement outcomes by providing essential education and training.

2-1B. Enhancing the Acquisition Workforce

IG Assessment of Progress

The Department continues to recognize the importance of the acquisition mission and the need for workforce planning and development strategies. The Department slightly increased the total number of acquisition personnel to 152,651 civilian and military personnel as of the second quarter of FY 2015, up from 150,465 personnel in FY 2014. As in the previous years, the

Department’s concerns are not only with sustaining a sufficient workforce size, but also with the training and development of those with acquisition responsibilities.

In FY 2016 budget estimates, the Department requested \$84.1 million for the Defense Acquisition Workforce Development Fund. The Department intends to use the fund to improve the defense acquisition workforce through targeted hiring and initiatives to improve training, development, qualifications, and professionalism. It is critical for the Department to advance the skills of the acquisition workforce throughout their careers so the Department can achieve increased buying power and improve acquisition outcomes.

2-1C. Enhancing the Acquisition Workforce

Department Response

The Department concurs with the DoD IG’s statements on the challenge and progress made in enhancing the acquisition workforce. DoD senior acquisition leadership is continuing its emphasis on responsibly sustaining and strengthening the capability and professionalism of the acquisition workforce. Sufficient workforce capacity and capability is critical to improving acquisition productivity, increasing buying power, and equipping the warfighter for technological dominance.

2-2A. Weapon System Acquisition

IG Summary of Challenge

The Department remains challenged in its management of Major Defense Acquisition Programs. Over the past year, the Department’s Major Defense Acquisition Programs portfolio reduced from 80 programs to 78. More programs are started than can be funded and many programs must compete for funding. The Department should continue to look for a better balance between its limited resources and the capabilities needed to succeed in current and future conflicts. Failure to do so can jeopardize other acquisition programs and limit the Department’s ability to execute warfighting operations effectively. Acquisition experts of various backgrounds (government and industry) continue to emphasize the need for strong accountability and leadership throughout the lifecycle of a weapon system.

2-2B. Weapon System Acquisition

IG Assessment of Progress

The BBP initiatives encompass a set of fundamental acquisition principles to achieve greater efficiencies through affordability, cost control, elimination of unproductive processes and bureaucracy, and promotion of competition. BBP 3.0 initiatives are designed to:

- Create affordable programs;
- Establish dominant capabilities while controlling lifecycle costs;
- Incentivize productivity in industry and government;
- Incentivize innovation in industry and government;
- Eliminate unproductive processes and bureaucracy;
- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Improve the professionalism of the total acquisition workforce.

The Department’s revision of Instruction 5000.02 in January 2015 incorporated its BBP initiative memorandum, representing an effort to improve the acquisition process. Congress and the Department also proposed legislative and policy changes to address the inefficiencies of the current acquisition process and improve weapon systems procurements. The enactment of the Weapon Systems Acquisition Reform Act of 2009 and the Department’s revision of Instruction 5000.02 represent efforts to improve this process. The Department has made progress, but still struggles with programmatic problems such as cost overruns and schedule delays of acquisition programs. The DoD IG continues to identify challenges in acquisition such as:

- Requesting waivers and deferrals from operational test requirements;
- Certifying program readiness for initial operational test and evaluation;
- Documenting the acquisition process for defining, validating, funding, and executing requirements;
- Meeting system performance requirements;
- Determining fair and reasonable prices for spare parts;
- Acquiring excess spare parts inventory; and
- Managing performance-based logistics contracts.

DoD IG has made recommendations to address these challenges and the Services have made progress in implementing them. Given the prospect of shrinking or static defense budgets, it is important that the Department remains vigilant in its oversight role and minimize risk during the acquisition process.

2-2C. Weapon System Acquisition

Department Response

As the Inspector General notes, the Department recently issued BBP 3.0 and a revised DoD Instruction 5000.02 reflecting our commitment to continuous improvement of the defense acquisition process. Among the many initiatives captured in those policies are actions designed to: improve the accountability and quality of DoD acquisition leadership; continue our emphasis on reducing cost and establishing thoughtful business arrangements; ensure that requirements are fully supported and carefully reviewed prior to program initiation; and, address program affordability as a systematic element of acquisition decision making. All of these are critical to ensuring we make the best use of available resources so our warfighters have the capabilities they need. The revised policies also rearticulate and clarify the principles of effective acquisition decision making to ensure that we make thoughtful and well informed acquisition decisions. In addition, the Department is conducting annual acquisition system assessments to determine whether our policies are achieving stated objectives and to focus management attention on process elements that need to be improved.

2-3A. Contract Management

IG Summary of Challenge

The Department struggles to provide consistent effective oversight of its contracting efforts. The Department continues to face contracting deficiencies in these areas:

- Obtaining adequate competition in contracts;
- Defining contract requirements;
- Overseeing contract performance;
- Obtaining fair and reasonable prices; and

- Maintaining contract documentation for contract payments.

Service contracts represent more than 50 percent of the Department’s contract spending. The Department faces several challenges in contract oversight and administration of service contracts. DoD IG audits continue to identify insufficient contract oversight by the Department. Insufficient oversight subjects the Department to risk overpaying for increases in contract costs and contractor performance that does not satisfy contract requirements. This leaves the Department vulnerable to increased fraud, waste, and abuse.

The Department continues to face challenges in obtaining fair and reasonable prices for parts. DoD IG audits first started identifying problems with price-based acquisition and commercial pricing in the late 1990s. However, legislative changes allowing contracting officers to request information on labor costs, material costs, and overhead rates for commercial items did not begin until 2008. More recently, the Department uses a new performance-based logistics (PBL) arrangement, which creates a new challenge in obtaining fair and reasonable prices for parts. The Services are procuring parts from the weapons systems contractors instead of other sources, such as the Defense Logistics Agency. DoD IG found that these parts often were purchased unnecessarily and at higher prices than if the Department used existing Defense Logistics Agency inventory.

2-3B. Contract Management

IG Assessment of Progress

The Department continues to strengthen contracting and has issued policy, procedures, and guidance to address current contracting challenges. The Department began the BBP effort in 2010 and continued the second phase of the initiative, BBP 2.0, in April 2013. It started the third phase of the initiative, BBP 3.0, in April 2015. BBP 3.0 has eight areas of focus, and three of those areas address the following contract management challenges:

- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Incentivize productivity in industry and Government.

When competition is applied effectively, it results in lower costs to the Government, greater innovation from industry, and added savings to the taxpayer. To promote effective competition, BBP 3.0 emphasizes competition strategies with initiatives to create and maintain competitive environments and increase small business roles and opportunities.

Because service contracts make up the majority of the Department’s purchases, the BBP 3.0 initiative to improve tradecraft in the acquisition of services is critical. For the acquisition of services, the Department is focusing on improving requirements definitions for services, strengthening contract management outside the normal acquisition chain, and developing enterprise approaches for improving the effectiveness and productivity of contracted engineering and technical services, among other initiatives.

To further its goal of incentivizing productivity in industry and government, BBP 3.0 will increase the use of incentive-type contracts, implement Service-specific superior supplier incentive programs to drive healthy competition among industry, and increase effective use of PBL arrangements. When PBL arrangements are properly structured and executed, this effort achieves improved readiness at significant savings. However, PBL success depends on the workforce having the expertise and support to properly develop and implement the PBL concept.

Implementing BBP 3.0 continues the efforts to pursue programs that are affordable by mandating that managers identify and pursue “should cost” savings opportunities, providing effective incentives to industry, emphasizing competition, reducing bureaucracy, improving acquisition of contracted services, and building professionalism.

Even with the implementation of BBP 2.0 and the initiation of BBP 3.0, the Department continues to struggle with implementing Federal Acquisition Regulation revisions on the use of cost-reimbursement contracts. Contracting activities are still challenged in:

- Obtaining approval for cost-reimbursement contracts at least one level above the contracting officer;
- Justifying cost-reimbursement contracts;
- Defining requirements for service contracts adequately;
- Conducting sufficient price analysis for commercial spare parts;
- Determining how requirements under contracts could transition to firm-fixed price in the future; and
- Providing Government resources to be available to monitor cost-reimbursement contracts.

2-3C. Contract Management

Department Response

Contract Management continues to be a high priority for DoD leadership. In the February 2015 GAO report, "High-Risk Series: An Update," GAO acknowledged the Department's sustained leadership commitment to addressing these challenges. As a result of that leadership commitment and the progress made, the GAO removed the appropriate use of contracting techniques and approaches from the contract management high risk area. Three segments remain in this GAO High Risk area: 1) the acquisition workforce, 2) service acquisitions, and 3) operational contract support.

The Department continues to work aggressively to resolve the issues in the DoD IG's summary of challenges and assessment by taking a number of steps to improve those identified. Key actions include:

Efforts to Improve Competition

On October 29, 2014, the Director, Defense Procurement and Acquisition Policy (DPAP) issued a memorandum entitled, "Publication of DoD Competition Reporting – 4th Quarter FY 2014," announcing the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)) plan to address competition as a recurring Business Senior Integration Group (B-SIG) agenda item. To support preparation and increase visibility and accountability, DPAP initiated publication of quarterly competition data. Subsequently, DPAP issued memoranda with competition achievement data for the first, second, and third quarters of FY 2015. The memoranda are posted on:

Through 2015, quarterly B-SIG meetings continued with senior leader focus and attention on competition measures to increase visibility and accountability, and also focused on emerging tools, trends and guidance useful for the Military Departments and Defense Agencies to increase competition and overcome barriers to competition. During the June 2015 B-SIG meeting, the USD (AT&L) expressed an interest in transitioning from an annual targeted goal based on actuals to an approach that sets goals relative to a plan that can be actively managed for more meaningful and achievable results. For the FY 2016 Competition measure, the Director, DPAP is soliciting input from the Military Departments and Defense Agencies on this forward looking approach. Competition will continue to be tracked at quarterly B-SIG meetings.

On April 13, 2015, the Acting Director, DPAP signed a memorandum to the Components entitled, "Noncompetitive Contracts Awarded Based on Urgency." This addressed three recommendations in GAO Report GAO-14-304, "Federal Contracting: Noncompetitive contracts Based on Urgency Need Additional Oversight," dated March 25, 2014.

On April 20, 2015, the Defense Federal Acquisition Regulation Supplement (DFARS), Procedures, Guidance, and Information (PGI) (Case 2014-P021) incorporated the guidance and

requirements of the USD (AT&L) August 2014 memorandum, "Actions to Improve Department of Defense Competition."

Improve Tradecraft in Acquisition of Services

On June 1, 2015, the Deputy Director, Services Acquisition in DPAP, as the newly designated Functional Lead (FL) for services acquisition (SA), signed an updated Acquisition of Services Functional Integrated Product Team (FIPT) Charter which includes focused goals for the next two years. These goals include improving requirements workforce tracking, defining a services acquisition qualification program, improving marketing for the SA training website, supporting training products and practical tools, and developing tracking metrics. Several of these efforts are underway. The FIPT team established criteria for identifying the non-Defense Acquisition Workforce Improvement Act (DAWIA) workforce with acquisition-related responsibilities, defined the competencies needed, and identified several training sources for the variety of skills required and present within this workforce. The FIPT is identifying gaps in training coverage to continue improvement and/or development of additional training curricula. Special training sessions are being supported with Defense Acquisition Workforce Development Fund (DAWDF) funds, including special sessions of Defense Acquisition University's ACQ 265 and COR 222 classes solely for non-DAWIA services community stakeholders.

In 2015, the Functional Domain Experts (FDEs) continued to analyze their portfolios and identify areas for active management. Their analysis includes identifying/understanding what services are contained within their portfolios; characteristics of contract spend in their portfolios, such as amount, competition rates, and contract types; vendor base characteristics; and what services may be common across Military Departments and Defense Agencies. The analysis informed the FDE development of metrics and goals for effectively managing their domains.

The PDUSD (AT&L), as the Department's Senior Services Manager directing each FDE to develop their metrics and FY 2016 goals, has met regularly with the FDEs to ensure appropriateness of these metrics and goals. Despite FDE domains containing different sets of capabilities and mission support, there are some common acquisition metrics that will be collected across the domains to include competition rates, small business rates, fragmentation (number of vendors), and types of contracts. Goals are being set in these areas against portfolio execution. Additional metrics regarding general training curriculum and student throughput are being implemented as well.

Acquisition Workforce (Contracting)

The DoD Contracting Workforce successfully completed a Contracting Competency Assessment in 2008-2009, with 86 percent participation. A reassessment of 55 percent of the contracting workforce was completed in September 2014. DPAP and the Military Components are in the early stages of analyzing the data from the assessment to determine gap areas across the contracting workforce and at the Component and field office levels. The results will inform human capital actions/workforce planning; update/initiate training, increase/improve leadership developmental opportunities, and allow the Department to make informed and sustained investments in the workforce, to include quality-focused initiatives to strengthen the capability and readiness of the total acquisition workforce.

As the AT&L Functional Leader for the Contracting, Purchasing, and Industrial/Contract Property Management career fields, the Director, DPAP, chaired quarterly Contracting FIPT meetings (CONFIPT). In 2015, the CONFIPT coordinated on Defense Acquisition Workforce Improvement Act (DAWIA)-related certification and workforce issues and participated in a number of AT&L-led workgroups to implement BBP initiatives. The most significant is the participation and active support to the AT&L Key Leadership Position (KLP) Qualification Board working group that developed the documentation and process to implement the USD (AT&L) KLP guidance. The FIPT completed a comprehensive review of the Component KLP data and existing warrant boards or Head of Contracting Activity (HCA) equivalent processes to determine if a Joint Qualification Board was needed for the Program Lead Contracting Officer KLPs. The FIPT supported the ongoing efforts to develop and implement the Acquisition Workforce Qualification Initiative (AWQI) at the direction of the Assistant Secretary of Defense (Acquisition)

(ASD (A)), and reviewed the extensive work completed by the AWQI project teams for the Contracting, Purchasing, and Property career fields. The CONFIPT effort resulted in the validation of the qualification standards for each competency element. The FIPT contributed to information briefed at the quarterly AT&L Workforce Management Workgroup meetings and Senior Steering Boards, and coordinated updates to the training assets with the Defense Acquisition University (DAU). The FIPT completed a review of the DAWIA training standards, competency models, and position category descriptions for the Contracting, Purchasing, and Property Career Fields for the annual Functional Leader certification.

DPAP continues to collaborate with DAU on the curriculum for the Contracting, Purchasing, and Industrial/Contract Property Management career fields. Efforts to improve acquisition workforce training continued in FY 2014 and 2015 with these Continuous Learning Courses (CLC) being updated as reflected in the DAU iCatalog: CLC 018, Contractual Incentives, in January 2015; CLC 023, Commercial Item Determination Executive Overview, also in January 2015; CLC 058, Introduction to Contract Pricing, in March 2015; CLC 025, Small Business Program for Contracting Officers, in April 2015; CLG 006, Certifying Officer Legislation Training for Purchase Card Payments, in May 2015; and CLC 048, Export Controls, in September 2015. Important updates in 2014 to DAU continuous learning modules include: CLC 028, Past Performance Information; CLC 055, Competition Requirements; and CLC 051, Managing Government Property in the Possession of Contractors, all completed in March 2014. CLC 065, Suspension and Debarment, was updated in June 2014.

Additionally, among the top ten DAU continuous learning modules taken as of the fourth quarter in FY 2015 are: CLG 004, DoD Government Purchase Card Refresher Training, with 36,866 student graduates; CLG 001, DoD Government Purchase Card, with 29,342 graduates; CLG 005, Purchase Card Online System, with 25,105 graduates; CLC 106, COR with a Mission Focus, at 21,877 graduates; CLC 222, Contracting Officer's Representative Online Training, with 20,568 graduates; and CLC 206, COR in a Contingency Environment, with 6,658 students completing the course. DAU, as approved by the respective Functional Leader, has also incorporated Performance-Based Logistics Training assets LOG 235 and CLL 011 into the Core Plus Guides of the Program Management, Contracting, and Engineering career fields. Other important learning assets approved by the Functional Leader for addition to the Core Plus Development Guide for Contracting are: EVM 101, Fundamentals of Earned Value Management; HBS 304, Coaching for Results; and HBS 406, Coaching. All of these learning assets contribute to the improved capability and professionalism of the acquisition workforce.

Better Buying Power Initiatives

BBP, BBP 2.0 and BBP 3.0 are part of the Department's overall commitment to reduce costs and increase value to the taxpayer and warfighter. DPAP is working hard to improve all aspects of the costing, pricing, and financing of its contracts. Many of the BBP initiatives are currently in process and are not meant to be one-time events, but a set of continuous learning and improvement approaches. Specific DPAP contributions to support BBP initiatives and contract management include:

On March 4, 2015, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD (AT&L)) issued a memorandum entitled, "Appropriate Use of Lowest Priced Technically Acceptable Source Selection Process and Associated Contract Type." The memorandum outlines the acquisition circumstances when it is appropriate to use the Lowest Priced Technically Acceptable (LPTA) Source Selection Process. LPTA is appropriate when requirements are well-defined, the risk of unsuccessful performance is minimal, price is a significant factor in the selection and there is neither value, nor need to pay for higher performance. Alternatively, inappropriate usage of LPTA can lead to the Department missing out on an innovative, cost-effective solution needed to maintain our technological advantage. The memo goes on to discuss the importance of selecting the right contract type to fit the requirements, especially when buying services and specifically, professional or management support services, to enhance our mission.

On March 30, 2015, the acting Director of DPAP announced the release of DoD Instruction 5000.72, "DoD Standard for Contracting Officer's Representative Certification," which

established uniform guidance for identification, development, certification and management of Contracting Officer's Representatives (CORs) within the Department.

The Department developed the Contracting Officer Representative Tracking (CORT) tool to track and maintain COR assignments. The web-based tool, hosted on the Wide Area Workflow portal, enables Military Departments and Defense Agencies to manage nomination, training, and tracking of their respective cadres of CORs and the contract(s) assigned to each COR. As of September 2015, there are 59,988 registered CORs. Of the number registered, the Army has 36,048.

On July 27-30, 2015, the Director of Defense Pricing hosted the second Pricing Collaboration event in Southbridge, Massachusetts. Attendees included contracting pricing professionals and Procurement Contracting Officers (PCO's) from the Military Departments and Defense Agencies. Agenda items included: 1) Sessions led by Army, Air Force, and Navy providing FFP-FPIF Component Program Pricing Examples plus Q&A; 2) Incentive Contracting with sessions on FPIF/CPIF/Multiple Incentives, Demonstration of the FPIF Model, and Incentive Contracting Group Exercises concluding with a presentation on Exercise JSF LRIP; 3) Case Study/Critical Thinking Exercise (JSF LRIP); 4) Commercial Item Pricing; 5) DCAA Audit of Contractor Compliance; 6) DCMA Cost and Pricing Center and ICATs; and 7) Senior Procurement Executives Panel.

On July 6, 2015, the Principal Deputy, DPAP signed a memo to the Components announcing the release of the Defense Contingency Contracting Handbook, 5th Edition. The handbook is posted on DPAP's website.

On July 31, 2015, the Director, DPAP signed a memo to the Components entitled "Proper Use of GSA Federal Schedule Contracts – A Reminder." The memorandum highlights two specific aspects of GSA Federal Schedule use that the Department can improve upon: 1) seeking discounts and 2) determining and documenting that the prices obtained are fair and reasonable for all items purchased through the Federal Supply Schedules program, including "open market items."

In addition, the Defense Contract Management Agency (DCMA) continues to establish new and refined capabilities to support BBP initiatives and assist the acquisition workforce in making better business decisions:

Commercial Item Group:

As part of the Under Secretary of Defense's Better Buying Power initiative, DCMA established an initial cadre of commercial pricing experts in early 2015 to assist PCOs in making commercial item determinations and to ensure the price reasonableness of commercial items. Select major program commercial pricing assistance was offered during 2015 with commercial item determination and pricing support provided to: USAF Cryptologic Support Center, USAF Space and Missile Center, Robins Air Force Base (AFB), Tinker AFB, Hill AFB; Redstone Arsenal (Army); NAVAIR and NAVSUP (Navy); and DLA. With a limited staff, the Commercial Item Group identified savings of \$47 million as of September 2015 and demand from PCOs for this specialized support is rapidly increasing. The capability of the Commercial Item Group will continue to grow and mature in 2016 and, when fully staffed, will consist of fifty analysts and engineers dispersed in six strategic geographic locations.

Integrated Cost Analysis Teams (ICATs):

DCMA has ten fully-staffed Integrated Cost Analysis Teams (ICATs) with dedicated business and technical pricing personnel at twelve major contractor divisions. In 2015, the ICATs proactively engaged PCOs during Request for Proposal (RFP) development on major proposals to strategize pricing requirements in partnership with program offices and DCAA. Additionally, the ICATs continue to aggressively pursue opportunities to reduce costs in the supply chain through targeted proposal analysis of second and third tier suppliers, and through coordinated assistance with the DCMA Cost and Pricing Center's mobile/surge pricing capability, commercial pricing cell capability, and augmentation from the Navy Price Fighters.

Overhead Should Cost Reviews and Forward Pricing:

As part of the Department’s Affordability Initiative under BBP 3.0, the Department continued its formalized process of coordinating with Military Department Service Acquisition Executives (SAEs) on the identification of contractor locations for the conduct of overhead should cost reviews. Input is received from each SAE on beneficial contractor segments and expected price proposals of significance for the upcoming fiscal year. Based on this input, the Director of Defense Pricing selects the locations for review, notifies the affected services, and planning is initiated for the joint conduct of the reviews.

FY 2015 was the first year in which DCMA conducted targeted reviews focused on the contractor’s business base and select indirect cost items – areas with the highest potential savings. The business base is a significant factor in predicting overhead rates and thereby establishing a sound “should cost” position. This streamlined approach allowed DCMA to increase the number of scheduled reviews over the prior year.

The results of the reviews are shared with SAEs, affected program/buying offices, and DCMA Administrative Contracting Officers, who utilize the results to establish Forward Pricing Rate Agreements and Recommendations (FPRA/FPRR). These agreements and recommendations support BBP goals to reduce the acquisition cycle time by providing contracting officers with negotiated rates that incorporate affordability initiatives used in pricing contract actions. DCMA is also progressing with its plan to increase the number of locations with FPRAs – working with Defense Contract Audit Agency (DCAA) and industry partners to establish processes and information requirements. This effort has resulted in an increase in the number of FPRAs at some of the largest defense contractors. The DoD Enterprise Contractor Business Analysis Repository (CBAR) includes comprehensive contractor pricing information – to include FPRAs/FPRRs to assist PCOs with contract negotiations.

CBAR supports the Department’s BBP goals of controlling costs and achieving affordability by providing PCOs with real-time information that enables them to negotiate a “better deal” for the Government.

3. IG-Identified Challenge: Joint Warfighting and Readiness

3-1A. Joint Warfighting and Readiness

IG Summary of Challenge

Maintaining the Department’s Joint Warfighting and Readiness abilities is challenged by the fluid, multi-theater environment in which it operates. The Department’s missions include:

- Drawing down DoD presence in Afghanistan while continuing to support the Afghan National Defense Security Forces (ANDSF) and counterterror operations;
- Returning to Iraq to support the battle against the Islamic State with advisors and trainers;
- Strengthening our alliances in the Pacific, as well as in other parts of the world; and
- Addressing emerging terrorism and instability within the U.S. Africa Command areas of operations.

Each of these efforts presents its own challenges that the Department must address. The existing external challenges are compounded by internal challenges relating to the budgetary environment and efforts to optimize the joint warfighting structure.

As the ANDSF formally assumed security responsibilities for all of Afghanistan on January 1, 2015, the U.S. and the Department simultaneously transitioned to Operation Freedom Sentinel (OFS), primarily focused on advising and assisting the ANDSF to further develop its ability to provide security and stability in Afghanistan. The subsequent reduction of U.S. and Coalition Forces in Afghanistan has created significant challenges in the ANDSF advise and assist mission,

to include development of the Planning, Programming, Budgeting and Execution (PPBE) and anti-corruption capabilities in the Ministry of Defense (MoD) and Ministry of Interior (MoI).

Furthermore, the U.S. and Coalition advise and assist mission is challenged by the ANDSF's ongoing issues with:

- Excess officers at senior levels, complicating development of an effective planning and command and control capability;
- Maintenance and logistics planning capabilities;
- Development of counter-improvised explosive device exploitation capabilities;
- Consistent and effective leadership;
- Unity of command; and
- Lack of tactical air support.

The Afghan National Police (ANP) continues to perform traditional policing as well as counterinsurgency operations, but it suffered significant casualties, as has the Afghan National Army (ANA). The ANP still has significant issues concerning force protection, command and control, training, maintenance, medical support, force management, personnel attrition, and corruption.

The drawdown of forces from Afghanistan continues to challenge the Services as they deal with retrograde and reset of equipment. The majority of the returning equipment is in poor condition and has reached the end of its planned service life. Equipment is a critical component of readiness, and returning equipment will require repair or replacement. The retrograde/reset will be complicated by numerous ongoing and developing situations around the world.

Global conflict and crises will continue to affect the Department's rebalancing and resetting efforts:

- The limited return of forces to Iraq in constrained roles as advisors and trainers for Operation Inherent Resolve (OIR) to assist in the battle against the Islamic State creates additional challenges for the Department. This effort confirms that U.S. forces need to train for unconventional and asymmetric warfare, as well as for more conventional force-on-force training. Ongoing training and deployment requirements will continue to test both personnel and material readiness.
- The Services are rebalancing to the Asia-Pacific region while maintaining the global presence needed to protect national interests. While undergoing this strategic rebalance, the Department will need to address a wide spectrum of challenges, ranging from increased reliance on uncertain host nation infrastructure to vast areas of operational responsibility. This will require pre-positioning of personnel and equipment and the need for strengthened security partnering with select countries. This effort requires enhanced knowledge of various languages and cultural, ethnic, and religious sensitivities.
- The Department continues to coordinate with the Republic of Korea regarding our strategic alliance. The transfer of the overall combined command from U.S. forces has been scheduled several times, but continues to be delayed.
- The Department also continues to address emerging terrorism and instability challenges in U.S. Africa Command's area of operation, as demonstrated by the Department's involvement in Operation United Assistance. Growth in U.S. Africa Command's operational partnering mission raises the issue of sufficiency of its resources to address the terrorist threat, given that the Department returned some facilities in Europe.

The effects of the reduced Department budget are being felt in areas such as maintenance of existing equipment and systems, fielding and implementation of new systems, and the frequency and extent of training and exercises. The Services and the Combatant Commands must plan for future budget realities in order to minimize the effect on their ability to respond to future threats. The Services must review their existing force structures and make necessary

changes or adjustments, especially when those changes or adjustments involve shifts in how the Department views future military missions.

Sequestration and possible future budget constraints continue to challenge the readiness of the Services. For example, the effect of sequestration was felt almost immediately as the Navy adjusted repair and overhaul schedules for ships and the Air Force began restricting flying hours for squadrons. The Services and the Combatant Commands will need to ensure that any current and future budget reductions do not limit our force’s capability to respond to future threats.

During these times of fiscal austerity, particularly the potential to return to Budget Control Act funding levels, finding the proper balance between maintaining readiness, force structure sizing, modernization, and preparing for potential future threats will continue to challenge the Department’s leadership.

In addition to external events affecting the Department’s joint warfighting and readiness construct, internal factors affect readiness. The proposed drawdown of the Services, with the accompanying potential to close installations and facilities, will again require enhanced attention from the Department’s senior leadership. For example, the proposed restructuring of Army aviation forces, a critical combat force multiplier, will be particularly challenging. The Department must continue to assess the capabilities and readiness of the force across the full spectrum of operations. This assessment includes significant issues, such as whether the joint force is capable of achieving the strategic objectives set forth in the *National Security Strategy*, as well as tactical issues, such as the focus on unit and individual service member readiness. A key objective of maintaining joint warfighting capability and readiness is caring for the all-volunteer force and their families. Difficulty in recruiting sufficient volunteers to meet Service targets and the lifting of gender restrictions within the force will continue to require attention.

Turmoil around the world continues, ranging from Russian aggression in Europe, Chinese maritime actions in the South China Sea, North Korean nuclear threats, externally-initiated cyber-attacks on our government, and the potential health issues that could occur on pandemic levels, among others. It is critical that the Department address these challenges to ensure our military is agile, flexible, and ready for the full range of contingencies.

3-1B. Joint Warfighting and Readiness

IG Assessment of Progress

The Afghan National Army (ANA) made significant leadership changes during this reporting period. In February 2015, to make room for the next generation of Army officers, President Ashraf Ghani directed the retirement of 47 general officers who had exceeded the mandatory retirement age. In addition, he suspended multiple general officers involved in a fuel scandal. The uncertainty over an extended period associated with these leadership changes hampered the Department’s advise and assist mission, especially in the area of MoD and MoI development of PPBE capability and accountability. While the U.S. and Coalition generally viewed these actions as a positive step, the ANDSF remains burdened by an excess of officers at senior levels and needs further reduction.

In advance of the 2015 fighting season, the ANDSF continued its high operational tempo and conducted the first major offensive operation of 2015 in northern Helmand Province. This large-scale operation highlighted the ANDSF’s ability to organize and execute an operation of this scope, as well as the continuing challenges the ANA faces with maintenance and logistics planning, counter-improvised explosive device (IED) exploitation capabilities, effective leadership, and unity of command. The Coalition intervened to provide tactical air support to compensate for ANDSF’s limited capability. The capabilities of the ANP, while improving, face challenges in the same areas as the ANA.

Although the Department is making progress in addressing the drawdown of U.S. forces and equipment in Afghanistan, fiscal challenges will become even more important as current weapon systems reach the end of their serviceable lives and their replacements become more costly.

The Department must ensure adequate oversight and management of equipment being returned or reset so that only unusable equipment is disposed, and new equipment is fielded to the intended users.

Across the globe, the Department continues to develop and enhance partnerships with countries and regions whose interests align with ours.

- The U.S. and Coalition forces conducting OIR’s Build Partner Capacity/Advise and Assist mission in Iraq are progressing, within given limits and constraints. The Iraqi Army today is not the Iraqi Army that the U.S. left in 2011. Issues with assigned/present for duty strength, weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption continue to affect the viability of the Iraqi forces, and the effectiveness of the U.S. and Coalition effort.
- In the Pacific, the Department continues to strengthen alliances and build partner capacity in countries across the region, including the Republic of Korea, the Philippines, Japan, Australia, Malaysia, and Indonesia.
- The Department works to strengthen security institutions across Africa to foster stability, build peacekeeping capacity, and counter transregional extremism. The U.S. military also supports interagency efforts with Latin American and Caribbean states to promote regional stability and counter transnational criminal organizations.

Ongoing efforts to redeploy military units around the globe with the consent and support of partner nations has enabled the Services to better shape and focus their force structure to provide greater flexibility in responding to evolving threats; however, worldwide commitments continue to build. All of these commitments add to an ever increasing challenge for U.S. forces’ ability to deploy to multiple global threat scenarios simultaneously.

Despite the continued high operations tempo, the Department remains committed to ensuring deployed forces around the globe are trained, equipped, and ready to perform their assigned missions. However, deploying capable and ready forces for current operations continues to affect the non-deployed forces’ ability to prepare for full spectrum operations.

3-1C. Joint Warfighting and Readiness	Department Response
The Department acknowledges the DoD IG’s assessment.	
4. Cyber Security	
4-1A. Executing Cyber Security Initiatives	IG Summary of Challenge
<p>In February 2013, then Secretary of Defense Panetta stated, “Cyber is now at a point where the technology is there to cripple a country, to take down our power grid systems, to take down our government systems, take down our financial systems and literally paralyze the country.” Current cyber events occurring both within the Federal government and in the private domain emphasize the reality of the Secretary’s statement. As a result, a conclusion from the 2010 Quadrennial Defense Review (QDR) takes on special meaning. The 2010 QDR concluded, “We must therefore be constantly vigilant and prepared to react nearly instantaneously if we are to effectively limit the damage that the most sophisticated types of [cyber] attacks can inflict.”</p> <p>While the Department has made strides in developing strategies for opposing cyber threats and adopting new technologies to make its information technology programs more effective and efficient, executing those strategies and implementing those programs remains a significant</p>	

challenge. For example, several recent DoD cyber initiatives that lag behind implementation milestones include:

- Transitioning to Internet Protocol version 6 (IPv6);
- Requiring the Defense Federal Acquisition Regulation Supplement (DFARS) clause on safeguarding unclassified DoD information on all relevant contracts;
- Adopting cloud computing; and
- Reducing the number of DoD data centers.

In June 2003, the DoD Chief Information Officer (CIO) issued a memorandum stating the Department’s implementation of IPv6 was necessary because the previous internet protocol version had limitations that made it unable to meet long-term commercial and DoD requirements. Over the next five years, the Department issued transition plans, guidance, and requirements outlining the Department’s transition to IPv6. In addition, the Office of Management and Budget issued Federal requirements for implementation. However, as of December 2014, the Department had not completed the Federal and DoD requirements and deliverables to effectively migrate the DoD enterprise network to IPv6. As a result, the Department is not realizing potential IPv6 benefits and the longer the Department waits, the higher the cost and the more complex the transition will become.

In June 2011, the Department proposed to amend the DFARS to add a new subpart and associated contract clauses to address requirements for safeguarding unclassified DoD information. The purpose of the DFARS rule was to implement adequate security measures to safeguard unclassified DoD information within contractor information systems from unauthorized access and disclosure. In November 2013, the Department issued the final DFARS rule and established a new DFARS clause. The new clause is mandatory for all DoD prime contracts and subcontracts. The clause imposes two obligations for contractors: safeguarding information systems and reporting the investigation of cyber incidents. However, in February 2015, the Department reported only 65 percent of new contracts included the required DFARS clause.

There are several other DoD cyber initiatives that have similar circumstances as the IPv6 and DFARS initiatives, such as cloud computing and consolidation of data centers. The Department issued cloud computing requirements in 2010 and the strategy in 2012, but has not fully implemented it in 2015. The Department issued requirements for consolidation of data centers in 2012 and still is in the process of completing consolidation.

While it is unrealistic to think the Department can be “prepared to react nearly instantaneously” as the 2010 QDR required, it is not unreasonable to expect that when milestone requirements and guidance are issued for cybersecurity initiatives, they receive high priority for execution and implementation.

4-1B. Executing Cyber Security Initiatives

IG Assessment of Progress

Both the Federal Government and the Department appear to be moving forward to make cybersecurity a higher priority and provide the necessary resources to implement and execute cybersecurity initiatives. In December 2014, the Federal Information Technology Acquisition Reform Act (FITARA) was enacted. FITARA has been described as the most comprehensive overhaul of government IT in 18 years. According to the Federal CIO, one of the most important dimensions of the law is the added authority and responsibility for department-level CIOs. However, he also stated that, “FITARA’s success also depends on an agency’s ability to overcome cultural challenges that could hinder process improvement and reform efforts.” Although not all measures contained in FITARA apply to the Department, it begins to raise the authority of CIOs.

In March 2015, the Department announced its CIO, who had been acting since May 2014, had officially assumed the duties of the CIO position. Along with an extensive background in

DoD information technology and the provisions of FITARA, the Department’s new CIO brings an added sense of urgency in implementing cybersecurity initiatives within DoD components.

The Department must continue challenging all military, civilian, and contractor employees to execute cybersecurity initiatives successfully and quickly implement cyber programs as instructed to counter all threats in the Cyber domain.

4-1C. Executing Cyber Security Initiatives

Department Response

The Department acknowledges the DoD IG’s assessment.

4-2A. Cyber Mission Force

IG Summary of Challenge

Cyberspace is an inherently global domain that affects nearly every function of the DoD Joint Force. The Department is increasingly dependent upon a skilled cyber force with appropriate cyber capabilities to conduct modern military operations. In 2012, the Commander, U.S. Cyber Command recommended, and the Secretary of Defense approved, the Cyber Force model. The Cyber Force model includes developing a Service Component-built Cyber Mission Force to support U.S. Cyber Command mission. Today, the pace of threats continues to grow in scope, intensity, and sophistication. Every conflict in the world today has a cyber dimension. Actors with modest conventional military capabilities have shown considerable capacity to harass, disrupt, and distract their adversaries using cyberspace. Recent attacks, such as the breach of Office of Personnel Management systems and the hacking of Sony Pictures Entertainment, demonstrate that no industry or sector is immune to this growing threat.

According to the National Initiative for Cyber Security Education, a highly skilled cybersecurity force is required to secure, protect, and defend our nation’s information systems, networks, and infrastructure. However, the Center for Strategic and International Studies report, “A Human Capital Crisis in Cybersecurity,” April 2010, identified a national shortage of skilled cyberspace personnel. The 2015 Government Accountability Office High Risk Series identifies continuing concerns regarding mission-critical gaps in cybersecurity professionals and safeguarding federal computer systems and the systems that support critical infrastructure. These gaps pose a threat to the nation and to the Department’s operational readiness.

In the current environment of economic uncertainty and fiscal constraint, the Department faces significant challenges in staffing and training the cyber personnel it needs for the Cyber Mission Force. Additionally, the Department faces further challenges related to building, commanding and controlling, and equipping the Cyber Mission Force.

4-2B. Cyber Mission Force

IG Assessment of Progress

The Commander, U.S. Cyber Command noted the Department’s progress during his March 4, 2015 testimony before the House Armed Services, Subcommittee on Emerging Threats and Capabilities, but also acknowledged the Department had a long road ahead in implementing the Cyber Mission Force. Two years into the Cyber Mission Force build, the Service Components field approximately 71 of the 133 teams planned. Some fielded teams are fully operational and performing offensive and defensive missions, while other teams are still filling out manning rosters and completing training and certifications

One of the DoD IG’s top priorities is cybersecurity and cyberspace operations. DoD IG will continue to assess issues affecting the Cyber Mission Force and U.S. Cyber Command’s ability to meet mission requirements. In 2015, the DoD IG issued a classified report concluding that the Service Components have been unable to effectively staff qualified Cyber Mission Force

teams based on U.S. Cyber Command aggressive fielding schedules. Additionally, the DoD IG issued another classified report concluding, among other issues, that select Combatant Commands did not and other Combatant Commands may not have sufficient resources to staff their joint cyber centers, and U.S. Cyber Command was not providing sufficient forward-deployed support to the combatant commands. These elements are a critical component affecting DoD command and control decisions. The DoD IG is in the process of determining the adequacy of Cyber Mission Force teams’ facilities, equipment, tools, and capabilities.

Although U.S. Cyber Command, Service Components, the Defense Information Systems Agency, and Combatant Commands were making progress in building and operationalizing the Cyber Mission Force, recent audits show further time-sensitive actions are still needed to staff and train the Cyber Mission Force to effectively meet mission requirements. The Deputy Secretary of Defense directed actions in the Resource Management Decisions for the FY 2016 Budget Request to better influence how the Department continues to build the Cyber Mission Force and meet other cyberspace-related tasks affecting the Joint Force. These actions demonstrate the Department’s commitment to building a fully staffed and qualified Cyber Mission Force.

4-2C. Cyber Mission Force

Department Response

The Department acknowledges the DoD IG’s assessment.

5. Health Care

5-1A. Health Care Cost

IG Summary of Challenge

The Military Health System (MHS) must provide quality care for 9.6 million beneficiaries within fiscal constraints while facing increased user demand, legislative imperatives, and inflation. These factors make cost control difficult in the public and private sectors. Over the last decade, health care costs have grown substantially, and MHS costs have been no exception. The DoD FY 2014 appropriations for health care were \$32.7 billion, which is an increase of about 80 percent since FY 2005. Appropriations have almost tripled since the FY 2001 appropriation of \$12.1 billion. However, the Department’s appropriations have decreased slightly by \$16 million from FY 2013. Health care fraud is another challenge in containing health care costs. Health care fraud is among the top five categories of criminal investigations of the DoD IG’s Defense Criminal Investigative Service (DCIS). Specifically, as of March 31, 2015, DCIS had 297 health care cases, representing 18 percent of the 1,637 open cases.

As the MHS continues to adapt to budgetary and force transformation constraints, the Department must continue to provide timely access to quality medical care per established policies and timelines and maintain the medical readiness of the force. The Department reports that growing health care costs will limit its ability to fund medical readiness requirements. These challenges include public health, suicide prevention, mental health screening and treatment, access to care, pre- and post-deployment health care, medication management, and Reserve Component health care. The Department continues to enable the recovery and transition of wounded, ill, and injured service members by using Wounded Warriors programs and the Integrated Disability Evaluation System. Due to the drawdown in Afghanistan and the introduction of Operation Inherent Resolve, the Military Services will be challenged with “rightsizing” their medical transition programs.

5-1B. Health Care Cost	IG Assessment of Progress
<p>Ensuring Military Service members, their families, and all other eligible beneficiaries receive the care they need and deserve while controlling costs continues to be a challenge. The MHS is focusing on multiple areas to manage health care costs per capita, including contracting for managed-care support that provide incentives for customer satisfaction and fosters contractors as partners in support of medical readiness. The Department continues to examine how the MHS purchases health care from the private sector.</p> <p>The Department identified areas that assist in managing costs, including the use of the TRICARE Mail Order Pharmacy program. The DoD IG reported in July 2013 that the TRICARE Mail Order Pharmacy Program was more cost efficient than the retail program due to the difference in the cost of the pharmaceuticals. The Defense Health Agency Pharmacy Operations Directorate implemented an aggressive communication plan to encourage the increased use of receiving prescription drugs through the mail to reduce costs.</p> <p>The Defense Health Agency, Office of Program Integrity, conducts anti-fraud activities to protect benefit dollars and safeguard beneficiaries. To encourage the early identification of fraud, the Office of Program Integrity is proactive in detecting areas that may be vulnerable to fraudulent and abusive billings. In addition, the Office of Program Integrity renewed its Memorandum of Understanding with DCIS to provide investigative support. The Defense Health Agency reported that during calendar year 2014, the Office of Program Integrity managed 354 active investigations, opened 229 new cases, responded to 430 Qui Tams from the Department of Justice, and responded to 951 leads or requests for assistance. The Defense Health Agency also reported that the Office of Program Integrity also coordinated investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.</p> <p>The Department continues to struggle to contain costs in TRICARE programs. The Pharmacy Program has seen a dramatic rise in the receipt and payment of compound drug prescriptions. From October 2014 to March 2015, payments for compound drugs have increased from \$84 million to \$330 million, or 300 percent over the six-month period. In May 2015, the Defense Health Agency implemented new controls to attempt to curb the costs of these drugs; however, these controls are not as aggressive as other federal agency and insurance company controls. The Defense Health Agency officials believe that more aggressive controls are necessary. The DoD IG initiated an audit in FY 2015 to review controls over compound drugs.</p> <p>The DoD IG reported in November 2014 that the Defense Health Agency did not have adequate controls to detect improper payments for TRICARE claims submitted by skilled nursing facilities in the North region. The audit determined that 67.4 percent of FY 2013 skilled nursing facilities claims in the TRICARE North region (valued at \$13.2 million) had insufficient documentation to support the claims submitted by the skilled nursing facilities. In response to the report, a Defense Health Agency official stated that the agency would increase reviews of skilled nursing claims.</p> <p>DoD IG also reported in April 2014 that the Defense Health Agency and its overseas contractor officials did not negotiate rates in any of the 163 overseas locations, which represented \$238 million in health care payments in FY 2012. In six high-dollar locations without negotiated rates or other cost containment measures, TRICARE payments increased from \$21.1 million in FY 2009 to \$63.8 million in FY 2012, or about 203 percent. The Department did not agree to implement cost containment measures for these locations, but did agree to implement cost containment measures, similar to rates established by the Centers for Medicare and Medicaid Services, in the U.S. territories.</p> <p>In addition to controlling health care costs, the Department could improve collections for services provided at military treatment facilities. The DoD IG issued three reports from August 2014 through June 2015, which concluded that military treatment facilities did not actively pursue collections from non-DoD beneficiaries for 59 accounts valued at \$9.6 million of the 75 accounts the DoD IG reviewed. Also, the military treatment facilities did not appropriately</p>	

transfer funds to the U.S. Treasury for 71 delinquent accounts valued at \$11.3 million of the 75 accounts the DoD IG reviewed for collection.

The MHS Quadruple Aim Concept focuses on four factors in providing quality health care to DoD beneficiaries: readiness, better health, better care, and lower cost. In March 2015, the MHS approved the following strategic focus areas for improvement: increase direct care primary care capacity, improve access, improve quality outcomes for condition-based care, and reduce patient harm. Continuing to implement the MHS Quadruple Aim Concept and concentrating on these focus areas should improve quality and reduce costs by focusing on improved care coordination and delivering care in the appropriate setting.

5-1C. Health Care Cost

Department Response

In 2009, the Department projected that by FY 2016 the Defense Health Program (DHP) funding requirement would be around \$70 billion. The Department’s actual FY 2016 DHP budget request was just under \$48 billion, over \$22 billion less than previously projected. This reduction was due to a combination of factors, including historically low inflation, a declining beneficiary population, and specific initiatives taken in the Military Health System (MHS) to target rising costs. Despite our recent successes in containing costs, FY 2015 has been a challenge for the MHS. Exploitation of the pharmacy benefit for compound pharmaceuticals contributed to an estimated \$1.5 billion shortfall in DHP funding, and we are seeing a gradual rise in medical inflation. The MHS continues to take aggressive action to increase efficiency, combat fraud, and reduce costs. Following are examples:

Compound Pharmacy – In May 2015, the MHS implemented aggressive screening processes for compound pharmaceuticals. This reduced the monthly (including Medicare Eligible Health Care Retirement Fund, MERHCF) compound costs from a high of \$545 million in April to a current average of about \$10 million per month. Average claim cost was also reduced from a high of over \$6,000 to around \$300. MHS is also aggressively pursuing compound pharmacies and compound prescribers that appear to be have engaged in fraudulent and abusive activities. The Defense Health Agency (DHA) Program Integrity (PI) office, along with Defense Criminal Investigative Service (DCIS) and Department of Justice (DOJ), has opened 140 compounding fraud investigations.

Enhanced Mail/MTF Pharmacy Initiative – Starting October 1, 2015, most beneficiaries in the United States will be required to refill brand name maintenance drugs through TRICARE Pharmacy Home Delivery or at a military pharmacy or pay full price. This is an expansion of the TRICARE for Life Pilot. The Department estimates this will save \$88 million per year.

Improper Payments to Skilled Nursing Facilities – On June 1, 2010, we began preauthorizing skilled nursing facility care for TRICARE dual eligible beneficiaries when we became primary payer on day 101 when Medicare benefits exhausted.

TRICARE Overseas Cost Containment – In the TRICARE Overseas follow-on contract, we require the contractor to evaluate the feasibility of implementing fee schedules in Bahrain, South Korea, Turkey, Japan, and the United Kingdom. The contract deliverable is due in December 1, 2016.

Improvements to Third Party Collections – The Military Health System is in the process of deploying a commercial-grade business system to improve our capabilities in billing third party payers. The Armed Forced Billing and Collection Utilization Solution (ABACUS) is expected to be fully deployed and operational by the first quarter of FY 2016, if not sooner. We have also contracted with a commercial firm to assist us in better identifying beneficiaries who have additional health insurance.

6. Training and Equipping Afghan, Iraqi, and New Syrian Security Forces

6-1A. Afghan National Defense and Security Forces

IG Summary of Challenge

The Department will continue to develop the Afghan National Defense Security Force's (ANDSF) capability to take ultimate responsibility for Afghanistan's security. Challenges include:

- Developing ministerial capability to plan and manage resources and human capital;
- Ensuring enabling-force capabilities (combat readiness and sustainment support elements) are fielded prior to withdrawal of Coalition capabilities;
- Measuring and reporting ANDSF operational readiness and effectiveness;
- Professionalizing the ANDSF;
- Ensuring the ANDSF logistical system can support an independent and sustainable security force; and
- Preparing for post-2016 operations.

Coalition force drawdown and retrograde have added significant challenges as ANDSF completes the transition to full Afghan government responsibility for security. The protracted 2014 Afghan election caused setbacks for the U.S. and Coalition Train, Advise, and Assist (TAA) mission. Last year's political impasse delayed the finalization of the Bilateral Support Agreement (BSA) and Status of Forces Agreement (SOFA), causing many Allies and operational partners to delay fulfilling their Resolute Support (RS) force commitments until a newly-elected government was in place, the bilateral and international agreements were signed, and the United States announced its own force commitments. The international community's uncertainty, coupled with setbacks in forming a new government cabinet, created a period of comparative stagnation in ANDSF development, with some Afghan leaders hesitant to make necessary decisions. This political uncertainty threatened to undermine the progress made by the ANDSF in the security domain. Economic growth was similarly stymied by a lack of investor confidence in the Afghan government and its prospects for the future.

At the same time, President Ghani and Chief Executive Abdullah committed to putting their country's interests above all else when they formed the national unity government. Encouragingly, both leaders have proven to be amenable to cooperation with the international community, presenting an opportunity for the United States to deepen its partnership with Afghanistan. Both leaders are supportive of women's rights and their empowerment in Afghan society, and both are committed to addressing the challenge of corruption, as demonstrated by their strong reaction to the discovery of irregularities regarding the proper award and execution of fuel contracts within the Ministry of Defense (MoD). However, after almost a year in power, the Afghan government remains in a state of flux as President Ghani and Chief Executive Abdullah determine how to distribute power and responsibilities, while key reform initiatives have been slow to be implemented.

The unity government faces many challenges both internally and externally. The forward momentum of the RS campaign was stymied by delays in forming the full new 25-member Afghan cabinet. After months of delays, the first round of negotiated candidates was finally announced on January 12, 2015, and Parliament rejected more than half of those originally proposed, including the nominee for MoD. By April 18, 2015, Parliament had approved 24 members of the cabinet; however, President Ghani and Chief Executive Abdullah continued to negotiate a new candidate for MoD as the 2015 fighting season began. On May 21, 2015, President Ghani nominated Mohammad Masoom Stanekzai to be the MoD, but the Afghan Parliament has yet to confirm the appointment. The delayed appointment has had a negative effect on the ability of the Afghan security ministries to effectively support the ANDSF.

Security Ministries. At the security ministries, RS advisors are focusing on assisting the Afghans in building systems and processes critical to enabling the ministries to support the ANDSF. These efforts have been ongoing for several years but were a secondary focus when the International Security Assistance Force (ISAF) was conducting combat operations; now it is the main effort. Moreover, the delay in confirming a new Minister of Defense, and the suspension of a number of senior officials over MoD fuel contract irregularities, have slowed capacity building efforts over the last year within the MoD.

Although some progress was made during this reporting period, gaps in the Afghan security ministries' ability to perform key functions such as fiscal planning, programming, budgeting and procurement, and human resource management will likely persist for some time, and could impede sustainment of its forces. The most critical gaps in Afghan security institution capacity are the lack of effective systems and repeatable processes to develop defense requirements properly, procure goods and services, and manage budget execution.

The Department must continue its focus on advising and assisting the development of the resource management capabilities of the Ministry of Interior (MoI) and MoD. Budget planning and execution, training and development of human resources, increasing the ranks of civilian professionals, and leader emphasis on command and control of logistics are key areas for continued emphasis. Ensuring the capacity of the ANDSF and U.S./NATO command to maintain accountability and control over direct funding and equipment provided via the U.S. Afghan Security Forces Fund remains a key challenge. Additionally, coordination between the Afghan National Army (ANA), Afghan National Police (ANP), Afghan Air Force (AAF), and Special Operations Forces will be important to ensuring a multi-layered, long-term defense against insurgents and criminal syndicates.

Enabling Force Capabilities. The 2015 fighting season is the first in which the ANDSF have battled insurgents without the full support of U.S. and coalition combat forces, and with very limited coalition air and Intelligence, Surveillance and Reconnaissance (ISR) enablers. Completing the fielding of "enablers," or military capabilities essential to building ANDSF's capacity to accomplish its missions, is increasingly important. Fielding and integration of combat and support capabilities in the ANA and ANP will remain a priority.

Overall, the ANDSF's most critical gaps remain in aviation, intelligence, and special operations, all linked to the ANDSF's targeting capability. These gaps will endure for some time, even with the addition of key enablers. RS advisors are also working to address developmental shortfalls in the areas of logistics, medical support, and counter-IED exploitation. In general, the ANDSF are better trained and equipped than insurgent forces, and continue to demonstrate tactical proficiency as they work together across security pillars. When the ANA and ANP collaborate, they have proven that they can defeat the insurgents when challenged.

Maximizing the ability to employ, sustain, and maintain critical equipment, coupled with the identification and promotion of capable leaders, is a near-term focus for Afghan and coalition leadership to maximize ANDSF effectiveness in the 2016 fighting season and beyond. Higher operational rates and challenges, including the likelihood of high ANDSF casualties and attrition, logistics sustainment and maintenance issues, and the ANP's inability to "hold" cleared areas after the ANA offensives will continue to detract from ANDSF operational effectiveness.

Logistics remains a challenge for the ANDSF that has been exacerbated by a diminished Coalition presence in the field. Since U.S. and Coalition forces historically have ordered supplies for the ANDSF, Afghan personnel have little experience doing it themselves. Efforts are focusing on improving the Afghan MOD and MOI's ability to identify requirements. One of these efforts involves development of an upgrade to CORE IMS - the Afghan's primary logistics automation system - that will assist in projecting requirements based on actual usage. Other efforts have focused on cataloging, parts manuals, and logistics training. It is important that, with advisor support, logistics responsibilities and decision making be transitioned to the Afghans. In many cases, reported shortages in operational units typically result from the ANDSF's underdeveloped logistics system rather than actual system-wide supply shortages. Coalition officials are working Afghan security leaders to address essential logistics functions, but progress is incremental.

Additionally, the Afghan ministries’ procurement systems have not yet matured in terms of efficiency and internal controls. The fuel scandal in January 2015 brought almost all ANDSF procurement to a temporary halt. This does not, however, affect the buying of military equipment and parts, which DoD procures through the Foreign Military Sales System, using money from the Afghan National Security Forces Fund. The Afghans’ procurement system has been limited to fuel, fuel, firewood, facility maintenance, and other locally produced supplies. The Afghans are being taught to effectively use the US Foreign Military Sales System to obtain needed equipment and supplies. The primary means of supporting the ANDSF has always been through the US Foreign Military Sales system. As we transition to a normalized security cooperation relationship with Afghanistan, expectation is that the Afghans will continue to use the US Foreign Military Sales system as one of the primary means of obtaining needed equipment and supplies. It is particularly critical that we expedite the development of the Afghan capability to take ownership of the development of requirements needed to support executable Foreign Military Sales cases.

Assessment of ANDSF Progress. Assessing capabilities and identifying capability gaps will become more difficult during Coalition force withdrawal. The Department’s ability to determine the operational readiness and effectiveness of ANSF units is diminishing as the number of partner units and advisors continue to decrease. The challenge is to ensure sufficient skilled and qualified advisors are in key positions to continue assessing and developing ANSF leadership, command and control, logistics, and accountability capabilities, and critical units.

Professionalization. The Department must continue to support ANDSF’s current efforts to professionalize the force. Command reports show recruitment and management of initial training at the enlisted and officer levels are becoming ANDSF strengths. Developing quality leadership, managing effective training at all army and police levels, providing career development opportunities, and maintaining accurate personnel and pay records have all been identified as areas requiring a sustained effort necessary to build a professional army and police force.

Post-2016 Operations. The President recently announced plans to maintain the current force of 9800 uniformed personnel, plus civilian and contract staff, in Afghanistan through 2016 and part of 2017, drawing down to 5500 uniformed personnel, plus civilian and contractors, in 2017. Subsequently, a new Defense Security Cooperation Management Office (DSCMO) office is expected to be established using DoD funding authority vice the more traditional funding authority from the Department of State. Its function will be to plan, develop and execute a mission to replace Operation Freedom’s Sentinel to oversee Afghan Security Forces Fund expenditures, and continue to build long-term Afghan capacity through 2024. Organizing the DSCMO will require careful advance planning within the Department, other agencies, and especially with the Department of State and U.S. Mission Kabul to accomplish this new mission with substantially fewer military forces. The Department especially will need to ensure the DCSMO is staffed appropriately with the advisory skill sets necessary to assist the ANDSF further develop its still lagging operational and institutional capabilities.

6-1B. Afghan National Defense and Security Forces

IG Assessment of Progress

The Coalition is monitoring the performance of ANDSF in the first fighting season against stiff Taliban resistance without the support of a Coalition combat presence in Afghanistan. The Coalition emphasis on ANDSF development has shifted from building its forces to assisting the Afghans in professionalizing and ensuring systems are developed and in place to manage fiscal, personnel, and equipment resources accountably and sustainably.

Ministerial development is a primary emphasis, and the Coalition is increasing resource management training for MoD and MoI personnel. Ministerial advisors are delivering assessments of the security ministry departments, reporting departmental setbacks as well as successes, and planning and revising training milestones and objectives as necessary. Additional

advisors are arriving to complement the ministerial and general staff advisory capacity and to accelerate progress.

The shortage of qualified army and police volunteers with sufficient education remains a challenge for ANDSF, especially as its casualty rate has increased over the past year. Nevertheless, ANDSF continues to support human capital development and training, including for literacy.

The ANDSF has taken more responsibility for its own training. Coalition reports confirm that the number of Afghan trainers has increased steadily over time, easing the burden on the Coalition Forces to provide military and civilian trainers. Reportedly, ANDSF is also managing its non-commissioned officer (NCO) and officer ranks more aggressively, for example, by taking action to meet ANP and ANA non-commissioned officer shortages by training and promoting qualified and experienced enlisted soldiers and junior NCOs.

Importantly, operational readiness and effectiveness, and self-reliance, of the ANA and ANP continue to show overall improvement. However, with the decrease in advisor teams and advisor resources at the Corps and Police Headquarters levels and below, Coalition forces have had to shift to using Afghan reporting to understand ANDSF capabilities. Challenges remain in getting reliable data from the ANDSF self-assessment tool.

Continued financial support from the international community depends upon a transparent and accountable Afghan resource management process that enables oversight by third party organizations. Resolute Support priorities include developing an advisor network to encourage leaders of the Afghan security ministries to embrace transparent and accountable processes while providing effective oversight. The absence of effective internal control processes increases the risk of poor management and the existence of corrupt practices, depriving the ANDSF of vital resources and could lead to reduction in international contributions over time. DoD has deployed a team to Afghanistan to assist the Afghans in improving the current MOD and MOI payroll systems and improve funds accountability.

In April 2015, the acting Minister of Defense signed the Ministerial Internal Controls Program (MICP) (as well as an anti-corruption policy) to address this shortfall, and it is being implemented within the MoD. RS advisors assisted with developing MICP guidelines, which is leading to introduction of process maps, auditing plans, and the development of effective and sustainable control processes for items such as fuel, ammunition, salaries, and food. The new MoD Inspector General (IG), as well as the ANA General Staff IG, accepted responsibility and leadership for the implementation of MICP and adopted a leadership role in the transparency, accountability, and oversight forums, such as the Counter Corruption Working Group and the Senior High Commission Anti-Corruption Council. In addition, the Combined Security Transition Command is pressing forward on finding savings in Afghan Security Force Funds that could be used to bolster fiscal resources needed for now to sustain the ANDSF at its current level of 352,000 army and police personnel.

6-1C. Afghan National Defense and Security Forces	Department Response
The Department acknowledges the DoD IG’s assessment.	
6-2A. Iraqi and New Syrian Security Forces	IG Summary of Challenge
At the direction of the President, the United States is pursuing a strategy to degrade and ultimately defeat the Islamic State of Iraq and the Levant (ISIL). In September 2014, the President articulated an approach to accomplish this strategy that involves nine separate lines	

of effort: supporting effective governance in Iraq, denying ISIL safe haven, building partner capacity, enhancing intelligence collection against ISIL, disrupting ISIL’s finances, exposing ISIL’s true nature, disrupting the flow of foreign fighters, protecting the Homeland, and providing humanitarian support. The Department has responsibility for two lines of effort: denying safe haven and building partner capacity.

To support these two lines of effort, the Department has committed to the development of the Iraqi Army and the New Syrian Forces to fight ISIL. However, the onslaught of the ISIL advance reduced the Iraqi Army to 10 of its former 14 Divisions. While the Government of Iraq (GoI) is recruiting and training new personnel, it lacks the rapid ability to professionally train and equip the forces required to conduct counter-offensive operations, and it needs U.S. and Coalition assistance. While the trend on the battlefield has been promising in stemming ISIL gains, ISIL remains a potent force. The GoI currently lacks the military capacity to field sufficient and effective forces needed to regain much of the lost territory, protect the population and threatened critical infrastructure, and drive ISIL out of the country.

To successfully conduct counter-offensive operations with Coalition support, the GoI has initially committed to training, equipping, and fielding three Iraqi Army Divisions (nine Brigades), three Kurdish Brigades, and Tribal Forces, which could comprise eventual Iraqi National Guard brigades. The focus of DoD efforts is to work with, by, and through the GoI to build the necessary military capability to counter ISIL. The Department requested and received approximately \$1.6 billion to provide assistance to military and other security forces of, or associated with, the GoI, including Kurdish and tribal security forces.

While initial plans called for spending \$500 million to train Moderate Syrian Opposition fighters to become part of the New Syrian Force, the program has recently been suspended pending further evaluation and consideration of options.

6-2B. Iraqi and New Syrian Security Forces

IG Assessment of Progress

While U.S./Coalition Forces are pursuing this train, advise, and assist mission with selected Iraqi Army and Tribal Forces, the overall condition of the Iraqi Army, coupled with weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption, present challenges to building an effective GoI security force capable of carrying out the mission to defeat ISIL in Iraq.

The Department recently suspended the New Syrian Forces (NSF) training program, after having trained a very small number of personnel. One particular challenge was the rigorous vetting process required by various aspects of U.S. law, which limited the number of eligible recruits.

6-2C. Iraqi and New Syrian Security Forces

Department Response

The Department acknowledges the DoD IG’s assessment.

7. The Nuclear Enterprise	
7-1A. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	IG Summary of Challenge
<p>The President is committed to maintaining safe, secure, and effective nuclear forces while reducing the strategic nuclear forces in accordance with the New Strategic Arms Reduction (START) Treaty. The Department must balance the sustainment of legacy systems and the reduction of strategic forces while continuing investments to modernize essential nuclear delivery systems; warning, command, and control; and in collaboration with the Department of Energy, nuclear weapons and supporting infrastructure. Survivability, reliability, accountability, and production infrastructures become critically important with the reduction of overall numbers of nuclear weapons and delivery platforms.</p>	
7-1B. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	IG Assessment of Progress
<p>The Department’s efforts in managing the risks between sustainment, modernization, and strategic force reduction will continue to be a challenge. Sustainment of legacy systems is one of the most pervasive problems in the nuclear enterprise. The Department must focus on sustainment challenges. If not addressed, sustainment challenges will overtake any improvements or enhancements the Department intends to make in the near term.</p> <p>Significant uncertainties exist in today’s threat environment. U.S. deterrence and assurance strategies must be adaptable to counter unpredictable strategic and regional threats. New platforms must be adaptable to deter emerging threats well into the future. For example, Ohio-class replacement ballistic missile submarines are scheduled to be deployed until the 2080s. However, fragmented leadership and advocacy has hindered the Department’s ability to synthesize efforts to ensure the arrival at an adaptable force after strategic reductions.</p> <p>Aging infrastructure and the constraints of the Budget Control Act put both the legacy system and the replacement program at risk. Additionally, senior Air Force leaders accepted the risk of not meeting national security requirements without the knowledge of Combatant Commands or the Joint Chiefs of Staff.</p> <p>The lack of Service focus on aging infrastructure and risk management without the knowledge of DoD senior leadership is a trend throughout most of the DoD IG’s recent nuclear enterprise reports.</p>	
7-1C. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	Department Response
<p>Ensuring a safe, secure, and effective nuclear enterprise is the top priority of the Department, and the Department is committed to aggressively managing the risks between sustainment and modernization of the nation’s nuclear forces.</p> <p>The constraints of the Budget Control Act place many DoD programs at risk, not just nuclear force programs such as Minuteman III. The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY</p>	

2016. The President’s FY 2016 budget request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the Future Years Defense Program (FYDP). For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

As part of DoD’s Program and Budget Review process, senior leadership throughout the Department, to include the Air Force, jointly assesses risks for national defense requirements. The DoD oversight process remains keenly focused on nuclear enterprise risks at the Service, Combatant Command, Joint Chiefs of Staff, and Secretary of Defense levels. In addition, the President’s FY 2016 budget request includes an additional \$8 billion across the FYDP, compared to the FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Secretary of Defense, as specified in Section 1043 of the National Defense Authorization Act for Fiscal Year 2012, annually reports to Congress sustainment issues and modernization plans for the nuclear weapons stockpile, nuclear weapons complex, nuclear weapons delivery systems, and nuclear weapons command and control systems.

7-2A. Modernizing Our Nuclear Forces to Meet Future National Security Needs

IG Summary of Challenge

The United States’ nuclear deterrent is an amalgamation of terrestrial, aerial, and space-based sensors; assured command and control, the triad of delivery systems, nuclear weapons and supporting infrastructure; and most importantly, trained and dedicated people. The triad of delivery systems was modernized twice -- once in the early 1960s and once in the 1980s. The average warhead today is over 27 years old. Every one of the systems, including the various elements of the Nuclear Command, Control, and Communications (NC3) system, will require significant modernization or replacement in the next two decades.

7-2B. Modernizing Our Nuclear Forces to Meet Future National Security Needs

IG Assessment of Progress

Although the Department is far from attaining an acceptable level of risk in the nuclear enterprise, it has made progress. The DoD senior leadership has increased the emphasis on achieving this goal.

The President’s FY 2016 budget begins to reduce the accumulated risk because of deferred maintenance and sustainment, but there is little to no margin for error. The Department must balance the sustainment of legacy systems with modernization to ensure national security capabilities are met. Even though the President’s budget requests \$142 billion to recapitalize, sustain, and modernize the nuclear enterprise over the next five years, the Department must ensure consistent focus to align acquisition schedules for new platforms and their associated weapons.

Long Range Strike Bomber (LRS-B): The LRS-B is funded and in the acquisition cycle. However, the Senate Armed Service Committee recently removed \$460 million from the program. The Air Force still has not committed to ensuring the first bomber variant will be nuclear capable, which could lead to additional investment to sustain the aging dual-capable B-52 and B-2 bombers.

Ohio Class Submarine Replacement: The current Ohio class of ballistic missile submarines (SSBN) were commissioned between 1984 and 1997, and their lifetime has been extended from 30 to 42 years -- unprecedented for a nuclear submarine. No further extension is possible and maintaining operational availability is a concern. Even though the first Ohio replacement will begin its first strategic patrol in 2031, the current SSBNs must be sustained until the last hull is decommissioned in 2040.

National Airborne Operations Center (NAOC) E-4B: Aircraft availability has not met mission needs over the last three and a half years. The cost to sustain the airframe will continually increase as commercial airlines continue to retire the 747-200 fleet and spare parts are depleted. Age-related maintenance issues have led to extended depot periods and a replacement program has yet to be identified.

Integrated Tactical Warning and Attack Assessment (ITW/AA): The ITW/AA enterprise’s mission is to provide timely, accurate, and unambiguous warning of air, missile, and space attacks against North America to the U.S. President, the Prime Minister of Canada, and the Chairman of the Joint Chiefs of Staff, Combatant Commands, and other forward users. The ITW/AA is composed of Air and Space Missile Warning Missions, with sensors and forward users located worldwide, and at correlation centers at Peterson AFB, Cheyenne Mountain AFS, Offutt AFB, and Vandenberg AFB. Portions of this legacy system are unsustainable, and plans for replacement systems have been delayed.

Minuteman III/Ground Based Strategic Deterrent: The National Defense Authorization Act of 2007 directed the Air Force to sustain the Minuteman III (MMIII) ICBM until 2030. Even though the MMIII has received several generations of sustainment and modernization, the supporting infrastructure is aging to the point of becoming unsustainable. The Air Force must balance investment between the legacy system and the new GBSD, follow-on to the MMIII.

Air Launched Cruise Missile/Long Range Stand-Off (ALCM/LRSO): The LRSO effort will develop a weapon system to replace the Air Force’s ALCM, operational since 1986. However, an independent cost estimate depicted higher LRSO development and integration costs than the original Resource Management Decision funding. The FY 2015 Presidential Budget Request included a decision to defer the program three years, resulting in a four-year delay due to unexecutable funds and programmatic.

Nuclear Command, Control, and Communications (NC3): The NC3 system is a large and complex system-of-systems comprised of numerous land, airborne, and space-based components used to assure connectivity between the President and nuclear forces. The NC3 system remains a primary concern for Congress. The National Defense Authorization Act of 2014 directed the establishment of the Council on Oversight of the National Leadership Command, Control, and Communications System. The Council is responsible for oversight of the command, control, and communications system for the national leadership of the United States. Specific responsibilities include oversight of performance assessments (including interoperability), vulnerability identification and mitigation, architecture development, and resource prioritization. However, most systems are controlled by separate entities to include different program offices, program element offices, and even different Major Commands.

7-2C. Modernizing Our Nuclear Forces to Meet Future National Security Needs

Department Response

Ensuring a safe, secure, and effective nuclear enterprise remains the top priority of the Department, and the Department remains firmly committed to modernization. The President’s FY 2016 budget request includes an additional \$8 billion across the FYDP, compared to the FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY 2016. The President’s FY 2016 budget

request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the FYDP. For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

The FY 2016 budget request recovers two years of the three-year Long Range Standoff (LRSO) cruise missile deferment from the 2015 budget. In addition, the Air Force is planning for Milestone-A acquisition decisions for both GBSD and LRSO in FY 2016, which will include development of Independent Cost Estimates.

Due to delays in awarding the LRS-B contract, the Senate Armed Services Committee removed \$460 million from the program in FY 2016 in order to properly phase funding with program execution. The LRS-B is being built with features and components necessary for the nuclear mission to ensure the nuclear certification effort completes within two years after conventional initial operational capability in accordance with the FY 2013 National Defense Authorization Act. The LRS-B requirements for the nuclear mission have been validated by the Joint Requirements Oversight Council.

In early 2015, the Deputy Secretary directed an end-to-end review of the National Leadership Command Capability (NLCC) and Nuclear Command, Control, and Communications (NC3) enterprise. This review was led by DoD Chief Information Officer, Joint Staff, and United States Strategic Command (USSSTRATCOM) experts and provided findings and recommendations that drove near-term improvements and supported priority investment decisions.

Through the NLCC and NC3 Capability Planning Guidance (CPG), Services and Agencies are directed to fund continuing sustainment and modernization efforts, including E-4B and Integrated Tactical Warning/Attack Assessment (ITW/AA) systems.

The Council on Oversight of the National Leadership C3 System (NLC3S) 2014 annual report to Congress identified critical NLC3S sustainment and modernization programs endorsed by DoD senior leadership. The Council has ensured proper oversight and sufficient resources for Nuclear Command, Control, and Communications (NC3) modernization, and the Council is working to better integrate the activities of DoD entities to improve NC3 system capabilities.

7-3A. Lack of an Integrated End-to-End Governance Process

IG Summary of Challenge

Collaborative decision structures do not exist to provide strategic direction or manage cross-cutting risks across the Department’s nuclear weapon enterprise. Existing forums remain isolated from one another, leading to unclear and ambiguous lines of reporting, accountability, and responsibility.

7-3B. Lack of an Integrated End-to-End Governance Process

IG Assessment of Progress

Despite the current challenges in the DoD nuclear enterprise, the Department is focusing on progress and bringing senior leader focus to nuclear issues that need attention. In 2014, Secretary Hagel directed two reviews of the DoD nuclear enterprise. The reviews concluded that there is no coherent, integrated structure and synchronized set of activities characterized as a DOD nuclear enterprise. Instead, the Review found a loose federation of separate nuclear

activities often embedded in and indistinguishable from support for and execution of a wide range of non-nuclear activities. The reviews also found that the forces are meeting the demands of the mission with dedication and determination. However, the Sailors, Airmen, and Marines are paying an unsustainable price with the increasing difficulty. In response to the findings, Secretary Hagel created the Nuclear Deterrent Enterprise Review Group to help maintain senior-level focus on the nuclear mission, and to integrate all the elements of the nuclear force into a coherent enterprise. The Secretary also directed the Office of the Secretary of Defense, Cost Analysis and Program Evaluation, to monitor the implementation of the review's recommendations. This notable change and sustained efforts will reduce the risk to the DoD nuclear enterprise.

Section 171 of the National Defense Authorization Act for Fiscal Year 2014 directed the Department to establish the Council on Oversight of the National Leadership Command, Control, and Communications System (the Council). Section 171 directs the Council to be responsible for oversight of the command, control, and, communications system for the national leadership of the United States, including nuclear command, control, and communications. Assessing the effect of the Council is premature, but the commitment of resources by senior leadership to identify and correct deficiencies will likely have a very positive long-term effect.

The 2010 Nuclear Posture Review and the 2013 Report on Nuclear Employment Strategy of the United States state the key objectives of U.S. nuclear weapons policy. The 2010 Strategic Concept and the 2012 Deterrence and Defense Posture Review outline U.S. and NATO nuclear capabilities for deterrence and defense. Finally, the New START Treaty verifiably reduces and limits the strategic arsenals of both the U.S. and Russia, and is consistent with the U.S. objective of maintaining strategic stability at reduced force levels. With isolated exceptions, these policies lack coordinated, implementing guidance. Further, no governance structure exists to analyze the aggregate risk and to monitor implementation for unforeseen consequences.

Collaboration among U.S. nuclear weapon stakeholders is paramount to ensure a unified effort to meet national security requirements. Although the Nuclear Weapons Council—, which serves as the focal point of DoD and National Nuclear Security Administration (NNSA) interagency activities to maintain the U.S. nuclear weapons stockpile—carries out its statutory and regulatory responsibilities in a number of ways, the Council faces challenges in doing so.

The Council does not have an up-to-date agreement that reflects the processes it uses to carry out its responsibilities. The 1997 memorandum of agreement between the Department and the Department of Energy that guides the Council's efforts has not been updated, although the Council's responsibilities were expanded in 2013, and the 1997 memorandum does not define the roles, responsibilities, structure, and functions of the two support committees that conduct the Council's day-to-day operations.

Without an updated memorandum of agreement that describes Council processes, it may be difficult for the Council to provide greater clarity to support committee members on how their work is to be conducted. Second, a key consideration when implementing collaborative mechanisms is whether all relevant participants have been included in the effort. For example, DoD and NNSA budget and program evaluation officials are not required to attend Council support committee meetings. DoD budget and program evaluation officials are invited and generally attend, but NNSA budget and program evaluation officials generally do not attend because they are invited at the discretion of NNSA support committee members. Without a requirement that all relevant participants consistently attend all support committee meetings, the Council may be limited in its ability to manage and respond to unanticipated budget questions as they arise at meetings.

<p>7-3C. Lack of an Integrated End-to-End Governance Process</p>	<p>Department Response</p>
<p>Modernization and sustainment of safe, credible, and effective nuclear forces involves disciplined, complex, and inter-agency processes. The DoD concurs with the IG’s assessment, and the Department continues to explore and implement improvements to the governance process.</p> <p>The Council on Oversight of the National Leadership Command, Control, and Communications (C3) System is informed by numerous cross-community subordinate working groups and integrated process teams, including groups working on crypto modernization, cyber risk assessment, low frequency/very low frequency communications, Presidential and National Voice Conferencing, and Senior Leader C3 System. These subordinate groups, working through the National Leadership Command Capability (NLCC) Senior Steering Group and the NLCC Executive Management Board, review, validate, prioritize and recommend capabilities for NLCC resourcing, architecture roadmaps, assessments, and vulnerability mitigation. The process also includes a working group that reviews Service and Agency budget submissions and, as necessary, recommends high-priority additions to their Program Objective Memorandums. This robust oversight and governance process resulted in significant NLCC and Nuclear Command, Control, and Communications (NC3) resourcing gains in the 2016 Presidential Budget Submission, as well as successfully appealing to Congressional defense committees against 2016 marks to NLCC/NC3 programs.</p> <p>Based on input from the Council on Oversight of the National Leadership C3 System, as well as a recommendation from the National Leadership Command Capability (NLCC)/NC3 Enterprise Review, the Air Force is in the process of assigning a single Major Command as the overall lead for the NC3 System. Additionally, the Air Force plans to designate the NC3 System as a weapon system to consolidate program elements. The Council receives briefings and progress towards this goal is being tracked and briefed to the Council.</p> <p>Lastly, the Nuclear Weapons Council (NWC) is in the process of updating its memorandum of agreement between the Department of Defense and the Department of Energy.</p>	
<p>8. IG-Identified Challenge: Insider Threat</p>	
<p>8-1A. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.</p>	<p>IG Summary of Challenge</p>
<p>The past several years have seen significant damage done to the Department – and indeed, the wider US Intelligence Community and Homeland Security – by trusted DoD “insiders.” Recent incidents such as Chelsea Manning’s unauthorized disclosures via WikiLeaks, Edward Snowden’s revelation of highly classified NSA and military information to the media, and the Fort Hood and Washington Navy Yard shootings are only the most visible, high impact instances of the destruction brought about by current or former DoD employees or contractors.</p> <p>As defined in DOD Directive 5205.16, an Insider Threat is, “[t]he threat an insider will use her or his authorized access, wittingly or unwittingly, to do harm to the security of the United States. This can include damage to the United States through espionage, terrorism, unauthorized disclosure of national security information, or through the loss or degradation of departmental resources or capabilities.” The threat posed by DoD insiders has been recognized at the highest levels of both the Department and the Executive Branch. In October 2011,</p>	

Executive Order 13587 established the National Insider Threat Task Force, requiring Insider Threat detection and prevention programs at every federal agency that handles sensitive or classified information; specific policy guidance and minimum programmatic standards were released in November 2012 via Presidential Memorandum. Congress has acknowledged the gravity of the Insider Threat at the Department and has mandated that the Department improve information sharing protections and Insider Threat mitigation for DoD information systems (Section 922, FY 2012 NDAA).

To address the widely varied and remaining vulnerabilities, multiple DoD directives and instructions were codified since 2013, including naming the Under Secretary of Defense for Intelligence (USD(I)) as the Senior Official responsible for insider threat matters and releasing the highly anticipated DoD Insider Threat Program policy directive (DoD Directive 5205.16, September 30, 2014). As a result, even before the Snowden disclosures and Washington Navy Yard shootings, the DoD Chief Information Officer submitted a Report to Congress on Insider Threat Detection (March 29, 2013), detailing the results of extensive DoD reviews of the Department’s posture, policy, and measures taken to identify and mitigate the Insider Threat. Despite the significant personnel and financial resources directed at Insider Threat across the federal government, the Executive Office of the President continues to stress the need for reform, releasing a memo via the Office of Management and Budget in July 2014 which stated that “agencies should focus on efforts to improve infrastructure permitting, and on implementing insider threat and security clearance reform.”

Over the past two years, the Department has invested significant resources into evaluating and resolving Insider Threat issues. For instance, USD(I) released a memo in May 2014, directing DoD agencies to update and cross-reference personnel data in the Joint Personnel Adjudication System (JPAS)/Defense Central Index of Investigations (DCII)/Scattered Castles as recommended in DOD IG Report 2014-060. In December 2014, the USD(I) mandated that the Defense Security Service (DSS) would establish, staff, and operate the Defense Insider Threat Management and Analysis Center (DITMAC). The Center is scheduled to begin operating in FY 2016.

Despite the distribution of multiple Presidential, Congressional, and Departmental guidance and requirements – and the actions the Department has taken over the past two to three years – the Department still lags behind many other federal and IC agencies in identifying and mitigating the Insider Threat, which leaves DoD personnel, information, and mission attainment vulnerable to insider threats. To complicate matters, the nature of an Insider Threat continues to evolve. It is unrealistic to believe that the Department can plan for every possible contingency; however, it is crucial that the Department prioritize, aggressively pursue, and monitor initiatives to improve prevention, detection, and mitigation policies and processes.

8-1B. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.

IG Assessment of Progress

The Department is poised to manage Insider Threat risks at the enterprise-level via establishment of the Defense Insider Threat Management and Analysis Center (DITMAC). The USD(I), as the DoD Senior Official for Insider Threat, formally assigned responsibility for establishing, manning, and operation of the DITMAC to the Defense Security Service (DSS) in mid-December 2014. The DITMAC, composed of a cross-functional team of security, counterintelligence, cybersecurity, law enforcement, human resources, adjudicative, legal, and privacy personnel will gather, integrate, analyze, and respond to hard copy or electronic information that is indicative of a potential insider threat. DoD IG will review mandatory quarterly updates from DSS to USD(I).

In mid-2014, the USD(I) also mandated that the four Defense intelligence agencies – National Reconnaissance Office, National Security Agency, National Geospatial-Intelligence Agency and Defense Intelligence Agency – initiate personnel security clearance reform. Specifically, information should be entered, indexed, and shared timely to allow for identification of potential insider threats as well as material changes for an employee or contractor’s access to classified information. DOD IG will follow up with USD(I) to determine if the four agencies responded. We will also identify successes, lessons learned, and remaining obstacles to cross-referencing and indexing of insider threat information.

8-1C. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.

Department Response

The Department recognizes that its implementation of an enterprise-level insider threat program has not matched the pace of implementation observed in some other departments and agencies in the Executive Branch. However, the disparity noted is likely dictated by the overall scope of effort the Department must undertake. The Department has been extremely active, implementing several measures to establish a comprehensive insider threat program. These actions include: The Deputy Secretary of Defense designating the Under Secretary of Defense for Intelligence (USD(I)) as the DoD Senior Official for Insider Threat; the publication of a DoD Directive on insider threat; the publication of a DoD Instruction addressing the counterintelligence aspects of insider threat; forming a dedicated staff within the Office of the USD(I) to manage the DoD insider threat program at the enterprise level; including resource recommendations for the insider threat program into current and future program budget review cycles; creating a DoD-wide Insider Threat Working Group to address issues, find solutions, and share information; and developing a detailed implementation plan which provides program managers definitive guidance as they establish insider threat programs in 43 separate DoD Components. That plan will be signed during the first quarter of CY 2016.

Furthermore, the Department continues to make progress on the challenging task of identifying insiders on our information networks. This is accomplished through the implementation of tools and policies to detect and mitigate insider actions before they can negatively affect DoD resources. The Department is employing a risk-based approach to user activity monitoring by focusing on our most critical classified networks first. Many of the DoD Intelligence Community Components have fully implemented network monitoring and the Department is pursuing commercial solutions to provide this monitoring to all Geographic Component Commands. Additionally, the Department has made insider threat a separate line of effort in the latest DoD Cyber Strategy emphasizing its importance in how we defend our information. The Department has also assigned a senior executive as the DoD Liaison Officer to the National Insider Threat Task Force to further enhance the partnership between the two organizations.

The Department has also integrated insider threat as a key focus area in multiple working groups, lessons-learned forums, training initiatives, and a variety of web-based information portals. This emphasis and exposure will generate interest in the inherent threat and promote discussion on future solutions. In a related effort, the DoD Mission Assurance Coordination Board will enhance its oversight of steps taken by Components to improve the monitoring of recommendations implemented from the 2009 Fort Hood and the 2013 Washington Navy Yard shootings.

On December 12, 2014, the USD (I) directed the Director, Defense Security Service (DSS), to incubate the DITMAC. The DITMAC’s specified responsibilities include an enterprise-level management capability enabling OSD-level oversight of DoD Components’ insider threat responsibilities while ensuring Department-wide awareness for specific threshold-level insider

threat events. DITMAC operations, metrics, and case studies will inform, support, and enable the (USD (I))'s management and oversight of the Department's insider threat program. The DITMAC is projected to reach initial operational capability in October 2015 and full operational capability in the first quarter of FY 2019. In accordance with DoD Directive 5205.16, "The DoD Insider Threat Program," DoD Component insider threat programs will also establish and maintain a multi-disciplinary threat management capability to conduct and integrate the monitoring, analysis, reporting, and response to insider threats. The Component threat management elements will implement reporting channels with the DITMAC to facilitate the prompt exchange of information arising from the analysis process. These linkages will further ensure that the Department quickly reviews critical data regarding an adjudicative matter or security incident and takes swift action if warranted. The DITMAC role and responsibilities have been codified in a DoD Instruction that is undergoing coordination within the Department.

Separately, the Department has taken steps to implement a system of continuous evaluation for DoD personnel who have access to classified information. This effort will use automated records checks of authoritative commercial and government data sources to note issues of personnel security concern and supplement existing security processes to more quickly identify and prioritize information of adjudicative relevance and adverse events that occur between periodic reinvestigations. Currently, the Department is conducting pilots to validate the evaluation process and refine it to enhance performance. When fully endorsed by the Office of Personnel Management (OPM) and the Office of the Director of National Intelligence, our continuous evaluation system will relieve DoD and OPM of conducting personnel security investigations for individuals seeking Secret-level security clearances and generate immense savings for the Department.

The success of these efforts is dependent on having a general workforce that is trained to recognize behaviors of concern and a highly trained team of insider threat personnel who can quickly analyze data and respond appropriately. To meet this demand, the Department has developed insider threat training for both audiences. The DSS has developed course offerings that address insider threat awareness, reporting responsibilities, and procedures unique to staff working in analysis centers. In fact, the National Insider Threat Task Force has certified the DSS curriculum and directed all departments and agencies of the Executive Branch to use the DSS insider threat courses to train their personnel.

Although the pace and scope of future actions are affected by available resources, the Department's resolve to institutionalize an effective insider threat program has not wavered. The goals stated in National and Departmental policies remain the impetus for the measures stated here and the Department is committed to their achievement.