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STRENGTHENING OVERSIGHT OF DOD BUSINESS SYSTEMS MODERNIZATION

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL RELATIONS

AND THE

SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY, INTERGOVERNMENTAL RELATIONS AND THE CENSUS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

MARCH 31, 2003

Serial No. 108–44

Printed for the use of the Committee on Government Reform

Available via the World Wide Web: http://www.gpo.gov/congress/house
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

89–166 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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STRENGTHENING OVERSIGHT OF DOD BUSINESS SYSTEMS MODERNIZATION

MONDAY, MARCH 31, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL RELATIONS, JOINT WITH THE SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY, INTERGOVERNMENTAL RELATIONS AND THE CENSUS, COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittees met, pursuant to notice, at 1 p.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the Subcommittee on National Security, Emerging Threats and International Relations) presiding.

Present: Representatives Shays, Turner, Putnam, Duncan, Kucinich and Ruppersberger.

Staff present from the Subcommittee on National Security, Emerging Threats and International Relations: Lawrence Halloran, staff director and counsel; J. Vincent Chase, chief investigator; Thomas Costa, professional staff member; Robert A. Briggs, clerk; David McMillen, minority professional staff member; Earley Green, minority chief clerk; and Teresa Coufal, minority assistant clerk.

Staff present from the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Census: Bob Dix, staff director; John Hambel, senior counsel; Chip Walker, professional staff member; Ursula Wojciechowski, clerk; and David McMillen, minority professional staff member.

Mr. SHAYS. A quorum being present, this joint hearing of the Subcommittee on National Security, Emerging Threats and International Relations and the Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census entitled, "Strengthening Oversight of DOD Business Systems Modernization," is called to order.

Central elements of the President's management agenda call for improved financial performance, more effective use of information technology [IT], and closer integration of budget and performance data by Federal departments and agencies. Today, the General Accounting Office [GAO], concludes the Department of Defense [DOD], has made little progress in imposing that agenda on a sprawling, inefficient reform-resistent financial management system.

Last June, DOD witnesses promised a sustained, far-reaching effort to reform and transform the Pentagon financial management into a precision tool of program formulation, program execution

and detailed accountability. To measure the depth of that commitment, we asked GAO to follow the fate of four specific business systems under development at DOD, focusing on IT investment management and oversight.

The results of their investigation, released this morning, describe ambitious plans but limited progress at DOD toward effective business system modernization. An area designated by GAO as possessing a high risk of fraud, waste and abuse since 1995, DOD financial systems still fail to yield certifiable audit results or useful management information. Reform efforts threaten to compound the problem by adding yet more complexity to an already preposterous matrix of incompatible systems.

This year, the Department requested $18 billion to maintain, operate and improve business data systems. But GAO finds that investment at risk of being misspent, feeding a dysfunctional status quo. Hundreds of millions of dollars have already been committed to projects without the economic justification and close management oversight required by law, administrative guidance and commercial best practices. One of the systems GAO studied was terminated earlier this year after 7 years of development. That failed effort cost $126 million.

The business of the Department of Defense is to train, equip and deploy military forces to secure vital national interests. That critical enterprise cannot be planned or executed successfully on paper-based, error-prone management systems. The citizen-soldiers we call upon today and in the future to conduct the Nation's most dangerous business deserve to be supported by 21st century business systems as smart as the weapons they wield.

We appreciate the continued assistance, and the persistence, of the GAO in their ongoing oversight of DOD business system modernization. We welcome all our witnesses today and look forward to their testimony. We know that all our witnesses are trying to do the best for our country, and we all are going to be working together to see that happens.

At this time, the Chair would just recognize and call on the vice chairman of the committee, Mr. Turner from Ohio.

[The prepared statement of Hon. Christopher Shays follows:]

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Congress of the United States

House of Representatives

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Statement of Rep. Christopher Shays
March 31, 2003

Central elements of the President's Management Agenda call for improved financial performance, more effective use of information technology (IT) and closer integration of budget and performance data by federal departments and agencies. Today, the General Accounting Office (GAO) concludes the Department of Defense (DOD) has made little progress imposing that agenda on a sprawling, inefficient, reform-resistant financial management system.

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We appreciate the continued assistance, and the persistence, of the GAO in our ongoing oversight of DOD business system modernization. We welcome all our witnesses today and look forward to their testimony.

Mr. TURNER. Thank you, Mr. Chairman. I appreciate your efforts in bringing forward these issue of efficiency and management and, of course, the issue of costs.

One of the issues that I am also interested in is the process of making certain that we are able to obtain the information processing systems that we need and to what extent our acquisition systems limit that ability.

I was recently at an event, a panel discussion where NCR was leading a discussion of data mining. They were talking about, in the private sector, that the efforts to acquire information technologies begin with a series of questions that they need to have answered and then in the private sector looking for solutions, rather than trying to dictate a solution and then seeing if it provides you with the answers. I am interested in that it seems that many times when we are—when government is pursuing IT solutions that processes, not just fraud and abuse, might contribute to some of the inefficiencies and the waste; and I will look forward to your discussion on that aspect of this issue.

Mr. SHAYS. I thank the gentleman.

Note for the record this hearing is a joint committee, and Mr. Putnam will be here when his plane lands at 2. Then he will be taking over part of this hearing.

To get some housekeeping done, I ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and that the record remain open for 3 days for that purpose. Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statements in the record; and without objection, so ordered.

At this time, the Chair would recognize the participants on our first panel. They are Mr. Randolph Hite, Director, Information Technology Architecture and Systems Issues, General Accounting Office; Mr. Gregory Kutz, the Director of Financial Management and Assurance, General Accounting Office; and Mr. Darby Smith, the Assistant Director of Financial Management and Assurance, General Accounting Office. And it's one testimony, I think, from Mr. Hite—yes—backed up by two experts on either side.

OK. What we do is we do the 5 minutes, and then we roll it over another 5 minutes. So it is important that you put your testimony in the record vocally as well.

So happy to have you here. Happy to have all three of you here.

STATEMENT OF RANDOLPH HITE, DIRECTOR, INFORMATION TECHNOLOGY ARCHITECTURE AND SYSTEMS ISSUES, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY GREGORY KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE; AND DARBY SMITH, ASSISTANT DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE

Mr. HITE. Thank you, Chairman Shays, Vice Chairman Turner, for the opportunity to testify on DOD's business systems modernization, an area that we first designated as high risk.

Mr. SHAYS. You know what? I have never done this before to my knowledge. I let you start without swearing you in. So everything you said, we have to start all over again.

If you would all stand and raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. Note for the record our witnesses have said yes to that oath.

I would say that, had I let you get away with that, you would have been in the very exclusive company of Senator Byrd, because he is the only one I have ever chickened out and not—I did chicken out. I fess up, and you can put it on the record.

OK, why don't you start again, Mr. Hite.

Mr. HITE. Thank you, chairman, vice chairman. We are happy to be here to testify on business systems modernization at the Department of Defense, an area that we first designated as high risk in 1995 and we continue to do so today.

With me today is Greg Kutz, as you mentioned, who is GAO's Director of Financial Management Issues at the Department of Defense, and Darby Smith, who managed our evaluation of the four DFAS systems that are also the subject of this hearing and are the subject of this report being released today at your request, Chairman Shays.

As requested, I will summarize my written statement by making three points: Point one, the need for DOD to modernize is undeniable. DOD's existing systems environment is the by-product of many years of unrelated, stove-piped initiatives, each pursued to support nonstandard and duplicative business functions. The result is represented on the display board. Namely, that shows that there are 1,731 existing and new system investments spanning 18 functional areas in the Department.

How much is being spent on this proliferation of systems? Our analysis of DOD's reported IT budget for fiscal year 2003 pegs the number at about $18 billion. Clearly, such a situation is, according to the old saying, no way to run a railroad; and one can speculate that if DOD was a private sector corporation its systems would be driving it to chapter 11.

Restated, DOD does not currently do business the way business does business. You know this, we know this, and, most importantly, DOD knows this, and its leadership is not only committed to changing this, but I can attest to the fact that there are a number of men and women at DOD working hard to do so.

Nevertheless, commitment, hard work and even $18 billion a year are not a complete recipe for successful systems modernization. Which brings me to point two of our testimony, namely that DOD does not currently have the means in place to achieve the desired end, that end being effectively investing in modern systems. Why? Because it has yet to implement the kind of modernization management controls advocated in legislation and Federal guidance and grounded in proven commercial best practice.

Three examples of these controls are investing in new and existing systems within the context of a DOD-wide modernization blueprint commonly called an enterprise architecture; investing in these systems in an incremental or modular fashion and only when they can be justified via a compelling business case—that was the

second example—and the third example is overseeing these investments to insure that they are delivering promised capabilities and benefits on time and within budget.

Chairman Shays, at your subcommittee hearing last year on DOD's modernization program, we highlighted and the Department acknowledged these weaknesses. Moreover, it committed to addressing each of them. Since then, it has begun a number of efforts to do so. For example, it plans to issue the first version of its enterprise architecture in 2 months, and it is creating a new investment governance and oversight approach. We view these efforts as positive systems, and we would note the DOD leadership has constructively engaged with us on both.

Having said this, the fact remains that, as of today, the above-cited weaknesses still exist. As a result, the $18 billion that DOD plans to spend in fiscal year 2003 remains at risk. To illustrate, this report shows that DOD's oversight of four key projects has been limited, resulting in hundreds of millions of dollars being spent without adequate economic justification and without action to address material shortfalls in meeting expectations. In fact, Mr. Chairman, as you mentioned, during the course of our working DOD terminated one after spending $126 million in 7 years of effort.

So what needs to be done? This is point three of our statement. Over the last 2 years, we have made a series of recommendations that collectively provide a framework for modernization management improvement. In short, they define a series of steps aimed at developing and effectively implementing a modernization blueprint in a way that should minimize risk and maximize results. Moreover, they define categories of system projects that DOD should confine its IT spending to, pending correction of its weaknesses.

In summary, the state of DOD's business systems environment makes a compelling argument for modernization, but the mammoth cost and the enormous importance of organizations argue even more about making absolutely sure that DOD does the right thing and it does it the right way. To achieve this, to be right, if you will, DOD should fully implement our recommendations and insure that it adheres to relevant Federal guidance and recognized best practices. Anything less will continue to put the modernization at high risk of failure, which in turn will force the Department to continue to rely on existing systems that do not support effective and efficient business operations and do not provide timely and reliable information for decisionmaking.

In closing, we would like to commend the subcommittee for their oversight of DOD's efforts.

This concludes my oral summary. I'd be happy to answer any questions that you have at this time.

Mr. TURNER [presiding]. Thank you, Mr. Hite.

[The prepared statement of Mr. Hite follows:]

United States General Accounting Office

GAO

Testimony

Before the House Subcommittee on National Security, Emerging Threats, and International Relations, and Subcommittee on Technology, Information Policy, Intergovernmental Relations and Census, Government Reform Committee

For Release on Delivery
Expected at 1 p.m. EST
Monday, March 31, 2003

DOD BUSINESS SYSTEMS MODERNIZATION

Longstanding Management and Oversight Weaknesses Continue to Put Investments at Risk

Statement of

Randolph C. Hite, Director
Information Technology Architecture and Systems Issues

Gregory D. Kutz, Director
Financial Management and Assurance

GAO-03-553T

March 31, 2003

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Highlights

Highlights of GAO-03-553T, a testimony to House Subcommittee on National Security, Emerging Threats, and International Relations, and Subcommittee on Technology, Information Policy, Intergovernment Relations and Census, Government Reform Committee

Why GAO Did This Study

The Department of Defense's (DOD) management of its business systems modernization program has been an area of longstanding concern to Congress and one that GAO has designated as high risk since 1995.

Because of this concern, GAO was requested to testify on (1) DOD's current inventory of existing and new business systems and the amount of funding devoted to this inventory; (2) DOD's modernization management capabilities, including weaknesses and DOD's efforts to address them; and (3) GAO's collective recommendations for correcting these weaknesses and minimizing DOD's exposure to risk until they are corrected.

In developing this testimony, GAO drew from its previously issued reports on DOD's business systems modernization efforts, including one released today on four key Defense Finance and Accounting Service (DFAS) projects.

What GAO Recommends

GAO has previously made a series of recommendations related to putting in place (1) an enterprise architecture to guide and constrain system investments; (2) an investment management structure to ensure that systems are aligned with the architecture and economically justified and approved on an incremental basis; (3) effective oversight to ensure that project commitments are met; and (4) limited investment spending until these recommendations are implemented.

www.gao.gov/cgi-bin/getrpt?GAO-03-553T.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Randolph C. Hite at (202) 512-5555 or hiter@gao.gov or Gregory D. Kutz at (202) 9505 or kutzg@gao.gov.

DOD BUSINESS SYSTEMS MODERNIZATION

Longstanding Management and Oversight Weaknesses Continue to Put Investments at Risk

What GAO Found

As of October 2002, DOD reported that its business systems environment consisted of 1,731 systems and system acquisition projects spanning about 18 functional areas. This environment is the product of unrelated, stovepiped initiatives supporting nonstandard, duplicative business operations across DOD components. For fiscal year 2003, about $18 billion of DOD's IT funding relates to operating, maintaining, and modernizing these nonintegrated systems. To DOD's credit, it recognizes the need to modernize, eliminating as many of these systems as possible.

The future of DOD's business systems modernization is fraught with risk because of longstanding and pervasive modernization weaknesses, three of which are discussed below. GAO's report on four DFAS systems highlights some of these weaknesses, and GAO's prior reports have identified the others. DOD has stated its commitment to addressing each and has efforts under way that are intended to do so.

Lack of departmentwide enterprise architecture: DOD does not yet have an architecture, or blueprint, to guide and constrain its business system investments across the department. Nevertheless, DOD continues to spend billions of dollars on new and modified systems based the parochial needs and strategic direction of its component organizations. This will continue to result in systems that are duplicative, are not integrated, are unnecessarily costly to maintain and interface, and will not adequately address longstanding financial management problems.

Lack of effective investment management: DOD does not yet have an effective approach to consistently selecting and controlling its investments as a portfolio of competing department options and within the context of an enterprise architecture. DOD is also not ensuring that it invests in each system incrementally and on the basis of reliable economic justification. For example, for the four DFAS projects, DOD spent millions of dollars without knowing whether the projects would produce value commensurate with costs and risks. Thus far, this has resulted in the termination of one of the projects after about $126 million and 7 years of effort was spent.

Lack of effective oversight: DOD has not consistently overseen its system projects to ensure that they are delivering promised system capabilities and benefits on time and within budget. For example, for the four DFAS projects, oversight responsibility is shared by the DOD Comptroller, DFAS, and the DOD chief information officer. However, these oversight authorities have largely allowed the four to proceed unabated, even though each was experiencing significant cost increases, schedule delays, and/or capability and scope reductions and none were supported by adequate economic justification. As a result, DOD invested approximately $316 million in four projects that may not resolve the very financial management weaknesses that they were initiated to address.

Messrs. Chairmen and Ranking Members of the Subcommittees:

We are pleased to be here today to discuss the Department of Defense's (DOD) management of its business systems[1] modernization program, an area of longstanding concern to the Congress, and one that we first designated as a high risk program in 1995[2] and continue to do so today.[3] As we have said,[4] DOD's existing systems cannot provide reliable financial data to support informed decisionmaking and promote accountability, thus leaving DOD at a high risk of fraud, waste and abuse. Additionally, we have said that DOD's business systems modernization will remain at risk until the department has implemented proven modernization management controls that are embodied in the Clinger-Cohen Act, federal guidance, and commercial best practices. These controls include investing in new and existing systems within the context of a departmentwide modernization blueprint, commonly called an enterprise architecture; investing in these systems in an incremental or modular fashion, and only when they can be economically justified on the basis of costs, benefits, and risks; and overseeing these system investments to ensure that they are delivering promised system capabilities and benefits on time and within budget.

Last year, your hearing[5] brought additional attention and focus to DOD's business systems modernization program. In our testimony at that hearing, we highlighted the department's modernization management weaknesses, and the department testified that it was committed to addressing each. Since then, DOD has begun a number of efforts to follow through on its stated commitment. For example, it plans to issue the first version of its enterprise architecture in May 2003, it is creating a new investment governance and oversight approach, and it is revising its system acquisition guidance. We view each of these as positive steps. However, the fact remains that today, with but isolated exceptions, DOD's management and oversight of its hundreds of new and existing system investments are largely unchanged from where it was last year. As a result, the $18 billion that DOD has designated for business systems in fiscal year 2003 continues to be at risk. In particular, our report that you are releasing today shows that for four key accounting system projects, DOD oversight has been limited, and has allowed hundreds of millions of dollars to be spent without adequate economic

[1]Business systems include those that are used to support civilian personnel, finance, health, logistics, military personnel, procurement, and transportation.

[2]U.S. General Accounting Office, *High-Risk Series: An Overview*, GAO-HR-95-263 (Washington, D.C.: February 1995).

[3]U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

[4]U.S. General Accounting Office, *DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed*, GAO-03-458 (Washington, D.C.: Feb. 28, 2003) and *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, GAO-01-525 (Washington, D.C.: May 17, 2001).

[5]U.S. General Accounting Office, *DOD Financial Management: Important Steps Underway But Reform Will Require a Long-term Commitment*, GAO-02-784T (Washington, D. C.: June 4, 2002).

justification.[6] Thus far, this has resulted in one of these systems being terminated after about $126 million and 7 years of effort has been spent.

As you requested, our testimony today discusses (1) DOD's current business systems environment, including a profile of (a) the number and types of systems that have proliferated over the years and (b) the enormous amounts of funding that are being spent to operate and maintain existing systems and to introduce new systems; (2) DOD's institutional modernization management weaknesses, including specific system investments that are at risk because of them, such as the above-mentioned accounting systems, and (3) a framework for overcoming these modernization management weaknesses and limiting DOD's exposure to investment risk until they are resolved, which is based on our open recommendations to the department.

In developing this testimony, we drew from our previously issued reports on DOD's business systems modernization efforts, as well as the report being released today.

DOD Is Investing Billions of Dollars Annually to Operate, Maintain, and Modernize Its Amalgamation of Business Systems

As part of its ongoing business systems modernization program, and consistent with our past recommendation,[7] DOD has created an inventory of its existing and new business system investments. As of October 2002, DOD reported that this inventory consisted of 1,731[8] systems and system acquisition projects across DOD's functional areas. In particular, DOD reported that it had 374 separate systems to support its civilian and military personnel function, 335 systems to perform finance and accounting functions, and 221 systems that support inventory management. Table 1 presents the composition of DOD business systems by functional area.

[6]U.S. General Accounting Office, *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to be Justified*, GAO-03-465 (Washington, D.C.: Mar. 28, 2003).

[7]U.S. General Accounting Office, *Financial Management: DOD Improvement Plan Needs Strategic Focus*, GAO-01-764 (Washington, D.C.: Aug. 17, 2001).

[8]DOD continues to refine its inventory of systems. More recent data indicate that the total number of systems is 2,114.

Table 1: Reported DOD Business Systems by Functional Area

Functional area	Army	Navy	Air Force	DFAS	DLA	Other	Total
Personnel	266	49	13	19	0	27	374
Finance and accounting	79	61	27	131	9	28	335
Management information	156	40	50	14	4	46	310
Inventory	96	53	40	7	7	17	222
Acquisition	18	10	22	0	5	19	74
Budget formulation	25	18	10	5	0	10	68
Cost	19	29	8	0	1	4	61
Logistics	12	6	22	3	7	5	55
National defense property management	5	12	25	1	2	1	46
Travel	9	13	3	2	0	5	32
Real property management	17	4	6	0	0	1	28
Time and attendance	3	14	2	2	3	1	25
Budget execution	6	4	2	7	0	3	22
Personal property management	3	7	7	0	0	4	21
Procurement	7	5	1	0	3	4	20
Vendor payment	3	3	1	7	0	4	18
Transportation	5	1	4	0	0	2	12
Other functions combined	12	7	6	3	0	9	37
Total	**743**	**336**	**249**	**201**	**41**	**190**	**1,760***

Source: DOD Business Modernization Systems Integration Office.

*There are 29 reported duplications within the DOD inventory (e.g., systems shown in multiple functional areas). Taking this duplication into account provides the reported 1,731 business systems.

Note: More recent DOD data indicate that the number of systems is 2,114.

As we have previously reported,[9] this systems environment is not the result of a systematic and coordinated departmentwide strategy, but rather is the product of unrelated, stovepiped initiatives to support a set of business operations that are nonstandard and duplicative across DOD components. Consequently, DOD's amalgamation of systems is characterized by (1) multiple systems performing the same tasks; (2) the same data stored in multiple systems; (3) manual data entry and reentry into multiple systems; and (4) extensive data translations and interfaces, each of which increases costs and limits data integrity. Further, as we have reported, these systems do not produce reliable financial data to support managerial decisionmaking and ensure accountability. To the Department's credit, it recognizes the need to eliminate as many systems as possible and integrate and standardize those that remain. In fact, three of the four Defense Finance and Accounting Service (DFAS) projects that are the subject of the report being released today were collectively intended to reduce or eliminate all or part of 17 different systems that perform similar functions. For example,

[9]GAO-02-784T.

- the Defense Procurement Payment System (DPPS) was intended to consolidate eight contract and vendor pay systems;
- the Defense Departmental Reporting System (DDRS) is intended to reduce the number of departmental financial reporting systems from seven to one; and
- the Defense Standard Disbursing System (DSDS) is intended to eliminate four different disbursing systems.

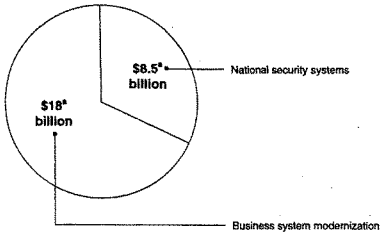
The fourth system, the DFAS Corporate Database/Corporate Warehouse (DCD/DCW)[10], is intended to serve as the single DFAS data store, meaning it would contain all DOD financial information required by DFAS and be the central point for all shared data within DFAS.

For fiscal year 2003, DOD has requested approximately $26 billion in IT funding to support a wide range of military operations and business functions. This $26 billion is spread across the military services and defense agencies—each receiving its own allocation of IT funding. The $26 billion supports three categories of IT—business systems, business systems infrastructure, and national security systems—the first two of which comprise the earlier cited 1,731 new and existing business systems projects.

At last year's hearing, DOD was asked about the makeup of its $26 billion in IT funding, including what amounts relate to business systems and related infrastructure, at which time answers were unavailable. As we are providing in the report being released today and as shown in figure 1, approximately $18 billion—about $5.2 billion for business systems and $12.8 billion for business systems infrastructure—relates to the operation, maintenance, and modernization of the 1,731 business systems that DOD reported having in October 2002. Figure 2 provides the allocation of DOD's business systems modernization budget for fiscal year 2003 budget by component.

[10]Originally, these were two separate projects, the DFAS Corporate Database and Corporate Warehouse.

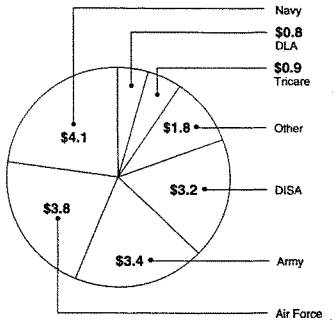
Figure 1: Allocation of DOD's Fiscal Year 2003 Information Technology (IT) Budget



Source: GAO.

*These numbers have been rounded off.

Figure 2: Proposed Allocation of DOD's Fiscal Year 2003 Business Systems Modernization Budget by Component (dollars in billions)



Source: GAO.

However, recognizing the need to modernize and making funds available are not sufficient for improving DOD's current systems environment. Our research of successful modernization programs in public and private-sector organizations, as well as our reviews of these programs in various federal agencies, has identified a

number of IT disciplines that are necessary for successful modernization. These disciplines include having and implementing (1) an enterprise architecture to guide and constrain systems investments; (2) an investment management process to ensure that systems are invested in incrementally, are aligned with the enterprise architecture, and are justified on the basis of cost, benefits, and risks; and (3) a project oversight process to ensure that project commitments are being met and that needed corrective action is taken. These institutionalized disciplines have been long missing at DOD, and their absence is a primary reason for the system environment described above.

Key Modernization Management Weaknesses Continue, But DOD Plans to Correct Them

The future of DOD's business systems modernization is fraught with risk, in part because of longstanding and pervasive modernization management weaknesses. As we have reported, these weaknesses include (1) lack of an enterprise architecture; (2) inadequate institutional and project-level investment management processes; and (3) limited oversight of projects' delivery of promised system capabilities and benefits on time and within budget. To DOD's credit, it recognizes the need to address each of these weaknesses and has committed to doing so.

DOD Is Developing, But Still Is Without, a Departmentwide Enterprise Architecture

Effectively managing a large and complex endeavor requires, among other things, a well-defined and enforced blueprint for operational and technological change, commonly referred to as an enterprise architecture. Developing, maintaining, and using architectures is a leading practice in engineering both individual systems and entire enterprises. Government-wide requirements for having and using architectures to guide and constrain IT investment decisionmaking are also addressed in federal law and guidance.[11] Our experience has shown that attempting a major systems modernization program without a complete and enforceable enterprise architecture results in systems that are duplicative, are not well integrated, are unnecessarily costly to maintain and interface, do not ensure

[11]Clinger-Cohen Act of 1996, P.L. 104-106; Office of Management and Budget Circular A-130, *Management of Federal Information Resources* (Nov. 30, 2000); *A Practical Guide to Federal Enterprise Architectures*, Version 1.0, Chief Information Officers Council (February 2001); and *Federal Enterprise Architecture Framework*, Version 1.1, Chief Information Officers Council (September 1999).

basic financial accountability, and do not effectively optimize mission performance.[12]

In May 2001,[13] we reported that DOD had neither an enterprise architecture for its financial and financial-related business operations nor the management structure, processes, and controls in place to effectively develop and implement one. Further, we stated that DOD's plans to continue spending billions of dollars on new and modified systems independently from one another, and outside the context of a departmental modernization blueprint, would result in more systems that are duplicative, noninteroperable, and unnecessarily costly to maintain and interface; moreover, they would not address longstanding financial management problems. To assist the department, we provided a set of recommendations on how DOD should approach developing its enterprise architecture.

In September 2002, the Secretary of Defense designated improving financial management operations (including such business areas as logistics, acquisition, and personnel management) as one of the department's top 10 priorities. In addition, the Secretary established a program to develop an enterprise architecture, and DOD plans to have the architecture developed by May 2003. Subsequently, the National Defense Authorization Act for Fiscal Year 2003 directed DOD to develop by May 1, 2003, an enterprise architecture, including a transition plan for its implementation.[14] The act also defined the scope and content of the enterprise architecture and directed us to submit to congressional defense committees an assessment of DOD's actions to develop the architecture and transition plan no later than 60 days after their approval. Finally, the act prohibited DOD from obligating more than $1,000,000 on any financial systems improvement until the DOD comptroller makes a determination regarding the necessity or suitability of such an investment.

In our February 2003 report[15] on DOD enterprise architecture efforts, we stated our support for the Secretary's decision to develop the architecture, and recognized that DOD's architecture plans were challenging and ambitious. However, we also stated that despite taking a number of positive steps toward its architecture goals, such as establishing a program office responsible for managing the enterprise architecture, the department had yet to implement several key recommendations and certain leading practices for developing and implementing architectures. For example, DOD had yet to (1) establish the requisite architecture development governance structure needed to ensure that ownership of and accountability for the architecture is vested with senior leaders across the

[12]U.S. General Accounting Office, *Air Traffic Control: Complete and Enforced Architecture Needed for FAA Systems Modernization*, GAO/AIMD-97-30 (Washington, D.C.: Feb. 3, 1997) and *Customs Service Modernization: Architecture Must Be Complete and Enforced to Effectively Build and Maintain Systems*, GAO/AIMD-98-70 (Washington, D.C.: May 5, 1998).

[13]GAO-01-525.

[14]Section 1004 of Public Law 107-314.

[15]GAO-03-458.

department; (2) develop and implement a strategy to effectively communicate the purpose and scope, approach to, and roles and responsibilities of stakeholders in developing the enterprise architecture; and (3) fully define and implement an independent quality assurance process. We concluded that not implementing these recommendations and practices increased DOD's risk of developing an architecture that would be limited in scope, would be resisted by those responsible for implementing it, and would not support effective systems modernization. To assist the department, we made additional recommendations with which DOD agreed. We plan to continue reviewing DOD's efforts to develop and implement this architecture pursuant to our mandate under the fiscal year 2003 defense authorization act.

DOD Has Yet to Implement Effective Investment Management Processes

The Clinger-Cohen Act, federal guidance, and recognized best practices provide a framework for organizations to follow to effectively manage their IT investments. Collectively, this framework addresses IT investment management at the institutional or corporate level, as well as the individual project or system level. The former involves having a single, corporate approach governing how the organization's portfolio of IT investments is selected, controlled, and evaluated across its various components, including assuring that each investment is aligned with the organization's enterprise architecture. The latter involves having a system/project-specific investment approach that provides for making investment decisions incrementally and ensuring that these decisions are economically justified on the basis of current and credible analyses.

Corporate Investment Management Approach—DOD has yet to establish and implement an effective departmentwide approach to managing its business systems investment portfolio. In May 2001,[16] we reported that DOD did not have a departmentwide IT investment management process through which to assure that its enterprise architecture, once developed, could be effectively implemented. We therefore recommended that DOD establish a system investment selection and control process that treats compliance with the architecture as an explicit condition to meet at key decision points in the system's life cycle, and that can be waived only if justified by compelling written analysis[17].

Subsequently, in February 2003, we reported that DOD had not yet established the necessary departmental investment management structure and process controls needed to adequately align ongoing investments with its architectural goals and

[16] GAO-01-525.

[17] The Defense Appropriation Act for Fiscal Year 2003, P.L. 107-248, prohibits the use of funds appropriated by that Act for a mission critical or mission essential financial management information technology system that is not registered with the Chief Information Officer of DOD.

direction.[11] Instead, the department continued to allow its component organizations to make their own parochial investment decisions, following different approaches and criteria. In particular, DOD had not established and applied common investment criteria to its ongoing IT system projects using a hierarchy of investment review and funding decisionmaking bodies, each composed of representatives from across the department. DOD also had not yet conducted a comprehensive review of its ongoing IT investments to ensure that they were consistent with its architecture development efforts. We concluded that until it takes these steps, DOD will likely continue to lack effective control over the billions of dollars it is currently spending on IT projects. To address this, we recommended that DOD create a departmentwide investment review board with the responsibility and authority to (1) select and control all DOD financial management investments, and (2) ensure that its investment decisions treat compliance with the financial management enterprise architecture as an explicit condition for investment approval that can be waived only if justified by a compelling written analysis. DOD concurred with our recommendations and is taking steps to address them.

Project/System-Specific Investment Management: DOD has yet to ensure that its investments in all individual systems or projects are economically justified and that that it is investing in each incrementally. In particular, none of the four DFAS projects addressed in the report being issued today had current and reliable economic justifications to demonstrate that they would produce value commensurate with the costs and risks being incurred. For example, we found that although DCD was initiated to contain all DOD financial data required by DFAS systems, planned DCD capabilities had since been drastically reduced. Despite this, DFAS planned to continue investing in DCD/DCW without having an economic justification showing whether its revised plans were cost effective. Moreover, DOD planned to continue investing in the three other projects even though neither had current economic analyses that reflected material changes to costs, schedules, and/or expected benefits since the projects' inception. For example, the economic analysis for DSDS had not been updated to reflect material changes in the project, such as changing the date for full operational capability from February 2003 to December 2005—a schedule change of almost 3 years that affected delivery of promised benefits. Similarly, the DPPS economic analysis had not been updated to recognize an estimated cost increase of $274 million and schedule slip of almost 4 years. After recently reviewing this project's change in circumstances, the DOD Comptroller terminated DPPS after 7 years of effort and an investment of over $126 million, citing poor program performance and increasing costs. Table 2 highlights the four projects' estimated cost increases and schedule delays.

[11]GAO-03-458.

Table 2: Reported Cost Increases and Schedule Delays for the Four Projects (Dollars in Millions)

System	Original cost estimate	Current cost estimate	Original planned date (fiscal year) of full operational capability[a]	Current planned date (fiscal year) of full operational capability
DCD/DCW[b]	$229	$270	2001	2005
DPPS	$278	$552	2002	2006
DDRS	$ 52	$170	1999	2004
DSDS	$151	$151	2003	2006

Source: GAO, based on information provided by DFAS.

[a]Full operational capability means the system is deployed and operating at all intended locations.

[b]When DFAS initiated DCW in July 2000, a full operational capability date was not established. The current full operational capability date applies to both DCD and DCW since they were combined into one program in November 2000.

[c]DSDS began in 1997; however, a cost estimate was not developed until September 2000 and this estimate has not been updated.

Our work on other DOD projects has shown a similar absence of current and reliable economic justification for further system investment. For example, we reported that DOD's ongoing and planned investment in its Standard Procurement System (SPS)[19] was based on an outdated and unreliable economic analysis, and even this flawed analysis did not show that the system was cost beneficial, as defined. As a result, we recommended that investment in future releases or major enhancements to the system be made conditional on the department's first demonstrating that the system was producing benefits that exceeded costs and that future investment decisions be made on the basis of complete and reliable economic justifications. DOD is currently in the process of addressing this recommendation.

Beyond not having current and reliable economic analyses for its projects, DOD has yet to adopt an incremental approach to economically justifying and investing in all system projects. For example, we have reported that although DOD had divided its multiyear, billion-dollar SPS project into a series of incremental releases, it had not treated each of these increments as a separate investment decision.[20] Such an incremental approach to system investment helps to prevent discovering too late that a given project is not cost beneficial. However, rather than adopt an incremental approach to SPS investment management, the department chose to treat investment in SPS as one, monolithic investment decision, justified by a single, all-or-nothing economic analysis. This approach to investing in large systems, like SPS, has proven ineffective in other federal agencies, resulting in huge sums being invested in systems that do not provide commensurate value, and thus has been abandoned by successful organizations.

[19]SPS is intended to replace 76 existing procurement systems with a single departmentwide system to more effectively support divergent contracting processes and procedures across its component organizations.

[20]U.S. General Accounting Office, *DOD Systems Modernization: Continued Investment in Standard Procurement System Has Not Been Justified,* GAO-01-682 (Washington, D.C.: July 31, 2001) and *DOD's Standard Procurement System: Continued Investment Has Yet to Be Justified,* GAO-02-392T (Washington, D.C.: Feb. 7, 2002).

We also recently reported that while DOD's Composite Health Care System II had been structured into a series of seven increments (releases), the department had not treated the releases to date as separate investment decisions supported by incremental economic justification.[21] In response to our recommendations, DOD committed to changing its strategy for future releases to include economically justifying each release before investing in and verifying each release's benefits and costs after deployment.

Effective Oversight of IT Projects Remains an Unanswered Challenge

The Clinger-Cohen Act of 1996 and federal guidance[22] emphasize the need to ensure that IT projects are being implemented at acceptable costs and within reasonable and expected timeframes and that they are contributing to tangible, observable improvements in mission performance (that is, that projects are meeting the cost, schedule, and performance commitments upon which their approval was justified). They also emphasize the need to regularly determine each project's progress toward expectations and commitments and to take appropriate action to address deviations.

Our work on specific DOD projects has shown that such oversight does not always occur, a multi-example case in point being the four DFAS accounting system projects that are the subject of our report being released today.[23] For these four projects, oversight responsibility was shared by the DOD comptroller, DFAS, and the DOD chief information officer (CIO). However, these oversight authorities have not ensured, in each case, that the requisite analytical basis for making informed investment decisions was prepared. Moreover, they have not regularly monitored system progress toward expectations so that timely action could have been taken to correct deviations, even though each case had experienced significant cost increases and schedule delays (see table 2). Their respective oversight activities are summarized below:

DOD Comptroller—Oversight responsibility for DFAS activities, including system investments, rests with the DOD Comptroller. However, DOD Comptroller officials were not only unaware of cost increases and schedule delays on these four projects, they also told us that they do not review DFAS system investments to ensure that they are meeting cost, schedule, and performance commitments because this is DFAS's responsibility.

[21] U.S. General Accounting Office, *Information Technology: Greater Use of Best Practices Can Reduce Risks in Acquiring Defense Health Care System*, GAO-02-345 (Washington, D.C.: Sept. 26, 2002).

[22] Clinger-Cohen Act of 1996, Public Law 104-106; Office of Management and Budget (OMB) Circular A-130 (Nov. 30, 2000); U.S. General Accounting Office, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity* (Exposure Draft) GAO/AIMD-10.1.23 (Washington, D.C.: May 2000).

[23] GAO-03-465.

DFAS—This DOD agency has established an investment committee to, among other things, oversee its system investments.[24] However, the committee could not provide us with any evidence demonstrating meaningful oversight of these four projects, nor could it provide us with any guidance describing the committee's role, responsibilities, and authorities, and how it oversees projects.

DOD CIO—Oversight of the department's "major" IT projects, of which two of the four DFAS projects (DCD/DCW and DPPS) qualify, is the responsibility of DOD's CIO. However, this organization did not adequately fulfill this responsibility on either project because, according to DOD CIO officials, they have little practical authority in influencing component agency-funded IT projects.

Thus, the bad news is that these three oversight authorities have jointly permitted approximately $316 million to be spent on the four accounting system projects without knowing if material changes to the projects' scopes, costs, benefits, and risks warranted continued investment. The good news is that the DOD Comptroller recently terminated one of the four (DPPS), thereby avoiding throwing good money after bad, and DOD has agreed to implement the recommendations contained in our report released today, which calls for DOD to demonstrate that the remaining three projects will produce benefits that exceed costs before further investing in each.

Our work on other DOD projects has shown similar voids in oversight. For example, we reported that SPS's full implementation date slipped by 3 ½ years, with further delays expected, and the system's life-cycle costs grew by 23 percent, from $3 billion to $3.7 billion.[25] However, none of the oversight authorities responsible for this project, including the DOD CIO, had required that the economic analysis be updated to reflect these changes and thereby provide a basis for informed decisionmaking on the project's future. To address this issue, we recommended, among other things, that the lines of oversight responsibility and accountability of the project be clarified and that further investment in SPS be limited until such investment could be justified. DOD has taken steps to address some of our recommendations. For example, it has clarified organizational accountability and responsibility for the program. However, much remains to be done before the department will be able to make informed, data-driven decisions about whether further investment in the system is justified.

[24]Chief Information Officers/Business Integration Executive Council.

[25]GAO-02-392T.

Our Recommendations Provide a Roadmap for Improving Management of Business System Modernization

We have made numerous recommendations to DOD that collectively provide a valuable roadmap for improvement as the department attempts to create the management infrastructure needed to effectively undertake a massive business systems modernization program. This collection of recommendations is not without precedent, as we have provided similar ones to other federal agencies, such as the Federal Aviation Administration, the Internal Revenue Service, and the former U.S. Customs Service, to aid them in building their respective capacities for managing modernization programs. In cases where these recommendations have been implemented properly, we have observed improved modernization management and accountability.

Our framework for DOD provides for developing a well-defined and enforceable DOD-wide enterprise architecture to guide and constrain the department's business system investments, including specific recommendations for successfully accomplishing this, such as creating an enterprise architecture executive committee whose members are singularly and collectively responsible and accountable for delivery and approval of the architecture and a proactive enterprise architecture marketing and communication program to facilitate stakeholder understanding, buy-in, and commitment to the architecture.

Our recommendations also provide for establishing a DOD-wide investment decisionmaking structure that consists of a hierarchy of investment boards that are responsible for ensuring that projects meet defined threshold criteria and that review and decide on projects' futures on the basis of a standard set of investment criteria, two of which are alignment with the enterprise architecture and return on investment.

In addition, our recommendations include ensuring that return on investment is analytically supported by current and reliable economic analyses showing that benefits are commensurate with costs and risks, and that these analyses and associated investment decisions cover incremental parts of each system investment, rather than treating the system as one, all-or-nothing, monolithic pursuit. Further, our recommendations provide clear and explicit lines of accountability for project oversight and continuous monitoring and reporting of progress against commitments to ensure that promised system capabilities and benefits are being delivered on time and within budget.

Until these recommended system modernization management capabilities are in place and effectively functioning, our recommendations also provide for minimizing the department's exposure to investment risk by limiting its investment in new and existing systems to only projects that (1) have successfully completed testing and involve little additional investment; (2) are "stay-in-

business" in nature, meaning that they involve maintenance actions needed to keep a system operational; (3) are congressionally directed; or (4) are relatively small, cost-effective, low-risk and can be delivered within a short timeframe.

In summary, the state of DOD's business systems environment, coupled with the billions of dollars that DOD spends each year on both existing and new systems, makes a compelling argument for modernizing, but only in a way that ensures that the department does the right thing, and that it does it the right way. Historically, the department's approach to its business systems modernization has not provided for either. Moreover, while the department's leadership has stated its commitment to improving, and it has begun efforts on a number of fronts to improve, DOD still is investing in systems in much the same manner that it has for years. This is demonstrated by our testimony today, along with our just-released report on four DFAS system investments and our recent reports on a number of modernization management topics and other DOD system investments. It is therefore imperative, in our view, that DOD move swiftly in implementing our collective set of recommendations aimed at improving its capacity to manage its business systems modernization program. While DOD has largely agreed with these recommendations and has efforts under way intended to implement them, until it does, it will be at high risk of spending billions of dollars on systems that do not support effective and efficient business operations, and are unable to provide timely and reliable information for decisionmaking.

Mr. Chairmen, this concludes our statement. We would be pleased to answer any questions you or Members of the subcommittees may have at this time.

Contacts and Acknowledgement

If you or your staff have any questions on matters discussed in this testimony, please contact Randolph C. Hite at (202) 512-3439 or hiter@gao.gov or Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov. Individuals making key contributions to this testimony include Beatrice Alff, Sophia Harrison, Tonia L. Johnson, Darby Smith, and Jenniffer Wilson.

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Mr. TURNER. Mr. Chairman.

Mr. SHAYS. When I see a number that says the Department fiscal year 2004 IT budgetary request is approximately $28 billion, that seems like an extraordinary sum; and it seems like a misprint. Tell me what 28—first, is the $28 billion accurate; and, second, fill it in a little bit. Explain to me where $28 billion goes.

Mr. HITE. Yes, sir. Is the $28 billion accurate? I would submit it's DOD's number, the $28 billion. I would submit that's probably understated. That is not a number, a top-down derived number. That's a number that's derived through data calls out to the multiple components within the Department to try and put together a collective number for IT spending in the Department.

Those IT dollars are embedded in multiple appropriation accounts for a wide range of DOD component organizations across the Department. So $28 billion is DOD's number.

Then what we did through our analysis was try to determine, as you asked last year, Mr. Chairman, as to what is that money going for, to identify what portion of that is going toward business systems modernization as opposed to command and control systems, for example, or embedded systems and weapons systems. And that's how our analysis allowed us to derive the $18 billion number.

Mr. SHAYS. $18 billion is for business systems?

Mr. HITE. Yes, sir.

Mr. SHAYS. OK. And the balance, whatever that is, is for weapons systems and so on.

Mr. HITE. Yes, sir.

Mr. SHAYS. OK. Then let's just take the $18 billion. Over a nearly $400 billion budget, is that about what you would see in a larger organization, percentagewise? If you don't know, I don't want you to tell me and give me an answer. If you don't know, then I'd like you to check. But do you have a sense of it or do you——

Mr. HITE. I could research that, but I don't believe there is a standard out there in the private sector or in the public sector for IT budgets.

Mr. SHAYS. I can't believe there wouldn't be. I mean, it would seem to me you would always want to kind of be able to compare yourself to others. If I was—since it's such a large cost, I would want to know, if I were running a business. I mean, how does it compare to our competitors?

Mr. KUTZ. It's hard to imagine in a competitive environment paying for systems that are duplicative, that store the same data multiple times, etc., would be economical or be allowed to remain and a business to continue; and I think that's pretty safe to say. But we don't have empirical data for that.

Mr. SHAYS. From that I could make an assumption, since they are duplicative and so on, that we obviously are adding significant costs. Not only do they not necessarily work well, but Mr. Kutz's—the implication I get from your answer is that it would likely be more because we are not spending it well.

Mr. KUTZ. There are significant inefficiencies, and if you take the $18 billion that's almost $50 million a day being spent to operate these systems and to maintain and modernize them. So $50 million a day is a substantial amount of money.

Mr. HITE. Another variable is keep in mind there is when I said there's not a standard, it's because it depends on the state of the IT environment of the given enterprise that you would be looking at. If an enterprise that already has in place modern, effective and efficient systems, their costs would probably be much lower. If it is an IRS, for example, who's in the process of modernizing their systems and they have on the order of an annual budget of about $9 billion, they spend about—between operation and maintenance of existing systems and modernized systems, they spend closer to $2 billion on IT. So that's a huge percentage there.

So it is going to depend on the nature of the organization, the operations it performs, the extent to which it depends on IT and then the state of those IT assets at that particular point in time.

Mr. SHAYS. Can you put a number on the amount of wasted dollars, the $18 billion? In other words, you can demonstrate that the programs aren't working as well as they could, aren't up to date and so on, they are not integrated, they are not coordinated and all of those things. But can you put a number on the amount of dollars you think are being wasted?

Mr. HITE. No, sir, I can't put a figure on that.

Mr. KUTZ. Mr. Chairman, Secretary Rumsfeld has said the Department could save up to 5 percent of its budget through effectively modernizing. So if you take 5 percent of roughly $400 billion, you're talking about $20 billion. I think that this would be a part of that $20 billion, certainly probably billions of dollars. If you look at the environment today of over 2,000 systems and where they hopefully will be if we are successful with this effort, which would be maybe several hundred systems, you could see at the end of the day substantial multibillions of dollars of savings. This would seem to be a large part of what Secretary Rumsfeld is talking about in the savings for modernization.

Mr. SHAYS. Right. But I can basically make an inference that you have waste by a system that doesn't work well, the waste connected to that system; and then you have a waste because systems are supposed to help you allocate other resources better. So we're not managing other resources as well as we could. So it's kind of a twofer here. If we could get a better system, it should be more cost effective. It should also help us make other parts of DOD be more cost effective. I mean, is that a fair assumption?

Mr. KUTZ. Absolutely. You're buying items that you don't need. And you may recall from our JSLIST hearing last year that DOD was selling items actually needed, for pennies on the dollar on the Internet; at the same time DOD was buying brand new chem/bio suits. So you're absolutely right.

In addition to the inherent inefficiency of the systems spending, this does cause a whole other series of other inefficiencies in the Department.

Mr. SHAYS. I also, besides inferring things, make some general assumptions. One is that we have very talented people at DOD. We have very dedicated people at DOD. We have, you know, people who want to do right by their government. But it's such a big government that it's hard to identify probably who's doing some good things and who's not. But I guess what I want to know is if you were to—where do you think the major problems lie? You've said

it, but say it for the testimony. Not documenting the problems but documenting what are some of the major solutions. Therefore, I can figure out what the problems are.

Mr. KUTZ. One of them would be the sustained leadership that I think we've talked about in other hearings of yours. I believe Comptroller General Walker talked about a concept of a chief management officer that you would bring in that would have significant qualifications in successfully doing this that you would bring in potentially for a term of, let's say, 5 to 7 years that would be renewable that would provide you the sustained leadership. The average tenure of the political appointees at DOD—and this might be a little bit dated information—is about 1.7 years.

Mr. SHAYS. And the political folks are the ones ultimately calling the shots on this.

Mr. KUTZ. Yes.

So that is one issue. I mean, you have a myriad of other issues. Let's use the incentive system that we have right now. The $18 billion we're talking about, as you said, we're spending that or we have, for example, the DPPS system which will not result in any measurable benefits for the government after $126 million. What's happening next year? They're going to get more money. I mean, is that the right incentive system for spending that much money and not showing measurable progress? But that is, in fact, the incentive system we have today from a monetary perspective.

So there's an issue of incentives and accountability for how the money's being spent.

Mr. SHAYS. I'm seeing a green light that keeps going on green. Did it get flipped over? OK. Thanks.

What would a chief manager, chief financial manager or chief—how do we define that?

Mr. KUTZ. It could be a second deputy. It could be a chief management officer. We talk about this in our——

Mr. SHAYS. What would someone in the private sector be paid?

Mr. KUTZ. For that? Millions of dollars a year. It would be someone similar to Charles Rossotti, who was brought into the Internal Revenue Service. He had a past management history. He was not a tax attorney, which was the history of leadership at IRS before. He was brought in for a 5-year term, and he had a set of credentials from the private sector.

Mr. SHAYS. But he took a major salary reduction in joining.

Mr. KUTZ. Substantial. Probably 90 or 95 percent pay cut, yes.

Mr. SHAYS. So this person needs to, obviously, have qualifications. This person needs to have some tenure and, ideally, you know, paid fairly well but being given extensive authority. In other words, when he asks are—or she asks for this information, they would—the rest of the Department would have to know they need to be responsive.

Mr. KUTZ. They would have to have the clout to make things happen not only within the Office of the Secretary but within the services.

Mr. SHAYS. Thanks.

Mr. Chairman, I might like to come back afterwards in a second round, but I am done for this one.

Mr. TURNER. In listening to your testimony concerning oversight and in some of the examples that you discussed, it seems like there are problems both in the inception and how projects are defined and approved in the design process in what the requirements are and how that process changes while the project is ongoing. Then, also, implementation, buying, making certain that it's used and that the organization is going to be a partner with the organization that is putting the system in place. That pretty much is soup to nuts for the whole thing. Is there a process part that's working or is there one of these that you could identify that you think is more a problem than the others?

Mr. HITE. Congressman Turner, my experience in working at the Department of Defense unfortunately points to the fact that there are a number of things that are not being done correctly on a number of fronts; and, to be honest with you, I can't point to one where historically it has been done correctly. There are probably pockets of that within the Department.

But the kind of systematic change that we're talking about and that the Department is trying to pursue now where and how they approach modernization provides, in my recollection, for the first time introducing this concept of having one blueprint that everyone builds to.

The concept of when you invest in one of these projects within the context of that blueprint you insure that it is justified on the basis of cost benefit and risks, that you take these large systems that involve doing many things over many years and spending hundreds of millions of dollars, that you break those into incremental pieces and you invest in those incremental parts and insure that they are delivering value commensurate with cost over their lifecycle, that you employ rigorous and disciplined acquisition practices in how you engage with the contractor in delivering those and insuring that when they are implemented they are working properly, these are things that in some respects have been embodied in DOD policy over the years, in some respects have not.

The real issue in my experience at the Department is in the zeal to try and do the right thing. Everyone over there who's in charge of one of these projects is trying to do the right thing in the—and that zeal and the pressure that's brought upon them to meet milestones and that being the No. 1 driver, there is a tendency to sidestep some of the rigor and discipline that you traditionally see in successful programs in the haste to meet milestones; and in my mind that's a recipe for failure.

I do see now, and I'd have to say for the first time in the 20-some years that I have been doing work there, a recognition and an acknowledgment that can't continue and we have to change the way we define what we are going to buy, how we are going to buy it, how we are going to implement it, how we are going to test it and how we are going to make sure that it's successful.

Mr. TURNER. In my opening statement, one of the things that I mentioned is my an interest in the acquisition process itself and how it might lend to the outcomes that you're seeing. In the private sector—and you mention in your presentation the process that the private sector goes through—the issue of oversight is, of course, one that is handled differently than it might be in the government.

But also the issue of acquisition, what you're going to buy, working in partnership with the company that's providing you the system and defining the solution instead of providing a specification in which you then look to multiple users to try to present a solution when it may not exactly be the one that you need for the outcome you're looking for, what are your thoughts on the government's acquisition process of IT versus the private sector and does that in and of itself inherently cause a problem in designing these systems?

Mr. HITE. I agree 100 percent. That causes a problem in acquiring these systems.

Traditionally, and to a great extent today, in the Federal Government the approach to acquiring systems now—and they're commercial-based, component-based systems now. They are not homegrown, one-of-a-kind, unique systems anymore where you're writing millions of lines of code. You're building systems from commercially available components, hardware and software; and the approach to doing that successfully is far different than the traditional approach has been to customized solutions.

My experience across the Federal Government shows that, more times than not, those private-sector practices for acquiring commercial components systems where you don't have requirements drive the solution. You tradeoff requirements against what's available in the commercial sector. So your decisions are based on not just what I need but what is available. Those kinds of practices are not employed, to a large extent.

I can say, in talking to the leadership on this modernization program, that's what they want to get to. They want to have the commercial environment drive their solutions so they're not introducing customized solutions as they have in the past. That's the approach they're taking with the architecture development, and it is my understanding that's the approach they're going to be taking with prototyping system solutions as they move forward with implementing the architecture. Those are all proper courses of action in our mind.

Mr. TURNER. In the private sector, one of the other issues that is prevalent that you indicated here is a problem for DOD is the concept of buy-in of those who have to utilize the system and indicating one of the systems that had been abandoned was—had competing systems that people were unwilling or departments were unwilling to abandon. Is the modernization program—is the leadership going to have the authority necessary to bring those various departments and programs together and then also the authority to assist in the buy-in process?

Mr. HITE. Right now, in my mind, no, they don't have the authority to do that. We've got recommendations on the books trying to create that kind of authority to insure that happens. I mean, your question is right on target. This is not an afterthought when you're introducing commercial systems. You've got to think about how are we going to introduce the change that's embedded in those systems. You have to think about those kind of issues from the outset, and you have to position your organization to accept that level of change.

What I can say is, based on my discussions with the individuals who are leading this modernization program, is that they recognize that, as of yet, at this stage of the modernization, I haven't seen on-the-ground processes to provide for that. But I wouldn't necessarily expect to yet.

Mr. TURNER. Mr. Chairman, do you have additional questions?

Mr. SHAYS. Yes, thank you.

Just sort this out for me, just briefly. The reason why you don't see us moving forward with a manager not co-continuous with the President is that just a political disagreement that we're having with the administration? No one's picking it up? Have you had any response from DOD whether they like the idea, etc., follow—tell me how to sort that one out.

Mr. KUTZ. You don't have a chief management officer concept. Actually, Dave Walker, I believe, the Comptroller General, introduced that to one of the business councils over at DOD; and they did embrace that as one option to move forward. I don't know where it's gone since then. So this has been introduced to the Secretary and some of the senior business councils over there and was received well.

Mr. SHAYS. How long ago?

Mr. KUTZ. Several months ago.

Mr. SHAYS. OK. When you speak to the higher-ups in DOD about your report, walk me through their reaction on your presentation, the waste.

Mr. KUTZ. With respect to the management of these four systems, I think that there's a recognition that these are for the DFAS system. But there is a recognition that the project management investment, management controls necessary to bring these kinds of projects home within cost schedule and performance targets are not there right now; and there's a recognition that they need to be there for them to successfully modernize. You can build a blueprint for modernization, but if you can't actually build the projects out you're not going to get there. So there's a recognition that this is a DOD wide and not a DFAS issue.

Mr. SHAYS. Has GAO had much interaction with the appropriations subcommittee of DOD on this issue?

Mr. HITE. Not on this particular issue, no.

Mr. SHAYS. OK. What I would love to do is set up a meeting with the staff of that subcommittee with all of you and see if we can kind of gauge their interest in this issue.

Mr. Chairman, I'm all set.

Mr. TURNER. Chairman Shays has indicated that in the past he's provided opportunities for staff that are present who have also worked on these issues to ask questions that might be helpful for—both for the purposes of the hearing and the work that they are doing. So at this time if there are staff members who have an interest in asking questions, and we can begin to my left. Mr. Chase.

Mr. CHASE. Your report makes a very strong point regarding oversight of the four business systems that you analyzed.

First of all, a general question. What's preventing meaningful project oversight at DOD?

Mr. HITE. The short answer is, in my mind nothing's preventing meaningful oversight. I mean, that's a conscious decision as to

whether you want to exercise it or not. In the case of these four projects, there was nothing to preclude it, at least ostensibly nothing to preclude it.

One thing that could preclude it is nobody holds you accountable for your oversight whether you do it or whether you don't do it. And, you know, people are like, as any human being, they're going to react to what they are measured and graded on. But the bottom line is there's nothing to preclude it.

Mr. CHASE. How would you hold the Department accountable then?

Mr. HITE. Well, you would—I mean, individuals within an organization are assigned accountability for discharging this kind of oversight; and they need to be accountable up their chain of command for executing their responsibilities. If nobody pays any attention to it, the tendency is it doesn't get done.

Mr. CHASE. Could you describe for us the kind of oversight that should have taken place for these four systems by both the Controllers Office and the DCI?

Mr. HITE. Yes. In responding to that, one of the things I'd like to lay out is the way DOD's acquisition process works, which is you have major milestones for acquiring or delivering huge, monolithic systems. Their approach is not to break it into incremental deliverables and to measure progress against those deliverables.

So in terms of how it should be done, any of these large systems, you break it into its incremental parts, its modular parts. You measure, you define what you're going to provide on the basis of those increments, the—what it is going to cost you, what value are you going to derive for it, what kind of capabilities are going to be provided, and you measure the delivery and the satisfaction of those incremental parts, and you have milestones associated with each one so you don't have to learn after 2 years of a major milestone not presenting itself that things aren't on track. That's the way a successful organization does it.

Now DOD's acquisition process historically has not provided for that. It provides for oversight at major milestones. What happens is years can pass in between those major milestones, and there's a whole lot of activity and a whole lot of money that can be spent in a year's worth of time.

Mr. CHASE. OK. Thank you, Mr. Chairman.

Mr. SHAYS. I next understand John Hambel, counsel for the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Census will be asking questions.

Mr. HAMBEL. Thank you, Mr. Chairman.

Mr. Kutz, last week you testified before the Subcommittee on Technology at its hearing on data mining; and at that time you testified that the poor quality of Federal Government systems is a significant impediment to making full use of tools such as data mining. Now we're hearing at DOD we have over 2,000 business systems, and I was wondering how this impacts your ability to use data mining techniques, audit and investigate various programs.

Mr. KUTZ. I think the first thing that you'd have to look at with all these systems is identifying the systems that actually had the information in them from which you might want to data mine. You have for example, in the vendor pay area up to 18 systems that

have information or transaction-based information on them related to vendor payments. With respect to personnel and logistics, you've got hundreds of systems.

First of all, one challenge would be identifying which systems have the information.

A second challenge would be reconciliation. When you do data mining, you typically reconcile control totals before you actually do the data mining, such as $10 billion is in this system and a million transactions. That's often a challenge because you don't have general ledgers oftentimes with which to compare control totals. You've also got systems here that have lots of errors in them, and errors create false positives when you're doing data mining, looking for anomalies, etc., which could require you to spend considerable amounts of time following up and not getting anything for your investment.

The other thing that I would mention here with respect to data mining, some of these systems you may not be able to data mine. Again, I'll go back to the example from our hearing here last year on the JSLIST where, if I was asked to go into DOD's systems and do data mining on the chem/bio suits and identify how many there were, where they are, what the expiration date is on the package that says when the suits are no longer good, I couldn't do that data mining because the DOD's systems don't have the data in them from which to do that.

So there's a lot of implications of all these systems in the area of data mining.

Mr. HAMBEL. Thank you.

Just going for a moment to the question of annual funding, what are the cultural and procedural issues that currently exist in attempting to manage funding flow to the various departments, agencies and bureaus within the DOD in order to actually establish and measure accountability? In other words, who is watching the henhouse and just how many henhouses are there?

Mr. KUTZ. There's lots of henhouses.

There's, again, money all over the place. Dozens of locations and buckets of money are out there being spent on these 2,000 systems, and so there's not a lot of transparency for us to go in and determine that there was $18 billion spent on business systems. It was not a trivial task. We had to go through six inches of paper and data mine out of the paper the actual information that showed us that. So there's not a lot of transparency there.

A lot of the projects or most of the projects right now are being developed from the ground up without an architecture. People are out there making narrowly focused, parochial-type decisions on what kind of systems that they want to develop. There is not a lot of strong oversight and accountability right now with money spread all over the place, with little accountability in centralized corporate control.

Mr. HAMBEL. Thank you, Mr. Chairman.

Mr. TURNER. We want to recognize Congressman Duncan from Tennessee who has joined us.

Mr. DUNCAN. I have no questions, Mr. Chairman. I'm here just to listen to the witnesses. Thank you.

Mr. TURNER. OK. Thank you.

Mr. Chairman, do you have any additional questions?

Mr. SHAYS. Yes, I'd like another round here.

What oversight does the Office of Controller provide to insure IT projects stay within costs and on schedule?

Mr. SMITH. Basically, Mr. Chairman, what we found, looking at the four DFAS project, was there was a very limited review by the DFAS and the OSD Comptroller. Basically, they look at the budget justifications that come in; and, unless there is large anomalies from year to year, that was the extent of the budget justification. They were not aware of the huge increases in the Defense Procurement Payment System in terms of cost increases and scheduling runs until we brought it to their attention.

Mr. SHAYS. OK. What oversight does the chief information officer provide to insure IT projects stay within cost and on schedule?

Mr. SMITH. Again, on these, the two projects, the Defense Procurement Payment System and the DFAS corporate data base and DFAS corporate warehouse, we found very limited oversight by the CIO's office, even though these two projects fall under their responsibility. We asked for documentation to look at what they had done to question the cost increases and schedule slippages. We were not provided with any.

Part of the problem they told us was that there's this view that the CIO does not have the clout to really terminate these projects. So that may be—that was pointed out several years ago in another GAO report about the CIO's oversight review and responsibility, particularly in regard to the Clinger-Cohen act.

Mr. SHAYS. Let me ask this. How would you characterize DOD's oversight of DFAS business systems and modernization efforts?

Mr. SMITH. I would have to say, based on these four projects again, very limited oversight once you get outside of DFAS; and even within DFAS we found very little rationale or questioning of the cost increases and the schedule slippages.

Mr. KUTZ. Mr. Chairman, they're trying. I mean, they recognize these issues. They're working on this architecture. They're trying to go from a situation where you have uncontrolled proliferation of systems—I mean, you can see when you get to 2,000 systems, that is uncontrolled proliferation of systems. They're trying to go from an environment where you had that to an environment where you're trying to tightly control, and they have taken some interim steps. They're not there yet. Not even close, probably, to being where they have tight control over it. But it is a process, and they do recognize this, I believe. Certainly when they come up to testify I assume they will be telling you about what they specifically are doing.

But it is very difficult to move from that environment I just mentioned to the kind of tight controls that you would want to see when you're talking about this kind of money.

Mr. SHAYS. Yes, it's a huge amount of money. If systems worked better, we would save a fortune.

So, Mr. Chairman, the only thing I would want to say is that I am concerned—we have such good questions from the staff. I just want to make sure from the staff that they don't feel we need to ask any others on this.

Vinnie, are we OK? OK. All set.

Mr. CHASE. Yes. Greg, can you just describe for us how this new system of control, the enterprise architecture that you're trying to implement, will—how do the four systems that you reviewed at DFAS, how will this interface or how will it fit into the new enterprise architecture plan?

Mr. SMITH. We aren't certain yet and neither is DOD where these four systems are going to fit within the architecture. Definitely, DPPS won't be part of it, since it has already been terminated. The other three are going through an evaluation process now to determine which of the existing 2,000 systems will be part of the architecture. That decision has not been made yet, so we don't have an answer yet, and that's, you know, because we're kind of waiting to see where they fall out.

Mr. KUTZ. Mr. Chase, from an oversight standpoint where I believe they're trying to go is they've established in their modernization seven domains, which would include like a logistics domain, etc., and this would fall under a comptroller domain. As I would understand it, that accountability for these systems would fall under a hierarchy of oversight boards. There would be one at the domain level. There would be higher ones, and potentially there would be subcommittees from that domain.

They're trying to control this within these seven domains, and so this would fall under the financial—one of the financial domains. They would try to control it there with the series of hierarchical boards that they have in addition to and including the control of the Chief Information Officer.

Mr. CHASE. Thank you.

Mr. TURNER. Yes, Mr. Chairman.

Mr. SHAYS. I would just hope that at least one of you would be able to stay for the other panel so—in case we would want to call you back just to understand maybe comments that are made by the next panel. It would be helpful.

Thank you.

Mr. TURNER. Are there any additional questions?

Do any of the members of the panel have anything they wish to add or to include?

OK. Thank you very much. Appreciate your taking the time and the insightfulness of your testimony.

Next, we will be turning to our second panel, which will include Ms. JoAnn Boutelle, Director Deputy Chief Financial Officer, Department of Defense; Mr. John R. Landon, Principal Director, Deputy Assistant Secretary of Defense, Command, Control, Communications, and Intelligence Surveillance, Reconnaissance, Space and IT Programs; and Mr. Thomas Bloom, Director of Defense Finance and Accounting Service, Department of Defense. And also included in the panel will be Audrey Davis, Director of Information Technology and Chief Information Officer.

If the panel would please stand to be sworn in.

[Witnesses sworn.]

Mr. TURNER. I believe we are starting with Ms. Boutelle.

STATEMENTS OF JOANN BOUTELLE, DIRECTOR DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE; JOHN R. LANDON, PRINCIPAL DIRECTOR, DEPUTY ASSISTANT SECRETARY OF DEFENSE, COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE SURVEILLANCE, RECONNAISSANCE, SPACE AND IT PROGRAMS; AND THOMAS BLOOM, DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE [DFAS], DEPARTMENT OF DEFENSE

Ms. BOUTELLE. Thank you, Mr. Chairman, and members of the committees. My name is JoAnn Boutelle, and I am the Deputy Chief Financial Officer for the Department of Defense. I am pleased to be here to update you on the course of financial and business management reform within the Department. Strengthening oversight of business systems modernization is a key element in the transformation of the Department.

Secretary Rumsfeld is committed to transforming the way the Department does business—from the way it fights wars to the way it orders parts. It is one of his top priorities. This transformation effort is fundamentally different from past efforts because it is being driven from the top by the Secretary and all of his senior leaders. This top-down leadership strategy attacks the stovepiped support culture entrenched in the Department, which today is unable to provide timely and key data to decisionmakers.

Transformation emphasizes rearranging the financial and business processes within and across business lines. Understanding that sound management information is not possible without comprehensive business process reform and top-level management support are what truly distinguishes this reform effort from those of the past.

Our strategy to increase the efficiency of the Department's business processes and for creating sound management information consists of the following four elements: First, build a DOD-wide architecture that prescribes the use of standard business and financial rules. Second, employ a DOD-wide oversight process, consisting of DOD's senior leadership, to implement the architecture and to monitor Departmental spending. Third, refine and extend architecture to create a seamless connection between it and other Federal and DOD transformation initiatives. And, fourth, use performance measures, based on the President's Management Agenda, to oversee the entire process.

Supporting our troops is the main reason we are pushing this transformation. There must be no retreat in our question to optimize that support. Productivity gains from the Department's transformation efforts will not only free up more resources for the frontline troops, it will also give decisionmakers the management information they need.

Guided by the recommendations of a prominent financial expert, the Secretary created the DOD-wide Financial Management Modernization Program. Its fundamental aim is to overhaul our nonstandardized financial and nonfinancial systems and business processes. Many of issues brought to light in the General Accounting Office audit report discussing the Defense Finance and Accounting Service's systems are being addressed in the financial management enterprise architecture and the new governance process.

The Department is developing a defense-wide architecture that incorporates leading business practices. The architecture defines an improved DOD business environment by prescribing the use of standard business practices, rules, data and attributes. It is, in essence, an engine of transformation as well as standardization. The architecture also link business process reengineering to management information needs of the Department's decisionmakers.

The consistent use of standard processes throughout DOD will enable our systems to provide timely and accurate financial management information to decisionmakers at all levels. Auditable financial statements and a clean audit opinion will be by-products of this transformation effort.

We are also ensuring that our architecture meets the requirements of the governmentwide Federal enterprise architecture. In doing so, we move closer to our ultimate goal—improving the Department's business processes. The Department awarded a contract for this architecture development to IBM in April 2002. We have made steady progress in the development of the architecture since that time.

The key to the success of transformation is making it self-perpetuating—the Department is embedding an ethic of change and constant improvement into its culture. We are working hand in hand with the owners of the Department's major business lines to implement the architecture. We are constructing a corporate DOD approach in the way we develop and field our business processes and systems. DOD's senior leaders have agreed on a high-level governance process to control our investments in information systems.

We clearly understand that successful business and financial reform requires the commitment and support of all those who maintain the Department business infrastructure.

In closing, Mr. Chairman, I want to restate that the Department's business and financial transformation initiative has Secretary Rumsfeld's complete support. We are working closely with OMB and GAO. Our partners from those agencies have been participating in our reform effort from the beginning. We will also need your continued support. Only by working cooperatively with our partners within and outside of the Department can we build an improved business support infrastructure.

That concludes my formal remarks, and I will be happy to answer any questions.

[The prepared statement of Ms. Boutelle follows:]

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STATEMENT OF JOANN R. BOUTELLE

DEPUTY CHIEF FINANCIAL OFFICER

OFFICE OF THE UNDERSECRETARY OF DEFENSE (COMPTROLLER)

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
AND
INTERNATIONAL RELATIONS

AND

SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY
INTERGOVERNMENTAL RELATIONS AND CENSUS

ON

STRENGTHENING OVERSIGHT OF DOD BUSINESS SYSTEMS
MODERNIZATION

MARCH 31, 2003

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TESTIMONY OF THE DEPUTY CHIEF FINANCIAL OFFICER

OFFICE OF THE UNDER SECRETARY OF DEFENSE

(COMPTROLLER)

BEFORE THE U. S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

MARCH 31, 2003

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This concludes my formal remarks. I will be happy to answer your questions.

Mr. TURNER. Thank you. Mr. Landon.

Mr. LANDON. Mr. Chairman and members, I appreciate the opportunity to respond to your request for information—are we not on. I am sorry. Let me try again.

Mr. Chairman and members, I appreciate the opportunity——

Mr. SHAYS. If I may interrupt, I think you did this just out of courtesy to the first speaker. But, Mr. Bloom, you don't have to do the first thing.

Mr. LANDON. Mr. Chairman, I work for the Assistant Secretary of Defense for C3I and the DOD chief information officer, Mr. John Stenbit, who regrets he could not be here today in person to speak with you. However, he has charged me with executing his responsibilities in the areas of acquisition and program execution oversight, and I am prepared to address this topic with you.

I have responsibility for overseeing major acquisitions in the command, control, communications, intelligence and space functional areas. In the summer 2002, Mr. Stenbit asked that I take on the additional responsibility of overseeing information technology programs for which he has acquisition and milestone decision authority.

This portfolio includes 37 major automated information system programs, or MAIS programs as we call them, ranging from business systems in the area of logistics, finance, health and personnel, to command and control systems. I perform this function in cooperation with the Offices of Primary Responsibility or Principle Staff Assistance within the Office of Secretary of Defense staff and other offices within OSD who provide functional expertise on any given area.

In the case of financial America and accounting systems, the Office of Primary Responsibility is the comptroller.

Approximately a year ago, Mr. Stenbit recognized the need for more rigor and discipline in the acquisition of information technology programs and they asked that I apply the same degree of oversight for these programs that I do with major defense acquisition programs for which I already have responsibility.

The common characteristics of these two groups of programs is they are software-insensitive in nature, and the fact that many of the same development approaches apply to both.

As I reviewed the GAO's report, I found that I agreed with many of their findings. Programs were being initiated without appropriate justification, review of the development progress was not occurring on a frequent and regular basis, and programs were allowed to continue when they exceeded established baseline performance.

In cooperation with the Comptroller's Office, I want to assure you we are taking steps to rectify these discrepancies.

In the area of rigorous acquisition discipline, we are assuring that proposed programs are reviewed for compliance with statutory and regulatory requirements before they receive authorization to proceed into each phase of development. This means that business process reengineering and an analysis of alternatives has been accomplished, and economic analysis of the calculated return on investment is conducted and that there are clearly established measures and accountability for program progress.

In addition, the acquisition strategy must reflect an incremental or spiral development with well-defined deliverables and a testing regimen that validates results.

Once a program passes the criteria for entering development, I work with the designated principal staff assistant, the executive agent, and the program manager to ensure programs are being executed properly and that expectations are being met.

I accomplish this activity by requiring program managers to provide quarterly status reports on execution metrics, which I personally review with my staff. Deviations from the development plan are highlighted and corrective action assigned.

At a more fundamental level, we are initiating reviews of the acquisition structure and processes within each of the executive agent organizations to ensure qualified personnel are performing acquisition functions and the internal structure supports established acquisition principles. We have recently completed our review of the Defense Information Services Agency and will proceed to DFAS in our next review.

In closing, I want to assure you that we are taking positive steps to ensure we are applying the necessary discipline and rigor for development of these critical information technology programs.

Thank you for allowing me this opportunity to outline our approach.

Mr. TURNER. Thank you.

[The prepared statement of Mr. Landon follows:]

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STATEMENT OF JOHN R. LANDON

PRINCIPAL DIRECTOR

C3ISR, SPACE AND INFORMATION TECHNOLOGY PROGRAMS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR COMMAND, CONTROL,

COMMUNICATIONS AND INTELLIGENCE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
AND
INTERNATIONAL RELATIONS

AND

SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY
INTERGOVERNMENTAL RELATIONS AND CENSUS

ON

STRENGTHENING OVERSIGHT OF DOD BUSINESS SYSTEMS
MODERNIZATION

MARCH 31, 2003

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TESTIMONY OF THE PRINCIPAL DIRECTOR FOR

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MARCH 31, 2003

Mr. Chairman and Members of the Committee:

My name is John Landon and I chair the C3I Overarching Integrated Product Team (OIPT) in the Office of the Assistant Secretary of Defense for C3I. I appreciate the opportunity to come before you to discuss the Department's acquisition oversight of Defense Finance and Accounting Service (DFAS) programs. I will address how my office approaches risk mitigation for Major Automated Information System (MAIS) programs.

The Overarching Integrated Product Team is the board of Office of Secretary of Defense (OSD) senior principals that reviews Major Automated Information Systems and makes recommendations to the Information Technology Acquisition Board (ITAB) regarding acquisition decisions. My organization is responsible for acquisition oversight of 37 DOD Major Automated Information System programs in such areas as Logistics, Finance, Health, Personnel, Intelligence, and Command and Control. Our focus is to ensure that the Major Automated Information Systems follow a structured acquisition planning process. Within the Department we are jointly developing a content-based oversight process consistent with the Financial Management Modernization Program. The DFAS programs that my organization oversees are the DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) and the Defense Travel System. We previously oversaw the Defense

Procurement Payment System (DPPS) and the Defense Joint Accounting System (DJAS), but those programs have been either terminated or planned for termination.

The ASD(C3I), to whom I report directly, is the Milestone Decision Authority (MDA) for DCD/DCW and 20 other Major Automated Information System programs. He has delegated acquisition decision authority for 16 Major Automated Information System programs to the respective Component Acquisition Executives. The Milestone Decision Authority's primary responsibility is to make decisions on whether the Major Automated Information System programs should be initiated, and whether they should proceed into the various phases of the acquisition life cycle. At each major decision point, the Milestone Decision Authority must determine whether the program, or a key increment of the program, should be terminated, modified or approved to proceed. A key part of this responsibility is determining whether the program is complying with the Department's acquisition policies in the DOD 5000 series, which includes the requirements of the Clinger-Cohen Act and the Financial Management Modernization Program (Section 8088, P.L. 107-314).

The ASD(C3I) carries out these responsibilities with the advice and assistance of other oversight officials in the OSD, the Joint Staff and the DOD Component responsible for acquiring the system. Among the most important of these oversight officials is the DOD Deputy Chief Financial Officer (DFCO) who serves as the Principal Staff Assistant, or functional sponsor, for DFAS programs. The DCFO is responsible for determining and approving the needs and requirements for the programs, and for establishing the mission-related performance outcomes that the program is intended to achieve. The Component Acquisition Executive, Component Chief Information Officer and Program Executive Officer are also key oversight officials, as they oversee the day-to-day actions of the program manager and are primarily responsible for ensuring that the program is compliant with the Department's acquisition and information technology policies and regulations. These individuals and a number of other OSD and Joint Staff officials comprise a team that advises the Milestone Decision Authority on acquisition decisions. These offices work together in Integrated Product Teams (or IPTs). In

accordance with DOD policy, virtually all of the Department's acquisition and acquisition oversight activities are conducted through the Integrated Product Team process. The highest-level Integrated Product Team for Major Automated Information System programs is C3I Overarching Integrated Product Team, which I chair. Before a decision is made about a Major Automated Information System program, the C3I Overarching Integrated Product Team members meet and make a recommendation to the Information Technology Acquisition Board, which is chaired by the ASD(C3I), as the Milestone Decision Authority. Based on the Information Technology Acquisition Board meeting, the Milestone Decision Authority makes a decision, which is documented in an Acquisition Decision Memorandum (ADM) from the Milestone Decision Authority to the Component Acquisition Executive. The Information Technology Acquisition Board members are asked to formally coordinate on all Acquisition Decision Memorandums.

Acquisition oversight of Major Automated Information System programs has been under my purview for approximately 9 months. We have made a number of changes to the acquisition oversight process during that time. Previously, acquisition oversight of DOD IT programs was fragmented between two Deputy Assistant Secretaries and two Overarching Integrated Product Teams within OASD(C3I). The ASD(C3I) has corrected that situation by a reorganization that makes the Deputy Assistant Secretary of C3ISR, Space and Information Technology Programs responsible for all acquisition oversight.

We have also strengthened acquisition oversight by creating the Information Technology Acquisition Board that I previously mentioned. We recently added the Director for Defense Procurement and Acquisition Policy to the Information Technology Acquisition Board. That office is primarily responsible for reviewing, and advising the Program Manager and the Milestone Decision Authority on, contracting and acquisition strategies. We also added the DCFO to ensure programs are compliant with the Financial Management Enterprise Architecture. That expertise had been missing

before the reorganization. In addition, the Deputy DOD Chief Information Officer is now free of acquisition oversight responsibilities and serves as a member of the Information Technology Acquisition Board, with the primary responsibility of advising the ASD(C3I) regarding whether the requirements of the Clinger-Cohen Act have been met. I am also beginning to hold quarterly program reviews with the Component Program Executive Officers for each of the Major Automated Information System programs. Finally, I have asked my staff and the staff of the OSD functional sponsor to brief me quarterly on the status of all Major Automated Information System programs.

This fiscal year, we have also begun a series of reviews of the acquisition oversight organizations and processes of the Defense Agencies. We have completed a review of the Defense Information Systems Agency and plan to begin a review of DFAS in the next few months. Based on these reviews, we will decide whether Defense Agencies merit more or less authority to make milestone decisions over their IT programs.

With respect to DPPS, the program was a granted a Milestone II approval in June 1998. Numerous Integrated Product Team reviews were held, and all of the documentation required by regulation was prepared and analyzed. OSD Office of Program Analysis and Evaluation (PA&E) had concerns about the program's estimated cost, schedule and projected benefits. The DFAS responded to PA&E concerns, assessed the risks and determined they were manageable. The pros and cons of the decision were fully vetted and discussed through the Integrated Product Team process, and all Information Technology Acquisition Board (then called the MAISRC) members (including PA&E) agreed that the risks were manageable and concurred in the ADM that granted the Milestone II approval. It is not unusual for an Overarching Integrated Product Team or Information Technology Acquisition Board member to have concerns about a decision or recommendation to the decision maker. Those concerns are always fully vetted with the decision maker and his advisors (as they were with DPPS), but ultimately the Milestone Decision Authority must make a decision after hearing the views of his advisors.

When DFAS notified ASD(C3I) that the DPPS program would breach the schedule parameters of its Acquisition Program Baseline (APB), the program manager was required to brief the Integrated Product Team on the reasons for the breach. The briefing included plans to get the program back within its baseline parameters, and to update its economic analysis to demonstrate that the program was still in the best interests of the Department. Over time, it became apparent that DPPS would not fit the pending DOD Financial Management Enterprise Architecture. As a result, the Comptroller decided to terminate DPPS; it has since been officially terminated and removed from OSD oversight.

With respect to DCD/DCW, DFAS conducted a Cost Benefit Analysis for the DCD program before it was merged with the DCW program, and before it was subject to OSD oversight. The DFAS Milestone Decision Authority approved the start of DCD development based on that Cost Benefit Analysis and other factors. Subsequently, the DCD program and the DCW program were merged into a single program, and the DFAS Milestone Decision Authority approved entry into the development phase for the combined program. Subsequent to that, DCD/DCW was declared a Major Automated Information System, with the ASD(C3I) as the Milestone Decision Authority.

To avoid duplicative and unnecessary effort, the OSD staff attempted to oversee DCD/DCW by relying on planning information that DFAS had already prepared. After numerous Integrated Product Team reviews, all parties agreed that the information DFAS had developed to document the program was not adequate for a Major Automated Information System program. We have been working with DFAS and others on the OSD staff to agree to what the program's appropriate milestones should be and to obtain the proper planning information.

In light of the above, in December 2002 I directed my staff to bring the DCD/DCW forward for a review to determine the future of the program. Last month, I chaired a meeting with senior DFAS, USD(Comptroller) and PA&E officials. At that meeting, we talked about the status of DCD/DCW. I asked DFAS for an updated DCD/DCW strategy that reflects DPPS termination. Once available, I will request DFAS present this strategy to the Overarching Integrated Product Team that I chair.

With respect to lower-dollar level acquisitions such as the Defense Standard Disbursing System (DSDS) and the Defense Departmental Reporting System (DDRS), the ASD(C3I) delegates full responsibility for the acquisition management to the Component Acquisition Executive. For these acquisitions, planning documents are developed and overseen by the Component, normally without OSD visibility.

The Secretary of Defense has established a Department-wide Financial Management Modernization Program chartered to develop a DoD-wide enterprise architecture that prescribes how the Department's financial and non-financial feeder systems and business processes interact. Further, the Secretary of Defense directed that the Financial Management Modernization Program blueprint-known as the Financial Management Enterprise Architecture - be consistent with the Department's Information Technology Enterprise Architecture, the Global Information Grid (GIG).

To facilitate this effort, the DoD Chief Information Officer has collaborated with the DoD Chief Financial Officer to ensure consistency with the Global Information Grid Architecture and policies. This collaboration will result in increased emphasis on enterprise architectures and lower dollar-level programs now being instituted by the USD(Comptroller) and the Financial Management Modernization Program Domain Owners (i.e., the functional sponsors) responsible to oversee implementation of the department's Financial Management Enterprise Architecture, scheduled to be released next month.

I would be happy to take any questions.

Mr. TURNER. Mr. Bloom.

Mr. BLOOM. Test. It works.

Chairman Turner, Chairman Shays, distinguished Members and dedicated staff, my name is Tom Bloom. I am the Director of DFAS, and with me is Audrey Davis, who is the DFAS Chief Information Officer.

Chairman Shays knows me from my past life as an Inspector General at the Department of Education. Let me assure you that it is a lot easier to criticize than to be correct. I am finding that out every day.

Let me first tell you a little bit about DFAS and what we do. We are the largest accounting and finance organization in the words. We pay almost 6 million individuals each and every month. We pay over 11 million contract or invoices each year. We record over 124 million accounting transactions, account for 267 active DOD appropriations, and manage $175 billion in retirement assets for the military.

We are very proud of some of the recent accomplishments that we have had in DFAS, including in fiscal year 2002, we reduced the cost to our customers, the men and women who defend America, by $144 million from our 2001 amount. We are forecasting that we will reduce our bill in 2003 by another $108 million. To put it another way, comparing 2001 to 2003, we will be saving over $250 million for the American taxpayer.

We have reduced our work force by almost 4,500 individuals since fiscal year 1999. We have done all this while increasing our service and quality. We have put almost 2 million, 1.7 million on our Web-based pay system, so that 24/7 our folks can access their pay information. We have lowered by 30 percent the amount of interest penalties paid to contractors in the last year. We have been achieving a 99.96 on-time rate for accounting reports while decreasing by 1 day the time period to deliver those reports, and we have decreased problem disbursements by 90 percent from the 1998 levels.

DFAS is an obvious success story. However, an area where we have much work to do is in the area of systems modernization. We are neither as good as we need to be nor as bad as the tone of the draft GAO report would suggest.

We certainly agree with the recommendations made by the GAO in the draft report that we saw, and we have really already started to implement most of those suggestions as of today. Certain disagreements of fact have been pointed out by us in our comment letter back to the GAO and in this written testimony.

Obviously, DFAS must be doing plenty right in order to achieve what we have been able to achieve in the last 2 or 3 years. Much work needs to be done, and we believe that we now have the right oversight structure working with the Department to accomplish this.

Ms. Davis and I stand ready to answer any and all questions. Thank you.

Mr. TURNER. Thank you.

[The prepared statement of Mr. Bloom follows:]

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STATEMENT OF THOMAS R. BLOOM

DIRECTOR

DEFENSE FINANCE AND ACCOUNTING SERVICE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
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Mr. Chairman and members of the Subcommittees. My name is Tom Bloom and I am the Director of the Defense Finance and Accounting Service (DFAS). Thank you for the opportunity to testify on behalf of DFAS and to discuss strengthening oversight of DoD business systems modernization.

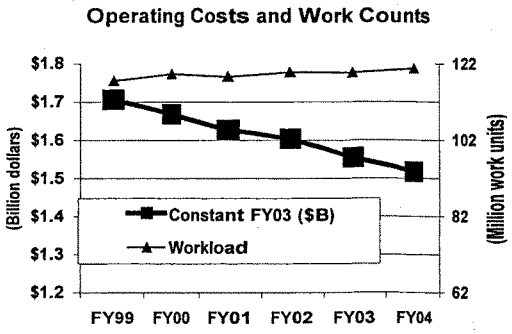
I will begin with the scope of our responsibility and operations. DFAS is the world's largest finance and accounting operation. In Fiscal Year 2002, the DFAS team paid 5.7 million people. We processed 11.2 million invoices from contractors, recorded 124 million accounting transactions, and disbursed $346.6 billion. We paid 7.3 million travel vouchers, managed more than $176 billion in military retirement trust funds, and accounted for more than $12.5 billion in foreign military sales. We are responsible for 267 active DoD appropriations.

I am proud of DFAS' success in reducing costs to the taxpayers. In Fiscal Year 2002, we reduced our costs to DoD customers by more than $144 million from Fiscal Year 2001; we are forecasting another $108 million reduction this fiscal year.

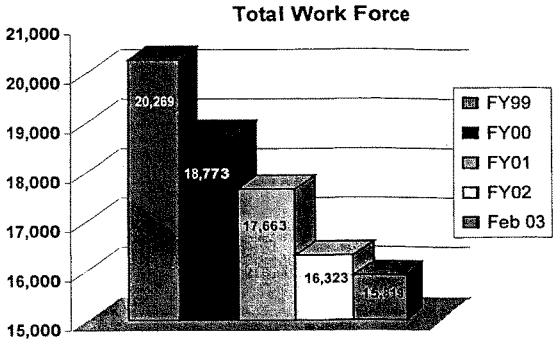
Cost to Customers ($M)

	FY 01	FY 02	FY 03
Army	$613.0	$555.0	$515.0
Navy	$389.0	$346.0	$320.0
Marines	$83.0	$78.0	$75.0
Air Force	$334.0	$314.0	$288.0
Agencies	$264.0	$246.0	$233.0
Total	$1,683.0	$1,539.0	$1,431.0

Our operating costs are decreasing even while our workload has been increasing. We are paying more DoD personnel, retirees, and annuitants. We are processing more invoices from defense contractors, and we are performing more accounting transactions.



We truly are doing more with less. Our total workforce has declined from 20,269 in Fiscal Year 1999 to 15,819 as of February 2003.



We have improved the quality of our service across all the DFAS business lines:

- Military and Civilian Pay Services has web enabled customer access to pay account information through "myPay". Approximately 1.7 million customers are using this system and that number increases daily. For example, in one day, a unit deployed to the Middle East requested personal identification numbers for 2000 more members to access myPay.
- In the last 12 months, Commercial Pay Services lowered by 30 percent the amount of interest paid per million dollars by decreasing the number of over-aged invoices to the lowest level in DFAS history, from 9.03 percent in April 2001 to 4.1 percent in January 2003. Projecting this trend through Fiscal Year 2003, we anticipate DoD savings of approximately $3.5 million in interest payments compared to Fiscal Year 2001.
- In Fiscal Year 2002, Accounting Services achieved a 99.96 percent timely delivery rate for departmental accounting reports and reduced the average number of days to produce the reports from 14 to 13 days. We reduced problem disbursements by 90 percent from the 1998 baseline. We achieved our third straight DFAS clean audit in Fiscal Year 2002, and we enabled the Defense Contract Audit Agency, the Defense Commissary Agency, Military and Retired Trust Fund and the Defense Threat Reduction Agency to achieve unqualified opinions on their consolidated financial statements.

Because of our increased efficiencies, DoD spends less than one half of one percent of its budget on our services. This is a 20 percent decrease from Fiscal Year 1999 to Fiscal Year 2002. We expect that trend to continue.

When DFAS was created in 1991, we had 324 core finance and accounting systems and were in over 300 locations with independent operations. Today, we have consolidated our operations at 26 locations; we have consolidated many duplicate, non-standard, stove-piped systems; and we have a standard, secure technical infrastructure.

DFAS' success has been recognized outside DoD. When we competed our civilian payroll system and operations with the private sector, no one chose to bid against us. More recently, the Office of Personnel Management selected DFAS as one of four agencies to provide payroll services across the Executive Branch. Of the four agencies selected, our payroll operation and system unit costs are the lowest. We anticipate paying 300,000 more civilian employees by September 2004, more than one half of all federal civilian employees in total.

We have made great progress since 1991. Our course has not been without its pitfalls, and we have learned many lessons along the way. We recognize and generally agree with the GAO that in the past, there have been some weaknesses in our investment management oversight process. The four Information Technology investments specifically reviewed by GAO each reflect some of these problems, each with different outcomes. Schedule delays and associated cost growth are not in dispute. However, the complexities of these initiatives made GAO's evaluation difficult and their report does not completely depict unique circumstances.

The Defense Procurement Payment System (DPPS) is an example of where we were trying to do the right thing, and in retrospect, in the most difficult way possible. DPPS was intended to make paying DoD bills part of a seamless end-to-end procurement process. We started with a Commercial Off The Shelf (COTS) software base, anticipating that we would

change DoD business processes and use existing feeder systems to support this process by including a central corporate database. To accommodate many statutory and procedural requirements and an evolving end-to-end process, we customized the COTS package too much and mitigated its benefits. Legacy financial system integration through the Corporate Database required additional development that further delayed DPPS implementation. Unlike a feeder application, DPPS could not be implemented until all elements of the DoD end-to-end solution were in place including the Standard Procurement System.

When key programmatic decisions were made from 1995-1998, DPPS was the right concept without the proper foundation. Having an enterprise architecture, identifying best business practices and standards up front, and having an effective governance and oversight process across the Department are critical to success. The lack of these fundamental elements was a significant impediment to the DPPS program. The DoD Comptroller terminated DPPS funding and reduced associated DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) funding because DPPS did not fit the DoD Financial Management Enterprise Architecture (FMEA). The FMEA provides the blueprint for future programs. We have already applied the lessons of the DPPS program and the DOD end-to-end procurement process.

On the other end of the spectrum, GAO criticized the Defense Departmental Reporting System (DDRS) program for not updating traditional cost documentation. In fact, timely business analyses and decisions were made that supported continued investment. The DDRS–Audited Financial Statement (DDRS-AFS) enables rapid data collection from numerous sources and transforms it into financial statements that automated and improved the timeliness of Departmental Reporting. DDRS transformed a manual process into a web-

based solution that promotes standardized processes and report generation from a single DoD database.

Additionally, in April 2002, DDRS met the Office of Management and Budget challenge to implement the DDRS Data Collection Module (DDRS-DCM) in time to support preparation of the Fiscal Year 2002 annual financial statements and meet the new quarterly reporting requirements. Within six months, the DDRS-DCM provided an automated mechanism for military services and agencies to collect financial data from non-financial sources throughout DoD.

The DDRS Budgetary module provides the Fiscal Year and Appropriation Level reporting required by the U.S. Treasury and DoD. It is the vital link between the DoD installation level accounting systems and the financial statements. To date, DDRS has completely transformed the Department's Financial Statement process. Consistent with DoD regulation, the DDRS Program Manager completed a Life Cycle Cost Estimate (LCCE) for each milestone decision. The LCCE is being updated for the July 2003 Milestone C decision for DDRS Budgetary Reporting.

The DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) is the most complex of the four IT investments reviewed by GAO. It provides a technical infrastructure based on modern database technology. Because it has been developed to support and enable improved processing within other applications, a traditional Economic Analysis is not applicable. Instead, a more appropriate cost benefit analysis was conducted to economically justify this investment.

The DCD/DCW concept is to support any application that requires a bridge between target and legacy applications. This compensates for the lack of common data among

applications, translates non-standard transactions into those requiring Standard Fiscal Code, and consolidates financial information for customers whose funds are executed in multiple accounting systems. The Cost Benefit Analysis showed that the DCD is providing quantitative and qualitative benefit to DoD in its current production applications. DCD/DCW has successfully demonstrated direct support for mission performance.

- The DCD/DCW currently contains the shared repository for Corporate Electronic Funds Transfer data that is used by entitlement applications. A single remittance data source ensures that correct information is used when paying DoD vendors and reduces the possibility of unauthorized access and fraud. This DCD/DCW segment has produced over $4 million annual savings.
- The DCD/DCW allows legacy accounting transactions and summaries to be processed through it and communication with other compliant systems without costly modifications to older applications. The US Special Operations Command (SOCOM) uses this capability to translate and consolidate accounting information stored in multiple military service systems. Because SOCOM personnel are involved in the Afghanistan operations, this result has made a positive impact on the war on terrorism. During a recent visit with the SOCOM Commander, General Holland voiced his deep appreciation to DFAS. Because of our help, SOCOM now has timely execution of information and can concentrate on the war on terrorism.

Because the DCD/DCW will allow feeder system transactions to integrate stove-piped applications such as acquisition, accounting and entitlement, we determined that the required data could be captured and reused for disbursements to treasury. For this reason, a standard disbursing system was designed as an application that would actually exist within the

DCD/DCW. As stated in the GAO report, the Defense Standard Disbursing System (DSDS) has been impacted because of the interrelationship between DCD/DCW and DPPS development.

Since the termination of DPPS, we have limited further investment in DSDS until a business case analysis is complete that evaluates alternative solutions and demonstrates return on investment and compliance with the Financial Management Enterprise Architecture. This includes incorporating the functionality, cost and schedule associated with the interfaces and crosswalks to provide a complete program cost and benefit as well as compliance with the Financial Management Enterprise Architecture.

The GAO review focused on oversight processes of the past and the history of the four programs I've just discussed. I don't believe the report adequately recognizes DFAS and Departmental efforts in the past two years to strengthen our oversight processes.

- The Financial Management Modernization Program is a significant department-wide effort to improve business operations, and one of the Secretary's top ten priorities.
- The DFAS Business Evolution (DBE), implemented in October 2000, established Business and Product Lines to better focus the workforce and make Business Line Executives accountable for performance.
- DFAS has clear mission, vision and goals, and in October 2001 we began using a Balanced Scorecard framework to monitor progress.
- To support the DBE structure, we reorganized our governance processes and established an Investment Review Board chaired by the Chief Information Officer (CIO) and the Business Integration Executive (BIE). This Council of senior

executives is responsible for reviewing business cases and recommending investments to a higher level review board, monitoring the progress of those investments, identifying corrective actions, and recommending appropriate milestone decisions in accordance with DoD policy and regulations, the Clinger Cohen Act, and the Financial Management Modernization Program.

- In July 2001, I chartered a Strategic Planning Steering Group (SPSG) as that higher level review board to ensure that our investments support our strategy, and are clearly linked to our budget. This group connects our internal process and the Department's new governance process.
- After an independent assessment, the SPSG recommended a Portfolio Management Process that became effective in October 2002. Portfolio Management is a structured process for aiding decision-makers in allocating and investing resources and balancing risk with a return on investment. Portfolio Management will ensure that all our investments are selected, controlled and evaluated based on how well they support the corporate strategy and goals. Further, the Portfolio Management Process is integrally linked to our budget process, the CIO/BIE Council investment oversight process, the SPSG and the Financial Management Modernization Program governance processes.
- Since 2000 we have emphasized positive education and certification requirements for Program Management staff. At that time, only one percent of our Program Management staff was acquisition certified. Today 81 percent of the staff has achieved certification. The Director of Systems Integration and the majority of Program Managers are Acquisition Level III certified in Program Management.

Many others are certified in other acquisition areas as well. In addition, we follow up with system and program managers with on-site System Life Cycle training on a recurring basis

- We have published step-by-step guidance on life cycle management tasks and investment review criteria and have made that information available throughout the agency. The CIO/BIE Council uses these established criteria to evaluate programs.

These activities were underway or at least planned prior to and independent of the GAO review and are consistent with best practices in the GAO's Information Technology Investment Model. We can readily concur with the GAO recommendations because we have done these things.

I assure you that the military and civilian employees of DFAS seek to provide the best stewardship of taxpayer dollars, the best service to our customers. They deserve nothing less. We have made great progress, and we are striving to do better. We will vigilantly monitor and continuously improve our investment oversight processes. That concludes my formal remarks. Ms. Audrey Davis, the DFAS Chief Information Officer, and I will be happy to answer your questions.

Mr. TURNER. Chairman Shays.

Mr. SHAYS. Thank you, Mr. Chairman.

Mr. TURNER. Since we have a limited number of people here, can we do a 10-minute round?

Mr. SHAYS. We can still do 10 minutes.

Mr. TURNER. Great.

Mr. SHAYS. This is to all of you, what oversight does the Office of the Comptroller provide to ensure IT projects stay within cost and on schedule?

Mr. LANDON. Sir, if I might address that question from the C3I perspective, what our office does is looks at more the acquisition process, because there is a great number of similarities between one program and another. You can look at the types of execution metrics that are required. Since taking on this responsibility, I have instituted quarterly reviews of each of the programs and program managers are responsible for submitting these metrics for us to review. The types of metrics we are looking at are established based on the baseline for the program, in other words, what are the expectations of the program. So we can look at a, for instance, for example, the schedule that the program manager has predicted, and see if his actual is equal to his predicted.

We are conducting these reviews quarterly, as I said, and we are getting more and more data and insight into the programs as we do that. And we share that with the Comptroller, of course, do that in conjunction with the Comptroller.

Mr. SHAYS. So the answer is you share all this information with the Comptroller?

Mr. LANTOS. Yes, sir.

Mr. SHAYS. And that is it?

Mr. LANTOS. No, sir.

Mr. SHAYS. So they have it, you send it over to them?

Mr. LANTOS. No, sir. What we do is we conduct the review jointly.

Mr. SHAYS. I am interested in what they do.

Mr. LANDON. It depends. When you look at the program, what you do ask you see how the metrics are being executed. If you see deviations, then we step back, we take a look at what is the root cause of the deviation, and then try to establish criteria for getting well.

If we do not see it, we ask the program manager or the agency, executive agent, to provide us with that data. But, in other words, we open that dialog in order to address the problem.

Mr. SHAYS. How about the chief financial officer?

Ms. BOUTELLE. What Mr. Landon was explaining to you is the process that we go through for reviewing the high dollar level items that we bring under a certain review, and then we have the rest of the systems which are the majority of the systems.

The process we go through in the Comptroller area for the high leveling systems he was talking about is we are a partner with him in that review, and are supposed to be questioning the costs and the performance of the development initiative.

Now, I cannot speak to what the Comptroller was doing for these systems prior to my arrival last summer, but I can tell you since then that we have an active person that is participating in doing

the reviews, and it was part of that effort that eventually led to DPPS being eliminated.

So, we have room for improvement there.

For the other systems, what we do, those are pretty much under the components review, and those we do review through the budget process, and we do question to a certain level on their budget execution, but not on the functionality and capability of systems through that process.

Mr. SHAYS. How would you characterize DOD's oversight of the DFAS business systems modernization effort?

Ms. BOUTELLE. I would say that what we are doing now is the right thing, that standing up the financial management modernization program and standing up the domain owners in the governance process and bringing the systems underneath different domain owners for review, and that would be all of the systems we have just gone through, doing an inventory of those systems and breaking them out by domain, which has never been done before. They have always been reviewed and controlled by the service or the component.

So, I think that what we are doing in that respect, we have setup reviews with DFAS for what we refer to as their D systems, the ones that were established to do corporate applications, so we have those scheduled. I think there is a lot more oversight going on now than there was in the past, and you will even see more as we mature through this domain governance process.

Mr. SHAYS. Anybody else?

Ms. DAVIS. Mr. Chairman, from the DFAS perspective, since the inception of the financial management modernization program in 2001, there has been a tremendous amount of oversight from the comptroller's staff and from the Financial Management Modernization program. Insofar as we received guidance in 2001 to constrain all of our investments in our systems that were enhancements to only focus on those critical changes to keep our systems operational so that we have actually been presenting our systems changes to the Comptroller, showing benefit costs, and they have been holding us to a return on investment of 18 months or less before we have gotten approval. So any enhancements to our systems beyond just maintaining them and keeping them operational to support our mission have actually been approved by the Comptroller.

Mr. SHAYS. Thank you for these answers, but why was the development of the DFAS corporate data base, corporate warehouse business system, allowed to proceed without the required economic analysis?

Ms. DAVIS. For the corporate data base and the corporate warehouse, while we did not do an economic analysis, what we did do however was a cost-benefit analysis, which included a return on investment. The reason we choose to do a cost-benefit analysis on the DCD in particular was because it is an infrastructure component. The benefits to using that infrastructure component really accrue to the applications that use it.

So, the economic analysis was not particularly appropriate, so we used the cost-benefit analysis. So when you see in the report that there was not an economic analysis, that is true, but we did do a cost-benefit analysis for the corporate data base.

Mr. SHAYS. I tend to expose my ignorance at times, but it helps me understand things. What would be the difference between an economic analysis versus a cost-benefit analysis?

Ms. DAVIS. The primary difference is in the economic analysis the benefits accrue to the application for which you are doing the economic analysis. Because we couldn't show other than qualitative benefits to the DCD, because it is being used by other applications. So when another application needs to use, for instance, an interface that is already built to an existing accounting system, that benefit really accrues to the application that is using that capability and not to the DCD.

It is like when you put in place a network, the network in and of itself doesn't provide—doesn't accrue any benefits, but everyone who uses it benefits from it.

Mr. SHAYS. I think it was a good answer, but I don't understand it. That is not your fault.

Ms. DAVIS. I apologize.

Mr. SHAYS. You don't need to apologize. I am going to think about what you said here.

What is the justification for the continuing investment in the corporate data base and the corporate warehouse system?

Ms. DAVIS. If I can try to help clarify a little bit, because it is along the same lines.

The corporate data base, for instance, the capabilities that it offers today, provides a single source of electronic funds transmission information so that all applications that need to transmit, to make a payment using electronic funds transmittals, come to the corporate data base to do that. So they don't have to build that or keep that information themselves. Well, the applications that pull that data, they are getting the benefit. The DCD, the corporate data base, is just a repository in that sense.

Also the corporate warehouse, which is an extension of the corporate data base, is being used to support special operations command as a part of their efforts to manage their financial information in support of the war.

Mr. BLOOM. That has been a tremendous success. In the past, special operations command had been getting information really from five or six different sources, and not being able to make heads or tails of that. By using the corporate data base and the corporate warehouse, they are now able, in a very short period of time, to get the kind of information they need to manage the special operations forces. General Holland has been particularly complimentary of the DCD for helping him do that.

Ms. DAVIS. So the simple answer to your question really is, Mr. Chairman, the need to continue investing in DCD and DCW really is as other applications need to use the capabilities it offers.

Mr. SHAYS. I know we have other Members here, so I will go a second round later. Thank you, Mr. Chairman.

Mr. TURNER. Thank you.

Mr. Kucinich, we are on a 10-minute round of questions.

Mr. KUCINICH. Thank you very much. Thank you, Mr. Chairman.

A question for Mr. Bloom: Last week the Department of Defense Inspector General issued a report that revealed the A–76 competi-

tion for the DFAS military and annuitant pay functions was erroneously awarded to the private contractor ACS.

Now, in your testimony, you state that you are proud of DFAS's success in reducing costs to the taxpayers. In fact, the in-house public team won the award by at least $31.8 million. The error began with Mevatec, the consultant hired by DFAS, to prepare the in-house bid, and was repeated by DFAS and the Department of Defense Inspector General. Only queries from my office led the Department of Defense Inspector General to find the error after the contract was awarded to ACS. As I understand it, the contract is for 10 years, but gets renewed every year.

Now, according to the Department of Defense Inspector General, DFAS, which you say is proud of its success in reducing costs to taxpayers, knew of the error of $31.8 million in June 2002. However, DFAS chose to renew the contract in January 2003.

Why, Mr. Bloom, did DFAS knowingly renew this contract, when the in-house team was $31 million cheaper?

Mr. BLOOM. The process, if we had chose to do a rebid, would have taken certainly longer than the 6 months that we would have had to rebid that. We were really left in a position—and while the IG let us know that there was a potential of this in June, frankly, it wasn't proven to me until July. So we really had no choice at that point, other than to renew the contract for another year.

As you mentioned, we do have the opportunity each year to decide whether we would and can or should renew the contract, and we will look at that and do the economic analysis each and every year before going forward with a renewal.

Mr. KUCINICH. So you are saying that you knew in July, and you nevertheless renewed the contract, even though you knew the other one was cheaper?

Mr. BLOOM. I had no choice at that point, sir. The only thing I could have done, we could only rebid the situation. It took us 2.5 years to do the first contract. There is no way we could have gotten this done in a 6-month period.

Mr. KUCINICH. There was no need to rebid though, because you could have returned it back to DFAS.

Mr. BLOOM. My lawyers tell me, sir, that is not legal to do that. That once the contract was extended, that is what we were doing.

Mr. KUCINICH. You are going to tell this committee and the American taxpayer, who you say you are here to protect that you knew the taxpayers were going to get hit for $31 million, and there was no need to rebid?

Mr. BLOOM. There may be a need to rebid. I am not saying there is not a need to rebid. I am saying there wasn't time to rebid. We will look at that contract each and every year.

Mr. KUCINICH. If you know the taxpayers are going to lose money on this contract, are you going to renew the contract in January 2004?

Mr. BLOOM. If it is proven that the taxpayers would indeed be better off, we will do the correct thing.

Mr. KUCINICH. Now, the A–76 competition process typically employs a 5-year contract period to make comparisons. That time period can only be changed if no bidder gains any advantage. However, ACS only won the competition in year 9 of the contract. By

extending the contract to 10 years, ACS clearly gained a competitive advantage.

Mr. Bloom, can you tell this committee why the competitive bid was modified in such a way that only benefited ACS.

Mr. BLOOM. It was not modified. The decision to go 10 years was made long before we knew there were going to be any bidders for the contract. So it is not correct that it was modified for ACS, to the benefit of the contractor.

We choose 10 years as the timeframe because it gives us an option. A 10-year option is always better than a 5-year option. I would always rather have a 10-year option, because we are the ones with the ability to have the option. So, you know, 10 years having a stable base of 10 years was really what is best for the government and clearly——

Mr. KUCINICH. Except in this case it wasn't.

Mr. BLOOM. I am not sure that is the case, sir.

Mr. KUCINICH. You have two scenarios here. One is the contract that was awarded erroneously, and the second case is the contract that was awarded when you didn't know there was an error. I am saying even when you didn't know there was an error, that it was only in year 9 that ACS was able to show any kind of success, and those numbers were wrong.

Mr. BLOOM. Well, that is how ACS chose to bid it, based on a 10 year comparison. We have no idea how they would have bid it had we made it a 5 year option, 6 year option or 7 year option.

Mr. KUCINICH. Let me ask you this: Are you aware of a certification by your office that no competitor would benefit from a contract of longer than 5 years? Are you aware of this?

Mr. BLOOM. Yes, I am aware. I think that was signed by a Mr. Carnes.

Mr. KUCINICH. Your name is printed on the line. What is his name?

Mr. BLOOM. Mr. Carnes was acting for me at that time.

Mr. KUCINICH. Why didn't you sign that certification?

Mr. BLOOM. I would have signed it. I must not have been in town at the time. I would have signed it had I been there.

Mr. KUCINICH. So you stand behind this certification?

Mr. BLOOM. I do. I do.

Mr. KUCINICH. Is Mr. Carnes with you now?

Mr. BLOOM. Mr. Carnes is no longer with the Department of Defense.

Mr. KUCINICH. Can you tell me how many A–76 competitions DFAS has performed?

Mr. BLOOM. I believe we have completed six. We have another one in the process right now.

Mr. KUCINICH. And how many of those resulted in a private bidder winning?

Mr. BLOOM. Only one.

Mr. KUCINICH. Now, DFAS has performed a total of eight A–76 competitions, is that correct?

Mr. BLOOM. I think it is six plus one, but I don't have the numbers.

Mr. KUCINICH. Until this one, all were won by the in-house public team, is that correct?

Mr. BLOOM. That is correct, yes.

Mr. KUCINICH. I assume you are aware of the President's desire to have many government functions be privatized?

Mr. BLOOM. I know what I have read, yes.

Mr. KUCINICH. OK. And consider DFAS's record of A–76 competitions not resulting in the stated goals of the President, have you ever indicated to anyone your desire to see DFAS lose a competition to a private bidder?

Mr. BLOOM. Absolutely not.

Mr. KUCINICH. Have any of your superiors ever communicated to you a desire to see the in-house bid lost in an A–76 process?

Mr. BLOOM. No.

Mr. KUCINICH. No further questions.

Mr. TURNER. Thank you. We have been joined by Adam Putnam, the chairman of the Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census. Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman. I ask unanimous consent to insert my written statement in the record in the appropriate place.

[The prepared statement of Hon. Adam H. Putnam follows:]

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY, INTERGOVERNMENTAL RELATIONS AND THE CENSUS

CONGRESSMAN ADAM PUTNAM, CHAIRMAN

March 31, 2003

Strengthening Oversight of DOD Business Systems Modernization

STATEMENT OF THE CHAIRMAN

Good afternoon.

Let me first say thank you to those here today from the Department of Defense for being here during this challenging period for our Nation. The thoughts and prayers of all of us go out to those in harm's way and we thank the men and women of the armed forces for their tireless efforts.

This is an appropriate hearing to be holding at this time. For the fiscal health of our Defense Department speaks directly to our ability as a Nation to be ready to face military conflicts. In the 70's and 80's the famous cost overruns in DOD involved hammers, toilet seats and military hardware. In the effort to tackle that problem, the IT end of the equation got severely neglected. The result was the loss of untold millions of dollars because of poor strategic planning, implementation, oversight and accountability.

A seven-year DFAS project terminated after $126 million is tax money down the drain, a $316 million investment in four projects that may not resolve the very financial management weaknesses that they were designed to address. That is just simply unacceptable. It is unacceptable to the Congress and unacceptable to the American people, whom, after all, are footing the bill.

These are the types of things that happen in Washington that make those people outside the beltway simply shake their heads and wonder exactly what is it we do here in D.C.

That being said, DOD is not the only negligent party at the table. After all, it is the Congress that continually writes the checks without full knowledge of how the money is being spent. Until Congress decides to get serious in holding DOD accountable for its poor and unwise spending habits, there is little or no chance that things will substantially improve.
I'm looking forward to being a partner-in-progress with the President and Defense Secretary in making real and substantive reforms. I know, they both take this issue very seriously and are working towards measurable improvement.

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Mr. PUTNAM. I read the GAO testimony. I apologize for missing the first panel. I read it over the weekend and on the flight up. You guys have frittered away more money than the GDP of a bunch of developing nations. It is troubling that we will consider a $74 billion supplemental this week on the heels of record funding for the Department of Defense for very important laudable goals, but it is troubling to see how much waste there truly is, and just how big those figures are.

One of OMB's IT program performance goals, and that is where I am really coming from as chairman of the Subcommittee on Technology, one of OMB's IT program performance goals is that on average, all major IT modernization projects are operating within 90 percent of their cost schedule and performance projects.

How many IT modernization projects does DOD have and how many are within that 90 percent range?

Mr. LANDON. Sir, I would like to give you a number right now, but if I could, I would like to take that one for the record and I can provide it to you more accurately.

Mr. PUTNAM. I look forward to that.

Could you identify the major projects off the top of your head that are not achieving the 90 percent goal, along with any cost overruns or schedule slippages and the corrective actions that are being taken. Do any leap to your mind?

Mr. LANDON. Yes, sir. I can name a few. In fact, for instance, the program, DFAS program we have spoken to earlier, DPPS, has been terminated because it was approximately 50 percent over cost.

There are other programs that we are taking steps to either truncate or have redefined. Some of these are the Standard Procurement System, which is being truncated. By that I mean the development is, we are seizing the development until we can start a redefinition process of what the real goals and requirements of that program are.

There are others, the JCALS program, JDAS program, that are also major developments that were over cost and have been—I don't want to say terminated, but they have been put into what I would call a maintenance status or sustainment status until we can work out the issues with the program and make sure it is defined properly.

Mr. PUTNAM. Could you just briefly elaborate on what JDAS and JCALS stand for, for the record?

Mr. LANDON. Yes, sir. The JCALS program is really a program that was automated tech order program. In other words, a digitized tech order program for common—it was a logistics program for common data among the various services and users that use common information.

JDAS, I am sorry, you are going to——

Mr. PUTNAM. I am glad to see you guys get mired down in your own acronyms too. I thought it was just Congressmen that couldn't keep them all straight.

Mr. LANDON. Let's see here, I mentioned the defense message, I did not mention defense messaging system, which is a program for digitizing messaging. We have asked that be redefined in that it applies to a new architecture based on enterprise services. So that

has been an ongoing program for a number of years, and it is at this point we are redefining the program.

Also there is a program called TCAIMS, Transportation Coordinators Automated Information for Movement System. This is a system that service is used to provide information on movements of equipment.

Mr. PUTNAM. That is an example of a program that has been terminated?

Mr. LANDON. No, sir, that has not been terminated. It is being reevaluated simply because it has—the initial stages of that program were not developed in an incremental fashion and what we have done is we have gone back to look at the deliverables, and what is a better way of introducing that capability for each of the services. So it is being reevaluated at this time.

Mr. PUTNAM. The DPPS system that has been eliminated, we have lost money that was sunk into that, but we are also back to square one. So what is the current status quo, how many procurement systems are now back out there because the one whose goal to unify it has been terminated? Where are we now with regards to that?

Mr. LANDON. I will defer to Mr. Bloom for that.

Mr. BLOOM. DPPS was a procurement payment system, and so we have to continue to maintain the legacy systems that we had. I think is that seven——

Ms. DAVIS. There would be eight.

Mr. BLOOM. Eight legacy systems.

Mr. PUTNAM. If you would, I know that you wanted to respond in writing, if you could get us that listing of those major projects not achieving the 90 percent goal, along with cost overruns, schedule slippages and planned corrective actions.

In December of last year, the DOD Comptroller terminated DPPS. They noted that, as you have said, it was being terminated due to poor program performance and cost overruns. Do we have anything to show for the $126 million that was spent on that program and who, if anyone, was held responsible for that program and the failure of that program?

Mr. BLOOM. Well, let me start off, I guess, by answering the question. There is probably little measurable meaningful asset left out of that $126 million. There may be certainly lots of lessons learned, but no meaningful asset there.

I am the Director of DFAS, so I am ultimately accountable for that failure.

DPPS, I guess to get biblical on you, was really a system that the foundation was built on sand instead of built on rock. When it was designed, when the thought was brought forward many, many years ago, long before either Ms. Davis or I were there, they made some assumptions that were just incorrect assumptions, and so when we built a system based on a foundation where we thought that we could get the whole Department to work under one standard, to work under one system, that was not going to be achievable.

We built it on a foundation thinking we could use an off-the-shelf product. We bought the off-the-shelf product and found in order to accommodate the different business processes, the different business practices, we were going to have to modify that, not the 30

percent that we had originally hoped, but 70 percent was ultimately where we ended up.

Then ultimately it turned out the program took so long, that as we worked on the architecture, the overarching architecture that we have talked about here, we realized that it just wasn't going to fit in the architecture.

One of the things that the GAO report, at least the draft I saw, failed to mention, was that I believe the most important reason DPPS was killed is that it just wasn't going to fit into that overall architecture, the new architecture that we should have had, that foundation we should have had, before we started such a project.

Mr. PUTNAM. Let me drop back to 40,000 feet for just a second, because I know that you go to work every day and are doing absolutely the best that you can for the men and women out there who are dependent upon these logistics and the information and all the things that go into these IT systems and the logistics systems and the procurement programs and all that.

The track record of DOD on business management is horrendous, under any kind of administration, and we keep writing you the checks to continue buying new systems, adding on to systems. There really hasn't been much accountability from our end either.

What do you think the solution is? If you could take a blank piece of paper and a fresh sharp pencil, knowing how frustrated you must be to have to sit there and answer for losing billions of dollars, what is the answer, in your opinion?

Mr. BLOOM. Well, I think that we have hit upon the answer, and we are working hard for that answer, which is having the overall architecture, the enterprise architecture that the Office of Comptroller has been working on for the last year.

Having that architecture and having the executive support, the support of the Secretary, the support of the secretaries of the services and the support of the under- secretaries to make that happen, I think we are moving toward that. So if I could start with a blank piece of paper, that certainly is how I would start. We talk about it as a blueprint. I guess you could call it a blueprint. I think it is a foundation or rock that you have and you can go back to, and that you have the correct oversight, the kind of oversight we have talked about here.

Ms. BOUTELLE. If I can expand on that, I came from an operational environment coming in to the Comptroller, and what we are doing with the enterprise architecture is exactly what we need. We are for once stopping and getting the support to build business processes, and we have brought together the business line owners and we have formed a governance group. It is tough, I don't mean to imply that this change is easy, but for the first time we are actually looking at defining end to end processes and making that, the rule book along with the data elements we are going to use, what management information, the decisionmakers need, capturing that and having that as our blueprint to move ahead.

In the past what we had, and DPPS is one example, we attempt to adhere to Clinger-Cohen, but we only do pieces of it. So we went out and bought commercial off-the-shelf products, but we didn't do business reengineering. So what we did was we attempted to customize the cuts, very costly, and then to think about upgrading it

would have been just something that none of us, I think, could stomach.

So where we are now, it is doing the business process re-engineering first, coming up with as many commercial business practices as we can, and then looking for a technical solution to support those business requirements. But it is not decomposing a process down to be a DOD process. That is not what we are doing.

So I think where we are at now is exactly where we needed to be. We have just not had this type of support in the past to do this.

Mr. PUTNAM. Thank you.

Mr. TURNER. Mr. Ruppersberger of Maryland.

Mr. RUPPERSBERGER. Mr. Bloom, I came late, but when you asked the question Congressman Kucinich asked about the contract, where there was a breach in the contract, but if you didn't move forward with the contract, it would have taken a year or two for you to get someone else, so which means there would have been a lack of performance. Is that basically what your testimony was? That is how I interpret it.

Mr. BLOOM. I am not sure I understand your question.

Mr. RUPPERSBERGER. The question about the issue of when there was a breach in the contract, the lack of performance, and why did you go ahead and continue to move on with that contract, you said if you would have had gone to rebid it, would have taken 2½ years to get to where you needed to be.

Mr. BLOOM. No, there was no breach in the contract. What actually happened was there was a mistake made in evaluating the two bids, and so the award went to a contractor instead of staying in-house, so the work went to the contractor. The people, by the way, the contractor hired any and all people that wanted to go to work there, all the government employees who wanted to work for the contractor went to work for the contractor.

Many of them retired, took the buyout. So putting it all back together certainly would have taken more than a year, certainly more than the 6 months. I would suggest it might have taken more than a year, a year and a half to put it all back together. But the fact of the matter is the lawyers tell me we actually, that the contract signed, it is a valid contract. We have the option to terminate, but we would have to have a new bidding process in order to get—in order to move back.

Mr. RUPPERSBERGER. I understand that. Really, it is almost a culture that we have, and because we deal in government and we have the bidding processes, sometimes maybe our contracts do not have the protections that we need so that we have to go back to that process. Especially now, while we are at war, we need to perform. So it is an operation versus an efficiency.

What would you in the scenario you talked about, because what we try to do here in Government Reform is investigate, ask questions, but hopefully by doing this, we will come to a bottom line where we can try to at least determine what would be more efficient.

Sitting in your position, what would you recommend that could be done to avoid this type of situation that you talked about so we don't get to that position? Because reading through the GAO report, there are a lot of issues you have to deal with here. It starts

at the top. You know, we are not here to criticize, we are here to try to look at government reform, so-to-speak, to see what you can do better.

In your position on that specific scenario, what would you have done ahead of time if you could to make the contract in a situation where we wouldn't have been put in that position to continue to move out and using taxpayers' money that maybe we could have saved in another way?

Mr. BLOOM. Actually, the system is probably pretty good. It just didn't work. This was a situation where we didn't have the competency in house to do the evaluation. We hired a contractor to help us, an independent contractor, to help us. Under the system, the IG comes in and essentially redoes it to certify that what we have done was correct.

So not only was an error made to begin with, there was an error made in the certification. This was just two errors being made. I am not sure you should build a system where you have to check it a third time. I think while everybody tried to do the right thing, there were just two significant errors made.

Mr. RUPPERSBERGER. Reading the notes throughout the weekend and what we have here, there seems to be a lot of issues generally, and what we are talking about here today. I think there has to be more focus on why there is a problem, what GAO says and what the plan to fix that. There has to be a change in thinking about the accountability issue, and not just talking about we have to perform, which we do. We need to perform, and we need to move forward.

I only have a couple of seconds to go, I see the light. I am not going to be able to develop this much further. But my point is these are serious issues that have to be dealt with. We want our Department of Defense to be extremely strong. But it is a management issue. It is an accountability issue. It is going to take some time to fix it, but it has to be done.

Mr. TURNER. Thank you. In the previous testimony from GAO, they talked in terms of the problems of oversight of these projects being an issue of effort, and they talked in terms of it being at all levels; in the inception of the projects; with those projects that were approved; evaluating whether a project should go forward, the design or system construction process as a result of shifting needs; or perhaps lack of oversight in the products that are being undertaken; and then implementation, their utilization of the lack of buying in.

I certainly understand and appreciate your efforts to look at the oversight function, making certain that people are doing their job and making certain the projects are doing their job. But I wonder to what extent the current system of acquisition, the process itself and not just individuals that are not adequately reviewing processes you have in place, could be hampering the ability of the Department to get efficient and effective systems, and what your thoughts are on this?

In my opening comments, I was relating that in the private sector, they indicate that they start with not what system they want designed, but what questions do they want answered, what need do they have in the IT arena, and then work in partnership with an

IT provider who actually then provides the solution. Where it seems many times in the government acquisition process for IT, that the overspecification of the system itself might provide lack of flexibility, lack of partnership, and lack of some of the give and take that you might find in the oversight communication process.

Ms. BOUTELLE. You are absolutely right. Today what we do is we define it down to the how that we want, so that we end up with systems that don't always deliver what we meant to say.

We have those communication problems, I guess. But what we are doing on the architecture is we are following best commercial practices. We are defining the architecture down again to a level where it is very clear on what the different types of functionality would be that require, but it doesn't go down to the how do you make it happen. So it doesn't take it down to the desktop. So it stops at a higher level, and then from there we will be making acquisition decisions on what the right technology should be, if that helps.

Mr. TURNER. Yes. In talking about functionality, I know many times in IT projects, when you take a survey of what people would like to see in a system, you get an array of different options. Some of them are: "I have got to have," and some of them are "I would like to see this."

Ms. Davis, you were talking about the issue of cost-benefit analysis of the economics. Does your process pursue an option cost so you actually get breakouts to understand what the additional functionality might be so that when you are making these funding decisions, you are not making it just in one whole bulk, but that people can actually see if there are items that might be causing your project financially to go astray?

Ms. DAVIS. Yes. Initially, we do look at alternatives and do an analysis of alternatives before proceeding. I think you are correct in terms of our processes, they, to some extent, limit us. The Department has a very structured development acquisition process for acquiring technology. It was really designed for major weapons systems development, which is very complex, and then we try to apply it to the development of business systems, and then now we have moved beyond trying to develop our own business systems, and we are trying to acquire off-the-shelf capabilities and trying to apply that same acquisition process. It just doesn't fit well.

Over the years, there have been improvements made to that acquisition process, but we will do well to learn from what industry is doing in terms of how they are buying more off-the-shelf capabilities rather than building them.

Mr. TURNER. That takes me to my next area of interest, which is the financial management modernization program. One of the questions I asked the GAO representatives and panel members is to what extent do they have the authority that is going to be necessary for this change? Have they been given enough authority to effectuate the change both at the inception, the design of the system, the construction phase, also the implementation or buy-in phase?

Ms. BOUTELLE. I think that is up equivocally the answer is yes, they have been given the authority. Secretary Rumsfeld expects us to make this happen, and he has charged his senior management

officials with the responsibility. They have taken the responsibility as the domain owners, business line owners, to have that type of a governance process put in place to where we are managing across the Department the business processes and determining what those business rules will be.

The review of the funding of the legacy systems that are out there and what needs to be funded, as opposed to maintained, until we bring on the technical solution for the architecture, will be reviewed by the domain owners and will have to be approved before that goes into the budget.

So, the processes are in place to give them the authority that they need, and they certainly I think have all stepped up to embrace this.

It is something we are really excited about. Like I said earlier, we have never had this opportunity before to do it the right way. People are getting very excited about that now. Again, I don't want to make you think this is going to be easy, because, again, like I said, we have just done the inventory of the 2000 systems and breaking them out by the domain, so it is going to be a lot of tough work, but I think we do have the authority to make the decisions.

Mr. TURNER. Does that include addressing issues? Ms. Davis pointed out about some of the processes themselves in acquisition of weapons systems versus IT.

Ms. BOUTELLE. Yes. We are going to use, going into the process, the current regulation that Mr. Landon had talked briefly about. We are going to use that to manage by. But where it makes sense to change, we are going to change it.

Ms. DAVIS. Mr. Chairman, if I could add to that, having an enterprise architecture will actually allow us to do the more modular and incremental development, because the plan will be there and we will be able to determine whether or not the solutions actually fit in with that.

Mr. TURNER. Thank you.

Going then to a second round of questions, Mr. Chairman, do you have additional questions or comments?

Mr. SHAYS. Thank you very much. I am looking at the title of GAO's remarks, and it is called, "Long-standing Management and Oversight Weaknesses Continue to Put Investments at Risk," and the title of their document that we have been talking about is called, "DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to Be Justified."

On page 18 of this document, I want to just come back to the whole issue of DFAS and the economic analysis. As I view your description of economic analysis, Ms. Davis, what I got from it was that somehow in economic analysis, you have to justify it within the stovepipe and your cost-benefit. You can go out and say we can do good things here, here, here and here, and the costs are this and the benefits are this, therefore it is a positive. That is how I sorted out what you are telling me, what probably is not accurate.

Let me just read you what they said, and then just get your response.

They basically said on page 18, a key piece of information, the economical analysis, was never completed for the DCD/DCW project. In May 2000, the Director of DFAS granted approval to

continue with development of DCD with a condition that a cost-benefit analysis be completed by June 2000. DFAS completed a draft cost-benefit analysis for DCD in October 2000. This document was not finalized, and in November 2000, DCD/DCW were combined into one program.

Since that time DCD/DCW has continued without a valid, well-supported economic justification to support continued investments in DCD/DCW. DCD project management officials stated that the economic analysis has not been finalized because they were unable to agree on how to compute the return on investment and demonstrate that benefits exceeded costs. That to me is—I mean, what they suggest is that even the cost/benefit wasn't done.

Ms. DAVIS. The cost/benefit was actually done, and we provided a copy of that to GAO.

Mr. SHAYS. For the combined programs?

Ms. DAVIS. Not for the combined program. For DCD.

Mr. SHAYS. So what about the combined programs?

Ms. DAVIS. The combined programs we are in the process of completing an economic analysis for that, for the combined programs. Right now we've taken a step back. Because of the termination of DPPS and the interrelationship that the DCD and DCW have with DPPS, we're relooking at strategy for DCD/DCW and working with our oversight authorities from C–3I and the comptroller to determine how much additional investment we need to make in that.

Mr. SHAYS. Mr. Landon, you had—I had written down—I'm not sure I can get what I wrote down, but it sounded like Yogi Berra to me. Or it may have been you, Mr. Bloom. I'm not sure who.

Mr. BLOOM. I love Yogi Berra.

Mr. SHAYS. Yes. It was the program really works well, but it just—you said the program is really a good program, but it just doesn't work. That was kind of your quote. Which one of you was that? Do you remember that quote?

Mr. BLOOM. I can't take——

Mr. SHAYS. Someone said that, and I would have loved to have jumped at that time. So it's rather unfair to you. Neither one wants to take ownership of that statement?

Mr. LANDON. It wasn't my comment, sir.

Mr. SHAYS. It was your comment.

Mr. LANDON. No, it was not.

Mr. SHAYS. OK. Was it the gentleman to your left?

OK. Do you remember in what context you were making that?

Ms. BOUTELLE. Oh, I do. It was that the A–76 process itself wasn't broken. It was when you were addressing that the breach of contract——

Mr. BLOOM. Oh. It had to do with——

Mr. SHAYS. I honestly do think Yogi Berra is kind of brilliant. I do. But it did strike me as kind of fun.

Mr. BLOOM. No. We were telling you about the A–76. You know, the process probably works, it just didn't work in this case. I did say that.

Mr. SHAYS. OK. I wanted to get you to qualify it.

The bottom line, this is not a new story what we're hearing here. I want you to, each of you, to tell me in our meeting with the Appropriations Committee what should we be asking them to do to

get our information systems to work better? One of the suggestions clearly is that we have, you know, a strong centralized management that has—extends beyond the Presidential term, that is not a political appointee with some—but, you know, with the clout of being able to say no and yes. What would you all be suggesting?

Ms. BOUTELLE. Well, there's a couple of things that have already been requested of us, and I think these are excellent requests. And it's—one is that we deliver the architecture that we said we were going to deliver, that Team IBM will be delivering the end of April, 1st of May, and then that we deliver a transition plan that shows how we get from the "as is" to the "to be."

Now, that will be at a high level because we don't know where we're going yet. We don't know what the technical solution will be. But I think that they need to ask us to continue to give them updates on our progress on the architecture and the implementation, and that we perhaps even give them updates on the systems that we have reviewed. Again, we go back to that inventory that the GAO showed, and it's really close to 2000 now, that we're not going to do the review of that inventory overnight, but we should be breaking that by high-dollar systems and taking the high-dollar systems first, and we should be able to report to them how many we have inventoried and done the reviews on, and compared to the architecture.

So I think those are valid things for them to ask us to manage or to monitor our progress toward controlling the IT investments, and that we're not investing in the future for anything that doesn't comply with the architecture unless there's a good business case to support it.

Mr. LANDON. Yes, sir. I think Ms. Boutelle has the key, which is, in my mind, the fact that we have to establish architectures that programs understand they build to. If you set the standards, then you are more likely to, in turn, get the desired result that you want. We're doing this with the financial management enterprise architecture, other architectures, and we are really not in a good position to say we have very many, but the global information grid is another key architecture that's been established. It is into version 2 at this time. But it is really a key about how we move information within the Department of Defense and even outside the Department.

Mr. SHAYS. Are any of you political appointees, or are you long-term employees?

Mr. LANDON. No, sir.

Mr. SHAYS. OK. So the answer is no for all of you. So you really can't speak on a policy issue, I gather. So asking you about the benefit, the cost/benefit of the chief—asking you for an economic analysis of chief management officer, you're not really in a position to suggest whether there's logic to that or not. The earlier panel—I have been a little facetious here. It's Monday, but the earlier panel said almost without any hesitation that if you really want to come to grips with some of our IT problems in general, we need a chief management officer who is, you know, in a position of tremendous power, but has some longevity and so on. And is that a recommendation you are comfortable responding on? Any of you.

Mr. LANDON. Sir, I'd like to make a comment, I guess, in terms of the structure of the Department. I've always viewed the Deputy Secretary as our chief management officer, and he is responsible to a large part for running the day-to-day business of the Department.

Mr. SHAYS. Great. But in a sense, though, the Secretary of Defense is your—obviously in my judgment, the chairman of the board runs—the person, the chief executive officer, it seems, strikes me as your Deputy in all your Defense departments, but shouldn't there be a part that's broken up, given the gigantic size of this Department? And shouldn't there be some continuity, because isn't the Deputy someone who basically comes and goes with whomever is the new President?

So you have really almost answered my question without even having to. The answer, it seems to me, is yes, and the reason it's yes is because that key position of running the government, that person leaves.

Mr. LANDON. Yes, sir.

Mr. SHAYS. OK. So that was very astute of you.

Mr. LANDON. I think, though, actually the Department—and I think Ms. Boutelle may be able to talk to you more about this, but the establishment of the SEC, or the Senior Executive Committee, by the Department was put in place to look at business processes, and I think that may be a step toward what you're asking.

Mr. SHAYS. OK. Mr. Chairman, thank you very much. I'm all set. Thank you. I thank all of our witnesses. I do know, though, before we leave, Mr. Chairman, the second round, I don't know if it would make—I do think it would make sense just to have GAO make comments of what they've heard before we adjourned.

Mr. TURNER. Mr. Ruppersberger.

Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman. Just to pick up very briefly where Chairman Shays left off, I was operating on the understanding that they were all political appointees as well. Since they are not, I would ask how long each of you have been in your current position.

Ms. BOUTELLE. I have been the Deputy CFO since the end of July 2002.

Mr. PUTNAM. Mr. Landon.

Mr. LANDON. Sir, in the acquisition oversight role it's been several organizations, but it's been approximately the last 7 years.

Mr. PUTNAM. Mr. Bloom.

Mr. BLOOM. I have been the Director at DFAS since late May 1999.

Ms. DAVIS. And I've been the DFAS Chief Information Officer since January 2001.

Mr. PUTNAM. Thank you.

As DOD moves forward to implement this enterprise architecture that we discussed when I had my last opportunity, it's my understanding that the governance structure that you envision to control the investments in IT will have multiple boards to effectively oversee the different IT projects. Have you developed some kind of uniform criteria to be used by each board so that they're operating on the same page? And do you have that standardized criteria in place?

Ms. BOUTELLE. We're in the process of putting that entire structure in place. We're working with Team IBM to help us define criteria, and we're using the domain owners as we're going through the process of establishing these governance rules. So we're making progress, but it's not defined and in place yet because again, it's a new concept for us.

Mr. PUTNAM. When do you expect it'll be in place?

Ms. BOUTELLE. I expect that you will see benefits from the investment review process this year, this fiscal year. Will it be perfect? No. We will have some criteria. We will have some guidance for how the domain owners should go about doing the different levels of reviews, and we'll go through the first round of reviews of them taking their inventory, again going through high-dollar systems until they eventually work through that inventory. But I expect that we will have something in place and that we will have done part of the reviews this fiscal year.

Mr. PUTNAM. Will you use the OMB criteria that is part of the e-gov initiative and the President's management initiative? Will they be your model for making the business case for any IT investment?

Ms. BOUTELLE. You know—it will be a requirement to make a business case. It will be a requirement—these are the ones that I know we've talked about, and that's why I feel comfortable saying that these, I'm pretty sure, will come out in the end; that there'll have to be a business case that will show a return on investment at some period in time based on the scenario of what makes sense. It will have to comply with the architecture. We're going to limit the number of interfaces and extensions, cut reports and things that—an initiative that's ongoing, we would allow it to have, because, remember, we want to stay back with the commercial system as much as possible and not customize it.

So there is a group of criteria that we're working through that much of it, I would suspect, would conform with what the Federal enterprise architecture folks are doing.

Mr. PUTNAM. Are you familiar with that?

Ms. BOUTELLE. Not in details on what they're doing. I'm familiar with some of the initiatives that they have going on.

Mr. PUTNAM. And will all of you hold them accountable to making those business cases and staying on time and on budget? I mean, that's part of the GAO report also, that it keeps getting waived. And I assume that you're the people who make that decision; is that correct?

Ms. BOUTELLE. In some cases, as the Director of DFAS said, that is correct, and we will do a better job of holding folks to those numbers.

Ms. BOUTELLE. I think it's the process that we put in place that's going to force the controls, and that we have criteria defined to where it's—removes more of the subjectivity from the decision-making process to where there are certain things that we are looking for, and they must be there. You know, I've often said that we know on our stock portfolios when to fold, but we don't know when to draw the line on the system investment. We need more defined criteria, and that's what we're working to put in place.

Mr. PUTNAM. I know that the Pentagon is big, and I know that it's unwieldy, and I know that it is slow, and I know that it's difficult to institute change, and GAO actually specifically cited that, that a lot of these issues are human challenges as much as they are technical challenges. But Wal-Mart is big, too, and we heard testimony last week that you could go to Bentonville, AR, and they can tell you how many tubes of toothpaste are in their Tyson's Corner shop, and yet we buy F–16 parts without any regard to who else in the neighborhood might have the same exact F–16 part that we could borrow.

And so it is somewhat frustrating that we always set government aside as being an exception, that government can't follow these same procedures, they can't make the same business case because they're different, they're unique, they have separate issues to deal with. And to an extent that's true, but it's less and less true, and it becomes more difficult, I think, to defend that position when you see Fortune 100, Fortune 50 companies that are able to successfully implement these emerging technologies for information technology and logistics and financial management.

The President's 2004 budget notes that, No. 1, very few IT investments have significantly improved mission performance, few agencies have plans demonstrating and documenting the linkage between IT capabilities and business needs, and that many major IT projects do not meet cost schedule and performance goals. How many IT investment projects do you have under way? And given that a lot of them fall into those three categories that the President mentioned, what process do you have in place to give us some reasonable assurance that the system projects that will be part of the enterprise architecture will not suffer the same fate?

Ms. BOUTELLE. Part of what we're putting in place for the architecture is to do the linkage with the strategic plan that has not been done in the past, just as you mentioned, to where we had not tied the systems back to what the strategy is. So one of the things that we have Team IBM working for us is actually to help us lay in place how to do that linking so that we start at the top of the Department with the strategy, and we link down through the Department and through the business lines so that we know what we're doing, actually goes back and supports the goals and objectives of the Department. So that is a process that we are working on and going to put in place.

Mr. PUTNAM. How long is Team IBM's contract for?

Ms. BOUTELLE. We have four 1-year options.

Mr. PUTNAM. And what was the size of that contract?

Ms. BOUTELLE. What is the dollar amount of the contract? It's $95 million.

Mr. PUTNAM. Per year?

Ms. BOUTELLE. That is per year, right? The BPA is $95 million, 5 years.

Mr. PUTNAM. At what point, you know, getting back to this issue of the criteria that you're working on for governance and the standardization of that criteria, at what point can we hold another subcommittee hearing and you could provide us that criteria?

Ms. BOUTELLE. I would say you could hold one in 6 months, and we could give you the criteria that we are using. I would say you

could hold one 6 months after that, and we could give you improved criteria; and 6 months after that, and it would even be better. Again, we are in an infantile state here. We have never done investment review boards. We have never gone through this process, so it is a learning process for us. And I think, you know, even GAO acknowledges in their different stages that one goes through in developing this type of an investment review process that it's a growing process.

Mr. PUTNAM. What about the human side of this? Who are your counterparts in human resources or personnel, and how are you all connecting to make sure that the culture changes, that the people are better trained, that they are better informed to make contracting and outsourcing decisions and procurement decisions? What's going on in that regard?

Ms. BOUTELLE. You know, when we met with IBM officials—because, remember, we hired Team IBM because IBM had done this transformation to themself—and we just met with them again a couple of weeks ago, talked, and some of their senior folks said, you know, the hardest thing we did was the change management portion of this. Coming up with the business rules and figuring out how to run the business was not nearly as difficult. And the Department of Defense being so much larger, it is going to be so much harder, and we're aware of that.

Our plan is that because we now have this business line domain focus is that we will be working those issues across the domains. However, we need an overall change management strategy that ensures that we are starting with a message from the top, and that this is being sent down throughout the Department of Defense to all levels, and it's made at a level to where the individual that's receiving the message understand why it's important to them that we implement architecture.

So again, you know, we don't underestimate the difficulty of this. This change management is probably going to be without a doubt the hardest part of implementing this architecture.

Mr. PUTNAM. Thank you.

Thank you, Mr. Chairman.

Mr. TURNER. Chairman Putnam was talking about the issue of accountability, and I just wonder, in looking at the information that we have, and talking about the corporate information management program, that in 1989 the Department of Defense began the same program with the intent to implement the standard systems across DOD. We've discussed this several times in this hearing, and after 8 years and an investment of $20 billion, the effort was abandoned.

Looking at the issue of accountability, what accountability occurred as a result of that project losing $20 billion? In the private sector it wouldn't take the loss of $20 billion for there to be issues of someone's performance being held accountable, but during this hearing, as we discuss the Department of Defense or a program or a process, really loses the context of there are individuals that have responsibility. Could you tell me a little bit about that program, when it was canceled, or what did occur on the issue of accountability?

Mr. LANDON. I really am unable to speak to this program. I was not involved with it, and I'm afraid I have no background. Perhaps one of the others could, but we could try to get you that information.

Mr. TURNER. I would appreciate that, because one of the issues, you can create all the systems and process and all the great intentions, but if there is no way of enforcement of accountability, you're going to again have another project with cost overruns and other issues where we're referring abstractly about the Department of Defense or processes instead of the actual performance of individuals.

And that leads me to the issue of looking at individuals, of whistleblowers or individuals who have information or advice, and programs or projects that need to be curtailed or impacted. What processes do you have in place for someone to go outside of the chain of command to raise the flag if there's a problem with a program or project in efforts to try to save money?

Mr. LANDON. At first blush I would say that one that comes to mind for me is the DOD hotline. This is a program that protects the individual, allows them to report abuses, and then provides an objective investigator to go look and see if those are, in fact, valid. It is the one that I am most familiar with. However, I think, on the other side, what we are trying to establish is an atmosphere where program managers feel free to be able to reveal problems they're running into.

You know, none of these individuals do this on their own. They have the best intentions when they are given a program to manage. What we are trying to do is establish that atmosphere where they're able to come forward and say that they have problems in developing their program or need guidance or whatever else, and do that so that people don't feel like they have to do it under the cover of darkness.

Mr. BLOOM. At DFAS, we have all the traditional ways, but we also have a couple of additional things. We've established something called Rumor Has It, which you can submit something to me directly with total anonymity if you so choose, so if there's a rumor or a situation that you want to bring to my attention, and you don't want your name out there, you can send it through this Rumor Has It. Of course, everyone has my e-mail address, and there's not as much anonymity there, but they can send me an e-mail, and, frankly, I'll take phone calls from any DFAS employee that has something to say to me. Even though we've got over 16,000, you know, I try to make the environment as open as it can be.

Mr. TURNER. Are there any additional questions?

Mr. PUTNAM. Very briefly, if I may.

How frequently is that being used?

Mr. BLOOM. Rumor Has It? I get at least one rumor every day. So I was on vacation last week. I came back, there were 19 for me to answer. By the way, I will answer those questions, the ones that aren't redundant and the ones that are. I've actually got a Web site that I send out an answer to, but people use it every day.

Mr. PUTNAM. Thank you.

Mr. TURNER. Mr. Ruppersberger. No questions?

I thank you.

Are there any additional comments or statements that you wish to include in the record? No?

Well, Chairman Shays had said that before he left, he wanted to give an opportunity for the—oh, I'm sorry. Mr. Platts is here. Do you have any questions?

Mr. PLATTS. Thank you, Mr. Chairman. My apologies for the late arrival. No questions. Look forward to reviewing the testimony and working with various subcommittees on Government Reform on the issue of financial accountability and oversight. Thank you.

Mr. TURNER. Thank you.

Chairman Shays, before his departure, had indicated that he wanted to give the representatives from GAO an additional opportunity to respond or add information to the record if they desired, so at this time I'll inquire as to whether or not you would like to take the table and to give us some additional information as a result of what you have heard.

OK. I want to thank all of our panelists on the second panel. I will remind both of you that the oath that you took in the proceeding testimony you provided would continue through these comments.

Mr. KUTZ. Just a couple of things I want to mention, because some of you were not here when we gave our testimony earlier, but Chairman Shays had talked about the bringing on a Deputy for Management or Deputy Secretary for Management. That would be someone that would deal not only with the issues of the information technology, but would be an integrator basically for all of the areas such as acquisition, logistics, financial management, etc. So that concept is broader than the IT. And if you look at our high-risk series that was issued, DOD actually has eight areas on the high-risk list for GAO, so it would be someone who could integrate all of those various management challenges together.

The other thing I think that would be useful, I know you talked about it, and Chairman Shays talked about contacting the Appropriations Committee. Back in the mid-1990's, the Internal Revenue Service, you may recall, had failure with the tax system modernization, where they spent $3 or $4 billion and had very little to show for it. One of the things that they put in place with respect to that was centralized funding from an appropriations standpoint into an investment management account that the Congress controlled very tightly. That's something that you may want to look at here.

Right now, with respect to IT investment, the money for DOD is all over the place. There's money being appropriated and used; not only appropriations, but also working capital funds are using money also. So one thing that would be worth looking into is sharing with or talking to some of the Appropriations Committee folks that have dealt with the Internal Revenue Service, Customs and others, who followed that model.

One other point with respect to the architecture and the architectural effort that they're doing is the right effort. It's a good effort. They've make a good attempt, and they've made good progress so far, but that alone does not really solve necessarily the issue of project management that we've talked about here today. These four individual projects. You could have an architecture that's been done properly, etc., but if these four projects are not coming in

within cost, schedule, and promised capabilities, that is basically building out the blueprint. You have the blueprint, and you have building out the blueprint. They need to put in place effective controls over investments.

So as Chairman Putnam asked them for the answer to how many projects were within the 90 percent, it will be interesting to see what the answer is, because we haven't seen a lot of success stories in the IT management area here. And again, we appreciate working with both of these subcommittees on these issues, and the DOD has been very good to work with, and I believe, again, that the people there are working very hard. They're trying to do the right thing, and they have made some progress, but, again, we're going from a situation of uncontrolled proliferation of systems to a situation hopefully of strong control over the IT systems at DOD.

Mr. SMITH. Mr. Shays, before he left, raised the question about the DCD/DCW cost/benefit economic analysis. The one thing I'd like to clarify that Ms. Davis did address is that within our final report, we did revise the report based on comments that came back from DOD to say that there was a cost/benefit analysis. What we were provided was as of October. It was a draft document, and it was only for the DCD. The report now goes on to say we have yet to see any type of justification done for the DCD/DCW, and the report was revised based on DOD's comments. We did clarify that in our final report.

Mr. TURNER. Thank you.

Do any members of the committee have any questions of the panelists?

Mr. PUTNAM. Mr. Chairman, I would just point out that Chairman Platts is here, who has tremendous responsibility over financial management and e-government. My jurisdiction as chairman of the Subcommittee on Technology and Information Policy certainly has a tremendous interest in this issue, and you're well acquainted with Chairman Shays' interest in this, so you have three subcommittee chairman who have made it very clear that this is on their radar screen.

And I also serve on the Budget Committee, and when I got to Congress, we had allegedly projected $5 trillion in surpluses, and now we're in deficit for several years to come at best, and I feel guilty about that. And there's a lot of circumstances that led to that are beyond my control. I know that you're concerned about these things, but it is very unsettling how much money the Department of Defense and other departments—but the Department of Defense by virtue of it's size and the level of its appropriation certainly is in a league of its own, and it's something that we all three of us, and others, are extremely interested in seeing corrected in the near future.

Mr. TURNER. Mr. Ruppersberger.

Chairman Platts.

Gentlemen, thank you for participating and for your information provided. Obviously this is an important topic for us, and we thank you. We will be adjourned.

[Whereupon, at 3:30 p.m., the joint subcommittee was adjourned.]

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