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BUSINESS SYSTEMS MODERNIZATION AT THE DEPARTMENT OF DEFENSE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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BUSINESS SYSTEMS MODERNIZATION AT THE DEPARTMENT OF DEFENSE

WEDNESDAY, JUNE 8, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Gutknecht and Towns.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Jessica Friedman, legislative assistant; Nathaniel Berry, clerk; Geoffrey Hale, intern; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

On September 10, 2001, Secretary of Defense Donald Rumsfeld outlined his vision for a new DOD. He envisioned a dramatic transformation that would correct problems outlined in hundreds of studies and reports with a common theme: DOD's urgent need to modernize its management structure. From accounting to logistics, the computer systems and business processes that support the Department's operations are cumbersome, inefficient and hopelessly out of date.

The world changed dramatically the day after Secretary Rumsfeld delivered that speech. Following the tragic events of September 11, 2001, the entire Federal Government reevaluated its missions and priorities, none more so than the Department of Defense.

To the Department's credit, the push for management reform was not abandoned. In the face of shifting priorities, wars in Afghanistan and Iraq, and the largest deployment of National Guard and Reserve troops since World War II, the operational impact of management problems has become increasingly apparent. From pay problems to inadequate tracking of supplies, the need to improve management is more important than ever before, and it must be balanced against the urgent need to defend our Nation against new threats.

Restructuring what amounts to the world's largest nonmarket economy would be enough of a challenge without the unique institutional constructs that have contributed to DOD's problems in the

past. While the Secretary sets the tone from the top, each branch of the service, Army, Navy, Marine Corps, Air Force, has its own way of doing business, its own natural constituency, and its own appropriations, yet each branch cannot act alone. It is imperative that joint operations run smoothly, and that information flows freely among the service branches. This is the only way DOD can function as a cohesive unit.

The vision behind Secretary Rumsfeld's plan is not a new idea. Several transformation efforts have come and gone at DOD since the 1980's, with billions spent on new computer systems that never performed as expected. This latest effort, however, the Business Management Modernization Program [BMMP], has made slow, though steady, progress, earning its share of criticism as well along the way. DOD officials have responded to critics with program improvements and a shift in focus, away from just balancing the books and toward the true goal of supporting the warfighter. Congress has a responsibility to guide and oversee this transformation every step of the way, to ensure that goals are clear, and that investments in computer systems are made wisely. This hearing is part of that ongoing oversight.

We are pleased to have a panel of witnesses with a wealth of knowledge on this topic. First we're glad to again hear from Mr. Greg Kutz, Director of Financial Management and Assurance at the U.S. Government Accountability Office.

Mr. Kutz, thank you for being here. And again, we appreciate your work and cooperation and assistance over my tenure as chairman.

Mr. Kutz will be accompanied here today by Mr. Randy Hite, who is the Director of Information Technology Architecture and Systems Issues at GAO.

We will also hear from officials representing the Department of Defense. We are pleased to have Mr. Thomas Modly, the Deputy Under Secretary of Defense for Financial Management, who will represent the Office of the Under Secretary of Defense Comptroller; and Mr. Paul Brinkley, Special Assistant to the Under Secretary of Defense, Acquisition, Technology and Logistics for Business Transformation, will testify on behalf of the Business Management Modernization Program.

We appreciate all four of you being here, as well as the written testimonies that you have provided to us, and look forward to your testimonies here today in person.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

OVERSIGHT HEARING:
BUSINESS SYSTEMS MODERNIZATION AT THE DEPARTMENT OF DEFENSE

OPENING STATEMENT OF
CHAIRMAN TODD RUSSELL PLATTS
JUNE 8, 2005

On September 10, 2001, Secretary of Defense Donald Rumsfeld outlined his vision for a new DoD. He envisioned a dramatic transformation that would correct problems outlined in hundreds of studies and reports with a common theme: DoD's urgent need to modernize its management structure. From accounting to logistics, the computer systems and business processes that support the Department's operations are cumbersome, inefficient, and hopelessly out-of-date.

The world changed dramatically the day after Secretary Rumsfeld delivered that speech. After September 11, 2001, the entire Federal government re-evaluated its mission and priorities – none more so than DoD. To the Department's credit, the push for management reform was not abandoned. In the face of shifting priorities, wars in Afghanistan and Iraq, and the largest deployment of National Guard and Reserve troops since World War II, the operational impact of management problems has become increasingly apparent. From pay problems to inadequate tracking of supplies, the need to improve management is more important than ever before, and it must be balanced against the urgent need to defend our nation against new threats.

Restructuring what amounts to the world's largest non-market economy would be enough of a challenge without the unique institutional constructs that have contributed to DoD's problems in the past. While the Secretary sets the tone from the top, each branch of the service – Army, Navy, Marine Corps, Air Force – has its own way of doing business, its own natural constituency, and its own appropriations. Yet, each branch cannot act alone. It is imperative that joint operations run smoothly and that information flows freely among the service branches. This is the only way DoD can function as a cohesive unit.

The vision behind Secretary Rumsfeld's plan is not a new idea: several transformation efforts have come and gone at DoD since the 1980s, with billions spent on new computer systems that never performed as expected. This latest effort, however, the **Business Management Modernization Program or BMMP**, has made slow (though steady) progress, earning its share of criticism along the way. DoD officials have responded to critics with program improvements and a shift in focus – away from just balancing the books and towards the true goal of supporting the warfighter.

Congress has a responsibility to guide and oversee this transformation every step of the way, to ensure that goals are clear and that investments in computer systems are made wisely. This hearing is part of that ongoing oversight. We are pleased to have a panel of witnesses with a wealth of knowledge on this topic. First we will hear from **Mr. Gregory D. Kutz,** Director of Financial Management and Assurance at the U.S. Government Accountability Office. Mr. Kutz, thank you for being here today and

for your continued work with the Subcommittee. Mr. Kutz will be accompanied by **Mr. Randy Hite**, who is the Director of Information Technology Architecture and Systems Issues at GAO. We will also hear from officials representing the Department of Defense. **Mr. Thomas Modly,** the Deputy Under Secretary of Defense for Financial Management will represent the Office of the Under Secretary of Defense – Comptroller, and **Mr. Paul A. Brinkley,** Special Assistant to the Under Secretary of Defense - Acquisition, Technology, and Logistics for Business Transformation will testify on behalf of the Business Management Modernization Program. Thank you for being here today, and we look forward to your testimonies.

Mr. PLATTS. I now yield to the ranking member, the gentleman from New York, Mr. Towns.

Mr. TOWNS. Thank you, Mr. Chairman.

Let me begin by saying thank you for holding this hearing on business modernization efforts at the Department of Defense. I would also like to welcome our witnesses from both DOD and GAO. I look forward to your testimony.

Mr. Chairman, the chronic failure of system integration and maintenance at DOD has been a focal point of our subcommittee for some time now. Although many other Federal agencies have improved their financial management efforts, DOD continues to fail in demonstrating adequate financial accounting and internal control practices. The root cause of many failures is elusive, however, due to the stovepipe nature of many business systems, the complexity of maintaining so many financial management programs.

Since 1995, GAO has designated the financial management system at DOD as high risk due to a system vulnerability making them targets for those three nasty words: waste, fraud and abuse. This has been the case for the last 9 years. The inspector general of the Department of Defense could not provide an opinion on the agency's 2004 financial statement. Lack of financial and internal control departmentwide remains the root cause of these failures.

I will conclude, Mr. Chairman, by saying simply this: As we continue to allocate the necessary resources to support our troops abroad and at home, it is imperative to ensure that such funding is used effectively and appropriately.

I thank you, Mr. Chairman, and ask that my entire statement be placed in the record.

Mr. PLATTS. Without objection, so ordered.

We will now proceed to our testimony. Our practice is to ask our witnesses to stand and be sworn in, and any others who will be assisting in your testimony, if they would like to stand and take the oath as well.

[Witnesses sworn.]

Mr. PLATTS. Thank you. You may now be seated. The clerk will note that all witnesses affirmed the oath, and we will now proceed.

Mr. Kutz, we will begin with you. We are going to have a 5-minute clock. From what we're told, we're in good shape, with votes not until later this afternoon; so if you need to go over a little bit, that's fine, but we do want to get to the Q and A as well and have a good exchange. You may begin.

STATEMENT OF GREGORY D. KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY RANDY HITE, DIRECTOR, INFORMATION TECHNOLOGY ARCHITECTURE AND SYSTEMS ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Mr. Chairman and Representative Towns, thank you for the opportunity to be here to discuss DOD financial management and business systems modernization. My testimony has two parts; first, examples that demonstrate the need for reform, and second, the status of reform efforts and two suggestions for legislative action.

First, DOD's financial management and related problems result in waste and inefficiency. Let me give you a few examples: Over $115 million wasted on unused airline tickets, the Navy paying for fraudulent calling card charges, and communications lines that had not been used for years; and as I testified yesterday before Chairman Shays and Ranking Member Waxman, hundreds of millions of dollars of waste associated with DOD giving away, selling for pennies on the dollar, or destroying inventory that's needed by our military forces.

These problems also impact DOD's mission and have other consequences. Examples from prior testimony before this subcommittee include substantial problems accurately paying Army National Guard and Reserve soldiers that distracted them from their mission, caused financial hardships for their families, and has had a negative impact on retention; additional pay problems for injured Army Guard and Reserve soldiers that resulted in gaps in their pay and medical benefits; and travel reimbursement problems impacting hundreds of thousands of mobilized Army Guard soldiers. These examples, and others, clearly demonstrate the need for reform.

My second point is the lack of sustained leadership, inadequate accountability and cultural resistance to change continues to impede reform efforts. DOD's stovepiped, duplicative systems contribute to the operational problems I discussed and will cost the taxpayers $13 billion in 2005. That's $35 million a day.

Attempts to modernize DOD's business systems routinely cost more than planned, miss their schedules by years, and deliver only marginal benefits, or are terminated with no benefit at all.

DOD continues to lack accurate data on the number and total cost of its business systems. For example, the reported number of business systems increased from about 2,300 in April 2003 to 4,150 in March 2005. At the same time, the reported cost of these systems decreased by $6 billion. Without a handle on the number and cost of its business systems, it's not surprising that billions of dollars continue to be spent by the services on parochial stovepipe solutions.

Development of a business enterprise architecture, which is critical to successful transformation, has not progressed well. In fact, after spending almost 4 years and over $300 million, DOD does not have an effective architecture program.

DOD has recently taken steps to improve its transformation efforts consistent with the 2005 authorization act. For example, the Defense Business Systems Management Committee has been established to oversee modernization efforts. In addition, talented individuals like Mr. Brinkley and Mr. Modly are working full time on transformation efforts. Time will tell whether DOD's efforts will result in improvements in its operations.

Although the 2005 authorization act is a step in the right direction, we believe additional legislation is necessary to provide a foundation for successful reform. Our testimony highlights proposals for a chief management official, and a more centralized control of the allocation and execution of all business systems appropriations.

In conclusion, history shows that the status quo of part-time, constantly changing leadership on business transformation will not succeed. Our legislative proposals do not guarantee successful transformation, but we believe they create a more favorable environment for true reform. With the fiscal challenges facing our Nation, and with the potential for billions of dollars of savings through successful transformation, these proposals should receive strong consideration.

Mr. Chairman, that ends my statement. Mr. Hite and I will be happy to answer your questions.

Mr. PLATTS. Thank you, Mr. Kutz.

[The prepared statement of Mr. Kutz follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

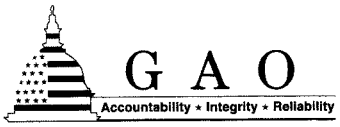
For Release on Delivery
Expected at 2:00 p.m. EDT
June 8, 2005

DOD BUSINESS TRANSFORMATION

Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems

Statement of Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

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



GAO-05-723T

June 8, 2005

GAO
Accountability-Integrity-Reliability
Highlights

Highlights of GAO-05-723T, testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

DOD BUSINESS TRANSFORMATION

Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems

Why GAO Did This Study

In July 2004, GAO testified before this Subcommittee on the impact and causes of financial and related business weaknesses on the Department of Defense's (DOD) operations and the status of DOD reform efforts. The report released today highlights that DOD still does not have management controls to ensure that its business systems investments are directed towards integrated corporate system solutions. GAO's reports continue to show that fundamental problems with DOD's financial management and related business operations result in substantial waste and inefficiency, adversely impact mission performance, and result in a lack of adequate accountability across all major business areas. Over the years, DOD leaders attempted to address these weaknesses and transform the department. For years, GAO has reported that DOD is challenged in its efforts to effect fundamental financial and business management reform and GAO's ongoing work continues to raise serious questions about DOD's chances of success.

The Subcommittee asked GAO to provide information on the (1) pervasive long-standing financial and business management weaknesses that affect DOD's efficiency, (2) cost of and control over the department's business systems investments, and (3) legislative actions needed to enhance the success of DOD's business transformation efforts.

www.gao.gov/cgi-bin/getrpt?GAO-05-723T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz (202) 512-9095 or kutzg@gao.gov.

What GAO Found

Overhauling the financial management and business operations of one of the largest and most complex organizations in the world represents a daunting challenge. Eight DOD program areas, representing key business functions, are on GAO's high-risk list, and the department shares responsibility for six other governmentwide high-risk areas, meaning that DOD is fully or partially responsible for 14 of the 25 high-risk areas in the federal government. DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also to provide accurate, complete, and timely information for management and Congress to use in making informed decisions. Further, the lack of adequate accountability across all of DOD's major business areas results in billions of dollars in annual wasted resources in a time of increasing fiscal constraint and has a negative impact on mission performance.

Impact of Weaknesses in Human Capital Management, Internal Control, and Systems

Business area affected	Problem identified
Military pay	Injured and ill reserve component soldiers—who are entitled to extend their active duty service to receive medical treatment—have been inappropriately removed from active duty status causing significant gaps in their pay and medical benefits. The current stovepiped, nonintegrated personnel and pay systems are labor intensive and require extensive error-prone manual entry and reentry of data.
Logistics	DOD does not have the ability to provide timely, complete, or accurate information on the location, movement, status, or identity of its supplies, even though total asset visibility has been a departmentwide goal for over 30 years.
Systems	DOD lacks the management structure to effectively control billions of dollars being spent each year to operate, maintain, and modernize its reported 4,150 duplicative, nonintegrated business systems.

Source: GAO.

The department has recently taken several steps to address provisions of the fiscal year 2005 defense authorization act which are aimed at improving DOD's business systems management practices. For example, DOD has established the Defense Business Systems Management Committee to oversee its business systems modernization efforts. However, DOD's overall transformation efforts have not adequately addressed the key causes of past reform failures. Lessons learned from these previous reform attempts include the need for sustained leadership at the highest level and a strategic and integrated plan. The seriousness of DOD's weaknesses underscores the importance of no longer condoning the "status quo."

To improve the likelihood that DOD's transformation efforts will succeed, GAO proposes that business systems funding be appropriated to the approval authorities responsible for business systems investments. Additionally, GAO suggests that a senior management position be established to provide sustained leadership for DOD's overall business transformation. Absent this unified responsibility, authority, accountability, and control of funding, DOD's transformation efforts are likely to fail.

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be back before this Subcommittee to discuss business transformation efforts at the Department of Defense (DOD). At the outset, I would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve in addressing DOD's business transformation challenges. DOD spends billions of dollars each year to sustain key business operations that support our forces, including systems and processes related to acquisition and contract management, financial management, supply chain management, support infrastructure management, human capital management, and other key areas. Recent and ongoing military operations in Afghanistan and Iraq and new homeland defense missions have led to higher demands on our forces in a time of growing fiscal challenges for our nation. In an effort to better manage DOD's resources, the Secretary of Defense has appropriately placed a high priority on transforming key business processes to improve their efficiency and effectiveness in supporting the department's military mission.

However, as discussed in the report[1] being released at this hearing and previous reports and testimonies, fundamental problems with DOD's financial management and related business operations continue to cause substantial waste and inefficiency, have an adverse impact on mission performance, and result in the lack of adequate transparency and appropriate accountability across all major business areas. Of the 25 areas on GAO's governmentwide high-risk list, 8 are DOD specific program areas related to key business functions, and the department shares responsibility for 6 other high-risk areas that are governmentwide in scope.[2] These problems preclude the department from producing reliable and timely information to make sound decisions and to accurately report on its trillions of dollars of assets and liabilities.

[1]GAO, *DOD Business Systems Modernization: Billions Being Invested without Adequate Oversight*, GAO-05-381 (Washington, D.C: Apr. 29, 2005).

[2]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005). The eight specific DOD high-risk areas are (1) approach to business transformation, (2) business systems modernization, (3) contract management, (4) financial management, (5) personnel security clearance program, (6) supply chain management, (7) support infrastructure management, and (8) weapon systems acquisition. The six governmentwide high risk areas that include DOD are: (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, and (6) real property.

Today, my testimony will focus on two of the high-risk areas—financial management and business systems modernization. Both of these areas have been designated as high-risk since 1995—a decade ago. In this regard, my testimony will provide our perspectives on the (1) pervasive long-standing financial and business management weaknesses that affect DOD's efficiency, (2) cost of and control over the department's business systems investments, and (3) legislative actions needed to enhance the success of DOD's business transformation efforts—specifically, the central control of business systems investment funding and establishment of a chief management official. Implementation of these two suggestions would provide the sustained top-level leadership and accountability needed and thereby increase the likelihood of successful business transformation.

My statement is based upon the report[3] released today, as well as our previous reports and testimonies. Our work was performed in accordance with U.S. generally accepted government auditing standards.

Summary

DOD's substantial long-standing management problems related to business operations and systems have adversely affected the economy, efficiency, and effectiveness of its operations; and, in some cases, impacted the morale of our fighting forces that are in harms way. These problems have left the department vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint and have resulted in a lack of adequate accountability across all major business areas. Additionally, our report released today describes other indicators of the department's limited progress in transforming its business operations and systems. This year, we added DOD's overall approach to business transformation to our high-risk list[4] because DOD lacks a strategic and integrated business transformation plan and because we have concerns over DOD's lack of adequate management responsibility and accountability to achieve and sustain business reform on a broad, strategic, departmentwide, and integrated basis. The following examples indicate the magnitude and severity of the resulting problems.

[3]GAO-05-381.

[4]GAO-05-207.

- As we testified[5] before this Subcommittee on March 16, 2005, mobilized Army National Guard soldiers have experienced significant problems getting accurate, timely, and consistent reimbursement for out-of-pocket travel expenses. One of the primary causes for these problems is rooted in the paper-intensive process used by DOD to reimburse Army National Guard soldiers for their travel expenses.

- DOD does not have the ability to provide timely or accurate information on the location, movement, status, or identity of its supplies. Although total asset visibility has been a departmentwide goal for over 30 years, DOD currently estimates that it will not achieve this goal until the year 2010.[6]

- DOD's continued supply chain problems resulted in shortages of items in Iraq. As discussed in our April 2005, report, demands for items like vehicle track shoes, batteries, and tires exceeded their availability because the department did not have accurate or adequately funded Army war reserve requirements and had inaccurate forecasts of supply demands for the operation. Furthermore, the Army's funding approval process delayed the flow of funds to buy them. In addition, numerous problems, such as insufficient transportation, personnel, and equipment, as well as inadequate information systems, hindered DOD's ability to deliver the right items to the right place at the right time for the warfighter. Among the items the department had problems delivering were generators for assault amphibian vehicles, tires, and Meals Ready-to-Eat.[7]

- DOD's stovepiped, duplicative, and nonintegrated systems environment contributes to these operational problems and costs the American taxpayers billions of dollars each year. For fiscal year 2005, the department requested approximately $13 billion to operate, maintain,

[5]GAO, *Army National Guard: Inefficient, Error-Prone Process Results in Travel Reimbursement Problems for Mobilized Soldiers*, GAO-05-400T (Washington, D.C.: Mar. 16, 2005).

[6]GAO, *Defense Inventory: Improvements Needed in DOD's Implementation of Its Long-Term Strategy for Total Asset Visibility of Its Inventory*, GAO-05-15 (Washington, D.C.: Dec. 6, 2004).

[7]GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, GAO-05-275 (Washington, D.C.: Apr. 8, 2005).

and modernize its reported 4,150 business systems—an increase of about 1,900 in the number of reported systems since last year.

Because of the department's flawed processes, we found that DOD is not in compliance with the National Defense Authorization Act for Fiscal Year 2003, which requires the DOD Comptroller to determine that system improvements with obligations exceeding $1 million meet the criteria specified in the act. Based upon DOD's reported data, system improvements totaling about $651 million of obligations over $1 million were not reviewed by the DOD Comptroller before obligations were made since passage of the 2003 act. Further evidence of DOD's problems is the long-standing inability of any military service or major defense component to pass the test of an independent financial audit or provide timely reliable and complete information for DOD decision makers because of pervasive weaknesses in the department's financial management systems, operations, and controls.

The seriousness of DOD's business management weaknesses underscores the importance of no longer condoning "status quo" business operations at DOD. To improve the likelihood that the department's current business transformation efforts will be successful, we propose that those who are responsible for business systems modernization control the allocation and execution of funds for DOD business systems. Investments in the modernization of the department's business systems need to be directed towards integrated corporate system solutions to common DOD-wide problems, and not the perpetuation of the stovepiped, duplicative systems environment that exists today.

Additionally, due to the complexity and long-term nature of these transformation efforts, strong and sustained executive leadership is needed if DOD is to succeed. We believe one way to ensure this strong and sustained leadership over DOD's business management reform efforts would be to create a full-time, executive-level II position for a chief management official (CMO), who would serve as the Deputy Secretary of Defense for Management.[8] We believe that the new CMO position should be filled by an individual appointed by the President and confirmed by the Senate, for a set term of 7 years. Articulating the role and responsibilities of the position in statute and establishing a term that spans administrations

[8]GAO, *Defense Management: Key Elements Needed to Successfully Transform DOD Business Operations*, GAO-05-629T (Washington, D.C.: Apr.28, 2005).

underscores the importance of a professional, nonpartisan approach to this business management-oriented position. This position would serve as a strategic integrator to elevate and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, information technology (IT), and financial management, while facilitating the overall business management transformation within DOD. The CMO would not conduct the day-to-day management functions of the department; therefore, creating this position would not add an additional hierarchical layer to the department. Day-to-day management functions of the department would continue to be the responsibility of the undersecretaries of defense, the service secretaries, and others. Just as the CMO would need to focus full-time on business transformation, we believe that the day-to-day management functions are so demanding that it is difficult for these officials to maintain the oversight, focus, and momentum needed to implement and sustain needed reforms of DOD's overall business operations.

We are confident that transforming DOD's business operations and making them more efficient would free up resources that could be used to support the department's core mission, enhance readiness, and improve the quality of life for our troops and their families. It is worth noting that on April 14, 2005, a bill was introduced in the Senate that would require the establishment of a CMO that would be appointed by the President and confirmed by the Senate, for a set term of 7 years.[9]

In written comments on a draft of the report released today, DOD agreed with our four recommendations and briefly outlined its actions for addressing them.

Background

Because DOD is one of the largest and most complex organizations in the world, overhauling its business operations represents a huge management challenge. In fiscal year 2004, DOD reported that its operations involved $1.2 trillion in assets, $1.7 trillion in liabilities, over 3.3 million in military and civilian personnel, and over $605 billion in net cost of operations. For fiscal year 2005, the department received an annual appropriation of about $417 billion and was appropriated about $76 billion for the global war on

[9]S. 780, 109th Cong. (2005).

terrorism. Execution of DOD's operations spans a wide range of defense organizations, including the military services and their respective major commands and functional activities, numerous large defense agencies and field activities, and various combatant and joint operational commands that are responsible for military operations for specific geographic regions or theaters of operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business processes, including logistics, procurement, health care, and financial management.

Transformation of DOD's business systems and operations is critical to the department providing Congress and DOD management with accurate and timely information for use in the decision-making process. This effort is an essential part of the Secretary of Defense's broad initiative to "transform the way the department works and what it works on." The Secretary of Defense has estimated that improving business operations of the department could save 5 percent of DOD's annual budget, which based on fiscal year 2005 appropriations, represents a savings of about $25 billion.

Pervasive Financial and Business Management Problems Affect DOD's Efficiency and Effectiveness

For several years, we have reported that DOD faces a range of financial management and related business process challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the department. As the Comptroller General testified in April 2005,[10] DOD's financial management deficiencies, taken together, continue to represent a major impediment to achieving an unqualified opinion on the U.S. government's consolidated financial statements. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal controls and processes and fundamentally flawed business systems.

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that without sound internal controls and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure of accountability for the American people.

[10]GAO-05-629T.

Pervasive Weaknesses Impact DOD Operations

Long-standing weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decision makers; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, and abuse, as the following examples illustrate.

- The current inefficient, paper-intensive, error-prone travel reimbursement process has resulted in inaccurate, delayed, and denied travel payments for mobilized Army Guard soldiers. We found a broad range of reimbursement problems that included disputed amounts for meals that we estimated to be as high as about $6,000 for each of 76 soldiers in one case study that remained unpaid by the end of our review. Until DOD improves the antiquated process that requires Army Guard soldiers to accumulate, retain, and submit numerous paper documents, reimbursement problems and inefficiencies will likely continue. Of approximately 930,000 travel vouchers received between fiscal years 2002 and 2004, the Defense Finance and Accounting Service (DFAS) Contingency Travel Operations Office rejected and returned about 139,000 vouchers to soldiers for additional paper documentation or to correct other processing deficiencies. This repeated churning of vouchers frustrated soldiers and added to the volume of claims to be processed.[11]

- Injured and ill reserve component soldiers—who are entitled to extend their active duty service to receive medical treatment—have been inappropriately removed from active duty status in the automated systems that control pay and access to medical care. The current stovepiped, nonintegrated systems are labor-intensive and require extensive error-prone manual entry and reentry. Inadequate controls resulted in some soldiers experiencing significant gaps in their pay and medical benefits, causing hardships for the soldiers and their families. In addition, because these soldiers no longer had valid active duty orders, they did not have access to the commissary and post exchange—which allows soldiers and their families to purchase groceries and other goods at a discount. In one case we reviewed,

[11]GAO-05-400T.

during a 12-month period, while attempting to obtain care for injuries sustained from a helicopter crash in Afghanistan, one Special Forces soldier fell out of active duty status four times. During the times he was not recorded in the system as being on active duty, he was not paid and he and his family experienced delays in receiving medical treatment. In all, he missed payments for 10 pay periods—totaling $11,924.[12]

- Ninety-four percent of mobilized Army National Guard and Reserve soldiers we investigated during two audits[13] had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and may have a negative impact on retention. The processes and automated systems relied on to provide active duty payments to mobilized Army Guard and Reserve soldiers are so error-prone, cumbersome, and complex that neither DOD nor, more importantly, the soldiers themselves could be reasonably assured of timely and accurate payments. Some of the pay problems soldiers experienced often lingered unresolved for considerable lengths of time, some for over a year.

- DOD continues to lack visibility and control over the supplies and spare parts it owns. Therefore, it cannot monitor the responsiveness and effectiveness of the supply system to identify and eliminate choke points.[14] Currently, DOD does not have the ability to provide timely or accurate information on the location, movement, status, or identity of its supplies. Although total asset visibility has been a departmentwide goal for over 30 years, DOD estimates that it will not achieve this visibility until the year 2010. DOD may not meet this goal by 2010, however, unless it overcomes three significant impediments: (1) developing a comprehensive plan for achieving visibility, (2) building the necessary integration among its many inventory management information systems, and (3) correcting long-standing data accuracy and reliability problems within existing inventory management systems. A key to successful implementation of a comprehensive logistics strategy will be addressing

[12]GAO, *Military Pay: Gaps in Pay and Benefits Create Financial Hardships for Injured Army National Guard and Reserve Soldiers*, GAO-05-125 (Washington, D.C.: Feb. 17, 2005).

[13]GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-911 (Washington, D.C.: Aug. 20, 2004) and *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89 (Washington, D.C.: Nov. 13, 2003).

[14]GAO-05-629T.

these initiatives as part of a comprehensive, integrated business transformation.

- The Defense Logistics Agency (DLA) and each of the military services experienced significant shortages of critical spare parts, even though more than half of DOD's reported inventory—about $35 billion—exceeded current operating requirements. In many cases, these shortages contributed directly to equipment downtime, maintenance problems, and the services' failure to meet their supply availability goals. DOD, DLA, and the military services each lack strategic approaches and detailed plans that could help mitigate these critical spare parts shortages and guide their many initiatives aimed at improving inventory management.[15]

- The Navy did not know how much it spent on telecommunications and did not have detailed cost and inventory data needed to evaluate spending patterns and to leverage its buying power. At the four case study sites we audited, management oversight of telecommunication purchases did not provide reasonable assurance that requirements were met in the most cost-effective manner. For example, cell phone usage at three sites was not monitored to determine whether plan minutes met users' needs, resulting in overpayment for cell phone services. In addition, the Navy lacks specific policies and processes addressing the administration and management of calling cards. On one card alone, in a 3-month period, the Navy paid over $17,000. Not until the vendor's fraud unit raised questions about more than $11,000 in charges in a 6-day period was the card suspended.[16]

- Over the years, DOD recorded billions of dollars of disbursements and collections in suspense accounts because the proper appropriation accounts could not be identified and charged. Because documentation needed to resolve these payment recording problems could not be found after so many years, DOD requested and received authority to write-off certain aged suspense transactions. While DOD reported that it wrote off an absolute value of $35 billion or a net value of $629 million using the legislative authority, neither of these amounts accurately represents

[15]GAO-05-207

[16]GAO, *Vendor Payments: Inadequate Management Oversight Hampers the Navy's Ability to Effectively Manage Its Telecommunication Program*, GAO-04-671 (Washington, D.C.: June 14, 2004).

the true value of all the individual transactions that DOD had not correctly recorded in its financial records. Many of DOD's accounting systems and processes routinely offset individual disbursements, collections, adjustments, and correction entries against each other and, over time, amounts might even have been netted more than once. This netting and summarizing misstated the total value of the write-offs and made it impossible for DOD to identify what appropriations may have been under- or overcharged or to determine whether individual transactions were valid. At December 31, 2004, DOD reports showed that, even after the write-offs, more than $1.3 billion (absolute value) remained in suspense accounts for longer than 60 days; however, DOD has acknowledged that its suspense reports are incomplete and inaccurate. In addition, DOD is still not performing effective reconciliations of its disbursement and collection activity. Similar to checkbook reconciliations, DOD needs to compare its records of monthly activity to Treasury's records and promptly research and correct any differences.[17]

Financial Improvement Initiative Lacks a Comprehensive and Integrated Plan and Effective Oversight and Monitoring Capabilities

In September 2004, we reported[18] that DOD had begun implementing a financial improvement initiative that included the goal of obtaining an unqualified audit opinion on its fiscal year 2007 consolidated financial statements but that the initiative lacked a clearly defined, integrated, well-documented, and realistic plan for improving DOD's financial management and thus achieving that goal. We also reported that DOD lacked effective oversight and accountability mechanisms to ensure that the mid-range financial improvement plans being developed by the military services and defense agencies in support of the initiative were adequately planned, implemented, and sustainable. Our report expressed concern that DOD's emphasis on obtaining a clean audit opinion for fiscal year 2007 could divert limited resources away from ongoing efforts to develop and implement the long-term systems and process changes needed to improve financial information and to efficiently and effectively manage DOD's business operations.

[17]GAO, *DOD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs*, GAO-05-521 (Washington, D.C.: June 2, 2005).

[18]GAO, *Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD*, GAO-04-910R (Washington, D.C.: Sept. 20, 2004).

In the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,[19] Congress placed a limitation on the use of operations and maintenance funds for continued preparation or implementation of DOD's mid-range financial improvement plan. Use of such funds for the mid-range plan is prohibited until the Secretary of Defense submits to the congressional defense committees a report containing the following: (1) a determination that DOD's business enterprise architecture (BEA) and the transition plan for implementing the BEA have been developed, (2) an explanation of the manner in which fiscal year 2005 operations and maintenance funds will be used by DOD components to prepare or implement the mid-range financial improvement plan, and (3) an estimate of future year costs for each of the military services and defense agencies to prepare and implement the mid-range financial improvement plan. As of the end of May 2005, DOD has not yet provided the defense committees with the required report.

Ineffective Management Oversight and Control over Business System Investments

Until DOD has complete, reliable information on the costs and number of business systems operating within the department, its ability to effectively control the money it spends on these systems will be limited. DOD's fiscal year 2005 budget request for its business systems was $13.3 billion, which, on its face, is about $6 billion, or 29 percent, less than its fiscal year 2004 budget request. However, we found that this decrease can be attributed to DOD's reclassification of some business systems to national security systems, not to a reduction in spending on its systems. While some of the reclassifications appeared reasonable, our analysis showed that others were questionable or inconsistencies exist, which hinder DOD's ability to develop a definitive business systems inventory. At the same time the amount of requested business system funding declined, the reported number of business systems increased by about 1,900—from 2,274 in April 2003 to 4,150 in February 2005.

Furthermore, given that DOD does not know how many business systems it has, it is not surprising that the department continues to lack effective management oversight and control over business systems investments. Since February 2003, the domains have been given the responsibility to oversee the department's business systems investments, yet the billions of dollars spent each year continue to be spread among the military services

[19]Pub. L. No. 108-375, § 352.

and defense agencies, enabling the numerous DOD components to continue to develop stovepiped, parochial solutions to the department's long-standing financial management and business operation challenges. Additionally, based upon data reported to us by the military services and DOD components, obligations totaling at least $243 million were made for systems modernizations in fiscal year 2004 that were not referred to the DOD Comptroller for the required review, as specified in the fiscal year 2003 defense authorization act.[20]

Fiscal Year 2005 Budget Request for DOD's Business Systems Environment Is $13.3 Billion

For fiscal year 2005, DOD requested approximately $28.7 billion[21] in IT funding to support a wide range of military operations as well as DOD business systems operations. Of the $28.7 billion, our analysis showed that about $13.3 billion was for business applications and related infrastructure. Of the $13.3 billion, our analysis of the budget request disclosed that about $8.4 billion was for infrastructure and related costs. Business applications include activities that support the business functions of the department, such as personnel, health, travel, acquisition, finance and accounting, and logistics. The remaining $15.4 billion was classified as being for national security systems. Of that amount, our analysis ascertained that about $7.5 billion was for infrastructure and related costs.

Of the $13.3 billion, $10.7 billion was for the operation and maintenance of the existing systems and $2.6 billion was for the modernization of existing systems, the development of new systems,[22] or both. Table 1 shows the distribution, by DOD component, of the reported $13.3 billion between current services and modernization funding.

[20]Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, § 1004(d), 116 Stat. 2458, 2629 (Dec. 2, 2002).

[21]DOD categorizes its funding request as follows: business systems—$5 billion; national security systems—$7.8 billion; shared infrastructure and information assurance activities—$14.8 billion; and related technical activities—$1.1 billion.

[22]According to the department's definition in its Financial Management Regulation, development/ modernization/enhancement include (1) new applications and infrastructure capabilities that are planned and under development; (2) any change or modification to existing applications and infrastructure capabilities which is intended to result in improved capabilities or performance of the activity, including (a) all modifications to existing operational software (other than corrective software maintenance) and (b) expansion of capabilities to new users; (3) changes mandated by Congress or the Office of the Secretary of Defense; and (4) personnel costs for project management.

Table 1: Distribution of DOD's $13.3 Billion IT Budget Request for Fiscal Year 2005 for Business Systems and Related Infrastructure

Dollars in millions

Component	Current services	Development/ modernization	Total
Navy	$3,278	$206	**$3,484**
Air Force	2,630	726	**$3,356**
Army	1,780	607	**$2,387**
TRICARE Management Agency (TRICARE)	803	255	**$1,058**
DLA	602	179	**$781**
DFAS	407	59	**$466**
Defense Information Systems Agency	157	34	**$191**
Other DOD components	1,074	566	**$1,640**
Total	**$10,731**	**$2,632**	**$13,363**

Source: GAO analysis of DOD information.

Note: Based on information DOD reported in its fiscal year 2005 IT budget request.

Reclassification Limits Oversight of Business Systems

Incorrect system classification hinders the department's efforts to improve its control and accountability over its business systems investments. Our comparison of the fiscal years 2004 and 2005 budget requests disclosed that DOD reclassified 56 systems in the fiscal year 2005 budget request from business systems to national security systems, which are not subject to the same level of investment control. The net effect of the reclassifications was a decrease of approximately $6 billion in the fiscal year 2005 budget request for business systems and related infrastructure. The reported amount declined from about $19 billion in fiscal year 2004 to over $13 billion in fiscal year 2005.

In some cases, we found that the reclassification appeared reasonable. The reclassification of the Defense Information System Network initiative as a national security system appeared reasonable since it provides a secure telecommunication network—voice, data, and video—to the President, the Secretary of Defense, the Joint Chiefs of Staff, and military personnel in the field. However, our analysis of the 56 systems also identified instances for which reclassification was questionable. For example, Base Level Communication Infrastructure—initiative number 254—for several DOD entities was shown as a national security system in the fiscal year 2005

budget request. Our review of the fiscal year 2005 budget found that within the Air Force, there were numerous other initiatives entitled Base Level Communication Infrastructure that were classified as business systems, not national security systems. The nomenclature describing these different initiatives was the same. Therefore, it was difficult to ascertain why certain initiatives were classified as national security systems while others, with the same name, were classified as business systems.

In another example, this is the first year in which the Navy enterprise resource planning (ERP) effort was listed in the budget and incorrectly classified as a national security system. Its forerunners, four pilot ERP projects, have been classified as business systems since their inception. DOD officials were not able to provide a valid explanation as to why the program was classified as a national security program. For the fiscal year 2006 budget request, the Navy has requested that the DOD CIO reclassify the program from a national security system to a business system. Improper classification diminishes Congress's ability to effectively monitor and oversee the billions of dollars spent annually to maintain, operate, and modernize the department's business systems environment.

DOD Reports Significant Increase in the Number of Existing Business Systems

The department's reported number of business systems continues to rise, and DOD does not yet have reasonable assurance that the currently reported number of business systems is complete. As of February 2005, DOD reported that its business systems inventory consisted of 4,150 systems, which is an increase of approximately 1,900 reported business systems since April 2003. Table 2 presents a comparison of the April 2003 and February 2005 reported business systems inventories by domain.

Table 2: Comparison of DOD Business Systems Inventories by Domain

Domain	April 2003	February 2005	Difference
Acquisition	143	179	36
Financial management	752	600	(152)
Human resources	665	713	48
Installations and environment	128	473	345
Logistics	565	2,005	1,440
Enterprise information environment	21	40	19
No domain[a]	0	140	140
Total	**2,274**	**4,150**	**1,876**

Source: GAO analysis.

Note: Based on analysis of Business Management Modernization Program (BMMP) reported inventory of business systems as of April 2003 and February 2005.

[a]A specific domain was not assigned to these systems.

The largest increase is due to the logistics domain increasing its reported inventory of business systems from 565 in April 2003 to the current 2,005. We reported[23] in May 2004 that the logistics domain had validated about 1,900 business systems but had not yet entered most of them into the BMMP systems inventory. Logistics domain officials informed us that they completed that process and this increase was the result.

Table 3 shows the distribution of the 4,150 business systems among the components and domains.

[23]GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004).

Table 3: Reported DOD Business Systems by Domain and Component

Domain	Air Force	Army	Navy	DFAS	Other defense agencies	Multiple owner	Not determined	Total
Acquisition	20	16	122	2	15	2	2	**179**
Financial management	41	88	233	93	59	15	71	**600**
Human resources	84	332	151	30	65	26	25	**713**
Installations and environment	36	63	259	1	12	6	96	**473**
Logistics	166	193	1,512	4	76	39	15	**2,005**
Enterprise information environment	4	17	10	0	8	0	1	**40**
No domain	18	18	66	13	18	2	5	**140**
Total	**369**	**727**	**2,353**	**143**	**253**	**90**	**215**	**4,150**

Source: GAO analysis.

Note: Based on analysis of BMMP reported business system inventory as of February 2005.

The table shows the stovepiped, duplicative nature of DOD's business systems. For example, there are 713 human resources systems across all components whose reported funding for fiscal year 2005 includes approximately $223 million for modernization and over $656 million for operation and maintenance. According to DOD officials, the Defense Integrated Military Human Resources System (DIMHRS)[24] is intended to totally or partially replace 113 of these systems. We were informed that the remaining 600 human resources systems are to be reviewed in the context of DOD's BEA, as it is developed.

In discussing the increase in the number of reported systems, some of the domains stated that funding for many of the systems are not included in the IT budget request. They said that some of these systems were likely developed at the local level and financed by the operation and maintenance funds received at that location and therefore were not captured and reported as part of the department's annual IT budget request. Financing business systems in this manner rather than within the IT budget results in Congress and DOD management not being aware of the total amount being

[24]DIMHRS is a major IT program that is to provide an integrated personnel and pay system for all components of the military services.

spent to operate, maintain, and modernize the department's business systems.

DOD Lacks Reasonable Assurance That It Is in Compliance with Statutory Investment Management Controls

We found that DOD is not in compliance with the fiscal year 2003 defense authorization act, which requires that all financial system improvements with obligations exceeding $1 million be reviewed by the DOD Comptroller. Based upon the reported obligational data provided to us by the military services and the defense agencies for fiscal year 2004, we identified 30 modernizations with obligations totaling about $243 million that were not submitted for the required review. Because DOD lacks a systematic means to identify the systems that were subject to the requirements of the fiscal year 2003 defense authorization act, there is no certainty that the information provided to us accurately identified all systems improvements with obligations greater than $1 million during the fiscal year. BMMP officials stated that the domains were responsible for working with the components to make sure that business systems with obligations for modernizations greater than $1 million were submitted for review as required. In essence, compliance was achieved via the "honor system," which relied on systems owners coming forward and requesting approval. However, the approach did not work. During fiscal year 2004, the number of systems reviewed was small when compared to the potential number of systems that appeared to meet the obligation threshold identified in the fiscal year 2004 budget request. We analyzed the DOD IT budget request for fiscal year 2004 and identified over 200 systems in the budget that could involve modernizations with obligations of funds that exceed the $1 million threshold. However, BMMP officials confirmed that only 46 systems were reviewed, of which 38 were approved as of September 30, 2004. The remaining 8 systems were either withdrawn by the component/domain or were returned to the component/domain because the system package submitted for review lacked some of the required supporting documentation, such as the review by the Office of Program Analysis and Evaluation, if necessary.

In an attempt to substantiate that financial system improvements with over $1 million in obligations had in fact been reviewed by the DOD Comptroller, as provided for in the fiscal year 2003 act, we requested that DOD entities provide us with a list of obligations (by system) greater than $1 million for modernizations for fiscal year 2004. We compared the reported obligational data to the system approval data reported to us by BMMP officials. Based upon this comparison and as shown in table 4, DOD provided data showed that 30 business systems with obligations totaling

about $243 million in fiscal year 2004 for modernizations were not reviewed by the DOD Comptroller.

Table 4: Identification of Business Systems Modernizations by DOD Component That Did Not Have DOD Comptroller Review as Required by the Fiscal Year 2003 National Defense Authorization Act

Dollars in millions

Component	Number of systems not reviewed	Fiscal year 2004 obligations
Army	2	$40.5
Navy	10	92.8
Air Force	11	79.1
DLA	3	9.8
U.S. Transportation Command	1	1.1
DFAS	1	2.6
TRICARE	2	16.6
Total	**30**	**$242.5**

Source: GAO analysis of DOD reported information.

Examples of DOD business systems modernizations with obligations in excess of $1 million included in table 4 that were not submitted to the DOD Comptroller include the following.

- DFAS obligated about $3 million in fiscal year 2004 for the DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW). In fiscal year 2003, DFAS obligated approximately $19 million for DCD/DCW without submitting it to the DOD Comptroller for review. Additionally, we reported in May 2004[25] that DFAS had yet to complete an economic analysis justifying that continued investment in DCD/DCW would result in tangible improvements in the department's operations. The department has acknowledged that DCD/DCW will not result in tangible savings to DOD. Continued investment is being based upon intangible savings of man-hour reductions by DFAS.

[25]GAO, *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, GAO-04-731R (Washington, D.C.: May 17, 2004).

- The Army obligated over $34 million for its Logistics Modernization Program (LMP) in fiscal year 2004. In fiscal year 2003, the Army obligated over $52 million without the prerequisite review being performed by the DOD Comptroller. We have previously reported[26] that LMP experienced significant problems once it became operational at the first deployment site.

Cumulatively, since passage of the fiscal year 2003 defense authorization act in December 2002 through the end of fiscal year 2004, based upon information reported to us, the military services and defense components obligated about $651 million for business systems modernizations without the required review by the DOD Comptroller. While this amount is significant, it is not complete or accurate because it does not include any fiscal year 2005 obligations that occurred prior to the enactment of the fiscal year 2005 defense authorization act on October 28, 2004.

Congress Acts to Improve DOD's Control and Accountability over Business Systems Investments

The statutory requirements enacted as part of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005[27] are aimed at improving the department's business systems management practices. The act directs DOD to put in place a definite management structure that is responsible for the control and accountability over business systems investments by establishing a hierarchy of investment review boards from across the department and directs that the boards use a standard set of investment review and decision-making criteria to ensure compliance and consistency with the BEA.

DOD has taken several steps to address provisions of the fiscal year 2005 defense authorization act. On March 19, 2005, the Deputy Secretary of Defense delegated the authority for the review, approval, and oversight of the planning, design, acquisition, development, operation, maintenance, and modernization of defense business systems to the designated approval

[26]GAO-04-615.

[27]Pub. L. No. 108-375, § 332.

authority for each business area.[28] Additionally on March 24, 2005, the Deputy Secretary of Defense directed the transfer of program management, oversight, and support responsibilities regarding DOD business transformation efforts from the Office of the Under Secretary of Defense, (Comptroller), to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics. According to the directive, this transfer of functions and responsibilities will allow the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics to establish the level of activity necessary to support and coordinate activities of the newly established Defense Business Systems Management Committee (DBSMC). As required by the act, DBSMC, with representation including the Deputy Secretary of Defense, the designated approval authorities, secretaries of the military services, and heads of the defense agencies, is the highest ranking governance body responsible for overseeing DOD business systems modernization efforts.

Suggestions for Legislative Consideration

I would like to reiterate two suggestions for legislative consideration that I discussed in my July 2004 testimony,[29] which I believe could further improve the likelihood of successful business transformation at DOD. Most of the key elements necessary for successful transformation could be achieved under the current legislative framework; however, addressing sustained and focused leadership for DOD business transformation and funding control will require additional legislation. These suggestions include the appropriation of business system funding to the approval authorities responsible and accountable for business systems investments under provisions enacted by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,[30] and the creation of a CMO.

[28]Approval authorities include the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense. These approval authorities are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

[29]GAO, *Department of Defense: Long-standing Problems Continue to Impede Financial and Business Management Transformation*, GAO-04-907T (Washington, D.C.: July 7, 2004).

[30]See 10 U.S.C. §2222(f).

Central Control over Business Systems Investment Funds Is Crucial

DOD's current business systems investment process, in which system funding is controlled by DOD components, has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, nonintegrated, and stovepiped systems. We have made numerous recommendations to DOD to improve the management oversight and control of its business systems investments. However, as previously discussed, a provision of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, established specific management oversight and accountability with the "owners" of the various core business mission areas. This legislation defines the scope of the various business areas (e.g., acquisition, finance, logistics, and etc.), and established functional approval authority and responsibility for management of the portfolio of business systems with the relevant under secretary of defense for the departmental core business mission areas and the Assistant Secretary of Defense for Networks and Information Integration (information technology infrastructure). For example, the Under Secretary of Defense for Acquisition, Technology and Logistics is now responsible and accountable for any defense business system intended to support acquisition activities, logistics activities, or installations and environment activities for DOD.

This legislation also requires that the responsible approval authorities establish a hierarchy of investment review boards, the highest level being DBSMC, with DOD-wide representation, including the military services and defense agencies. The boards are responsible for reviewing and approving investments to develop, operate, maintain, and modernize business systems for their business-area portfolio, including ensuring that investments are consistent with DOD's BEA.

Although this recently enacted legislation clearly defines the roles and responsibilities of business systems investment approval authorities, control over the budgeting for and execution of funding for business systems investment activities remains at the DOD component level. As a result, DOD continues to have little or no assurance that its business systems investment money is being spent in an economical, efficient, and effective manner. Given that DOD spends billions on business systems and related infrastructure each year, we believe it is critical that those responsible for business systems improvements control the allocation and execution of funds for DOD business systems. However, implementation may require review of the various statutory authorities for the military services and other DOD components. Control over business systems investment funds would improve the capacity of DOD's designated

approval authorities to fulfill their responsibilities and gain transparency over DOD investments, and minimize the parochial approach to systems development that exists today.

In addition, to improve coordination and integration activities, we suggest that all approval authorities coordinate their business systems modernization efforts with a CMO who would chair the DBSMC. Cognizant business area approval authorities would also be required to report to Congress through a CMO and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

Chief Management Official Is Essential for Sustained Leadership of Business Management Reform

As DOD embarks on large-scale business transformation efforts, we believe that the complexity and long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained change management leadership across the department—and over a number of years and various administrations. One way to ensure such leadership would be to create by legislation a full-time executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management. This position would elevate, integrate, and institutionalize the high-level attention essential for ensuring that a strategic business transformation plan—as well as the business policies, procedures, systems, and processes that are necessary for successfully implementing and sustaining overall business transformation efforts within DOD—are implemented and sustained. An executive-level II position for a CMO would provide this individual with the necessary institutional clout to overcome service parochialism and entrenched organizational silos, which in our opinion need to be streamlined below the service secretaries and other levels.

The CMO would function as a change agent, while other DOD officials would still be responsible for managing their daily business operations. The position would divide and institutionalize the current functions of the Deputy Secretary of Defense into a Deputy Secretary who, as the alter ego of the Secretary, would focus on policy-related issues such as military transformation, and a Deputy Secretary of Defense for Management, the CMO, who would be responsible and accountable for the overall business transformation effort and would serve full-time as the strategic integrator of DOD's business transformation efforts by, for example, developing and implementing a strategic and integrated plan for business transformation efforts. The CMO would not conduct the day-to-day management functions

of the department; therefore, creating this position would not add an additional hierarchical layer to the department. Day-to-day management functions of the department would continue to be the responsibility of the undersecretaries of defense, the service secretaries, and others. Just as the CMO would need to focus full-time on business transformation, we believe that the day-to-day management functions are so demanding that it is difficult for these officials to maintain the oversight, focus, and momentum needed to implement and sustain needed reforms of DOD's overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Likewise, the breadth and complexity of the problems and their overall level within the department preclude the under secretaries, such as the DOD Comptroller, from asserting the necessary authority over selected players and business areas while continuing to fulfill their other responsibilities.

If created, we believe that the new CMO position could be filled by an individual appointed by the President and confirmed by the Senate, for a set term of 7 years. As prior GAO work examining the experiences of major change management initiatives in large private and public sector organizations has shown, it can often take at least 5 to 7 years until such initiatives are fully implemented and the related cultures are transformed in a sustainable way. Articulating the roles and responsibilities of the position in statute would also help to create unambiguous expectations and underscore Congress's desire to follow a professional, nonpartisan, sustainable, and institutional approach to the position. In that regard, an individual appointed to the CMO position should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process transformation across DOD.

Furthermore, to improve coordination and integration activities, we suggest that all business systems modernization approval authorities designated in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 coordinate their efforts with the CMO, who would chair the DBSMC that DOD recently established to comply with the act. We also suggest that cognizant business area approval authorities would also be required to report to Congress through the CMO and the Secretary of Defense on applicable business systems that are not compliant with review requirements and include a summary justification for noncompliance. In addition, the CMO would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall

organizational goals in connection with the department's business transformation efforts. Measurable progress toward achieving agreed-upon goals should be a basis for determining the level of compensation earned, including any related bonus. In addition, the CMO's achievements and compensation should be reported to Congress each year. As previously noted, on April 14, 2005, a bill was introduced in the Senate that requires the establishment of a CMO who would be appointed by the President and confirmed by the Senate, for a set term of 7 years.[31]

Conclusion

DOD lacks the efficient and effective financial management and related business operations, including processes and systems, to support the war fighter, DOD management, and Congress. With a large and growing fiscal imbalance facing our nation, achieving tens of billions of dollars of annual savings through successful DOD transformation is increasingly important. Recent legislation pertaining to defense business systems, enterprise architecture, accountability, and modernization, if properly implemented, should improve oversight and control over DOD's significant system investment activities. However, DOD's transformation efforts to date have not adequately addressed key underlying causes of past reform failures. Reforming DOD's business operations is a monumental challenge and many well-intentioned efforts have failed over the last several decades. Lessons learned from these previous reform attempts include the need for sustained and focused leadership at the highest level. This leadership could be provided through the establishment of a CMO. Absent this leadership, authority, and control of funding, the current transformation efforts are likely to fail.

I commend the Subcommittee for holding this hearing and I encourage you to use this vehicle, on an annual basis, as a catalyst for long overdue business transformation at DOD. Mr. Chairman, this concludes my statement.

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov. The following individuals contributed to the various reports and testimonies that were the basis for the testimony: Beatrice Alff, Renee Brown, Donna Byers, Molly Boyle, Mary

[31]S. 780, 109th Cong. (2005).

Ellen Chervenic, Francine DelVecchio, Francis Dymond, Geoff Frank, Gina Flacco, Diane Handley, Cynthia Jackson, Evelyn Logue, John Martin, Elizabeth Mead, Dave Moser, Mai Nguyen, Sharon Pickup, David Plocher, John Ryan, and Darby Smith.

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Mr. PLATTS. We're going to move to Mr. Modly with your statement, please.

STATEMENT OF THOMAS MODLY, DEPUTY UNDER SECRETARY OF DEFENSE FOR FINANCIAL MANAGEMENT, OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE

Mr. MODLY. Thank you.

Chairman Platts, Congressman Towns, I appreciate this opportunity to address your concerns about the Department's progress in the area of business systems modernization and improved financial management.

Over the last several months, we as a Department have taken a significant step forward in our business transformation efforts, and I am grateful for the opportunity to discuss this progress with you here today.

I was appointed to my current position as Deputy Under Secretary of Defense for Financial Management in February of this year. Prior to that appointment, I had been serving in the Department of Defense as the Executive Director of the Defense Business Board. This is a board of 20 distinguished private sector senior executives who have been providing advice and recommendations to the Secretary of Defense over the last 3 years regarding transformational strategies over the Department's business mission.

My experience with the Defense Business Board, as well as my own private sector experience, has been critical to building my understanding of the challenges we face as a Department. There is no larger or more complex organization in the world than the Department of Defense. However, lessons learned from other large and complicated entities can be still applied to good effect if we recognize the scale and scope of our challenges in our environment and are smart about the way we apply these lessons.

As a Department, we have identified and are actively correcting the problems we have had in modernizing our business systems. We agree with the recommendations cited by the GAO in their recent report and all their other reports on this program, and we are taking specific action to address each individual recommendation.

What is not apparent in the GAO report, however, is the progress that we have made and continue to make in transforming our business systems environment, and the broader progress we have made at transforming financial management across the Department of Defense.

The contribution the Business Management Modernization Program [BMMP] has made to this progress is significant. Most importantly, we now have a much better overall understanding of our business systems environment and the many cross-organizational interdependencies that must align to achieve those objectives. We have also established data standards and strategies for the interoperability of business and financial information, and we have established a process for centralized control over IT investment for business system modernization. These are significant accomplishments for an organization of the Department's size.

Since assuming my current position in February of this year, I have been also working very closely with my colleague Paul

Brinkley, who is here with me today, to shift the BMMP program from its previous architecture and discovery phases into a new phase. The program is now leveraging these foundational accomplishments of the last 3 years, and focusing on implementation and actual duty enterprise systems and standards.

To reinforce this enterprise approach to transformation, we have established the Defense Business Systems Management Committee [DBSMC]. As a result, overall business transformation leadership now rests with the chairman of the DBSMC, who is the Deputy Secretary of Defense.

Concurrent with the formation of the DBSMC, we also established investment review boards that will be required to approve all business systems investments in excess of $1 million. This new government will ensure broad senior-level involvement in business systems modernization decisions across the Department of Defense.

The BMMP program itself has also identified six key enterprise transformation priorities. Each priority has associated with it key programs and initiatives that support the achievement of improved business capabilities that improve warfighter support in 6, 12 and 18-month increments. The DBSMC will be actively engaged in monitoring measurable progress for each one of these priorities.

Although the successful implementation of BMMP priorities will have a significant long-term impact on the business operations of the Department, BMMP is not the Comptroller organization's sole focus in our day-to-day efforts to improve DOD financial management. As an organization, we are committed to eliminating all other DOD deficiencies identified as high-risk areas by the GAO, and we are developing a realistic plan to affirm that success through the financial audit process. This plan, which is currently being refined and integrated with the BMMP transition plan, already has key milestones that we expect to achieve by 2007, including a significant increase in the Department's balance sheet line items that we expect the auditors will determine have been accurately stated. We are refining this plan and integrating it with a systems transition plan to be delivered by the BMMP program in September.

In closing, I would like to emphasize that systems improvements and reductions should not be viewed as the sole drivers of business transformation. DOD culture also must change, as well as many of our fundamental business processes. Such change is being driven from the top through active engagement of both the Secretary of Defense and the Acting Deputy Secretary of Defense. The Acting Deputy in particular is asserting his leadership of the DBSMC in support of this new alignment of BMMP, and through a thorough review of our business systems investments and priority programs.

Senior leadership is engaged and committed, and our success will be a direct result of broad cooperation, collaboration, integration and cultural change across the Department.

Thank you, Mr. Chairman, Congressman Towns, and I look forward to the committee's questions.

Mr. PLATTS. Thank you, Mr. Modly.

[The prepared statement of Mr. Modly follows:]

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TESTIMONY OF

THOMAS B. MODLY

DEPUTY UNDER SECRETARY OF DEFENSE (FINANCIAL MANAGEMENT)

BEFORE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND

ACCOUNTABILITY

OF THE

HOUSE COMMITTEE ON GOVERNMENT REFORM

June 8, 2005

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Statement of Thomas B. Modly
Deputy Under Secretary of Defense (Financial Management)
House Committee on Government Reform
Subcommittee on Government Management, Finance and Accountability
8 June 2005

Mr. Chairman, members of the Committee, I appreciate this opportunity to address your concerns about the Department's progress in the area of business systems modernization and improved financial management. Over the last several months, we have taken a significant step forward in our business transformation efforts and I am grateful for the opportunity to discuss this progress with you today. I was appointed to my current position as Deputy Under Secretary of Defense for Financial Management in February of this year. Prior to my appointment, I had been serving in the Department of Defense as the Executive Director of the Defense Business Board. This Board of 20 distinguished private sector senior executives has been providing advice and recommendations to the Secretary of Defense over the last three years regarding transformational strategies for the Department's business mission. These recommendations have as their foundation fundamental principles of best business practices from the private sector. The Comptroller General has been an active observer of the Board's proceedings, and so many of his thoughts have been debated and discussed by the Defense Business Board as well.

My experience with the Defense Business Board, as well as my own private sector experience, has been critical to building my understanding of the challenges we face as a Department. There is no larger or more complex organization in the world than the Department of Defense. However, lessons learned from other large and complicated entities can still be applied to good effect if we recognize the scale and scope of our environment, and are smart about the way we apply them.

As a Department we have identified, and are actively correcting, the problems we have had in modernizing our business systems. We agree with the specific recommendations cited by GAO in their recent report, and we are taking specific action to address each one. What is not apparent in the GAO report, however, is the progress that we have made, and continue to make, in transforming our business systems environment and the broader progress we have made at transforming financial management across the Department.

Since assuming my current position, I have been working very closely with my colleague, Mr. Paul Brinkley, to shift the Business Management Modernization Program from its previous architecture and discovery phases to an implementation phase. Mr. Brinkley and I are currently co-leading this program to demonstrate to the organization the importance of, and power behind, breaking down institutional silos in the Department. We are trying to build a broad recognition of a DoD

enterprise, as opposed to separate and distinct enterprises drawn together by functional similarities such as financial management, human resources, acquisition, or logistics. The program is now focusing on the rapid delivery of DoD enterprise systems and standards. As a result, over the last several months, the program has developed an interim Transition Plan detailing the Department's current plans for enterprise systems evolution and migration. More importantly, the program has established a set of clear DoD enterprise priorities for new systems and capabilities and it has established a tiered approach with the Components to guide the further development of the enterprise architecture. A final Transition Plan and release of the architecture, as required by law, will be delivered to Congress in September, 2005.

Further reinforcing the drive to an enterprise approach to business transformation, we have established the Defense Business Systems Management Committee (DBSMC). As chairman of the committee, the Deputy Secretary of Defense designated the Under Secretary of Defense (AT&L) as the vice chair. Concurrent with that designation, the Under Secretary of Defense (AT&L) has assumed direct responsibility for the program management of BMMP. This will facilitate better cost, schedule, and performance management for the critical DoD enterprise business systems programs. The Deputy Secretary's active role on the

DBSMC has elevated overall management responsibility for business transformation to the highest levels in the Department.

Concurrent with the formation of the DBSMC, we also established Investment Review Boards (IRBs) that will be required to approve investments in excess of $1 million. These IRBs will be led by the Under Secretaries for AT&L, Comptroller, and P&R. Standard procedures that streamline the current systems certification process have been established by the DBSMC and we will implement them immediately. A shift to the new streamlined investment review process will ensure a more rapid completion of the remaining systems reviews required for this year. More specific details about the BMMP realignment and our approach to systems investments will be addressed by Mr. Brinkley in his prepared remarks.

DoD Financial Management Progress

Although the successful implementation of BMMP enterprise priorities will have a significant long-term impact on the business operations of the Department, BMMP is not the Comptroller organization's sole focus in our day-to-day efforts to improve DoD financial management. We are committed to eliminating all other DoD financial management deficiencies identified as "high-risk" areas by the Government Accountability Office, and we are developing a realistic plan to affirm our successes through the financial audit process. This plan, which is currently

being refined and integrated with the BMMP Transition Plan, already has key milestones we expect to achieve by 2007, including a significant increase in the Department's balance sheet line items that we expect the auditors will determine have been accurately stated.

Critical progress toward the audit goals, and the overall goal of improving financial management support for warfighter needs has been made in several key areas. A few examples are as follows:

- **Development of a Standard Financial Information Structure (SFIS).** The Department currently does not have a common language through which it can communicate financial information. Each service, or component, uses unique coding structures that may or may not be consistent with each other. As a result, comparing and rolling up data from subsidiary systems is fraught with imprecision and error. We are addressing this problem by developing a common financial language called the Standard Financial Information Structure (SFIS). Last week we completed the first phase data elements for this language and we will begin implementation this summer across the Department as we develop subsequent, more detailed phases of the language.

- **Near Real-Time Financial Data.** Through a test program with U.S. Special Operations Command, we have proven the capability to use an automated system to assemble and report near-real time financial information. Until recently, the level of information provided by this system took up to 60 days to produce through the Department's antiquated systems and processes. We intend to scale up this capability and provide similar information Department-wide. The Standard Financial Information Structure will ensure greater fidelity of this data.

- **Fund Balance with Treasury Assertions.** Two of the military departments (Air Force and Army) are almost ready for audit confirmation of the "Fund Balance with Treasury" line items on their respective balance sheets. This represents 12 % of the Department's assets. Favorable audit results for these line items will affirm the accuracy of a large portion of our account balance with Treasury and provide a baseline for confirming the accuracy of other line items such as accounts payable.

- **Military Equipment Valuation**. Since December, we have completed an initial valuation of an additional 223 military equipment programs, bringing our total to 735. We are well on our way to completing valuations for all 1,086 military equipment programs. This is critical to developing a baseline

valuation for our military equipment to accurately report the largest asset category on our balance sheet (27% of assets).

- **Reconciliation of Personnel Pay Records**. We have completed a detailed review of over 600,000 military pay records to ensure the accuracy of records being migrated into the new pay system, Forward Compatible Pay. Forward Compatible Pay will significantly modernize our payroll system, making it easier to ensure timely and accurate pay for our service men and women. It will serve as an interim solution to critical military pay problems until delivery of the Defense Integrated Military Human Resources System (DIMHRS), which will integrate the personnel and payroll functions. We view the prompt and proper payment of our soldiers, sailors and airmen as our most important responsibility, and priority, and we will continue to do all we can to reduce errors that cause hardships, or inconveniences of any kind.

Closing

In closing, I would like to emphasize that systems improvements and reductions should not be viewed as the sole drivers of business transformation. DoD culture also must change, as well as many of our fundamental business processes. Such change is being driven from the top through the active

engagement of both the Secretary and the Deputy Secretary of Defense. The Deputy Secretary, in particular, is asserting his leadership of the DBSMC in support of the new alignment of the BMMP, and through a thorough review of all business systems investments greater than $1 million. Senior leadership is engaged and committed, and our success will be a direct result of broad cooperation, collaboration, integration, and cultural change across the Department. Thank you.

Mr. PLATTS. Mr. Brinkley.

STATEMENT OF PAUL A. BRINKLEY, SPECIAL ASSISTANT TO THE UNDER SECRETARY OF DEFENSE, ACQUISITION TECHNOLOGY AND LOGISTICS, FOR BUSINESS TRANSFORMATION, U.S. DEPARTMENT OF DEFENSE

Mr. BRINKLEY. Chairman Platts, Congressman Towns, thank you for the opportunity to appear before you to discuss the Department's business systems modernization and business transformation initiatives.

I'm Paul Brinkley, Special Assistant to the Under Secretary of Defense for Business Transformation. I recently joined the Department from private industry, and I'm responsible for the leadership of the Department's business transformation initiatives, and specifically the Business Management Modernization Program.

Successful business transformation initiatives in the private sector have the following characteristics: They improve the ability of the organization to service their customer, they leverage the managerial structure of the organization to ensure accountability, and they focus on end-to-end business process improvement, breaking down barriers to appropriate information access.

The BMMP program was created to achieve a clean department-wide financial audit by modernizing and simplifying the complex business system environment present across the DOD. The scope of the efforts to date has been DOD-wide, focusing on establishing a business system architecture for all tiers of the Department's operation. As a result of this work, we've established data standards and business rules that, when fully deployed, will enable visibility and valuation of key assets through their life cycle, greatly benefiting the warfighting mission, in addition to our financial management objectives.

I've had the opportunity to lead business transformation within multinational corporate environments resulting from merger and acquisition activity. These initiatives involve the efforts of thousands of people who spoke different languages, worked in highly varied corporate and national cultures, using different financial currencies. They often did not initially share a collective view of the goals of the corporation; yet I have witnessed such organizations come together to achieve remarkable change by aligning their effort to a shared mission.

It is difficult to drive a change in business systems when the incentive to the end user is a high-level financial objective or a net reduction in IT systems. In my time at the Department, it has become clear that at each tier of the organization, there is a passionate desire to support the warfighters in their critical national security mission and to do other things to make their job easier and to keep them safe.

Our realignment of the BMMP requires that business systems modernization investments directly enable business process improvements that measurably support the warfighting mission. Streamlined business processes are, by their very nature, more financially transparent and are reliant on a smaller number of modernized business systems. If multinational corporations striving to improve their quarterly financial performance could come together

to achieve transformed business operations, I'm confident we can achieve far greater improvements in the Department of Defense as long as we focus on servicing the customer, and our valued customer is the warfighter.

To achieve this, we have structured the program to prioritize business system modernization investments based on their impact to our core business missions. These missions are exhibited. Additionally, we have exhibited a tiered accountability model for the Department's transformation effort. In the large multinational corporate environment, each level of the organization is responsible for defining clear transformation goals and objectives associated with their own tier of responsibility. The seams or interfaces between each layer are clearly defined to ensure that information can flow upward to support rapid decisionmaking at the appropriate level. We're adopting this approach in our realignment of the BMMP. This approach aligns business transformation to take advantage of the existing management structure of the Department.

Finally, we have taken advantage of the new management structures established by the fiscal 2005 NDAA to institutionalize appropriate senior management engagement in this critical effort. As Tom indicated, Acting Deputy Secretary England is fully engaged in leading the Defense Business Systems Management Committee, which is meeting monthly and is providing full support to the realignment and the execution of the BMMP.

In September, as required by the fiscal year 2005 NDAA, we will deliver a revised business enterprise architecture and a corresponding transition plan and acquisition program baseline. These products will reflect the realignment of the BMMP, and they will ensure that we're providing ongoing institutionalized improvement to our business processes that benefit the warfighter, while also continuously improving our financial transparency and reducing our systems' complexity.

In closing, Mr. Chairman, I thank you for the opportunity to testify before the committee about business systems modernization, and would be happy to answer any questions you and the members of the committee may have today.

Mr. PLATTS. Thank you, Mr. Brinkley.

[The prepared statement of Mr. Brinkley follows:]

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TESTIMONY OF

PAUL BRINKLEY

SPECIAL ASSISTANT TO THE UNDER SECRETARY OF DEFENSE

(ACQUISITION, TECHNOLOGY, & LOGISTICS)

FOR BUSINESS TRANSFORMATION

BEFORE

THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

SUBCOMMITTEE

June 8, 2005

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Business Systems Transformation – Status, Challenges, and Path to Success

Mr. Paul Brinkley
Special Assistant to the Under Secretary of Defense (AT&L)
For Business Transformation

Chairman Platts, Congressman Towns, and Members of the Committee:

Thank you for this opportunity to appear before you to discuss the Department's Business Systems Modernization and Business Transformation initiatives. I am Paul Brinkley, Special Assistant to the Under Secretary of Defense (AT&L) for Business Transformation. I joined the Department in the fall of 2004 from private industry, and am responsible for the leadership of the Department's business transformation initiatives, and specifically, the Business Management Modernization Program (BMMP).

As Mr. Modly indicated, we are working together aggressively to address issues regarding business systems modernization and the management oversight of investments in business systems across the Department. The Government Accountability Office (GAO) has been very open in their input and counsel regarding all aspects of business systems modernization and the challenges we face in this area. We look forward to a continued productive dialogue with our GAO colleagues as we move the program to rapidly implement streamlined processes and seamless information access – with resultant measurable improvements in financial transparency and systems simplification.

Successful business transformation initiatives in the private sector have the following characteristics:

- They are driven to improve the ability of the organization to service their customer.
- They are aligned to leverage the managerial structure of the organization to ensure accountability.
- They are focused on end-to-end business process improvement, breaking down barriers to information flow within an organization.

Originally, the BMMP program was oriented to achieve the primary objectives of a clean department-wide financial audit enabled by a net reduction in the number of information technology systems that support business operations. The scope of the effort-to-date has been DOD-wide, and has applied a comprehensive top-down architectural development approach to affect business transformation.

A significant foundation for future deployment work has been laid as a result of this effort over the past four years. I want to take a moment and focus on a few examples of value we have created in the program to date – value I believe forms a foundation for the rapid improvements we are committed to delivering.

We have established data standards at the Departmental level that, when deployed, will enable visibility and valuation of key assets throughout their lifecycle – greatly benefiting the warfighting mission in addition to our financial management objectives. The use of unique identification (UID) – data fields that uniquely identify weapon systems, materiel assets, real property, and other key support elements to the warfighting

mission, is at the core of this data standardization effort. The establishment of standards for active and passive Radio Frequency Identification (RFID), enabled by new materiel transaction standards common to private industry will vastly improve the ability to execute and track materiel shipments seamlessly from theatre to point of origin for shipments. Mr. Modly described the effort to establish standard financial accounting data structures that have recently been published. These are a few examples of value created by the business transformation effort.

We have assessed and realigned the business transformation program to leverage the architecture development effort to date, while quickly transitioning from architecting to implementing rapid business process improvement in support of the warfighter. This alignment establishes a shared mission and an associated sense of urgency to implement new capabilities and streamlined business processes. It is difficult to drive a change in business systems when the incentive to the end user is a high level financial objective or a net reduction in IT systems. I believe, however, that when the goal is clearly aligned to an objective as overarching in its importance as support to the warfighting mission, we will have the ability to drive far more rapid change.

In private industry, I had the opportunity to lead large scale business transformation within multinational corporate environments resulting from merger and acquisition activity. These initiatives often involved the collective effort of thousands of people speaking different languages, using different currencies, working within highly diverse corporate and national cultures, who often did not initially share a collective view

of the goals of the corporation. Yet I have witnessed such organizations coming together to achieve remarkable change by aligning their effort to a shared mission.

In my time at the Department, it has become clear that at each tier of the organization there is a passionate desire to support the warfighters in their critical national security mission, and to do whatever it takes to make their job more efficient and effective and to support the Department goals easier and to keep them safe. Our realignment of the BMMP ties business systems modernization investments directly to business process improvements that measurably support the warfighting mission. Streamlined business processes are by their very nature more financially transparent than siloed or fragmented business processes. Streamlined business processes are by their very nature reliant on a smaller number of modernized business systems. Achieving the objectives of financial transparency and systems simplification are accelerated by this focus on process improvement. If multinational companies, striving to improve their quarterly financial performance, can come together to achieve transformed business operations, I am confident we can realize far greater improvements in the Department of Defense as long as we focus on servicing our valued customer -- the warfighter.

To achieve this we have structured the program to prioritize business system modernization investments based on their impact to five core business missions:

- Human Resource Management.
- Weapon System Lifecycle Management
- Materiel Supply & Service Management
- Real property and Installation Lifecycle Management

- Financial Management

Each of these core business missions will ensure that business system investments enable end-to-end business processes, and that these investments are prioritized based on their rapid benefit to the warfighter. The BMMP program is focused on working across these five missions to ensure they work in coordination.

Finally, we have established a tiered accountability model for the Department's transformation effort. In a large multinational corporate environment, business systems modernization is a tiered activity, with each level of the organization responsible for defining clear transformation goals and objectives associated with their own tier of responsibility, while complying with and enabling transformational goals at the corporate level. The seams or interfaces between each layer are also defined and enforced, to ensure that necessary information can flow upward to support rapid decision making at the appropriate level. Within each tier or echelon of the organization, the accountability for transformation is assigned to the appropriate management level.

Today the DOD operates within a federated management structure. The Military Services and Defense Agencies are allocated significant autonomy to execute their business operations, and to invest in corresponding business systems, in support of their respective missions. The traditional role of the Office of the Secretary of Defense (OSD) has generally been regulatory in nature – focused on setting and enforcing policy, not on managing operations to achieve defined business objectives. Within such a structure, the business transformation program must leverage the tiers of the organization to create

accountability for investments to drive change, while ensuring appropriate information visibility is enabled to support rapid managerial decision making.

The BMMP is now aligned to have the top-level architecture effort focused on the clear definition of department-wide business rules, business capabilities, data standards, and in some cases, business systems, along with their associated interfaces. This revision of the DOD Business Enterprise Architecture (BEA,Version 3.0) is in final development, and will be released by September 30 as required in the Fiscal 2005 National Defense Authorization Act (NDAA). This architecture is being developed in collaboration with representatives of all "DOD-wide" players, including the Defense Logistics Agency (DLA), the Defense Finance and Accounting Service (DFAS), US Transportation Command (USTRANSCOM), the Defense Human Resource Agency, among others.

In a parallel and complementary effort to this architecture revision, a detailed transition plan is in final development, also for release by September 30. This plan provides actionable milestones for the achievement of the content within the DOD BEA 3.0. Specifically, each materiel data standard, financial accounting structure, business rule, human resource management system – all elements of the DOD level BEA will have a corresponding implementation schedule for compliance by all tiers of the Department. These schedules are being developed in close collaboration with the Military Services and Defense Agencies. Each Military Service and Defense Agency will be responsible for defining their own respective transformation plan – which must align to the DOD level requirements, but otherwise be focused on transformation of their own respective business mission and systems environment in support of the warfighter.

This tiered approach is consistent with industry best practices. Taking this approach breaks the overwhelming scope of DOD Business Systems Modernization effort into appropriately sized activities, each with focused management accountable for results. OSD will be accountable for its own tier of management responsibility for direct investments in corporate-level systems transformation, while also overseeing the execution of tiered transformation efforts at each level of the department.

So how does this all add up to better business systems investment oversight and address the concerns we have identified and that GAO has articulated in their report?

Each business mission will have an associated business system Investment Review Board (IRB) that will assess annual business system modernization investments in excess of $1M and assert to the benefit to business process improvement in support of the warfighter, and to their compliance to the DOD BEA requirements. The Defense Business Systems Management Committee (DBSMC), chaired by Acting Deputy Secretary Gordon England, will formally certify these system modernization investments, following the IRB assertion. Beginning in FY06, obligation of funds for business systems modernization in the absence of DBSMC certification will result in an Anti-Deficiency Act violation. This business system investment review process, now being established for execution beginning this summer, aligns our investment oversight with the new business mission focused structure of BMMP and ensures that our investments are aligned to measurable process improvements in support of the warfighter. This new process also fully complies with the statutory requirements of the FY05 NDAA.

As the imperatives of joint warfighting begin to drive common business practices, the need for higher and higher levels of collective Department-wide effort will increase over time. The tiered management structure of the BMMP allows the DOD level architecture to be clearly articulated and implemented today, with the potential for growth at the discretion of the DBSMC as driven by warfighting requirements.

I have a great deal of confidence that, leveraging this warfighter focused governance structure with tiered accountability for transformation, we are positioned to drive significant improvement in our business processes, financial accountability, and systems complexity. In closing Mr. Chairman, I thank you for the opportunity to testify before the Committee about the Department's Business Systems Modernization efforts. I am prepared to answer your questions.

Mr. PLATTS. We will proceed to questions. And we have been joined by Mr. Gutknecht from Minnesota. Glad to have you here as part of the hearing.

We will try to stay roughly at 5 minutes per Member with numerous rounds to have a good exchange.

Mr. Kutz, I'll begin with you and Mr. Hite. As we try to provide effective oversight of the ongoing efforts at DOD, now, we are 4 years in with hundreds of millions of dollars expended, what would you suggest are maybe the best benchmarks that we should set or be looking at to assess the progress being made? How can we be effective in our oversight responsibility? Certainly your work has helped us identify things that we need to be watching, but what benchmarks do you think are going to be most helpful?

Mr. KUTZ. Let me start with operational things, and then Mr. Hite can talk about information technology. For operational, let's use the military pay, the hearings that we've had with you on those issues, and certainly there's benchmarks there for things that they can do in the short term with human capital, and in the long term with the business systems.

They have done a lot of work, in that area in particular, in trying to improve the situation for the soldiers; however, the big concern is are they going to ever be able to deliver a reengineered system that they call DIMHRS, which is supposed to provide the integrated pay and personnel functionality necessary to support these soldiers in kind of a more world-class payroll and personnel-type situation.

So certainly you would want to see some progress operationally in actual military pay, the ability to reconcile their fund balance or their checkbook, and the ability to make their disbursements on time and other types of things. And they're working on those things from a human capital and a process perspective, but the systems modernization part has been very, very difficult and has not been as successful, I would say.

Mr. HITE. Mr. Chairman, I would add to that, in doing your oversight, one of the things you want to do is fix accountability, fix accountability for outcomes. And it is the Department's responsibility to define what those outcomes are; heretofore it hasn't done a good job, but what the witnesses have told you is their intention to produce a set of commitments by September 30th in terms of what they intend the modernized set of systems to look like from an architectural standpoint, and how they intend to deliver on those through a transition process where new systems will be introduced, old systems will be retired. And to me, that would be the point of accountability. The commitments they make in those documents are what you want to judge them against. And the commitments that they make should not be multiyear commitments as much as they should be incremental commitments so, in fact, you can measure progress on an incremental basis through your oversight.

Mr. PLATTS. So in essence, the benchmarks that they set year to year should be very defined so that we can make sure that we are making progress.

Mr. HITE. Absolutely.

Mr. PLATTS. As we go through here, I'm sure each answer will target at some specific examples, and I want to followup. I am

going to try to stay on a theme, but right away, Mr. Kutz, you gave an example, I think one of the challenges. You mentioned, DIMHRS, as an example of trying to get more accountability with the pay issue, which we've tried to focus on because of the quality of life for our courageous men and women in uniform. My understanding of your testimony was that even if DIMHRS is successful in coming on board, it will replace 113 of 713 current human resource systems out there. So there are still 600 more that aren't yet addressed.

Mr. KUTZ. There are a number. I don't know those numbers, I haven't memorized those numbers, but I know there are a number of systems that remain even after DIMHRS is implemented, if it's implemented.

Mr. PLATTS. Is that an example of us taking—trying to take a step forward at the Department, in your opinion, but in the long term not making a lot of progress because we're addressing 113, but there are 600 that are still going to be out there.

Mr. KUTZ. Well, certainly if DIMHRS replaced 113 and provided the kinds of capabilities that they have planned, that would be a step forward. No one could doubt that. But the fact that there are a lot of other systems out there—and the other thing that we've reported on, there appeared to be other investments that they were making that were duplicative with DIMHRS, and that would be the bigger concern is that DIMHRS is supposed to provide capabilities A, B and C, and we saw money being potentially spent on duplicative systems also trying to provide those same capabilities. And that's the longstanding problem that they've had is making investments in multiple systems that do the very same thing.

Mr. PLATTS. As you reference in your testimony, there are now over 4,000 systems out there not coordinating with each other.

Mr. KUTZ. And that's a moving target. I mean, that's the number it was an as of February or March of this year. And I know they're continuing to try to refine their estimates and determine what are and aren't systems, but, yes, that's a large number of systems.

Mr. PLATTS. Mr. Kutz, you said in your oral testimony that we are here 4 years, $300 million plus, and the Department does not yet have an effective enterprise architecture. How would you describe what they do have 4 years and $300 million later. Do we have a foundation?

Mr. HITE. At this juncture I would say—and I would quote the DOD witnesses where they said they have a better understanding of the complexity of what they're dealing with.

In terms of the foundational artifacts, the models upon which to build on, I think we're at a point where we have very little utility and a lot of investment to show for it. So we certainly aren't in a position where we've got value commensurate with cost and time that has gone into this. And I think what the DOD witnesses are describing is a—they describe a realignment or restructuring of their efforts. And what they're talking about is narrowing the focus, narrowing the scope of what's going to be dealt with on a DOD-wide basis from an architecture standpoint and what the services are going to be allowed to pursue separately.

So I think we're at a point now where what we've done up to this point hasn't produced a whole lot of value, and we're trying to salvage what we have, and I think there is very little to salvage.

Mr. PLATTS. I want to yield to the ranking member, but give the Department a chance to respond on that specific question.

Expanding on your statement of where you think the Department is after 4 years and $300 million, I want to say that I appreciate both of you in coming to the Department from the private sector.

I also appreciate that you've been in your position, Mr. Modly, maybe 4 months or so. I imagine, given the complexities, you are just getting yourself situated to understand what the challenge is. And Mr. Brinkley, you've been there a little longer. But the fact that you have come from the private sector to public service, we're grateful for that, and we want you to succeed. But I would be interested in your frank assessment of how you would characterize where we are. What do we have after 4 years and hundreds of millions of dollars?

Mr. MODLY. Sir, my assessment would be—and I don't take issue with anything Randy said on that point. I think that there are elements of what we paid for over the last several years that we will definitely use, will definitely be leveraged, and will definitely be critical to the transformation efforts going forward. There are other elements that, in my candid assessment and my colleague's candid assessment, we probably won't be able to leverage.

But I would say that the value of the last 3 years is broader and less tangible, and that is, having the opportunity to work across a Department and understand what it's going to take to actually get this done is a huge discovery process that we needed to go through as a Department, and we understand that now. We have developed some very key enterprise standards that we are going to implement, such as a standard financial information structure, which is an—essentially a common financial language. To put it in context, every different financial system within the components of the Department speaks a different language, they code financial information in different ways. Getting to a process and to a consensus across this organization in terms of what that common language will be is very difficult. We have concluded that, and we're starting the phase of implementing that starting this month.

So this is an evolutionary process. I think we have some value; we're trying to figure out what exactly that is, and what we can leverage going forward. In terms of the deliverables that we're going to have in September, we feel very confident that what we will deliver in September will allow us to transform along the key priorities of the program. And in terms of measuring that—which I think is another point that was made—measuring our progress based on the number of systems that go away to me, coming from private sector—and I think Paul would agree—is not a valid way to measure whether or not we're getting value.

What we've asked all of our enterprise priority leaders to do is to determine 6 months, 12 months, 18 months from now what will we see in terms of improved business operations because of the implementation of these systems. We don't want them to think about, oh, we'll have a final operating capability on this system in 2 years.

That doesn't tell me anything. I want to know what is it going to do to improve warfighter support, and that's really what we're focusing on.

So if you want to hold us accountable, we will have those 6, 12 months deliverables prepared in September. And we're holding our teams accountable to that, and we should be held accountable to that as well.

Mr. PLATTS. Mr. Brinkley, do you want to add anything?

Mr. BRINKLEY. I get choked up on the topic of architecture.

The only thing I would add is that you made the point in your introductory statement, and Mr. Kutz reinforced it, the effectiveness of an architecture is a direct measure of how useful it is, how you can implement it.

When we talk about what we can use and not use in the architecture effort to date, a big delineator for Tom and I is what we have, given the managerial structure of the Department and the appropriation process used to fund systems initiatives in the Department, the ability to rapidly deploy and implement. And defining the scope of the effort so that it is clearly aligned and not in conflict with the managerial structure of the Department so that we can put in place accountability for implementation, as Tom mentioned, the data standards that ensure interoperability for materiel management, that ensure the ability to cascade financial information up the Naval rapid decisionmaking. Those are things that we are very much empowered to do at the top level of the Department. And so the architecture effort is focused on those things because they translate into direct benefit.

So this discussion of what has been useful and not been useful has a lot to do with what can we use and rapidly deploy. And that's where we want the future architecture effort to focus, as opposed to more of the discovery—as Tom described it—effort that's taking place today.

Mr. PLATTS. Would it be accurate to say that what you're seeking to do now is to have a more realistic architecture as opposed to an idealistic architecture?

Mr. BRINKLEY. That's correct, one that is not in conflict, as I mentioned earlier. It may be an interesting thing to try to forecast the ability to put all of our logistics operations on three or four systems when we currently have 2,000, but it's not a very relevant topic in terms of our ability to quickly transform logistics. That is a good example.

So focusing on data standards that, regardless of whether we have 2,000 logistic systems or 1 logistics system, they enable us to interoperate and communicate and act as a single enterprise to support joint warfighting, that's a very powerful and deliverable objective. And it also translates very well into a benefit to the joint warfighting mission of the Department.

Mr. PLATTS. You've given me some additional followups, but I do want to yield to my ranking member, Mr. Towns, and I will come back to you on that same issue.

Mr. Towns.

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

Let me begin with you, Mr. Kutz. You mentioned that legislation is necessary. Could you be more specific in terms of exactly what you're talking about?

Mr. KUTZ. Yeah. We had two proposals in our testimony, one is—which we talked about at prior hearings before this subcommittee—is a chief management official, or Deputy Secretary for Management, which would be a level two political appointment, Senate confirmation, that would have a 7-year renewable appointment term, that would be the transformation focal point for the Department full time. And that's within one of the reasons we believe that we've had trouble transforming is you have part-time leadership that has not been sustained over more than a couple of years, and so one of the potential—and again, it isn't the only solution, but we believe it would provide a stronger foundation for a transformation to be successful.

The other one has to do with the way that the business systems modernization and overall business system appropriations are controlled and appropriated from a budget and execution standpoint. Right now there are a lot of people that get money to spend on the business systems, and there's not a whole lot of corporate oversight or control over that, so that's how you sometimes get multiple systems being developed at the same time that do the same thing. And that's how you get to the thousands and thousands of systems is because different people have gotten money to implement systems without a whole lot of corporate oversight.

Mr. TOWNS. Let me ask you, Mr. Modly, do you feel that legislation is necessary?

Mr. MODLY. No, sir, I don't believe that legislation is necessary. The legislation——

Mr. TOWNS. Is that because you're new?

Mr. MODLY. The department is still trying to react to the legislation from last year. But honestly, sir, at this point I don't think that legislation that Greg is talking about is necessary.

We received some very strong language in the NDAA Act from last year that established the Defense Business Systems Management Committee. And in my view and in the Department's view, that does address some of the concerns that Greg mentioned. One is the issue of investment control over systems investments. We are now required by law to review and approve any business system investment over $1 million, and so we've established investment review boards to do just that. Those have to be approved by the Defense Business Systems Management Committee. That committee is chaired by the Deputy Secretary of Defense, and vice-chaired by a level two political appointee, the Under Secretary of Defense for Acquisition Technology and Logistics.

So in my view, I think that this governance that was imposed in the law last year should be given a chance to work. I think we can make it work. In terms of senior level engagement, Paul and I are actively engaged in this program daily. So I believe that we have an opportunity here, with the law as it is, and an acting Deputy Secretary who, quite frankly, is very interested in business transformation and is very involved in working with us, to move this program forward.

Mr. TOWNS. You know, when you look at the examples that were given, you know, they make you wonder, I mean, when you look at just travel alone, I think alone was $150 million; is that correct?

Mr. KUTZ. $115 million of unused airline tickets; is that the example?

Mr. TOWNS. Yes.

Mr. KUTZ. Yes.

Mr. TOWNS. I mean, so you're saying now that the type of system that will be implemented will be reviewed by this group, and they will make a decision as to whether it comes in or not? I mean, explain to me——

Mr. MODLY. Sir, every system that will be invested in in the Department of Defense for business management will be reviewed by this investment review committee; that is the role of this new investment review process.

The specific instance of the $115 million in unused airline tickets is a problem. It is a combination of a systems problem and a business process problem and a training problem. It's not simply dependent upon a systems problem. We have taken aggressive corrective action to address that, and I would be happy, for the record, to submit specifically what we've done to address the unused airline ticket issue.

However, this is not—solving the business management of the Department is not just relying on a systems approach. There won't be one system, there will be multiple systems across the Department. Also, what we want to be able to do is to have a rational approach to understanding what those systems are, do they make sense, do they fit into the architecture that we've established at the high level for the Department? And that's what this new governance committee is allowing us to do. In the past, Greg is right, that has not taken place in the Department.

Mr. TOWNS. Let me just go back here.

Mr. Kutz, if DOD proceeds with the business enterprise architecture, some very difficult decisions will have to be made on which systems are turned off. What are some of these issues, and what can the Congress do to assist in this matter? I hear you posing a proposal and all that, but it seems to me that more help is needed.

Mr. KUTZ. Well, I think one of the issues is going to be—it's similar to the BRAC issue where you've got a lot of contractors and a lot of systems involved. To the extent you do end up having less system somewhere—and that may not be the right way to judge this, but ultimately if you are successful with transformation, you may not have 4,000 systems, you may be able to replace all the travel systems with the defense travel system, for example.

There are contractors out there that have business and jobs and all those types of things associated with the systems that are going to be terminated, and so—and I think in the past when the Department has tried to terminate those systems, they have gotten some pressure from the Congress, from their constituents, on those types of issues. So realistically that could be something you need to help them with respect to being able to streamline and provide end-to-end solutions in the Department for the various issues we talked about today.

Mr. TOWNS. Right. Thank you.

Mr. Modly, according to GAO's testimony, there were 30 systems valued at $243 million that were modernized in 2004, but failed to be reviewed by the Comptroller's Office. Can you offer us any explanation as to why these systems were not reviewed?

Mr. MODLY. Yes, sir. The requirement for the Comptroller to review systems investments over $1 million was imposed by a Comptroller memorandum in an enforcement of a law from the fiscal year 2003 act. We did not have, at the time of that law, an infrastructure within OSD to perform that. So it's been a process of discovery, as I mentioned before, first of all understanding where the systems are, then getting a message to the system's owners that they needed to submit for certification. So I would candidly admit that in that first year we missed some systems, we did not get them all. We are trying to get better at that process.

One of the motivators behind our work on the development of these new investment review boards [IRB's] is to create a system that provides visibility and understanding where all these systems are that we need to get certified so we don't have that problem again. We are also streamlining the process. What happened in the past is that program managers would submit their systems for certification, and they ended up getting lost in a series of different bureaucratic processes in the Department. One of the key elements of making these IRBs work is ensuring that we have a very streamlined process, a standard set of questions and a standard for determining whether or not these systems are compliant. We will do much better in the future on those.

Mr. KUTZ. Could I add to that? Because I think one of the other problems is that for them to even know which systems have obligations of $1 million or more requires a data call. They do not have systems and processes in place to automatically be able to figure out who is obligating over $1 million. That gets back to all the pots of money that are out there for systems investments. And so they don't have an automated way to even determine after the fact who obligated money for systems modernizations. So I'm not sure how they will ever solve it until they're able to deal with that, because otherwise it's an honors system.

Mr. TOWNS. Mr. Chairman, I know my time is up, but I sure hate ending on that note, but go ahead.

Mr. PLATTS. We'll come back to you.

Mr. Gutknecht.

Mr. GUTKNECHT. Well, thank you, Mr. Chairman, and thank you for having this hearing.

You know, a few years ago we had some scandals in the corporate community, and the Congress responded, and some might even say we overreacted by passing Sarbanes-Oxley. And among other things, we require the CEOs now to sign off on their financial statements.

In a sense, we are the board of directors here, the Congress is the board of directors of this massive company called the Department of Defense. And it is troubling to me, as just one Member, that this Department, for as long as I've been here, I think, cannot pass an audit.

I guess if I were to boil it down to one simple—maybe not so simple question, is can the Department of Defense pass an audit today? And if not, when do you think they will be?

Mr. MODLY. Is that directed to the GAO——

Mr. GUTKNECHT. Anybody who has a mic.

Mr. MODLY. I can take this, sir, absolutely.

I would say in my professional opinion that the Department could pass an audit today if it had enough money and enough resources to do it. That means having the ability to trace every single transaction, understand the manual processes that are required to bring information up to the corporate level. But understand, sir, that we have 59 separate entities that have to submit financial statements in order for us to give a clean opinion. I don't think that it's a wise use of the taxpayers dollars, and we're talking billions of dollars in order to be able to do that.

One of the things that we're trying to do with the BMMP program is over time drive that cost of audit curve down by increasing financial visibility and traceability through both systems and standards, so that at some point in the next several years we will be able to make those investments to do the manual work-arounds required to get a clean opinion. That is our position.

So I think we could get one. I believe it would cost in excess of $1 billion to do it in a year, and I don't think that is a wise use of taxpayers dollars to do it.

There is a difference—let me also state that there is a difference between being accountable and having that accountability affirmed in a clean audit opinion. And I understand the way that the private sector requires clean audit opinions for their financial statements. In our case, we can still show that we're accountable, we can still show that we can trace where the money is going into certain programs and how it's being spent and not necessarily pass the technical qualifications by an audit. But I will say that the Department's goal is to get a clean audit opinion. BMMP is a process and a program that is helping to drive us toward that.

Mr. KUTZ. Let me add a few things. The kind of audit he's talking about they call a "shoe box audit" where basically management can't account for everything on their own, so they throw all the records in a shoe box and have the auditors sort everything out. That's honestly what they call it. And so I don't know how many years that would take or how many billions of dollars, or if it's even feasible.

But right now they don't have a realistic, feasible plan as to how to get an audit, and really that's not the goal. The goal is to provide world-class mission support to the warfighter. I think we agree with them on that issue. But you have lots of issues with human capital, the business systems we talked about here today, and I don't believe they're anywhere close to being able to pass an audit. Certain parts of the Department have been able to pass an audit, but not the ones that are very systems-reliant and that have significant human capital issues.

Mr. GUTKNECHT. Well, could you reduce that to a couple of sentences that I could explain that to my constituents in? And I'm serious about this. And it's not just the Department of Defense, we have a lot of departments that can't pass audits right now. And on

one hand—and we have business people in our districts who say, wait a second, you know, I have to sign off on this, and if it's not right, I can go to jail. I mean, how come the government isn't held at least as accountable as I am? And so what I heard is a lot of, you know, systems technospeak here, but that still doesn't quite answer the question.

And my real concern is this—one other concern, and that is that we sort of have a pattern around here, every year there are some hearings like this or there are studies or reports that come out—and I'll pick on a different department for a minute, the Department of Education can't pass its audit. And so when it comes time for their appropriation, ultimately the Congress decides, well, I guess we're just going to have to give them more money. And to a lot of our constituents that really doesn't pass muster.

So are you telling us that in 3 years or 5 years—and I would remind you that we won World War II in 3½ years. The Department of Defense can do things it wants to do when it wants to do them, but this has never been a very high priority, in my opinion. I mean, if this were a high priority, we would have this problem solved today. And I guess I'm really trying to find out what do we do to put a little fire under the folks down there to really make this a high priority.

Mr. MODLY. Sir, let me say that a couple of years ago the Comptroller of the Department of Defense put a stretch goal out there of trying to achieve a clean opinion by 2007. And financial improvement plans were developed to support that process, and these are plans that have to be developed through all the services and all the agencies, etc. We were prohibited by law this past year, in NDAA language in section 352, from spending any money on those plans until such time as we got our transition plan delivered and we got the architecture delivered.

So some of our inability in the last couple of years—or in the last year at least—has been constrained by the Congress's restrictions on us spending money on its work.

Mr. KUTZ. Let me just give you one of the causes real quickly, because I think——

Mr. GUTKNECHT. Can I just go back? So section 352—so when the bill comes up this year, some of us ought to pay attention to that section, because I don't remember that being debated on the House floor.

Mr. MODLY. Sir, we were restricted from spending any money on the midterm financial improvement plans which were designed to get a clean opinion by 2007.

Mr. GUTKNECHT. OK. Thank you.

Mr. PLATTS. Thank you, Mr. Gutknecht. I would like to comment on the issue of priority. I think one of the challenges here is that we thankfully do have a Secretary who, as I referenced in his statement on September 10th—who has made this a priority, the challenges we're dealing with, almost 50 years' worth of actions and decisions that have complicated the ability to fulfill Secretary Rumsfeld's priority in any faster or timely sense because we're trying to undo decades of poor management decisions, and I think that's what you're trying to get our hands around to go forward.

You did touch on, though, I think, the reason the limitation was placed on DOD is that rather than spending money on trying to get a clean audit that would result, in essence, in this heroic effort to get an audit that would not really benefit us in the sense of changing the practices of DOD is that we would be better focused on trying to improve the processes and the internal controls that would then generate the clean audit, cleans books that can be audited.

And then you—Mr. Modly, you said that you were not able to get a clean audit today without a huge effort, and the merits of that would not be very wise to go forward with. How about in trying to get closer and closer to an audit regarding internal controls, which gets to that foundation that we're talking about, is that something that——

Mr. MODLY. Yes, sir. That's a very good question. And what we're doing now, as we're working on our transition plan for systems and understanding that better and looking at the deliverable for September, we are concurrently with that developing this comprehensive audit plan or audit readiness financial improvement plan for the entire Department so that we understand what are the system's dependencies and when do we expect those to be ready, and understanding how the audit process will marry up with that over time.

We have, within that initial look, an opportunity not to take heroic measures, and yet make substantial progress between now and 2007, if you look at line items, and getting favorable opinions on certain line items.

Right now if you look at our balance sheet, on our asset side we have basically clean opinion on 16 percent of our assets and about 49 percent of our liabilities. We think we can take that number to about 62 percent of our assets by 2007, and about 53 percent of our liabilities by 2007, and that is by focusing on business process improvement, not taking heroic measures, getting things ready for audit, and having the auditors take a look at them and giving us a favorable look at those pieces.

So we do have an incremental approach. We all agree, sir, with you that this is critical to our credibility with the taxpayers and our accountability with the taxpayers, so we're not abandoning that process; however, we want to make sure we're doing it in a way that is concurrent with the process of improving how we're doing our business, not just to be able to have an opinion that a year later we can't sustain.

Mr. PLATTS. That's been the focus of this committee not just with DOD, but across the board, in working with GAO is to get in place those processes that year in or year out you're able to have effective management information, and not just at the end of the year to try to get a clean audit, but you have those systems in place. And while, one, I appreciate your frankness in that 2007 is not doable for a true clean opinion, your willingness to share that—and maybe only being there 4 months, your willingness to be more frank. But I think that's good because, quite frankly, I would rather, if we have to, wait until 2008 or 2009 or 2010 because we truly are getting to the root of the problem rather than just trying to come up with what looks like but really doesn't address the problems.

I do want to go back on the issue of the million dollars, the approval process. You referenced the 2003 legislation and then the 2005, and in your testimony you talk about this requirement. We did have it in law in 2003 as well, but as GAO pointed out, hundreds of millions of dollars was expended on systems improvements that were not approved. I want to better understand the cause. You reference not having a system in place to get the word out. I'm not certain why even in a blanket departmentwide e-mail that says, here is a new law, anybody that's looking at systems improvement, this is a law that we need to comply with. What efforts were made to get the word out? Because I guess what I'm trying to get to is why should I feel comfortable that because of the 2005 law, we are actually going to see approval occur or funds not being spent versus the hundreds of millions of dollars that were spent despite the 2003 law being in place?

Mr. MODLY. I'm going to let Mr. Brinkley answer that because he's been very closely involved with the new IRB process.

Mr. BRINKLEY. First of all, the 2005 NDAA includes the motivator of Antideficiency Act violation, in the event that funds are obligated without the fund approval. That serves as a motivator, obviously.

To speak to why we feel more confident now than we did in 2003, there are two reasons. One, as Randy mentioned, you were relying a bit on an honor system in something very new. In the Office of the Secretary of Defense, traditionally the majority of its responsibilities are policy setting and regulation to policy. And when the Department declares that organization is now going to take an active role in business systems management and business systems oversight, you're creating a need for a set of skills, a set of managerial acumens that don't exist, or did not exist at the time at the Department level, and the Department needed time to put that in place; communicate effectively with the different functional communities, logistics, acquisition, finance and personnel across the Department; establish those channels of communication so that the awareness was completely embedded across the Department at many different tiers.

So we are confident, and again, given the language in the NDAA and the effort to date to establish those managerial disciplines that did not exist before at the DOD level, that we will have a much more effective review process going forward.

Mr. PLATTS. Mr. Kutz, your thoughts on that? The change from the 2003 requiring it and your investigation finding all those approvals, your assessment of whether we're at a point where we are likely to be more successful and not repeating itself.

Mr. KUTZ. We haven't looked at whether we're more likely going forward. I do believe that a little more teeth in it with the Antideficiency Act for an obligation over a million that's not approved provides a little bit more incentive for people not do it, but it is still the Department of Defense, and there are a lot of Antideficiency Act issues that they had over the years, so that may not even deter people from being honorable in coming forth with the information, because again, I think they don't have—I'm still not aware, I never heard them say they have a system where they

can systematically go in and identify all obligations over $1 million related to IT that would tell them for sure they got everything.

Mr. PLATTS. That was going to be my followup is to have an actionable violation, you have to know about it, and you only knew about it here because of GAO going in and doing a review. And as best possible, I think in your report or your statement you are not even sure you found everything that is out there.

Mr. KUTZ. We relied on a data call.

Mr. PLATTS. Right. So again, it's a good faith effort of what was done or not. So what are you trying to do to better ensure that you are crossing the Ts, dotting the Is, that this isn't going to continue to go on?

Mr. BRINKLEY. We indicated in our report to Congress in March, and to reiterate here, the NII organization, the CIO's organization within the Department, has published a policy establishing a single repository for defense business systems across the Department of Defense and has set firm dates for getting the information about our business systems inventory—Mr. Kutz referenced the 4,000 systems, the 2,000 systems—to get that inventory accurate, to get it in a single repository so that as we assess modernization investment, it's done off of a base of information as opposed to a strict honor system. So we are moving to address that, and we're working with the NRI organization to make sure that repository is fully populated and exercised.

Mr. PLATTS. One followup, and then I will yield to Mr. Towns.

We've talked in this committee a number of times about consequences, and one of the challenges in Federal Government is lack of consequences. Regarding those expenditures that were over $1 million and not appropriately approved, has there been any investigation into how many, if any—I will assume there were—were done with knowledge of the other tier requirement, and what consequences were suffered by those who made the expenditures contrary to Federal law? Because that goes to that issue. And my constituents say, I've got to follow the law back home, and if I am speeding, I'm going to get a ticket. If the Federal employees violate the law, what happens? Is there any knowledge base there?

Mr. MODLY. Sir, I'm going to have to investigate that and get back to you on that. I don't know for certain, I was with the Department in 2003, but with the Defense Business Board, and I was not actively engaged in the certification process. I'll investigate that.

Mr. PLATTS. If you could followup, and I would be interested in was there anyone held accountable for expending funds contrary to Federal law because of not having the Comptroller's approval for expenditure? Mr. Kutz, from your report, I don't know that you're aware of any consequences.

Mr. KUTZ. I'm not aware of. And we do a lot of fraud, waste, and abuse-type allegations in the DOD, and that is one of the issues that no one is ever held accountable for things even more severe than what we are talking about here, so that leaves an environment that even if they get caught they know nothing is going to happen.

Mr. PLATTS. I want to go back to that environment issue and the consequences. I'm going to yield to Mr. Towns. I know you have a time crunch.

Mr. TOWNS. You know, thank you Mr. Chairman. And let me tell you, you guys are a breath of fresh air, I want you to know, Mr. Brinkley and Modly, you really are. And I say that in a sincere way. But I'm not sure how you're going to get a handle on this, because as I understand it, many agencies place extensive reliance to contract and support to prepare financial statements. How does this impact on an agency like yours in building and sustaining a long-term financial management reform? I know—are there human capital needs? This is just not clear to me.

Do you really have enough people to do this? Are you—I mean someone, something, is missing here and I'm not sure what it is.

Mr. MODLY. We absolutely do not have enough people in the Department of Defense to do the audit work that is required to get a clean opinion. And so we do rely on contract personnel to help us with that.

Not only do we not have the skills, we don't have the sheer volume of people that we need, so we do rely heavily on a contractor base to help us with both preparing for audit opinions or preparing our financial improvement plans, but also in actually executing those. So we are heavily reliant on our contractor base to get a lot of this work done.

Mr. TOWNS. That makes it more difficult to get a handle on it.

Mr. MODLY. I think it requires a level of managerial expertise within DOD that Mr. Brinkley and I are really trying to upgrade by bringing in some more people into the government who have that level of experience and have that level of expertise to help manage the contractor base; and that is a long term challenge that we have, but we are exercising use of special hiring authorities, etc., to bring in more people that have broad experience within the private sector doing this type of work. As stated before, the Department's never had a clean financial opinion for the entire Department, and the government itself is challenged in that way. So having a cadre of people in the Department who really know what it takes to get it done is a challenge, and so we're trying to bring more people in from the outside but bring them in as government employees rather than as pure contractors, so we can have people inside the Department that can manage that contractor base so we can get that done.

Mr. KUTZ. I would agree. That is a critical element here of when they come up with this plan they are developing, human capital is probably more important than anything else, because without the human capital the systems are not going to happen, the audits are not going to happen, and the transformation is not going to happen. And the market is fairly tight right now to bring in the financial people. We are competing for the very same financial people, and IT people like Mr. Hite, that they might be competing for out there. And the market is tight. There is a lot of consulting firms and accounting firms and others that are competing for that same group of talent, particularly in the Washington, DC, area. I think it is a little easier to compete for talent outside the Washington,

DC, area in the Federal environment, and I think they found that also in the field.

Mr. TOWNS. Thank you very much Mr. Chairman. I yield back.

Mr. PLATTS. Thank you, Mr. Towns, I appreciate your participation.

I want to come back to the issue of the environment of the Department, and I think we are fortunate to have Secretary Rumsfeld and somebody who, on September 10th and even despite the attacks of the 11th, has maintained his commitment to this transformation on the business side of it. If we do better with how we manage the Department, we are going to do better with how we support the warfighter, and I think that is what this is all about, is in the end we saved $150 million that was lost on unused tickets, plane tickets. That is $150 million that is either in quality of life for soldiers and their families or to equipment, armor, whatever it might be.

You mentioned, Mr. Modly, in your testimony, that you and Mr. Brinkley are working together, in kind of shifting the focus of the business management modernization program into this implementation phase. And in essence, the way I read it, is trying to sell the merits of it; that to get that buy-in within the Department, that if we do this, there is going to be benefit all around to everybody, especially to our mission in supporting that warfighter. How do you think that is going? How is that sales effort going as you try to change that mentality over there?

Mr. MODLY. I'm getting a little tired of having to go with him everywhere.

But other than that, it's been very effective, sir. We try to go out as often as we can together to show that finance and Acquisition, Technology, and Logistics [AT&L]—and AT&L is really where a lot of these business transactions happen, that is where they occur. And the culture of the Department is not to value the financial information that comes out of that transaction. We are trying to go out and communicate together that the program is an enterprise program. We tell our people, think about the enterprise, don't think about your silo. It is the whole purpose behind shifting the focus more horizontally, looking at end-to-end processes and looking at the customer as being the warfighter.

So for us it has been very effective, and we are going to continue to do it as long as we possibly can, because that message has to go to a very, very large organization. It is not just he and I, but it is the people that work for us, and the people that work for those people, that have to also start communicating at that level. So as long as we stay engaged in our level, I think that helps reinforce that message.

Mr. HITE. Mr. Chairman, if I can add to that, we talked about the business enterprise architecture up to this point and the modernization program and what we have after 4 years. I think one of the root causes for how little we have thus far has been the absence of an effective communications strategy to achieve that buy-in. So I would applaud these efforts and raise them up as keys to success for the modernization program.

Mr. PLATTS. Mr. Hite, that leads to a question for all of you, and especially starting with our DOD officials and the topic of chief

management officer. I agree with Mr. Towns' statement that you're a breath of fresh air in your frankness and your approach on this issue. The worry is that a year from now, you for whatever reason choose to do something else, and we are always starting over. And that when we get this commitment, get the leadership—Secretary England, who I think the world of and who has served us so admirably in a number of positions in the last 4 years, very difficult times, has always stepped forward when asked to, and doing a great job, but that worry about turnover personnel and then we lose that momentum. That is what I see the CMO being about is ensuring that there is a continuity. And I want to make sure I understood from your testimony, that your statements here today and the position of the Department is not supportive of legislative CMO position; is that accurate?

Mr. MODLY. That's correct sir.

Mr. BRINKLEY. That's correct, sir.

Mr. PLATTS. Maybe, I don't mean specifically as proposed in the Senate bill and what is associated with that legislation, but do you agree that having a more permanent position that we know is going to be across administrations and long term, maybe would help to, you know, change some of the mindset, the environment in the Department; that if everyone says, well, hey, Congress really means it this time, they have created this new position, it is a 7-year term, 5-year term, 10-year term, whatever it may be, but we really need to do this, is there a hope—is that a legitimate hope if we go that route.

Mr. BRINKLEY. I'll respond. I think the formal position of the Department is that there is great risk in separating business activity from the warfighting activity through dividing the Deputy Secretary's responsibilities in that manner. He gave a more formal response to that, and that was the crux of it. If you think about a world in which we're moving to performance-based logistics and we're having contract business resource support delivering value into theater, directly to the warfighter—and all of our theme today has been about clearly articulating the benefits of business process reengineering to the warfighter—anything that creates a separation of the warfighting activity of the Department from the business activity of the Department, works counter to what we're trying to drive home, which is the very real fact that these things are entirely complementary, and they're supportive and they are going to get more supportive as we move into new arrangements with the defense industry base. So that is one response in terms of why that particular proposal is not appealing to the Department.

We are working to establish continuity in the program. Tom and I talk all the time. People are constantly asking us the same point you made: What happens when you guys go? I want to talk about that in a moment, but specifically we have established the BMMP as ACAT 1 acquisition program of special interest to the Department of Defense that, in and of itself, with a program baseline, creates a continuity that extends beyond resource turnover at the senior level as well as even administration turnover. So we are taking advantage of that.

We are continuing looking at ways, as Tom mentioned, people to bring in, private sector, for termed and extended appointments and

permanent career positions within the Department to contribute and provide continuity and to create a critical mass of leadership that understands the importance of this and has experience actually engaging in effective business transformation activity.

But the most important point I want to focus on here today is that the leadership issue is a significant challenge for the Department, but we can put that leadership in place and there has been leadership in place in the past, and past efforts of the Department have not succeeded to its full extent because the mission of the Department did not require it to succeed. We have a moment in time here where the needs of joint warfighting are making it extremely apparent that continuing to execute our business operations as independent entities—and those independent entities are the drivers of the siloed information—is no longer sustainable; that the rapid requirements, the speed of decisionmaking necessary to meet the warfighting challenges of the 21st century drive and create an absolute need for us to execute effective business transformation.

So whether Tom and I are here in the long term or our replacements are here in the long term, that mission will trump all other aspects of leadership. That is the sufficient condition for effective business transformation, and the leadership is something we're also addressing. I think that is the missing ingredient that has not been present in prior efforts that were more focused on systems streamlining and financial management. The mission itself is completely in alignment with the need, and I'm confident given that fact that we are going to be successful as we go forward.

Mr. PLATTS. The point of having these efforts hand in hand, under one deputy secretary, are well stated in that ideal world. Earlier I asked about a realistic approach versus an idealistic approach, and if Secretary England doesn't mind spending 48 hours a day on doing both, I agree. But the challenges, the way I see the Department, the benefits of a CMO, is that it is not realistic because of what we're demanding day to day in that warfighting side; that general operation of the Department, that appropriate necessity, whoever is the Secretary, whoever is the Deputy Secretary, their focus is what battles are we fighting today and do our troops have what they need and the support. And, you know, it doesn't allow them to give the time that we need on the modernization effort. That is why in concept supporting the GAO's position and legislation that has now been introduced, you know, we need to look at the specifics maybe, but is that—trying to be realistic, it is just not humanly possible, I don't think, given the magnitude of the challenge.

The fact that we have two of you sitting here, not one, kind of makes the case that you're partners in this from, you know, financial and the logistics and, working together makes the point that it is, for one person, you know, it really isn't going to work. And so the—you know, the thought of a CMO is one that I think we need to look at.

Mr. Kutz, I don't know if GAO has taken a specific position with the Senate bill.

Mr. KUTZ. Yes, we support the Senate bill. As you said, we believe that there are two jobs here and one has never been filled. The one job of the Deputy Secretary is to do policy and military

transformation. The other one, business transformation, always takes a second seat. And you discussed the reality. The reality is when the administration came in, they thought they were going to be able to spend a lot of time on transformation, and then September 11th happened; and guess what?

Mr. PLATTS. If we were back in the nineties, we might have had some conflicts, but not global engagements. We might have been able to do it with the same commitment from an administration that we have today. If we had that in a more peaceful time, one person maybe could have overseen both.

Mr. KUTZ. Right. It is that constant turnover you mentioned. I've been at this for 4 or 5 years, and there's been about a dozen or more hearings and we have probably had eight or nine sets of witnesses. And, you know, at some point in time Mr. England—and he is a perfectly capable person, I think the Comptroller General thinks he could probably do this job if it was full time for 7 or more years. And the question is, will it be full time and will it be 7 or more years? It does not appear to us that will be the case. And will he be able to come to hearings like this and be held accountable to Congress? Is he going to come to 10 or 12 hearings in a row and represent the Department as their representative for business transformation? I doubt it. I think he will have more important things in his view.

We will see. We do support the legislation.

Mr. PLATTS. What are the specific criteria that you think are most critical to a CMO position being effective and worth pursuing?

Mr. KUTZ. Certainly the executive level 2 position, No. 3 in the Department, Deputy Secretary for Management, 7-year renewable term. Someone with private sector and potentially government experience with successful transformation of large complex organizations. And so those are some of the kinds of things that are in this legislation specifically and we certainly support that.

Mr. PLATTS. If I remember from your testimony, Mr. Modly, you fulfill those requirements I think, right?

Mr. MODLY. I think.

Mr. PLATTS. The business and the government experience. And in essence what you're doing, but we want you to do at a higher level and do it more full time.

Mr. MODLY. I'm not looking for a job right now. I'm perfectly happy where I am, but would say that what is more important, I believe, in the transformation is not whether we create a new position, it is important for senior level direction and continuity. I agree with the objectives, and if the objectives can be cast properly up front, and those clear requirements of what we are trying to accomplish can be cast properly up front, transformation falls to the people who are three, four, five, six, seven levels below us, and so we have to change the overall culture of the Department and we have to seed the organization with people who have had experience across broad industries and understand what it takes to get this kind of thing done. And I'm not sure you solve that necessarily with one person—with one person at the top.

Mr. KUTZ. Can I just address that culture thing just for a minute? If you look at GAO, we have the Comptroller General for 15 years. We know he is not going away. And fortunately we're

confident he is doing a good job, but the transformation is going to be a 15-year transformation. We know he is not going away. In the Department of Defense and other Federal agencies, we know 2 years is your window; you know these people are going to turn over constantly. And you know that nothing is going to last that long. And that is really, if you look at some of the efforts over time, that is the reality of what is going to happen.

Mr. PLATTS. I think that is where we are trying to jibe the two statements, is that I agree that effort at that five or six levels down—and you take Mr. Kutz's comment if you are five or six levels down and, you know, it is your system, you know that you created it, you really don't want to change it because you like it, it works for you, even if it doesn't work in a bigger sense, they think, well, I can just sit this out. Well, you can spend some money but you're going to be gone, you know, the higher up, in a year or 2 years and, you know, we will still be here. And I think that is part of that; it is a combination of your two statements. It is critical as at those lower-level staff, but for them to take it seriously they need to know that a person telling them to do it is going to be there and going to hold them accountable long term, not just in the short term. And I think that is where trying to mesh that permanency——

Mr. PLATTS. The department transfers the responsibility from Comptroller to AT&L, and that this is going to maybe allow you to better support this transformation process. Can you expand why that is going to be the case? Why in the current environment is that going to work better?

Mr. MODLY. There were three primary reasons driving the shift over. The first one was as you look across the Department, we understand this concept of where the transactions start; 2,000 of those 4,000 systems are logistics-oriented systems. So it made sense to shift it over for that reason.

The second reason was if you looked at the composition of the Defense Business Systems Management Committee [DBSMC], the second-ranking person on that committee is the Under Secretary for Acquisition, Technology and Logistics [AT&L], not the Comptroller. The Under Secretary for AT&L is a level 2 political appointee, as is the Deputy Secretary of Defense. So the Deputy Secretary as the chair, it made sense for the vice chairman of that committee to be AT&L, and therefore for the program to shift to that higher level. So it was an elevation essentially of the program management to a higher level in the Department consistent with what the GAO has said.

The third reason is due to program management and control over spending. We are taking these key priority initiatives and making specific effort, as Paul mentioned, to designate BMMP as an ACAT 1 program. We're going to centralize the funding for all those key programs within the BMMP office, and that made sense to do that under the AT&L because they have all the acquisition discipline. They essentially write the acquisition discipline for the Department.

I don't know if Paul wants to comment on that any more.

Mr. BRINKLEY. No, just to reinforce. And I think you asked the question earlier about the two of us being here together, and Tom alluded to the fact that we seem to do road shows frequently.

There are two elements to this. The program and the accountability for the execution of the program is within AT&L, reporting to myself. So there is no lack of clarity about accountability now for execution and success. But the cultural change we're trying to drive—and again if there were a CMO at the top of the Department, I'm sure he would potentially add to cultural change, or not.

But Tom and I and our subsidiary organizations are very focused on driving home again the fact that financial management discipline is complementary to clean, streamlined, business processes. It is not part of the awareness of the Department. It is not part of its culture.

To the discussion earlier, the Department doesn't deliver quarterly financial results, and the quality of those quarterly financial results are not requisite for its success or failure in its core mission. So over those 50 years of systems being created, there is no embedded awareness that a financial focus is or is not complementary to executing our primary mission in terms of delivering material to warfighters.

So we will continue to drive this, you know, call upon each other to reinforce that message. But the accountability for the program is here, and for the reasons he cited.

Mr. PLATTS. And, you know, my referencing your both being here is a positive. The fact that you are here, I think, is an example of what I see as progress, of moving forward, and that we actually start getting to implementation. And, you know, we have been trying to identify the problems in the systems and what is out there, but that you actually now are moving forward, and your partnership in essence is about action, and that we end up improving the systems ultimately for the benefit of the warfighter out there.

Let me ask you about a specific case that was highlighted as one of the examples by GAO. Mr. Towns mentioned the airline tickets as an example of the waste of dollars. The one specific I would like to focus on is to what the current status is, is more really more about the quality of life and how we support these courageous Americans. And it deals with the injured Reserve component soldiers who, apparently because of glitches in our tracking of our management personnel systems, have routinely been bumped off of full-time Active Duty status, which makes them ineligible for their continuing Medicare.

And the one example was, I think, a special ops soldier injured in Afghanistan, who, over a 12-month period, was knocked out of his Active Duty status numerous times, totaling $12,000 in lost pay and delays in getting medical treatment for him and his family.

What has been done with that specific focus of injured soldiers and the fact that we do right by them?

Mr. MODLY. First of all, those types of incidents are—as a former Active Duty military member and I have friends and relatives who are in that theater, it is embarrassing. And we try everything we can to keep that from happening.

What happened in that particular instance and those instances in general was that as Reserve units came back from the theater

and they had injured soldiers, soldiers within hospitals, they deactivated the unit, which automatically caused the stop in pay, and they didn't account for the soldiers who were in the hospitals.

We are now actively monitoring all the soldiers in all the hospitals to ensure that they have an advocate to ensure that their pay is taken care of, and my understanding is that we have had very, very few, in the past several months, instances of any problems with pay with regard to injured soldiers.

Mr. PLATTS. I know that is the case because it certainly is embarrassing. It is maybe more so; it is demoralizing and just unacceptable, given the courage of these men and women. And one of the finest privileges I have had is to visit wounded at Landstuhl, as well as in theater in Iraq and Afghanistan, and if there is a group of Americans who we need to do right by, it is to they and their families.

I also thank you for your own service. I'm not sure who else on the panel were former military, but we appreciate your service and we're blessed because of you and others who have and are wearing the uniform.

We touched on the broad areas that I hoped to address here today. One of the challenges for our committee and for me as chairman, is I'm asked in my district "well, what exactly does your committee do and how do you do it?" It is more of an oversight committee. Our effort is to try to keep the focus on issues and keep everyone's attention and keep the eye on the ball and hopefully advance that ball down the field.

That is what today's hearing is again about, specifically related to DOD, with the systems, with GAO and with the efforts of you two and your colleagues at the Department, that we advance the ball down the field, specifically. And maybe again, most importantly for DOD, because of the importance of your mission to the defense of our Nation, and in that it is about doing right by those men and women who are out there defending our Nation. We'll continue to work with each of you, both at the GAO and at the Department.

One of the things I want to offer is that I'm not here to play "gotcha," and, when we find things that are wrong, we want to make sure those errors are corrected and also learned from. It sounds like, as in the case of the injured, that there is a new approach being taken to ensure that we learn from that mistake or mistakes, to be part of this team of all of us working together. Because it is just so evident that if we have success in this effort—and it is not exciting necessarily, except for those of us who like to balance their checkbooks, it is exciting; to most, maybe it is not. But it certainly is critical to the operation of the Federal Government and specifically to the defense of our country because when we are debating whether we can afford this new military equipment, you know, this new technology, or the costs associated in how we compensate and provide for our men and women and their families, every dollar we save by more efficient operation is dollars that are then available for better equipment, for better pay, better housing, whatever it may be, a quality of life.

This certainly is an area that we cannot let up on and we must succeed. And if it takes us 2 years or 5 years in the end, we just

need to do it. I think the approach you're taking is—I wrote down at one point when you talked about it, and I forget, Mr. Modly or Mr. Brinkley, which one of you said it, you're not really interested in how many systems, whether you have 2,001, but are you achieving the necessary improvements, are you doing the job? In essence an outcome-based approach.

Although I'm still a bit worried if we're duplicating too many systems, but outcomes is what we need to be about and how we achieve those outcomes. I think you're on the right track in your efforts and I wish you great success.

I hope you will also turn to GAO because, Mr. Kutz and Mr. Hite and others, they have a history, you know, a wealth of knowledge that I think would benefit each of you in your new positions as you go forward; and what maybe has been tried in the past, that they can share with you, and again you can have an opportunity to learn from the errors of the past.

So we'll keep the record open for 2 weeks for any additional information, such as specifically any consequences from the violations of the law in the past. Again, I thank each of our witnesses, thank the staff on both sides for all the leg work, and this hearing stands adjourned.

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

[Additional information submitted for the hearing record follows:]

United States Government Accountability Office
Washington, DC 20548

July 1, 2005

The Honorable Todd R Platts
Chairman
Subcommittee on Government Management, Finance,
and Accountability
Committee on Government Reform
House of Representatives

Subject: *Responses to Posthearing Questions Related to GAO's Testimony on the Department of Defense's Financial and Business Transformation*

Dear Mr. Chairman:

On June 8, 2005, I testified before your subcommittee at a hearing on the need for further actions to establish and implement a framework for successful financial and business management transformation at the Department of Defense.[1] This letter responds to questions from Representative Kanjorski that you asked for us to answer for the record. The questions and our responses follow:

1. **What is the status of the Government Accountability Office's (GAO) report on the Defense Travel System (DTS)? It is my understanding that it was to be completed last February; however, GAO staff have indicated that it will not be done until September 2005. In the meantime, the Department of Defense (DOD) continues to use a system that apparently does not work and is costing taxpayers more every day in the form of lost productivity, higher airfares and unnecessary maintenance costs. When will the report be ready?**

We anticipate issuing our report in October 2005. We briefed various congressional staffs on the audit objectives, approach, and status of the work in February 2005, as contemplated at the outset of our work. This is the date we believe Rep. Kanjorski is referring to. A representative of Rep. Kanjorski's staff attended the briefing. At the present time, we plan on briefing all interested congressional staff in July 2005 on the status of the audit.

[1] GAO, *DOD Business Transformation: Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems*, GAO-05-723T (Washington, D.C.: June 8, 2005).

2. **It is my understanding that the Government Services Agency has approved three e travel systems that are being implemented at the civilian agencies, including a system from Northrop Grumman that is based on the DTS system. Have you tested these three systems side by side? Would that be an effective way of determining if the DTS technology measure up to the other systems that are available?**

We have not evaluated the three eTravel systems. Our audit is focused on whether DOD adequately managed the risks related to developing and implementing DTS and whether DTS will resolve the previously reported problems we identified with DOD travel. While comparing the capabilities of the three travel systems available from the General Services Administration (GSA) contracts to DTS is outside the scope of this audit, the ability to test the functionality of the four systems against each other depends greatly on the attributes that are desired to be tested. Further, GSA is currently conducting a test to determine whether the four travel systems—the three eTravel systems under the GSA contracts and DTS—can identify the lowest cost unrestricted airfare. GSA expects to issue its report later this summer. We will receive a detailed briefing from GSA when the results of the test are finalized. It is our understanding that once the lowest airfare portion of the test is finalized, GSA is going to conduct tests related to hotel and rental car reservations.

3. **Can you verify for me that after six years of effort and the expenditure of almost $600 million, the Defense Travel System has allegedly been deployed to thousands of DOD sites, but is only used for about 5% of travel transactions where it is deployed? Why is the level of adoption so low?**

As noted above, the scope of our audit is focused on issues related to the development and implementation of DTS and DOD's ability to resolve reported problems with DOD travel. The utilization of DTS in not within the scope of our audit. However, based upon information reported by DOD in the May 2005 Defense Acquisition Executive Summary report, approximately 564,000 individuals have been loaded into DTS and at least 168,000 individuals have used DTS at least once. According to the DTS program office the system has been deployed to over 5,200 sites and it is currently estimated that it will be fully deployed to all sites—approximately 11,000—during fiscal year 2006.

4. **It is my understanding that travel agents providing traditional travel services to DOD must guarantee that they always book the lowest cost available airfare while such a requirement was not included in the contract with Northrop Grumman to develop, maintain and operate the DTS. Who is responsible for excluding that basic contract requirement?**

The contract with Northrop Grumman is not being used to provide traditional commercial travel office (CTO) services. The DTS contract with Northrop Grumman is primarily for developing, implementing, operating, and maintaining DTS. The DOD contracts for CTO services are separate and apart from the Northrop Grumman DTS contract and outside the scope of our current audit. It is our understanding that the department is in the process of awarding new CTO contracts as the current contracts expire.

5. Who owns the DTS system, DOD or Northrop Grumman? Has the Department of Defense paid for most of the cost of developing DTS? What are the projected expenses of maintaining this program?

DOD owns the rights to all the software developed exclusively with government funds. Additionally, the government retains the rights to any software provided to the contractor. For example, the software that was developed to support the numerous interfaces with other systems was paid for by DOD and DOD owns the exclusive rights to this software. The current program funding associated with the Northrop-Grumman contract is approximately $263 million through the contract period which ends on September 30, 2006. The above costs do not include other costs associated with the overall program such as the cost to operate the DTS program management office.

6. Did DOD officials know DTS could not find the lowest available and applicable airfares; or match hotel, rental car and airline reservations; or prevent the unauthorized purchase of first class tickets when they declared DTS ready for operational deployment in late December 2003?

As discussed above, GSA is currently conducting a test to determine whether the four travel systems—the three eTravel systems under the GSA contracts and DTS—can identify the lowest cost unrestricted airfare. We will receive a detailed briefing from GSA when the results of the test are finalized. Additionally, as part of our current audit, we are reviewing certain trips to determine whether DOD has implemented effective controls within DTS to preclude the unauthorized use of premium class travel, which includes first and business class travel.

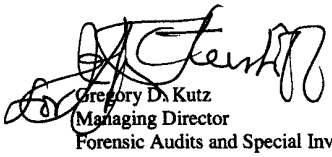
7. Why does DOD have a separate travel management system? Could DOD competitively obtain most of its required eTravel Management services under the GSA eTravel Service Contract at substantially less cost than the DTS Contract? Does it make sense to put this travel management system up for competitive bid?

DOD's effort to develop an end-to-end travel system was initiated in December 1995, which predates the current eTravel efforts. Further, the scope of our audit does not include a cost comparison among the three eTravel systems and DTS. A comprehensive cost comparison would be necessary that would include all of the features of DTS, such as the interfaces with the various DOD systems. With regard to whether the department could award a follow-on DTS contract using competitive procedures, the department awarded the initial DTS contract in May 1998 after following competitive procedures.[2] The current DTS contract with Northrop Grumman expires on September 30, 2006, at which point in time DOD will have to decide on what actions to take to address its travel management needs.

[2] The Department significantly modified the contract in 2002 and the issue of whether those modifications were made without following competitive procedures is currently the subject of litigation.

If you or your staff have questions about our responses to your questions, please contact me at (202) 512-9505, or kutzg@gao.gov or Darby Smith, Assistant Director, at (202) 512-7803 or smithd@gao.gov.

Sincerely yours,



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