

S. HRG. 109-915

**DEPARTMENT OF DEFENSE BUSINESS SYSTEMS  
MODERNIZATION AND FINANCIAL MANAGE-  
MENT ACCOUNTABILITY EFFORTS**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON READINESS AND MANAGEMENT  
SUPPORT

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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NOVEMBER 16, 2006

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**DEPARTMENT OF DEFENSE BUSINESS SYSTEMS MODERNIZATION AND FINANCIAL MANAGEMENT ACCOUNTABILITY EFFORTS**

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**THURSDAY, NOVEMBER 16, 2006**

U.S. SENATE,  
SUBCOMMITTEE OF READINESS  
AND MANAGEMENT SUPPORT,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:31 a.m. in room SR-232A, Russell Senate Office Building. Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Thune, and Akaka.

Committee staff member present: Leah C. Brewer, nominations and hearings clerk.

Majority staff members present: Ambrose R. Hock, professional staff member; Gregory T. Kiley, professional staff member; Sandra E. Luff, professional staff member; Derek J. Maurer, professional staff member; and Stanley R. O'Connor, Jr., professional staff member.

Minority staff members present: Peter K. Levine, minority counsel; and Michael J. McCord, professional staff member.

Staff assistants present: David G. Collins and Benjamin L. Rubin.

Committee members' assistants present: Darcie Tokioka, assistant to Senator Akaka; and William K. Sutey, assistant to Senator Bill Nelson.

**OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN**

Senator ENSIGN. Good morning. The Readiness and Management Support Subcommittee meets today to receive testimony on the Department of Defense's (DOD) business transformation and financial management efforts. We are honored to have with us again today the Comptroller General of the Government Accountability Office (GAO), David Walker. He is joined by representatives from three military departments: John Argodale, representing the Army; David Wennergren, representing the Navy; and John Vonglis, representing the Air Force.

For the past 4 years this subcommittee has called hearings every 6 months on the status of business systems modernization and financial management reform within the DOD. At those hearings we have had very frank, open discussions on the lack of progress on

business systems modernization and financial management accountability throughout the DOD and have discussed creating clear, definable milestones to track progress towards improving management and oversight. This hearing continues the subcommittee's promise to partner with the DOD. Under the able leadership of Senator Akaka in the next Congress and with the continued support of both of our staffs and especially Peter Levine on the Democratic side. I am confident that our record of strong and productive oversight will continue.

I am proud to report that progress has been made over the last 4 years. The GAO has issued three consecutive reports citing important progress in the DOD's business system modernization efforts. The Comptroller General has publicly acknowledged the DOD's progress and approach taken to improve financial management. The Office of the Secretary of Defense (OSD) is reorganized and restructured to better oversee and control business systems and financial management.

In September 2006, the DOD released the latest versions of its Enterprise Transition Plan (ETP) and Defense Finance Improvement and Audit Readiness Plan. These plans contain concrete goals that were met over the past year. DOD's ETP states among the most significant change in the past few years has been developing a culture of continuous improvement to encourage a mindset that says every 6 months things get better.

While the subcommittee is encouraged by such stated progress we remain concerned over the pace and the direction of the individual Services' efforts. Each Service has embarked on massive Enterprise Resource Programs (ERPs), but with little progress or success. The DOD's overall approach may be progressing, but whether this translates into success at the Service level remains in question.

Today's hearing is intended to turn the spotlight on the individual military departments and their efforts at business systems modernization and financial management. We hope to discuss how the Services ensure they maintain a culture conducive to change. Given OSD's emphasis on tiered accountability, we would like to hear how the Services hold themselves accountable, what metrics they are using, and what visibility those metrics have. If the Services are making progress we would like to know why their flagship modernization projects are almost universally behind schedule and over cost.

This committee has written, and Congress has passed, several pieces of legislation to improve oversight and control over the past 4 years. Two recent examples include, requiring certification for new systems to meet DOD's overall ETP and more stringent reporting requirements for programs that exceed cost or schedule. We would like to hear the Services' thoughts on such legislation and any other suggestions that you may have.

Thank you again for taking the time to prepare written testimony and to appear before the subcommittee today. As previously agreed, we will hear opening statements from the Comptroller General first, then in order, the Army, Navy, and Air Force witnesses. To our witnesses, your whole prepared statements will be made

part of the record, therefore I urge you to keep your oral statements short in order to allow sufficient time for questions.

One last aside, due to scheduling conflicts and the subcommittee's desire to focus on the military departments, we were unable to accommodate having representatives from the OSD here today. However, Paul Brinkley and Tom Modly of the Business Transformation Agency (BTA) have provided a statement for the record and without objection I will have those inserted into the record at this time.

[The joint prepared statement of Mr. Brinkley and Mr. Modly follows:]

JOINT PREPARED STATEMENT BY PAUL A. BRINKLEY AND THOMAS B. MODLY

Mr. Chairman, members of the subcommittee, thank you for the opportunity to provide information on the progress the Department of Defense (DOD) has made in the area of business systems modernization and improved financial management.

Today, we operate in a dynamic national security environment that has changed dramatically over the past 5 years—and will continue to change. Our business transformation efforts are focused on daily, monthly, and annual improvements to the business mission area. This transformation is necessary because our current systems and processes are simply inadequate for today's challenges, let alone the more complex demands and uncertainties of the future. In our efforts, we have challenged the DOD to be intolerant of the bureaucratic processes that drive inefficiency and waste. We have implored our own staffs to embrace a customer focus that recognizes both the warfighter and the taxpayer. We are making progress.

A significant accomplishment of our work to date has been the development and deployment of an integrated, transformational business architecture. This architecture, the Business Enterprise Architecture (BEA), has allowed us to establish clear benchmarks for the alignment of business systems to the DOD's future business environment. It has also allowed us to make important and measurable progress, as acknowledged by recent Government Accountability Office (GAO) reports. Additionally, in 2005, we published our Enterprise Transition Plan (ETP) to broadly and comprehensively communicate our transformation plans, and to provide senior management with a tool for monitoring progress against those plans. All significant milestones in the ETP are shown in 6, 12, and 18 month increments. The milestones in this plan are also integrated with significant milestones in the DOD's Financial Improvement and Audit Readiness (FIAR) plan. Specifically, financial audit milestones that are dependent upon new systems deployments are aligned with the systems milestones in the ETP.

As we committed to this Congress and to this subcommittee, we have updated this plan every 6 months since its initial delivery in September 2005. Our most recent publication reflected success on over 85 percent of the milestones detailed in the first version of the ETP. This performance by the DOD was the result of active engagement from the DOD's senior leadership—in particular Deputy Secretary of Defense Gordon England. We recognize that sustained leadership is important to continue meaningful progress and we believe that clear senior level governance through oversight bodies such as the Defense Business Systems Management Committee (DBSMC) are critical to sustaining the momentum of the last several years. The DBSMC has been particularly effective through its use of approval authority for systems investments that are consistent with the transformed business environment. Additionally, the DBSMC meets monthly to discuss, debate, and decide on the direction and strategy for business transformation across the enterprise, as well as ensuring an active monitoring of the implementation key initiatives in the ETP.

PROGRESS ACKNOWLEDGED BY GAO

We have established and maintained a productive engagement with the GAO, working jointly to establish criteria and requirements to complete actions to close each of the 35 open recommendations that concern the DOD's business transformation efforts. To date we have officially closed 21 of 35 recommendations. Constructive dialogue continues around the remaining open recommendations and we believe that we will close these soon. Three consecutive GAO reports have recognized our progress and we believe that their feedback and dialogue with us has been very valuable. It is our desire to continue to work closely with GAO and this subcommittee as our work progresses. We will keep GAO and this subcommittee in-

formed as to our plans and priorities regarding both the BEA and the ETP with the understanding that both tools will, and must, align to senior management direction by DOD. At this point in time, that direction requires few modifications to the existing BEA over the next 2 years. Our focus, instead, will be on only minor architectural refinements. In our view, such work will not require detailed oversight of architectural development and workforce planning as recommended by GAO. Nonetheless, we continue to value and welcome this subcommittee's interest and oversight of our overall business transformation efforts as we shift more of our focus away from architecture development and toward implementation of improved business systems and capabilities.

#### BUSINESS TRANSFORMATION AGENCY

Over the past year, DOD has made significant progress in establishing focused leadership of business transformation through the creation of the Business Transformation Agency (BTA). The BTA consolidates the management of enterprise-level business systems and provides a single point of accountability for DOD business enterprise solutions, standards, and processes. We have taken steps to evaluate and rebaseline, where necessary, each enterprise business system program to ensure alignment with the overall strategy. This was done to ensure that when the DOD decides to deploy an enterprise business system that it receives high-level oversight, coordination, and attention. The Defense Integrated Military Human Resources System (DIMHRS) program is an example of an enterprise system that is now under the management of the BTA. Because of its significance to the overall management of our forces and their pay, the successful deployment of DIMHRS is a high priority for the BTA and our progress is monitored on a monthly basis by the DBSMC as chaired by the Deputy Secretary of Defense.

Another priority within the BTA is enterprise integration; which involves supporting the integration of enterprise-level business capabilities such as Enterprise Resource Planning (ERP) systems, and how to implement them across complex organizational boundaries to support the joint warfighter. We continue to promote and implement the adoption of best practices for the implementation of ERP systems across the DOD enterprise and the Services and agencies, via collaborative engagement and participation in the acquisition process. Our ability to hire highly qualified experts (HQEs) in the BTA has significantly contributed to our progress in assuring standardization and mitigating the risk associated with such large IT implementations. We appreciate Congress' continued support for this special hiring authority. Rapid delivery of business capability also includes a responsive, agile acquisition process. Currently, the BTA is also engaged in an effort to reengineer our acquisition process for business systems in order to more closely resemble a private sector "speed to value" focus.

#### INVESTMENT MANAGEMENT

Over the past 2 years, DOD has implemented new procedures to ensure that all investments in business systems modernization in excess of \$1 million receive a thorough review to ensure alignment with the BEA. All such investments have been approved by the DBSMC before funds were obligated in support of the specific modernization. In addition to this requirement, DOD has developed a Business Value Added (BVA) framework to help measure transformational progress (in terms of business outcomes) for the business investments we are making. Examples of these measures are: On-Time Customer Request, Cash-to-Cash Cycle Time, Payroll Accuracy, etc. Beginning this year, as systems receive their annual review and certification of compliance to the BEA, they also will be required to articulate (quantitatively and/or qualitatively) their respective contributions to specific BVA criteria.

#### DEFENSE ENTERPRISE AND COMPONENT BUSINESS INTEROPERABILITY

As DOD deploys the enterprise-level service delivery applications and standards, it has recognized the need for ensuring data interoperability both vertically and horizontally within DOD. As a result, we have developed the Defense Business Federation Strategy as a roadmap to manage business integration and interoperability between and among the multiple tiers of the organization. Defense business transformation is now focused on enabling components of the DOD enterprise to proceed with their mission-oriented transformation roadmaps while complying with corporate level enterprise integration standards. The federation strategy facilitates this process by establishing and coordinating linkages between the enterprise, component, and program business architectures. Implementing the federation strategy will enable business architectures and transition plans at component and program levels

to align to the BEA and ETP while preserving their autonomy to define the required business capability improvements for their unique mission requirements.

#### IMPLEMENTING BUSINESS CAPABILITIES: BUSINESS IMPACTS AND OUTCOMES

As we have successfully built and deployed important tools, processes, and governance for managing our business transformation efforts, we have also focused on the rapid implementation/delivery of improved business capabilities. Some examples are as follows:

- In less than 90 days, successfully fielded a new theater contracting system, established new contracting authority alignment in Iraq, and is currently assessing contingency contracting operations to ensure alignment to economic development objectives in Iraq.
- In 21 days, fielded Integrated Voting Alternative Site (IVAS)—a new tool for military members that provides a Web-based voting capability—even when deployed.
- Provided Congress with access to unclassified portions of over 6,000 Selected Acquisition Reports (SARs) that encompass some 89 programs.
- In 90 days, rapidly deployed new Iraq contingency contracting capability that enhance the accuracy, accountability, and visibility of procurement actions in theater.
- Completed the initial military equipment valuations for approximately 1,100 warfighting assets, valued at over \$300 billion.
- Enacted policies that require enterprise-wide compliance with procedures for managing real property inventory. These policies provide a structure that allows consistent and auditable real property financial information to be collected on newly acquired or upgraded property.
- Established Standard Financial Information Structure (SFIS) which has enabling the creation of a Financial Management Dashboard that provides visibility into the daily status of funds. This has provided DOD the ability to maintain visibility of funds used for both the global war on terror and Katrina operations.

#### CONCLUSION

Although we are pleased that we are showing progress in our business transformation efforts and that this progress has been recognized by our oversight bodies, we continue to push DOD to be dissatisfied with the current state of its business operations. Transformation of an entity the size of the DOD will likely never end, but it must be pushed forward by a shared sense of intolerance for the status quo. Large private sector organizations are constantly changing, adapting, and transforming themselves to adjust to rapidly changing commercial markets. DOD should be no different despite the fact that it is orders of magnitude greater in size and complexity than any other large commercial organization. We appreciate and value the support of Congress over the last several years as we have established new governance and discipline to our business transformation efforts. We are anxious to demonstrate that this support will reap benefits for both the taxpayers who fund our efforts and for the warfighters who defend this Nation. Mr. Chairman, we thank you and the members of the subcommittee for your continued support.

Senator ENSIGN. Senator Akaka, I just want to say that this will be the last hearing that I will be the chairman of, and I look forward to your great leadership, you've been a great partner and it really has been, I think, kind of the model that your partner, Senator Danny Inouye and Senator Ted Stevens have over at the Senate Commerce Committee. They work so well together, as well as do our staffs, so I want to just compliment you on the great working relationship that we've had over the last 4 years and I look forward to continuing that relationship.

Senator Akaka, do you have opening remarks?

Senator AKAKA. Yes, Mr. Chairman, thank you very much.

#### STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Mr. Chairman, I also want to say it has been a real pleasure to work with you on this subcommittee and our rela-

tionship has been phenomenal. Working with you has been really great and I think together we've accomplished a lot and your leadership has certainly been great for our country and for this subcommittee as well.

I just want you to know that we'll certainly follow up on many of the things that you did and look forward to continuing to serve with you and again I want to thank you so much for working so well and doing such a great job here.

Thank you very much for calling this hearing, Mr. Chairman, and for your commitment to oversight of financial management at the DOD. This is a subject of vital importance because without timely, accurate financial information, our senior military and civilian leaders will continue to be severely handicapped in making day-to-day management decisions and ensuring that taxpayer dollars are well spent.

Senator Ensign, you have been and have done the taxpayers a great service by scheduling these oversight hearings every 6 months to ensure that the DOD doesn't lose focus on improving its financial management systems. I congratulate you on your reelection, Mr. Chairman, and look forward, as I said to be with you in the next Congress.

At our last financial management hearing we applauded DOD's efforts to establish a new governance structure for business transformation, including the Defense Business Systems Management Committee (DBSMC), the BTA, and the Investment Review Boards (IRBs). Under the able leadership of Paul Brinkley and Tom Modly, the DOD has begun the development of a comprehensive business enterprise architecture (BEA) and transition plan to guide the DOD's business transformation. As we pointed out at that time, much work remained to be done. DOD still lacks an architecture and transition plan that is needed to provide the details in addressing its financial problems. Once that architecture transition plan are in place, it will take years to implement. I am particularly concerned by GAO's finding, that the enterprise architectures of the military departments are not mature.

At this point it appears to me that the military departments: one, have not yet followed DOD's lead in establishing new government structures to address business transformation; two, have not yet developed comprehensive enterprise architectures and transition plans that plug into DOD's federated architecture in a manner that meets statutory requirements; and three, have instead relied on their old stovepipe structures to implement piecemeal reforms.

With these concerns in mind, I thank our witnesses for agreeing to testify before this subcommittee and look forward to hearing their testimony. Thank you very much Mr. Chairman.

Senator ENSIGN. Thank you. We'll start with Mr. Walker. Once again, I want to applaud you for work that you do for our Nation. I appreciate your being here today.

**STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. WALKER. Thank you Chairman Ensign and Senator Akaka. I appreciate the opportunity to be back before you. I want to con-

gratulate both of you on your reelection and I also want to note for the record that this subcommittee was one of the shining stars in conducting oversight in this Congress. There weren't a whole lot, but this subcommittee was clearly one of them, and I want to compliment both of you for your dedication to this effort.

It's a pleasure to be back before you to talk about the DOD's progress in connection with overall business transformation. As both of you know, the DOD represents directly or indirectly 14 of 26 high-risk areas on GAO's high-risk list. Collectively these high-risk areas span most every major business operation within the DOD. DOD's business area weaknesses result in reduced efficiencies, ineffective performance, and inadequate accountability to Congress, but more importantly, billions of dollars are wasted each year that otherwise could help increase our readiness and support warfighters.

This is a serious concern at a time of war. It's also a serious concern at a time of large and growing structural deficits driven largely by known demographic trends and rising healthcare costs.

Nonetheless, I continue to believe that DOD's senior leadership is committed to transforming the DOD and, in fact, they have taken a number of steps to try to achieve business transformation. Indeed as you both know, Secretary Rumsfeld was very clear in his speech on September 10, 2001, in which he identified business transformation as a top priority under his tenure.

At the same point in time we all know of the tragic events of September 11, 2001, just 1 day later, the resulting global war on terrorism, including our military operations in Iraq and Afghanistan. As a result, while progress has been made, I think most people would say, including Secretary Rumsfeld, not as much as he would have liked due to circumstances largely beyond his control.

Congress, in part through the leadership of this subcommittee, passed legislation that codified many of prior recommendations that we made with regard to DOD's business systems modernization effort. Since then DOD has devoted significant human and financial resources and has made important progress in trying to address a number of the recommendations that we made.

Their current approach, both as it relates to business system modernization as well as to the financial audit approach, are clearly superior to their prior approaches.

As I've said on many occasions, it is absolutely critical that we be successful with regard to this business transformation effort. The stakes are too high not to be. I believe in order for us to be successful, a number of things are going to have to happen, and developing an overall strategic and integrated approach, including having persons that are responsible and accountable for making sure that key actions actually take place on time, within budget, and with appropriate quality. We are going to have to take a number of other steps in order to maximize the chance of success and avoid the kinds of problems that we've experienced in the past.

The DOD spends about \$16 billion a year on systems, and yet it has over 3,000 legacy, largely nonintegrated information systems that collectively do not provide timely, accurate, and useful information to make informed management decisions on a day-to-day basis. DOD has embarked upon an effort to deal with this, that will

take years. I believe that one of the things that will be essential for business transformation to be successful and sustainable is for the DOD to have a Chief Operating Officer (COO) or Chief Management Official (CMO) with a proven track record of success who is focused full time on the 14 high-risk areas, who would have a term appointment, and a performance contract in order to maximize the chance that we can be successful. In my view, that's not a panacea, but if we don't do it, I doubt that we will be successful. Thank you, Mr. Chairman and Senator Akaka.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT BY HON. DAVID M. WALKER

Mr. Chairman and members of the subcommittee: It is a pleasure to be back before this subcommittee to discuss the progress and challenges associated with the Department of Defense's (DOD) efforts to transform its business operations. Since the first financial statement audit of a major DOD component was attempted almost 20 years ago, we have reported that weaknesses in business operations not only adversely affect the reliability of reported financial data, but also the economy, efficiency, and effectiveness of DOD's operations. In fact, DOD currently bears responsibility, in whole or in part, for 14 of our 26 high-risk areas.<sup>1</sup> Eight of these are specific to DOD and include DOD's overall approach to business transformation, business systems modernization, financial management, the personnel security clearance process, supply chain management, support infrastructure management, weapon systems acquisition, and contract management. In addition, DOD shares responsibility for six government-wide high-risk areas. Collectively, these high-risk areas relate to most of DOD's major business operations which directly support the warfighter, including how they get paid, the benefits provided to their families, and the availability and condition of the equipment they use both on and off the battlefield.

DOD's business area weaknesses result in reduced efficiencies, ineffective performance, and inadequate accountability to Congress and the American people, wasting billions of dollars each year at a time when DOD is competing for resources in an increasingly fiscally constrained environment. As a result, it is important that DOD get the most from every dollar it invests. Our Nation is not only threatened by external security threats, but also from within by growing fiscal imbalances due primarily to our aging population and rising health care costs. These trends are compounded by the near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy. If left unchecked, these fiscal imbalances will ultimately impede economic growth, have an adverse effect on our future standard of living, and in due course affect our ability to address key national and homeland security needs. These factors create the need to make choices that will only become more difficult and potentially disruptive the longer they are postponed. Among these difficult choices will be decisions about the affordability and sustainability of the continued growth in defense spending. Furthermore, irrespective of the size of the defense budget, the taxpayers and warfighters deserve more effective management of DOD's overall resources.

I continue to believe that DOD's senior leadership is committed to transforming the department and DOD has taken a number of positive steps to begin this effort. In fact, because of the impact of the Department's business operations on its warfighters, DOD recognizes now, more than ever, the need to transform its business operations and provide transparency in this process. Indeed, Secretary Rumsfeld was very clear in his speech on September 10, 2001, when he identified business transformation as a top priority. However, DOD's ability to focus on this priority was overshadowed by the events of September 11, 2001, and the ensuing global war on terrorism, including military operations in Iraq and Afghanistan. Clearly, these events have required considerable emphasis and have become the Department's primary focus. As a result, progress on the full range of DOD's business transformation challenges has been inconsistent, focusing thus far on enterprise-wide transformation, with many challenges remaining concerning the transformation of the various military services and defense agencies.

<sup>1</sup> GAO, GAO's High-Risk Program, GAO-06-497T (Washington, DC: Mar. 15, 2006). DOD shares responsibility for the following six government-wide high-risk areas: (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.

Congress, in part through the leadership of this subcommittee, passed legislation that codified many of our prior recommendations related to DOD business systems modernization.<sup>2</sup> Since then, DOD has devoted substantial resources and made important progress toward establishing key management structures and processes to guide business systems investment activities, particularly at the enterprise, or department-wide, level. DOD's current approach is clearly superior to its prior approach; however, a number of formidable challenges remain.

Last year when we testified before this subcommittee, we highlighted several of these formidable challenges.<sup>3</sup> Today, I would like to provide my perspectives on actions DOD has taken to address these challenges and achieve business transformation through all levels of the Department over the past year. Specifically, I will discuss DOD's efforts to: (1) develop a comprehensive, integrated, enterprise-wide business transformation plan and its related leadership approach; and (2) comply with legislation that addresses business systems modernization and improving financial management accountability. I will also discuss two sections of the recently enacted John Warner National Defense Authorization Act (NDAA) for Fiscal Year 2007<sup>4</sup> that address financial improvement and acquisition of all major automated information systems, and selected additional DOD high-risk areas that highlight the need for continued attention.

My statement is based in large part on our previous reports and some of our current, ongoing efforts. Our work was performed in accordance with generally accepted government auditing standards.

#### SUMMARY

I have stated on many occasions that transforming DOD's business operations is an absolute necessity given our Nation's current deficits and long-term fiscal outlook. In the past year, DOD has made progress in transforming its business operations, but continues to lack a comprehensive, enterprisewide approach to planning and decisionmaking needed to ensure successful transformation and address systemic business challenges. Within DOD, business transformation is broad, encompassing people, planning, management, structures, technology, and processes in several key business areas. While DOD's planning and management continues to evolve, it has yet to develop a comprehensive, integrated, enterprisewide plan that covers all key business functions, and contains results-oriented goals, measures, and expectations that link organizational and individual performance goals, while also being clearly linked to DOD's overall investment plans. Because of the complexity and long-term nature of business transformation, DOD also continues to need a chief management official (CMO) with significant authority, experience, and tenure to provide sustained leadership and integrate DOD's overall business transformation efforts. Without formally designating responsibility and accountability for results, reconciling competing priorities and prioritizing investments will be difficult and could impede DOD's progress in its transformation efforts.

DOD continues to take steps to comply with legislative requirements aimed at improving its business systems modernization and financial management; however, much remains to be accomplished before the full intent of this legislation is achieved. In particular, DOD recently issued updates to both the business enterprise architecture and the transition plan, which while addressing several issues previously reported by us, are still not sufficiently complete to effectively and efficiently guide and constrain business system investments across all levels of the Department. Most notably, the architecture does not include DOD component architectures, and the plan does not include most component business system investments. To address these shortfalls, DOD recently issued a strategy for "federating" or extending its architecture to the military services and defense agencies. In our view, much remains to be accomplished before a well-defined federated architecture is in place, particularly given that we recently reported that the respective military service architecture programs are not mature. Nevertheless, DOD components are continuing to invest billions of dollars in thousands of new and existing business system programs. As we previously stated, the risks associated with investing in systems ahead of having a well-defined architecture and accompanying transition plan are profound and must be managed carefully, as must the wide assortment of other

<sup>2</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. §§ 186 and 2222).

<sup>3</sup>GAO, Defense Management: Foundational Steps Being Taken to Manage DOD Business Systems Modernization but Much Remains to be Accomplished to Effect True Business Transformation, GAO-06-234T (Washington, DC: Nov. 9, 2005).

<sup>4</sup>John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006).

risks that our work has shown to exist on specific DOD business system investments. While not a guarantee, our work and research has shown that establishing effective system modernization management controls, such as an architecture-centric approach to investment decisionmaking, can increase the chances of delivering cost-effective business capabilities on time and within budget. Further, with regard to legislation pertaining to its financial management improvement, DOD issued its Financial Improvement and Audit Readiness Plan and two updates in fiscal year 2006 to provide components with a construct for resolving problems affecting the accuracy and timeliness of financial information and an improved audit strategy for obtaining financial statement audit opinions.

In addition, you asked for my comments on two sections of the recently enacted John Warner NDAA for Fiscal Year 2007.<sup>5</sup> The first provision, section 321, seeks to ensure that the Department pursues financial management improvement activities only in accordance with a comprehensive financial management improvement plan that coordinates these activities with improvements in its systems and controls. I fully support the intent of this legislation, which is aimed at directing DOD's corrective actions toward achieving sustained improvements in its ability to provide timely, reliable, complete, and useful information. This is important not only for financial reporting purposes, but also, more importantly, for informed decisionmaking and oversight. Section 321 is consistent with existing legislation, as well as recent actions taken by the Department. The second provision, section 816, establishes certain reporting and oversight requirements for the acquisition of all major automated information systems (MAIS),<sup>6</sup> which if properly implemented could strengthen oversight of and accountability for business system acquisitions that fail to meet cost, schedule, or performance criteria. Therefore, I also support the purpose of this legislation.

Ensuring effective transformation of other areas within DOD that we have identified as high risk will require continued attention and sustained leadership over a number of years to be successful. These other high-risk areas include DOD's weapon systems acquisition, contract management, supply chain management, personnel security clearance program, and support infrastructure management. In the area of weapon systems acquisition, recurring problems with cost overruns and schedule delays have resulted in a reduction of buying power of the defense dollar at a time when the Nation is struggling with a large and growing structural deficit. While DOD has made some progress in addressing its supply chain management problems, the Department faces challenges in successfully implementing its changes and measuring progress. While positive steps have been taken to address the financial costs, delays, and other risks associated with DOD's personnel security clearance program, problems with this program continue. Finally, much work remains for DOD to transform its support infrastructure to adequately fund and improve operations and achieve efficiencies while ensuring that infrastructure costs no longer consume a larger than necessary portion of DOD's budget.

#### BACKGROUND

DOD is one of the largest and most complex organizations in the world. Overhauling its business operations will take many years to accomplish and represents a huge management challenge. 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 functions—using more than 3,700 business systems—related to major business areas such as weapon systems management, supply chain management, procurement, health care management, and financial management. The ability of these systems to operate as intended affects the lives of our warfighters both on and off the battlefield. For fiscal year 2006, Congress appropriated approximately \$15.5 billion to DOD, and for fiscal year 2007, DOD has requested another \$16 billion in appropriated funds to operate, maintain, and modernize these business systems and associated infrastructure.

Until DOD can successfully transform its operations, it will continue to confront the pervasive, decades-old management problems that cut across all of DOD's major

<sup>5</sup>John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006).

<sup>6</sup>The committee originally asked GAO to comment on sec. 804 of the Senate bill, S. 2766, which, with some changes, has now been enacted as sec. 816.

business areas. Since our report on the financial statement audit of a major DOD component over 16 years ago,<sup>7</sup> we have repeatedly reported that weaknesses in business management systems, processes, and internal controls not only adversely affect the reliability of reported financial data, but also the management of DOD operations. In March 2006,<sup>8</sup> I testified that DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. Government's consolidated financial statements. These issues were also discussed in the latest consolidated financial audit report.<sup>9</sup> To date, none of the military services or major DOD components has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems.<sup>10</sup>

DOD's financial management problems are pervasive, complex, longstanding, deeply rooted in virtually all of its business operations, and challenging to resolve. The nature and severity of DOD's financial management business operations and system deficiencies not only affect financial reporting, but also impede the ability of DOD managers to receive the full range of information needed to effectively manage day-to-day operations. Such weaknesses have adversely affected the ability of DOD to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, prevent fraud, and address pressing management issues, including supporting warfighters and their families.

Transformation of DOD's business systems and operations is key to improving the Department's ability to provide DOD management and Congress with accurate, timely, reliable, and useful information for analysis, oversight, and decisionmaking. 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 savings resulting from an effective business transformation effort could be significant.

#### DOD LACKS A FULLY DEVELOPED, COMPREHENSIVE, INTEGRATED, AND ENTERPRISEWIDE APPROACH TO DECISIONMAKING AND SUSTAINED LEADERSHIP

I would like to take a few minutes to briefly discuss two critical elements that are still needed at DOD to ensure successful and sustainable business transformation before turning to DOD's business modernization and financial management accountability improvement efforts. First, DOD needs a comprehensive, integrated, and enterprise-wide plan to guide its overall business transformation efforts. Second, a CMO with the right skills and at the right level of the Department is essential for providing the leadership continuity needed to sustain the momentum for business transformation efforts across administrations and ensure successful implementation.

#### *Comprehensive, Integrated, and Enterprise-wide Business Transformation Plan Not Fully Developed*

DOD has not fully developed a comprehensive, integrated, and enterprise-wide strategy or action plan for managing its overall business transformation effort. The lack of a comprehensive, integrated, and enterprise-wide action plan linked with performance goals, objectives, and rewards has been a continuing weakness in DOD's overall business transformation efforts that I have been testifying on for years.<sup>11</sup> I recognize that DOD's efforts to plan and organize itself to achieve business transformation are continuing to evolve. However, I cannot emphasize enough how critical to the success of these efforts are top management attention and structures that focus on transformation from a broad perspective and a clear, comprehen-

<sup>7</sup> GAO, Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources, GAO/AFMD-90-23 (Washington, DC: Feb. 23, 1990).

<sup>8</sup> GAO, Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance, GAO-06-406T (Washington, DC: Mar. 1, 2006).

<sup>9</sup> Department of the Treasury, 2005 Financial Report of the United States Government (Washington, DC: Dec. 15, 2005).

<sup>10</sup> Although not major DOD components, the Military Retirement Fund received an unqualified audit opinion on its fiscal year 2005 financial statements, and the DOD Medicare Eligible Retiree Health Care Fund received a qualified audit opinion on its fiscal year 2005 financial statements.

<sup>11</sup> See for example, GAO, Department of Defense: Sustained Leadership is Critical to Effective Financial and Business Management Transformation, GAO-06-1006T (Washington, DC: Aug. 3, 2006); DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership, GAO-05-520T (Washington, DC: Apr. 13, 2005); and DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform, GAO-02-497T (Washington, DC: Mar. 6, 2002).

sive, integrated, and enterprisewide plan that, at a summary level, addresses all of the Department's major business operations. This plan should cover all of DOD's key business functions; contain results-oriented goals, measures, and expectations that link institutional, unit, and individual performance goals and expectations to promote accountability; identify people with needed skills, knowledge, experience, responsibility, and authority to implement the plan; and establish an effective process and related tools for implementation and oversight. Such an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the Department's key resource decisions.

While DOD has developed plans that address aspects of business transformation at different organizational levels, these plans have not been clearly aligned into a comprehensive, integrated, and enterprisewide approach to business transformation. As I will shortly discuss in more detail, DOD recently issued an enterprise transition plan (ETP) that is to serve as a road map and management tool for sequencing business system investments in the areas of personnel, logistics, real property, acquisition, purchasing, and financial management. As Business Transformation Agency (BTA) officials acknowledge, the ETP does not contain all of the components of a comprehensive and integrated enterprisewide transformation plan as we envision. BTA officials stated that, while the ETP is integrated with the Financial Improvement and Audit Readiness Plan,<sup>12</sup> the ETP is not as integrated with other enterprisewide, high-risk area improvement plans, such as the Supply Chain Plan.<sup>13</sup> However, BTA officials consider the ETP to be an evolving plan and are currently analyzing other enterprisewide plans aimed at improving and transforming DOD's business operations in order to improve the degree of alignment between those plans and the ETP. Finally, BTA officials indicate that the Department is moving toward a family of linked plans that could be used to guide and monitor business transformation, rather than one comprehensive plan that addresses all aspects of DOD's business operations.

To develop a family of linked plans, the ETP would also need to be aligned with the high-level Quadrennial Defense Review (QDR) strategic plan and its initiatives, which so far is not the case. For example, the QDR highlights the need for transforming the way the Department works and what it works on, but it does not contain supporting details such as key metrics, milestones, and mechanisms to guide and direct the business transformation effort. Moreover, the QDR's business transformation initiative, the Institutional Reform and Governance project, is not clearly aligned with the ETP. This initiative is intended to: (1) establish a common and authoritative analytical framework to link strategic decisions to execution, (2) integrate core decision processes, (3) and align and focus the Department's governance and management functions under an integrated enterprise model. Finally, the QDR and other DOD planning documents do not address the ongoing gap between wants, needs, affordability, and sustainability in what is likely to be a resource-constrained environment.

#### *Sustained Leadership Is Needed*

While DOD has established leadership and oversight mechanisms to address transformation, DOD lacks the sustained leadership at the right level needed to achieve successful and lasting transformation. Due to the complexity and long-term nature of DOD's business transformation efforts, we continue to believe DOD needs a CMO to provide sustained leadership and maintain momentum. Without formally designating responsibility and accountability for results, choosing among competing demands for scarce resources and resolving differences in priorities among various DOD organizations will be difficult and could impede DOD's ability to transform in an efficient, effective, and reasonably timely manner. In addition, it may be particularly difficult for DOD to sustain transformation progress when key personnel changes occur. This position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, information technology management, and financial management, while facilitating the overall business management transformation effort within DOD.

I would also like to articulate what this position would not do. The CMO would not be another layer in DOD's day-to-day management structure. Specifically, the CMO would not assume the responsibilities of the under secretaries of defense, the

<sup>12</sup>U.S. Department of Defense, Defense Financial Improvement and Audit Readiness Plan (Washington, DC: Sept. 30, 2006).

<sup>13</sup>U.S. Department of Defense, DOD Plan for Improvement in the GAO High Risk Area of Supply Chain Management with a Focus on Inventory Management and Distribution, (Washington, DC: September 2006).

service secretaries, or other DOD officials for the day-to-day management of the Department, nor would the CMO supervise those officials in connection with their ongoing responsibilities. Instead, the CMO would be responsible and accountable for planning, integrating, and executing the overall business transformation effort. The CMO also would develop and implement a strategic plan for the overall business transformation effort. As required by Congress, DOD is studying the feasibility and advisability of establishing a CMO to oversee the Department's business transformation process. As part of this effort, the Defense Business Board, an advisory panel, examined various options and, in May 2006, endorsed this concept. The Institute for Defense Analyses is scheduled to issue a report on this issue before the end of this year. In addition, McKinsey and Company recently endorsed the CMO concept.

The Secretary of Defense, Deputy Secretary of Defense, and other senior leaders have clearly shown a commitment to business transformation and addressing deficiencies in the Department's business operations. During the past year, DOD has taken additional steps to address certain provisions and requirements of the Ronald W. Reagan NDAA for Fiscal Year 2005, including establishing the Defense Business Systems Management Committee (DBSMC), which is intended to be DOD's primary transformation leadership and oversight mechanism, and creating the BTA to support the DBSMC, a decisionmaking body. However, these organizations do not provide the sustained leadership needed to successfully achieve the needed overall business transformation. The DBSMC's representatives consist of political appointees whose terms expire when administrations change.

Furthermore, it is important to remember that committees do not lead, people do. Thus, DOD still needs to designate a person to provide sustained leadership and have overall responsibility and accountability for this effort. In addition, we testified in November 2005<sup>14</sup> that DOD's BTA offers potential benefits relative to the Department's business systems modernization efforts if the agency can be properly organized, given resources, and empowered to effectively execute its roles and responsibilities and is held accountable for doing so. However, the Department has faced challenges in making the BTA operational. For example, we previously testified that there are numerous key acquisition functions that would need to be established and made operational for the BTA to effectively assume responsibility for 21 DOD-wide projects, programs, systems, and initiatives, and our experience across the government shows that these functions can take considerable time to establish.<sup>15</sup>

To assist the Department, the NDAA for Fiscal Year 2004 gives DOD the authority to hire up to 2,500 highly-qualified experts from outside the civil service and uniformed services without going through the normal civil service hiring system.<sup>16</sup> Earlier this year, the BTA had yet to take advantage of this authority because of certain departmental obstacles concerning, for example, the roles that these experts could perform. However, it is our understanding that this is no longer the case, and to date the BTA has hired nine of these individuals. Moreover, we were told that the BTA has also obtained direct hiring authority from the Office of Personnel Management (OPM). The BTA's total projected end strength is 235 personnel. As of November 2006, the BTA had hired 128 personnel; agency officials anticipate hiring the remaining 107 personnel, including 16 additional highly-qualified subject experts by September 30, 2007.

While achieving the BTA's initial staffing goals would represent a major accomplishment and is extremely important to its ability to perform its business transformation and business systems modernization roles and responsibilities, BTA human capital management is not a one-time event but rather an essential BTA function that needs to be managed strategically. Our research shows that to be successful, organizations need to treat human capital as strategic assets—continuously working to understand gaps between future needs and on-board capabilities and establish plans for filling gaps through a combination of, for example, training, retention incentives, hiring, and performance-related rewards. By employing such an approach, the BTA can be better positioned to make sure that it has the right people, with the right skills, when it needs them not only today but in the future. The Deputy Under Secretary of Defense for Financial Management stated that the BTA is currently developing a human capital strategy that is expected to be completed by

<sup>14</sup> GAO, *Defense Management: Foundational Steps Being Taken to Manage DOD Business Systems Modernization, but Much Remains to be Accomplished to Effect True Business Transformation*, GAO-06-234T (Washington, DC: Nov. 9, 2005).

<sup>15</sup> According to DOD, 21 systems and initiatives have been transferred under the BTA as of Oct. 31, 2006.

<sup>16</sup> National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 1101 (2003) (codified in part at 10 U.S.C. § 9903).

January 2007. It will: (1) provide for rotating staff between BTA and the DOD components to infuse talent into the BTA and to develop a change-oriented culture, (2) align individual and team performance to already established organizational mission outcomes, and (3) employ OPM's Human Capital Assessment and Accountability Framework and the DOD Human Capital Strategy.

DOD HAS MADE PROGRESS IN COMPLYING WITH BUSINESS SYSTEMS MODERNIZATION AND FINANCIAL MANAGEMENT ACCOUNTABILITY LEGISLATION, BUT MUCH WORK REMAINS

DOD has made important progress in complying with legislation pertaining to its financial management improvement and business systems modernization efforts. However, formidable challenges remain relative to extending the architecture and implementing its tiered accountability investment approach across the military services and defense agencies, and ensuring that DOD's thousands of business system investments are implemented on time and within budget and provide promised capabilities and benefits. The NDAA for Fiscal Year 2005 contained provisions aimed at establishing some of the tools needed to accomplish this. As our evaluations of Federal information technology (IT) management and our research of successful organizations show, other tools necessary for successfully modernizing systems will also be needed.

As we reported earlier this year,<sup>17</sup> DOD also made important progress in complying with the NDAA for Fiscal Year 2005 pertaining to its business systems modernization. For example, on March 15, 2006, DOD released updates to its business enterprise architecture (Version 3.1) and its ETP. These updates added previously missing content to the architecture and transition plan, such as identifying an enterprisewide data standard to support financial management and reporting requirements. Other business system modernization management improvements were also apparent, such as increased budgetary reporting of business system investments and additional investment review controls.

More recently, DOD issued Version 4.0 of its business enterprise architecture and ETP. These latest versions provide additional content and clarity. For example, the transition plan now includes the results of ongoing analyses of gaps between existing business capabilities and needed capabilities. However, enormous challenges, such as extending the architecture across the military services and defense agencies, remain. To this end, the Department defined a conceptual strategy in September 2006, for federating the architecture<sup>18</sup> and adopting a shared services orientation.<sup>19</sup> While we believe that the concepts have merit and are applicable to DOD, much remains to be decided and accomplished before they can be implemented in a way to produce architectures and transition plans for each DOD component that are aligned with the Department's corporate view and that can guide and constrain component-specific investments.

At the same time, DOD components continue to invest billions of dollars in new and existing business systems each year. This means that the risks of investing in these programs ahead of the federated architecture need to be part of investment approval decisions. As we have previously reported,<sup>20</sup> investment decisionmaking based on architecture alignment is but one of many keys to success of any business system modernization. Other keys to the success in delivering promised system capabilities and benefits on time and within budget include having the right human

<sup>17</sup> GAO-06-406T and GAO, Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed, GAO-06-658 (Washington, DC: May 15, 2006).

<sup>18</sup> A federated architecture is an architecture that is composed of a set of coherent, but distinct, entity architectures. The entities or members of the federation collaborate to develop an integrated enterprise architecture that conforms to the enterprise view and to the overarching rules of the federation.

<sup>19</sup> A service-oriented architecture is an approach for sharing functions and applications across an organization by designing them as discrete, reusable, business-oriented services. These services need to be, among other things, (1) self-contained, meaning that they do not depend on any other functions or applications to execute a discrete unit of work; (2) published and exposed as self-describing business capabilities that can be accessed and used; and (3) subscribed to via well-defined and standardized interfaces instead of unique, tightly coupled connections. Such a service orientation is thus not only intended to promote the reduced redundancy and increased integration that any architectural approach is designed to achieve, but to also provide the kind of flexibility needed to support a quicker response to changing and evolving business requirements and emerging conditions.

<sup>20</sup> GAO, DOD Systems Modernization: Planned Investment in the Navy Tactical Command Support System Needs to be Reassessed, GAO-06-215 (Washington, DC: Dec. 5, 2005) and DOD Systems Modernization: Uncertain Joint Use and Marginal Expected Value of Military Asset Deployment System Warrant Reassessment of Planned Investment, GAO-06-171 (Washington, DC: Dec. 15, 2005).

capital team in place and following a range of essential program management and system and software acquisition disciplines. As I will discuss later, our experience in reviewing several DOD business system programs shows that these keys to success are not consistently practiced. While not a guarantee, our research of leading program management and system acquisition practices and evaluations of Federal agencies shows that institutionalization of a family of well-defined management controls can go a long way in minimizing business system modernization risks.

*DOD Continues to Evolve Its Business Enterprise Architecture, but Much Remains to Be Accomplished*

In May 2006,<sup>21</sup> we reported on DOD's efforts to address a number of provisions in the NDAA for Fiscal Year 2005.<sup>22</sup> Among other things, we stated that the Department had adopted an incremental strategy for developing and implementing its architecture, which was consistent with our prior recommendation and a best practice. We further stated that DOD had addressed a number of the limitations in prior versions of its architecture. For example, we reported that Version 3.1 of the architecture had much of the information needed, if properly implemented, to achieve compliance with the Department of the Treasury's United States Standard General Ledger,<sup>23</sup> such as the data elements or attributes that are needed to facilitate information sharing and reconciliation with the Treasury. In addition, we stated that the architecture continued to specify DOD's Standard Financial Information Structure (SFIS)<sup>24</sup> as an enterprisewide data standard for categorizing financial information to support financial management and reporting functions.

Despite this progress, we also reported<sup>25</sup> that this version of the architecture did not comply with all of the legislative requirements<sup>26</sup> and related best practices. For example, while program officials stated that analyses of the current architectural environment for several of the enterprise-level systems had occurred, the architecture did not contain a description of, or a reference to, the results of these analyses. The architecture also did not include a systems standards profile to support implementation of data sharing among departmentwide business systems and interoperability with departmentwide IT infrastructure. Program officials acknowledged that the architecture did not include this profile and stated that they were working with the Assistant Secretary of Defense (Networks and Information Integration) and Chief Information Officer to address this in future versions. We also reported that the architecture was not, for example, adequately linked to the military service and defense agency component architectures and transition plans, which we said was particularly important given the Department's stated intention to adopt a federated approach to developing and implementing the architecture.

In September 2006, DOD released version 4.0 of its architecture, which according to the Department, resolves several of the architecture gaps that were identified with the prior version. One example of a gap that DOD reports Version 4.0 is beginning to fill is the definition of a key business process area missing from prior versions—the planning, programming, and budgeting process area. In this regard, according to DOD, the architecture now includes departmental and other Federal planning, programming, and budgeting guidance (e.g., OMB Circular A-11) and some high-level activities associated with this process area. In addition, DOD reports that version 4.0 has restructured the business process models to reduce data redundancy and ensure adherence to process modeling standards (e.g., eliminated numerous process modeling standards violations and stand-alone process steps with no linkages). Despite these improvements, this version is still missing, for example, a depiction of the current environment (i.e., baseline of its current assets and current capabilities) that was analyzed against its target environment to identify capability gaps that the ETP is to address. Further, it does not include DOD component architectures (e.g., services and various DOD agencies) as distinct yet coherent members of a federated DOD business enterprise architecture.

*DOD Plans to Federate Its Business Enterprise Architecture to the Components*

Recognizing the need to address component architectures, DOD released its business mission area federation strategy and roadmap in September 2006, which is intended to define how DOD will extend its business enterprise architecture across

<sup>21</sup> GAO-06-658.

<sup>22</sup> Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified in part at 10 U.S.C. § 2222).

<sup>23</sup> The United States Standard General Ledger provides a uniform chart of accounts and technical guidance used in standardizing Federal agency accounting.

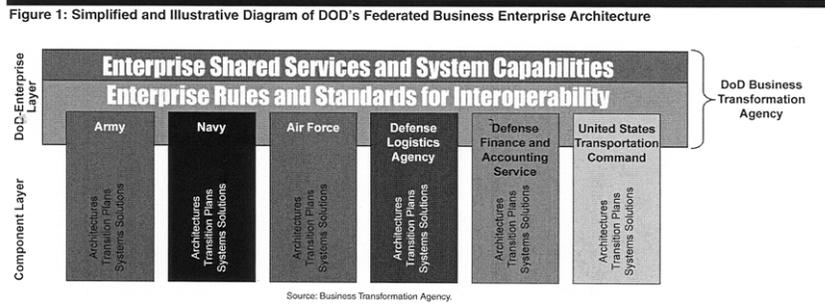
<sup>24</sup> SFIS is the Department's common financial business language.

<sup>25</sup> GAO-06-658.

<sup>26</sup> 10 U.S.C. § 2222(d).

the military services and defense agencies. According to DOD, the strategy will provide for standardization across the federation of architectures by, for example, introducing a consistent set of standards for determining the status and quality of the member (component and program) architectures, a standard methodology for linking member architectures to the overarching corporate architecture, the capability to search member architectures, and a common method to reuse capabilities described by these architectures.

In the end, the strategy is intended to link related business mission area services or capabilities in the various architectures by establishing a set of configuration standards for architecture repositories. Further, the strategy is also intended to support the development of the interoperable execution of enterprise and component systems by defining and disclosing common services that can be shared and reused by these systems. (See fig. 1 for a simplified and illustrative conceptual depiction of DOD's federated business enterprise architecture.)



The importance of extending the DOD business enterprise architecture to the military services is underscored by our recent findings about the military services' management of their respective enterprise architecture programs.<sup>27</sup> Specifically, in August 2006, we released an assessment of Federal agency enterprise architecture programs' satisfaction of the elements in our Enterprise Architecture Management Maturity Framework (EAMMF).<sup>28</sup> Our EAMMF is a 5-stage architecture framework for managing the development, maintenance, and implementation of an architecture and understanding the extent to which effective architecture management practices are being performed and where an organization is in its progression toward having a well-managed architecture program. In short, the framework consists of 31 core elements that relate to architecture governance, content, use, and measurement.<sup>29</sup> These elements reflect research by us and others showing that architecture programs should be founded upon institutional architecture commitment and capabilities, and measured and verified products and results.

With respect to the maturity of the military services' respective enterprise architecture programs, we found that the departments of the Air Force, the Army, and the Navy had not satisfied about 29, 55, and 29 percent of the core elements in our framework, respectively. In addition, the Army had only fully satisfied 1 of the 31 core elements (3 percent). (See table 1 for the number and percentage of elements fully, partially, and not satisfied by each of the military Services).

**TABLE 1: NUMBER AND PERCENTAGE OF FRAMEWORK ELEMENTS FULLY, PARTIALLY, AND NOT SATISFIED BY THE MILITARY SERVICES**

Military Services	Fully satisfied (percentage)	Partially satisfied (percentage)	Not satisfied (percentage)
Air Force .....	14 (45)	8 (26)	9 (29)
Army .....	1 (03)	13 (42)	17 (55)

<sup>27</sup> GAO, Enterprise Architecture: Leadership Remains Key to Establishing and Leveraging Architectures for Organizational Transformation, GAO-06-831 (Washington, DC: August 2006).

<sup>28</sup> GAO-06-831.

<sup>29</sup> GAO, Information Technology: A Framework for Assessing and Improving Enterprise Architecture Management (Version 1.1), GAO-03-584G (Washington, DC: April 2003).

TABLE 1: NUMBER AND PERCENTAGE OF FRAMEWORK ELEMENTS FULLY, PARTIALLY, AND NOT SATISFIED BY THE MILITARY SERVICES—Continued

Military Services	Fully satisfied (percentage)	Partially satisfied (percentage)	Not satisfied (percentage)
Navy .....	10 (32)	12 (39)	9 (29)

Source: GAO.

By comparison, the other major Federal departments and agencies that we reviewed had as a whole fully satisfied about 67 percent of the framework's core elements. Among the key elements that all three Services had not fully satisfied were developing architecture products that describe their respective target architectural environments and developing transition plans for migrating to a target environment, in addition to the following.

- The Air Force, for example, had not yet placed its architecture products under configuration management to ensure the integrity and consistency of these products and was not measuring and reporting on the quality of these products.
- The Army, for example, had yet to develop effective architecture development plans and had not developed architecture products that fully described its current architectural environment.
- The Navy, for example, had yet to describe its current architectural environment in terms of performance and had not explicitly addressed security in its architecture descriptions.

Further, while the Services had partially satisfied between 8 and 13 core elements in our framework, it is important to note that even though certain core elements are partially satisfied, fully satisfying some of them will not be accomplished quickly and easily. It is also important to note the importance of fully, rather than partially, satisfying certain elements, such as those that address architecture content, which can have important implications for the quality of an architecture and thus its usability and results.

To assist the military services in addressing enterprise architecture challenges and managing their architecture programs, we recommended that the Services develop and implement plans for fully satisfying each of the conditions in our framework. The Department generally agreed with our findings and recommendations and stated that it plans to use our framework as one of the benchmark best practices as DOD components continuously work to improve enterprise architecture management maturity.

Clearly, much remains to be accomplished to implement the federated strategy and create DOD's federated business enterprise architecture. One key to making this happen, which we have previously recommended,<sup>30</sup> is having a business enterprise architecture development management plan that defines what will be done, when, by whom, and how it will be done to fully develop the architecture. Having and using such a plan is provided for in our EAMMF. Without one, the Department is less likely to effectively accomplish its intended architecture evolution, extension, and improvement efforts. According to BTA officials, they are in the process of addressing this recommendation. We currently have ongoing work for this committee and others looking at, among other things, how the Department plans to implement the federated strategy and the challenges that it faces in doing so.

*DOD Continues to Improve Its Enterprise Transition Plan, but Needed Improvements Remain*

DOD has taken a number of steps to improve its ETP and address some of the missing elements that we previously identified<sup>31</sup> relative to the NDAA for Fiscal Year 2005's requirements and related transition planning guidance. For example, in May 2006, we reported that the transition plan included an initiative aimed at identifying capability gaps between the current and target architectural environments, and provided information on progress on major investments—including key accomplishments and milestones attained, and more information about the termination of legacy systems. However, we reported that it still did not identify, among other things, all legacy systems that will not be part of the target architecture, and it did not include system investment information for all the military services, defense agencies, and combatant commands.

<sup>30</sup> GAO-06-658.

<sup>31</sup> GAO-06-219.

In September 2006, DOD released an updated revision to its ETP, which continues to include major investments—such as key accomplishments and milestones attained, as well as new information on near-term activities (i.e., within the next 6 months) at both the enterprise and component levels. For example, in an effort to improve visibility into personnel activities, DOD reported that, for the Defense Civilian Personnel Data System, it met the September 2006 milestone to implement enterprisewide tools for use in advanced reporting and data warehousing, and that it has set a September 2008 milestone for developing an implementation strategy for integrating modules supporting functionality that is currently provided by stand-alone applications. In addition, the updated plan provides information on business priorities supported by systems and initiatives and aligns these priorities with a set of business value measures (e.g., on-time customer request, payroll accuracy). Specifically, for each business enterprise priority, the plan now identifies the business capability improvements (e.g., manage personnel and pay) necessary to achieve the business enterprise priority (e.g., personnel visibility) objectives and the metrics for measuring progress towards achieving these objectives. In addition, the plan now identifies the relationship between target systems, business capabilities, operational activities, and the system functions they provide and specific organizations that will or plan to use the system. Further, the transition plan now includes the initial results of ongoing analyses of gaps between its current and target environments for most of the business enterprise priorities, in which capability and performance shortfalls and their root causes are described and the architecture solution component (such as business rules and transformation initiatives and systems) that are to address these shortfalls are identified.

However, the current transition plan is still missing important elements. Specifically, the plan does not yet include system investment information for all the defense agencies and combatant commands. In addition, the planned investments in the transition plan are not sequenced based on a range of activities that are critical to developing an effective transition plan. As we have previously reported,<sup>32</sup> a transition or sequencing plan should provide a temporal investment roadmap for moving between the current and target environments, based on such considerations as technology opportunities, marketplace trends, institutional system development and acquisition capabilities, legacy and new system dependencies and life expectancies, and the projected value of competing investments. According to a BTA official responsible for the ETP, the transition plan investments have not been sequenced based on these considerations. Rather, the ETP is based on fiscal year budgetary constraints.

Program officials stated that the next version of the plan will enhance performance metric tracking, improve the quality of system functional scope and organizational span information, better integrate component plans with enterprise plans, enhance federating plans for each business capability, and possibly add other components to the ETP. As the transition plan evolves and all system investments are validated against the architecture via capability gap analyses, the Department should be better positioned to sequentially define and manage the migration and disposition of existing business processes and systems—and the introduction of new ones.

*DOD Has Established Business Systems Investment Decisionmaking Controls, but Full Implementation Remains Unclear*

To help improve the Department's control and accountability over its business systems investments, provisions in the NDAA for Fiscal Year 2005 directed DOD to put in place a specifically defined structure that is responsible and accountable for controlling business systems investments to ensure compliance and consistency with the business enterprise architecture. More specifically, the act directs the Secretary of Defense to delegate responsibility for review, approval, and oversight of the planning, design, acquisition, deployment, operation, maintenance, and modernization of defense business systems to designated approval authorities or "owners" of certain business missions.<sup>33</sup> DOD has satisfied this requirement under the act. On March 19, 2005, the Deputy Secretary of Defense issued a memorandum that delegated the authority in accordance with the criteria specified in the act, as described above.

<sup>32</sup> GAO-06-658.

<sup>33</sup> Approval authorities, including 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; the Assistant Secretary of Defense for Networks and Information Integration and Chief Information Officer of the Department of Defense; and the Deputy Secretary of Defense or an Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

Our research and evaluation of agencies' investment management practices have shown that clear assignment of senior executive investment management responsibility and accountability is crucial to having an effective institutional approach to IT investment management.<sup>34</sup>

The NDAA for Fiscal Year 2005 also required DOD to establish investment review structures and processes, including a hierarchy of investment review boards (IRBs), each with representation from across the Department, and a standard set of investment review and decisionmaking criteria for these boards to use to ensure compliance and consistency with DOD's business enterprise architecture. In this regard, the act required the establishment of the DBSMC—which serves as the highest ranking governance body for business system modernization activities within the Department. As of April 2006, DOD identified 3,717 business systems and assigned responsibility for these systems to IRBs. Table 2 shows the systems and the responsible IRB and component.

TABLE 2: DOD SYSTEMS AND INVESTMENT REVIEW BOARD AND COMPONENT

Investment Review Board	Air Force	Army	Navy	Defense Finance and Accounting Service	Other Defense Agencies	Total
Financial Management .....	67	161	148	72	35	483
Human Resources Management .....	164	320	174	20	114	792
Weapon System Life-Cycle Management and Materiel Supply and Service Management .....	780	730	406	1	168	2,085
Real Property and Installations Life-Cycle Management .....	71	122	44	0	17	254
Other .....	65	0	26	0	12	103
<b>Total .....</b>	<b>1,147</b>	<b>1,333</b>	<b>798</b>	<b>93</b>	<b>346</b>	<b>3,717</b>

Source: GAO analysis of DOD data.

A key element of the Department's approach to reviewing and approving business systems investments is the use of what it refers to as tiered accountability. DOD's tiered accountability approach involves an investment control process that begins at the component level and works its way through a hierarchy of review and approval authorities, depending on the size and significance of the investment. Military service officials emphasized that the success of the process depends on them performing a thorough analysis of each business system before it is submitted for higher-level review and approval. Through this process, the Department reported in March 2006 that 226 business systems, representing about \$3.6 billion in modernization investment funding, had been approved by the DBSMC—the Department's highest-ranking approval body for business systems. According to the Department's March 2006 report, this process also identified more than 290 systems for phase out or elimination and approximately 40 business systems for which the requested funding was reduced and the funding availability periods were shortened to fewer than the number of years requested. For example, one business system investment that has been eliminated is the Forward Compatible Payroll (FCP) system. In reviewing the program status, the IRB determined that FCP would duplicate the functionality contained in the Defense Integrated Military Human Resources System, and it was unnecessary to continue investing in both systems.<sup>35</sup> A major reason the Department has thousands of business systems is that it has historically failed to consistently employ the range of effective institutional investment management controls, such as an architecture-centric approach to investment decisionmaking, that our work and research show are keys to successful system modernization programs. Such controls help to identify and eliminate duplicative systems and this helps to optimize mission performance, accountability, and transformation. They also help to ensure that promised system capabilities and benefits are delivered on time and within budget.

Furthermore, the BTA reports that the tiered accountability approach has reduced the level of funding and the number of years that funding will be available for 14 Army business systems, 8 Air Force business systems, and 8 Navy business systems.

<sup>34</sup> GAO, Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity, GAO-04-394G (Washington, DC: March 2004).

<sup>35</sup> According to the Department's fiscal year 2007 IT budget request, approximately \$33 million was sought for fiscal year 2007 and about \$31 million was estimated for fiscal year 2008 for FCP.

tems. For example, the Army's Future Combat Systems Advanced Collaborative Environment program requested funding of \$100 million for fiscal years 2006 through 2011, but the amount approved was reduced to approximately \$51 million for fiscal years 2006 through 2008. Similarly, Navy's Military Sealift Command Human Resources Management System requested funding of about \$19 million for fiscal years 2006 through 2011, but the amount approved was approximately \$2 million for the first 6 months of fiscal year 2006. According to Navy officials, this system initiative will be reviewed to ascertain whether it has some of the same functionality as the Defense Civilian Personnel Data System. Funding system initiatives for shorter time periods can help reduce the financial risk by providing additional opportunities for monitoring a project's progress against established milestones and help ensure that the investment is properly aligned with the architecture and the Department's overall goals and objectives.

Besides limiting funding, the investment review and approval process has resulted in conditions being placed on system investments. These conditions identify specific actions to be taken and when the actions must be completed. For example, in the case of the Army's Logistics Modernization Program (LMP) initiative, one of the noted conditions was that the Army had to address the issues discussed in our previous reports.<sup>36</sup> In our May 2004 report, we recommended that the Department establish a mechanism that provides for tracking all business systems modernization conditional approvals to provide reasonable assurance that all specific actions are completed on time.<sup>37</sup> In response, the Department has begun to track conditional approvals.

Despite DOD's efforts to control its investments to acquire new business systems or to enhance existing business systems, formidable challenges remain. In particular, the reviews of those business systems that have modernization funding of less than \$1 million, which represent the majority of the Department's reported 3,717 business systems, are only now being started on an annual basis, and thus the extent to which the review structures and processes will be applied to the Department's 3,717 business systems is not clear. Given the large number of systems involved, it is important that an efficient system review and approval process be effectively implemented for all systems. As indicated in table 2, there are numerous systems across the Department in the same functional area. Such large numbers of systems indicate a real possibility for eliminating unnecessary duplication and avoiding unnecessary spending on the DOD's multiple business systems. In support of this subcommittee, we have work planned to address the extent to which these management controls are actually being implemented for both the enterprise-level investments and the thousands of other system investments that are being managed at the component level.

#### *Key DOD Systems Still Face Challenges*

As we have previously testified and reported,<sup>38</sup> DOD has not effectively managed a number of business system programs. Among other things, our reviews of individual system investments have identified weaknesses in such things as architectural alignment and informed investment decisionmaking, which are focus areas of the NDAA for Fiscal Year 2005 provisions. Our reviews have also identified weaknesses in other system acquisition and investment management areas—such as requirements management, testing, and performance management—where good management is crucial for the successful implementation of any given DOD business system. I will describe examples of the weaknesses that we have recently reported on for five system investments. The system investments are the Defense Integrated Military Human Resources System (DIMHRS), Defense Travel System (DTS), the Army LMP, the Navy Tactical Command Support System (NTCSS), and the Transportation Coordinators' Automated Information for Movements System II (TC-AIMS II). The weaknesses that we have found raise questions as to the extent to which the structures, processes, and controls that DOD has established in response to the NDAA for Fiscal Year 2005 are actually being implemented, and illustrate the range of system acquisition and investment management controls (beyond those provided for in the act) that need to be effectively implemented in order for a given investment to be successfully acquired and deployed.

<sup>36</sup>GAO, DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability, GAO-04-615 (Washington, DC: May 27, 2004) and Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts, GAO-05-441 (Washington, DC: June 30, 2005).

<sup>37</sup>GAO-04-615.

<sup>38</sup>See, for example, GAO-06-234T.

*DIMHRS*

In 2005 we reported that DIMHRS—a planned DOD-wide military pay and personnel system—was not being managed as a DOD-wide investment, to include alignment with a DOD-wide architecture and governance by a DOD-wide body.<sup>39</sup> In addition, we reported that DIMHRS requirements had not been adequately defined, and not all acquisition best practices associated with commercial component-based systems were being followed. Accordingly, we made a number of recommendations. In response, DOD has elevated the system to an enterprise investment under the BTA, and established a DIMHRS steering committee that is chartered to include representation from the services. The BTA has also hired a DIMHRS program manager, and the Army and the Air Force, while continuing to evaluate their respective requirements, have determined that the commercial software product selected for DIMHRS can be used under certain conditions. The Army expects to deploy DIMHRS in April 2008 and the Air Force plans to begin deployment in May 2008. The Navy, on the other hand, assessed both DIMHRS and the Marine Corps Total Force System (MCTFS)<sup>40</sup> and determined that MCTFS would better meet its requirements. According to a Navy official, the DBSMC has directed the Navy to research MCTFS and to fully evaluate the cost implications of the MCTFS option, but has not granted the Navy permission to deploy MCTFS. We plan to evaluate DOD's implementation of our prior recommendations and the Navy's analysis of the merits of pursuing the MCTFS option.

*DTS*

In September 2006, we reported<sup>41</sup> on limitations in the economic justification underlying DOD's decision to invest in DTS, which is intended to be the standard departmentwide travel system. Specifically, we found that two key assumptions used to estimate cost savings in the September 2003 DTS economic analysis were not based on reliable information. Additionally, we reported that DOD did not have quantitative metrics to measure the extent to which DTS is actually being used. Moreover, we found that DOD had not adequately defined and tested the system's requirements, an area of concern that was also discussed in our January 2006 report.<sup>42</sup> These system acquisition management weaknesses introduce considerable risk to DOD's ability to deliver promised DTS capabilities and benefits on time and within budget. Although the September 2003 economic analysis was not based on supportable data, the Department's criteria do not require that a new economic analysis be prepared. DTS has already completed all of the major milestones related to a major automated system which require that an economic analysis be prepared or at least updated to reflect the current assumptions and the related costs and benefits. However, the NDAA<sup>43</sup> for Fiscal Year 2005 requires the periodic review, but not less than annually, of every defense business system investment. Further, the Department's April 2006 guidance<sup>44</sup> notes that the annual review process "provides follow-up assurance that information technology investments, which have been previously approved and certified, are managed properly, and that promised capabilities are delivered on time and within budget." If effectively implemented, this annual review process provides an excellent opportunity for DOD management to assess whether DTS is meeting its planned cost, schedule, and functionality goals. Going forward, such a review could serve as a useful management tool in making funding and other management decisions related to DTS. We made recommendations to DOD aimed at improving the management oversight of DTS, including periodic reports on DTS utilization and resolution of inconsistencies in DTS's requirements. DOD generally agreed with the recommendations and described its efforts to address them.

<sup>39</sup>GAO, DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements, GAO-05-189 (Washington, DC: Feb 11, 2005).

<sup>40</sup>MCTFS is the Marine Corps' integrated personnel and pay system.

<sup>41</sup>GAO, Defense Travel System: Reported Savings Questionable and Implementation Challenges Remain, GAO-06-980 (Washington, DC: Sept. 26, 2006).

<sup>42</sup>GAO DOD Business Transformation: Defense Travel System Continues to Face Implementation Challenges, GAO-06-18 (Washington, DC: Jan. 18, 2006).

<sup>43</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332 (2004) (codified, in part at 10 U.S.C. §§ 186 and 2222).

<sup>44</sup>DOD, DOD IT Business Systems Investment Review Process: Investment Certification and Annual Review Process User Guidance (Apr. 10, 2006).

*LMP*

In 2004 and 2005,<sup>45</sup> we reported that the Army faced considerable challenges in developing and implementing LMP which is intended to transform the Army Materiel Command's logistics operations. In particular, we reported that LMP will not provide intended capabilities and benefits because of inadequate requirements management and system testing. These problems prevented the Tobyhanna Army Depot from accurately reporting on its financial operations, which, in turn, adversely impacts the depot's ability to accurately set prices. We found that the Army has not put into place an effective management process to help ensure that the problems with the system are resolved. While the Army developed a process that identified the specific steps that should be followed in addressing the problems identified, the process was not followed. We recommended improvements in the implementation of LMP as well as delaying implementation at the remaining four depots until problems encountered have been resolved. DOD concurred with all the recommendations. The Subcommittee has requested that we undertake a series of audits directed at DOD's efforts to resolve long-standing financial management problems over the visibility of its assets. Our first such audit is evaluating the Army's efforts in the area and will include follow-up work on LMP.

*NTCSS*

In December 2005,<sup>46</sup> we reported that DOD needed to reassess its planned investment in the NTCSS—a system intended to help Navy personnel effectively manage ships, submarines, and aircraft support activities. Among other things, we reported that the Navy had not economically justified its ongoing and planned investment in the NTCSS and had not invested in the NTCSS within the context of a well-defined DOD or Navy enterprise architecture. In addition, we reported that the Navy had not effectively performed key measurement, reporting, budgeting, and oversight activities, and had not adequately conducted requirements management and testing activities. We conclude that without this information, the Navy could not determine whether the NTCSS as defined, and as being developed, is the right solution to meet its strategic business and technological needs. Accordingly, we recommended that DOD develop the analytical basis to determine if continued investment in the NTCSS represents prudent use of limited resources and we also made recommendations to strengthen management of the program, conditional upon a decision to proceed with further investment in the program. In response, DOD generally concurred with the recommendations.

*TC-AIMS II*

In December 2005,<sup>47</sup> we reported that TC-AIMS II—a joint services system with the goal of helping to manage the movement of forces and equipment within the United States and abroad—had not been defined and developed in the context of a DOD enterprise architecture. Similar to DIMHRS and DTS, TC-AIMS II was intended to be an enterprise-level system. However, the Army—DOD's acquisition agent for TC-AIMS II—had pursued the system on the basis of an Army logistics-focused architecture. This means that TC-AIMS II, which was intended to produce a departmentwide military deployment management system, was based on a service-specific architecture, thus increasing the risk that this program, as defined, will not properly fit within the context of future DOD enterprisewide business operations and IT environments. In addition, the Army had not economically justified the program on the basis of reliable estimates of life-cycle costs and benefits, and as a result, the Army does not know if investment in TC-AIMS II, as planned, is warranted or represents a prudent use of limited DOD resources. Accordingly, we recommended that DOD, among other things, develop the analytical basis needed to determine if continued investment in TC-AIMS II, as planned, represents prudent use of limited defense resources. In response, DOD generally concurred with our recommendations and described efforts initiated or planned to bring the program into compliance with applicable guidance.

<sup>45</sup>GAO, DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability, GAO-04-615 (Washington, DC: May. 27, 2004) and Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts, GAO-05-441 (Washington, DC: June 30, 2005).

<sup>46</sup>GAO, DOD Systems Modernization: Planned Investment in the Navy Tactical Command Support System Needs to be Reassessed, GAO-06-215 (Washington, DC: Dec. 5, 2005).

<sup>47</sup>GAO, DOD Systems Modernization: Uncertain Joint Use and Marginal Expected Value of Military Asset Deployment System Warrant Reassessment of Planned Investment, GAO-06-171 (Washington, DC: Dec. 15, 2005).

*DOD Issues Its Financial Improvement and Audit Readiness Plan*

A major component of DOD's business transformation effort is the defense Financial Improvement and Audit Readiness Plan (FIAR), initially issued in December 2005 and updated in June 2006 and September 2006, pursuant to section 376 of the NDAA for Fiscal Year 2006.<sup>48</sup> Section 376 limited DOD's ability to obligate or expend funds for fiscal year 2006 on financial improvement activities until the Department submitted a comprehensive and integrated financial management improvement plan to the congressional defense committees. Section 376 required the plan to: (1) describe specific actions to be taken to correct deficiencies that impair the Department's ability to prepare timely, reliable, and complete financial management information; and (2) systematically tie these actions to process and control improvements and business systems modernization efforts described in the business enterprise architecture and transition plan. Further, section 376 required a written determination that each financial management improvement activity undertaken is consistent with the financial management improvement plan and likely to improve internal controls or otherwise result in sustained improvement in DOD's ability to produce timely, reliable, and complete financial management information. DOD had to submit each written determination to the congressional defense committees. Section 321 of the NDAA for Fiscal Year 2007 extended the written determination provision beyond fiscal year 2006.<sup>49</sup>

DOD intends the FIAR Plan to provide DOD components with a framework for resolving problems affecting the accuracy, reliability, and timeliness of financial information, and obtaining clean financial statement audit opinions. The FIAR Plan states that it prioritizes DOD's improvement efforts based on the following criteria: (1) impact on DOD financial statements, (2) ability to resolve longstanding problems, (3) need for focused DOD leadership attention to resolve the problem, (4) dependency on business transformation initiatives and system solutions, and (5) availability of resources. The FIAR Plan outlines the business rules and oversight structure DOD has established to guide financial improvement activities and audit preparation efforts. According to DOD, its June and September 2006 FIAR Plan updates were intended to: (1) begin identifying milestones that must be met for assertions about the reliability of reported financial statement information to occur on time, (2) develop greater consistency among components regarding their corrective actions and milestones, and (3) further describe how the FIAR Plan will be integrated with the ETP. In addition, the September 2006 update outlines three key elements for achieving financial management transformation: accountability, integration, and prioritization. Although the FIAR Plan states that it is integrated with DOD component-level financial improvement plans and the ETP, DOD officials have acknowledged that the level of integration between the two efforts is not complete and is still evolving.

The FIAR Plan is a high-level summary of DOD's plans and reported actions to comply with financial management legislation and achieve clean financial statement audit opinions. We have reviewed the FIAR Plan and its updates and discussed the FIAR Plan with DOD and OMB. We cannot comment on specific focus areas or milestones because we have not seen any of the underlying component or other subordinate plans on which the FIAR Plan is based. However, we believe the incremental line item approach, integration plans, and oversight structure outlined in the FIAR Plan for examining DOD's operations, diagnosing problems, planning corrective actions, and preparing for audit represents a vast improvement over prior financial improvement initiatives.

We continue to stress that the effectiveness of DOD's FIAR Plan will ultimately be measured by the Department's ability to provide timely, reliable, and useful information for day-to-day management and decisionmaking. Nonetheless, I would like to see DOD place greater emphasis on achieving auditability by 2012. If DOD is able to achieve this date, and other impediments to an opinion on the consolidated financial statements of the U.S. government are also addressed, an opinion for the Federal Government may also be possible by 2012. We look forward to working with DOD and the new DOD Inspector General, when appointed, in further developing DOD's audit strategy.

<sup>48</sup> Pub. L. No. 109-163, § 376, 119 Stat. 3136, 3213 (2006).

<sup>49</sup> Pub. L. No. 109-364, § 321, 120 Stat. 2083 (2006).

LEGISLATION ENACTED TO ADDRESS DOD'S FINANCIAL MANAGEMENT WEAKNESSES AND  
STRENGTHEN BUSINESS SYSTEMS ACCOUNTABILITY

Lastly, you asked for my comments on two sections of the recently enacted John Warner NDAA for Fiscal Year 2007.<sup>50</sup> The first provision, section 321, seeks to ensure that the Department pursues financial management improvement activities only in accordance with a comprehensive financial management improvement plan that coordinates these activities with improvements in its systems and controls. The second provision, section 816, establishes certain reporting and oversight requirements for the acquisition of all MAIS.<sup>51</sup>

*Legislation Reiterates Need for Consistency between DOD's Financial and Business Transformation Plans*

Section 321 of the John Warner NDAA for Fiscal Year 2007 extends beyond fiscal year 2006 certain limitations and requirements placed on DOD's financial management improvement and audit initiatives in section 376 of the NDAA for Fiscal Year 2006. Specifically, section 321 of the act limits DOD's ability to obligate or expend any funds for the purpose of any financial management improvement activity relating to the preparation, processing, or auditing of financial statements until it has submitted to the congressional defense committees a written determination that each activity proposed to be funded is: (1) consistent with the DOD financial management improvement plan required by section 376 of the NDAA for Fiscal Year 2006, and (2) is likely to improve internal controls or otherwise result in sustained improvements in the ability of the Department to produce timely, reliable, and complete financial management information.

I fully support the intent of legislation, such as section 321, which is aimed at directing DOD's corrective actions towards the implementation of sustained improvements in its ability to provide timely, reliable, complete, and useful information. This is imperative not only for financial reporting purposes, but more importantly for daily decisionmaking and oversight. Section 321 is consistent with and builds on existing legislation, in addition to section 376 of the NDAA for Fiscal Year 2006. For example, section 1008 of the NDAA for Fiscal Year 2002<sup>52</sup> currently requires DOD to limit resources used to prepare and audit unreliable financial information, thereby saving the taxpayers millions of dollars annually. In addition, the fiscal year 2002 act requires DOD to report to congressional committees and others annually on the reliability of DOD's financial information and to provide a summary of improvement activities, including priorities, milestones, measures of success, and estimates of when each financial statement will convey reliable information. In my opinion, Congress has clearly articulated its expectation that DOD exercise prudence in its use of taxpayer money and focus only on those activities that will result in sustained improvements in its ability to produce timely and reliable financial management information.

It is evident that DOD intends to use its FIAR Plan, which it plans to update semiannually, as a tool for complying with legislative requirements regarding its financial improvement efforts. However, as is true with most large initiatives, a comprehensive and integrated plan, sustained leadership, results-oriented performance measures, and effective implementation will be key to successful reform.

*Legislative Language Establishing Reporting Requirements for Major Automated Information Systems Increases Oversight and Accountability*

The provisions in section 816 of the John Warner NDAA for Fiscal Year 2007 provide for greater disclosure and accountability of business system investment performance, and thus facilitate greater oversight. More specifically, the legislation establishes certain reporting and oversight requirements for the acquisition of MAIS that fail to meet cost, schedule, or performance criteria. In general, a MAIS is a major DOD IT program that is not embedded in a weapon system (e.g., a business system investment). As such, we believe that the provisions can increase oversight and accountability. Therefore, I also support this legislation.

<sup>50</sup> John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006).

<sup>51</sup> The committee originally asked GAO to comment on sec. 804 of the Senate bill, S. 2766, which, with some changes, has now been enacted as sec. 816.

<sup>52</sup> Pub. L. No. 107-107, § 1008, 115 Stat. 1012, 1204 (Dec. 28, 2001).

SPECIFIC HIGH-RISK PROGRAM AREAS HIGHLIGHT THE NEED FOR CONTINUED  
ATTENTION TO ENSURE EFFECTIVE TRANSFORMATION

I would like to discuss the five remaining high-risk areas within DOD. These include weapon systems acquisitions and contract management; supply chain management; personnel security clearance program; and support infrastructure management.

*DOD Weapon Systems Acquisitions and Contract Management*

Two interrelated areas are the management of DOD's major weapon systems acquisitions and its contracts. While DOD eventually fields the best weapon systems in the world, we have consistently reported that typically the programs take significantly longer, cost significantly more money, and deliver fewer capabilities than originally promised. DOD's new weapon system programs are expected to be the most expensive and complex ever and will consume an increasingly large share of DOD's budget. These costly current and planned acquisitions are running head-on into the Nation's unsustainable fiscal path. In the past 5 years, DOD has doubled its commitment to weapon systems from \$700 billion to \$1.4 trillion, but this huge increase has not been accompanied by more stability, better outcomes, or increased buying power for the acquisition dollar. Rather than showing appreciable improvement, programs are experiencing recurring problems with cost overruns, missed deadlines, and performance shortfalls. A large number of the programs included in our annual assessment of weapon systems are costing more and taking longer to develop than estimated.<sup>53</sup> It is not unusual to see development cost increases between 30 percent and 40 percent and attendant schedule delays. These cost increases mean DOD cannot produce as many weapons as intended nor can it be relied on to deliver to the warfighter when promised. This causes DOD to either cut back on planned quantities or capabilities, or to even scrap multibillion dollar programs, after years of effort. If these systems are managed with the traditional margins of error, the financial consequences can be dire, especially in light of a constrained discretionary budget.

It is within this context that we must engage in a comprehensive and fundamental reexamination of new and ongoing investments in our Nation's weapon systems. Success for acquisitions means making sound decisions to ensure that program investments are based on needs versus wants and getting promised results. In the commercial world, successful companies have no choice but to adopt processes and cultures that emphasize basing decisions on knowledge, reducing risks prior to undertaking new efforts, producing realistic cost and schedule estimates, and building in quality to deliver products to customers at the right price, time, and cost. However, this is not happening within DOD. The DOD has tried to embrace best practices in its policies and instill more discipline in setting requirements, among numerous other actions, but it still has trouble distinguishing wants from true needs. While DOD's acquisition policy supports a knowledge-based, evolutionary approach to acquiring new weapons, its practice of making decisions on individual programs often sacrifices knowledge and executability in favor of revolutionary solutions. In an important sense, success has come to mean starting and continuing programs even when cost, schedule, and quantities must be sacrificed.

Our reviews have identified a number of causes behind the acquisition problems just described, but I would like to focus on three. The first I refer to as "big A," or acquisition with a capital "A." What I mean by this is that DOD's funding, requirements, and acquisition processes are not working synergistically. DOD does not clearly define and stabilize requirements before programs are started. Our work has shown that DOD's requirements process generates more demand for new programs than fiscal resources can support. DOD compounds the problem by approving many highly complex and interdependent programs. Moreover, once a program is approved, requirements can be added along the way—significantly stretching technology, creating design challenges, exacerbating budget overruns, and enhancing accountability challenges. For example, in the F-22A program, after the program was started, the Air Force added a requirement for air-to-ground attack capability. In its Global Hawk program, after the start of the program, the Air Force added both signals intelligence and imagery intelligence requirements. Both programs have experienced serious schedule delays and significant unit cost increases. Customers often demand additional requirements fearing there may not be another chance to get new capabilities because programs can take a decade or longer to complete. Yet, perversely, these strategies delay delivery to the warfighter, often by years.

<sup>53</sup> GAO, Defense Acquisitions: Assessments of Selected Major Weapon Programs, GAO-06-391 (Washington, DC: Mar. 31, 2006).

The second cause I would refer to as “little a” or the acquisition process itself. DOD commits to individual programs before it obtains assurance that the capabilities it is pursuing can be achieved within available resources and time constraints. In particular, DOD routinely accepts high levels of technology risk at the start of major acquisition programs. Funding processes encourage this approach, since acquisition programs attract more dollars than efforts concentrating solely on proving out technologies. However, without mature technologies at the outset, a program will almost certainly incur cost and schedule problems. Only 10 percent of the programs in our latest annual assessment of weapon systems had demonstrated critical technologies to best practice standards at the start of development; and only 23 percent demonstrated them to DOD’s standards.<sup>54</sup> The cost effect of proceeding without completing technology development before starting an acquisition can be dramatic. For example, research, development, test and evaluation costs for the programs included in our review that met best practice standards at program start increased by a modest average of 4.8 percent more than the first full estimate, whereas the costs for the programs that did not meet these standards increased by a much higher average of 34.9 percent more than the first full estimate. The bottom line is that these consequences are predictable and, thus, preventable. The third cause has to do with the lack of accountability. DOD officials are not always held accountable when programs go astray. Likewise, contractors are not always held accountable when they fail to achieve desired acquisition outcomes. In December 2005, we reported that DOD gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives.<sup>55</sup> Unfortunately, we found DOD programs routinely engaged in practices that failed to hold contractors accountable for achieving desired outcomes and undermined efforts to motivate contractor performance, such as:

- evaluating contractor performance on award-fee criteria that are not directly related to key acquisition outcomes (e.g., meeting cost and schedule goals and delivering desired capabilities to the warfighter);
- paying contractors a significant portion of the available fee for what award-fee plans describe as “acceptable, average, expected, good, or satisfactory” performance, which sometimes did not require meeting the basic requirements of the contract; and
- giving contractors at least a second opportunity to earn initially unearned or deferred fees.

As a result, DOD has paid out an estimated \$8 billion in award fees on contracts in our study population, regardless of whether acquisition outcomes fell short of, met, or exceeded DOD’s expectations. For example, we found that DOD paid its contractor for a satellite program—the Space-Based Infrared System High—74 percent of the award fee available, \$160 million, even though research and development costs increased by more than 99 percent, and the program was delayed for many years and was rebaselined three times. In another instance, DOD paid its contractor for the F-22A aircraft more than \$848 million, 91 percent of the available award fee, even though research and development costs increased by more than 47 percent, and the program had been delayed by more than 2 years and rebaselined 14 times. Despite paying billions of dollars in award and incentive fees, DOD has not compiled data or developed performance measures to validate its belief that award and incentive fees improve contractor performance and acquisition outcomes.

Similarly, DOD officials are rarely held accountable when programs go astray. There are several reasons for this, but the primary ones include the fact that DOD has never clearly specified who is accountable for what, invested responsibility for execution in any single individual, or even required program leaders to stay until the job is done. Moreover, program managers are not empowered to make go or no-go decisions, they have little control overfunding, they cannot veto new requirements, and they have little authority over staffing. Because there is frequent turnover in their positions, program managers also sometimes find themselves in the position of having to take on efforts that are already significantly flawed.

There are many other factors that play a role in causing weapons programs to go astray. They include workforce challenges, poor contractor oversight, frequent

<sup>54</sup> DOD’s policy states technologies should be demonstrated in at least a relevant environment before a program enters system development; whereas, GAO utilizes the best practice standard that calls for technologies to be demonstrated one step higher—demonstration in an operational environment.

<sup>55</sup> GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington, DC: Dec. 19, 2005); and *Defense Acquisitions: DOD Wastes Billions of Dollars through Poorly Structured Incentives*, GAO-06-409T (Washington, DC: Apr. 5, 2006).

turnover in key leadership, and a lack of systems engineering, among others. Moreover, many of the business processes that support weapons development—strategic planning and budgeting, human capital management, infrastructure, financial management, information technology, and contracting—are beset with pervasive, decades-old management problems, including outdated organizational structures, systems, and processes. In fact, all of these areas—along with weapon systems acquisition—are on our high-risk list of major government programs and operations.

Our work shows that acquisition problems will likely persist until DOD provides a better foundation for buying the right things, the right way. This involves making tough trade-off decisions as to which programs should be pursued and, more importantly, not pursued, making sure programs are executable, locking in requirements before programs are started, and making it clear who is responsible for what and holding people accountable when these responsibilities are not fulfilled. These changes will not be easy to make. They require DOD to reexamine the entirety of its acquisition process and to make deep-seated changes to the setting, funding, and execution of program requirements. In other words, DOD would need to revisit who sets requirements and strategy, and who monitors performance, and what factors to consider in selecting and rewarding contractors. It also involves changing how DOD views success, and what is necessary to achieve success. I am encouraged by DOD's recent efforts to improve the collaboration and consultation between the requirements and acquisition communities. The test of these efforts will be whether they produce better decisions. If they do, it is important that they are sustained by more than the force of personality.

Buying major systems is not the only area where DOD needs to improve its acquisition practices. For example, DOD's management of its contracts has been on our high-risk list since 1992. Our work has found that DOD is unable to ensure that it is using sound business practices to acquire the goods and services needed to meet the warfighter's needs, creating unnecessary risks and paying higher prices than justified. In this regard, in a March 2005 report, we concluded that deficiencies in DOD's oversight of service contractors could place DOD at risk of paying the contractors more than the value of the services they performed.<sup>56</sup> In June 2006, we reported that personnel at the Defense Logistics Agency were not consistently reviewing prices for commodities acquired under its Prime Vendor Program.<sup>57</sup> We noted that until DOD provides sufficient management oversight, the program will remain vulnerable to the systemic pricing problems that have plagued it in the past. Earlier this year, we reported that the Army acquired security guard services under an authorized sole-source basis, despite recognizing that it was paying about 25 percent more than it had under contracts that had been previously awarded competitively.<sup>58</sup> We recommended that the Army reassess its acquisition strategy to help make the best use of taxpayer dollars and achieve its desired outcomes. In other reports, we identified numerous issues in DOD's use of interagency contracting vehicles that contributed to poor acquisition outcomes.

Until DOD devotes sufficient management attention to address these longstanding issues, DOD remains at risk of wasting billions of dollars and failing to get the goods and services it needs to accomplish its missions.

#### *DOD Supply Chain Management*

Since the January 2005 update of the high-risk series, DOD has made some progress toward addressing supply chain management problems. With the encouragement of OMB, DOD has developed a plan to show progress toward the long-term goal of resolving problems and removing supply chain management from our list of high-risk areas within the Department. DOD issued the first iteration of the plan in July 2005 and, since then, has regularly updated it. Based on our initial review of the plan, we believe it is a solid first step toward improving supply chain management in support of the warfighter. For example, DOD's plan identifies three key areas—requirements forecasting, asset visibility, and materiel distribution—that we believe are critical to DOD's efforts to improve supply chain management. The plan highlights selected DOD supply chain initiatives, including key milestones in their development. Within the last year, for example, DOD has made some progress in streamlining the storage and distribution of defense inventory items on a regional basis as part of its Joint Regional Inventory Materiel Management initiative. DOD

<sup>56</sup> GAO, Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts, GAO-05-274 (Washington, DC: Mar. 17, 2005).

<sup>57</sup> GAO, Defense Management: Attention is Needed to Improve Oversight of DLA Prime Vendor Program, GAO-06-739R (Washington, DC: June 19, 2006).

<sup>58</sup> GAO, Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach, GAO-06-284 (Washington, DC: Apr. 3, 2006).

has completed a pilot for this initiative in the San Diego region and, in January 2006, began a similar transition for inventory items in Oahu, Hawaii.

Notwithstanding this positive first step, the Department faces challenges and risks in successfully implementing its proposed changes across the Department and measuring progress in resolving supply chain management problems. It will be important for DOD to sustain top leadership commitment and long-term institutional support for the plan; obtain necessary resource commitments from the military Services, the Defense Logistics Agency, and other organizations; implement its proposed initiatives across the Department; identify performance metrics and valid data to use in monitoring the initiatives; and demonstrate progress toward meeting performance targets. We have been holding monthly meetings with DOD and OMB officials to receive updates on the plan and gain a greater understanding of the ongoing initiatives. In addition, we are continuing to review the performance measures DOD is using to track the plan's progress in resolving supply chain problems and DOD's efforts to develop a comprehensive, integrated, and enterprisewide strategy to guide logistics programs and initiatives. DOD is working on a logistics road map, referred to as the "To Be" road map, which provides a vision for future logistics programs and initiatives, including supply chain management; identifies capability gaps; and links programs with investments. However, the schedule for completing the initial road map has recently slipped. Until the roadmap is completed, we will not be able to assess how it addresses the challenges and risks DOD faces in its supply chain management efforts.

#### *DOD Personnel Security Clearance Program*

DOD's personnel security clearance program is another area that we continue to assess because of the risks it poses. For over two decades, we have reported on problems with DOD's personnel security clearance program as well as the financial costs and risks to national security resulting from these problems. For example, at the turn of the century, we documented problems such as incomplete investigations, inconsistency in determining eligibility for clearances, and a backlog of overdue clearance reinvestigations that exceeded 500,000 cases. More recently in 2004, we identified continuing and new impediments hampering DOD's clearance program and made recommendations for increasing the effectiveness and efficiency of the program. These long-standing delays in completing hundreds of thousands of clearance requests for servicemembers, Federal employees, and industry personnel as well as numerous impediments that hinder DOD's ability to accurately estimate and eliminate its clearance backlog led us to declare DOD's personnel security clearance program a high-risk area in January 2005. Since then, we have issued a report and participated in four hearings that addressed issues related to DOD's program.<sup>59</sup> Among other things, our September 2006 report showed that the 2,259 industry personnel granted eligibility for a top secret clearance in January and February 2006 had waited an average of 471 days. Also, our reviews of 50 of the cases for completeness revealed that required information was not included in almost all of the cases. While positive steps—such as: (1) the development of an initial version of a plan to improve security clearance processes government-wide and (2) high-level involvement from OMB—have been taken toward addressing the problems, other recent events such as DOD halting the processing of all new clearance requests for industry personnel on April 28, 2006, reveal continuing problems with DOD's personnel security clearance program.

Since 1997, GAO has identified DOD's management of its support infrastructure as a high-risk area because infrastructure costs continue to consume a larger than necessary portion of its budget. DOD officials have been concerned for several years that much of the Department's infrastructure is outdated, inadequately maintained, and that DOD has more infrastructure than needed, which impacts its ability to devote more funding to weapon systems modernization and other critical needs. Inefficient management practices and outdated business processes have also contributed to the problem.

<sup>59</sup>GAO, DOD Personnel Clearances: Additional OMB Actions Are Needed to Improve the Security Clearance Process, GAO-06-1070 (Washington, DC: Sept. 28, 2006); DOD Personnel Clearances: New Concerns Slow Processing of Clearances for Industry Personnel, GAO-06-748T (Washington, DC: May 17, 2006); DOD Personnel Clearances: Funding Challenges and Other Impediments Slow Clearances for Industry Personnel, GAO-06-747T (Washington, DC: May 17, 2006); DOD Personnel Clearances: Government Plan Addresses Some Longstanding Problems with DOD's Program, But Concerns Remain, GAO-06-233T (Washington, DC: Nov. 9, 2005); and DOD Personnel Clearances: Some Progress Has Been Made but Hurdles Remain to Overcome the Challenges That Led to GAO's High-Risk Designation, GAO-05-842T (Washington, DC: June 28, 2005).

While DOD has made progress and expects to continue making improvements in its support infrastructure management, DOD officials recognize they must achieve greater efficiencies. To its credit, DOD has given high-level emphasis to reforming its support operations and infrastructure since we last reported on this high-risk area, including efforts to reduce excess infrastructure, promote transformation, and foster jointness through the 2005 base realignment and closure (BRAC) process. Also, DOD is updating its Defense Installations Strategic Plan to better address infrastructure issues, and has revised its installations readiness reporting to better measure facility conditions, established core real property inventory data requirements to better support the needs of real property asset management, and continued to modify its suite of analytical tools to better forecast funding requirements for installation management services. It has also achieved efficiencies through privatizing military family housing and demolishing unneeded buildings at military installations.

Our engagements examining DOD's management of its facilities infrastructure indicates that much work remains for DOD to fully rationalize and transform its support infrastructure to improve operations, achieve efficiencies, and allow it to concentrate its resources on the most critical needs, as the following illustrates.

- In July 2005, we reported on clear limitations associated with achieving DOD's projected \$50 billion in savings from this BRAC round. While DOD offered many proposed actions in the 2005 round, these actions were more related to business process reengineering and realignment of various functions and activities than base closures and actual facility reductions. Moreover, sizable savings were projected from efficiency measures and other actions, but many underlying assumptions had not been validated and could be difficult to track over time. We have ongoing work monitoring actions emanating from the 2005 BRAC process and assessing costs and savings from those actions, and will be able to comment further on the status of these initiatives over the next several years as implementation actions progress.
- In June 2005, we reported that hundreds of millions of operation and maintenance dollars designated for facilities' sustainment, restoration, and modernization and other purposes were moved by the services to pay for base operations support (BOS) due in part to a lack of a common terminology across the services in defining BOS functions, as well as the lack of a mature analytic process for developing credible and consistent requirements.<sup>60</sup> While these funding movements are permissible, we found that they were disruptive to the orderly provision of BOS services and contributed to the overall degradation of facilities, which adversely affects the quality of life and morale of military personnel. In another report issued in June 2005, we reported that many of DOD's training ranges were in deteriorated condition and lacked modernization, which adversely affected training activities and jeopardized the safety of military personnel.<sup>61</sup>
- In an April 2006 report, we identified several opportunities for DOD and the services to improve their oversight and monitoring of the execution and performance of awarded privatized housing projects.<sup>62</sup> We further reported that 36 percent of awarded privatization projects had occupancy rates below expectations even though the services had begun renting housing units to parties other than military families, including units rented to single or unaccompanied servicemembers, retired military personnel, civilians and contractors who work for DOD, and civilians from the general public. Factors contributing to occupancy challenges include increased housing allowances, which have made it possible for more military families to live off base thus reducing the need for privatized housing, and the questionable reliability of DOD's housing requirements determination process, which could result in overstating the need for privatized housing.
- During recent visits to installations in the United States and overseas, service officials continue to report inadequate funding to provide both base operations support and maintain their facilities. They express concern that unless this is addressed, future upkeep and repair of many new facilities to be constructed as a result of BRAC, overseas rebasing, and the Army's

<sup>60</sup> GAO, Defense Infrastructure: Issues Need to Be Addressed in Managing and Funding Base Operations and Facilities Support, GAO-05-556 (Washington, DC: June 15, 2005).

<sup>61</sup> GAO, Military Training: Better Planning and Funding Priority Needed to Improve Conditions of Military Training Ranges, GAO-05-534 (Washington, DC: June 10, 2005).

<sup>62</sup> GAO, Military Housing: Management Issues Require Attention as the Privatization Program Matures, GAO-06-438 (Washington, DC: Apr. 28, 2006).

move to the modular brigade structure will suffer and the condition of their facilities will continue to deteriorate.

- We have also found that DOD's outline of its strategic plan for addressing this high-risk area had a number of weaknesses and warranted further clarification and specification. We have met with OMB and DOD officials periodically to discuss the Department's efforts to address this high-risk area.

Through our monitoring of DOD activities between now and the next several years for base closures and overseas basing, we will be able to determine what other work needs to be done on issues associated with DOD's management of its support infrastructure, as well as provide a more complete assessment of costs, savings, and overall benefits realized from the Department's efforts to address these issues. Organizations throughout DOD will need to continue reengineering their business processes and striving for greater operational effectiveness and efficiency. DOD will also need to develop a comprehensive, long-range plan for its infrastructure that addresses facility requirements, recapitalization, and maintenance and repair, as well as to provide adequate resources to meet these requirements and halt the degradation of facilities and services.

Mr. Chairman and members of the subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Senator ENSIGN. Thank you.

Mr. Argodale.

**STATEMENT OF JOHN ARGODALE, DEPUTY ASSISTANT  
SECRETARY OF THE ARMY FOR FINANCIAL OPERATIONS**

Mr. ARGODALE. Chairman Ensign, Senator Akaka, my name is John Argodale and I'm the Deputy Assistant Secretary of the Army for Financial Operations. Thank you for the opportunity to address the Army's business systems modernization and financial management accountability results.

My statement for the record addresses a variety of financial management improvement efforts the Army is undertaking, including systems modernization, enterprise architecture development, and activities designed to achieve an audit of our financial statements. I will focus my comments this morning on the modernization of our financial systems under the aegis of a program we call the General Fund Enterprise Business System (GFEBS).

I brought some visual aids to help convey my comments. The first graphic displays the current system environment as captured in a single Army financial enterprise or safe architecture. We analyzed and classified the functional and technical attributes of 198 separate business systems across all business mission domains. All these systems interact with the financial system. In the afterview, the safe architecture documents the retirement of 112 systems. Ten systems need further review.

The GFEBS program will subsume and eliminate 87 operational systems with 25 systems eliminated by other system modernization efforts. The remaining 76 systems will interact with GFEBS. The architecture also enabled us to classify and categorize each of the business systems in a single business system portfolio. The Army Chief Information Officer (CIO), as the precertification authority, is now able to administer our systems investments through the DOD's IRB using a discipline portfolio management process.

To test the efficacy of our single Army financial enterprise architecture and other technical and functional requirements, we completed a live technology demonstration of the GFEBS software in support of one key module, real property inventory. Our fiscal year

2006 general fund balance sheet reports nearly \$24 billion in real property at net book value. Real property is more than 10 percent of the Army's total assets.

The technology demonstration included a business scenario involving processing a work order to perform real property maintenance. The current process graphic identifies the 10 processes and 8 business systems required to complete a work order in the current environment. The technology demonstration proved that six of these eight systems can be eliminated by absorbing their functionality in GFEBS. Planning and approving the budget were not included in the technology demonstration scope, but will be part of the first GFEBS release.

Finally, I understand the subcommittee is concerned with our ability to deliver a big system initiative on time and on budget. We plan to blueprint the entire system solution for GFEBS by May 2007. The solution blueprint guides software development and identifies additional opportunities to improve business processes. We will capture process improvements in our benefits realization model, and measure actual results against planned benefits as we deploy GFEBS.

The arrows on the schedule indicate opportunities to assess the program status and make in-course corrections if necessary. For example, we plan to build, test, and deploy GFEBS in manageable increments. As we build each increment, we have opportunities to continuously address requirements and adjust our strategy for size, scope, and complexity. The objective is to continuously build and field capability to the Army, not to spend several years in development and deliver a big bang capability in the future.

In summary, I want to thank the subcommittee for your involvement and emphasize that we share your objectives of modernizing business systems and improving financial management processes. Our systems and processes are not perfect. With your continued support, DOD's leadership, and oversight within the Army, we will improve our business systems and practices. Thank you.

[The prepared statement of Mr. Argodale follows:]

PREPARED STATEMENT BY JOHN ARGODALE

Chairman Ensign, distinguished members of the subcommittee, my name is John Argodale, and I am the Deputy Assistant Secretary of the Army for Financial Operations. Thank you for this opportunity to address the Army's business systems modernization and financial management accountability results.

I want to stress that business systems modernization and financial management accountability are vital to the Army's success. To effectively man, equip, and train an Army at war, the Army must modernize financial systems and improve financial accountability. While we have achieved significant results over the last 12 months in modernizing our business systems and improving financial accountability, additional work is required.

Improving the Army's financial accountability and modernizing business systems are challenging endeavors, which require a long-term commitment to ensure that enduring improvements are implemented. These efforts must be managed through a disciplined process that identifies the problems to be corrected, develops actions to correct the problems, assigns accountability for and a cost to implementing the corrective actions, informs leaders of results achieved, and enables in-course adjustments to adapt to changing situations.

I believe that the Defense Business System Management Council (DBSMC) and Department of Defense's (DOD) Investment Review Board (IRB) offer the requisite disciplined processes to support this necessary transformation of our business systems. Through the governance processes established by the DBSMC and IRB, DOD

has defined a set of consistent standards and practices that facilitates improvement activities. Building and maintaining system processes and architectures that are compliant with DOD's enterprise transition priorities and the Business Enterprise Architecture (BEA), are the central focus of the Army's development of future business capabilities.

For example, the Army's General Fund Enterprise Business System (GFEBS) program management plan and Chief Financial Officer (CFO) Strategic Plan provide the framework for our financial improvement activities. The CFO Strategic Plan articulates the goals, objectives and tasks that must be achieved to provide reliable financial information. The GFEBS program management plan provides a disciplined process to modernize the Army's business systems and to improve business practices. I will discuss both plans and results achieved to date in greater detail.

The GFEBS will modernize the Army's financial enterprise (funding, assets, and liabilities) using commercially available ERP software. The Army awarded the GFEBS contract in June 2005. The program has remained on schedule, on budget, and has delivered the results required since contract award. We passed our first major milestone in July 2006 with successful completion of a technology demonstration.

This technology demonstration required the configuration and deployment of the commercial software in a live environment in support of one key module, real property management. The objective was to prove the software's capability to satisfy the Army's financial management requirements; to comply with DOD's BEA and the Federal Financial Managers' Improvement Act (FFMIA); and to operate and interact within the Army's existing technical infrastructure. The GFEBS technology demonstration delivered positive results in all areas, and demonstrated the ability to manage the Army's financial resources through a single enterprise resource program.

Specifically, the technology demonstration identified methods to enhance the Army's real property management, proved the ability to implement Army-wide cost management practices, and enabled improved portfolio management of business systems. The demonstration also allowed the Army to reconcile nearly \$3 billion in real property and general equipment holdings at Fort Jackson, SC, and Fort Hood, TX; and to develop repeatable, sustainable real property reconciliation procedures for use across the Army. We plan to implement these procedures concurrently with GFEBS deployment activities to ensure accountability of all Army real property and general equipment assets.

The GFEBS technology demonstration also improved management of the Army's business systems portfolio. We reviewed, analyzed, and categorized 198 existing business systems to determine their alignment with GFEBS. This review enabled us to identify 87 current systems for retirement and subsume their functionality in GFEBS. We found that 25 additional systems, with some financial management capabilities, are scheduled to be replaced by other modernization initiatives. Ten systems require further analysis, while the remaining 76 systems are now logically catalogued and managed as one portfolio to ensure that future investments and software changes are implemented in an effective manner that is compliant with DOD's BEA and DBSMC transformation goals.

By integrating disconnected financial management processes and successfully configuring the U.S. Government Standard General Ledger, we believe that the Army will be able to generate all required financial requirements, including those necessary for audited financial statements. The technology demonstration was judged substantially compliant with all applicable BEA and FFMIA requirements based on independent assessments conducted by the Army Test and Evaluation Command, the Army Audit Agency, and the Joint Interoperability Test Command. The technology demonstration successfully operated within the Army's existing technology infrastructure and demonstrated the ability to exchange data with other business systems.

GFEBS must interact with at least 76 external business systems performing disbursing, contracting, human resources, payroll, and logistics management functions. Effective alignment between GFEBS and these external systems requires a focus on enterprise integration across the Army and DOD. We are coordinating with contracting, human resources, and logistics systems and process owners to ensure optimal alignment at the enterprise level.

To illustrate this point, the Army's senior financial, contracting, human resources, and logistics systems and process owners meet weekly to share information, synchronize program management plans, and develop approaches to ensure business system alignment. Our program executive officer for enterprise information systems meets monthly with counterparts from the other services and DOD's Business

Transformation Agency representatives to discuss alignment issues at the Department level.

In addition to obtaining favorable results with GFEBS, the Army has continued to improve financial management accountability by implementing the CFO strategic plan. During fiscal years 2005 and 2006, we completed 150 of the plan's tasks, resulting in improved financial management across the Army. We also aligned our plan with the DOD's Financial Improvement and Audit Readiness Plan to ensure that our financial improvement objectives are captured and tracked at the departmental level.

The Army's strategic CFO plan focuses on processes and systems, and identifies actions necessary to improve financial accountability. Completion of each task requires an independent assessment by the Army Audit Agency and implementation of an effective control environment to ensure that corrective actions achieve desired results. The completed tasks enabled the Army to properly account for \$8 billion in environmental liabilities, to post \$12.6 billion in supply and equipment transactions to the accounting system in a compliant manner, to report over \$16 billion of real property assets, to account for \$149.9 million of government furnished equipment in the hands of contractors, and to report \$348 million of internal use software.

We have developed cost estimates for meeting each of the plan's requirements, and have assigned responsibility to specific organizations for the completion of each task identified in the plan. Understanding the cost to complete the plan enables each functional proponent to properly budget and establish cost benchmarks. Assigning responsibilities to specific organizations establishes an effective level of accountability to ensure that required tasks are accomplished.

The Army will continue to implement GFEBS and complete CFO Strategic Plan tasks. Although both are long-term efforts, we expect to achieve measurable results over the next 6 to 8 months. With GFEBS, for example, we will complete the entire systems blueprint by May 2007. The blueprint informs software development requirements and identifies opportunities to improve business practices. Business improvement opportunities will be captured in our benefits realization model, enabling us to develop improvement metrics to measure our progress.

We are also implementing process improvements in the procure-to-pay business process area, which were identified in a recently completed business process study. These opportunities include increased reliance on electronic commerce and elimination of non-value-added activities. Our goal is to increase the use of electronic commerce by 50 percent during fiscal year 2007 and to eliminate all non-value-added activities over the same period, which will result in higher-quality and lower-cost financial management.

Implementation of the GFEBS and synchronization with Army and DOD business systems modernization efforts through architectural alignment and portfolio management are vital to modernizing our business systems. Completion of CFO Strategic Plan tasks, supported by Army Audit Agency validation and an effective control environment, is essential to improving financial management accountability. Congress has been extremely helpful in providing enabling legislation and appropriations in support of these efforts. Systems modernization and improved financial management accountability require long-term commitments, however. We appreciate the support provided by this committee and welcome your continued interest in the future as we proceed with this difficult transformation of our business systems.

Senator ENSIGN. Mr. Wennergren?

**STATEMENT OF DAVID M. WENNERGREN, CHIEF  
INFORMATION OFFICER, DEPARTMENT OF THE NAVY**

Mr. WENNERGREN. Good morning, Mr. Chairman and Senator Akaka. Thank you very much for the opportunity to appear before you today.

I come to you today as the CIO for the Department of the Navy, and while I've had the honor of working for the Navy for 26 years, at the end of next week I will take all that I have learned from this great institution with me as I begin my new job as the Deputy CIO for the DOD.

Today, though, I want to tell you about how the Navy/Marine Corps team is using the power of information technology and commercial best practices to significantly increase the readiness and ef-

fectiveness of our warfighting forces while simultaneously transforming our support processes. It's crucial to bear in mind that our business transformation efforts are a component of our overall effort to increase combat power and effectiveness.

Our ETP focuses on five key efforts. First, we are creating the seamless information infrastructure that provides consistent access to Navy and Marine Corps personnel around the world.

Second, we are optimizing our processes. We focus first on process change to reduce cycle time and improve productivity, and then insert technology to deliver value. This approach is producing order of magnitude improvements, reducing aircraft and engine turnaround time, and improving maintenance productivity. We are aggressively applying Lean Six Sigma techniques and commands across the Department of the Navy are achieving efficiency and productivity improvements averaging a four to one return on investment. Our Navy ERP System will integrate acquisition finance and logistics capabilities, eliminate redundant systems and improve the accuracy of our financial information. It's an ambitious undertaking, but its scope is necessary to align the activities of the Navy and achieve significant efficiencies and process improvements. We have built on our successful pilot projects, and now are in the process of retiring these limited production systems as we implement Navy ERP.

Third, we are optimizing our investments. Our functional area managers have eliminated thousands of local or redundant applications in favor of enterprise-wide solutions with aggressive targets for further reductions in place for the years ahead. The DOD Enterprise Software Initiative, that we helped to co-chair, helps us to reduce costs and provide our personnel with software they require to do their jobs. As an example, our Oracle Enterprise software license consolidated over 170 maintenance agreements, providing unrestricted access to database software for all Navy personnel and achieving a cost avoidance of \$58 million.

Fourth, we are moving our applications to the web. We are expanding our warfighters' ability to reach back by migrating to web-based solutions to provide secure access anywhere in the world. Our distance support portal enables deployed sailors to collaborate with technical experts ashore, cutting the number of technical assist visits in half. The Marine Corps total force administration system is averaging 100,000 self-service transactions per month and our Navy knowledge online portal provides 500,000 people with online training and career development.

Finally, we are aligning our governance to ensure that we work as a single joint enterprise. The work of DBSMC, the DOD CIO, and my fellow military department CIOs reflects a level of cooperation and sharing of ideas and initiatives that is unrivaled in the history of the Department of the Navy. I am confident that we have the right leadership and processes in place to guide us on this journey.

Mr. Chairman and Senator Akaka, thank you again for allowing me the opportunity to speak to you today. Your continued interest has proven to be invaluable in setting the course and providing the support to move these transformation initiatives forward, and I'm happy to answer any questions that you have. Thank you.

[The prepared statement of Mr. Wennergren follows:]

PREPARED STATEMENT BY DAVID M. WENNERGREN

Mr. Chairman, Senator Akaka and distinguished members of the Readiness and Management Support Subcommittee, thank you for the opportunity to speak with you today about Defense Business Transformation and the progress that we in the Department of the Navy have made toward our transformation goals. Our transformation efforts are geared to both: (a) attain our vision of net-centric operations to increase combat power and effectiveness; and (b) dramatically transform our management and business practices to maintain our competitive advantages over current and potential enemies. Improved business processes and associated controls are important weapons in our arsenal and represent the keys to improved financial accountability. We fully recognize the many competing national priorities and are committed to getting the most out of every defense dollar that you and the taxpayers entrust to us. The successes achieved have made us stronger, more efficient, and more effective; the results of our continued action will bring us closer to our vision of a naval warfighting team armed with the secure, assured, accurate, and timely information needed to fight and win.

The Navy's business transformation vision is to increase significantly the readiness, effectiveness, and availability of warfighting forces by employing business process change to create more effective operations at reduced costs and by exploiting process improvements, technology enhancements, and an effective human capital strategy to assure continued mission superiority. Our Department of the Navy Information Management/Information Technology (IM/IT) Strategic Plan links our IM/IT transformation objectives to the strategy laid out in our guiding documents, Naval Power 21, Sea Power 21, and Marine Corps Strategy 21.

This vision is outlined in our Enterprise Transition Plan, which focuses on five key efforts to achieve our transformation goals.

1. *Create a Seamless Infrastructure.* The swift and effective use of information will be central to the success of our future operations, and so the DOD has made significant progress in aligning our information technology infrastructure into a core set of networks that support the Navy-Marine Corps team. ONE-NET (OCONUS network), Integrated Shipboard Network System (ISNS—afloat network), the Marine Corps Enterprise Network (MCEN), and the Navy Marine Corps Intranet (NMCI) form the nucleus of a consistent naval network infrastructure that enables effective, consistent standards and information access to Department of the Navy personnel around the globe.

2. *Create Optimized Processes and Integrated Systems.* Process change is crucial to successful business transformation, and when done correctly, allows for the insertion of new technology to dramatically improve processes rather than just to automate inefficient operations. Experience in private industry and our own efforts have shown that the application of Lean Six Sigma (LSS) techniques can profoundly improve process effectiveness and efficiency. We are presently engaged in a vigorous campaign to train every leader in the Department of the Navy to use these powerful techniques, and under Secretary Winter's direction, are executing an aggressive 3-year plan for process improvement affecting service, support, and transactional aspects of the Navy-Marine Corps enterprise. "Lean" embodies methods to identify and remove non-value-added activities from processes, reducing cycle time and increasing productivity. "Six Sigma" methods improve quality, reduce variability, and measure performance. Within the Navy Secretariat's transactional processes, LSS has resulted in a 48-percent reduction in cycle time for Below Threshold Reprogramming actions, while the Justification and Approval process for contract awards experienced an 87-percent cycle time reduction with significantly increased automation. Numerous other Department of the Navy commands and activities have achieved efficiency and productivity improvements averaging a four-to-one return on investment ratio in 3,300 rapid improvement events and projects. Marine Corps Aviation Continuous Process Improvement (CPI) is ongoing and has achieved numerous successes through a blending of the Theory of Constraints (TOC) with Lean and Six Sigma techniques. The following are illustrative of CPI successes during the past year:

- Activated 100 percent of all work centers in less than a year and reduced Expeditious Repair (EXREP) items from 26 (average per month) to 4 (average per month).
- Applying lean principles to ordnance supply processes led to reduction in Time to Reliably Replenish (TRR) for over 5,000 line items of Armament Weapons Support Equipment (AWSE) and Aviation Armament Equipment

(AAE) from 125 days TRR to 12 days, and reduction in backlog from 1,100 to less than 200 items.

- Use of “kitting” (i.e., assembling a kit, normally consisting of consumable parts) for power plants reduced ordering time from 10 hours to 40 minutes.

One of the pillars of the Navy’s Sea Power 21 strategy is Sea Enterprise, the plan to use lessons learned from industry to create efficiencies on the business side of the Navy that will free up resources for reapplication on the warfighting side. A key enabler of Sea Enterprise is Navy Enterprise Resource Planning (ERP). Navy ERP will create speed through integration of our acquisition, finance, and logistics capabilities, reduce costs by eliminating redundant systems and optimizing inventory postures, and improve the accuracy of our financial information. Required changes in the Navy’s maintenance structure, and other influencing factors, necessitated a reordering of priorities and rebaselining of Navy ERP, but the project is moving forward. Navy ERP is an ambitious undertaking, but the scope is necessary in order to achieve the return we expect. The program has built upon our successful ERP pilot projects that executed focused business transformation for limited user groups. One pilot, SMART, has been retired. The three remaining pilots (SIGMA, CABRILLO, and NEMAIS) continue as limited production systems supporting over 23,000 users until replacement by Navy ERP. The first retirements are planned for fiscal year 2008.

Navy ERP is the cornerstone of the future business environment, providing the “backbone” for the majority of required financial management capabilities including budget formulation and execution; funds distribution; core proprietary, budgetary, and cost accounting; and internal Department of the Navy information and reports. Navy ERP will, over time, replace all core Department of the Navy accounting systems and underlying financial feeder/budget/management information systems across the Department of the Navy, including those that interface with the Defense Financial Accounting Service. Navy ERP is the Navy’s primary means of compliance with statutory and policy requirements for financial reform, including the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the DOD Business Management Modernization Program. Navy ERP Release 1.0, Echelon II & III Financials and Acquisition, will encompass General Fund and Working Capital Fund activities and enable funds management from Echelon I through Echelon III. Navy ERP will provide allocation, visibility, tracking, and reporting functionality as well as the ability to perform funds execution from distribution through disbursement. The program will conduct thorough demonstration and operational testing in fiscal year 2007, while concurrently executing extensive change management, and user training.

3. *Optimize Investments for Mission Accomplishment.* In a concerted effort to rationalize the Navy’s legacy applications and embrace portfolio management best practices, the Department of the Navy established senior headquarters functional process owners to serve as Functional Area Managers (FAMs). FAMs are responsible for working with Echelon II and Major Subordinate commands to align processes and identify a minimal set of applications required to execute the Department’s mission. We are waging an aggressive campaign to eliminate legacy networks, consolidate server support, and eliminate redundant applications. We will track and manage the remaining portfolio of investments to provide the Department with the capabilities required to perform its missions with the greatest possible efficiency.

4. *Transform Applications and Data into Web-Based Capabilities to Improve Effectiveness and Gain Efficiencies.* The replacement of legacy applications and isolated processes with Web-based capabilities is key to improving business processes and freeing sailors, marines, and Navy civilians from administrative functions to focus on core missions. Department of the Navy enterprise portals and employment of open standards will give sailors and marines access to secure self-service transactions from anywhere in the world and enable transformational change in our logistics, maintenance, manpower, and financial operations.

5. *Align Business Mission Area Governance to Produce a Single, Integrated Enterprise.* We have taken great strides to ensure our organization remains aligned during these transformation efforts. The DOD has aligned and integrated Navy and Marine Corps IT governance. The designation of Deputy Chief Information Officers (CIOs) for the Navy and Marine Corps has aligned policy development with operational responsibilities, and established formal reporting relationships with information officers throughout the chain of command. The realignment of Navy warfighting and warfighting support networks under the Deputy Chief of Naval Operations for Communication Networks (N6) integrates responsibility for network requirements, resourcing, and development under a single authority. Our portfolio management efforts are aligned with DOD’s Core Business Missions, and executive members of the

Department of the Navy are assigned as voting representatives of the DOD Investment Review Boards corresponding to their staff responsibilities to facilitate transformation efforts and the Business Transformation Agency investment review process.

Our annual IT budget execution guidance, and the work performed by our Functional Area Managers ensure that organizations' projects support the strategy and conform with policy and statute. Recent Government Accountability Office reports acknowledge the progress we have made in concert with the OSD staff, the Defense Business System Management Committee (DBSMC), chaired by the Deputy Secretary of Defense, and the Business Transformation Agency (BTA) on IT governance, portfolio management, and enterprise architecture development, and these efforts continue to move ahead. The DBSMC's capability portfolio approach is the right way to tackle the task of getting to the right set of investments for the DOD Enterprise. The work of the DBSMC and the BTA continues to build momentum, and the strong leadership and vigor that Mr. Brinkley and Mr. Modly have brought to Business Mission Area transformation have produced excellent results during their tenures, and I anticipate that the pace of improvement will continue unabated. Similarly, our work with the DOD CIO and my fellow military department CIOs reflects a level of cooperation and sharing of ideas and initiatives that is unrivaled in the history of DOD. A strong partnership also exists in the financial management community, and I would now like to address our plans for financial improvement and audit readiness.

The provisions of the John Warner National Defense Authorization Act for Fiscal Year 2007 provide opportunities that will serve to strengthen and improve our efforts—the goal is to improve the quality, timeliness, and accuracy of financial information that our processes produce. Our financial improvement efforts have been fully coordinated with those infrastructure improvements that I have described earlier. They are integrated into the BTA framework of enterprise-wide systems and standards, the Navy ERP program, and our legacy system transition plan. The Department of the Navy's Financial Improvement Program (FIP) is a detailed component of the broader DOD Financial Improvement and Audit Readiness (FIAR) Plan. The OSD financial management and system transition framework have enabled us to develop practicable and executable plans. Our strategy is fully consistent with the requirements and intent of section 313.

We are well into a phase of discovery, identifying deficiencies in our business processes and systems, taking immediate action where possible, and incorporating remaining corrective actions into the FIP. The DOD FIAR and Department of the Navy FIP provide a roadmap that will result in improved financial information for management and reporting and eventual audit readiness.

Regarding section 804 and the new reporting requirements for Major Automated Information Systems (MAIS), while we believe that DBSMC oversight has substantially increased senior level attention on the Department's MAIS programs, the additional reporting for programs that fail to achieve Initial Operating Capability within 5 years of Milestone "A" approval is an effective means of focusing executive leadership attention.

In working with the rest of the DOD team on our transformation efforts, I have been extremely impressed by the spirit of cooperation and determination to deliver improved support to our warfighters. This spirit has sustained us during the work that has been accomplished, and will serve as the basis for continued improvement. Together, we are making great strides toward achieving net-centricity and the business process transformation we need to maintain America's warfighting advantage into the future. Continued congressional interest and support has proven to be invaluable in setting the course and providing the impetus to move these initiatives forward. I am confident that we have the right leadership and processes in place to guide us the rest of the way. The prospects for the Department and the Nation are bright.

Mr. Chairman, members of the subcommittee, I thank you again for allowing me the opportunity to speak to you today. We greatly appreciate your support of our business transformation efforts, and look forward to our continued cooperation on this important work. I would be happy to answer any questions you may have about the Department of the Navy's information technology and business transformation initiatives.

Senator ENSIGN. Mr. Vonglis?

**STATEMENT OF JOHN G. VONGLIS, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT**

Mr. VONGLIS. Thank you, Mr. Chairman and Senator Akaka. I am honored to sit before you to share successes and to update you on our progress towards business systems modernization, accountability, and transparency.

It is no exaggeration to claim that technology is the great enabler of our time. But with the notable exception of sensitive programs within the DOD, it benefits no one if data and information are neither shared nor available to those who depend on it. This is particularly crucial in a time of war. As such, transparency of processes and systems is something that Air Force Secretary Michael Wynne has placed unambiguous emphasis on.

Indeed, he personally chairs a monthly review of transparency issues across organizational lines, holding leaders accountable for their progress, as well as embarking on a strategy known as Air Force Smart Operations for the 21st century (AFSO 21) which is a process to eliminate waste—waste of time, of money, and of manpower. Within the financial management community, and again thanks to technology and the hard work of our people, we are now in the delivery phase of our transformation efforts.

For example, we have taken from concept to reality the Air Force Financial Services Center (AFFSC) soon to become operational at Ellsworth Air Force Base in South Dakota. The AFFSC is a modern, secure central processing and contact center that consolidates routine support functions from 93 bases around the world to one location and delivers 24/7 service to deployed airman, all the while saving over \$200 million and freeing up nearly 600 manpower spaces, which of course the Service can use elsewhere.

We also have established a cost center of expertise in Denver. The mission of this S.W.A.T. team-like entity, staffed primarily by a core team of cost and economics experts, is to assist in reviewing often complicated cost-benefit analyses whose infrequent nature does not justify continuous presence of resources on base.

Our pursuit of an unqualified audit opinion is on track through a financial information audit reliability plan that closely mirrors the OSD plan. Additionally, the Air Force is aggressively pursuing business systems modernizations.

Three examples of this are the Defense Enterprise and Accounting Management System (DEAMS); the Expeditionary Combat Support System (ECSS); and of course, Defense Integrated Military Human Resources System (DIMHRS). All three incorporate commercial off-the-shelf components, business process improvements, and data standardization to produce accurate, reliable, and timely management data for decisionmakers.

Once operational, we will have total asset visibility, available real-time to warfighters. These modernizations reduce operating costs associated with reconciling hundreds of systems and the associated rework with nonintegrated data bases.

We also have worked with the OSD joint program office to develop a hand portable E-44 electronic device, which replaces the old, laborious paper standard form 44. The size of a small personal digital assistant, the E-44 has the ability to store up to 200 con-

tracts, allows our deployed financial managers access to secure vendor lists, and reliably communicate with suppliers in six different languages, including, of course, Arabic.

Although we view these accomplishments as significant, no doubt there is still work to be done. In the interest of time, I conclude by again thanking this committee for your oversight, your guidance, and support during these challenging times. Naturally an undertaking of this magnitude is a team effort. As such may I introduce David Tillotson, the Air Force Deputy CIO and also the information technology subject matter expert available here to answer any detailed questions you may have.

We are proud, Senators, to stand by your side, supporting our Nation at war. Public money is a public trust and we are grateful to serve as Air Force stewards. Thank you.

[The prepared statement of Mr. Vonglis follows:]

PREPARED STATEMENT BY JOHN G. VONGLIS

#### INTRODUCTION

Chairman Ensign, Senator Akaka, and members of the Subcommittee on Readiness and Management Support: Thank you for the opportunity to appear before you as we discuss the Air Force's progress in support of the Department of Defense's (DOD) business systems modernization and financial management accountability efforts.

In November 2004, my predecessor testified before this subcommittee to discuss the financial management and business transformation we were then planning for the Air Force. I am pleased to report that today's Air Force financial management community is acting on those very plans, heavily engaged in what we have dubbed the "Transformation Delivery" phase of our efforts. I am honored, therefore, to sit before you today to update you on this progress.

Transforming the Air Force's business processes, with a focus on improved financial management and accountability, is an essential task as our Service moves further into the 21st century. Increased mission responsibilities around the globe, finite resources, and our goal of retaining and achieving cutting-edge combat capabilities in the domains of air, space, and cyberspace require intensified investment management across the spectrum, particularly in the realm of information technology. Though change in any environment can at times be difficult and challenging, our people have responded in exemplary fashion.

Through all of this change and transformation, we have made the very conscious effort to ensure that our people must always come first. After all, our people drive our transformation, not the other way around.

While maintaining our warrior focus, Air Force financial managers appreciate that organizations at all levels of the Air Force have responsibilities to execute efficient, business-like operations. As such, we are in the midst of enacting processes that take advantage of shared information in order to make decisions based on timely, accurate, and reliable data—all while continuously working to conserve resources.

We are committed to ever-higher levels of innovation and excellence in our business and management processes because in the complex and highly technological enterprises we operate, decisions are made in ever tighter cycles, and innovation and excellence enables everything we do. Transformation of the "business" side of the Air Force will not only lead to operational efficiencies, attainment of an unqualified audit opinion, and improved credibility, but also to more effective and timely decisions where they matter most: the warfight.

To assist in our common goals of improving management and oversight of business systems modernization, we offer the following answers in response to your 26 October 2006 memorandum to Secretary of the Air Force, Michael Wynne.

#### AIR FORCE DEFENSE BUSINESS SYSTEM MODERNIZATION

The Department's Annual Report on Defense Business Systems Modernization was built through joint contributions within the Service and alongside our sister Services. As the Government Accountability Office has noted in its recent reviews, the DOD has continued to mature its management of modernization as the real out-

comes and the quality of these reports have continued to improve. The process has enabled us to better manage business system portfolios across the Air Force and within the DOD as a whole. We work through the DOD Business Transformation Agency (BTA) and the Defense Business Systems Management Committee (DBSMC) to produce the report. Our functional organizations and major commands contribute to the Annual Report on Defense Business Systems Modernization, responding to three key provisions of the act.

First, we develop, maintain, and use the Business Enterprise Architecture (BEA), now available in Version 4.0. The BEA is the enterprise architecture for DOD's business information infrastructure and includes processes, data, data standards, business rules, operating requirements, and information exchanges. The BEA defines the DOD's business transformation priorities, the business capabilities required to support those priorities, and the combinations of systems and initiatives that enable these capabilities. The BEA provides the starting point for achieving financial, personnel, acquisition, and materiel visibility, common supplier engagement, and real property accountability. From the Air Force perspective, the BEA guides and constrains the Air Force business system modernization programs by imposing these data standards, business rules, operating requirements, and information exchanges. The Air Force coordinates closely with the DOD BTA by providing subject matter expertise, consulting on the BTA architecture federation strategy, and providing input for the DOD Data Reference Model.

In addition, we certify all business systems development and modernization spending in excess of \$1 million over the Future Years Defense Plan (FYDP), using a rigorous and repeatable evaluation process that looks at all current and proposed spending to ensure compliance with the BEA, eliminate unneeded or redundant capabilities, and ensure that spending is aligned to DOD and Air Force priorities. To date, 55 systems have been reviewed and certified for modernization funding, with an aggressive schedule in place to review all Air Force business systems modernizations throughout fiscal year 2007, including those below the \$1 million certification threshold.

Lastly, we prepare, maintain, and use the DOD Enterprise Transition Plan (ETP), linking Air Force and DOD Visions, Goals, and Strategies to our transformation priorities, programs, accomplishments, and plans. ETP 2006, delivered to Congress by the BTA on September 30, describes our Air Force Transition Plan in detail.

#### ACCOMPLISHMENTS

In the area of process and organizational change across Core Business Mission areas (CBMs), the Secretary of the Air Force has visibly committed our Service to continuous, efficient process improvement, tasking the Air Force Smart Operations for the 21st Century (AFSO21) program to apply process improvement disciplines across Warfighting, Combat, and Operations support. We have named senior-level Process Owners across the Air Force to shepherd our reengineering efforts under the auspices of an Air Force Process Council chaired by the Air Force Secretary.

To improve decisionmaking information and integration within and between the Air Force and DOD, the Air Force Secretary leads the Transparency initiative, which uncovers and makes available functional and mission area data currently stored in systems that number in the thousands. A Transparency Integrated Product Team, also chaired by the Air Force Secretary, oversees this effort, which is currently focusing on exposing data to improve information availability and visibility. These focus areas include:

- (1) Implementation of the Standard Financial Information Structure (SFIS) pathfinder, which is a working capital project scheduled for initial capability in late December 2006.
- (2) A focused effort to provide logistics information to Combatant Commander's (COCOM 57).
- (3) Our improved readiness and status of forces information (Readiness and Global Force Management), and consolidated Flight Scheduling.

In 2006, our agile combat support community, which includes personnel, comptroller, logistics, acquisition, and medical functions made strong progress toward business transformation. Total Force Personnel Services Delivery (PSD) was launched successfully in March 2006, providing our Airmen with ever-increasing access to information and services around the clock while reducing the number of personnel specialists required to deliver the service. Our logistics community prototyped an Item Unique Identification (IUID) plan and implemented it across several thousand items, directly supporting DOD Materiel Visibility and Financial Visibility Enterprise Priorities.

In fiscal year 2006, we stood up and achieved initial operational capability for our financial management Center of Expertise (COE). The COE provides key analytical support including cost estimating, economic and business case analysis, and specialized financial analysis to major commands, base, and installation decision makers. It capitalizes on centralized experts, information technology, and a continuous emphasis on cutting edge databases and analytical tools to economically remedy a widely recognized and critical skill and resource gap out at our operational commands. The COE works on the concept of a few highly-qualified experts, with the right tools, serving as part-time consultants providing specialized, on-call analytical decision support—without the expense and inefficiency associated with remote locations trying to build and sustain this unique capability. The COE has already logged a number of success stories and saved scarce Air Force resources. We are thrilled about the opportunity to apply this financial management best practice and look forward to full operational capability in fiscal year 2008.

But the COE is only one of our first successful transformations. We are making changes equally as dramatic in all areas of Air Force Financial Management—particularly important is our new Air Force Financial Service Center (AFFSC) at Ellsworth Air Force Base in South Dakota. The AFFSC consolidates all of our ‘back office’ transaction processing and routine military pay and travel pay queries to one location, uniting work now performed at 93 separate locations and again reducing the number of specialists required to provide the worldwide 24/7 customer service our Air Force requires and our people deserve. This consolidation saves the Air Force more than \$200 million over 10 years as well as 598 Financial Management manpower spaces, which can in turn be used elsewhere by the Service.

Though the AFFSC allows for a drastic reduction in the number of customers we see face-to-face for pay issues and represents a huge transformation in the way we provide customer service, we will not abandon our people when a personal touch is required. Face-to-face customer service will still be available at our Air Force bases around the world so that our people can get the financial services they need in a manner that works best for them.

Yet another example that defines our financial management vision of the future is a hand-portable, easy-to-use electronic device called the E-44 that is truly transformational. By harnessing the power of science and information technology while keeping the focus on the safety and security of our people, the concept of the E-44 was born. The E-44 replaces the older labor and paper-intensive Standard Form 44, used for purchase and contracting. Today’s E-44 was developed by our financial experts in collaboration with OSD’s Joint Program Office. In fact, the latest model is about the size of a small personal digital assistant, can store 200 contracts, has a built in camera, and allows our deployed financial managers to do things like access secure vendor lists quickly and reliably and to communicate with suppliers in six different languages (English, Arabic, German, Spanish, Russian, and French). Not only does this system reduce organizational burdens, but more importantly, it decreases the exposure time of troops to potentially dangerous environments wherever our forces may be operating.

The Joint Services One Stop Kiosk is another unique project enabled by technology and is also the direct result of joint and industry cooperation. It is a commercial off-the-shelf system that makes the lives of our DOD, military, civilian, retired, and Active-Duty personnel (particularly those traveling or without easy access to computer workstations) a whole lot easier when it comes to accessing their financial records and other personnel information when they don’t have access to a desktop computer. Our first Air Force kiosk was installed at Keesler Air Force Base for our students who did not have access to personal computers. The units are being installed in billeting and other organizations worldwide. Locally, kiosks can also be found at places like the Honor Guard dorms at Bolling Air Force Base as well as within the Pentagon.

We are also having success in our evolution to a greater degree of transparency of financial systems. In fact, just last week we delivered to the Secretary of the Air Force’s desktop computer an application called the FM Suite Dashboard which provides web enabled visibility of financial metrics such as funds execution, interest penalties, and government travel card delinquency just to name a few. This application draws its information from several databases maintained inside and outside the Air Force and will be installed on the computers of those in the Air Force who make resourcing decisions and require the most current financial execution data. This brings a tremendous paradigm shift to the level of transparency under which we will operate and makes those who spend dollars more accountable for their resource decisions.

As we continue to have these types of successes in the field, we have been able to shut down 16 of 21 legacy systems affecting numerous Air Force functional orga-

nizations scheduled for elimination through fiscal year 2006. We have 23 more systems scheduled for shutdown in fiscal year 2007. The Air Force CIO office tracks the status of these projects on a monthly basis. The combination of this careful focus on investments and new business practices will create better information for decisionmakers while eliminating stovepiped and redundant systems and tracking shutdown and migration of over 500 systems.

#### AIR FORCE PRIORITIES AND CRITICAL MILESTONES, FISCAL YEAR 2007

All nine Air Force priorities are described in detail in the separate Enterprise Transition Plan, in fiscal year 2007, however we will maintain a focus on:

(1) Global Synchronization of the supply chain (people, materiel, and installations) and integration with operations. Critical Milestones include the blueprinting of first-priority Expeditionary Combat Support System (ECSS) modules, Full Operating Capability for Enterprise Environmental Safety and Occupational Health (EESOH), and fielding of the Enhanced Technical Information Management System (ETIMS).

(2) Delivery of Commanders' resource management capability versus low value-added transactional activity. Critical Milestones include deployment of the Personnel Services Delivery (PSD) initiative's Force Development Tool Kit to Active-Duty Officers and a role-based access/electronic viewer for military personnel records, as modules of the virtual Personnel Services Center (vPSC).

Details of other near-term plans are laid out in the ETP for each of our major domains and for our critical enabling activities, including the AFSO21 and Transparency initiatives.

#### ASSISTANT SECRETARY OF DEFENSE NETWORKS AND INFORMATION INTEGRATION (ASD(NII)) COORDINATION AND INPUT

The Air Force is working in close cooperation with the Office of the Assistant Secretary of Defense Networks and Information Integration (OASD(NII)) in those areas crucial to the future of Department networks and business applications. For example, the Air Force and the office of the OASD(NII) are working on a Department-wide approach to metadata generation, leveraging lessons learned from a recent Joint Air Force, Army, Navy, and Marine Corps effort using test facilities at Joint Forces Command. Lessons from this joint collaboration are being used to redirect data efforts across the DOD.

It is critical for organizations that deal with the Global Information Grid (GIG) and component infrastructure to coordinate future plans, especially when lack of doing so will cause major disruptions to large scale Enterprise Resource Programs (ERPs). Synchronization of infrastructure with systems is difficult across an organization as large as the DOD enterprise. As a result, we have recently been discussing how to move in a more agile, federated fashion with infrastructure upgrades that allow us to keep these efforts on track. We encourage additional discussion on these issues within the DBSMC and recommend that OSD/NII adopt the DOD BTA's model of tiered accountability aligned to a well understood architecture, working through the components to help solve related issues.

#### DOD'S APPROACH TO ERPS

We believe we have adopted an approach to ERP implementation that will allow success. In general, the DOD is not implementing a single instance of an ERP that spans the entire DOD enterprise. Benchmarking with large corporations indicates that such a monolithic approach would be unsuccessful. Instead, each of the components has analyzed the effectiveness of ERP systems in its operations, and has recommended slightly different approaches. As a result, there is no single ERP adoption model. The Air Force recognizes the risks associated with moving away from the current IT environment based on hundreds of stovepiped and interconnected information systems, and is monitoring closely the successes and difficulties of ERP implementations in government and in the private sector. We have reduced ERP fielding risks to the lowest possible level through senior leadership governance and direction, a unified well articulated enterprise vision, use of enterprise architecture, process re-engineering with enterprise goals in mind, a well thought out change management strategy and use of pilot programs to prove, and when necessary, modify processes. Finally, accounting for legacy systems that must be phased out over time, incremental and synchronized ERP fielding across the Air Force, will reduce risk as we move forward. We obtained benchmark information from major ERP users and are paying particular attention to our breadth of scope and integration

with the legacy systems. We believe that these measures, combined with strong program management and oversight, will enable the Air Force to successfully implement our planned ERPs.

The Air Force is pursuing two ERP efforts with different scopes. The Enterprise Combat Support System (ECSS) focuses on supply chain and logistics support functions such as material management, product data management, configuration and bill of materials, advanced planning and scheduling, customer relationship management, order management, quality control, distribution and transportation, repair and maintenance, budgeting, facilities management, document management, and decision support. ECSS will replace over 400 systems and applications, enable worldwide total asset visibility, and support global synchronization of the supply chain and integration with operations. Work on the ECSS started in early 2003, building a transformation strategy, creating the needed enterprise architecture to guide transformation, implementing a change management program, and designing a process to capture and understand the current information system and data environment. We have established integrated product teams to facilitate logistics and financial process and information integration between our major ERPs.

Our second effort, the Defense Enterprise Accounting Management System (DEAMS), will handle financial management, including general ledger, requirements initiation and fund control, cost and revenue, budget, accounts receivable, accounts payable, plant, property and equipment. DEAMS will replace current systems supporting both Transportation Working Capital Fund (TWCF) and general funds including the General Accounting and Fund System (GAFS), Integrated Accounts Payable System (IAPS), Automated Business Services System (ABSS), and Airlift Services Industrial Fund Integrated Computer System (ASIFICS). DEAMS will deliver accurate, reliable, and timely financial information for decision makers, incorporating industry leading best practices and supporting Chief Financial Officer Act Compliance within the Air Force. This ERP, although broad in applicability, has a focused financial management scope (General Ledger and associated applications) and will not handle many of the transactional processes performed in logistics and personnel systems. The re-engineering of financial processes, involving an in-depth review of the financial service delivery model, is also preceding the system implementation.

Additionally, the Air Force will leverage the large-scale Global Combat Support System—Air Force (GCSS—AF) infrastructure to host the ERPs and interconnect systems. We have also created an integrator unit within the Air Force Materiel Command, which is specifically charged with managing the interoperability of our ERPs between themselves and with the legacy systems. The implementation of a service-oriented architecture that allows the net-centric exchange of information between various systems will further reduce the quantity of point-to-point interfaces.

#### AIR FORCE FINANCIAL AUDITS

We wholeheartedly concur with the committee that the most effective way to address the Air Force's financial management issues is to focus our efforts on our core business systems and processes as embodied in section 313, S. 2766, the John Warner National Defense Authorization Act for Fiscal Year 2007. This focus is embodied in the DOD Financial Improvement and Audit Readiness (FIAR) Plan, a key component of which is the Air Force Information Reliability and Integration (AFIR&I) Plan. The AFIR&I Plan is the Air Force's roadmap toward financial transparency and details our ongoing commitment to ensuring the absolute highest level of stewardship of the taxpayers' investments in the Air Force. Our financial improvement activities related to the preparation, processing, or auditing of financial statements are included as part of this plan and are designed to produce sustained improvements in our ability to deliver accurate, timely, reliable, and complete financial management information.

#### MAJOR AUTOMATED INFORMATION SYSTEM (MAIS) REPORTING REQUIREMENTS

We think the requirements of section 804, S. 2766, the John Warner National Defense Authorization Act for Fiscal Year 2007 are a positive step in putting more discipline in the process; MAIS implementation throughout the Air Force is critical for the automation and integration of our business processes. It will provide consistent and timely information for decisionmaking and performance measurement. MAIS will provide access to data in a near real-time environment and allow the Air Force to make official decisions from current, relevant information.

The Air Force has established its own defined and repeatable process, with detailed reviews of the modernization efforts occurring at several management levels. All systems with modernization funding in excess of \$1 million over the FYDP re-

quire certification and approval by OSD. Air Force MAIS systems categorized as business systems are reviewed under this process. Each of these business systems (MAIS and non-MAIS) undergo a follow-up review annually whereby cost, schedule, and performance are evaluated for continued funding. Systems that fail to perform within set criteria are required to present risk mitigation plans to a senior executive working group or face possible prohibition on future modernization funding. A process is being developed whereby all defense business systems will be reviewed on an annual basis, whether they are modernizing or only sustaining capabilities.

Consistent with OSD direction the Air Force will revise its procedures to ensure MAIS programs are reviewed quarterly with findings reported to the designated authority in a manner similar to that being utilized on Major Defense Acquisition Programs (MDAPs) in the Selected Acquisition Report (SAR).

#### USE OF HIGHLY QUALIFIED EXPERTS

The Air Force embraces the use of the Highly Qualified Experts (HQEs) hiring vehicle per OSD guidance titled "Employment of Highly Qualified Experts" dated June 27, 2006, and appreciates the authority given by Congress to pursue such hires. The Air Force has hired seven HQEs so far. Four of these HQEs are currently serving and three have left the government at the completion of the projects for which they were hired. The Air Force is investigating the hiring of two more at this time.

The guidance for hiring HQEs is controlled by the Air Force Executive Resources Board (AF ERB). The AF ERB has never turned down a valid application for an HQE hire, nor has the ERB added further guidance above or beyond what is found in the June 2006 OSD memorandum. Since the OSD memorandum does not dictate how HQEs should be evaluated or rewarded, the AF ERB performs due diligence on this process for the Secretary of the Air Force.

#### CONCLUSION

I want to close, Mr. Chairman, by thanking you and members of this subcommittee, on behalf of the Secretary and Chief of Staff, for your continued support of our airmen and their families in so many areas, particularly by providing them what they need to fight the global war on terror and defend our great Nation.

I assure you that the people of the United States can count on their Air Force Financial Managers, working together with our colleagues throughout the DOD to provide reliable, timely, and accurate financial and management information and analysis to enhance decisionmaking and customer service throughout the Air Force.

As financial managers, we understand that Joint operations are not the exclusive domain of the battlefield. We must remain ready to tackle the ever-changing budget realities of a fiscally constrained environment and a vast array of unexpected events, especially those brought on by the global war on terror, and disasters—man-made or natural—whether at home or abroad. Public money is truly a public trust and we are grateful to serve as Air Force stewards.

I would like to conclude today by thanking the Senate Armed Services Committee for your support during this important business transformation. We are proud to stand by your side in support of our Nation at war.

Senator ENSIGN. I want to thank all of you for your testimony and I don't want to take away anything personal against any one of you that is here today, and I'll let Senator Akaka speak for himself, but I personally was very disappointed when we asked the Service Secretaries to provide witnesses for this hearing that they chose not to send folks who had received the advice and consent of the Senate.

The importance of improving financial management accountability, as you just mentioned, being stewards of the taxpayers' dollars, in my personal experience in business, is if the very top isn't buying into it and showing their complete commitment to it, it does not happen. No matter how dedicated you all are, if the top isn't buying into it, there won't be nearly the commitment to getting things done and seeing those things followed through.

One of the key impediments to reform continues to be this cultural resistance to change. Including the military service paro-

chialism that's famous and all of the stovepipe operations that we continue to see. To address resistance department-wide, the OSD has restructured and enjoys the strong leadership and support of Deputy Secretary of Defense Gordon England. It remains to be seen whether or not we had, given the time, Secretary England had asked for that time, Mr. Walker you understand this—that he asked for the time before doing what you and I had both talked about doing before—creating a Chief Management Officer within DOD.

I want to start with each one of the Services and ask what actions that each one of your Services have taken to reshape that culture and not from your level, but hopefully you can speak for the levels that are above you, to reshape that culture, to totally transform what is happening as far as a management and information system overhaul.

I'll start with you, Mr. Argodale.

Mr. ARGODALE. Thank you, Mr. Chairman. We've done some significant things over the years to align with the changes that have been made at OSD.

First, working directly for the Secretary and Under Secretary is a Deputy Under Secretary of the Army for Business Transformation and that Deputy Under Secretary is responsible for implementing business transformation efforts across the Army, particularly under Lean Six Sigma-type program.

Each organization within the Army has been assigned a certain number of Lean Six programs to initiate and a certain dollar value of savings associated with those programs. Within a financial management community we've recently stood up a Deputy Assistant Secretary for Financial Information Management. That Deputy Assistant Secretary is responsible for coordinating systems approvals with the financial management IRB at Defense. That Deputy Assistant Secretary also has responsibility for overseeing the Army's financial and business systems budgets to ensure that the budget piece aligns with the approvals submitted and approved by the IRB and finally, the Deputy Assistant Secretary there is also the primary functional customer for the General Fund Enterprise Business Systems.

Our CIO has overall responsibility for ensuring compliance with section 332 of the National Defense Authorization Act and ensuring that business systems are approved through the IRB and DBSMC process.

Senator ENSIGN. I know the military's famous for acronyms, but try to stay away from them, thank you.

Mr. ARGODALE. Okay. I think we've accomplished quite a bit in terms of realigning our organizational structure ensuring the right level of focus on these problems.

Mr. WENNERGREN. Sir, we've taken a number of steps as well. We have aligned our information management/information technology governing structure within the Department of the Navy. The command, control, communications, and computer directors of the Chief of Naval Operations (CNO) and the Commandant Marine Corps were double-hatted as my Deputy CIOs and we have aligned all the command information officers down through the two respective chains of command to work as a single integrated team.

We've taken our functional leaders and dubbed them functional area managers with the responsibility for all of the applications within their functional domains. They work on a functional area manager council together with me to make sure that we have eliminated the redundant applications, and we've eliminated an extra 2,000 applications in just the last year alone. They are aligned to the construction of the DOD, Business Management Modernization Program, and IRBs.

We've also put in a whole new approach to how we do performance management, to breakdown those very stovepipes that you talk about. We operate now a single Naval Aviation Enterprise that brings together the different commands that are responsible for buying aircraft, maintaining aircraft, training the pilots, and operating the forces. They are aligned to a single outcome-based performance measure that is aircraft ready for tasking. Each of the subordinate commands, even though they're a different organization, are aligned with subordinate measures to show how they drive to the overall goal that the CNO and the Secretary and the Commandant have.

We also have a Business Transformation Council that we have set up with the Under Secretary as the chair with the Vice CNO, the Assistant Commandant of the Marine Corps, and our Assistant Secretaries of the Navy and the General Counsel to work the issues that span the organizational boundaries of the Navy and Marine Corps that can't be resolved just within the functional area manager council.

We've also taken some steps to actually fundamentally change the organization of the Department. We stood up the Commander Navy Installations Command for one of these very reasons, bringing together the real property base operating support responsibilities of eight different commands into one place so that we could take hundreds of disparate stovepipe legacy applications and bring them together into a few key systems that will drive the operation and management of our base operating support across the entire Navy.

Senator ENSIGN. Mr. Vonglis?

Mr. VONGLIS. Senator, just going back a little bit to my opening statement, I think the single most important thing that we've done in the Air Force is to create a culture of accountability, of transparency, and of governance, and this is perhaps emphasized more so with Secretary Wynne's arrival, but even prior to that all the different functionals met on a regular basis, broke down those proverbial stovepipes to come to a corporate agreement, if you will, on what is the best course of action to take in terms of systems and processes and modernizations and to make decisions based on tangible goals and priorities.

Internally, we do have, much like the Navy alluded to, a group of functional experts. They then report up to a senior working level group, that group reports to the IRB, and that group in turn answers to the DBSMC. So, we have numerous systems and processes in place to look at those exact issues.

As I mentioned, the Secretary personally chairs a monthly meeting of all his direct reports where these issues are fleshed out.

There's no greater visibility than to have the Secretary of the Service meet with these folks on a monthly basis.

Senator ENSIGN. Mr. Walker, can you give an analysis just of the previous three answers, just from GAO's perspective on how the Services are doing compared vis-a-vis to the DOD?

Mr. WALKER. I clearly think that progress is being made in many different areas within the DOD, but to differing degrees. I think as my testimony outlines, our view is, you need to have a single integrated plan dealing with business systems modernization, including the related enterprise architecture component. That has to be done on an enterprise wide level.

It's fine to employ a federated approach. It's fine to be able to provide for responsibility and accountability for certain key elements and components at a decentralized level, but you need to have that single strategic and integrated Department-wide plan. They don't have that yet. I think that's important.

One of the things we have to ask ourselves is, since progress is being made—but we're talking about a Herculean effort here—it took us a lot of years to get where we are, it's going to take us a number of years to get us where we need to be.

One of the key questions, is what needs to be done in order to sustain whatever progress is being made. That has to do, not just with the need for a plan, it has to do with performance metrics, performance management systems and the right type of leadership who will provide continuity, both within and across administrations on issues that inherently are nonpartisan.

Good government, economy, efficiency, effectiveness, transparency, and accountability don't have a partisan label and we need a CMO/COO. Importantly, that's not just for business systems modernization. It's for all 14 high risk areas and it's not a new layer of management, because this person shouldn't be involved in the day-to-day management of DOD. This person would be responsible and accountable for making business transformation happen. It's going to take years, and it's more than a full-time job.

Senator ENSIGN. I'll end with this and then I'll turn it over to Senator Akaka. I want to applaud the work that is being done. I think that all of us understand that the military, because these dollars from the taxpayers are so precious, we do need to look at every way that we can spend them in a better way. We need to have better systems in place, not for the sake of having systems, but for the sake of, one, having information that goes up and down the line where people can use that information, but also where we're using those taxpayer dollars where they're not being wasted. We know that there is a tremendous amount of waste at all levels of government and it is our job as overseers of that to try to put into place that accountability in our systems and hold you all accountable for the dollars we give you from the taxpayers.

I want you to continue to do the work, but one of the concerns we have at this subcommittee is that each one of the Services, you all say that you are complying to a plan, but yet you don't have an overall plan that Mr. Walker just talked about. So it's hard for us to understand how you are complying with a plan when the plan's not in place and the metrics aren't in place. It's really important to have metrics, because if you don't know what you're meas-

uring against, it's difficult to understand what, how well you are doing.

The purpose of us having these hearings every 6 months was so that the DOD and the Services would start setting those metrics out. That's the reason I started my questioning with, saying that we were disappointed at the level that the Services seem to be paying based on even the level of the witnesses that were sent here before us today. We are not happy with that and I want you to convey to your bosses that we are not happy with this.

We want to see the commitment at the highest levels to this business transformation that needs to take place. Mr. Walker is exactly right. It's not going to be easy, this is mundane stuff, this isn't fighting wars, but this is so we can fight wars more effectively, and that our service men and women have the tools that they need to fight that.

We have some very detailed questions that would be very difficult for you all to answer, so we're going to have them submitted for the record, some very detailed questions on how to set up those metrics, what the transformation plan is and so that we can get for the record, so we can hold you all accountable when Senator Akaka does his first hearing on this so that the Services 6 months from now when we come back with another hearing if that's when he chooses to do that, that we can have better answers and we can measure, we can come back and say, here's what you said you were going to measure. Have you measured it? Are you complying?

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. I must really commend you and what you're doing here to help our country save money as well as to try to set up a system to be able to do that.

Let me first commend and praise our Comptroller General, Mr. Walker, for all he has done in the years that he's been here in that position. You have been working on making this system more mature, as you say. I've been able to work with you also on it and will continue to do that. I want to compliment you for moving this into what we call high risk areas.

I remember in our chats much earlier, we were looking at how do we approach this, and one of your recommendations was to look at the risks that each department has in the administration, and on that basis, to determine which might be considered high risks. You're right, it turned out that the particular department we're really looking at did have the most high risks that we need to focus on, and this is what we've been doing.

So I really give you the credit for trying to create a process of approaching this and trying to find solutions to it. The Comptroller General's statement today indicates that the enterprise architectures of the military departments, as said, is not mature enough to responsibly guide and constrain investment in business systems.

According to GAO, the Air Force has fully satisfied only 14 of 31 core frame work elements of an enterprise architecture. The Navy has fully satisfied only 10 of these elements and the Army has fully satisfied only a single core framework element, just 3 percent of the total.

Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, let me ask each of you, is the Comptroller General's assessment of your enterprise architecture accurate? Also, tell us what steps do you plan to take to adjust this problem? Mr. Argodale?

Mr. ARGODALE. Senator Akaka, I would tell you that the Army's architectures are maturing, they're not at a finished state yet, but I will also tell you we are in compliance with section 332 of the NDAA, which requires all our business systems modernizations costing more than a million dollars to be submitted through the Defense IRB for ultimate approval by the DBSMC. Part of the requirements checked there is to ensure compliance with the Defense BEA. So there is some rigor in the process.

The Secretary of the Army has directed each business domain to develop domain transition plans and submit those plans by December of this year for approval and publication across the Department to guide from a business domain area our transformation efforts within the Army.

So, I would tend to agree with you that our architectures aren't as mature as they need to be, but we do recognize that there needs to be some work done there and the Secretary's involved, the Chief of Staff of the Army is involved, and we should see some progress within the next month or so with respect to the development of the transition plans that the Secretary has requested.

Mr. WENNERGREN. Senator Akaka, we too continue to mature and refine our architecture efforts. Our functional managers have laid out the taxonomies and paths to move from the "as-is" state in each of their portfolios to the "to-be" set of applications that we will have in the future. We have aligned ourselves to the BEA. I am the pre-certification authority for the systems that go forward for DBSMC approval and we assess each one of those systems against the DOD enterprise architecture.

I also use my Clinger-Cohen Act responsibilities to certify and look at each of the systems that comes through, and we make sure that they comply with our architectural policies and information security requirements. We continue, just as the Defense BEA continues to mature and develop, to mature and develop the enterprise architecture components inside the Department of the Navy and we have just released our new 2006 version of our own internal Navy/Marine Corps architectural products.

Senator AKAKA. Mr. Vonglis?

Mr. VONGLIS. Senator, technically yes, it is accurate; however, in terms of one minor clarification, in terms of full and partial systems we're looking at 22 of 31. So, yes, 14 are fully completed, but we do have another 8 that are in partial phases of completion of satisfaction to the GAO report. In terms of being the only political at the table, Senator Ensign, and at the CFO level, I will tell you that the Air Force has a joint process internally, we have functionals and you have the major commands that do a combined review of the systems to compile the report and comply with section 332. They develop and they maintain and they use the BEA. They certify all business systems development in excess of \$1 million over the Future Years Defense Plan. Finally, they prepare and maintain the DOD ETP to the Air Force vision strategy, goals, and priorities. So, there is a program in place and there are plans in

place. Are we completely there yet? Absolutely not. There is much work to be done, but certainly we believe we are progressing.

Senator AKAKA. I take it, Mr. Wennergren and Mr. Argodale, that you agree that the Comptroller General's assessment was correct?

Mr. ARGODALE. Correct.

Senator AKAKA. I want to also at this point tell you that I agree with the chairman that I'm glad you're here, however, I am unhappy with the level of personnel. We expected high level personnel here to testify this morning.

With that said, I again want to compliment the Controller General as he has always said, and maybe he did say it today, that for this kind of work we need somebody on the high level to be doing it in DOD and at one time when we spoke together we felt that for it to move it may have to be on a secretary level and not anybody lower than a secretary.

I say that because in 2001 and together with the Comptroller General and after some discussions we did establish a Comptroller General's position in DOD and if you remember the name, Zakheim, he was appointed to that and served from 2001 to 2004 and resigned. The reason was he couldn't at that time make any headway on what we're trying to do. So we'll continue to do this, but again, I want to give the credit to the Comptroller General for our progress.

Over the last several years the DOD has taken a number of steps to realign its management structure to expedite and enhance its business transformation efforts.

For example, the DOD has established a new DBSMC, the BTA, and the IRBs. The military departments do not appear to have taken similar organization steps. Mr. Walker, do you believe that the organization structure of the military departments is properly aligned to bring about business systems modernization and financial management improvements? If not, how should the military departments restructure themselves to address this issue?

Mr. WALKER. Senator Akaka, this is an issue that we're doing additional work on right now. I think we'll be in a better position to be able to report fully at the next hearing, if you desire to continue this practice under your leadership in the next Congress.

I will say that you must have a person who is clearly responsible and accountable at all key levels of the organization. People lead, not committees, and you have to have persons who are responsible. We have not found a clearly identified person within each of the key components that is responsible and accountable with regard to this area. That's something that we're going to do more work on to try to find out, and I expect 6 months from now we'll be able to provide more definitive information.

Frankly, I hope that 6 months from now we would have made some progress on the pinnacle position, that is the level two official because, for the record, the Defense Business Board has concurred with GAO's recommendation that this is needed. The Institute of Defense Analysis is supposed to report within the next month on this, by law, I expect that they will concur, but I don't know for sure. McKinsey & Company, who we're all familiar with, which is one of the world's most prestigious strategic consulting firms, has

also concurred with this, I think Congress is going to have to make a judgment under your leadership, Mr. Chairman, when you assume responsibility as to whether or not we need to go ahead and push legislation that deals with the COO/CMO position. We also need to make sure that everything else is well-aligned in order to maximize the chance of success and to make sure that we can sustain progress, not just within administrations, but between administrations.

Senator AKAKA. Thank you very much for your response. The problem here as I see it from way out here and as pointed out, when you mention a number of systems that we have many, many systems in DOD that we'll have to contend with. Thank you very much, Mr. Chairman, I do have other questions.

Senator ENSIGN. Senator Thune.

Senator THUNE. Thank you, Mr. Chairman, I appreciate your holding this hearing and I want to thank the panel for appearing today and just indicate as well that we understand that the Services' business systems modernization and financial management accountability efforts are a huge undertaking and I appreciate the level of effort that has been made already by all the Services on business transformation and the progress that's been made. It's in and of itself a very tough and difficult task and I think we fully understand that, but it is important that we get rid of inefficiency and waste across all of the government. We owe that to the taxpayer and so thank you for your efforts, your ongoing efforts.

There is obviously a lot more work that needs to be done and it is going to take leadership commitment across the DOD to keep moving down the right path.

I want to also today, Secretary Vonglis, congratulate you on your initiative for the Air Force financial management transformation. The AFFSC, that's going to be located at Ellsworth Air Force Base, we think it's a perfect location, obviously, for that facility, especially with the large available workforce and labor pool that we have. We're excited about the new mission and that means the modernization of a lot of these systems for our members of the Service.

I want to ask one question with respect to large-scale enterprise resource system programs. In your written statement you discussed the development of the ECSS which will replace hundreds of systems and applications and enable worldwide total asset visibility to the supply chain. Where are you in the development stage, and when is the projected fielding of the system?

Mr. VONGLIS. Thank you, Senator, and thank you for your support and I appreciate all your kind comments. ECSS is progressing very well. As a matter of fact, in terms of systems of that magnitude, if I'm not mistaken, I think 2012 is the date that we're looking at for full operational capability and it will measure up to exactly what it claims to do.

Senator THUNE. Is the system going to be integrated with other systems to provide visibility of common parts that are used across multiple services?

Mr. VONGLIS. It will be. Within the Air Force, absolutely. Obviously there are pros and cons any time one undertakes an ERP, you could have folks that want to obviously err on the side of cau-

tion, and there are others that want to take a very large approach to this. We are of the opinion that even if there are some very minor inefficiencies, it's far better to field a system like ECSS along with DEAMS that are complementary from both the financial and the logistics perspective.

Senator THUNE. Mr. Walker, has GAO's work uncovered any new business systems programs that need to be strongly considered for termination?

Mr. WALKER. There is absolutely no question that of the 3,000-plus existing information systems, many should be killed. That's part of the purpose of this enterprise-wide coordinated effort. It should identify which are the critical stay-in-business systems, either for military or business operations, and which ones are wants rather than needs. How can we make sure that we're focused on the ones that are critical needs and how can we do it in an integrated fashion so you don't have each Service or component doing their own thing. We need to come up with an approach that allows for sharing of information and minimize the number of systems that we'll have in order to generate timely, accurate, and useful information. So yes, there are many, and many have been eliminated already. However, many more will have to be eliminated in the future.

Senator THUNE. Mr. Chairman, again, I appreciate your holding the hearing and I would add my support to your efforts to make sure that we provide ongoing oversight and support of this effort. It is so important. The bottom line is making sure that we're doing the best job. It's a big undertaking, huge department, but at the same time, bottom line is making sure that the warfighter is most effectively equipped to fight the wars and that entails a lot of, in the modern world, integration of these systems in making sure that across the Services that we have, I think, the interoperability that we need—so that the ultimate goal of equipping the warfighter can be effectively accomplished.

So I thank you for your work and for your testimony and I expect we'll be hearing more from you and probably have additional hearings in the future. Thank you, Mr. Chairman.

Senator ENSIGN. Thanks for participating today, Senator Thune.

First of all, Mr. Walker, to let you know obviously we have the study from the Institute for Defense Analyses (IDA) on the need for a Chief Management Officer within DOD coming out in December and between now and the next hearing, whenever Senator Akaka decides to call that, we can do some evaluation working back and forth and I know I'd like to commit to working with you and fully evaluate the IDA study.

The Secretary asked us to postpone our legislation and give him a chance so we'll have some opportunity to evaluate exactly what has been done and whether it more effectively will go toward what your recommendation has been all along and look forward to fully evaluating that.

Second, to the Services; we have continually asked GAO in their oversight responsibility for suggestions and that's where the CEO/CMO, that has been one of the major recommendations, plus many others, that they've given us as far as legislation is concerned.

I would like to ask the Services now and if you don't have any recommendations for the written record it would be fine as well, suggestions for the committee to make legislative changes to make this job easier. We need to hold you accountable, but also need to be a partner in this. If there are things that we are doing, sometimes we put on legislation to do one thing, but there are unintended consequences that cause other negative consequences and turn out to be the impediments to the change that actually we want to see up here.

So, I'm inviting you, you don't have to do it today, or if you want to it's fine as well, but for sure at least in your written responses, if there are suggestions to us, if you made this change in next year's DOD authorization bill, it would really help us to be able to make some of the changes much more rapidly. This is an impediment, it looks like good government type of a piece of legislature, but in its effect it turns out to be bad government and we know that there are a lot of those regulations and laws out there and if you can help us get rid of those, that's really what we're about as partnering with you.

Mr. VONGLIS. Thank you.

Mr. WENNERGREN. Thank you.

Senator ENSIGN. Do you have anything else, Senator Akaka, for the hearing this morning?

Senator AKAKA. Yes, Mr. Chairman, I too want to say that I'd like to continue your efforts in this respect to pursue hearings on financial management and particularly DOD here and try to improve the systems and as you pointed out aptly, this is a team effort on accountability and transparency and we need to move on as fast as we can.

I'd like to ask one last question here. I have others that I'll submit for the record. This has to do with service transition plans.

Section 2222 of title 10 requires that DOD develop a comprehensive enterprise architecture and transition plan for its business systems by no later than September 30, 2005. Section 2222 requires that the transition plan must specifically include an acquisition strategy for each new business system that will be needed, a schedule for terminating each legacy system that will not be needed, and a strategy and timeline for making modifications to each system that must be upgraded. DOD's approach to its BEA largely delegates this task to the military departments. Mr. Walker, have the military departments met this requirement?

Mr. WALKER. We do not believe that all the requirements of that legislation have been met. We believe that good faith efforts have been taken. This may be an area where you may receive some recommendation from the DOD as to areas of possible streamlining in order to try to accomplish the intent, but as I mentioned before, we believe the overall plan has to go from the "as-is" state to the "to-be" state and it has to not just deal with department-wide applications, it also has to consider the Services and other key components as part of that overall framework and that has not fully been done yet.

At the same time, I will restate that with regard to the requirement for submitting investments of \$1 million or more, we do think

there has been a good faith effort to comply with that at all levels of the DOD.

Senator AKAKA. Let me ask the Service witnesses whether you agree with Mr. Walker's assessment and also to ask you when can we expect compliance with the statutory requirements?

Mr. ARGODALE. Senator, I agree that we're making a good faith effort to comply with the requirements of both section 2222 and 332.

First of all, regarding identifying systems that can be retired in the financial management business area we've done that work, identified 112 systems that will no longer be needed in the inventory and the target dates and times that those systems can be retired as we develop our financial system modernization effort.

In the human resources business area, we're working very closely with the Defense System Management Counsel and the newly appointed Defense Business Systems Acquisition executive to implement a DIMHRS. That effort has been revitalized and reinvigorated. The Army will be the first Service to implement DIMHRS and we have identified dozens of personnel systems that can come out of the inventory as we develop and implement the DIMHRS solution in the Army and I believe we're scheduled to start DIMHRS implementation in the spring of 2008.

So, we're making a good-faith effort to comply and as the efforts mature, I think we're going to get there.

Mr. WENNERGREN. I agree, sir. We are making a good-faith effort and it is a process. We continue to improve the way we do oversight development, and modernization funding undergoes a much more detailed review, all the way up to the Deputy Secretary of Defense now, for relatively small changes. So, investments aren't allowed to be started unless they comport with the enterprise architecture and with the overall strategy and objectives of the DOD. We have created our authoritative data source that identifies all of the applications that we own. So the work breaks down into two pieces. There is the rationalized, the legacy stuff that you have, and that's what our functional area managers are doing. They have targets for each subsequent year, 30-percent reduction for the legacy applications this year. So, applications identified for retirement, and then the second piece of the work is implementing the new systems. So, again, by implementing, for example, an ERP solution, another 300 systems will go away as well.

Mr. VONGLIS. Senator, thank you for that insightful question. As a matter of fact the Air Force has identified 511 systems. We've shut down 16 of those legacy systems in 2006 and we have another 23 slated for departure in 2007. These are not just financial systems. These cross all the domains, all the functional areas. As for details on the Air Force transition and schedules, I believe they were included as appendices to the ETP and they have been submitted.

Senator AKAKA. I want to thank you for your responses. This is a huge task. We're moving in the right direction on this and look forward to working with you and the chairman and expect to continue this effort as well. So I want to tell you that we are, and I am, really working hard at this so that we can help our troops be the best they can and meet whatever conditions are out there for

the sake of our country and it's huge. So, we're part of this team and look forward to continuing to work with all of you. Thank you, Mr. Chairman.

Senator ENSIGN. Thank you. This hearing is adjourned.  
[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

CERTIFYING COMPLIANCE

1. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, the Ronald W. Reagan National Defense Authorization Act (NDAA) for Fiscal Year 2005 required the Department to certify that every investment over \$1 million in any business system comply with the Department of Defense's (DOD) overall systems architecture. We understand multiple systems are being certified as complying with an overall architecture, but the Services have yet to fully developed theirs. Without a well-defined service-level architecture, how are the components ensuring that their business system investments will deliver the needed capabilities?

Mr. ARGODALE. The Army is aligned with DOD's federated approach to business system modernization. We established business area domains in conformance with the DOD's overall domain structure. The Secretary of the Army endorsed transformation plans for each business area domain. Mature architectures have been developed for the financial management and logistics business areas, with alignment activities in process between the two domains.

During fiscal year 2006, the Army's Chief Information Officer (CIO) implemented a disciplined portfolio management process requiring each business domain to perform a complete inventory of all business systems within their respective domain, and register the systems in a single Army-wide portfolio. Within the financial management business domain, the Army reviewed and categorized 198 total systems. This analysis is captured in the Single Army Financial Enterprise (SAFE) architecture, and enabled the identification of 102 systems for elimination by planned modernization programs.

Adopting the DOD's business domain construct and federated approach to business system modernization, creating business system transition plans, aligning architectures with the Business Enterprise Architecture (BEA), and managing business systems investments through a disciplined portfolio management process enable the Army to comply with the NDAA for Fiscal Year 2005. To date, we have scrutinized and received Defense Business Systems Management Council (DBSMC) approval for 82 major business system modernization efforts.

Mr. WENNERGREN. The Department of the Navy uses a functional area portfolio management approach to ensure that our business system investments deliver required capabilities without redundancies. We have designated general/flag officer/senior executive Functional Area Managers (FAM) who are responsible for identifying which investments are and are not part of their to-be architectures. The FAMs have also developed Operational Activity Taxonomies and all investments must identify the taxonomy activities they support. The Department employs a number of other mechanisms for ensuring that our investments are aligned with our enterprise architecture. Among these is the Navy Standards Work Group, responsible for managing technical standards and for submitting those standards to the DOD Information Technology (IT) standards repository. As investments make their way through the acquisition process, their designs are aligned with the standards to ensure that only approved and consistent technologies are used.

Mr. VONGLIS. The Air Force has a published enterprise architecture that maps to the DOD BEA and to the extent the DOD BEA is complete we comply with it. The Government Accountability Office (GAO) recently evaluated our architecture and determined we were 71 percent complete (45 percent fully compliant, 26 percent partially compliant) indicating we are on a par with other Federal agencies. The current DOD BEA is effective for certification at a systems level and is becoming more detailed and extensive as new versions are released. In fact, the next phase of the BEA will drive our certification questions down to the data level. We are also working with OSD to put an automated architectural analysis tool in place which will make our process even more transparent.

Our continued development of our enterprise architecture is being accomplished under a strict governance process led by the Air Force CIO, who has been directed by the Secretary of the Air Force to serve as the Air Force Pre-Certification Authority (PCA) and to ensure appropriate investments in Air Force business systems are thoroughly coordinated with DOD Investment Review Boards (IRBs) and presented

to the DBSMC for their approval. This synchronization of our Air Force business processes and systems modernizations with the DOD through architectural alignment and rigorous portfolio management have been instrumental to modernizing our Air Force business systems.

BUSINESS AND FINANCIAL MANAGEMENT

2. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, GAO reports and testimonies present examples demonstrating consequences of DOD's failure to improve its business processes and related systems. These problems preclude the DOD from producing accurate, reliable, and timely information with which to make sound decisions and accurately report on its trillions of dollars of assets and liabilities. What specific challenges does your component face with regard to transforming its business processes, including financial management and business systems?

Mr. ARGODALE. The primary obstacle is a realistic, integrated plan backed up by senior leader commitment. Improvement of the financial management processes and business systems requires a clear roadmap and senior leaders must drive the achievement of sustainable benefits. The Secretary of the Army and Assistant Secretary for Financial Management and Comptroller are fully committed to improving the Department's financial management processes in order to provide sustainable benefits over the long-term.

In addition to leadership, development and implementation of an integrated plan that guides technology and business process change is critical to achieving sustainable improvements. The plan must also identify the resources needed to develop and implement the required technology and business process changes.

The Army developed and is implementing a strategic financial improvement plan containing 1,776 discrete tasks designed to correct existing problems and provide long-term financial management improvements. To date, 536 of these tasks have been completed with the remainder still in process. Our plan integrates technology and process requirements and is a key component of the DOD Financial Improvement and Audit Readiness (FIAR) Plan and Enterprise Transition Plan (ETP). This plan provides a coherent structure and logical methodology necessary to guide sustainable financial management improvements.

Mr. WENNERGREN. We are endeavoring to build sustainable (and auditable) solutions as part of our transformation strategy. Key components of that strategy include: deploying Navy Enterprise Resource Planning (ERP), eliminating redundant business systems, implementing our Department's portion of the FIAR Program, and moving out on our Lean Six Sigma initiatives. The complexity and breadth of our business operations and managing change in a rapidly evolving environment are two of the greatest challenges facing the Department. We are employing Lean Six Sigma techniques to craft agile and efficient responses to these challenges.

Mr. VONGLIS. The Services within the DOD are working to modernize legacy systems. Reduction of manual transactions and limited reconciliation through increased automation of systems will further our goal to be Chief Financial Officer (CFO) compliant. With new technology comes the need to provide clear and sufficient training to a workforce steeped in tradition.

The Air Force is challenged in three major areas:

*Implementing a Standard General Ledger across the Air Force* is critical to clean comparable information. As we streamline and standardize our processes we will continue to reengineer our business processes by leveraging technology and eliminating redundancy in the numerous legacy feeder systems.

*Complying with Federal Financial Management Systems Requirements* in our ERP modernization programs will fully implement transaction driven functionality as the core capability of our transformation effort. This will help us with managing intra-governmental transactions more efficiently and significantly reducing the by-others clearinghouse process for the accountable organizations for more timely information.

*Making strides in Data Transparency*—our FIAR Plans will leverage our ERP efforts to provide long-term support for reliable information to the decisionmaker while reducing material weaknesses in our Annual Statement of Assurance. We are focused and committed to making information transparency a reality.

3. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, what metrics are you using?

Mr. ARGODALE. The Army developed and is implementing a strategic financial improvement plan that is directly linked to the DOD FIAR plan and ETP. Our plan contains 1,776 tasks designed to improve financial management and modernize business systems.

Each task is assigned to an accountable organization and includes a schedule for completion. We monitor progress weekly and produce an organizational scorecard on a quarterly basis as a method of measuring progress.

Mr. WENNERGREN. Each of our major initiatives relating to business transformation—including Navy ERP, our Financial Improvement Program (part of the FIAR), the National Security Personnel System (NSPS), and various Lean Six Sigma projects—has detailed performance measures built in. Initiatives involving acquisition, such as Navy ERP, have program cost, schedule, and performance baselines. Other activities, such as our Lean Six Sigma projects, include performance data collection and analysis as integral parts of the process.

Mr. VONGLIS. The Air Force has developed numerous business management metrics which are routinely reviewed by the Secretary of the Air Force and Air Force senior leadership, to guide business transformation. They include: (1) legacy systems eliminated; (2) workforce transformation; (3) ETP milestone tracking; (4) contract reductions; (5) discounts taken; (6) travel voucher timeliness; and (7) vendor interest penalties.

In addition, the Air Force Information Reliability and Integration Action Plan identifies steps to fully integrate financial and nonfinancial processes and systems which impact fiscal resources in a CFO compliant environment. Financial management metrics, available on all Air Force senior leaders' desktops, including the Air Force Secretary, are routinely being used to make important financial decisions. These financial metrics include: (1) vendor and contract interest penalty; (2) loan discounts; (3) negative unliquidated obligations; (4) unmatched disbursements; (5) government travel card delinquencies; (6) travel voucher payment timeliness; (7) military pay problem cases; (8) O&M execution; (9) military personnel payment execution; and (10) available working capital funds cash. These financial metrics also roll-up into DOD's FIAR plan dashboards which are regularly presented at the DBSMC.

The broader business management metrics are being taken up by the DBSMC as a point on development over their next several monthly meetings. This effort will allow us to shape our business management modernization metrics as that evolves.

4. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, what are the top challenges your component must overcome for it to be successful in addressing its business management weaknesses and transforming its business operations?

Mr. ARGODALE. The primary obstacle is a realistic, integrated plan backed up by senior leader commitment. Improvement of the financial management processes and business systems requires a clear roadmap and senior leaders must drive the achievement of sustainable benefits. The Secretary of the Army and Assistant Secretary for Financial Management and Comptroller are fully committed to improving the Department's financial management processes in order to provide sustainable benefits over the long-term.

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Mr. WENNERGREN. The greatest challenges to the Department are embracing and managing change, and providing the appropriate tools to our workforce in a rapidly changing global paradigm. Ensuring the Department has a well-trained, prepared, and agile workforce are challenges to be overcome in making business transformation a success.

Mr. VONGLIS. One of the primary challenges to business transformation has been the establishment of a single, top-down enterprise approach, guiding our transformation efforts from both a process improvement and IT enablement perspective. To overcome this challenge, we put in place appropriate governance bodies.

An Air Force cross-functional Senior Working Group (SWG), made up of senior executives and general officers from each Air Force functional area guides the imple-

mentation of the Air Force enterprise transformation of business processes and systems. We provide monthly updates on business transformation to the three-star level Transparency IPT, chaired by the Secretary of the Air Force, who is also actively engaged with DOD's business transformation efforts as a voting member of the DBSMC.

In addition, the Secretary of the Air Force chairs the four-star level Smart Operations for the 21st Century (AFS021) process council. AFS021 provides the institutional methods for improving end-to-end Air Force processes, including combat support and combat operations. These top down led process improvement activities serve as a key element scoping our business transformation and IT enablement activities.

The NDAA for Fiscal Year 2005, its ETP requirement, and the BEA are powerful tools to enable us to drive our enterprise transformation activities. We have implemented the NDAA for Fiscal Year 2005 activities in our core business transformation processes, which has strengthened our alignment around an enterprise-wide approach, overcoming the cultural challenges of stove-piped operations. We are transforming Air Force business processes to provide Joint and Air Force Commanders and airmen with effective decision quality, transparent information, and services.

#### ACCOUNTABILITY

5. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, a key element of the DOD's approach to reviewing and approving business systems investments is the use of what it refers to as tiered accountability. The tiered accountability approach involves an investment control process that begins at the component level and works its way through a hierarchy of review and approval authorities, depending on the size and significance of the investment. What progress has your component achieved in implementing the tiered accountability process?

Mr. ARGODALE. The Army has made significant progress in implementing tiered accountability requirements to support business systems management and modernization efforts. We established business area domains in conformance with the Department's overall domain structure. The domain owners developed transition plans that have been approved by the Secretary of the Army. These plans provide metrics, targeted capabilities, and other information enabling the Army to transform business processes. The domain owners represent the first tier of accountability.

Each domain owner is accountable for ensuring that all business system investments comply with section 332 of the NDAA for Fiscal Year 2005. Specifically, each domain owner must submit investment requests to the Army's CIO for review and approval. The Army's CIO is the pre-certification authority for systems modernization investments and is the second accountability tier. The Deputy Under Secretary of the Army is the third accountability tier, and is the Army's representative to the DBSMC. The Deputy Under Secretary presents the Army's modernization requirements to the DBSMC for approval and authorization to incur obligations supporting modernization efforts.

This tiered approach assigns accountability at each successive layer, and ensures appropriate approvals are obtained for modernization efforts. This approach has contributed significantly to improving business systems modernization efforts by ensuring investments are made based on a thorough review of requirements.

Mr. WENNERGREN. The Department of the Navy has fully implemented tiered accountability for investment review. The Department of the Navy Business Information Technology System PreCertification and Registration Guidance (v 2.0), effective December 19, 2005, describes the Department's tiered review process. Version 2.0 was published to include guidance on so-called Tier 4 and non-Tier investments. Since the DBSMC's establishment in the NDAA for Fiscal Year 2005, the Department's IT investment review process has been aligned with that of the Defense Enterprise level, both to answer NDAA requirements and for consistency with the DOD process.

Mr. VONGLIS. The Air Force has made great progress using a repeatable, institutionalized, tiered accountability and approval process, from program manager, through the Air Force CIO, through the Air Force Secretary, and finally to the DBSMC, chaired by the Deputy Secretary of Defense for approval. All Air Force business system modernizations are assessed for compliance with the DOD BEA, and for contribution to the Air Force's ETP using this tiered accountability structure.

Our progress can be measured by real outcomes. Sixteen legacy systems have been retired. Twenty-four flight scheduling systems were identified as having redun-

dant capabilities, with a detailed review in progress to determine a single enterprise service for the Air Force. Additionally, we prohibited any further modernization of the Student Registration and Records System (SRRS) as a result of OSD's purchase of the Enterprise Learning Management tool as part of the Defense Integrated Military Human Resources System (DIMHRS). We determined SRRS would provide redundant capability at the functional level of our tiered accountability process, such that SRRS was not even brought forward for certification beyond the Air Force PCA level. The Cargo Management Operations System was classified as a legacy system but was upgraded to enterprise status due to cooperative work between the Air Force, U.S. Transportation Command, and the Business Transformation Agency (BTA), a decision that saved the DOD \$34 million in costs. This tiered process works and has been successfully executed since the fiscal year 2006 review period. It continues to mature through the active input of participating organizations.

6. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, how will the tiered accountability concept help provide Congress reasonable assurance that future business systems will be implemented on time, within budget, and with the planned capabilities?

Mr. ARGODALE. The tiered accountability approach provides reasonable assurance that investments are based on valid requirements in conformance with domain transition plans and the Department's BEA. Requiring domain owners to ensure systems development and modernization requirements align with the BEA, and managing investments in the context of a broad portfolio of systems rather than a single system approach, provides added discipline to systems development efforts and will help to ensure future business systems are implemented on time, within budget, and with the planned capabilities.

In addition to tiered accountability, the Department, under leadership of the BTA, initiated the Enterprise Risk Assessment Model (ERAM) designed to enable future business systems to deliver business capabilities rapidly at a reduced cost by identifying program vulnerabilities and providing mitigation solutions. The Army's General Fund Enterprise Business System (GFEBs) modernization effort is managed through the ERAM process. The ERAM initiative has been extremely valuable in helping GFEBs managers identify cost and schedule risks, and to develop effective risk mitigation strategies.

Mr. WENNERGREN. A core element of the tiered accountability concept is annual review of each business system investment to determine if it is continuing to meet cost, schedule, and performance goals. Capability recently added to the authoritative data source for defense business systems, the Defense Information Technology Portfolio Repository (DITPR) and its Department of the Navy variant, DITPR-Department of the Navy, gives decisionmakers at all levels, from program management to Defense Enterprise, access to timely performance information on all Department of the Navy business investments and enables leadership to take appropriate action to ensure successful outcomes.

Mr. VONGLIS. The Air Force and DOD, empowered by the tools of the NDAA for Fiscal Year 2005, have implemented an enterprise-wide tiered accountability approach to review each Air Force business system's costs, schedule, and performance. All levels of management, from program manager to the Air Force Secretary, have a unique and vital review role established in a formal, linked governance structure which focuses on enterprise goals and milestones, and on developing mitigation plans when warranted.

Key to the tiered accountability approach is the establishment of published program milestones and associated costs. Through the linked governance structure, the progress of business modernization is exposed to the Secretary of the Air Force and to the Deputy Secretary of Defense on a monthly basis and measured against those program milestones and costs that are published in the DOD ETP and in associated program guidelines. This fact-based review galvanizes senior leadership focus and drives key decisions early about program adjustments, ensuring systems remain on course.

#### ENTERPRISE RESOURCE PROGRAMS

7. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, the Services have massive modernization efforts, called ERPs, but they are almost all behind schedule and over cost. Some of the problems include: (a) failure to synergize efforts; (b) incomplete requirements documentation and scope creep; (c) too much customization; and (d) lack of architecture technical standards. What is being done

to mitigate these risks and ensure that the ongoing ERPs do not encounter the same problems?

Mr. ARGODALE. The Army's GFEBS is a major ERP modernization effort. The GFEBS program is on schedule and on cost. In July 2006, the program successfully completed a technology demonstration that proved the ERP software can meet the Army's general fund financial management requirements and the Department's technical architectural standards as defined in the BEA without excessive customization.

The technology demonstration entailed the configuration of the ERP software in support of real property inventory reporting. The configuration complied with the BEA, requirements of the U.S. Government Standard General Ledger, and applicable accounting standards. Proving the software's capability in a technology demonstration provided valuable knowledge that will be used in mitigating future risks.

Mr. WENNERGREN. (a) Within the Department of the Navy, the Program Executive Officer for Enterprise Information Systems has oversight responsibility for Navy ERP and the Global Combat Support System-Marine Corps (GCSS-MC) program. This alignment places both Department of the Navy ERP programs under a single executive, fostering collaboration, standardization and synergies between the two. Both Department of the Navy ERP programs participate in the Executive Steering Group (ESG) established by the DOD BTA. The ESG is composed of senior IT professionals across the DOD and provides opportunities for synergy among the various DOD ERP development efforts. Additionally, Navy ERP integrates the Navy's three operational limited production ERP systems (SIGMA, CABRILLO and NEMAIS) using the lessons learned from the three systems and maximizing return on investment.

(b)(1) Navy ERP has a comprehensive, detailed requirements management process. As the subcommittee will recall, GAO, in the executive summary of its September 2005 GAO report, "DOD Business Systems Modernization, Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures," found that ". . . Navy ERP management is following an effective process for identifying and documenting requirements." The program's requirements traceability process documents, tracks, verifies, and validates requirements and associated work products, deliverables, and artifacts throughout the life cycle of the Navy ERP solution implementation.

The Marine Corps developed a detailed "to-be" logistics operational architecture that served as a reference guiding support development of a GCSS-MC SSS, documenting program requirements. The GCSS-MC CDD was approved in May 2005. These documents explicitly define program requirements and capability baselines.

(2) Navy ERP and GCSS-MC maintain requirements baselines by employing sound and rigorous requirements and configuration management processes. Configuration control boards ensure that appropriate management levels approve changes to baseline requirements. Approved changes are properly documented and traceable.

(c) Both Department of the Navy ERP programs use combinations of processes to minimize commercial software customization, including reviews by functional area experts to determine where business process modification can cover perceived capability gaps, rather than customizing software to suit old processes.

After GCSS-MC requirements baselining, analysis revealed that only 10 percent of identified gaps required customization of standard Oracle functionality.

Through the efforts of the Navy ERP Process Council, business process re-engineering has limited SAP customization to primarily mandated system interfaces, many of which will be retired when Navy ERP is fully deployed.

(d) Both Navy ERP and GCSS-MC are fully compliant with DOD technical standards applicable to their respective milestone status. Navy ERP compliance is documented in its Program TV-1, approved by the Assistant Secretary of the Navy for Research, Development, and Acquisition's Chief Engineer. DOD approval is pending Milestone C review and approval of the program's ISP. GCSS-MC received DOD certifications prior to Milestone A, and BEA 4.0 certification is in process. The GCSS-MC ISP was approved in July 2005.

Mr. VONGLIS. To mitigate those risks, the Air Force has taken a number of steps.

To begin, we've taken a top-down enterprise approach to business transformation and established the appropriate governance structure. This governance starts with the involved leadership of the Secretary of the Air Force. We have hired a "Highly Qualified Expert" from industry to oversee the synergy of our efforts and we employ a flag-level SWG with representation from each Air Force functional area to guide implementation. Our ERP implementation is a key component of our enterprise activities. This enterprise approach has allowed us to both synergize our ERP efforts and bound them to minimize scope creep and customization risks. Additionally, at the acquisition level, the ERPs are under a single Air Force Wing which has a dedi-

cated integration office to handle the technical and data integration across ERP instantiations.

To ensure sufficient requirements documentation, our enterprise approach began early with extensive functional decomposition and rigorous reengineering/improvement of Air Force processes. Air Force processes were improved/modified in anticipation of and conformance to the ERPs. This has allowed us to better select the ERP commercial off-the-shelf (COTS) packages to exploit their COTS features as part of an integrated enterprise approach. We have also put all ERP programs under standard acquisition oversight and each is measured by regular program reviews.

Our Air Force policy is clear in regard to customization. We will modify and scope our processes to fit ERPs; we will not modify ERP software. We are acting on that policy. In the case of the DIMHRS, we have pushed through 39 changes to policy as a consequence of program reviews instead of driving customization into the ERP software. Further, we are implementing a Service Oriented Architecture (SOA) that will allow the net-centric exchange of information between various systems, reducing the need for both point-to-point interfaces and ERP customization.

We have published technical standards in our Technical and Data Reference Models and a detailed architecture, integrated and consistent with the BEA to support and direct information exchange between ERPs and throughout our enterprise.

8. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, how are you ensuring that the ERPs are aligned to the architecture and comply with net centric, security, and other standards for interoperability?

Mr. ARGODALE. The Army developed the SAFE architecture to provide the developmental framework for the GFEBS, the Army's general fund ERP modernization effort. The SAFE was developed within the DOD Architectural Framework and is aligned with the DOD BEA. We have retained a full-time staff of systems architects to ensure the SAFE is adjusted when new updates to the BEA are issued.

Interoperability is a GFEBS key performance parameter. Compliance with net centricity, security, and other standards for interoperability will be assessed by the Director of Operational, Test, and Evaluation (DOT&E), Army Test and Evaluation Command (ATEC), and the Joint Interoperability Test Command (JITC). Oversight and assessments from these independent test agencies helps to ensure GFEBS meets applicable requirements.

Mr. WENNERGREN. Both programs' architectural alignment and interoperability standards compliance are reviewed at least annually through the DBSMC certification and approval process.

Additionally, the Navy ERP ORD requires compliance with net-centric, security and interoperability standards. Other reviews and certifications include the Defense Information Technology Security Certification and Accreditation Process that provides: Authority to Operate (security certification) for the development, test, quality assurance, and production environments; the testing program developed in coordination with the Navy's Operational Test and Evaluation Force and the Joint Interoperability Test Command; and review and approval of the ISP for a Milestone C decision. At the architectural and operational level, Navy ERP is positioning itself to promote the use of enterprise services using a SOA, as well as its adoption of Net-centric Enterprise Services. SAP's Enterprise Services Architecture (ESA) is an enhanced vision of SOA and acts as a blueprint for complete services-based business solutions, reflecting a commitment to industry standards and interoperability.

GCSS-MC software will employ DOD approved Web service standards and adhere to net-centric systems and FORCEnet policy and guidelines. This strategy focuses on net-centric data sharing vice proprietary point-to-point peer interfaces.

Mr. VONGLIS. As stated earlier, in the Air Force all ERPs are under the same Program Executive Officer (PEO) structure. We have both published architectural standards for infrastructure for all ERPs and have called out the use of that common infrastructure in ERP requirements and contracts. The Air Force has specific resources assigned to the deployment of the ERPs and has implemented cross ERP groups (at the functional and PEG level) to ensure interoperability between the solutions as they are deployed.

At the DOD level, at the November DBSMC the issue of Information Assurance (IA) was raised and will now become a specific topic across the business modernization community. An IA way ahead will be briefed to the DBSMC by the Defense Information Systems Agency (DISA) and the DOD CIO.

## CHIEF MANAGEMENT OFFICER

9. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, the GAO has previously testified that the lack of sustained leadership is a key underlying cause of the Department's inability to resolve its longstanding financial and business management problems. To help address these issues and oversee and manage the ongoing transformation effort, GAO has proposed that the position of Chief Management Officer (CMO) be established. What is your position on having a CMO oversee business transformation at the DOD?

Mr. ARGODALE. The Deputy Secretary of Defense provides the leadership for and oversight of business transformation by leading the DBSMC. All Defense Under Secretaries and the BTA are accountable to the Deputy Secretary of Defense for their business transformation efforts. Relationship and reporting issues between a CMO and the Defense Under Secretaries (particularly acquisition, technology and logistics), the Service secretaries, the BTA, and the Joint Staff need to be clarified prior to making a meaningful assessment of establishing a CMO.

Mr. WENNERGREN. The Department has devoted considerable attention to the question of how best to ensure that our critical business transformation efforts receive sustained executive level attention. The Defense Business Board (DBB) has met to consider various options, and a report is due to Congress this month (December 2006). I would respectfully ask to defer further comment on this subject, while the report is pending.

Mr. VONGLIS. We do not believe a CMO is necessary. The present senior leadership of the Department, specifically, the Deputy Secretary of Defense in the DOD and within the Air Force, the Secretary, drives our business transformation activities. Our focus has been to institutionalize the governance of business modernization within our existing organizational structure. An additional layer of management could create additional bureaucracy rather than the institutional commitment that is necessary.

With the Deputy Secretary of Defense's personal leadership in the DBSMC, the stand-up of the BTA, and the personal leadership of our past and current Secretary of the Air Force, we have been able to score the successes that puts business modernization on an institutional (vice personal commitment) basis. Out year plans and associated management commitment are now aligned with transformation objectives within the Air Force Corporate Structure. Our personnel, financial, communications, and logistics communities have already taken manpower savings, IT systems convergence actions, and are seeking even more opportunities on a routine basis. The processes established as a result of the NDAA for Fiscal Year 2005 direction have become part of the business basis of the Air Force, and the Air Force strategic decision process depends on the sound advice coming out of that process. At this point, a CMO role would be redundant, overlapping, and potentially in conflict with the now proven BTA and Deputy Secretary of Defense-led DBSMC process within the DOD as legislated by NDAA for Fiscal Year 2005.

The Secretary of the Air Force, with the support of the Chief of Staff, is driving business transformation. The Air Force CIO, the Secretary of the Air Force's designee for oversight of ETP, actively manages the planning and investment processes for IT programs. The CFO is actively engaged in implementation of the financial improvements required throughout the Air Force. In addition, the Air Force hired a HQE to lead the ETP efforts. This individual works closely with Major Commands and Air Force functionals to ensure convergence between the Air Force component and the DOD ETP.

Since its inception through the legislation in the NDAA for Fiscal Year 2005, the DBSMC, with the Deputy Secretary of Defense serving as the chairman of the group, has achieved progress in the Services' transformation efforts to deliver against their transformation efforts.

## ARMY ENTERPRISE RESOURCE PROGRAM

10. Senator ENSIGN. Mr. Argodale, the Army is undertaking a massive ERP effort to modernize its financial management systems. How soon do you expect to see results, and what are your plans to mitigate risk should you discover a massive ERP will not work?

Mr. ARGODALE. We have achieved significant results in the development of the GFEBS, the Army's ERP Financial Management Modernization Program. The GFEBS technology demonstration was completed on time and on budget in July 2006. This was a live demonstration of real property inventory, and complies with the BEA and U.S. Government Standard General Ledger. This effort demonstrated the effectiveness of a commercial ERP in meeting key business process requirements

including work order processing, intra-Army reimbursable processes, funds receipt, distribution, and controls, and real property capital improvements.

The GFEBS technology demonstration passed all key performance requirements as verified by the DOT&E, ATEC, and JITC. The Army Audit Agency reviewed compliance with financial management requirements, and found the technology demonstration substantially complied with all applicable requirements.

The lessons learned from the technology demonstration will help to mitigate risk as the next GFEBS increment is developed. Developing GFEBS on an incremental basis also provides significant risk mitigation. GFEBS is being developed in four key increments, with the technology demonstration serving as the first key increment. The second increment supports installation management activities, while the third and fourth increments focus on operating forces and sustaining forces. As each key increment is developed, assessments are performed, and necessary course corrections are made to ensure the increment provides the planned capabilities and meets cost and schedule requirements.

11. Senator ENSIGN. Mr. Argodale, what is the interaction between the Army and the BTA, DBSMC, and other OSD-level organizations?

Mr. ARGODALE. The Army interacts with the BTA, DBSMC, and other OSD-level organizations on a highly collaborative basis. For example, the GFEBS Financial Modernization effort participates in the BTA's ERAM project. Through oversight from the BTA, the ERAM will aid the GFEBS program in delivering rapid modernization capabilities by helping to identify program vulnerabilities and providing mitigating solutions.

The Army's CIO and Deputy Under Secretary coordinate Clinger-Cohen Act compliance and section 332 certification process requirements with OSD NII and the DBSMC. The CIO is the Army's PCA for systems development and modernization efforts requiring OSD IRB oversight and DBSMC approval in compliance with section 332. The Deputy Under Secretary represents the Army on the DBSMC.

#### CHIEF INFORMATION OFFICER

12. Senator ENSIGN. Mr. Wennergren, I understand you have recently been selected to become the DOD's Deputy CIO in the Office of the Secretary of Defense for Network Information and Integration. Please describe how the Network Information and Integration Office currently interacts with the Services concerning business systems modernization, and are there any changes or suggestions for change you plan to bring with you in your new capacity.

Mr. WENNERGREN. The Assistant Secretary of Defense (Networks and Information Integration) also serves as the DOD CIO, and in that role, has strongly supported the Department's business transformation efforts. The DOD CIO team works closely with the BTA and the rest of the DOD in a number of ways:

- The DOD CIO drives policy in a wide variety of areas that are essential to the success of business transformation, such as network architecture, data strategy, information assurance, and portfolio management. In each of these areas, the DOD CIO has facilitated transformation by establishing standards that ensure interoperability of systems and/or standardization of process across all mission areas—including business. The DOD CIO actively engages all military departments and defense agencies on policy development, seeking their input and advice as to appropriate Department-wide approaches and providing hands-on assistance in crafting component approaches for compliance with Department standards.
- The DOD CIO is a voting member of the congressionally-mandated DBSMC. In this capacity, the DOD CIO ensures all decisions sufficiently consider business process improvement, address Clinger-Cohen Act requirements and are aligned with the Department's vision of net-centric operations.
- The DOD CIO organization is represented on each of the four Business Mission Area (BMA) IRBs. In all instances these voting members ensure issues discussed and programs/solutions certified are consistent with DOD CIO policy regarding issues such as net-centricity, data strategy, and information assurance.
- The DOD CIO has published an IT Portfolio Management Directive and Instruction, requiring that investments in IT be managed as portfolios of capabilities. Four mission areas have been established: warfighting, business, intelligence, and the underlying enterprise information environment.

This policy is used by the mission areas as well as the military departments and defense agencies to guide their IT portfolio management processes.

- The DOD CIO has led the development of a single authoritative data source for the inventory of all IT systems, known as the DITPR. DITPR is used to address a number of internal and external reporting requirements and is a critical tool in the BMA's investment certification process, where it is used by both the military departments and defense agencies to create documentation for the process and by the IRB support staff to track systems through the process.
- The DOD CIO organization develops and submits the Department's annual IT budget. The NDAA for Fiscal Year 2005 requires that individual business systems be broken out individually in the IT budget. The DOD CIO organization has worked closely with the BMA BTA and the military departments and defense agencies to achieve this objective. The GAO recently recognized the Department's progress in achieving this objective noting virtually all substantial IT programs (budget in excess of \$1 million) were broken out separately. We are continuing to work with the components to ensure smaller systems are listed similarly.

The Department's business systems modernization efforts require that the entire DOD team is aligned and working together to transform our business processes and leverage technology effectively. In my new role as the Deputy CIO, I will build upon the already close collaboration between the military departments and the OSD staff to continue to accelerate and align our transformation efforts.

#### MAINTAINING REFORM MOMENTUM

13. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, in your opening statements, while you describe progress made, you spend little time on obstacles remaining. Can you discuss the work ahead to fully transform your Service's financial management?

Mr. ARGODALE. The work ahead provides significant challenges. The Army must complete 1,240 of the 1,776 documented corrective actions to fully modernize our business management systems and processes. To ensure progress continues to be made, within the next 6 months the Army plans to begin execution of the business domain transformation plans, perform an Army-wide review of the business systems portfolio, complete the solution-wide blueprint for all remaining increments of the GFEBS, and begin software testing for the DIMHRS.

Mr. WENNERGREN. We have established a framework that is working, incorporating elements of our major enterprise-wide initiatives such as NSPS, Lean Six Sigma, Navy ERP, and the Financial Improvement Program. Each of these initiatives will support necessary changes in our people, processes, and systems. As we implement these changes, use of Office of Management and Budget (OMB)-123 documentation, risk assessments, and testing will sustain our progress.

Mr. VONGLIS. The Air Force is pursuing a number of major initiatives to transform financial management. One of our first orders of business is to continue implementing the efforts we have begun and are articulated in the ETP. Much of our earlier testimony touches those efforts. However, there are four specific areas that we need to drive into our solution set.

Training and education is critical to our success. Throughout these efforts, we must ensure our people come first by providing the appropriate level of training to transition the skill-sets of our workforce and by communicating to all levels of our customer base about how to receive financial management services in the future. For example, we are revising the curriculum for all of our financial schools, with the exception of our most junior enlisted members, to ensure that decision support is at the forefront of the training process. Recently we began our first course dedicated to the single subject of decision support. The Senior Decision Support Workshop will build on the decision support skills taught in the financial management initial skills and supplemental courses. This course provides concentrated training in qualitative and quantitative decision support skills to the mid-level workforce and serves as the capstone of decision support training. The Air Force's financial management team has recently concluded a comprehensive review of officer training and will soon conduct a similar review of enlisted training. We have considerable work ahead to develop training which will focus significantly more effort on developing quantitative skills necessary for analytical assessments and improved decision support to further optimize use of resources. We are addressing the challenge to affect this transformation broadly and rapidly across the Air Force financial management community by seeking a wider array of training delivery mechanisms. This will

allow us to develop training that is widely available to the entire Air Force financial management workforce.

The Secretary and senior staff embraces a culture of continuous process improvement with the introduction of Air Force Smart Operations for the 21st century (AFS021). The AFS021 program is focused on promoting greater efficiency and transparency in the Air Force financial management enterprise by leveraging industry best practices such as Lean Six Sigma to develop an Air Force culture that streamlines processes, eliminates waste, and reduces functional stovepipes.

Our goals are to identify significant process improvement opportunities across functional boundaries and to raise awareness of and build participation in AFS021 process improvement events. We will pursue improving high value process improvement initiatives, such as budget formulation and execution, defined in terms of return on investment and the funds they make available for Air Force recapitalization. Financial plans, budget justifications, and other key components of the budgeting process require significant investments in resources. Leaning out these processes can lead to significant efficiencies for the Air Force and the DOD.

Financial transparency is a critical element of our Secretary and senior staff. We need to provide accurate, reliable, and timely information to decision makers but we also have to do it in a way that is actionable. By that we mean provide enterprise and organizational data at the decision maker's desk with enough other information to provide context. Some of our ongoing efforts include a financial dashboard with financial execution and performance metric that will be used at every level of the Air Force.

Last but not least is to provide an integrated systems environment that forces standard best business practices across the Air Force ensuring the reliability and timeliness aspects of our objectives are met. These system efforts are highlighted in our ETP.

14. Senator ENSIGN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, do you have any recommendations that Congress should consider to ensure that the progress made endures?

Mr. ARGODALE. Congress should continue to provide objective oversight, legislative measures, and stabilized funding for key transformation initiatives that enable business modernization efforts to achieve desired results. The Army will continue to provide candid assessments and the transparency necessary for Congress to perform oversight functions.

Mr. WENNERGREN. As we move forward with business transformation, we are continually comparing our improved processing environment with the requirements for financial auditability. We recommend that the candid dialogue with Congress and GAO that has furthered our efforts to this point continue into the future.

Mr. VONGLIS. We have no specific recommendations but strongly believe continued congressional oversight will help ensure steady and enduring progress. Recurring reporting through the updates to the ETP and associated schedule and cost metrics are critical. The maxim that what gets measured gets managed is certainly true. Your recurring oversight sends a message that business transformation is important to the DOD and the Nation and we recommend that reviews be held quarterly or semi-annually.

#### FOCUS IN THE FUTURE

15. Senator ENSIGN. Mr. Walker, your time and commitment, and the efforts of your staff in encouraging improvement in the vital area of financial management, have not gone unnoticed. This committee thanks you. As we move into the next Congress, do you have suggestions for this committee (and the Services) on areas to focus on? Suggestions for possible legislation?

Mr. WALKER. As DOD embarks on large-scale business transformation, 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 position for a CMO. 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 achieving successful transformation are implemented and sustained, both within and between administrations. I would also recommend that Congress focus on GAO's High Risk List (most recently issued in January 2005 with update planned for January 2007), GAO's 21st Century Chal-

lence report (issued in February 2005), and my recent letter suggesting oversight topics (issued in November 2006).

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QUESTIONS SUBMITTED BY SENATOR JOHN MCCAIN

CHIEF MANAGEMENT OFFICER

16. Senator MCCAIN. Mr. Walker, in your statement you stress the need for the DOD to create a CMO who would be primarily responsible for the business system transformation within DOD. What progress has been made toward the creation of such a position?

Mr. WALKER. While DOD has established certain leadership and oversight mechanisms to address transformation, it still lacks the clearly defined, focused, and sustained leadership at the right level needed to achieve successful and sustainable transformation. The Secretary of Defense, Deputy Secretary of Defense, and other senior leaders have clearly shown a commitment to business transformation and addressing deficiencies in the Department's business operations. During the past year, DOD has taken additional steps to address certain provisions and requirements of the Ronald W. Reagan NDAA for Fiscal Year 2005, including establishing the DBSMC and creating the BTA to support the DBSMC, a decisionmaking body. However, these organizations do not provide the sustained leadership at the right level needed to successfully achieve the needed overall business transformation. The DBSMC's representatives consist of political appointees whose terms expire when administrations change. Furthermore, it is important to remember that committees do not lead, people do. Thus, DOD still needs to designate a person to provide sustained leadership and with the overall responsibility and accountability for this effort if it wants to maximize the chance of success in the business transformation effort.

17. Senator MCCAIN. Mr. Walker, what obstacles still need to be overcome to ensure the creation of a CMO position?

Mr. WALKER. I continue to believe that DOD's senior leadership is committed to transforming the Department and has taken a number of positive steps to begin this effort. Over the years, our work has identified several institutional obstacles to business transformation that end up reinforcing the status quo, such as bureaucratic resistance to change, service parochialism, and stovepiped operations. However, DOD's senior leadership has not fully embraced the need for a CMO to guide business transformation efforts, and instead continues to rely on the initiative and efforts of the Deputy Secretary of Defense and other organizational entities, such as the DBSMC and BTA, to move the Department along. As I have frequently testified, the complexity and long-term nature of DOD's business transformation efforts require the full-time attention of a single person at a high level with sufficient authority, accountability, and tenure to act as the focal point and strategic integrator. The person filling this position, working with the Deputy Secretary of Defense and other senior leaders, would provide the sustained leadership needed to guide, integrate, plan, and manage the Department's overall business transformation efforts. As required by law, DOD is studying the feasibility and advisability of establishing a CMO to oversee the Department's business transformation process. As part of this effort, the DBB, an advisory panel, examined various options and, in May 2006, endorsed the concept of a CMO. Also, under contract with DOD, the Institute for Defense Analysis has prepared a study, but DOD has not yet released its results. In addition, McKinsey and Company recently endorsed the CMO concept.

During his confirmation hearing, the incoming Secretary of Defense did not take a position on establishing a CMO. He did, however, commit to review DOD's efforts to study the issue. We look forward to continuing to work with Congress and the new Secretary of Defense on this important issue. In my view, the CMO concept should be evaluated and implemented in 2007. After 60 years of major business challenges, the time for action is now.

18. Senator MCCAIN. Mr. Walker, in addition to oversight of the DOD business systems transformation, for what other oversight responsibilities should a CMO be held accountable?

Mr. WALKER. In our view, the CMO would be responsible and accountable for overseeing all aspects of business transformation within DOD, not just the modernization of business systems. Business transformation is much broader, and encompasses not only the technology (systems), but also the people, planning, management, organizational structures, processes, and accountability mechanisms related

to all of DOD's business areas, including all 14 defense related areas on GAO's high risk list. For example, these include areas like support infrastructure management, human capital management, financial management, planning and budgeting, weapons systems acquisition, contract management, and supply chain management as well as business systems modernization. The CMO would have sufficient authority and level to work with the Secretary of Defense, the Deputy Secretary of Defense, the Under Secretaries of Defense, and the Service Secretaries to make business transformation a reality. Importantly, the CMO would not be involved in supervising the Under Secretaries of Defense, the Service Secretaries, or other DOD officials in connection with the day-to-day management of the Department. Instead, the CMO would be responsible and accountable for planning, integrating, and executing the overall business transformation effort. As such, this position would elevate, integrate, and institutionalize the attention essential for addressing key stewardship responsibilities such as strategic planning, enterprise architecture development and implementation, IT management, and financial management while facilitating the overall business management transformation effort within DOD. The CMO would also develop and implement a strategic plan for business transformation. Importantly, the CMO is a strategic leadership not an operational management position. Therefore, the CMO would not represent a new layer of management within DOD.

19. Senator MCCAIN. Mr. Walker, what is the relationship between the CMO and the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L)? Please describe how there will not be overlap in their respective duties so as not to burden the weapon systems acquisition process.

Mr. WALKER. In our view, the CMO would be responsible and accountable for overall business transformation, not policy-related issues such as military transformation. This responsibility would involve planning, integrating, and executing the overall business transformation effort and would be a full-time position. The CMO would not assume the responsibilities of the Under Secretaries of Defense, the Service Secretaries, or other DOD officials for the day-to-day management of business activities. Just as the CMO's responsibilities for overall business transformation is a full-time job, we believe that the day-to-day management functions are so demanding that it is difficult for DOD managers to maintain the oversight, focus, and momentum needed to implement and sustain needed business reforms. Likewise, the breadth and complexity of DOD's management 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. Since the CMO and DOD managers would have clearly delineated roles and responsibilities, creating a CMO would not be adding another hierarchical layer to oversee the day-to-day management of the Department. As we envision it, the roles and responsibilities of a CMO would be more clearly defined and have the added feature of a term of office that spans administrations, which would serve to underscore the importance of taking a professional, nonpartisan, sustainable, and institutional approach to this business transformation effort.

20. Senator MCCAIN. Mr. Walker, in your statement you highlight the DOD's recent strategy for federating or extending its architecture over the Services and defense agencies. In the absence of a CMO, who is currently spearheading this effort?

Mr. WALKER. The responsibility for defining and implementing this effort rests with the BTA, which is led by Acting Director David Fisher and overseen by Paul Brinkley, Deputy Under Secretary of Defense for Business Transformation, and Thomas Modly, Deputy Under Secretary of Defense for Financial Management.

21. Senator MCCAIN. Mr. Walker, in your opinion, shouldn't this type of transformation be conducted by a CMO in order to ensure the proper accountability and ultimate success of such an endeavor?

Mr. WALKER. Yes. Development and implementation of the DOD's BEA should be one of the key transformation control mechanisms that fall under the purview of the CMO.

22. Senator MCCAIN. Mr. Walker, isn't DOD putting the cart before the horse by starting this initiative prior to establishing the CMO position?

Mr. WALKER. While we believe that establishing a CMO to lead the DOD's business transformation efforts is key to success, we do not believe that extending the architecture should wait until a CMO is established. The architecture serves as the authoritative frame of reference for transforming business processes and modernizing supporting systems in a way that maximizes interoperability and operational

efficiency and effectiveness and minimizes wasteful overlap, inconsistency, and duplication. The sooner the Department has a complete, federated architecture for its BMA, the better off it will be.

23. Senator MCCAIN. Mr. Walker, to date, what progress has been made with this federating initiative? Do you think there is merit in such a plan?

Mr. WALKER. As discussed in my testimony, DOD released its BMA federation strategy and roadmap in September 2006. This strategy is intended to define how DOD will extend its BEA across the military services and defense agencies. We support the development of a federated architecture and currently have ongoing work for this committee and others looking at, among other things, how the Department plans to implement the federated strategy and the challenges that it faces in doing so.

24. Senator MCCAIN. Mr. Walker, what obstacles must be overcome to ensure the success of this initiative?

Mr. WALKER. As discussed in my testimony, much remains to be accomplished before a well-defined federated architecture is in place. One challenge facing DOD is the relative immaturity of the military services existing enterprise architecture efforts. For example, we found that the Departments of the Air Force, the Army, and the Navy had not satisfied about 29, 55, and 29 percent of the core elements in our Enterprise Architecture Management Maturity Framework, respectively. In addition, the Army had only fully satisfied 1 of the 31 core elements (3 percent). The 31 core elements in our framework reflect research by us and others showing that architecture programs should be founded upon institutional architecture commitment and capabilities, and measured and verified products and results. To address the Services' challenges in this area, we have recommended that the Services develop and implement plans for fully satisfying each of the conditions in our framework. Another challenge is the lack of a BEA program management plan that would define, among other things, what content is to be added to the BEA, when it is to be added, and who is accountable for adding it. To this end, we have recommended that the Department develop such a plan. Our ongoing work for this committee and others looking at, among other things, the Department's efforts to implement its federated strategy may reveal further challenges.

#### FINANCIAL ACCOUNTABILITY

25. Senator MCCAIN. Mr. Walker, in your statement you highlight that DOD currently bears responsibility, in whole or part, for 14 of 26 high-risk areas and DOD shares responsibility for 6 government-wide high-risk areas. What is the cost to the taxpayers for this lack of financial accountability in DOD's major business operations?

Mr. WALKER. We have not assessed the cost to the taxpayers for the lack of accountability in DOD's major business operations, but it clearly involves billions of dollars each year.

26. Senator MCCAIN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, the DOD Inspector General (IG) reported in June that it had identified about \$23 million in improper payments related to the procurement of fuel during fiscal year 2005. DOD did not report this information to the OMB in its required performance and accountability report (PAR) since the improper fuel payments did not exceed 2.5 percent of program payments. Don't you see something wrong with the system, when a \$23 million overpayment is not required to be reported?

Mr. ARGODALE. Any improper payment, regardless of the dollar amount, is a serious issue that should be reported and resolved within a reasonable time. In this specific instance, the DOD IG reported that the Defense Finance and Accounting Service (DFAS) made fiscal year 2005 improper payments of about \$22.5 million in the \$10.1 billion fuels program managed by the Defense Energy Support Center. Post payment contract audits and reconciliations should be conducted to identify potential erroneous payments. The necessary corrective actions should be taken to eliminate erroneous payments and recoup overpayments when they occur.

Mr. WENNERGREN. Any improper payment or overpayment is unacceptable; the Department has an established internal control program, covering both general controls and those over financial reporting, that is our primary risk mitigation measure. The report cited here addresses payments from DLA. However, our Department is subject to similar risks, and we seek to minimize similar occurrences, as DFAS makes millions of dollars of payments on our behalf each day.

Mr. VONGLIS. The current process allows us to prioritize and take appropriate action based on the severity of the program's improper payments. Yes, \$23 million in improper payments is serious, but because this represents .02 percent of the program and doesn't meet the 2.5 percent threshold, the DOD IG position of medium risk signals to DFAS and DESC to take appropriate action within the constraints of limited resources. Specifically, DFAS prioritized their efforts by creating a reconciliation/pre-validation team and standard procedures to reconcile fuels contracts. We are also encouraged with the cooperation between DESC and DFAS to develop an electronic control system—a vehicle to permit both agencies to request and obtain contract-specific data. These efforts have already led to correcting \$19 million of the \$23 million. This example validates that the current reporting system applies the proper level of attention in relation to the extent of the program's problems.

27. Senator MCCAIN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, does this reflect a problem with DOD's reporting or with how OMB defines "improper payments"?

Mr. ARGODALE. This situation does not represent a problem with DOD's reporting or how OMB defines improper payments. The critical issue regarding improper payments is the Department's responsibility to deploy systems and processes that mitigate the occurrence of improper payments, and to take immediate corrective actions when improper payments occur. The amount of outstanding improper payments should be isolated and reported in the Department's financial statements. Actions should be taken to immediately recoup improper payments.

Mr. WENNERGREN. In this instance, the improper payment cited was not captured due to dollar-value thresholds. As mentioned before, we in the Department of the Navy use managers' internal control processes, supplemented by oversight mechanisms (such as the audit programs executed by the Naval Audit Service, the DOD IG and GAO) to evaluate whether such controls are adequate.

Mr. VONGLIS. We do not feel there is a problem with DOD's reporting or how OMB defines improper payments. OMB requires reporting high risk information when the amount of improper payment is \$10 million and at least 2.5 percent of the respective program. With the reconciliation of nearly \$19 million of the \$22.5 million in question and increased internal controls, we do not perceive this risk as high. Further, the DOD IG identified the risk as medium. DESC has also given DFAS direct access to the fuels billing database for increased integration of the fuels validation process. Our folks are hard at the task of managing all monies appropriated by Congress and will continuously work to mitigate any potential loss of opportunity through improper payments. The Air Force has been proactive in areas even where we didn't exceed the OMB threshold. For example, we requested our Air Force Audit Agency (AFAA) to determine whether or not we meet the OMB threshold in travel payments. Although we did not exceed the threshold, the AFAA identified several areas where added attention to detail would minimize over- or underpayments and we are addressing and implementing changes across the Air Force to minimize our risk for over or under travel payments.

28. Senator MCCAIN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, GAO reported in 2004 that requiring PARs does not sufficiently curtail improper departmental purchasing and spending. Please explain how these reports can be improved or suggest to this committee a replacement that will lead to better spending practices.

Mr. ARGODALE. The performance accountability report provides a high level assessment of the Department's program performance. The report can be improved by disclosing applicable material weaknesses and associated corrective actions designed to correct documented weaknesses including those associated with improper purchasing and spending.

Mr. WENNERGREN. The Department of the Navy's Statement of Assurance identifies this to be a priority for us and includes specific areas of acquisition that need strengthening.

Mr. VONGLIS. The audit report in question (Project No D2005-D000FJ-0206.000) points out that this improper payment was incorrectly reported as being correct. We believe proper reporting of material weaknesses is the correct action to ensure that it gets worked to resolution. To lower the 2.5 percent threshold to .02 percent (\$23 million) would create an almost infinite amount of detail workload with questionable cost/benefits of the PAR reporting process. Again, the Air Force has taken actions in concert with DFAS to improve its medium and low risk programs. Improper fuels payments are significantly the result of Extensive Manual Processes. Solutions include: Identify backlog, prioritize reconciliation with dedicate resources, and improved integration with DESC. To resolve the improper fuels payment material

weakness, DFAS Columbus developed a better validation methodology to estimate improper payments. Air Force concurs with DOD plan to have the Fuels Payment Division prioritize contract reconciliation into the daily workload. Further, the Fuels Payment Division has taken on an initiative to establish a reconciliation/pre-validation team. Improved data query capability for analyst will be provided by enhanced query capability within the Automated Voucher Examination Disbursing System. Finally, testing of internal controls under FMFIA is receiving high visibility and institutionalization as we implement OMB 123.

29. Senator MCCAIN. Mr. Argodale, Mr. Wennergren, and Mr. Vonglis, what do you intend to do to bring better accounting into DOD purchasing?

Mr. ARGODALE. The Army identified oversight of service contracts as an Army-wide material weakness in the fiscal year 2006 Annual Statement of Assurance. A corrective action plan and milestones was established to correct this weakness. When completed, these corrective actions will help the Army to improve the oversight of service contracts.

The Department has taken actions necessary to ensure the Standard Procurement System (SPS) meets documented financial management requirements. The Department relies on SPS for procurement management functions, with about \$93 billion of procurement actions processed in SPS during fiscal year 2005. In a draft report issued in November 2006, the Army Audit Agency reported that SPS substantially complies with all 102 applicable financial requirements.

The Army is also reviewing the entire end-to-end procure-to-pay process to identify process improvement opportunities. We completed a review and documented the 'as-is' process, enabling us to identify process variability and areas where we can improve. We identified increased use of electronic commerce, such as wide area work flow, as an area in need of improvement.

Finally, the Army is implementing the GFEBS to modernize financial management systems and improve accounting of purchasing and other general fund programs. The integrated processes offered in the commercial software supporting GFEBS comply with applicable accounting standards and will provide improved financial management within the Army's general fund.

Mr. WENNERGREN. Defense purchasing is a process that must be reviewed continually to identify areas of vulnerability and opportunity for improvement. All elements of the process, not just accounting, must be well-documented, automated where possible, and regularly tested for controls. The major elements of business process transformation all combine to support these kinds of improvements.

Mr. VONGLIS. We are already well on our way to bringing better accounting practices into DOD purchasing. The Air Force continues to take action on improving the payment processes under our direct control. In the commercial pay area, we will continue improvements in the receipt and acceptance process for our officials who receive goods and services through expanded utilization of the automated receiving report system called Wide Area Workflow. Our efforts in implementing standard document numbers will increase accountability by allowing accurate cradle-to-grave transaction tracking. A new system release (Database Expansion And Restructure) to our Integrated Accounts Payable System will increase accuracy by allowing automated transaction pass-through and elimination of manual re-key stroking of data.

For the long-term solution set, the Air Force is pursuing two major initiatives. One vehicle we're using for better accounting is our Defense Enterprise Accounting and Management System (DEAMS) initiative, which is an ERP effort. Capitalizing on the benefits of ERP, DEAMS is being integrated to our second major program, the Expeditionary Combat Support System. This system is designed to enable the future logistics vision through the same Oracle COTS IT suite we have in DEAMS. Through the COTS Oracle procure-to-pay module suite, DEAMS provides an enterprise, cradle-to-grave view of purchased assets, enabling tracking of related transactions through their entire life cycle. The Oracle module builds policy enforcement into every transaction from requisition through payment. Configurable approval management and workflow ensures every purchase receives the correct approvals required by policy for time, purpose, amount, requester, organization, and project. Support for key accounting methods, including budgetary funds control, ensures correct fiscal control and validation of funds availability in real-time. With built-in policy enforcement, required compliance is improved and exceptions are immediately highlighted for additional management review.

[Whereupon, at 10:40 a.m. the subcommittee adjourned.]

