

**BUSINESS TRANSFORMATION AND FINANCIAL
MANAGEMENT AT THE DEPARTMENT OF DEFENSE**

HEARING

BEFORE THE

SUBCOMMITTEE ON READINESS AND MANAGEMENT
SUPPORT

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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FEBRUARY 7, 2008
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**BUSINESS TRANSFORMATION AND FINANCIAL
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DEFENSE**

THURSDAY, FEBRUARY 7, 2008

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

The subcommittee met, pursuant to notice, at 2:33 p.m. in room SR-222, Russell Senate Office Building, Senator Daniel K. Akaka (chairman of the subcommittee) presiding.

Committee members present: Senators Akaka and Thune.

Majority staff members present: Peter K. Levine, general counsel; Michael J. McCord, professional staff member; and William K. Sutey, professional staff member.

Minority staff members present: Gregory T. Kiley, professional staff member; and Lucian L. Niemeyer, professional staff member.

Staff assistants present: Benjamin L. Rubin and Brian F. Sebold.

Committee members' assistants present: Bonni Berge, assistant to Senator Akaka; Dahlia Reed, assistant to Senator Bayh; and Stephen C. Hedger, assistant to Senator McCaskill.

**OPENING STATEMENT OF SENATOR DANIEL K. AKAKA,
CHAIRMAN**

Senator AKAKA. The Readiness and Management Support Subcommittee meets today to address the issues of business transformation and financial management at the Department of Defense (DOD).

For as long as I've been serving on this committee, we have been working to address this issue. This has been an entirely bipartisan effort in which I have been joined, first, by Senator Inhofe—and then by Senator Ensign—and we have served well together in both cases and now with Senator Thune. I want you to know that we stand together on this issue, because we know that, 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.

I am pleased to have the Comptroller General here with us today, because the Government Accountability Office (GAO) has played an invaluable role in advising both Congress and DOD in what we need to do to make progress on this issue. I want to say,

also, that I've worked with the Comptroller General over the years, we've worked well together, and we've worked on what we call "high-risk areas," and continue to do that. This is one of those areas.

I also am pleased to see Paul Brinkley, who has made a tremendous contribution to the business transformation effort during his time at the DOD.

Over the last 4 years, the senior leadership at DOD has demonstrated a commitment to business systems modernization by establishing a Defense Systems Management Committee, a Business Transformation Agency (BTA), and a new federated architecture for the Department's defense system. The establishment of Chief Management Officers (CMOs) for the DOD in each of the military departments, in accordance with section 904 of the National Defense Authorization Act (NDAA) for Fiscal Year 2008, should further advance this effort.

Despite these signs of progress, we still have a long way to go. I remain gravely concerned that the military departments have not yet followed DOD's lead in establishing new governance structures to address business transformation, 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, instead, continue to rely upon old stovepipe structures to implement piecemeal reforms. The establishment of CMOs for the military departments may help address these problems, but will not, alone, be enough.

The last time we had a transition from one administration to another, we started from scratch on business modernization, throwing years of hard work out the window. DOD then floundered for the better part of 4 years before finding the more promising road that we are now on.

I look forward to working with Senator Thune and DOD to ensure that, regardless of who our next President may be, the Department's business modernization efforts do not skip a beat in the next transition between administrations.

Senator Thune, your statement?

STATEMENT OF SENATOR JOHN THUNE

Senator THUNE. Thank you, Mr. Chairman. I appreciate you calling this hearing.

I look forward to helping build on the record of strong bipartisan oversight that this subcommittee created during the last 5 years over financial management reform efforts at DOD. The goal of reform is to provide timely, accurate financial information to our senior military and civilian leaders in order for them to make sound day-to-day management decisions. The importance of this goal cannot be understated. Ensuring the taxpayers' dollars are well spent is all our responsibility; in a time of war, it's even more so. Every dollar wasted is one less dollar for armored vehicles, one less dollar for body armor, one less dollar for ammunition, or one less dollar for medical supplies. It's important that we not forget that.

Reviewing the record of this subcommittee and the GAO's oversight, progress has been made on the Office of the Secretary of Defense (OSD) level. Mr. Walker, I want to thank you and your staff

for your continued engagement on this vital topic. I also would like to recognize the efforts of Mr. Brinkley and the staff of the BTA for their continued commitment to business systems modernization within the Department.

Sadly, not all the news, as you noted, Mr. Chairman, is good. At the Service level, much still needs to be done. A little over a year ago, this subcommittee held its last financial management hearing, focusing on the lack of progress within the military departments in developing business systems architectures and fielding modern business systems. To our knowledge, the Services have not followed the OSD's lead in developing new government structures to better address business transformation, nor have they developed detailed comprehensive enterprise architectures and transition plans that fit into OSD's federated structure.

It appears little progress has been made over the past years, and this is troubling. I understand that people move on in government service. Administrations come and administrations go, and that changeover can be a positive thing, but the continued lack of accountability, the multiple plans for change over the years that are never implemented, and the hundreds of millions of dollars wasted is a disservice to the American taxpayer. They deserve better.

Senator Akaka and I remain committed to continuing these hearings, and continuing on the path of reform upon which we are currently traveling.

On a positive note, I would like to recognize the contribution of Ellsworth Air Force Base, in my home State of South Dakota, towards the financial reform within the Air Force. A new Air Force Financial Services Center opened just this past October at Ellsworth Air Force Base. It will transform most of the military and travel pay operations of the Air Force by centralizing transactions from 93 bases into one centralized location. The opening of the Air Force Financial Services Center will improve the effectiveness and efficiency of the Air Force financial services and customer service.

I look forward to hosting Secretary Gibson in the near future when he comes to visit, and we hope to see more of this sort of positive progress in the coming year.

So, Mr. Chairman, again, thank you for taking time to hold the hearing today, and I appreciate, very much, those who are appearing before the subcommittee. We welcome your testimony and look forward to having you respond to some of the questions that we have prepared for you.

Thank you, Mr. Chairman.

Senator AKAKA. Thank you, Senator Thune, for your statement.

Let me introduce our panel: The Honorable David M. Walker, who's Comptroller General of the United States; Paul A. Brinkley, Deputy Under Secretary of Defense for Business Transformation; Peter E. Kunkel, Principal Deputy Assistant Secretary of the Army for Financial Management and Comptroller; The Honorable Douglas A. Brook, Assistant Secretary of the Navy for Financial Management and Comptroller; and The Honorable John H. Gibson, Assistant Secretary of the Air Force for Financial Management and Comptroller.

Welcome, to all of you. I'd like to ask the Comptroller General to begin.

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

Mr. WALKER. Chairman Akaka, Senator Thune, thank you for the opportunity to come back for this regular 6-month update on where things stand on business transformation within the Department.

I've submitted a statement for the record. I assume that you will enter it into the record, and I'll just move to summarize the highlights now, if that's okay with you.

Senator AKAKA. All of your statements will be included in the record.

Mr. WALKER. Thank you.

I would first like to commend this subcommittee for its continued efforts over a number of years, and hopefully it will continue in the future. I agree, this is a nonpartisan issue, this is about good government. This is economy, efficiency, and effectiveness, and that doesn't have a party label.

Let me say, at the outset, in my opinion significant progress has been made in the last 2 to 3 years at the OSD level, and I think that needs to be acknowledged. We have a number of people that have dedicated significant time and effort, and it's been evident, and it's achieved results at the OSD level. That has not, however, been replicated at the military department level, and that's the reason we are here today.

Within the last 6 months, there have been several key events. I'll mention just a few.

You mentioned, Mr. Chairman, the NDAA, which included a statutory requirement for the Department to have a strategic and integrated business transformation plan, which we had advocated for some time. It also created a deputy CMO and a CMO in each of the military departments.

Furthermore, through the DOD's own efforts, a number of significant items occurred during the last 6 months. In financial management, they have moved, under their Financial Improvement and Audit Readiness (FIAR) Plan, which is their audit readiness plan, from a line-item approach to a segment approach, which is consistent with GAO's recommendation and makes a lot more sense. They've made some progress on standardizing data across the DOD, although much more needs to be done. They also are creating more emphasis on real success in financial management, which is not to achieve a clean opinion on your financial statements; that should come after you achieve the basics. The basics are: timely, accurate, and useful, financial and other management information to make informed decisions on a day-to-day basis. That's, ultimately, what you need. You need that first, and they are refocusing on that fundamental need.

In the information technology area, they've issued their 6-month update on the enterprise architecture and the enterprise transformation plan. But, in summary, significant progress has been made at the enterprise level, but that has not been replicated at the military department level, which is why we're here today. My two major concerns at this point in time are: (a) to accelerate progress at the military department level; and (b) continuity, which applies both at the enterprise-wide and the military department

level, concerns with regard to the changeover that we know is before us in January in this next year, whoever wins the Presidential election, and the fact that it doesn't appear that there is going to be a reasonable degree of continuity on some of these key positions. Obviously, we have career officials who are there, and I'd be interested in knowing what's been done by DOD to try to provide some continuity through that vantage point.

But, I would note one of the things that we've talked about before, Mr. Chairman and Senator Thune, is that, in our view, the chief operating officer or chief management official (CMO), department-wide, needs to be a term appointment, because that's the only way that you're going to provide continuity within and between administrations. While that person might need to be politically acceptable, they shouldn't be primarily chosen for political considerations, they need to be a professional who can end up helping to run and achieve business transformation success for the largest, most complex, and most important entity on the face of the Earth, the DOD.

We are fortunate today in having Deputy Secretary Gordon England, who's an extraordinary individual, and he clearly is the kind of person that we need to have in that type of role. But, there is no guarantee whatsoever, absent statutory qualification requirements and other actions, that that will continue.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT BY HON. DAVID M. WALKER

Mr. Chairman and members of the subcommittee: I am pleased to be here today to discuss the status of the Department of Defense's (DOD) efforts to transform DOD's business operations and the actions that DOD needs to take to maintain continuity of effort, change the status quo, and achieve sustainable success, both at the enterprise-wide level and within DOD's many components. Before I go further, I also want to commend the subcommittee for its continued focus, oversight, and legislative initiatives to address these critical issues.

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 these operations. DOD continues to dominate our list of high-risk programs designated as vulnerable to waste, fraud, abuse, and mismanagement, bearing responsibility, in whole or in part, for 15 of 27 high-risk areas.¹ Eight of these areas are specific to DOD and include DOD's overall approach to business transformation, as well as business systems modernization and financial management, which are the focus of this hearing. Collectively, these high-risk areas relate to DOD's major business operations that directly support the warfighters, including how they are paid, the benefits provided to their families, and the availability and condition of equipment they use both on and off the battlefield.

Given the current security environment and growing long-range fiscal imbalance facing our Nation, DOD, like other Federal agencies, will need to ensure prudent and proper stewardship of the resources it is provided to perform its mission. Commitments are clearly growing both abroad, with our involvement in ongoing operations in Iraq and Afghanistan, as well as at home, with efforts to provide homeland security. However, our Nation is threatened not only by external security threats, but also from within by large and growing fiscal imbalances, due primarily to our aging population and rising health care costs. Absent policy changes to cope with rising health care costs and known demographic trends, a growing imbalance between expected Federal spending and revenues will mean escalating and ultimately unsustainable Federal deficits and debt levels. As I have stated previously, our Nation is on an imprudent and unsustainable fiscal path. Given this scenario, DOD

¹ Government Accountability Office (GAO), High-Risk Series: An Update, GAO-07-310 (Washington, DC: January 2007).

cannot afford to continue to rely on ineffective and inefficient business processes, controls, and technology to support its mission. With about \$546 billion in discretionary budget authority provided thus far in fiscal year 2008, along with total reported obligations of about \$492 billion to support ongoing operations and activities related to the global war on terrorism since the September 11, 2001, attacks through September 2007, the department has been given stewardship of unprecedented amounts of taxpayer money. DOD must do more to ensure proper stewardship and accountability of the resources it is given.

Transforming business operations in any organization is a long-term, difficult process, especially in an organization as large and complex as DOD. Congress, under the leadership of this subcommittee and others, has been instrumental in transforming DOD through oversight and through legislation that has codified many of our prior recommendations, particularly with respect to the modernization of DOD's business systems.² While transformation will never be easy, our work shows that DOD will certainly continue to face difficulty in achieving better outcomes in its business operations and, ultimately, optimizing support to the warfighters until it adopts a better leadership approach to guide its business transformation efforts. My testimony today will provide perspectives on the progress DOD has made and the challenges it faces in its approaches to overall business transformation, business systems modernization, and financial management capabilities improvements. In particular, I will focus on the progress DOD has made in developing its business enterprise architecture (BEA), enterprise transition plan (ETP), and Financial Improvement and Audit Readiness (FIAR) Plan; DOD's investment controls for new business systems; the extent to which DOD is complying with applicable legislation; and the degree to which the department has integrated the roles of the military Services in these efforts. My statement is based largely on previous reports and testimonies; however, some portions are based upon ongoing work. All of this work was performed in accordance with generally accepted government auditing standards.

SUMMARY

DOD's senior leadership has demonstrated a commitment to transforming the department's business operations, and has taken many steps in the last few years to further this effort. For example, DOD has made progress in creating transformational entities to guide its efforts, such as the Defense Business Systems Management Committee and the Business Transformation Agency,³ as well in developing plans and other tools. However, two critical actions, among others, are still needed to put DOD on a sustainable path to success. DOD has yet to establish: (1) a strategic planning process that results in a comprehensive, integrated, and enterprise-wide plan or set of plans to help guide transformation; and (2) a senior official who can provide full-time attention and sustained leadership to the overall business transformation effort.

Congress has clearly recognized the need for executive-level attention to these matters as well as sound planning, and has taken important action to codify key responsibilities. Specifically, the National Defense Authorization Act for Fiscal Year 2008 designates the Deputy Secretary of Defense as the department's Chief Management Officer (CMO), creates a Deputy CMO position, and designates the undersecretaries of each military department as CMOs for their respective departments. The act also requires the Secretary of Defense, acting through the CMO, to develop a strategic management plan that among other things is to include a detailed description of performance goals and measures for improving and evaluating the overall efficiency and effectiveness of the business operations of the department.

In light of this legislation, it will be important for DOD to define the specific roles and responsibilities for the CMO, Deputy CMO, and the service CMOs; ensure clearly delineated reporting relationships among them and other department and service officials; foster good executive-level working relationships for maximum effectiveness; establish appropriate integration and transformation structures and processes; promote individual accountability and performance; and provide for continuity. With less than a year before a change in administrations, DOD should focus significant effort in the months ahead to institutionalize as many of these actions as possible. However, in the absence of more permanence, DOD will still face challenges in sustaining continuity of leadership. In that respect, we continue to believe the CMO

²Ronald 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).

³The Business Transformation Agency is the DOD agency responsible for DOD's business transformation and the development and implementation of the ETP.

should be codified in statute as a separate position with an appropriate term to span administrations.

With regard to business systems modernization, which is a critical enabler to enhancing overall business transformation, DOD continues to take steps to comply with legislative requirements. However, much remains to be accomplished before the full intent of this legislation is achieved. In particular, DOD continues to update its BEA, which while addressing several issues previously reported by us, is 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 yet include well-defined architectures for DOD's component architectures. In addition, the scope and content of the department's ETP do not address DOD's complete portfolio of information technology (IT) investments. As part of its approach to incrementally improving its BEA, DOD issued a strategy for "federating" or extending its architecture to the military departments and defense agencies. In our view, much remains to be accomplished before a well-defined federated architecture is in place, particularly given the limitations in the federation strategy (e.g., including information on how the component architectures are to align with the latest version of the BEA) and the immature state of the military department architecture programs. DOD has since developed an updated version of its federation strategy, which according to DOD officials, addresses some of our recommendations.

The department has also established and has begun to implement legislatively directed corporate investment review structures and processes needed to effectively manage its business systems investments, but neither DOD nor the military departments have done so in a manner that is fully consistent with relevant guidance. For example, the department has not yet established business system investment policies and procedures for ensuring that investment selection decisions are aligned with investment funding decisions, which increases the chance of inconsistent and uninformed decisionmaking. 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 investment management practices are profound and must be managed carefully, as must the wide assortment of other risks that we have reported relative to specific DOD business systems investments. Our work and research has shown that establishing effective systems modernization management controls, such as an architecture-centric approach to investment decisionmaking, while not a guarantee, can increase the chances of delivering cost-effective business capabilities on time and within budget. As such, we have made recommendations aimed at improving these institutional and program-specific controls, and DOD has largely agreed with these recommendations.

Regarding financial management, DOD has taken steps toward developing and implementing a framework for addressing the department's longstanding financial management weaknesses and improving its capability to provide timely, reliable, and relevant financial information for analysis, decisionmaking, and reporting, a key defense transformation priority.⁴ Specifically, this framework, which is discussed in both the department's ETP and the FIAR Plan,⁵ is intended to define and put into practice a standard DOD-wide financial management data structure as well as enterprise-level capabilities to facilitate reporting and comparison of financial data across the department. While these efforts should improve the consistency and comparability of DOD's financial reports, a great deal of work remains before the financial management capabilities of DOD and its components are transformed and the department achieves financial visibility.⁶ Examples of work remaining that must be completed as part of DOD component efforts to support the FIAR and ETP include data cleansing; improvements in current policies, processes, procedures, and controls; and implementation of integrated systems. Further, in 2007, DOD introduced refinements to its approach for achieving financial statement auditability. While these refinements reflect a clearer understanding of the importance of the sustainability of financial management improvements and the department's reliance

⁴DOD has identified six business enterprise priorities for transforming the department: personnel visibility, acquisition visibility, common supplier engagement, materiel visibility, real property accountability, and financial visibility.

⁵DOD's FIAR Plan was issued in December 2005 and had been updated periodically is intended 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.

⁶DOD defines financial visibility as providing immediate access to accurate and reliable financial information (planning, programming, budgeting, accounting, and cost information) in support of financial accountability and efficient and effective decisionmaking through the department in support of the warfighters.

on the successful completion of component (including military Services and defense agencies) and subordinate initiatives, they are not without risks, which I will discuss later.

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 and possibly unprecedented management challenge. Execution of DOD's operations spans a wide range of defense organizations, including the military departments 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 in specific geographic regions or theaters of operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business functions—using thousands of 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.

To address longstanding management problems, we began our high-risk series in 1990 to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public.⁷ Historically, high-risk areas have been designated because of traditional vulnerabilities related to their greater susceptibility to fraud, waste, abuse, and mismanagement. As our high-risk program has evolved, we have increasingly used the high-risk designation to draw attention to areas associated with broadbased transformation needed to achieve greater economy, efficiency, effectiveness, accountability, and sustainability of selected key government programs and operations. DOD has continued to dominate the high-risk list, bearing responsibility, in whole or in part, for 15 of our 27 high-risk areas. Of the 15 high-risk areas, the 8 DOD-specific high-risk areas cut across all of DOD's major business areas. Table 1 lists the eight DOD-specific high-risk areas and the year in which each area was designated as high risk. In addition, DOD shares responsibility for seven governmentwide high-risk areas.⁸

TABLE 1: YEARS WHEN SPECIFIC DOD AREAS ON GAO'S 2007 HIGH-RISK LIST WERE FIRST DESIGNATED AS HIGH RISK

DOD area	Year designated as high risk
DOD approach to business transformation	2005
DOD personnel security clearance program	2005
DOD support infrastructure management	1997
DOD business systems modernization	1995
DOD financial management	1995
DOD contract management	1992
DOD supply chain management	1990
DOD weapon systems acquisition	1990

Source: GAO.

GAO designated DOD's approach to business transformation as high risk in 2005 because: (1) DOD's improvement efforts were fragmented, (2) DOD lacked an enterprise-wide and integrated business transformation plan, and (3) DOD had not appointed a senior official at the right level with an adequate amount of time and appropriate authority to be responsible for overall business transformation efforts. Collectively, these high-risk areas relate to DOD's major business operations, which directly support the warfighter, including how servicemembers get paid, the benefits provided to their families, and the availability of and condition of the equipment they use both on and off the battlefield.

DOD's pervasive business systems and related financial management deficiencies adversely affect its ability to assess resource requirements; control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure per-

⁷ See GAO, High-Risk Series: An Update, GAO-07-310 (Washington, DC: January 2007).

⁸ DOD shares responsibility for the following seven governmentwide high-risk areas: (1) disability programs, (2) ensuring the effective protection of technologies critical to U.S. national security interests, (3) interagency contracting, (4) information systems and critical infrastructure, (5) information-sharing for homeland security, (6) human capital management, and (7) real property management.

formance; maintain funds control; prevent and detect fraud, waste, and abuse; and address pressing management issues. Over the years, DOD initiated numerous efforts to improve its capabilities to efficiently and effectively support management decisionmaking and reporting, with little success. Therefore, we first designated DOD's business systems modernization and financial management as high-risk areas in 1995, followed by its approach to business transformation in 2005.

Overview of DOD Business Systems Modernization High-Risk Area

The business systems modernization high-risk area is large, complex, and integral to each of the other high-risk areas, as modernized systems are pivotal enablers to addressing longstanding transformation, financial, and other management challenges. DOD reportedly relies on approximately 3,000 business systems to support its business functions. For fiscal year 2007, Congress appropriated approximately \$15.7 billion to DOD, and for fiscal year 2008, DOD has requested about \$15.9 billion in appropriated funds to operate, maintain, and modernize these business systems and the associated infrastructures, of which approximately \$11 billion was requested for the military departments. For years, DOD has attempted to modernize its many systems, and we have provided numerous recommendations to help it do so. For example, in 2001, we provided the department with a set of recommendations to help in developing and using an enterprise architecture (modernization blueprint) and establishing effective investment management controls to guide and constrain how the billions of dollars each year are spent on business systems. We also made numerous project-specific and DOD-wide recommendations aimed at ensuring that the department follows proven best practices when it acquires IT systems and services.

Enterprise Architecture and IT Investment Management Are Two Keys to Successfully Modernizing Systems

Effective use of an enterprise architecture, or modernization blueprint, is a hallmark of successful public and private organizations. For more than a decade, we have promoted the use of architectures to guide and constrain systems modernization, recognizing them as a crucial means to a challenging goal: agency operational structures that are optimally defined in both the business and technological environments. Congress has also recognized the importance of an architecture-centric approach to modernization: the E-Government Act of 2002,⁹ for example, requires the Office of Management and Budget (OMB) to oversee the development of enterprise architectures within and across agencies.

In brief, an enterprise architecture provides a clear and comprehensive picture of an entity, whether it is an organization (e.g., a Federal department) or a functional or mission area that cuts across more than one organization (e.g., financial management). This picture consists of snapshots of both the enterprise's current or "As Is" environment and its target or "To Be" environment. These snapshots consist of "views," which are one or more architecture products (models, diagrams, matrices, text, etc.) that provide logical or technical representations of the enterprise. The architecture also includes a transition or sequencing plan, based on an analysis of the gaps between the "As Is" and "To Be" environments; this plan provides a temporal road map for moving between the two that incorporates such considerations as technology opportunities, marketplace trends, fiscal and budgetary constraints, institutional system development and acquisition capabilities, the dependencies and life expectancies of both new and "legacy" (existing) systems, and the projected value of competing investments. Our experience with Federal agencies has shown that investing in IT without defining these investments in the context of an architecture often results in systems that are duplicative, not well integrated, and unnecessarily costly to maintain and interface.¹⁰

A corporate approach to IT investment management is also characteristic of successful public and private organizations. Recognizing this, Congress developed and enacted the Clinger-Cohen Act in 1996,¹¹ which requires OMB to establish processes

⁹ E-Government Act of 2002, Pub. L. No. 107-347 (2002).

¹⁰ See, for example, GAO, Homeland Security: Efforts Underway to Develop Enterprise Architecture, but Much Work Remains, GAO-04-777 (Washington, DC: Aug. 6, 2004); DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments, GAO-04-731R (Washington, DC: May 17, 2004); and Information Technology: Architecture Needed to Guide NASA's Financial Management Modernization, GAO-04-43 (Washington, DC: Nov. 21, 2003).

¹¹ The Clinger-Cohen Act of 1996, 40 U.S.C. §§ 11101-11704. This act expanded the responsibilities of OMB and the agencies that had been set under the Paperwork Reduction Act, which

to analyze, track, and evaluate the risks and results of major capital investments in information systems made by executive agencies.¹² In response to the Clinger-Cohen Act and other statutes, OMB developed policy for planning, budgeting, acquisition, and management of Federal capital assets and issued guidance.¹³ We have also issued guidance in this area,¹⁴ in the form of a framework that lays out a coherent collection of key practices that when implemented in a coordinated manner, can lead an agency through a robust set of analyses and decision points that support effective IT investment management. This framework defines institutional structures, such as investment review boards, and associated processes, such as common investment criteria. Further, our investment management framework recognizes the importance of an enterprise architecture as a critical frame of reference for organizations making IT investment decisions. Specifically, it states that only investments that move the organization toward its target architecture, as defined by its sequencing plan, should be approved (unless a waiver is provided or a decision is made to modify the architecture). Moreover, it states that an organization's policies and procedures should describe the relationship between its architecture and its investment decisionmaking authority. Our experience has shown that mature and effective management of IT investments can vastly improve government performance and accountability, and can help to avoid wasteful IT spending and lost opportunities for improvements.

Financial Management

A major component of DOD's business transformation strategy is its FIAR Plan, issued in December 2005 and updated annually in June and September. The FIAR Plan was issued pursuant to section 376 of the National Defense Authorization Act for Fiscal Year 2006.¹⁵ 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 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 such actions to process and control improvements and business systems modernization efforts described in the BEA and transition plan. The John Warner National Defense Authorization Act for Fiscal Year 2007 continued to limit DOD's ability to obligate or expend funds for financial improvement until the Secretary of Defense submits a determination to the committees that the activities are consistent with the plan required by section 376.¹⁶

DOD intends for the FIAR Plan to provide DOD components with a road map for resolving problems affecting the accuracy, reliability, and timeliness of financial information, and obtaining clean financial statement audit opinions. As such, the FIAR Plan greatly depends on the actions taken by DOD components, including efforts to: (1) develop and implement systems that are in compliance with DOD's BEA; (2) implement sustained improvements in business processes and controls to address material weaknesses; and (3) achieve clean financial statement audit opinions. The FIAR Plan uses an incremental approach to structure its process for examining operations, diagnosing problems, planning corrective actions, and preparing for audit. Although the FIAR Plan provides estimated timeframes for achieving auditability in specific areas or components, it does not provide a specific target date for achieving a clean audit opinion on the department-wide financial statements. Rather, the FIAR Plan recognizes that its ability to fully address DOD's financial management weaknesses and ultimately achieve clean audit opinions will depend largely on the efforts of its components to successfully implement new business systems on time, within budget, and with the intended capability.

requires that agencies engage in capital planning and performance and results-based management. 44 U.S.C. § 3504(a)(1)(B)(vi) (OMB); 44 U.S.C. § 3506(h)(5) (agencies).

¹²We have made recommendations to improve OMB's process for monitoring high-risk IT investments; see GAO, Information Technology: OMB Can Make More Effective Use of Its Investment Reviews, GAO-05-276 (Washington, DC: Apr. 15, 2005).

¹³This policy is set forth and guidance is provided in OMB Circular No. A-11 (section 300) and in OMB's Capital Programming Guide, which directs agencies to develop, implement, and use a capital programming process to build their capital asset portfolios.

¹⁴GAO, Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity, GAO-04-394G (Washington, DC: March 2004).

¹⁵Pub. L. No. 109-163, § 376 (2006).

¹⁶Pub. L. No. 109-364, § 321 (2006).

DOD HAS MADE PROGRESS IN ADDRESSING ITS BUSINESS TRANSFORMATION EFFORTS, BUT CRITICAL ACTIONS ARE NEEDED TO PROVIDE COMPREHENSIVE, INTEGRATED, AND STRATEGIC PLANNING AND FOCUSED, SUSTAINED LEADERSHIP

DOD's leaders have demonstrated a commitment to making the department's business transformation a priority and made progress in establishing a management framework for these efforts. For example, the Deputy Secretary of Defense has overseen the establishment of various management entities and the creation of plans and tools to help guide business transformation at DOD. However, our analysis has shown that these efforts are largely focused on business systems modernization and that ongoing efforts across the department's business areas are not adequately integrated. In addition, DOD lacks two crucial features that are integral to successful organizational transformation: (1) a strategic planning process that results in a comprehensive, integrated, and enterprise-wide plan or interconnected plans; and (2) a senior leader who is responsible and accountable for business transformation and who can provide full-time focus and sustained leadership.¹⁷

DOD Has Made Progress in Addressing Its Business Transformation Challenges

DOD's senior leadership has shown commitment to transforming the department's business operations, and DOD has taken a number of positive steps to begin this effort. Because of the impact of the department's business operations on its warfighters, DOD recognizes the need to continue working toward transforming its business operations and providing transparency in this process. The department has devoted substantial resources and made important progress toward establishing key management structures and processes to guide business systems investment activities, particularly at the department-wide level, in response to legislation that codified many of our prior recommendations related to DOD business systems modernization and financial management.¹⁸

Specifically, in the past few years, DOD has established the Defense Business Systems Management Committee, investment review boards, and the Business Transformation Agency to manage and guide business systems modernization. The Defense Business Systems Management Committee and investment review boards were statutorily required by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 to review and approve the obligation of funds for defense business systems modernization, depending on the cost and scope of the system in review. The Business Transformation Agency was created to support the top-level management body, the Defense Business Systems Management Committee, and to advance DOD-wide business transformation efforts.

Additionally, DOD has developed a number of tools and plans to enable these management entities to help guide business systems modernization efforts. The tools and plans include the BEA and the ETP. The ETP is currently considered the highest-level plan for DOD business transformation. According to DOD, the ETP is intended to summarize all levels of transition planning information (milestones, metrics, resource needs, and system migrations) as an integrated product for communicating and monitoring progress, resulting in a consistent framework for setting priorities and evaluating plans, programs, and investments.

Our analysis of these tools, plans, and meeting minutes of the various transformational management entities shows that these efforts are largely focused on business systems modernization, and that this framework has yet to be expanded to encompass all of the elements of overall business transformation. Furthermore, DOD has not clearly defined or institutionalized in directives the interrelationships, roles and responsibilities, or accountability for the various entities that make up its management framework for overall business transformation. For example, opinions differ within DOD as to which senior governance body will serve as the primary body responsible for overall business transformation. Some officials stated that the Defense Business Systems Management Committee would serve as the senior-most governance entity, while others stated that the Deputy's Advisory Working Group, a group that provides department-wide strategic direction on various issues, should function as the primary decisionmaking body for business transformation.

Additionally, opinions differ between the two entities regarding the definition of DOD's key business areas, with the Defense Business Systems Management Committee and the Business Transformation Agency using a broader definition of business processes than that of the Deputy's Advisory Working Group and its supporting

¹⁷ See GAO, *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072 (Washington, DC: September 5, 2007).

¹⁸ 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).

organizations. Until such differences are resolved and the department institutionalizes a management framework that spans all aspects of business transformation, DOD will not be able to integrate related initiatives into a sustainable, enterprise-wide approach and to resolve weaknesses in business operations.

Critical Actions Are Needed to Provide Comprehensive, Integrated, and Strategic Planning and Focused, Sustained Leadership for DOD's Overall Business Transformation Efforts

As we have testified and reported for years, a successful, integrated, department-wide approach to addressing DOD's overall business transformation requires two critical elements: a comprehensive, integrated, and enterprise-wide plan and an individual capable of providing full-time focus and sustained leadership both within and across administrations, dedicated solely to the integration and execution of the overall business transformation effort.

DOD Lacks a Strategic Planning Process That Results in a Comprehensive, Integrated, and Enterprisewide Plan or Set of Plans

DOD continues to lack a comprehensive, integrated, and enterprise-wide plan or set of linked plans for business transformation that is supported by a comprehensive planning process and guides and unifies its business transformation efforts. Our prior work has shown that this type of plan should help set strategic direction for overall business transformation efforts and all key business functions; prioritize initiatives and resources; and monitor progress through the establishment of performance goals, objectives, and rewards.¹⁹ Furthermore, an integrated business transformation plan would be instrumental in establishing investment priorities and guiding the department's key resource decisions.

While various plans exist for different business areas, DOD's various business-related plans are not yet integrated to include consistent reporting of goals, measures, and expectations across institutional, unit, and individual program levels. Our analysis shows that plan alignment and integration currently focus on data consistency among plans, meaning that plans are reviewed for errors and inconsistencies in reported information, but there is a lack of consistency in goals and measurements among plans. Other entities such as the Institute for Defense Analyses, the Defense Science Board, and the Defense Business Board have similarly reported the need for DOD to develop an enterprise-wide plan to link strategies across the department for transforming all business areas and thus report similar findings.

DOD officials recognize that the department does not have an integrated plan in place, although they have stated that their intention is to expand the scope of the ETP so that it becomes a more robust enterprise-wide planning document and to evolve this plan into the centerpiece strategic document. DOD updates the ETP twice a year, once in March as part of DOD's annual report to Congress and once in September, and DOD has stated the department's goal is to evolve the plan into a comprehensive, top-level planning document for all business functions. DOD released the most recent ETP update on September 28, 2007, and we will continue to monitor developments in this effort.

The National Defense Authorization Act for Fiscal Year 2008 requires the Secretary of Defense, acting through the CMO, to develop a strategic management plan to include detailed descriptions of such things as performance goals and measures for improving and evaluating the overall efficiency and effectiveness of the business operations of the department, key initiatives to achieve these performance goals, procedures to monitor progress, procedures to review and approve plans and budgets for changes in business operations, and procedures to oversee the development, review, and approval of all budget requests for defense business systems. While these provisions are extremely positive, their impact will depend on DOD's implementation. We continue to believe that the key to success of any planning process is the extent to which key stakeholders participate, and whether the ultimate plan or set of plans is linked to the department's overall strategic plan, reflects an integrated approach across the department, identifies performance goals and measures, shows clear linkage to budgets, and ultimately is used to guide business transformation.

¹⁹ See for example, GAO-07-1072; GAO, Defense Business Transformation: A Comprehensive Plan, Integrated Efforts, and Sustained Leadership Are Needed to Assure Success, GAO-07-229T (Washington, DC: Nov. 16, 2006); Department of Defense: Sustained Leadership Is Critical to Effective Financial and Business Management Transformation, GAO-06-1006T (Washington, DC: Aug. 3, 2006); and DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership, GAO-05-520T (Washington, DC: Apr. 13, 2005).

Recent Legislation Takes Important Step to Provide Executive-Level Attention to Business Transformation Matters

We have long advocated the importance of establishing CMO positions in government agencies, including DOD, and have previously reported and testified on the key characteristics of the position necessary for success.²⁰ In our view, transforming DOD's business operations is necessary for DOD to resolve its weaknesses in the designated high-risk areas and to ensure that the department has sustained leadership to guide its business transformation efforts. Specifically, because of the complexity and long-term nature of business transformation, DOD needs a CMO with significant authority, experience, and a term that would provide sustained leadership and the time to integrate its overall business transformation efforts. Without formally designating responsibility and accountability for results, DOD will face difficulties reconciling competing priorities among various organizations, and prioritizing investments will be difficult and could impede the department's progress in addressing deficiencies in key business areas.

Clearly, Congress has recognized the need for executive-level attention to business transformation matters and has taken specific action in the National Defense Authorization Act for Fiscal Year 2008 to codify CMO responsibilities at a high level in the department—assigning them to the Deputy Secretary of Defense—as well as other provisions, such as establishing a full-time Deputy CMO and designating CMO responsibilities within the military departments.²¹ From a historical perspective, this action is unprecedented and represents significant steps toward giving business transformation high-level management attention. Now that this legislation has been enacted, it will be important for DOD to define the specific roles and responsibilities for the CMO, Deputy CMO, and the service CMOs; ensure clearly delineated reporting relationships among them and other department and service officials; foster good executive-level working relationships for maximum effectiveness; establish appropriate integration and transformation structures and processes; promote individual accountability and performance; and provide for continuity.²²

Further, in less than 1 year, our government will undergo a change in administrations, which raises questions about continuity of effort and the sustainability of the progress that DOD has made to date. As we have said before, business transformation is a long-term process, and continuity is key to achieving true transformation. One of the challenges now facing DOD, therefore, is establishing this continuity in leadership to sustain progress that has been made to date. In the interest of the department and the American taxpayers, we continue to believe the department needs a full-time CMO over the long-term in order to devote the needed focus and continuity of effort to transform its key business operations and avoid billions more in waste each year. As such, we believe the CMO position should be codified as a separate position from the Deputy Secretary of Defense in order to provide full-time attention to business transformation and subject to an extended term appointment. The CMO's appointment should span administrations to ensure that transformation efforts are sustained across administrations. Because business transformation is a long-term and complex process, a term of at least 5 to 7 years is recommended to provide sustained leadership and accountability.

Moreover, the fact that the National Defense Authorization Act for Fiscal Year 2008 modifies politically appointed positions by codifying a new designation for the Deputy Secretary of Defense, creating a new Deputy CMO of DOD, and adding a new designation to the military departments' under secretary positions to serve as the military departments' CMOs raises larger questions about succession planning and how the executive branch fills appointed positions, not only within DOD, but throughout the government. Currently, there is no distinction in the political appointment process among the different types of responsibilities inherent in the appointed positions. Further, the positions generally do not require any particular set of management qualifications, even though the appointees may be responsible for non-policy-related functions. For example, appointees could be categorized by the differences in their roles and responsibilities, such as by the following categories:

- those appointees who have responsibility for various policy issues;
- those appointees who have leadership responsibility for various operational and management matters; and

²⁰ See, for example, GAO-07-1072, GAO-07-310, GAO-07-229T, and GAO-06-1006T.

²¹ Pub. L. No. 110-181, § 904 (2008).

²² See GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, GAO-08-322T (Washington, DC: Dec. 13, 2007).

- those appointees who require an appropriate degree of technical competence or professional certification, as well as objectivity and independence (for example, judges, the Comptroller General, and inspectors general).

We have asked for a reexamination of the political appointment process to assess these distinctions as well as which appointee positions should be presidentially appointed and Senate confirmed versus presidentially appointed with advance notification to Congress.²³ For example, those appointees who have policy leadership responsibility could be presidentially appointed and Senate confirmed, while many of those with operational and management responsibility could be presidentially appointed, with a requirement for appropriate congressional notification in advance of appointment. In addition, appropriate qualifications for selected positions, including the possibility of establishing specific statutory qualifications criteria for certain categories of appointees, could be articulated. Finally, the use of term appointments and different compensation schemes for these appointees should be reviewed.

DOD IS CONTINUING TO IMPROVE ITS APPROACH TO MODERNIZING BUSINESS SYSTEMS,
BUT CHALLENGES REMAIN

Despite noteworthy progress in establishing institutional business system and management controls, DOD is still not where it needs to be in managing its department-wide business systems modernization. Until DOD fully defines and consistently implements the full range of business systems modernization management controls (institutional and program-specific), it will not be positioned to effectively and efficiently ensure that its business systems and IT services investments are the right solutions for addressing its business needs, that they are being managed to produce expected capabilities efficiently and cost effectively, and that business stakeholders are satisfied.

For decades, DOD has been attempting to modernize its business systems. We designated DOD's business systems modernization program as high risk in 1995. Since then, we have made scores of recommendations aimed at strengthening DOD's institutional approach to modernizing its business systems, and reducing the risks associated with key business system investments. In addition, in recent legislation, Congress included provisions that are consistent with our recommendations, such as in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005. In response, the department has taken, or is taking, important actions to implement both our recommendations and the legislative requirements and as a result has made noteworthy progress on some fronts in establishing corporate management controls, such as developing a corporate-level BEA, including an ETP, establishing corporate investment management structures and processes, increasing business system life cycle management discipline and leveraging highly-skilled staff on its largest business system investments.

However, much more remains to be accomplished to address this high-risk area, particularly with respect to ensuring that effective corporate approaches and controls are extended to and employed within each of DOD's component organizations (military departments and defense agencies). To this end, our recent work has highlighted challenges that the department still faces in "federating" (i.e., extending) its corporate BEA to its component organizations' architectures, ensuring that the scope and content of the department's business systems transition plan addresses DOD's complete portfolio of IT investments, as well as establishing institutional structures and processes for selecting, controlling, and evaluating business systems investments within each component organization.²⁴ Beyond this, ensuring that effective system acquisition management controls are actually implemented on each business system investment also remains a formidable challenge, as our recent reports on management weaknesses associated with individual programs have disclosed.²⁵ Among other things, these reports have identified program-level weak-

²³ GAO, A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges, GAO-08-93SP (Washington, DC: December 2007), and Suggested Areas for Oversight for the 110th Congress, GAO-07-235R (Washington, DC: Nov. 17, 2006).

²⁴ DOD Business Systems Modernization: Progress Continues to Be Made in Establishing Corporate Management Controls, but Further Steps Are Needed, GAO-07-733 (Washington, DC: May 14, 2007).

²⁵ See, for example, GAO, DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk, GAO-07-860 (Washington, DC: July 27, 2007); Information Technology: DOD Needs to Ensure That Navy Marine Corps Intranet Program Is Meeting Goals and Satisfying Customers, GAO-07-51 (Washington, DC: Dec. 8, 2006); Defense Travel System: Reported Savings Questionable and Implementation Challenges Remain, GAO-06-980 (Washington, DC: Sept. 26, 2006); DOD Systems Modernization: Uncer-

nesses relative to architecture alignment, economic justification, performance management, requirements management, and testing.

DOD Continues to Improve Its Corporate BEA and ETP, but Component Architectures Remain a Challenge

In May 2007,²⁶ we reported on DOD's efforts to address a number of provisions in the National Defense Authorization Act for Fiscal Year 2005.²⁷ Among other things, we stated that the department had adopted an incremental strategy for developing and implementing its architecture, including the transition plan, 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. However, we also reported that additional steps were needed. Examples of these improvements and remaining issues with the BEA and the ETP are summarized below:

- The latest version of the BEA contained enterprise-level information about DOD's "As Is" architectural environment to support business capability gap analyses. As we previously reported,²⁸ such gap analyses between the "As Is" and the "To Be" environments are essential for the development of a well-defined transition plan.
- The latest version included performance metrics for the business capabilities within enterprise priority areas, including actual performance relative to performance targets that are to be met. For example, currently 26 percent of DOD assets are reported by using formats that comply with the Department of the Treasury's United States Standard General Ledger,²⁹ as compared to a target of 100 percent. However, the architecture did not describe the actual baseline performance for operational activities, such as for the "Manage Audit and Oversight of Contractor" operational activity. As we have previously reported,³⁰ performance models are an essential part of any architecture and having defined performance baselines to measure actual performance provides the means for knowing whether the intended mission value to be delivered by each business process is actually being realized.
- The latest version identified activities performed at each location/organization and indicates which organizations are or will be involved in each activity. We previously reported that prior versions did not address the locations where specified activities are to occur and that doing so is important because the cost and performance of implemented business operations and technology solutions are affected by the location and therefore need to be examined, assessed, and decided on in an enterprise context rather than in a piecemeal, systems-specific fashion.³¹
- The March 2007 ETP continued to identify more systems and initiatives that are to fill business capability gaps and address DOD-wide and component business priorities, and it continues to provide a range of information for each system and initiative in the plan (e.g., budget information, performance metrics, and milestones). However, this version still does not include system investment information for all the defense agencies and combatant commands. Moreover, the plan does not sequence the planned investments based on a range of relevant factors, such 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 DOD officials, they intend to address such limitations in future versions of the transition plan as part of their plans for addressing our prior recommenda-

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

²⁶ GAO-07-733.

²⁷ 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).

²⁸ GAO, DOD Business Systems Modernization: Important Progress Made in Establishing Foundational Architecture Products and Investment Management Practices, but Much Work Remains, GAO-06-219 (Washington, DC: Nov. 23, 2005).

²⁹ The United States Standard General Ledger provides a uniform chart of accounts and technical guidance used in standardizing Federal agency accounting.

³⁰ GAO, Information Technology: A Framework for Assessing and Improving Enterprise Architecture Management (Version 1.1), GAO-03-584G (Washington, DC: April 2003), and GAO-04-777.

³¹ Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed, GAO-06-658 (Washington, DC: May 15, 2006).

tions.³² In September 2007, DOD released an updated version of the plan which, according to DOD, continues to provide time-phased milestones, performance metrics, and statement of resource needs for new and existing systems that are part of the BEA and component architectures, and includes a schedule for terminating old systems and replacing them with newer, improved enterprise solutions.

As we have also reported, the latest version of the BEA continues to represent the thin layer of DOD-wide corporate architectural policies, capabilities, rules, and standards. Having this layer is essential to a well-defined federated architecture, but it alone does not provide the total federated family of DOD parent and subsidiary architectures for the business mission area that are needed to comply with the act. The latest version had yet to be augmented by the DOD component organizations' subsidiary architectures, which are necessary to meeting statutory requirements and the department's goal of having a federated family of architectures. Under the department's tiered accountability approach, the corporate BEA focuses on providing tangible outcomes for a limited set of enterprise-level (DOD-wide) priorities, while the components are to define and implement their respective component-level architectures that are aligned with the corporate BEA.

However, we previously reported that well-defined architectures did not yet exist for the military departments, which constitute the largest members of the federation, and the strategy that the department had developed for federating its BEA needed more definition to be executable.³³ In particular, we reported in 2006,³⁴ that none of the three military departments had fully developed architecture products that describe their respective target architectural environments and developed transition plans for migrating to a target environment, and none was employing the full range of architecture management structures, processes, and controls provided for in relevant guidance. Also, we reported that the federation strategy did not address, among other things, how the component architectures will be aligned with the latest version of the BEA and how it will identify and provide for reuse of common applications and systems across the department.

According to DOD, subsequent releases of the BEA will continue to reflect this federated approach and will define enforceable interfaces to ensure interoperability and information flow to support decisionmaking at the appropriate level. To help ensure this, the BTA plans to have its BEA independent verification and validation contractor examine architecture federation when evaluating subsequent BEA releases. Use of an independent verification and validation agent is an architecture management best practice for identifying architecture strengths and weaknesses. Through the use of such an agent, department and congressional oversight bodies can gain information that they need to better ensure that DOD's family of architectures and associated transition plan(s) satisfy key quality parameters, such as completeness, consistency, understandability, and usability, which the department's annual reports have yet to include.

We made recommendations aimed at improving the management and content of the military departments' respective architectures; ensuring that DOD's federated BEA provides a more sufficient frame of reference to guide and constrain DOD-wide system investments; and facilitating congressional oversight and promoting departmental accountability through the assessment of the completeness, consistency, understandability, and usability of its federated family business mission area architectures. DOD agreed with these recommendations and has since taken some actions, such as developing an updated version of its federation strategy, which according to DOD officials, addresses some of our recommendations. We have ongoing work for this Subcommittee on the military departments' architecture programs, and plan to issue a report in early May 2008.

DOD Has Largely Established Key Investment Management Structures, but Related Policies and Procedures at Both the Corporate and Component Levels Are Missing

The department has established and has begun to implement legislatively directed corporate investment review structures and processes needed to effectively manage its business system investments, but it has yet to do so in a manner that

³² See GAO-07-733.

³³ GAO, Business Systems Modernization: Strategy for Evolving DOD's Business Enterprise Architecture Offers a Conceptual Approach, but Execution Details Are Needed, GAO-07-451 (Washington, DC: Apr. 16, 2007); and Enterprise Architecture: Leadership Remains Key to Establishing and Leveraging Architectures for Organizational Transformation, GAO-06-831 (Washington, DC: Aug. 14, 2006).

³⁴ GAO-06-831.

is fully consistent with relevant guidance, both at a corporate and component level.³⁵ To its credit, the department has, for example, established an enterprise-wide investment board (Defense Business Systems Management Committee (DBSMC)) and subordinate boards (investment review boards (IRB)) that are responsible for business systems investment governance, documented policies and procedures for ensuring that systems support ongoing and future business needs through alignment with the BEA, and assigned responsibility for ensuring that the information collected about projects meets the needs of DOD's investment review structures and processes.

However, the department has not developed the full range of project- and portfolio-level policies and procedures needed for effective investment management. For example, policies and procedures do not outline how the DBSMC and IRB investment review processes are to be coordinated with other decision-support processes used at DOD, such as the Joint Capabilities Integration and Development System; the Planning, Programming, Budgeting, and Execution system; and the Defense Acquisition System.³⁶ Without clear linkages among these processes, inconsistent and uninformed decisionmaking may result. Furthermore, without considering component and corporate budget constraints and opportunities, the IRBs risk making investment decisions that do not effectively consider the relative merits of various projects and systems when funding limitations exist.

Examples of other limitations include not having policies and procedures for: (1) specifying how the full range of cost, schedule, and benefit data accessible by the IRBs are to be used in making selection decisions; (2) providing sufficient oversight and visibility into component-level investment management activities, including component reviews of systems in operations and maintenance; (3) defining the criteria to be used for making portfolio selection decisions; (4) creating the portfolio of business system investments; (5) evaluating the performance of portfolio investments; and (6) conducting post implementation reviews of these investments. According to best practices, adequately documenting both the policies and the associated procedures that govern how an organization manages its IT investment portfolio(s) is important because doing so provides the basis for having rigor, discipline, and repeatability in how investments are selected and controlled across the entire organization. Accordingly, we made recommendations aimed at improving the department's ability to better manage the billions of dollars it invests annually in its business systems and DOD largely agreed with these recommendations but added that while it intends to improve departmental policies and procedures for business system investments, each component is responsible for developing and executing investment management policies and procedures needed to manage the business systems under its tier of responsibility.

According to DOD's tiered accountability approach, responsibility and accountability for business investment management is tiered, meaning that it is allocated between the DOD corporate level (i.e., Office of the Secretary of Defense) and the components based on the amount of development/modernization funding involved and the investment's designated tier.³⁷

However, as our recent reports show³⁸ the military departments also have yet to fully develop many of the related policies and procedures needed to execute both project-level and portfolio-level practices called for in relevant guidance for their tier of responsibility. For example, they have developed procedures for identifying and collecting information about their business systems to support investment selection

³⁵ GAO, Business Systems Modernization: DOD Needs to Fully Define Policies and Procedures for Institutionally Managing Investments, GAO-07-538 (Washington, DC: May 11, 2007).

³⁶ The Joint Capabilities Integration and Development System is a need-driven management system used to identify future capabilities for DOD. The Planning, Programming, Budgeting, and Execution process is a calendar-driven management system for allocating resources and comprises four phases—planning, programming, budgeting, and executing—that define how budgets for each DOD component and the department as a whole are created, vetted, and executed. The Defense Acquisition System is an event-driven system for managing product development and procurement that guides the acquisition process for DOD.

³⁷ More specifically, DOD corporate is responsible for ensuring that all business systems with a development/modernization investment in excess of \$1 million are reviewed by the IRBs for compliance with the BEA, certified by the principal staff assistants, and approved by DBSMC. Components are responsible for certifying development/modernization investments with total costs of \$1 million or less. All DOD development and modernization efforts are also assigned a tier based on acquisition category, the size of the financial investment, or both.

³⁸ GAO, Business Systems Modernization: Air Force Needs to Fully Define Policies and Procedures for Institutionally Managing Investments, GAO-08-52 (Washington, DC: Oct. 31, 2007), and Business Systems Modernization: Department of the Navy Needs to Establish Management Structure and Fully Define Policies and Procedures for Institutionally Managing Investments, GAO-08-53 (Washington, DC: Oct. 31, 2007).

and control, and assigned responsibility for ensuring that the information collected during project identification meets the needs of the investment management process. However, they have yet, for example, to fully document business systems investment policies and procedures for overseeing the management of IT projects and systems and for developing and maintaining complete business systems investment portfolio(s). Specifically, policies and procedures do not specify the processes for decisionmaking during project oversight and do not describe how corrective actions should be taken when the project deviates or varies from the project management plan. Without such policies and procedures, the agency risks investing in systems that are duplicative, stovepiped, nonintegrated, and unnecessarily costly to manage, maintain, and operate. Accordingly, we made recommendations aimed at strengthening the military departments' business systems management capability, and they largely agreed with these recommendations. Department officials stated that they are aware of the absence of documented policies and procedures in certain areas of project and portfolio-level management, and are currently working on new guidance to address these areas.

Until DOD fully defines department-wide and component-level policies and procedures for both individual projects and portfolios of projects, it risks selecting and controlling these business systems investments in an inconsistent, incomplete, and ad hoc manner, which in turn reduces the chances that these investments will meet mission needs in the most cost-effective manner.

The department has recently undertaken several initiatives to strengthen business system investment management. For example, it has drafted and intends to shortly begin implementing a new Business Capability Lifecycle approach that is to consolidate management of business system requirements, acquisition, and compliance with architecture disciplines into a single governance process. Further, it has established an Enterprise Integration Directorate in the Business Transformation Agency to support the implementation of enterprise resource planning systems³⁹ by ensuring that best practices are leveraged and BEA-related business rules and standards are adopted.

Implementing Effective Modernization Management Controls on All Business System Investments Remains a Key Challenge

Beyond establishing the above discussed institutional modernization management controls, such as the BEA, portfolio-based investment management, and system life cycle discipline, the more formidable challenge facing DOD is how well it can implement these and other management controls on each and every business system investment and IT services outsourcing program. In this regard, we have continued to identify program-specific weaknesses as summarized below.

- With respect to taking an architecture-centric and portfolio-based approach to investing in programs, for example, we recently reported that the Army's approach for investing about \$5 billion over the next several years in its General Fund Enterprise Business System, Global Combat Support System-Army Field/Tactical,⁴⁰ and Logistics Modernization Program (LMP) did not include alignment with Army enterprise architecture or use of a portfolio-based business system investment review process.⁴¹ Moreover, we reported that the Army did not have reliable processes, such as an independent verification and validation function, or analyses, such as economic analyses, to support its management of these programs. We concluded that until the Army adopts a business system investment management approach that provides for reviewing groups of systems and making enterprise decisions on how these groups will collectively interoperate to provide a desired capability, it runs the risk of investing significant resources in business systems that do not provide the desired functionality and efficiency.
- With respect to providing DOD oversight organizations with reliable program performance and progress information, we recently reported that the Navy's approach for investing in both system and IT services, such as the Naval Tactical Command Support System (NTCSS)⁴² and Navy Marine

³⁹An enterprise resource planning solution is an automated system using commercial off-the-shelf software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as payroll, general ledger accounting, and supply chain management.

⁴⁰Field/tactical refers to Army units that are deployable to locations around the world, such as Iraq or Afghanistan.

⁴¹GAO-07-860.

⁴²GAO-06-215.

Corps Intranet (NMCI),⁴³ had not always met this goal. For NTCSS, we reported that, for example, earned value management, which is a means for determining and disclosing actual performance against budget and schedule estimates, and revising estimates based on performance to date, had not been implemented effectively. We also reported that complete and current reporting of NTCSS progress and problems in meeting cost, schedule, and performance goals had not occurred, leaving oversight entities without the information needed to mitigate risks, address problems, and take corrective action. We concluded that without this information, the Navy cannot determine whether NTCSS, as it was defined and was being developed, was the right solution to meet its strategic business and technological needs. For NMCI, we reported that performance management practices, to include measurement of progress against strategic program goals and reporting to key decisionmakers on performance against strategic goals and other important program aspects, such as examining service-level agreement satisfaction from multiple vantage points and ensuring customer satisfaction, had not been adequate. We concluded that without a full and accurate picture of program performance, the risk of inadequately informing important NMCI investment management decisions was increased.

Given the program-specific weaknesses that our work has and continues to reveal, it is important for DOD leadership and Congress to have clear visibility into the performance and progress of the department's major business system investments. Accordingly, we support the provisions in section 816 of the John Warner National Defense Authorization Act for Fiscal Year 2007 that provide for greater disclosure of business system investment performance to both department and congressional oversight entities, and thus increased accountability for results. More specifically, the legislation establishes certain reporting and oversight requirements for the acquisition of major automated information systems (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). Going forward, the challenge facing the department will be to ensure that these legislative provisions are effectively implemented. To the extent that they are, DOD business systems modernization transparency, oversight, accountability, and results should improve.

We currently have ongoing work for this subcommittee looking at the military departments implementation of a broad range of acquisition management controls, such as architectural alignment, economic justification, and requirements management, on selected business systems at the Departments of the Air Force and Navy.

DOD HAS MADE PROGRESS IN ESTABLISHING A FRAMEWORK FOR IMPROVING FINANCIAL MANAGEMENT CAPABILITIES, BUT MORE WORK REMAINS

DOD has taken steps toward developing and implementing a framework for addressing the department's longstanding financial management weaknesses and improving its capability to provide timely, reliable, and relevant financial information for analysis, decisionmaking, and reporting, a key defense transformation priority. Specifically, this framework, which is discussed in both the department's ETP and the FIAR Plan is intended to define and put into practice a standard DOD-wide financial management data structure as well as enterprise-level capabilities to facilitate reporting and comparison of financial data across the department. While these efforts should improve the consistency and comparability of DOD's financial reports, a great deal of work remains before the financial management capabilities of DOD and its components are transformed and the department achieves financial visibility. Examples of work remaining that must be completed as part of DOD component efforts to support the FIAR Plan and ETP include data cleansing; improvements in current policies, processes, procedures, and controls; and implementation of integrated systems. We also note DOD has other financial management initiatives underway, including efforts to move toward performance-based budgeting and to continually improve the reliability of global war on terrorism cost reporting.

In 2007, DOD also introduced refinements to its approach for achieving financial statement auditability. While these refinements reflect a clearer understanding of the importance of the sustainability of financial management improvements and the department's reliance on the successful completion of component (including military Services and defense agencies) and subordinate initiatives, they are not without risk.

⁴³ GAO-07-51.

Given the department's dependency on the efforts of its components to address DOD's financial management weaknesses, it is imperative that DOD ensure the sufficiency and reliability of: (1) corrective actions taken by DOD components to support management attestations as to the reliability of reported financial information; (2) activities taken by DOD components and other initiatives to ensure that corrective actions are directed at supporting improved financial visibility capabilities, beyond providing information primarily for financial statement reporting, and are sustained until a financial statement audit can be performed; and (3) accomplishments and progress reported by DOD components and initiatives.

Key DOD Financial Management Transformation Efforts Recognize the Need for an Integrated Approach

Successful financial transformation of DOD's financial operations will require a multifaceted, cross-organizational approach that addresses the contribution and alignment of key elements, including strategic plans, people, processes, and technology. DOD uses two key plans, the DOD ETP and the FIAR Plan, to guide transformation of its financial management operations. The ETP focuses on delivering improved capabilities, including financial management, through the deployment of system solutions that comply with DOD and component enterprise architectures. The FIAR Plan focuses on implementing audit-ready financial processes and practices through ongoing and planned efforts to address policy issues, modify financial and business processes, strengthen internal controls, and ensure that new system solutions support the preparation and reporting of auditable financial statements. Both plans recognize that while successful enterprise resource planning system implementations are catalysts for changing organizational structures, improving workflow through business process reengineering, strengthening internal controls, and resolving material weaknesses, improvements can only be achieved through the involvement of business process owners, including financial managers, in defining and articulating their operational needs and requirements and incorporating them, as appropriate, into DOD and component BEAs. DOD officials have acknowledged that integration between the two initiatives is a continually evolving process. For example, the June 2006 FIAR Plan update stated that some of the department's initial subordinate plans included only limited integration with Business Transformation Agency initiatives and solutions. According to DOD officials, the use of end-to-end business processes (as provided by its segment approach) to identify and address financial management deficiencies will lead to further integration between the FIAR Plan and ETP.

Two key transformation efforts that reflect an integrated approach toward improving DOD's financial management capabilities are the Standard Financial Information Structure (SFIS) and the Business Enterprise Information System (BEIS), both of which are discussed in DOD's ETP and FIAR Plan.

- SFIS. Key limitations in the department's ability to consistently provide timely, reliable, accurate, and relevant information for analysis, decision-making, and reporting are: (1) its lack of a standard financial management data structure; and (2) a reliance on numerous nonautomated data transfers (manual data calls) to accumulate and report financial transactions. In fiscal year 2006, DOD took an important first step toward addressing these weaknesses through publication of its SFIS Phase I data elements and their subsequent incorporation into the DOD BEA. In March 2007, the department issued a checklist for use by DOD components in evaluating their systems for SFIS compliance.⁴⁴ SFIS is intended to provide uniformity throughout DOD in reporting on the results of operations, allowing for greater comparability of information. While the first phase of SFIS was focused on financial statement generation, subsequent SFIS phases are intended to provide a standardized financial information structure to facilitate improved cost accounting, analysis, and reporting. According to DOD officials, the department has adopted a two-tiered approach to implement the SFIS data structure. Furthermore, they stated that SFIS is a mandatory data structure that will be embedded into every new financial management system, including enterprise resource planning systems, such as the Army's General Fund Enterprise Business System and the Air Force's Defense Enterprise Accounting and Management System (DEAMS). Further, recognizing that many of the current accounting systems will be replaced

⁴⁴ Department of Defense Business Transformation Agency, Transformation Priorities and Requirements Division: Compliance Checklist for the Standard Financial Information Structure, (March 15, 2007).

in the future, the department will utilize a common crosswalk to standardize the data reported by the legacy systems.

- BEIS. A second important step that the department took toward improving its capability to provide consistent and reliable financial information for decisionmaking and reporting was to initiate efforts to develop a DOD-level suite of services to provide financial reporting services, cash reporting, and reconciliation services. As an interim solution, financial information obtained from legacy component systems will be crosswalked from a component's data structure into the SFIS format within BEIS. Newer or target systems, such as DEAMS, will have SFIS imbedded so that the data provided to BEIS will already be in the SFIS format.

According to DOD's September 2007 FIAR Plan update, the department prepared financial statement reports using SFIS data standards for the Marine Corps general and working capital funds, the Air Force general and working capital funds, and the Navy working capital funds. The department plans to implement SFIS-compliant reporting for the Army working capital funds, the Navy general funds, and its defense agencies in fiscal year 2008. The development and implementation of SFIS and BEIS are positive steps toward standardizing the department's data structure and expanding its capability to access and utilize data for analysis, management decisionmaking, and reporting, including special reports related to the global war on terrorism.

However, it is important to keep in mind that a great deal of work remains. In particular, data cleansing; improvements in policies, processes, procedures, and controls; as well as successful enterprise resource planning system implementations are needed before DOD components and the department fully achieve financial visibility. Our previous reviews of DOD system development efforts have identified instances in which the department faced difficulty in implementing systems on time, within budget, and with the intended capability.⁴⁵ For example, as previously noted, the Army continues to struggle in its efforts to ensure that LMP will provide its intended capabilities. In particular, we reported that LMP would not provide the intended capabilities and benefits because of inadequate requirements management and system testing. Further, we found that the Army had not put into place an effective management process to help ensure that the problems with the system were resolved. Until the Army has completed action on our recommendations, it will continue to risk investing billions of dollars in business systems that do not provide the desired functionality or efficiency.

DOD Refines Its Audit Strategy

In fiscal year 2007, DOD introduced key refinements to its strategy for achieving financial statement auditability. These refinements include the following:

- Requesting audits of entire financial statements rather than attempting to build upon audits of individual financial statement line items.
- Focusing on improvements in end-to-end business processes, or segments⁴⁶ that underlie the amounts reported on the financial statements.
- Using audit readiness validations and annual verification reviews of segment improvements rather than financial statement line item audits to ensure sustainability of corrective actions and improvements.
- Forming a working group to begin auditability risk assessments of new financial and mixed systems, such as enterprise resource planning systems, at key decision points in their development and deployment life cycle to ensure that the systems include the processes and internal controls necessary to support repeatable production of auditable financial statements.

To begin implementing its refined strategy for achieving financial statement auditability, DOD modified its business rules for achieving audit readiness to reflect the new approach.⁴⁷ Recognizing that a period of time may pass before an entity's

⁴⁵ 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).

⁴⁶ DOD defines a segment as a component of an entity's business and financial environment. A segment can include: (1) complete or partial business processes; (2) financial systems, business systems, or both; or (3) commands or installations. According to DOD, the environment's complexity, materiality, and timing of corrective actions are all factors that are taken into consideration when defining a segment.

⁴⁷ Prior to its change in strategy, DOD used five business rules: discovery and correction, validation, assertion, assessment, and audit.

financial statements are ready for audit, the revised business rules provide for an independent validation of improvements with an emphasis on sustaining improvements made through corrective actions. Sustainability of improvements will be verified by DOD components through annual internal control reviews, using OMB's Circular No. A-123, Appendix A,⁴⁸ as guidance.

The department's move to a segment approach provides greater flexibility in assessing its business processes and in taking corrective actions, if necessary, within defined areas or end-to-end business processes that individually or collectively supports financial accounting and reporting. However, DOD officials recognize that additional guidance is needed in several key areas. For example, DOD has acknowledged that it needs to establish a process to ensure the sufficiency of segment work in providing, individually or collectively, a basis for asserting the reliability of reported financial statement information. DOD officials indicated that they intend to provide additional guidance in this area by March 2008. Additionally, DOD officials acknowledged that a process is needed to ensure that DOD's annual internal control reviews, including its OMB No. A-123, Appendix A reviews, are properly identifying and reporting on issues, and that appropriate corrective actions are taken when issues are identified during these reviews. To its credit, the department initiated the Check It Campaign in July 2006 to raise awareness throughout the department on the importance on effective internal controls.

Ultimately, DOD's success in addressing its financial management deficiencies, resolving the longstanding weaknesses that have kept it on GAO's high-risk list for financial management, and finally achieving financial visibility will depend largely on how well its transformation efforts are integrated throughout the department. Both the ETP and FIAR Plan recognize that successful transformation of DOD's business operations, including financial management, largely depends on successful implementation of enterprise resource planning systems and processes and other improvements occurring within DOD components. Such dependency, however, is not without risk. To its credit, DOD recently established a working group to begin auditability risk assessments of new financial and mixed systems, such as enterprise resource planning systems. The purpose of these planned assessments is to identify auditability risks that, if not mitigated during the development of the system, may impede the component's ability to achieve clean audit opinions on its financial statements.

Furthermore, the department has implemented and continually expands its use of a Web-based tool, referred to as the FIAR Planning Tool, to facilitate management, oversight, and reporting of departmental and component efforts. According to DOD officials, the tool is used to monitor progress toward achieving critical milestones identified for each focus area in component initiatives, such as financial improvement plans or accountability improvement plans, or department-wide initiatives. Given that the FIAR Planning Tool is used to report results to OMB through quarterly update reports to the President's Management Agenda and to update accomplishments in the FIAR Plan, it is critical that the FIAR Directorate ensure the reliability of reported progress. During a recent meeting with DOD officials, we discussed several areas where FIAR Plan reporting appeared incomplete. Our observations included the following:

- FIAR Plan updates, including the 2007 update, do not mention or include the results of audit reports and studies that may have occurred within an update period and how, if at all, any issues identified were addressed. For example, the DOD Inspector General has issued reports in recent years that raise concerns regarding the reliability of the military equipment valuation methodology and the usefulness of the valuation results for purposes beyond financial statement reporting.⁴⁹ In 2007, the Air Force Audit Agency also issued reports expressing concerns regarding the reliability of reported military equipment values at Air Force.⁵⁰ These audit reports and actions, if any, taken in response to them have not been mentioned to date in updates to the FIAR Plan. Further, although both the June and Sep-

⁴⁸ OMB Circular No. A-123, Management's Responsibility for Internal Control, Appendix A, "Internal Control over Financial Reporting," prescribes a method for Federal agencies, including DOD, to assess, document, and report on internal control over financial reporting at each level.

⁴⁹ Department of Defense Inspector General, Financial Management: Report on Development of the DOD Baseline for Military Equipment, D-2005-114 (Arlington, VA: Sept. 30, 2005), and Financial Management: Report on the Review of the Development of the DOD Baseline for Military Equipment, D-2005-112 (Arlington, VA: Sept. 30, 2005).

⁵⁰ Air Force Audit Agency, Air Force Military Equipment Baseline Valuation, F2007-0009-FB3000 (May 29, 2007), and Military Equipment Baseline—Electronic Pods, F2007-0003-FB3000 (Jan. 19, 2007).

tember 2006 FIAR Plan updates report that an internal verification and validation (IV&V) study was completed to test the military equipment valuation methodology, including completeness and existence of military equipment assets, neither of these reports disclosed the results of the review or corrective actions taken, if any. The absence of relevant audit reports or study results may mislead a reader into believing that no issues have been identified that if not addressed, may adversely affect the results of a particular effort, such as the department's military equipment valuation initiative. For example, the IV&V study⁵¹ identified several improvements that were needed, in varying degrees, at all the military Services and the Special Operations Command in the following areas: (1) documentation of waivers;⁵² (2) documentation of support for authorization, receipt, and payment; (3) estimated useful life; and (4) existence of the asset. In its conclusion statement, the IV&V study reported that if the weaknesses identified by the IV&V review are pervasive throughout DOD, the department will have a significant challenge to establish control over its resources and get its military equipment assets properly recorded for a financial statement audit. Recognition of audits and other reviews in the FIAR and subordinate plans would add integrity to reported accomplishments and further demonstrate the department's commitment to transforming its financial management capabilities and achieving financial visibility.

- While the FIAR Plan clearly identifies its dependency on component efforts to achieve financial management improvements and clean financial statement audit opinions, it does not provide a clear understanding of further links or dependency between its subordinate plans, such as between the financial improvement plans, accountability improvement plans, and department-wide initiatives, such as the military equipment valuation effort. For example, while the 2007 FIAR Plan updates indicate that Army, Navy, and Air Force developed accountability improvement plans that detail steps required for asserting audit readiness on military equipment, they do not clearly articulate the relationship of these plans to other plans, such as component financial improvement plans or the department's plan to value military equipment. Clear linking of individual plans and initiatives is important to ensuring that efforts occurring at all levels within the department are directed at achieving improved financial visibility in the most efficient and effective manner.

While we are encouraged by DOD's efforts to implement capabilities that improve comparability of reported financial information, a significant amount of work remains before the department or its components have the capability to provide timely, reliable, and relevant information for all management operations and reporting. We caution the department that going forward it will be important to ensure that its financial management modernization efforts do not become compliance-driven activities resulting in little to no benefit to DOD managers. It is critical that the department ensure that its oversight, management, implementation, and reporting of transformation efforts and accomplishments are focused on the implementation of sustained improvements in DOD's capability to provide immediate access to accurate and reliable financial information (planning, programming, budgeting, accounting, and cost information) in support of financial accountability and efficient and effective decision making throughout the department.

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

GAO CONTACT

For questions regarding this testimony, please contact Sharon L. Pickup at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Senator AKAKA. Thank you very much, Mr. Walker.
Secretary Brinkley.

⁵¹ Department of Defense, Property and Equipment Policy, Office of Under Secretary of Defense for Acquisition, Technology, and Logistics, Internal Validation and Verification Project: Military Equipment Valuation (June 13, 2006).

⁵² Waivers refer to military equipment programs that were intentionally not valued as part of the military equipment valuation initiative.

**STATEMENT OF PAUL A. BRINKLEY, DEPUTY UNDER
SECRETARY OF DEFENSE FOR BUSINESS TRANSFORMATION**

Mr. BRINKLEY. Chairman Akaka and Senator Thune, it's a great honor to be here today. I will also keep my remarks brief, given my statement's been entered for the record.

I want to express gratitude to the committee and to Comptroller General Walker for the ongoing direction, passion, leadership, and interest that's been provided for the past several years on this topic. I also want to express gratitude for the acknowledgment we've already heard today of the progress that's been made. I think, too often, we're all focused on continuous improvement and making things better, but it is equally important that we pause once in a while and reflect, in government, on the good things that we do. This builds confidence in the organizations that we can achieve great things in government, and I appreciate the feedback that we've already received today.

Comptroller General Walker has been a steadfast and extremely engaged observer of our efforts in the DOD. He and his staff continue to provide a great amount of stimulus to our efforts, in terms of continuous improvement; and, for that, we continue to be grateful, and we're thankful for his positive and negative feedback, which he provides with great regularity.

I will focus on a couple of areas that I think are worthy of reiteration before I turn over to my colleagues. Specifically—and it has been mentioned today that we have made significant progress in the Department in recognizing two things. Even some of the terms that have been used here today, terms like “federated,” terms like “accountability,” “structure”—align to the title 10 legal structures that are in place for how we train, equip, and support our Armed Forces. We have recognized, and put in place, governance processes and structures that have leveraged those legal structures, as opposed to try to conflict with them.

But the other thing I will say, that I know my colleagues here with me today share, is a great passion for introducing into government and into DOD the things that we take for granted in private life, in the Internet Age, is, just, people today. We are accustomed to fingertip access to information that informs decisions in all walks of our life. We go home, we bank online, we buy online, we demand instantaneous access to information online, and then we come back to work in government, and, too often, because of our legacy systems and our stovepipes and our processes, we don't have that access.

Certainly for us, the most important customers we seek to satisfy are in the desert today, in places like Afghanistan and Iraq, and they certainly deserve the same access to information to inform their decisionmaking that we take for granted in daily life. So, our shared objective is to introduce and to ensure that our information environment in the DOD provides that sort of speed, agility, and transparency to our decisionmaking, and we're making progress at that, and progress remains to be made.

Some specific points I will emphasize: We have defined data standards for our financial information in the DOD. Under the leadership of Comptroller Tina Jonas, significant progress has been made in standardizing our accounting. Just simple things, how we

account for information, how we account for the dollars that the taxpayer invests in defense. We have standardized our transaction codes, our accounting codes, and those are being fielded at systems at the Department level and in the Services, and that took a significant amount of effort.

Some systems that have been poster-children for hearings and GAO audits, the Defense Travel System; programs that are about to field, like the Defense Integrated Military Human Resources System (DIMHRS) for personnel pay, such a critical area, to provide uniform access to our talent in the Department, ensuring also that they are paid in a timely way, whether they're Guard, Reserve, or Active Duty. That system will begin to field this year and that represents major progress for the DOD.

I'll also emphasize our direct support to the warfighter. The Department fielded a system a year ago to enable our contracting in Iraq and Afghanistan to be transparent and to facilitate economic development in those critical areas. The Joint Contingency Contracting System today has over 1,000 active users in theater, thousands of companies have been registered in Afghanistan and in Iraq, hundreds of millions of dollars in contracts are now being awarded in a way that stimulates economic growth in those areas, and that's a direct result of the work that's taken place in the business transformation effort.

We have not limited out efforts to systems. We have fielded and put in place a Lean Six Sigma continuous process improvement team—this is driving world-class business transformation practices at the DOD and is focused, even at the Federal level now, on re-engineering the Federal security clearance process, in collaboration with the Office of Management and Budget (OMB), Office of Personnel Management, and other organizations; teamworking on detainee operations and how to make that work more efficiently for our Federal Government at such a critical time in national security; assessing our secondary defense agencies and their financial practices, and ensuring that those secondary defense agencies have world-class systems and access to information to enable their decisionmaking to be more efficient. I've already mentioned our efforts in support of the warfighter, including our task force, fielded in Iraq today, working on economic development in a broad way in support of Multinational Force-Iraq.

I do have a couple of announcements to make. We did announce, recently, the appointment of David Fisher, who comes to us, with a Silicon Valley background, as the Director of the BTA. But, I'm pleased to announce—and, again, this is in direct response to a longstanding area of passion for David Walker—the appointment of Elizabeth McGrath as the first performance improvement officer for the DOD. Beth is my principal deputy. She is a career leader. She represents what I believe is the best of government. We have brought in world-class talent from outside of government, and melded it with world-class talent from inside government. Beth will be part of the critical group of human resources who must carry forward, in this transition of administrations, our effort. Deputy Secretary England signed a memo recently, appointing her to this position. She is with us today, and we look forward to her leader-

ship in this transition as the first performance improvement officer for the DOD.

With that, I will turn over to my colleagues, and thank you for your time.

[The prepared statement of Mr. Brinkley follows:]

PREPARED STATEMENT BY PAUL A. BRINKLEY

Chairman Akaka, Senator Thune, and members of the subcommittee, thank you for this opportunity to provide information on the progress and direction of Defense Business Transformation.

Our Nation faces diverse challenges and greater uncertainty about the future global security environment than ever before. The Department's mission requires that its business operations adapt to meet these challenges and react with precision and speed to support our Armed Forces.

Over the past few years, Department of Defense (DOD) has built a strong foundation of agile business practices and management that ably supports the warfighter and provides transparent accountability to the taxpayer. By focusing on Investment Management and Governance and Performance Management and Improvement, the Department has made significant progress in its business transformation. I would like to note that much of the Department's success in its business transformation efforts can be attributed to the strong engagement of our senior leadership. Under the direction of the Deputy Secretary of Defense, Gordon England, the senior leadership of the Department has been engaged and accountable for the performance of our business operations. Secretary England has devoted extensive time and energy to this effort and the Deputy Secretary's role in managing the business operations of the Department was codified in a September 18, 2007, directive designating the position of Deputy Secretary of Defense as Chief Management Officer for the Department. I would like to take this opportunity to review with you our major successes and recent accomplishments.

INVESTMENT MANAGEMENT AND GOVERNANCE

Defense Business Systems Management Committee

As Deputy Secretary of Defense, Secretary England has worked tirelessly to improve the Department's business operations, most notably in his role as the Chair of the Defense Business System Management Committee (DBSMC), the overarching governance board for the Department's business activities. Since its inception in 2005, the DBSMC, in concert with the Investment Review Boards (IRBs), has served as the governance structure that guides the transformation activities of the business areas of the Department, such as finance, acquisition, etc. As authorized by the National Defense Authorization Act for Fiscal Year 2005 and reiterated in the DBSMC Charter, the DBSMC has responsibility for approving: business systems information technology (IT) modernizations over \$1 million, the Business Enterprise Architecture (BEA), and the Enterprise Transition Plan (ETP).

Additionally, the DBSMC Charter extends the authority of the DBSMC beyond statutory requirements to include responsibility for ensuring that the strategic direction of the Department's business operations are aligned with the rest of DOD, and for measuring and reporting the progress of defense business transformation. The DBSMC has also been an integral driving force behind the Department's adoption of Continuous Process Improvement (CPI)/Lean Six Sigma (LSS) methodology and the Department's shared focus on Enterprise Resource Planning (ERP) strategy. The DBSMC has provided invaluable top level direction for the business transformation efforts of the Department.

The DBSMC/IRB governance structure has produced significant improvements across a broad range of business systems, including two major enterprise-level programs—the Defense Travel System (DTS) and the Defense Integrated Military Human Resources System (DIMHRS). Based on a combination of additional DTS fielding, DOD-wide emphasis, and a significant upgrade to the reservation module in February 2007, DTS usage of the tool has increased dramatically. Fiscal year 2007 showed an approximately 72 percent increase over the previous year in the number of vouchers processed. The next phase of the program will add additional types of travel to the tool's capability, which will further increase usage. We are also preparing to make the use of DTS mandatory for all trip types that the tool has the capability to handle. Finally, we are partnering with General Services Administration to capture governmentwide travel data that can then be used to make more effective strategic sourcing decisions. Under the direct leadership of the DBSMC,

the DIMHRS program has achieved effective governance to keep the program on track for initial operating capability for the Army in October 2008.

Business Capability Lifecycles

The DBSMC has overseen the development and implementation of the Business Capability Lifecycle (BCL), which, when fully implemented, will integrate requirements determination, acquisition, and compliance to the BEA under a consolidated governance structure for all business systems at the Major Automated Information System level. The BCL will help resolve longstanding challenges that have impacted the delivery of business capabilities in a timely, well-informed manner—fragmented governance and reporting, a need for better-defined requirements and more robust upfront solution analysis, and a need for continual access to comprehensive information to enhance visibility for all process stakeholders. Under BCL process rules, initial operational capability of a program must be reached within 12–18 months of the contract award or the business case will not be approved.

Business Enterprise Architecture

The BEA has allowed us to establish clear benchmarks for the alignment of business systems to the Department's future business environment. It has also allowed us to make important and measurable progress, as acknowledged by recent Government Accountability Office (GAO) reports.

As we continue to evolve the BEA, a key objective is to produce an architecture that can be harnessed as an executive decisionmaking mechanism while simultaneously supporting the implementation of IT systems and services. The recently released Concept of Operations for BEA Requirements addresses this objective by: 1) outlining a further maturation of the Department's architecture development approach that addresses both top-down strategic requirements and bottom-up tactical requirements, and 2) expanding the governance process to encourage users and stakeholders to shape architecture form and content. This approach is already drawing from new sources of requirements, better evaluating the priority of requirements, and providing improved governance for the BEA development cycle.

When BEA 5.0 is released in March 2008, it will help achieve interoperable, efficient, transparent business operations by including and integrating data standards, required business rules and system interface requirements for the enterprise systems and ERP target programs.

PERFORMANCE MANAGEMENT AND IMPROVEMENT

Enterprise Transition Plan

With the publication of the September 2005 ETP, the Department, for the first time, provided its internal and external stakeholders a comprehensive view of the systems and initiatives that will transform the largest business entity in the world. The ETP reflects the strategic and tactical partnership between the enterprise- and component-levels by providing a big picture view of defense business transformation efforts at every level within the business mission area. On September 30, 2007, we released the latest ETP, again delivering on our commitment to Congress to update this plan every 6 months. The September 2007 ETP included new sections describing DOD's strategy for achieving its six Business Enterprise Priorities and Component Priorities. With each release, the plan continues to mature, communicating our transformation plans and providing senior management with a tool for monitoring progress against those plans. Significant milestones in the ETP are shown in 6-, 12-, and 18-month increments. For example, our most recent publication reflected success on over 83 percent of the Enterprise milestones detailed in the first version of the ETP. The ETP has also been expanded to include the progress of the Department's CPI/LSS efforts. The next update to the ETP is scheduled for release on March 15, 2008.

Defense Agencies Initiative

The Defense Agencies Initiative (DAI) is a significant initiative within the Department's overall effort to modernize the Defense Agencies' financial management processes including streamlining financial management capabilities, eliminating material weaknesses, and achieving financial statement auditability for the Agencies and field activities across the DOD. The DAI implementation approach is to deploy a standardized system solution that effectively addresses the requirements in the Federal Financial Management Improvement Act, Office of Management and Budget (OMB) Circular A-127, and the BEA, by leveraging the out-of-the-box capabilities of the selected commercial off-the-shelf product. The benefits of DAI include a single

Financial System Integration Office certified solution;¹ common business processes and data standards; access to real-time financial data transactions; significantly reduced data reconciliation requirements; enhanced analysis and decision support capabilities; standardized line of accounting with the use of Standard Financial Information Structure (SFIS); and use of United States Standard General Ledger Chart of Accounts to resolve DOD material weaknesses and deficiencies.

Capitalizing on the business acumen of 28 defense agencies and/or field activities, DAI will implement a compliant business solution with common business processes and data standards for the following business functions within budget execution requirements: procure to pay; order to fulfill; acquire to retire; budget to report; cost accounting; grants accounting; time and attendance; and resales accounting. Each defense agency is committed to leveraging its resources and talents to build an integrated system that supports standardized processes and proves that the DOD is capable of using a single architecture and foundation to support multiple, diverse components.

Continuous Process Improvement/Lean Six Sigma

LSS is an important part of the Department's CPI effort. A disciplined improvement methodology, LSS has been endorsed by DOD leadership as the means by which the Department will become more efficient in its operations and more effective in its support of the warfighter. By focusing on becoming a "lean" organization, the DOD will eliminate waste, improve quality and put its resources and capital to the best use in meeting the goals of the ETP. On April 30, 2007, the Deputy Secretary of Defense instructed the Office of the Deputy Under Secretary of Defense-Business Transformation to create a DOD CPI/LSS Program Office to drive DOD-wide CPI/LSS activities. The Department has made significant progress in implementing LSS. In cooperation with the Defense Acquisition University, Green Belt, Black Belt, and Executive training class have been created, training and project metrics from all OSD and Component organizations are being tracked, and many DOD-wide projects that will drive wholesale change are being executed.

LSS is being adopted at all levels of the Department. The Army, for instance, estimates that in calendar year 2007 alone, they achieved an estimated savings of \$1.3 billion through the use of CPI. Furthermore, the components as a whole have almost 20,000 active and completed LSS projects.

One of the most ambitious process improvement projects that has been undertaken to date is an end-to-end reform of the governmentwide security clearance process. DOD is working in close cooperation with the Director of National Intelligence, the Office of Management and Budget, and the Office of Personnel Management on this effort. The interagency team has been charged with creating a new clearance process that is fair, flexible, and adaptive, managed and highly automated end-to-end, reciprocal, and delivering timely, high-assurance security clearances at the lowest reasonable cost.

Component Accountability

In partnership with the components, the Department has taken major strides in business transformation at all levels. The Department has created an environment in which each level of the DOD organizational structure, component, enterprise, or other, can focus on those requirements specific to their level, with oversight and assistance provided by the Office of Business Transformation and the Business Transformation Agency. This system of tiered accountability encompasses the broad area of policy setting; the detailed establishment of process and data standards; as well as the ultimate execution of business operations.

Business Transformation Agency

The Business Transformation Agency continues to be an integral part of our business transformation efforts. In the span of less than 2 years, the BTA has gained a significant robust and organic capability to manage and oversee the Department's transformation efforts. In February 2006, the first permanent BTA Director was selected, providing a constancy of leadership and a focus for enterprise-wide decision-making across the Department. Additionally, using the congressional special hiring authority for highly qualified experts (HQEs), BTA has created a complementary workforce composed of career civilians, term-appointed civilians, military members and contractors who have collectively contributed to our continuing progress in assuring standardization and mitigating the risk associated with large business sys-

¹The Financial Systems Integration Office was formerly known as the Joint Financial Management Improvement Program staff office. FSIO has responsibility for core financial systems requirements development, testing, and product certification for the executive branch.

tems implementations across the DOD. We appreciate Congress' recognition of the need to develop a multi-dimensional workforce and the continued support for hiring HQEs as an integral part of maintaining transformation momentum.

Working Relationship with the Government Accountability Office and the Office of Management and Budget

DOD regularly and proactively engages with GAO and OMB to communicate its progress and achievements in defense business transformation, and both organizations continue to be constructive partners in our overall transformation effort.

GAO has acknowledged the Department's progress in several reports over the past 2 years. GAO's May report, entitled "DOD Business Systems Modernization: Progress Continues to Be Made in Establishing Corporate Management Controls but Further Steps are Needed" (GAO-07-733) was the most positive NDAA Compliance report the Department has received to date, and contained a single new recommendation and officially closed 10 others. GAO stated the following:

Given the demonstrated commitment of DOD leadership to improving its business systems modernization efforts and its recent responsiveness to our prior recommendations, we are optimistic concerning the likelihood that the department will continue to make progress on these fronts.

The Department has also been in regular dialogue with OMB regarding a number of transformation initiatives. DOD and OMB are working closely together to bring increased capabilities to the entire Federal Government. OMB is also helping DOD leverage lessons learned from initiatives across the Federal space.

We continue to welcome GAO and OMB's insight, as well as that of all our government partners, as we work together to accomplish our transformation priorities and achieve our shared goals.

CONCLUSION

We are pleased with our progress in our business transformation efforts and that this progress has been recognized by our oversight bodies. However, aligning the strategy, controls, people, processes, and technology to truly effect enterprise-wide change in an organization as large and complex as the DOD is an enormous undertaking, which has also been recognized by GAO and OMB. The challenges that business transformation faces should not be underestimated. We believe that our persistent focus on accelerating the pace of change the Department will continue to make steady and significant progress, achieving tangible results and positive business outcomes.

We appreciate and value the support of Congress over the last several years as we have established new governance and discipline in 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 AKAKA. Thank you very much, Secretary Brinkley.
Now Secretary Kunkel.

STATEMENT OF PETER E. KUNKEL, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. KUNKEL. Chairman Akaka, Senator Thune, my name is Peter Kunkel, and I'm the Principal Deputy Assistant Secretary of the Army for Financial Management and Comptroller.

Thank you for this 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, but I'll focus my comments today on four achievements since the last hearing in November 2006, and three improvements planned for this year.

First, in November 2006 we reported that the General Fund Enterprise Business System (GFEBS) completed a successful technology demonstration, and we committed to completing the full GFEBS blueprint by May 2007. This blueprint guides software de-

velopment and identifies additional opportunities for business process improvements. The GFEBS blueprint is complete. Furthermore, we have increased the number of systems marked for retirement, once GFEBS is implemented, from the 87 reported in November 2006 to 90 today.

Second, since November 2006, the Army has significantly increased the amount of business transacted via electronic commerce. For example, electronic processing of travel claims grew by 44 percent; and electronic invoicing by 150 percent. Furthermore, with support from the Treasury and the Federal Reserve Bank, we have completed deployment of stored-value card technology in Iraq and in Afghanistan, resulting in a 70 percent reduction in cash payments, and nearly \$630 million in electronic funds transfers.

Third, in November 2006 the Army Corps of Engineers submitted its fiscal year 2006 civil works financial statements to the DOD Inspector General. The audit work is complete, we expect to receive formally a qualified opinion this March. Qualification concerns treatment of certain assets balances for property acquired prior to 1998. Based on corrective actions implemented, we are confident that the qualification will be removed, enabling an unqualified opinion for the fiscal year 2007 statements.

It's important to note this achievement. The Army Corps of Engineers receives nearly \$6 billion in annual civil works appropriations, and manages nearly \$40 billion in total assets, making it one of the largest executive branch entities to receive a favorable audit opinion.

Fourth, over the past year, we have been engaged in an effort to improve supply-chain management, and in June, successfully implemented the so-called Funds Control Module. The Funds Control Module is a bridge between unit-level logistics and the Army financial system. This Federal Financial Management Improvement Act-compliant system verifies funds availability and provides real-time, auditable asset accountability for the \$20 billion expended annually by the Army for supplies and equipment.

I'd now like to describe three financial management efforts underway within the Army in 2008.

First, we are collaborating with the BTA to pilot electronic funds transfer to Iraqi vendors through the Commanders' Emergency Response Program. If successful, we will expand electronic payments to boost the nascent Iraqi banking infrastructure and reduce the need for cash in a deployed environment.

Second, in another example of collaboration with the BTA, we look forward to completing the first of five testing phases on the DIMHRS. Progress in this first phase is positive, and indicates that we will achieve successful deployment in November. The Army fully resourced DIMHRS requirements in the fiscal years 2008 and 2009 budgets to ensure that DIMHRS progress stays on track.

Third, we've started to build GFEBS Increment 2, which will deploy to installation management activities at Fort Jackson in November of this year. Increment 2 fully complies with the most current version of the BTA's Business Enterprise Architecture and the DOD Standard Financial Information Structure, ensuring interoperability across all business domains. GFEBS is fully resourced in fiscal years 2008 and 2009.

Mr. Chairman, I want to thank you and the committee for holding this hearing, and I'd like to emphasize that the Army shares your objective of sustaining the existing momentum into the next administration. With Congress's continued support and stable funding, the BTA's leadership, and oversight within the Army, we will improve our business systems and practices. We're thoroughly committed to this effort, and I look forward to your questions.

[The prepared statement of Mr. Kunkel follows:]

PREPARED STATEMENT BY PETER KUNKEL

Chairman Akaka, Senator Thune, distinguished committee members—I would like to thank you for this opportunity to discuss Army business transformation and financial management improvements. As the Principal Deputy Assistant Secretary for Financial Management and Comptroller, I assist the Assistant Secretary of the Army and the Secretary of the Army with oversight of the Army's financial management and business transformation activities.

As the Army continues combat operations in Iraq and Afghanistan, we are also transforming business processes and improving financial management. Our financial management transformation efforts support the Department of Defense Enterprise Transition Plan and comply with the Department's enterprise-wide standards, including the Business Enterprise Architecture (BEA) and Standard Financial Information System (SFIS). Our efforts are managed through a disciplined process that is guided by our audit readiness plan.

Since the November 2006 hearing, we have achieved steady progress in transforming the Army's financial management systems and processes. The details of these improvements are enumerated in the Army's portion of the September 2007 DOD Enterprise Transition Plan (ETP). I would, however, like to take the opportunity to highlight a few of these improvements.

The Army's Logistics Modernization Program (LMP) is the strategic-level building block of the Army's transition to a single logistics enterprise. We successfully improved LMP to comply with the majority of applicable financial requirements directed by the Federal Financial Managers Improvement Act (FFMIA) as validated by the U.S. Army Audit Agency. Full FFMIA compliance permits fielding of LMP throughout the Army.

The Deployed Theater Accountability System (DTAS) is the world's first enterprise-wide Secret Internet Protocol Router Network personnel tracking system. It provides commanders with real-time data for deployed military personnel, civilians, contractors and foreign nationals in theater. In the past year we rolled out an expanded version to meet additional requirements from the current theater of operations. We also successfully completed a Joint Chiefs of Staff-sponsored pilot test of DTAS as a potential joint personnel accountability solution.

I also would like to highlight the Army's embrace of Lean Six Sigma (LSS) programs. One of our fundamental challenges is that, in spite of the Army's dramatic growth in total obligation authority over the past several years, we continue to confront a significant mismatch between our resourcing requirements and our funding levels. We have turned to LSS to help reduce these requirements while still accomplishing the mission in a timely manner. LSS is transforming Army business processes and functions so that we provide greater value and responsiveness to customers while reducing cycle time and cost. LSS also encourages a culture of continuous, measurable improvement. As one example, we recently were able to reduce the time to publish permanent orders from 19.5 days to 3.7 days. Additionally, four Army depots have been awarded the prestigious Shingo Prize for Excellence in Manufacturing in acknowledgment of their reducing process cycle time, increasing efficiency and productivity, and reducing defects through the application of LSS principles.

In fiscal year 2007, the Army significantly increased the volume of financial business transacted via electronic commerce. For example, we processed nearly 800,000 travel orders and payments electronically through the Defense Travel System. We submitted approximately 140,000 invoices electronically to the Defense Finance and Accounting Service (DFAS) using Wide Area Work Flow. In addition, in partnership with the Department of Treasury and the Federal Reserve, we implemented stored value card electronic capabilities in the Iraq and Afghanistan theaters. Stored value cards employ electronic funds transfer (EFT) technology, thereby eliminating a soldier's need for check cashing and cash payments at Army and Air Force Exchange Service facilities.

Improvements in all of these areas are planned for fiscal year 2008.

PROGRESS IN DEVELOPING AND IMPLEMENTING BUSINESS ENTERPRISE ARCHITECTURE
AND TRANSITION PLAN

The Army's enterprise architecture is aligned with the Department's federated approach to business system modernization. We established business area domains in conformance with the Department's overall domain structure. Each domain is responsible for developing a business system transition plan and a systems architecture that aligns with the Department's ETP and BEA. Mature architectures have been developed for the financial management and logistics fields. We are adopting the DOD-wide human resources solution in the form of the Defense Integrated Military Human Resources System.

Under oversight of the Army's Chief Information Officer, we implemented a disciplined portfolio management process that requires each business domain to perform a complete inventory of all business systems within its purview and to register the systems in a single Army-wide portfolio. According to the Army's Chief Information Officer, the portfolio management effort enabled the Army to reduce the total system inventory by 1,500 systems from 3,200 to 1,700 systems. An additional 300 Army-wide business systems have been marked for retirement, pending the development and implementation of modern replacements.

By adopting the Department's business domain construct and federated approach to modernizing business systems; creating business system transition plans; aligning architectures with the BEA; and managing business systems investments through a disciplined portfolio management process, the Army will be able to comply with section 332 of the National Defense Authorization Act (NDAA) for Fiscal Year 2005. We already have scrutinized more than 100 major business system modernization efforts and received approval from the Defense Business Systems Management Committee (DBSMC) to continue these important transformational programs.

The Deputy Under Secretary of the Army is responsible for ensuring effective execution of our enterprise architecture and modernization efforts across all business domains. This senior official also is the Army's DBSMC representative. Governance at the Deputy Under Secretary level enables the Army to implement sustainable business process improvements and to develop compliant business systems.

In this context the Army has developed and is implementing a comprehensive financial improvement and audit readiness plan to guide financial modernization activities. This integrated plan outlines 1,947 specific actions needed to improve financial accountability and reporting, and assigns responsibility for completion of these tasks to 20 organizations within the Army and DOD. We have completed 673 of these tasks with independent verification by the Army Audit Agency. The Army's financial improvement plan is a component of the DOD Financial Improvement and Audit Readiness Plan and the ETP.

The Department's Inspector General reviewed our audit readiness plan and found that the plan sufficiently captures all actions necessary to resolve problems in obtaining an audit opinion. The plan provides a foundation to improve accountability and financial reporting within the Army, and has yielded tangible, sustainable results. The Inspector General reviewed our audit plan and identified areas needing improvement. We have substantially resolved the Inspector General's concerns, and are currently awaiting their final report, which we expect will reflect favorably on the efficacy of our plan. The plan provides a foundation to improve accountability and financial reporting within the Army, and has yielded tangible, sustainable results.

For example, we anticipate, based on preliminary reports, that the Army Corps of Engineers will receive a qualified audit opinion of its fiscal year 2006 Civil Works financial statements when the Inspector General releases its opinion in March 2008. Civil Works is a large financial entity within the Army comprising \$5.9 billion in annual appropriations, \$44.5 billion in total assets and \$26.7 billion in total property, plant and equipment. The Army Corps of Engineers has the largest property, plant and equipment asset base of any agency within the Executive Branch receiving a favorable audit opinion, and is the seventh largest in terms of annual appropriations. We have corrected the conditions linked to the qualified opinion of the fiscal year 2006 financial statements, and expect to receive an unqualified opinion for fiscal year 2007.

We continue to implement corrective actions identified in our improvement plan. In November 2006 we reported to the committee the completion of 150 of the plan's tasks during fiscal years 2005 and 2006, resulting in improved financial management across the Army. With the successful implementation of the funds control module, we finished an additional 95 tasks during fiscal year 2007, for a total of

673 tasks completed since the plan's inception. As a result of these changes, obligations for \$26 billion in annual supply transactions were delivered in real time, auditable electronic commerce processes were implemented, and accountability of general equipment and real property was improved.

The Army's financial improvement and audit readiness plan is important to ensuring compliance with U.S.C. 2222. U.S.C. 2222 prohibits the Department from obligating funds for preparing, processing or auditing financial statements until the proposed activities are consistent with the Department's financial improvement plan, and are likely to provide sustained improvements to internal controls. All 1,947 tasks contained in our financial improvement plan are designed to provide sustainable improvements when implemented. Each action is focused on correcting deficient processes and systems, and will result in long-term benefits when completed, including generation of reliable and complete financial management information.

PROGRESS IN COMPLYING WITH LEGISLATIVE REQUIREMENTS FOR OBLIGATING FUNDS THAT SUPPORT SYSTEMS DEVELOPMENT AND MODERNIZATION

Section 332 of the fiscal year 2005 NDAA requires the approval of the Defense Business System Management Committee (DBSMC) for all obligations for business system modernization that exceed \$1 million. Additionally, modernization must align with the Department's BEA. The Army implemented a tiered accountability process to meet this requirement.

Army domain owners represent the first tier of accountability. They are responsible for developing a transition plan and domain architectures, and ensuring that all domain business systems are categorized and included in the Army-wide business systems portfolio. Each domain owner is accountable for ensuring that 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 Chief Information Officer, who is the pre-certification authority for systems modernization investments and the second accountability tier, for review and approval. The Deputy Under Secretary of the Army for Business Transformation is the third accountability tier and serves as the Army's representative to the DBSMC. The Deputy Under Secretary ensures that each modernization request is aligned with the Army's Business Mission Area, presents the Army's modernization requirements to the DBSMC for approval, and requests DBSMC authorization to incur obligations supporting modernization efforts.

This tiered approach ensures a thorough review of requirements and that appropriate approvals are obtained for our modernization efforts, thereby significantly improving business systems modernization.

COST CULTURE

The Army also is making a concerted effort to inculcate a "cost culture" throughout its leadership in order to manage costs effectively. In a cost culture, the focus is: "How do I get the most readiness, the most output, the right materiel and the right personnel for the dollars I am given?" The mantra is "accomplish the mission considering cost." That means everyone at all leadership levels actually understands, and takes into account during the decision-making process, what things are going to cost. Spending decisions are no longer made in a vacuum.

Instituting a cost culture is essential to the success of the Army. Cost culture principles apply to both the operating and generating forces. They will help us to transform more of the Army and to do so more quickly.

The Army's Strategic Leadership Development Program has been revamped to provide the Army's brigadier generals more instruction in cost management. In addition, the Army is working to promote consideration of cost throughout its operational leadership. The Installation Management Command will provide cost management instruction to garrison commanders, and recently conducted five sessions of cost management training at the Installation Management Institute.

ACTIVITIES PLANNED DURING FISCAL YEAR 2008

The Army has three key financial improvement activities planned for calendar year 2008. The first is to complete development and fielding of General Fund Enterprise Business System (GFEB) Increment 2. The second is to complete all testing, fielding and organizational restructuring in support of the Defense Integrated Military Human Resource System (DIMHRS). Our third key activity is to implement a pilot program supporting electronic payments for the Commander's Emergency Response Program (CERP) in Iraq. All three efforts are fully resourced in fiscal years 2008 and 2009.

GFEBs constitutes a significant undertaking in the modernization and improvement of Army financial management. In November 2006, we reported to the committee our positive results in completing the GFEBs Increment 1 technology demonstration; committed to completing the full GFEBs solution blueprint by May 2007; and identified how the Single Army Financial Enterprise architecture was aligned with the DOD enterprise architecture and guided overall program development.

The full GFEBs solution blueprint was finished and the Army has begun to build Increment 2, which we expect to test and field at Fort Jackson, SC, by November 2008. Increment 2 will manage the Army's \$30 billion real property and general equipment portfolios and support installation management activities, including financial processes for command and staff, personnel and community, information technology, operations, logistics, engineering, resource management, acquisition and health services. It also will support financial activities at the DFAS and Army headquarters activities. Increment 2 will fully subsume 90 legacy business systems.

GFEBs Increment 2 fully complies with the most current version of the Business Transformation Agency (BTA) BEA. GFEBs also implements the DOD SFIS, the Department's standard financial schema which enables interoperability across the Department.

The Army is looking forward to the testing and implementation of the DIMHRS this year. DIMHRS will eliminate 66 non-integrated legacy systems, and will provide an integrated personnel and payroll system that meets the human-resource management needs of the Active component, the National Guard, and the U.S. Army Reserve. In addition to integrating personnel and payroll activities for all Army components in a single database, DIMHRS also will provide soldiers expanded self-service capabilities that eliminate the need to wait in long lines for personnel and financial services. Based on progress reported by BTA, DIMHRS is on track for delivery in October. Preliminary results of the first of five testing phases are encouraging.

The Army, in partnership with the DOD BTA and the DFAS, will begin acceptance testing of DIMHRS in April and full DIMHRS fielding in October 2008. The Army is working with BTA and DFAS to identify and to change organizational and business constructs in order to leverage the best business practices inherent in the DIMHRS solution.

The Army, BTA and DFAS also are collaborating on a pilot initiative to make payments by EFT for activities associated with the CERP. CERP is helping to win trust and rebuild civilian life in Iraq and Afghanistan by providing payments from appropriated funds directly to Iraqi and Afghan citizens engaged in civil infrastructure activities. The preponderance of these payments is made in cash by U.S. service men directly to the payee. To eliminate inefficiencies inherent in cash transactions, the Army, DFAS, and BTA this year will try EFT payments for CERP-related transactions. The pilot will be conducted in Iraq and will make a material contribution to the creation of a modern banking infrastructure there. There are many obstacles to overcome in this effort, including local customs, banking infrastructure issues and incorporation of robust management controls. We are firmly committed to executing the pilot program to improve CERP's efficiency and to support Iraq's nascent banking system.

CONCLUSION

The Army appreciates the committee's support and oversight of activities to improve and to modernize financial management and transform business processes within the Army. We share the committee's objectives in developing sustainable, enduring solutions designed to augment the reliability, timeliness, and accuracy of the Army's financial management information. I look forward to working with the committee throughout the year. Thank you again for the opportunity to be here today.

Senator AKAKA. Thank you very much, Secretary Kunkel.
Now we'll hear from Secretary Brook.

STATEMENT OF HON. DOUGLAS A. BROOK, ASSISTANT SECRETARY OF THE NAVY FOR FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. BROOK. Thank you very much Mr. Chairman and Senator Thune. Thank you for inviting us here today to discuss our respective Services' progress in transforming our business processes.

The Department of the Navy has made progress, I believe, but there is still much work ahead of us. For example, the Navy is implementing a major Enterprise Resource Planning (ERP) application with 14,000 users online today at 9 sites, and plans to have 10,000 more online by the end of this year. But, this implementation is not yet fully accomplished, and there are issues remaining to be addressed.

Second, the Marine Corps is well-positioned to achieve a favorable audit opinion on at least one financial statement by the end of this year, but we have not achieved auditability, and there is additional work to do.

The Navy has established, and is executing, an oversight process that conforms with the investment review criteria first mandated by Congress in the NDAA of 2005. Our transformation activities are subject to oversight by the Defense Business Systems and Management Committee, but we do not have a governance structure for transformation that mirrors that of OSD.

GAO has offered recommendations for process changes and organization changes, and Congress has included provisions, in the last several NDAA's, that align with those recommendations. The Department of the Navy understands these recommendations, we understand the provisions of law, and we continue to make progress toward improving the business of the Navy and the Marine Corps.

One of the recent criticisms by GAO of DOD's approach to business transformation was a perceived overemphasis on systems, perhaps at the expense of other aspects of transformation. So, let me, accordingly, broaden the picture of business transformation in the Department of the Navy, beyond systems.

In 2002, the Chief of Naval Operations laid out the Sea Power 21 Vision that included a business transformation element, known then as Sea Enterprise. The goal of Sea Enterprise was cost-consciousness, to find more efficient ways of doing the Navy's business. Since then, the program has matured into Navy Enterprise. Conceptually viewing the Navy as a matrix of support providers and combat capability providers, Navy Enterprise is looking beyond traditional functional and organizational stovepipes, and, instead of mission at any cost, Navy Enterprise is seeking readiness at the right cost. In my mind, this represents a cultural transformation that involves systems thinking with an eye on business functions, while still ensuring operational needs are met.

Disciplined, documented, and controlled processes are the hallmark of our Nation's maritime force. They are what make us effective at sea and in expeditionary maneuvers ashore. Such thinking has not always consistently translated into the business environment, but I believe there is evidence that that tide is turning. The Secretary of the Navy challenged the Department to achieve greater efficiency, and the Department responded by adopting Lean Six Sigma as the best-practice tool of choice. Thousands of projects, large and small, have been conducted, with positive results.

On the financial management side, the Department's Financial Improvement Program (FIP) has identified areas where enhanced internal controls and better-defined business processes can support audit readiness. These improvements in internal controls are con-

sistent with OMB Circular A-123 and are clearly in line with the spirit of the 2006 and 2007 NDAA's.

Not only is the Department working to create a culture and attitude of business transformation, it is dedicated to aligning its efforts with DOD. Navy's FIP integrates with DOD's FIAR Plan, and we work closely with the OSD Comptroller and other military Services to better align our processes and internal control improvement efforts with the broader DOD business transformation plans.

The Department of the Navy embraces DOD's federated concept of tiered accountability. This federated approach requires that enterprise-wide systems are used for enterprise-wide functions, and that they adhere to DOD-wide standards, but also recognizes the unique needs of the component in support of their Title 10 requirements.

The Navy believes it has partnered well with the BTA; most recently and most specifically, in reviewing and validating Navy's ERP processes.

Finally, in terms of organization, the Navy's Business Transformation Council was chartered in 2006 to bring senior executive leadership to business transformation issues and to provide enterprise-wide policy direction and execution oversight. It is chaired by the Under Secretary of the Navy. This Council is positioned to undertake governance of business transformation in the Department of the Navy.

In addition, the Navy has created the Functional Area Management Council to involve process owners in enterprise transformation. The functional area managers are senior leaders within organizations responsible for acquisition, financial management, and logistics. They are charged with overseeing the reduction and consolidation of information technology (IT) investments consistent with Department of the Navy and DOD strategy and policy. These functional area managers are aligned to their corresponding DOD investment review boards, with constant communication maintained via our Chief Information Officer's (CIO) staff.

Mr. Chairman, the Department of the Navy has taken important steps in transforming its business, but recognizes that much work remains to be done. In my recent return to the Pentagon, I perceived that real progress has been made on multiple fronts; systems, processes, organizational structures, culture, and audit readiness. The Navy is balancing the competing demands of doing it quickly and doing it well. The Department is committed to the idea of business transformation and to achieving transformation through a disciplined and integrated approach. GAO and Congress have provided helpful templates and recommendations, and BTA has been a valuable partner.

We appreciate this committee's interest and support, and we look forward to our continued cooperation with you and with our colleagues here at the table. I would be pleased to respond to your questions, Mr. Chairman.

[The prepared statement of Mr. Brook follows:]

PREPARED STATEMENT BY HON. DOUGLAS BROOK

Good afternoon Mr. Chairman, Senator Thune, and distinguished members of the subcommittee on Readiness and Management Support. Thank you for inviting me to be with you today and to discuss the Department of the Navy's (DON) status and

progress in transforming its business processes in support of the Navy-Marine Corps team. The Department has made progress but there is still much work ahead of us. For example:

- The Navy is implementing a major Enterprise Resource Planning (ERP) application with 14,000 users online today at 9 sites and plans to have thousands more online by the end of this year.
- The Marine Corps is well positioned to be the first military Service in the Department of Defense (DOD) to achieve a favorable audit opinion of at least one financial statement and other material components of its statements by the end of the year.

The Government Accountability Office (GAO) has devoted much attention to the pressing issues related to business transformation in DOD and has provided the Service components and DOD with recommendations for process changes and organizational changes. Specifically, GAO has recommended improvements in the areas of:

- Management structures and policies for information technology investment management, and
- Service transformation plans and architectures that are fully integrated with DOD plans and architectures

Provisions of the last several National Defense Authorization Acts align with those recommendations. The DON understands these recommendations and provisions and continues to make progress toward improving the business of the Navy and Marine Corps.

SYSTEMS

The last time Defense business transformation was discussed by this committee, the DON's representative was the Chief Information Officer. He related the Navy's and Marine Corps' plans and progress toward creating a seamless infrastructure, process improvements for the management of information technology investments, and enterprise-wide governance bodies.

He spoke of the plans and promise of Navy ERP and I can report today that implementation has begun. As we speak, 14,000 employees of the Naval Air Systems Command (NAVAIR) are using an ERP system for payroll, accounting, and other business functions. Valuable lessons from the ERP pilot projects were incorporated. This investment provides the cornerstone of a better integrated, more automated and better controlled business environment. It is compliant with the processes and accounting standards delineated in the DOD business enterprise architecture. By the end of the year, DON plans to have approximately 10,000 additional employees using this ERP. With DOD oversight, this Major Automated Information System achieved Milestone C approval (limited deployment based on achieving programmatic objectives) on time and is currently serving as the financial system of record at NAVAIR for both general fund and working capital fund activities. The current program of record, when completed in 2012 will account for nearly 50 percent of the Navy's total obligation authority. We are looking to further develop this financial backbone as quickly as prudent management and resources allow.

The DON has been an active participant in the Defense Business Systems Management Committee (DBSMC), represented initially by the former Under Secretary with continuity provided by the Chief Information Officer (CIO). The DON has established and is executing an oversight process to conform with the investment review criteria first mandated by Congress in the National Defense Authorization Act for 2005.

The DON Business Transformation Council (BTC), which I will discuss later in more detail, was chartered to bring senior executive leadership to bear on business transformation issues and to provide enterprise-wide direction and execution oversight. The Functional Area Management (FAM) structure was created to involve process owners in enterprise transformation.

The FAMs are led by senior leaders within organizations responsible for functional areas such as acquisition, financial management, and logistics, and are charged with overseeing the reduction and consolidation of information technology investments in their areas consistent with Departmental and DOD strategy and policy.

Progress continues to be made toward creating a seamless infrastructure and to develop enterprise-wide standards. The benefit of doing so is obvious. Given the myriad functional tasks of the Department, its expeditionary nature, and organizational complexity, creating a standard architecture is a challenge no corporate entity

has ever faced. The Department is moving forward, but the complexity cannot be overcome quickly.

One of the recent criticisms by GAO of DOD's approach to business transformation was a perceived overemphasis on systems and technology at the expense of other aspects of transformation. Let me accordingly broaden the picture of business transformation in the DON.

PROCESS AND PEOPLE

In 2002, the Chief of Naval Operations laid out the Sea Power 21 vision that included a business transformation element known as Sea Enterprise. The goal was cost-consciousness, to find more efficient ways of doing the Navy's business. Since then, the program has matured into Naval Enterprise. Teams are actively seeking the links between processes, funding levels, asset utilization, manpower and combat readiness. Conceptually viewing the Navy as a matrix of support providers and combat capability providers, they are seeing beyond functional and organizational stovepipes. Instead of mission at any cost, we are seeking readiness at the right cost. Such a cultural transformation of improved systems thinking with an eye on business functions is an important enabler and is critical for ensuring operational needs are met while implementing change.

Disciplined, documented and controlled processes are the hallmark of our Nation's maritime force; it makes them effective at sea and expeditionary maneuver ashore. Such thinking has not consistently translated into the business environment, but there is evidence that tide is turning.

The Secretary of the Navy challenged the Department to achieve greater efficiency and improved effectiveness. The Department adopted Lean Six Sigma as a best practice tool of choice. Thousands of projects, large and small, have been conducted with positive results. For example:

- The Naval Sea Systems Command conducted several value stream analyses designed to achieve annual cost reductions of \$200 million in *Virginia* class submarine construction. Streamlining construction planning processes can save over \$69 million.
- PEO (Aircraft Carriers) reviewed the Aircraft Carrier Mid-Life Refueling Complex Overhaul designed to increase aircraft carrier availability. Two major processes (delivery to Post Shakedown Availability and Selective Restrictive Availability) can be incorporated into other processes or eliminated, resulting in 10 months of additional operational time; the equivalent of an extra deployment over the life of a carrier.

The Department's financial statement audit readiness plan identified areas where enhanced internal controls and better defined business processes can support audit readiness. Such improvements in internal controls are consistent with Office of Management and Budget Circular A-123 and are clearly in line with the spirit of the 2006 (section 376) and 2007 (section 321) authorization act provisions that financial management improvement activities should improve controls and result in sustained improvement.

The Department is not only working to create a culture and attitude of business transformation within its military services, it is dedicated to aligning its efforts with the rest of DOD. The DON Financial Improvement Program integrates with the DOD Financial Improvement and Audit Readiness (FIAR) Plan. We work closely with Office of the Under Secretary of Defense (Comptroller) and other military Services to better align our process and internal control improvement efforts with the broader DOD business transformation plans. In the Marine Corps, a focused financial improvement initiative is positioning the Corps to be the first DOD military service that is "audit ready." The Marine Corps has made process standardization and increased internal controls the hallmark of its business transformation efforts. They can point to tangible benefits in terms of reduced reverted balances, reduced cost of financial processes, and improved transparency of financial information to inform resource allocation decisions.

The DON embraces DOD's federated concept of tiered accountability. This federated approach requires that Enterprise wide systems are used for enterprise wide functions and adhere to DOD-wide standards, while also recognizing unique needs the components have to support title 10 requirements. The Navy believes it has partnered well with the Business Transformation Agency, specifically in reviewing and validating Navy ERP processes. The DON Financial Improvement Plan aligns with OSD's FIAR Plan.

Finally, in terms of organization, the DON BTC I mentioned earlier was chartered in 2006 to bring senior executive leadership to bear on business transformation issues and to provide Enterprise-wide policy direction and execution oversight. It is

chaired by the Under Secretary of the Navy. The BTC can serve a role in the DON similar that served by the DBSMC for the DOD. The Functional Area Managers described previously are aligned to their corresponding DOD Investment Review Boards, and constant communication is maintained via the CIO's staff. The CIO office meets regularly with senior financial leadership to ensure projects are being executed under the framework of our emerging architecture and transition plans.

The continuous efficiency-seeking activity of business transformation should be understood as a stewardship issue in support of the operating forces. The DON is responsible to the combatant commanders, the President, Congress, and the public to be a good steward of the resources it manages. DON is also responsible to support the varied requirements of the operating forces. The policies and processes of business transformation must align with and efficiently support operational requirements.

Mr. Chairman, members of the subcommittee, the DON has taken important steps in transforming its business, but recognizes that much work remains. Real progress is being made on multiple fronts: systems, processes, organizational structures, culture, and audit readiness. The Navy is balancing the competing demands of doing it quickly and doing it well. The DON is committed to the idea of business transformation achieved through a disciplined and integrated approach. GAO has provided helpful templates and recommendations; BTA has been a valuable partner. The Department is dedicated to continuing to make transformational change in the management of its business systems. We appreciate this committee's interest and support in the matter and look forward to our continued cooperation. I would be pleased to respond to any questions you may have about the DON's business transformation initiatives.

Senator AKAKA. Thank you very much, Secretary Brook, for your statement.

Now we'll hear from Secretary Gibson.

STATEMENT OF HON. JOHN H. GIBSON, ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. GIBSON. Mr. Chairman and Senator Thune, thank you for the opportunity to appear before the committee today.

As the Under Secretary position within the Air Force is currently vacant, it is my privilege to discuss with you the Air Force's progress and support of DOD's business transformation and financial management efforts. Although the Air Force does not have an Under Secretary, the Air Force has established, and maintains, consistent processes in leadership emphasis to ensure successful and tiered governance of our ongoing business transformation efforts, as well as a solid architecture. This senior leadership oversight and emphasis function is crucial to ensuring we meet our business transformation and financial management challenges of the future. The Secretary of the Air Force, Michael Wynne, is actively involved with the governance and oversight of our transformation efforts.

Since the last hearing on this issue, in November 2006, the Air Force has continued transforming our business operations and financial systems, and has made measurable progress. Ultimately, our goal of financial management improvement is timely, accurate, and reliable business information, as well as improving our ongoing business practices, yielding a more efficient and effective organization. Since 2006, we have enjoyed numerous successes.

As an example, in late 2006 we completed an end-to-end review of our Air Force personnel claims process, a complicated set of procedures that regularly frustrated our servicemembers, consuming a significant amount of their time. In fact, Air Force personal claims processing had become so daunting that many members chose to

avoid it altogether, which led our Air Force Judge Advocate Office to transform the universal experience of filing a moving claim. Using Air Force Smart Operations for the 21st Century principles, we stood up the Centralized Air Force Claims Service Center in March 2007, achieving final operating capability at Kettering, OH. With a staff that will ultimately number 107, the center replaced over 300 personnel at 91 claims offices worldwide. But, most importantly for our airmen, the claims process is now simple, quick, and is being used in place of repeated trips to the legal office for briefings and paperwork.

Today, airmen complete a streamlined form on the World Wide Web from their desk, home computer, or anywhere with Internet connectivity. The need for on-hand property inspections is reduced, and if they have questions, they can still call the Help Center, which is manned 24/7 by claims experts.

To date, the center has serviced over 5,000 claims, with an average processing time of less than 10 days from online submission to payment, instead of 5 weeks, under the old process.

Another good-news business transformation story directly relates to our troops serving in harm's way as we begin the deployment of the EagleCash Program at Air Force locations within the Operation Enduring Freedom and Operation Iraqi Freedom theaters of operation in 2007. EagleCash is a Department of Treasury stored-value card that eliminates the need for cash in deployed locations and allows our military personnel to link the card to their personal banking account. As a result, troops can now load funds to the card by using a self-service kiosk, and now our airmen don't have to carry hard cash around with them, as the stored-value card serves as electronic money. This program eliminates frequent visits from our deployed airmen to finance offices, thus saving valuable time of our deployed airmen, as well as our finance troops, allowing us all to focus on other pressing mission requirements. This program is expanding to seven additional locations, including four within Iraq, and, as a result, approximately 10,000 of our deployed troops are now using the card in lieu of cash.

In September 2007, the new Air Force Financial Services Center became a reality as the facility opened at Ellsworth Air Force Base, SD. In its first phase, a central processing center for pay and travel vouchers went operational. The Air Force was honored that Senator Thune, Congresswoman Stephanie Sandlin, a representative from Senator Tim Johnson's office, and the Secretary of the Air Force, Mike Wynne, attended the ribbon-cutting and recognized this significant accomplishment as we centralized pay and travel processing from 93 locations around the globe to a world-class, best-practice, shared service center.

Going forward, we continue to work toward the second phase of the services center, which is a 24/7 contact center to handle pay and travel inquiries from over 300,000 military and civilian customers. All told, the services center will return 598 manpower slots to the Air Force total force, valued at \$210 million, and, just as importantly, improves the customer service levels for all of our airmen.

Also, as we progress into the second quarter of fiscal year 2008, more than 200 airmen at the services center are now providing

timely financial services for the Air Force major commands, covering 18 installations and 6 geographically separated units. It is very important to note, though the Air Force Financial Services Center allows for tremendous efficiencies and represents a huge transformation in the way we provide customer service in the back-room operations, 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 obtain the financial services in a personal manner.

Finally, Mr. Chairman, I want to close by thanking you and the members of this committee for your continued support to 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. Air Force leadership and Air Force financial managers, working together with our colleagues throughout the DOD, continue our efforts to provide reliable, timely, and accurate financial and management information and analysis to enhance decisionmaking and continuous improvement in business operations, to improve effectiveness, efficiency, and customer service throughout the Air Force.

I would like to conclude today by thanking this committee for your support during this important period of business transformation, and assure you we are doing our best to finance the fight.

Thank you, again, for your consideration, and I look forward to your questions.

[The prepared statement of Mr. Gibson follows:]

PREPARED STATEMENT BY HON. JOHN H. GIBSON II

INTRODUCTION

Chairman Akaka and members of the subcommittee, as the Under Secretary position within the Air Force is currently vacant, I have the privilege to appear before you today to discuss the Air Force's progress in support of the Department of Defense's (DOD) business transformation and financial management efforts.

Although the Air Force does not have an Under Secretary who would be designated as the Chief Management Officer as identified through the recently enacted 2008 National Defense Authorization Act legislation, we maintain consistent processes to ensure proper governance of our ongoing business transformation efforts. This Senior Leadership oversight function is crucial to ensuring we meet our business transformation and financial management challenges of the future. The Secretary of the Air Force, the Honorable Michael Wynne, has fulfilled this role and is actively involved with our transformation efforts.

Over the past 4 years, the Air Force has continued to strengthen our enterprise governance process and ensured the involvement of Senior Leadership as we transform the business of the Air Force. For instance, cross-functional Senior Leadership participates in reviews of program and legacy system migration milestones as identified in our Enterprise Transition Plan (ETP). Through the established tiered accountability mechanisms, this metric review provides the Senior Leaders insight into potential impacts to deliver capabilities and costs that schedule delays may create. In 2005, Air Force Smart Operations for the 21st Century (AFSO21), launched by Secretary Wynne, extended common process re-engineering approaches beyond the business and combat support mission area and into the warfighting, intelligence and infrastructure mission areas. The ETP links our business transformation initiatives, monitored through our governance process, to strategy identified through our AFSO21 efforts. Additionally, the milestones that are reported in the ETP are tied to our Air Force Financial Improvement Plan that directly supports the Financial Improvement and Audit Readiness (FIAR) plan to achieve CFO Act compliance. Another area of interest for the Air Force is streamlining the acquisition process for business information systems, where we have been working with the Business Transformation Agency on refining and implementing the Business Capability

Lifecycle (BCL) process. The Air Force nominated and has included its major Enterprise Resource Planning (ERP) Systems, Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS), in the BCL process.

The Air Force has had significant operational successes in accordance with financial management transformation as highlighted in the ETP since late 2006 that I would like to also share with you today. For instance, we established the Air Force Financial Services Center (AFFSC) at Ellsworth Air Force Base (AFB), SD, that reached an Initial Operational Capability in October 2007. All told, the AFFSC returned 598 manpower slots to the warfighter, valued at \$210 million, and more importantly, improved the customer service levels received by our airmen. The Government Accountability Office in its October 2007 report provided the Air Force with valuable comments regarding the Information Technology Investment Management maturity model. Based on these comments, we conducted a Rapid Improvement Event in November 2007 to create an Air Force IT investment strategy. This strategy will link to the budget cycle, align to strategic objectives and enterprise architecture, and improve the Air Force's portfolio management process. Finally, one of our ERP systems, the DEAMS successfully deployed an initial spiral to users at Scott AFB.

In order to improve investment governance across all Air Force IT systems, we are expanding upon the National Defense Authorization Act (NDAA) 2005 guidance to evaluate the Air Force inventory, to include Warfighting and Enterprise Information Environment Mission Area systems.

I thank you again for this opportunity to share the great progress that the Air Force has made towards achieving our business transformation efforts.

GOVERNANCE

In 2003,¹ the Air Force began major, coordinated efforts to manage its business and combat support transformation across the enterprise through implementation of a consistent structure for business transformation. With the introduction of the NDAA of 2005, the Air Force expanded upon this structure and energized associated governance, programming and certification efforts. These enterprise-level approaches grew with the implementation of AFSO21.

Since the Air Force undertook these efforts, we have successfully managed our business and combat support transformation across the enterprise and now have a mature management environment, characterized by the following five elements:

(1) Solid enterprise governance and senior leadership involvement. The Secretary of the Air Force participates in the Defense Business Systems Management Committee, which is an Office of the Secretary of Defense level committee that evaluates the development and modernization efforts of business systems and investments, the actions of the Air Force Process Council, and the operational decision process supported through the Senior Working Group.

(2) Sound investment selection and tracking mechanisms. We have implemented a consistent process that will go beyond the requirements of NDAA 2005. This process allows us to review information technology investments for business systems, and national security systems, and evaluate sustainment expenses on systems.

(3) Enterprise methods for managing our processes and our data. The Air Force methods consist of the Air Force Process Council and AFSO21 on the process side and the Transparency Integrated Product Team (TIPT) on the data side. The Secretary of the Air Force is directly involved in the TIPT to emphasize the importance of transparent, authoritative data.

(4) Clear priorities for business transformation, as documented in the ETP.

(5) Strong engagement toward transformation within the business information systems acquisition community. We have established leadership forums created to support the deployment of ERP systems and the migration towards a Service Oriented Architecture (SOA). To emphasize the importance of this issue, the Chief Air Force Acquisition Executive and Air Force Chief Information Officer (CIO) outlined a commitment to the application of open technology in the acquisition of information technology assets in a joint memorandum issued this past December.

¹Creation of the cross-functional Commander's IPT (CIPT) followed in 2004 by the Senior Working Group (SWG).

This management and governance environment has allowed the Air Force CIO to certify all business systems development and modernization spending in excess of \$1 million. We employ a rigorous and repeatable review process that evaluates current and proposed investments to ensure compliance with the Business Enterprise Architecture (BEA), to eliminate unneeded or redundant capabilities, and to ensure that spending is aligned to DOD and Air Force transformation priorities. Additionally, the Air Force CIO has reviewed all IT business systems that are spending modernization dollars.

When reviewing business system investments the Air Force seeks to ensure compliance to the Air Force Agile Combat Support Architecture (ACSA) in addition to the BEA. In 2007, we released the Air Force ACSA v4.0, a sub-enterprise-level architecture based on the Agile Combat Support Concept of Operations. It reflects corporate Air Force priorities and requirements for business and operational support systems, and provides a common framework for integration of functional domain planning. The Air Force employs a federated architecture; based on activity and capability alignment to both higher and lower level architectures. With the release of ACSA 4.0, Air Force has completed manual alignments of our enterprise architecture to the DOD BEA. Specifically, the Air Force has aligned functional capabilities as represented in the ACSA to DOD BEA Operational Activities. Functional architects (from areas such as acquisition, financial management, logistics, etc) contributed architecture content for functional capabilities, and continue to produce functional-level products.

During fiscal year 2007, the Air Force developed a governance compliance framework to facilitate the review of all statutory requirements across all Air Force IT systems. The Air Force CIO has incorporated the compliance review of Federal Information Security Management Act, Privacy Act, Section 508, and Clinger-Cohen Act into the NDAA certification review in addition to architecture and BEA alignment. This repeatable process provides the Air Force with a single-point review of our IT systems on an annual basis.

The Air Force maintains the Air Force Information Technology Investment Review Guide, which outlines the requirements and processes supported by the Air Force CIO on the certification and review of IT systems. This document undergoes a yearly update to ensure new requirements, procedures, improvements, and generally requested information are quickly available for our IT community.

Now, I would like to take this opportunity to review with you our major successes and recent accomplishments with regards to strategic planning, business transformation, financial management and human capital.

STRATEGIC PLANNING

In the area of strategic planning, the Secretary of the Air Force has instituted process and organizational change across Core Business Mission areas, visibly committing our Service to continuous, efficient process improvement through the AFSO21 program. We have identified senior-level Process Owners, or Champions, 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 timely, accurate, and reliable information and integration within and between the Air Force and DOD, the Air Force Secretary has led the Transparency initiative. This initiative will enable the Air Force to identify, validate, and exploit data currently stored in systems throughout the Air Force in a SOA environment. The TIPT, chaired by the Secretary of the Air Force, oversees this effort that is focused on exposing authoritative data to improve information availability and visibility. Not only will information be available and visible, but there will be business rules and common vocabularies to make the data understandable. Currently, the Air Force is focused on:

- (a) Unit and personnel readiness for accurate reporting and streamlined deployment planning
- (b) Flight Scheduling to reduce the financial burden posed by duplicative systems and processes currently in place
- (c) Force presentation in support of joint initiatives such as Global Force Management and Force Management Integration Project, assisting joint warfighter planning
- (d) Personnel information demanded by all the other focus areas and joint initiatives such as the Defense Integrated Military Human Resource System

Another key aspect of our business transformation strategy is the leveraging of information to transform global operations, one of our ETP priorities. To this end, the Air Force is implementing transformation through transparency using common, international standards (as much as possible), commercial products, and process re-

engineering to ensure the right data is available with the right level of protection and safeguards. Our infrastructure will leverage the work of the commercial sector—small reusable services registered and accessed in a fully discoverable, searchable metadata environment built using a SOA approach.

Activities are underway to develop presentation services utilizing intuitive drag and drop methods to bind data to presentation objects, to build on the success of the Air Force's Financial Management Dashboard. Additionally, during summer 2007, the Air Force conducted a pathfinder effort to prove Air Force Automated Metadata Tagging can utilize a commercial off-the-shelf tool populated with an established vocabulary to obtain an information asset's subject matter metadata in a fraction of the time that it can be done manually—with more precision and accuracy. The Automated Metadata Tagging Pathfinder does this by inspecting the information within the asset and categorizing it within the vocabulary. Based on the success of that effort, DOD-CIO chartered a working group to develop the suite of services that could automatically tag information assets and register the discovery metadata into appropriate metadata registries.

Another key component to the Air Force's IT strategic vision is the leveraging of process and vocabulary work being accomplished by Communities of Interest (COI) in order to define information sharing needs within the Air Force and DOD. COIs determine and document access and control restrictions to ensure users are authorized to view the data. COIs are governed through the Air Force TIPT under the direction of the Secretary. As such, there are five key TIPT pathfinder projects that will publish their vocabularies and data delivery services in the initial Air Force Metadata Environment (MDE). These pathfinders cross diverse information areas such as Finance, Individual Deployment Readiness, Flight Scheduling, and Global Force Management, proving the value of vocabulary development and data asset tagging as keys to information exchange. Additionally, through a DOD tasking, the Air Force will lead a multi-service project to further develop specifications for an automated metadata tagging service, demonstrate its use within a Joint COI, and deliver an acquisition strategy for the DOD Enterprise. In fiscal year 2008, the results of these pathfinder projects will be used to further develop and expand the Air Force MDE, which will allow discovery and delivery of the data assets to users and system developers throughout the Air Force and joint community. We will also establish an infrastructure to enable the discovered data to be presented in a flexible dashboard environment that can be customized and tailored in real time to match a user's operational needs. Finally, we will continue work with the DOD CIO, DISA, Services and others to develop and implement Net-Centric Data Strategy and Core Enterprise Services.

BUSINESS TRANSFORMATION

In the broad area of business transformation, the Air Force has also made great strides this past year. The Air Force has two ERP systems for the future—the ECSS and the DEAMS. For example, the ECSS initiated enterprise-level blueprinting, legacy system deconstruction, and pathfinder assessment and analysis efforts to redesign the business processes. ECSS also provides selection and configuration requirements for deployable information technology products such as ERP components, thereby providing the initial groundwork and planning to enable the transformation of the entire Air Force logistics operation.

Additionally, a major business transformation success story is that of the Air Force Claims Service Center (AFCSC). The personal claims process had become so daunting that military members at times decided to avoid the process, which led Air Force/JA to transform the universal experience of filing a moving claim. Through JAG Corps 21, JA used AFSSO21 principles to stand up the AFCSC in March 2007. The AFCSC achieved final operating capability at Kettering, OH. With a staff that will ultimately number 107, the Center replaced 300+ personnel at 91 claims offices worldwide.

For airmen, the claims process is now simple and quick. In place of repeated trips to the legal office for briefings and paperwork, airmen complete a streamlined form on the Web—from their desk, home computer, or anywhere with Internet connectivity. By uploading digital pictures of damaged items, they reduce the need for inspections. If they have questions, they can call an AFCSC help line, which is manned 24/7 by claims experts. To date, the Center has serviced over 5,000 claims with an average processing time of less than 10 days from online submission to payment, instead of 5 weeks under the old process!

In addition, the Air Force has undertaken several key initiatives via the eLog21 campaign to ensure synchronization of one of the largest and most complex supply chains in the world. This will enable improved support for multiple simultaneous

operations. To expedite transformation, the Air Force Global Logistics Support Center (GLSC) is being established concurrently with process reengineering that will tie together the re-engineered processes and coordinate provision of materiel to the warfighter by the supporting activities. Establishment of the GLSC is pivotal to eLog21 and begins the rational, incremental centralization of supply chain management.

Additionally, the Enterprise Environmental Safety and Occupational Health Management Information System is being developed to manage the environmental liabilities, hazards, personnel exposure, and safety needs for airmen at all levels. The Enhanced Technical Information Management System (ETIMS) is being developed to provide immediate improved warfighter capability to manage, store, electronically distribute, and use both paper and digital technical orders. ETIMS will shorten distribution timeframes and improve readiness by providing weapon system maintainers with on-demand, current, accurate and complete instructions to support maintenance activities.

The Air Force is participating in the BCL initiative with the expectations of bringing new capabilities to the warfighter earlier. The Air Force supports efforts that expedite the acquisition policy process for business information systems while reducing redundant processes, which is the directed goal of BCL. We currently have two Major Automated Information System that are test cases for the BCL process, DEAMS, and ECSS. We are in the early stages of the BCL process and it is too early to predict success at this time but we remain optimistic.

Financial Management

Air Force Financial Management made great strides in fiscal year 2007 as we continued our transformation efforts. The new AFFSC became a reality in September 2007 as the facility opened at Ellsworth AFB, SD, and its first phase—a central processing center for pay and travel vouchers—went operational. We were honored that Senator John Thune, Congresswoman Stephanie Herseth Sandlin, a representative from Senator Tim Johnson's office, and Secretary of the Air Force Michael Wynne attended the ribbon-cutting and recognized the center's value as we centralize pay and travel processing from 93 locations around the globe to a world-class, best-practice shared services center. Over the coming months, we will continue to work toward the second phase of the AFFSC, which is a 24x7 contact center to handle pay and travel inquiries from over 300,000 military and civilian customers. All told, the AFFSC returned 598 manpower slots to the warfighter, valued at \$210 million, and more importantly, improved the customer service levels received by our airmen.

As we progress into the second quarter of fiscal year 2008, more than 200 airmen (military members, civil servants and contractors) at the AFFSC are now providing timely financial services for major commands that encompass 18 installations and 6 geographically separated units. 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 obtain the financial services they need in a manner that works best for them.

Another successful effort is one of our Joint initiatives with Transportation Command, the DEAMS. DEAMS is part of the Air Force ERP solution to re-engineer financial processes and will include the full range of accounting functionality. In July 2007 DEAMS Increment 1, Spiral 1 was deployed at Scott AFB and provides functionality to approximately 400 end users. Spiral 1 workflow focuses on requisition processing that creates a requisition, conducts automatic funds check, receives validation by a budget reviewer, completes review and validation by the contracting office and completes certification by the funds certifying officer.

Additionally, under the leadership of the Secretary of the Air Force, Michael Wynne, the Air Force has created a Financial Management Dashboard. This dashboard provides Senior Leadership and Financial Managers at all levels with financial data transparency to support decisions and provide timely status of key financial metrics such as: tracking budget spend plans vice actual execution of operation and maintenance funds, working capital funds, and military personnel funds. We have worked diligently to produce metrics that are valuable to the decisionmaking process and define the metrics so that they are understandable.

The Analytical Capability Transformation initiative, which includes the financial management Center of Expertise (CoE) and the Acquisition Cost Capability (ACC), has resulted in the most profound changes Air Force cost analysis has seen in the past 20 years! The maturation of our CoE continued in fiscal year 2007 with five-fold increase in workload. It completed 57 different studies for 37 different installations and all major commands. The CoE provides key analytical support including

cost estimating, economic and business case analysis, and specialized financial analysis to major commands, base, and installation decisionmakers. 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. While the CoE analyzed over \$300 million in investment dollars in fiscal year 2007, we anticipate even greater benefits as full operational capability is reached in fiscal year 2008.

In addition, the ACC achieved several milestones in its mission to improve Air Force-wide cost analysis. Five Air Force Cost Analysis Agency operating locations were opened and staffed at our Product Centers and Major Commands to provide non-advocate cost assessments of major Air Force programs. These operating locations will work hand-in-hand with program offices to ensure high quality estimates are prepared and maintained for budget and milestone decisions. In August 2007, we issued cost estimating guidance with the Under Secretary of the Air Force and the Service Acquisition Executive that improves the quality and frequency of cost estimates and the accuracy of budget requests. Finally, our team made progress improving the training and certification of cost analysts. Working closely with Defense Acquisition University and private estimating societies, we restructured the course curriculum and certification requirements for cost analysts. These changes will ensure future analysts are better prepared for his challenging technical discipline.

The Air Force Financial Management Community has also been working on identifying ways to share knowledge easily to support deployed servicemen around the globe. To this end, we are heavily leveraging the capabilities provided through the Air Force Knowledge Now and the establishment of Communities of Practice, such as the Combat Comptroller Community of Practice. This workspace provides a tremendous amount of deployment related information at one site for deploying Financial Management Personnel through a web-based collaborative environment. Service men and women use shared information and administrative and communications tools to conduct business, manage projects, maintain awareness and solve group problems. With a membership of over 850 and monthly web page views averaging 8,000, this is a great source to supplement preparation efforts to deploy. Additionally, by providing deployed site information, including pictures, it helps the deploying airman to manage his expectations and relieve pre-deployment anxiety.

To further support our deployed troops, we began the deployment of the EagleCash program at Air Force locations within the Operation Enduring Freedom and Operation Iraqi Freedom theaters of operation in 2007. EagleCash is a Department of the Treasury stored value card that eliminates the need for cash in deployed locations and allows our military personnel to link the card to their personal banking account. As a result, troops can load funds to the card by using a self-service kiosk. This eliminates frequent visits to Finance offices, and allows our airmen to use these cards on an installation to obtain goods and services. In May 2007, the first Air Force deployment of EagleCash took place at Al Udeid Air Base, Qatar. We have since expanded this program to seven additional locations, including four within Iraq. As a result, approximately 10,000 of our deployed troops began using the card in lieu of cash. Most importantly, EagleCash enhances the warfighting troops' ability to focus on the mission versus spending time in line to obtain cash for their everyday needs.

Of course, improved processes and systems mean little without the people. On this front, financial management remains committed to equipping its people with the skills to succeed via world-class training curriculum and modern delivery methods. In fiscal year 2007, we revamped over 80 percent of our schoolhouse training to ensure our officers and civilians were receiving the latest in analytical, decision support, contingency and leadership skills. In addition, we continued our march toward using leading-edge delivery technologies that increase the numbers receiving training while driving the delivery costs down. Such an example is the Financial Management Distributed Learning Center (FMDLC), a one-stop, electronic storefront to enable the world-wide delivery and sharing of training events to airmen. Having gone live in fiscal year 2007, FMDLC puts e-learning at airmen's fingertips . . . anytime . . . anywhere. As a result, training capabilities are opened to larger portions of the workforce, plus we can quickly distribute important information and expert studies across the financial management waterfront, and more agilely exploit expertise, wherever located, to robust financial management skills. This effort is part of the overarching Air Force Enterprise Learning Management initiative.

FINANCIAL AUDITS

We wholeheartedly concur with the committee that the most effective way to address the Air Force's financial management issues is to continue 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 FIAR Plan, a key component of which is the Air Force Financial Improvement Plan (FIP), formerly known as the Air Force Information Reliability and Integration Plan. The Air Force FIP 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.

As part of the June release of the DOD FIAR Plan, a revised DOD-wide audit strategy was outlined. The revised audit strategy transitions the DOD approach from one that focuses solely on a line-item to one that focuses on end-to-end business processes. The Air Force is currently in the process of modifying the areas of Military Equipment and Real Property Accountability in the Acquire to Retire end-to-end process, as well as developing a plan for the Civilian Pay—Hire to Retire process. The Air Force's approach to these three areas is in development and will be presented in the March 2008 version of the FIAR plan. Regardless of the strategy the Air Force employs, the primary objective remains the same: implement sustainable improvements in order to deliver accurate, timely, reliable, and complete financial management information.

The Air Force took the first step in validating that we are on our way to audit readiness with submission of the Fund Balance with Treasury assertion package and subsequent ongoing audit by an independent public accounting firm that is scheduled for completion in June 2008. Additionally, the DOD Inspector General will initiate audits of the financial statement line items of Appropriations Received and Non-expenditure Transfers; further confirming Air Force progress toward improved financial information.

HUMAN CAPITAL

For our business transformation efforts, the Air Force realizes there is more than the systems and processes that require modernization. It is essential for us to ensure our personnel are educated and supported to operate our modernized systems.

In addition to our Financial Management Service Delivery Model that provided us with the framework to create the AFFSC, the Air Force has created a Personnel Services Delivery initiative. Our Personnel Services Delivery initiative dramatically modernizes the processes, organizations, and technologies through which the Air Force supports our airmen and their commanders. The goal is to deliver higher-quality services with greater access, speed, accuracy, reliability and efficiency. Our key enablers are maximizing automation and self-service, centralizing work in Total Force Service Centers and realigning the role of strategic advisors. In an effort to provide more effective support to the airmen and their commanders, the Manpower, Personnel, and Services community will be moving to a common platform for personnel service centers.

These initiatives feed into our larger Air Force Enterprise operational services delivery and enhance the Air Force's ability to acquire, train, educate, deliver, employ, and empower airmen with the needed skills, knowledge, and experience to accomplish Air Force missions whether on station or in garrison. We will deliver the "right person at the right place at the right time."

CONCLUSION

As a result of our business efforts to date, we have been able to shut down 26 unnecessary legacy systems affecting numerous Air Force functional organizations. Furthermore, we are tracking seven additional systems scheduled for shutdown in fiscal year 2008. The continued combination of our careful focus on investments and new business practices will create better information for decisionmakers while eliminating or migrating additional stove-piped and redundant systems.

Finally, Mr. Chairman, I want to close by thanking you and members of this committee, 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 exclusive to 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—manmade 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 this committee for your support during this important period of business transformation. We are proud to stand by your side in support of our Nation at war.

Senator AKAKA. Thank you for your statement, Secretary Gibson.

Over the years, Mr. Walker has repeatedly told us that the key to successful business transformation at the DOD is a strategic planning process that results in a comprehensive, integrated, and enterprise-wide plan, or set of plans, to help guide transformation. Section 2222 of title 10, which we enacted in the NDAA for Fiscal Year 2005, requires that this strategic plan take the form of a Business Enterprise Architecture (BEA) and transition plan. Mr. Walker's testimony today indicates that DOD has begun to implement a BEA and transition plan, but that—and I quote—"The latest version of a BEA continues to represent the thin layer of DOD-wide corporate architectural policies, capabilities, rules, and standards, and well-defined architecture are not yet—do not yet exist for the military departments."

Mr. Walker, in your view, have the military departments made significant progress over the last year? Are they close to having the kind of enterprise architecture that they need at this point?

Mr. WALKER. They haven't made nearly as much progress as the Department has, on an enterprise-wide basis. They need to accelerate their efforts with regard to component architecture.

Let me clarify, Mr. Chairman, as to when I talk about a business transformation plan. Clearly, an enterprise architecture is a key part of that, but there's a lot of other things dealing with business transformation that go beyond systems. You deal with issues that deal with human capital, you deal with issues that deal with contracting, you have issues that deal with a whole range of issues, other than the traditional financial management and systems necessary to generate financial and other management information.

Senator AKAKA. Secretary Brinkley, having heard the statement Mr. Walker just made, do you agree or disagree with his assessment of this issue?

Mr. BRINKLEY. I would agree with his assessment, but I want to qualify it slightly.

The DOD—and, sir, in your reference you mentioned the first 4 years and the struggle that took place with business transformation. The absence of DOD having clearly defined and articulated what was going to be common and corporate and required Department-wide made it very, very difficult for a Service, then, looking up at the DOD, to say, "What do I have to define?" So, in many respects, the task of the Services had been negated by our inability as a department to define a common enterprise architecture for the DOD. We have done that over the past 3 years, and that's been very clearly articulated, which has enabled them to begin to respond and decide for themselves what is—I'll use my colleague to the left, here, as an example—What is the corporate Army? Then, what is not corporate in the Army? They've begun that work in

what needs to be done in common, how do we integrate our processes between finance, logistics, and acquisition in the Army? So, this is going to be a multistage process for what is the largest industrial enterprise in the world, by a factor of three. That's why I think that they are lagging, but it is understandable that they would lag.

Regarding the transition plan, we also believe the system side of it has been well-architected, at the Department level. Efforts are underway—as he pointed out, we have many high-risk areas that have remedy plans that are being put in place. Are they integrated at the Department level? Do we have a unified business management transformation plan that encompasses more than systems? We would agree that we have much work remaining on this. One of the areas Ms. McGrath, under the direction of Deputy Secretary England, is going to be pursuing is to tie those together so that there is a clearly articulated enterprise management transformation strategy worthy of the Department, given the importance of its mission.

Senator AKAKA. At our last hearing on this subject, GAO told us that the Air Force had fully satisfied only 14 of 31 core framework elements of an enterprise architecture. The Navy had fully satisfied only 10 of these elements. The Army had fully satisfied only 10 of these—satisfied only a single core framework element, just 3 percent of the total.

For the representatives of military departments, do your respective architecture programs have a committee with representation from across the Department that is responsible for approving the architecture, ensure that architecture products and management processes undergo independent verification and validation, and ensure that your architecture products address your current and future environments or include a sequencing plan to guide the transition between these two environments? Mr. Brinkley, how soon can we expect the military departments who have business enterprise architectures and transition plans in place that comply with the requirements of section 2222?

Mr. BRINKLEY. I would defer to my colleagues, in terms of committing them on time. I will say that each of the military departments, in addition to the key business defense agencies—Defense Finance and Accounting Service (DFAS) Defense Logistics Agency, the Military Health System—do submit, as part of our transition plan, a contribution—a section, specific to the Service, that lays out their intent to transition to compliance with the DOD's business enterprise architecture, as well as their own architectures and their own process improvement efforts.

I also want to emphasize that, in many respects, the job of—again, I'll use my colleague, Mr. Kunkel, here, as an example, in the Army—of defining an enterprise architecture, and implementing it and executing it, in all honesty, is, in many ways, harder than it is to do at the enterprise level, because the Army has direct operational authority and operational responsibilities, whereas OSD, in the Department-wide effort, tends to be a headquarters function, where what we're talking about is data standards and information and the ability to access and report and make decisions quickly.

But, beyond that, I would defer to my colleagues to comment on any commitments to timelines.

Senator AKAKA. We will have another round of questions, so let me ask Senator Thune for his questions.

Senator THUNE. Thank you, Mr. Chairman.

Mr. Brinkley—and I direct this to the Services, as well—but, how does the DOD, in each of the Services, intend to implement the provisions of the NDAA for Fiscal Year 2008 with respect to designating the Deputy Secretary of Defense as the CMO, establish a Deputy CMO, and establishing a CMO within each of the military Services?

Mr. BRINKLEY. The Director of Administration and Management, Honorable Michael Donley, and my office have been tasked by the Deputy Secretary of Defense to formulate a plan to address resource reporting, resourcing, as well as a timeline for implementation for implementing that critical legislation. We have launched that team. They are working now. The legislation, I believe, gave the Department 180 days to respond to Congress with a detailed plan for implementation, and we will have no problem meeting that deadline for you.

Senator THUNE. Anybody else care to comment on that?

Mr. KUNKEL. I would just offer that in the Army we look forward to contributing to that plan. We think it's good legislation.

Senator THUNE. How will the Department and each of the Services ensure that any actions it takes on that plan, if it's 180-day plan, will maintain momentum after the change of administrations, next year? That's a concern, obviously. This committee has been pursuing this subject area for a long time now, and, I think, through a couple of presidential elections, at least, and there's always a concern, when there's a change of administrations, that some of these initiatives lose some of their momentum.

Mr. BRINKLEY. I'll comment on a couple of thoughts. We share the concern. There's nothing we worry about more than to be somewhere else in 2009 and read about a restart of business modernization. It's, as has been indicated, not a Republican nor a Democratic issue, it is an American issue, and critical to our efforts to support our forces and be accountable to the taxpayer.

I believe the steps we have taken, and are continuing to take, to identify career civil-servant leadership at the most senior level, and to have Secretary England, again, appoint Ms. McGrath, our appointment of David Fisher, the Director of the BTA—these are people who are not going away, who are familiar to your staffs and to this committee and other committees, which brings me to my last point. I believe that the role of Congress is instrumental here, in terms of holding a next administration accountable. The plans that we have published—our Enterprise Transition Plan, many of these high-risk plans—they have milestones that go out for months and years into the future. In a new administration, having them be accountable to taking that plan and continuing to execute to it and, of course, they will make changes, and they will adjust, and they'll recast certain things, but to not allow for Congress not to allow a complete restart, by holding accountable the Department's leadership, to maintaining momentum, I believe, could be a critical element of maintaining continuity. Those would be my thoughts.

Senator THUNE. Do you think, as Mr. Walker suggested, that your position should be a nonpolitical, completely-sanitized-of-the-political-process, so to speak, professional person?

Mr. BRINKLEY. I certainly believe, from a qualifications perspective, that, in terms of qualifications, a concern one has with any political appointee is the qualifications of the individual involved. So, I would argue that, as long as the individual is highly qualified, and we put a team around that person who are empowered the way I believe we've empowered some of our career leaders, again, who we've recruited from industry, and some who are the best of government—then this issue of this being a termed appointment may become less critical. I believe I've read that the average tenure of a political appointee in government is just over 18 months. So, how one creates enough tenure in a leadership position in government in the modern era, to me, is a challenge. Regardless of whether you give the person a term or not, how do you incent someone to stay? So, to me, building the structures around them, and, again, the kind of transparent, accountable plans, that you can hold the Department accountable to, regardless of transitions in leadership, I think, may prove to be more critical than even the issue of whether the position is termed or not.

Senator THUNE. Okay.

Mr. Walker?

Mr. WALKER. Senator Thune, I would agree that there are two aspects. One aspect is statutory qualification requirements. I would note that they don't exist, and that's something that Congress may want to consider: having statutory qualification requirements for the Department-wide CMO and the military-department CMOs and the deputy CMO, which would be consistent with making sure you have the right kind of people in there. The only position that we're talking about making a term appointment—and it may have to be modified, given what Congress has done—the only one we were talking about is the CMO for the Department, not all of these positions.

Senator THUNE. Right. No, I understand that.

Mr. WALKER. Right. As somebody who actually has a term appointment, I actually know that it does have an impact on whether or not you're willing to stay longer than the normal political appointee. As somebody who has good friends that have other term appointments, such as the Commissioner of Social Security, such as the Commissioner of IRS, such as the Director of the FBI, current and former friends, I know it has an impact on how long somebody's willing to stay. You can't require somebody to stay the full term, but I think you could do a lot better than 18 months.

Senator THUNE. Mr. Brinkley, do you believe that each of the Services could benefit from having a BTA-like office?

Mr. BRINKLEY. The thing that I think has helped the Department in creating the BTA is that we had a real missing piece at the top of the Department, because OSD does not traditionally have an execution responsibility, yet it was taking on more and more execution-oriented activity as we tried to make more and more things common. You had a gap, you had a missing piece, I would call it, at the top of the pyramid of the Department's organization structure. So by creating the BTA and pulling—it's a partner organiza-

tion to OSD, accountable for the DOD-wide activity. We filled a gap that existed. What is less clear to me—and, again, I would defer to my colleagues, and it may be even be a Service-specific answer—in the current Services structure—because, under title 10, they have execution responsibilities at all tiers of their organizations—it's not clear to me whether that gap exists, and, therefore, it needs to be filled. That very well may be a Service-specific answer, there may not be a uniform solution to that problem.

Senator THUNE. Anybody else care to comment on that? [No response.]

No? Okay. Thank you, Mr. Chairman.

Senator AKAKA. Thank you.

In July 2007, GAO reported that the Department of the Army would be investing approximately \$5 billion over the next several years to develop and implement the General Fund Enterprise Business System (GFEBS), the Global Combat Support System-Army, and the Logistics Modernization Program. The GAO reported that this significant investment was being made without the benefit of business enterprise architecture, concept of operations, and effective portfolio management.

Mr. Walker, what, in your view are the likely consequences of investing large amounts of money into business systems of this kind without adequate planning? Do you believe that these problems are limited to the Army, or are they likely to be common to other military departments?

Mr. WALKER. Mr. Chairman, the issue is, in the absence of having the things that you referred to, it served to significantly increase the risk of waste and delays and a lack of success. This is an issue that exists, not just within DOD, but in many other departments in government. As you undoubtedly know, there have been at least a couple of circumstances that I can think of, where, given the amounts involved, Congress has asked GAO to do periodic reporting. IRS business systems modernization being one example that I can give.

I've been slipped a note here, saying that the duplication of functions and the lack of interoperability associated with legacy systems is the issue that exists across government.

Senator AKAKA. Secretary Brinkley, do you agree or disagree with Mr. Walker's assessment on this issue?

Mr. BRINKLEY. The issue of interoperability? This is the one that we're talking about? The issue of—again, as the Services have been given—and I would use Logistics Modernization Program, which is one of those that was mentioned a moment ago, as an example of a program that has confronted and addressed these issues successfully, that has integrated the financial and the logistical elements of working-capital-funded logistics, I think that's an actual model, which struggled very greatly, and GAO was extremely active in critiquing, early on. They are working through, today in the Army, between GFEBS and Global Combat Support System-Army. The remaining issues, in terms of interoperability—and, again, I think that goes to the heart of the architecture comment we made earlier, which is, they are moving in this direction as quickly as possible, given, now, the corporate-level requirements have been made clear.

Pete, I don't know if you want to add to that or not.

Mr. KUNKEL. I'm delighted to address it.

With respect to interoperability, the Army's leadership has placed a great deal of emphasis on business systems transformation. I'll say that the GFEBS is actually compliant with the most recent version of the Business Enterprise Architecture. It's compliant with the Standard Financial Information Standards. With respect to our Business Enterprise Architecture, which is still under development, we have paid the most emphasis to the touch points between the domains; that is, between the logistics and financial domain and the human resources domain. In fact, the human resources domain is a BTA-built application that we look forward to using, late this year.

With regard to systems redundancy, we have a rigorous portfolio management process, conducted by our CIO-G6, that, since it began its work, has eliminated 1,500 systems, from 3,200 to 1,700 systems. GFEBS alone eliminates 90 systems, DIMHRS replaces 66 systems. We're working hard to address these problems. We take it very seriously.

Senator AKAKA. Let me ask the three Service representatives three questions. Do you have responsibility, within your department, for the development of a business enterprise architecture and transition plan? Also, do you have responsibility for making investment decisions for new business systems? Do you believe that you can make sound investment decisions in the absence of a robust enterprise architecture and transition plan?

Mr. BROOK. Mr. Chairman, I do not have that responsibility, nor do I make investment decisions, but I think the question that you pose is an excellent one, and that is whether or not, in the absence of a comprehensive business enterprise architecture, there is risk involved in investing in either legacy systems or new systems. There certainly is. That risk isn't eliminated by enterprise architecture, but it certainly is reduced.

Although we don't have a business enterprise architecture specific to Navy, we function inside the business enterprise architecture that BTA and OSD have constructed. We mitigate that investment risk as best we can. So we mitigate that risk by subjecting investments in legacy systems or new systems to a review and precertification process that involves the Department's CIO, certification by BTA's investment review boards, and, eventually, approval by the Defense Business Systems Management Committee.

So, within that structure, we think we're performing a responsible review of our investments inside the overall department's business enterprise architecture.

Senator AKAKA. Secretary Gibson?

Mr. GIBSON. Senator, in this case, with regard to governance, management, and oversight, we feel like we've worked hard and created a very good news story here. We have instituted a thorough, formal, and codified corporate and governance structure, including enterprise architecture, in the Air Force, which is supported by a dedicated and consistent senior leadership guidance. We have a tiered structure, which cascades down from the senior leadership level to the functional levels. It provides checks and balances for investments, as well as evaluating business investments

for risk, value, strategic alignment, and integration across the Air Force.

Our structure mirrors DOD's, in a great way, beginning with the functional domains, feeding up to a cross-functional working group, which is supported by the CIO. All of this is overseen by the Secretary. We do have IRBs at the local level.

This effort is consistently evolving, and, coincidentally, in the spring of 2007, the Air Force CIO reorganized, merging several disparate review organizations under a single authority. We feel like the results of our management and governance efforts are an Air Force with an integrated, efficient, and effective governance and management of its IT systems, yielding fewer IT systems, lower costs, and ultimately providing better support to the Air Force and the Department.

Senator AKAKA. Before I call on Mr. Walker for your comment, let me call on Secretary Kunkel for your response.

Mr. KUNKEL. I'll just respond briefly, that we do, indeed, use the investment review board process. It's our measured judgment that the best way to see to it that we conform to DOD standards and governance is, indeed, to submit our business system modernization and development projects through the DOD Investment Review Board (IRB), as envisioned by the legislation. However, I would like to just mention that our business enterprise architecture is aligned to the DOD federated approach. We have a three-tiered readiness structure, where systems are aggregated into domains, and the domains have to create their own enterprise architecture and transition plan. That work is then overseen by the CIO-G6 in that portfolio management process I mentioned before, where—with the elimination of 1,500 systems. In turn, that process is overseen by the Deputy Under Secretary of the Army, who is a direct-report to the Executive Office of the Headquarters of the Army. This Deputy Under Secretary is the Army's representative on the Defense Business Systems Management Committee. We leverage that process across the Army, and serve it up to DOD. We're tightly coupled with DOD. As you've mentioned, we do have a lot of programs underway, and they are important ones.

So, the answer is yes, we do use the IRB process, but we use DOD's also.

Senator AKAKA. Thank you.

Mr. Walker, any further comment?

Mr. WALKER. Thank you, Mr. Chairman.

Two things. One, I would agree with Mr. Brinkley that there were certain practical restrictions imposed on the military departments, unless and until the OSD defined the enterprise-wide architecture. Second, to the extent that the military departments follow the enterprise architecture, that serves to reduce the related risk. Third, the report that you referred to, the GAO report on DOD business transformation, of July 2007, we made five recommendations, and the Department concurred with all five. That's very unusual, to get a concur on five out of five, so I assume that they're moving to implement.

Senator AKAKA. Thank you very much.

Senator THUNE.

Senator THUNE. Thank you, Mr. Chairman.

I'm going to direct this to Secretary Gibson. Previous work that's been done by GAO, the Air Force has been credited with having progressed more than the other military departments in building out its enterprise architecture. You've touched a little bit on this. But, I would first direct the question to Mr. Walker. Has the Air Force actually made more marked progress, or is that a matter of definitions?

Mr. WALKER. They've made more relative progress than the other military departments, yes.

Senator THUNE. If that progress has been made—and this is the question I would direct to Secretary Gibson—what do you attribute that to the success that the Air Force has experienced?

Mr. GIBSON. Senator, I would say that the progress comes from several things. One is, you have a very receptive audience that wants to improve. I think you have leadership that understands the issues and emphasizes those, monitors those, measures those, and holds people accountable to that. I think what we've done is, we have taken something and structured it in a tiered environment so that we have accountability at all levels, and that we have woven this into our management structure and the fabric of how we do business.

Senator THUNE. I want to come back to this issue of interoperability for a minute, because bureaucracies tend to resist change, and, the bigger the bureaucracy, the harder and the more I think they resist. The story in my State of South Dakota about the employee at the Department of Agriculture who was crying, and somebody asked him why, and he said, "Because my farmer died." There is a tendency, I think, for bureaucracies to continue to get larger, and there are certain territorial issues that are involved as you implement systems and technology that will replace some of the existing ways of doing things. The reason I raise this question, because it's with regard to what the Air Force is doing at Ellsworth and whether or not—if there were interoperability between the Services, why could there not be one financial services center that serves all the Services? If a record can be pulled up—and the analogy I guess I would use, in terms of healthcare, is—one of the things we've been trying to do is get electronic medical records, so that someone can go visit a hospital in Bakersfield, CA, who might live in Rapid City, SD, but they can access a medical record so that they know what the history of that particular patient has been. Why can't we know that the universe of people who serve in the military? We all have the same goal in mind. If there were interoperable systems between the Services, would it not make a lot of sense to begin to consolidate some of those services and eliminate what I would perceive to be a considerable amount of redundancy in a world that's gone largely paperless, at least in the private sector?

Anybody care to react to that ranting?

Mr. WALKER. There's a lot of opportunity to improve economy, efficiency, and effectiveness by leveraging technology, by moving to a shared-services-oriented approach, and taking other steps that the private sector has done for many, many years. But, it is countercultural, and that is a major challenge.

Senator THUNE. Mr. Brinkley?

Mr. BRINKLEY. The only thing I would add is, Director Zack Gaddy of the DFAS, sir, if he were here today, I think I'm echoing what he would say, and that is—and I'll draw a broader observation—under the most recent base reduction and closure effort, there is a consolidation of DFAS finance and accounting centers, and the effect that that's having is, it's stressing the system and accelerating the exact system consolidation we're talking about. One of the things that's a challenge in government—in a company, you have a quarterly profit that motivates change, and that's one of the things you use to help overcome barriers to—resistance to change. In government, we need these artificial inducements, sometimes. So, base reduction serves as an inducement to stress the system and force it to adapt quicker.

I would argue that our joint warfight that we're engaged in has helped motivate a more rapid adoption of materiel data standards. The need for instant access to our personnel has helped motivate the agreement and the more rapid adoption of the DIMHRS.

You mentioned healthcare; obviously, military health system and the stress it's been under has motivated these changes.

So, I would say, in the financial arena, Base Realignment and Closure is serving to help do that, in some respects, and I think that's part of the vision Zack has for DFAS, is to harvest the value out of system consolidation to help streamline our financial accounting practices.

Senator THUNE. Bottom line is, providing the best service possible to the warfighter at the lowest cost to the taxpayer. I would suspect that there are times when a soldier or a member of the military needs to talk to somebody face-to-face and needs to have an access point where they can go and ask questions. But, a lot of these sorts of services are now handled, if there is a portal that can be offered through some sort of technology. It just seems like there's a tremendous amount of savings that could be achieved there, and a lessening of bureaucracy and redundancy. It requires a willingness on the part of the institutions to develop these—this interoperability that, culturally, I know, is hard to implement.

What actions are the Services taking to reshape some of those cultural barriers to change?

Mr. KUNKEL. I can say, for the Army—you mentioned a service-member—in the case of the Army, a soldier—looking for assistance on a financial topic. The Army will be the first Service to implement the DIMHRS integrated personnel and payroll system. That will be a quantum leap for the Army. It's a DOD-built system. All three Services are going to use DIMHRS.

You mentioned having a person to answer questions that—we're taking a look, right now, what, for the Army, that means. We have defense military pay offices that are on our camps, posts, and stations already, and—we're current—right now we're looking at how those can be leveraged for the post-DIMHRS environment.

So, I guess I would say, DIMHRS is just that, it's not an organization, but it's a system that is going to be used by all the Services, starting with the Army.

Senator THUNE. This would be, for Mr. Walker and Mr. Brinkley—but the time and commitment and the effort that you've made to these types of improvements have not gone unnoticed, and,

I think, as was noted Senator Akaka and I both, at the beginning, the committee thanks you for the progress that has been made. I guess the question I would have is, as we move into what will be a new administration next year, this is, of course, the second year of this congressional session, and, in an election year, arguably, we'll see what happens and gets done around here. But, what suggestions would you have for us, in terms of things that we might be able to focus on, or things that we should be doing? Any ideas about possible legislation that we might be pursuing to help accomplish the ends that I think we all want to reach and to serve, here?

Mr. WALKER. For any enterprise to be successful, you need to focus on planning, people, process, technology, and the environment, which includes incentive, transparency, and accountability mechanisms. For transition, the first four are particularly important—the plan and the people and the processes and controls.

With regard to something I mentioned earlier, and that I think Mr. Brinkley also touched on, the CMO and Deputy CMO position at the Department-wide basis and the CMO positions at the military department level do not currently have statutory qualification requirements. I think that's something that you ought to consider. I think it's a separate and distinct matter as to whether or not you want to consider a term appointment for the CMO. I still believe, for a variety of reasons, that that makes sense, but I also acknowledge that, given where we are in this administration, and that that's not likely to happen during this Congress. But, I think the other ones, if they could happen—in other words, statutory qualification requirements for these key positions will increase the likelihood that we'll get the right kind of people in the next administration, no matter which administration that might be.

Senator THUNE. Thank you all again very much.

Thank you, Mr. Chairman.

Senator AKAKA. Thank you, Senator Thune.

In the area of management of business systems acquisition, GAO has reported that the formidable challenge facing the Department is ensuring that thousands of DOD business system programs and projects actually employ acquisition management rigor and discipline. GAO's work in reviewing business systems, such as DIMHRS, the Naval Tactical Command Support System, Transportation Coordinators Automated Information for Movement System II, shows that implementation of these institutional approaches on business system modernization programs and projects is uneven, at best.

For the three Services' representatives, what steps are you taking to ensure that the institutional management capabilities and controls are reflected in how each and every business system investment is managed?

Mr. KUNKEL. I would just reiterate the three-tiered accountability process. Each of the Army's domains has its own enterprise architecture and transition plan, and then, above the domains is the portfolio management process, managed by the CIO-G6. They then report up to the Deputy Under Secretary of the Army, who sits on the Defense Business Systems Management Committee.

We are working very hard to get our investments built quickly. We're also, of course, a great deal of emphasis on our warfighter

business mission area. That process is how the Army vets its business systems investments and modernization programs.

Mr. BROOK. Senator, in the Navy, the investment decisions for both legacy systems and new systems are vetted through an investment review process that moves up through the Department of the Navy CIO, eventually to the IRBs and the Defense Business Systems Management Committee. It's also my understanding that the timelines and milestones, that you referred to, that apply to the acquisition programs, also apply to major systems acquisitions inside the Navy.

Mr. GIBSON. Senator, we have in our functional domains, we manage our systems, and that all reports up through the IRBs up to the senior working group, led by the CIO. We are constantly tracking the systems milestones, and review those, and provide the working group members reporting on that. This gives them insight into impacts that might affect delivery, capabilities, costs, and schedule delays. We're using a lot of the earned-value management principles, as we look at this, to review those systems, so that we can stay on top of them and deal with them as quickly as possible.

Senator AKAKA. Secretary Brook, with respect to the Navy's ERP program, in particular, the life-cycle cost estimate went from \$1.6 billion in 2004 to \$2 billion in 2007, and its full operational capability schedule increased by 2 years, from 2011 to 2013. My question to you is, what steps are you taking to mitigate further delays and cost increases?

Mr. BROOK. Senator, the implementation of ERP in the Navy is underway. Naval Air Systems Command went live on December 21, and we are operating there now—effectively, in four of the five mission-critical areas. The fifth area is still not fully satisfactorily functioning for us. We will have to invest, I think, additional dollars, short-term, to make sure that we can overcome the short-term difficulties that we're having in one of our mission-critical areas.

Over the long-term, however, we have plans to roll out the ERP to successive systems commands. I think that the lessons that we have been able to learn, from both the pilot projects that preceded the current ERP and from what we're learning at Naval Air Systems Command, will allow us to implement the successive rollout of ERP with better controls for both cost and the quality of the implementation. It's a tremendous challenge, however. No corporation in America has undertaken an ERP of the size and complexity that we're undertaking, so there's a great deal to be learned along the way.

Senator AKAKA. Three years ago, the Secretary of Defense established the BTA to ensure an organizational focus for business transformation efforts within the Department. The military departments do not have similar organizations. Instead, it appears that new business systems continue to be developed through stovepiped organizations which lack the breadth and authority needed to address the entire job.

Mr. Walker, do you believe that the military departments would benefit from having a single organization, like the BTA, to serve as the focus for their business transformation efforts?

Mr. WALKER. Mr. Chairman, I basically agree with what Mr. Brinkley said, and that is, taking the BTA approach at the enter-

prise-wide level was essential, because the OSD really is not an operational entity, it's not used to having to be responsible for those types of activities, so, it was essential. On the other hand, the military departments do have to engage in those type of activities on an ongoing basis, and I think it's really up to them as to what they think the most efficient and effective approach is in order to achieve the desired outcomes.

Senator AKAKA. Thank you for that. Over the last several years, this subcommittee has spent a lot of time working to address concerns about the DOD acquisition workforce, but top officials at the DOD have told us that there are critical gaps in the Department's financial management workforce, as well.

Mr. Walker and Secretary Brinkley, do you believe that the Department currently has the right number of financial management experts with the right skills to accomplish its business transformation mission?

Mr. Walker?

Mr. WALKER. Mr. Chairman, GAO has not conducted a study that focuses solely on the issue of the adequacy of the number and the skills and knowledge base of DOD's financial management team, so I really wouldn't be in a position to give you an opinion on that, absent the work.

Senator AKAKA. Secretary Brinkley?

Mr. BRINKLEY. I couldn't comment on whether we have the right number of financial management professionals. I would defer to my colleagues in the Comptroller's office for that answer. We could take that for the record for you.

[The information referred to follows:]

The Department of Defense (DOD) recognizes the need to have a qualified financial management workforce. Today, over 50 percent of the DOD Comptroller staff has at least one professional certification. The Department is introducing innovative strategies to maintain and develop gifted employees. For example, Defense Finance and Accounting Service's Leaders-in-Motion program prepares 280 Defense financial managers every year with technical and leadership training. Furthermore, the Department is working to achieve financial management outcomes by aligning National Security Personnel System Individual Development Plans to the Department's strategy. Finally, the Department is investing in the workforce by initiating the Chief Financial Officer Academy at the National Defense University which will provide certifications and training to DOD and civilian agency financial management workforce to ensure that they have the skills to resolve existing and future financial management challenges.

Mr. BRINKLEY. Regarding the challenge, overall, with our workforce, I would certainly agree that we need to continually infuse the best and brightest talent into government. I would make the point that that is a very hard thing to do in this economy. I'll offer a point of view. What we've tried to focus on is speed to deliver. Young, talented systems people want to be able to move and work quickly to achieve an objective. Many of our programs in government take many years, and that doesn't motivate someone, a young engineer, a young systems analyst who can go and work in the private sector and, in a year or 2 years, the examples abound of how quickly the technology cycle moves in the private sector. So, our ability to accelerate the ability for us to deliver and field technology doesn't just affect our ability to deliver capability to the warfighter, but it directly affects our ability to recruit the best and brightest talent into government, because the best and brightest talent

wants to be able to work a high, rapid pace, to work with cutting-edge technology; and to try to recruit someone in to work on a system that's going to take 5 years to field does not motivate talent to come and join the government.

So, I think the human-capital challenge is directly tied to many of our other challenges with acquisition, which is, how do we go faster? How we maintain, or get closer to, the private sector's ability to field technologies quickly? That would be my comment.

Senator AKAKA. Secretary Brinkley, I understand that the BTA has used the authority we gave you to hire highly qualified experts (HQEs), to bring in skilled professionals to assist in the business transformation effort. In your view, should the military departments be taking similar steps to help in this new expertise?

Mr. BRINKLEY. Yes, that's been an absolutely critical element for the BTA. We've recruited dozens of people under that authority into the BTA, that had the HQE authority, which provides up to a 5-year term at senior-level paygrades for talent to come into government and make a contribution. I also know that my colleagues in the Services are beginning to use—and have, in many cases, used that authority, and we're seeing it accelerate, in terms of its adoption. There were some work-rule definition and responsibility-definition things that had to be worked through in the personnel management process, but those have been resolved, and I do believe—and I'd ask my colleagues to comment—but, I do believe we are seeing those type of resources begin to be infused into the Services.

Senator AKAKA. Yes. I'd like to have comments from the representatives on this, whether you agree, disagree, or your thoughts on it.

Mr. KUNKEL. Working for the Deputy Under Secretary of the Army is a staff of systems experts, architecture experts, and governance experts. With respect to the Financial Management workforce, the push is to automate. So, where we're staffing up is, when we're building these automated systems. These architects are working hard to see to it that the systems are integrated with each other, and that the touch points are correct. While we're building the systems, we're seeing to it that our processes conform to the best business practices, but also are informed by Army subject-matter experts. So, that's our investment in human capital as we build these automated systems, which will improve timely and accurate results.

Senator AKAKA. Secretary Brook?

Mr. BROOK. Mr. Chairman, we, also, are using HQEs. With regard to the workforce, it's an interesting issue. In addition to the technology side of it, which Mr. Kunkel mentioned, there is the question of professional growth and professional development. Of course, we need to talk about this in the context of both civilian financial management staff and military financial managers. The challenges in some places are the same, in some places are different. With the military members, there is the challenge to balance the development of their warfighting capabilities and their non-warfighting capabilities. We create a very crowded career path for our military members, and it makes it difficult, sometimes, for

them to develop the building blocks in financial management that are needed for senior positions.

In the civilian area, we have issues of career growth and model career paths young people coming into financial management can look at and see how they can progress through their careers. I have commissioned an informal study of this inside the Navy to see where the gaps are and where we need to apply some effort and resources.

Overarching all of that is providing the adequate education and training, including graduate education, for both civilians and military members so that they have the appropriate skills to match the assignments that we put them in.

Senator AKAKA. Secretary Gibson?

Mr. GIBSON. Senator, the Air Force greatly appreciates the authority Congress has given us to hire outside assistance and continues to expand our use of the HQEs. As a status update, we have hired, to date, 12 HQEs, but not all of them have been in business systems modernization. Our communities report back that there are no real obstacles to hiring and using the HQEs, but we would characterize that we're in the early stages of deployment of this effort.

Senator AKAKA. I talked about high risk, and mentioned it in regard to Mr. Walker.

Mr. Walker, I'm concerned that, despite legislation we have enacted in recent years, the Department still lacks the comprehensive human-capital plan to guide the development of its civilian workforce. In my view, this deficiency is so serious that GAO should consider adding it to your list of high-risk management concerns. What is your view on this issue?

Mr. WALKER. I share your concern with the absence of that plan, but I would also remind the chairman that we have the lack of adequate strategic human capital planning and management as a governmentwide high risk issue. When I end up speaking about DOD, I don't just talk about the ones that relate specifically to DOD. DOD also shares several—in fact, all—of the governmentwide, high-risk areas, of which human capital is one.

Senator AKAKA. I want to thank our witnesses today for your statements and your responses. It will be helpful to our committee, and we look forward to continuing to work with you to achieve expertise in these areas of business transformation and financial management of DOD.

With that, the hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

ENTERPRISE ARCHITECTURE PROGRAM

1. Senator AKAKA. Secretary Kunkel, section 2222 of title 10, U.S.C., requires that the Secretary of Defense develop a comprehensive business enterprise architecture and transition plan to guide the development of its business systems and processes. The Department has chosen to implement this requirement through a "federated" approach, in which the Business Transformation Agency (BTA) has developed the top level architecture, while leaving it to the military departments to fill in most of the detail. The Government Accountability Office (GAO) has laid out a set or core framework elements that should be met by an enterprise architecture program. Three of the key elements are: (1) a committee with representation from across the Department that is responsible for approving the architecture; (2) a process for en-

sure that architecture products and management processes undergo independent verification and validation; and (3) a process for ensuring that architecture products address the Department's current and future environments and include a sequencing plan to guide the transition between these two environments. Does the Army's enterprise architecture program meet the three requirements described above? If not, when can we expect the Army to meet these requirements?

Mr. KUNKEL. The Army's enterprise architecture program currently meets, or will soon meet, all three of these requirements.

Requirement 1: A committee with representation from across the Department that is responsible for approving the architecture. The Army has made significant progress in implementing its accountability requirements to support business systems management and modernization efforts. The Deputy Under Secretary of the Army (DUSA) is the Army's representative to the Defense Business Systems Management Council (DBSMC). After the Investment Review Board (IRB) approval, the DUSA represents the Army's modernization requirements to the DBSMC for approval and authorization to incur obligations supporting modernization efforts. In November 2007, the DUSA established the Enterprise Resource Planning (ERP) Executive Steering Committee to guide the development of the Army's ERP Integration Strategy and the coordination of the preparation of two Army ERPs for a joint Milestone B decision.

The duties of the ERP Executive Steering Committee have been subsumed by the now established Business Mission Area Executive Board (BMA EB), which is responsible for, among other things, guiding the development of and approving the design for the Army Business Enterprise Architecture (ABEA). The BMA EB is chaired by the DUSA. It includes the GO/SES Leads of the Army BMA Domains, established in conformance with the Department of Defense's (DOD) portfolio management structure. The five Domains and their Leads are: Acquisition, ASA(ALT); Financial Management, ASA(FM&C); Human Capital Management, ASA(M&RA); Logistics (G-4), Installations and Environment, (ACSIM), the Army's Chief Information Officer/G-6; and the Program Executive Office-Enterprise Information Systems (PEO-EIS).

The domain owners are responsible for developing transition plans, domain architectures, and ensuring all domain business systems are categorized and included in the Army-wide business systems portfolio. The domain owners comprise the next level of accountability.

Each domain owner is accountable for ensuring that all business system investments comply with 10 U.S.C. § 2222. Specifically, each domain owner must submit investment requests through the Business Mission Area to the Army's Chief Information Officer (CIO) for review and approval. The Army's CIO is the Pre-certification Authority (PCA) for systems modernization investments. In accordance with 10 U.S.C. § 2222, each system over \$1 million in modernization funding is certified for compliance with the DOD Business Enterprise Architecture (BEA) before being submitted by the PCA to the IRB.

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

Requirement 2: A process for ensuring that architecture products and management processes undergo independent verification and validation. The Army's architecture products and management processes are aligned with like processes within the Department's BTA. A primary method of assessment for very large programs is provided by the Enterprise Risk Assessment Model (ERAM) process conducted by the BTA. The ERAM independently assesses enterprise risk in a variety of areas and reports findings and recommendations to the BTA and governing IRB. The Army, IRB, and BTA jointly develop mitigation strategies to address the risk identified.

In addition, the Army has engaged an Independent Verification and Validation (IV&V) contractor to provide periodic reviews of the management processes and products of ERP systems to ensure integration among these programs. As the ABEA development matures, the Army will establish IV&V reviews to ensure alignment with Federal and DOD architecture requirements.

Requirement 3: A process for ensuring that architecture products address the Department's current and future environments and include a sequencing plan to guide the transition between these two environments. The Army, in collaboration with the BTA, developed a federated approach for ensuring architecture products and system developments meet the Department's business transformation needs. The federated approach employs a standard architectural construct to align the Army's four major Enterprise Resourcing Planning (ERP) transformational programs. The four pro-

grams include the Defense Integrated Military Human Resource System (DIMHRS) supporting human resource management, the Global Combat Support System-Army (GCSS-A) supporting field/tactical requirements, the General Funds Enterprise Business System (GFEBs) providing the Army's financial management backbone, and the Logistics Modernization Program (LMP) supporting material and acquisition management. Financial capabilities will be implemented in each ERP guided by the GFEBs financial and cost management templates. Linkages between the four ERP programs will be accomplished through a single enterprise service bus. The solution will employ a business warehouse for data consolidation and analytical capabilities. The DUSA is responsible for enterprise governance to ensure architectural alignment. The federated construct provides a coherent, executable plan guiding the Army's enterprise transition efforts. Using this construct and the existing domain architectures, the Army, through its BMA EB, as chaired by the DUSA, and in collaboration with the BTA, will continue to extend the ABEA to address new challenges in the Business Mission Area as they arise.

2. Senator AKAKA. Secretary Brook, does the Navy's enterprise architecture program meet the three requirements described in question #1? If not, when can we expect the Navy to meet these requirements?

Mr. BROOK. The Department of the Navy is following a federated approach in implementing the Navy's Enterprise Architecture (EA), employing the DOD Global Information Grid (GIG) Federation Strategy (signed out in August 2007) and the BMA (Business Mission Area) Federation Road Map (released October 25, 2007). The Navy followed a "look before you jump approach" with federation, and waiting for definitive DOD guidance contributed to the Navy's receiving GAO review scores of "Partial" in several areas. Before creating Navy federation policy, guidance, and processes, the Navy, in conjunction with Office of the Secretary of Defense Networks and Information Integration, conducted a federation pilot to determine:

- How will the Navy EA be federated?
- Is there a repeatable process that can be used and measured?
- How will the federation be governed?

This pilot was recently completed, and we are expecting a formal report with recommendations and results within the next month.

With respect to the three key elements:

1. "A committee with representation from across the department that is responsible for approving the architecture": The Navy Information Executive Committee (IEC) oversees enterprise architecture.

2. "A process for ensuring that architecture products and management processes undergo independent verification and validation": This Navy process is currently in development based on the principle of tiered accountability. It will be published in fall 2008 and an initial implementation will occur shortly thereafter.

3. "A process for ensuring that architecture products address the Department's current and future environments and include a sequencing plan to guide the transition between these two environments": The necessary processes are in place and the governance to execute this policy is currently being developed. It will align with the Department's EA programs and initiatives. The policy will establish EA metrics for quality, reporting mechanisms, and a governance structure to oversee EA development, approval, maintenance, and change management. The policy will be integrated with our portfolio management process that will require information systems investments to conform to Navy and DOD architectures.

Additionally, the Functional Area Architectures (FAA) will describe the current, or "as is" environment, as well as our target, or "to be" state. The Navy IEC and Enterprise Architecture Coordination Board (EACB) will oversee FAA development to maintain alignment within the Department and with the DOD Enterprise Architecture. Functional Area transition plans, also under development, will supplement the FAA and aid in achieving the target state.

The EA work that we have completed, taken together with the activities we have underway, will give the Navy a mature EA to guide and constrain our information technology investments and ensure that our business systems provide decision makers with timely, accurate, and reliable information.

3. Senator AKAKA. Secretary Gibson, does the Air Force's enterprise architecture program meet the three requirements described in question #1? If not, when can we expect the Air Force to meet these requirements?

Mr. GIBSON. The Air Force enterprise architecture program currently meets two of the three requirements described in your question (requirements 1 and 3). We expect to meet the third by the end of this fiscal year. This is based both on our own assessment and the preliminary results of the recent GAO assessment of the maturity of the Army, Navy, and Air Force enterprise architectures that will be published this coming May.

We have a governance committee with representation from across the Department, called the Senior Working Group (SWG) that is acting under the authority of the Secretary of the Air Force, and in support of the Air Force CIO/PCA. The SWG is responsible for directing, overseeing, and approving the business segment of our enterprise architecture. We have a process for ensuring and have, in fact, published architecture products that address the Department's current and future business environments and a sequencing plan to guide the transition between these two environments. Our enterprise architecture products have undergone verification and validation, but not by an independent entity as recommended by the GAO, however, our plans are to meet the objective of independent verification and validation by the end of 2008. We have published policy and guidance to address the GAO recommendation and are in the process of implementing that guidance.

[Whereupon, at 4:09 p.m., the subcommittee adjourned.]

