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Before

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Chairman Carper, Senator Coburn, 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. The Department is currently engaged in a massive effort to transform the way it does business and fulfill its commitment to the American people to deliver enhanced defense business capabilities effectively and efficiently.

Over the past few years, DoD has built the foundation for improving and modernizing its business operations by engaging its leadership through the establishment of the Defense Business System Management Committee (DBSMC) and Investment Review Board (IRB) structure, standing up the Business Transformation Agency (BTA), developing the Business Enterprise Architecture (BEA) and its associated Federation Strategy, adopting Continuous Process Improvement principles and implementing Lean Six Sigma methodologies, and by issuing the Enterprise Transition Plan (ETP). More broadly, the Department has focused on five key areas, which together, are critical to the successful execution of our business transformation endeavor: Strategy, Process, Culture, Information, and Technology. Using this framework over the past two and a half years, Gordon England has made business transformation a central focus of his tenure as Deputy Secretary of Defense, devoting extensive time and energy to the effort to improve the business operations of the Department. The Deputy Secretary's role in business transformation was recently codified in a September 18, 2007 directive, issued by the Secretary of Defense, ensuring that the Department's top leadership will continue to make business transformation a top priority. We have made significant progress in our efforts, and I would like to take this opportunity to review with you our major successes and recent accomplishments.

Chief Management Officer

I am pleased to announce that per a September 18, 2007 directive issued by the Secretary of Defense, Deputy Secretary of Defense Gordon England has been officially designated as DoD's Chief Management Officer (CMO). As Deputy Secretary, Secretary England has worked tirelessly to improve the Department's business operations. In many ways, Secretary England had been acting in the capacity of CMO throughout his tenure, most notably in his role as the Chair of the Deputy's Advisory Working Group (DAWG) and the Defense Business System Management Committee (DBSMC), the overarching governance board for the Department's business activities. The directive formally institutes into Department policy the Deputy Secretary's responsibilities as the CMO. As CMO, the Deputy Secretary shall: 1) ensure Department-wide capability to carry out the strategic plan of the DoD in support of national security objectives; 2) ensure the core business missions of the Department are optimally aligned to support the Department's warfighting mission; 3) establish performance goals and measures for improving and evaluating overall economy, efficiency and effectiveness and monitor and measure the progress of the Department; and 4) develop and maintain a Department-wide strategic plan for business reform. The official designation of the Deputy Secretary of Defense as the CMO affords the President and Secretary of Defense the necessary flexibility to implement an integrated management team that can quickly meet the changing requirements of business transformation and positively affect outcomes, while formally instituting accountability at the top levels of the Department for the future of our transformation activities.

Defense Business Systems Management Committee (DBSMC)

Since its inception in 2005, the DBSMC, in concert with the 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 FY05 National Defense Authorization Act and reiterated in the DBSMC Charter, the DBSMC has responsibility for

approving: business systems IT modernizations over \$1M, the Business Enterprise Architecture (BEA), and the Enterprise Transition Plan (ETP). This gives the DBSMC oversight and control of the BMA's enabler to transformation – material solutions.

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 the BMA's 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.

Controlling/Managing Investments

The DBSMC/IRB investment review process provides a framework for effective investment decision-making that ensures alignment with the enterprise standards and focuses on the needs and priorities of the Warfighter.

The DBSMC has overseen the development and implementation of the Business Capability Lifecycle (BCL), which, when fully implemented, will serve as the acquisition process for all Major Automated Information Systems (MAIS) level systems. The BCL will help resolve long-standing 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.

The DBSMC/IRB governance structure has produced significant improvement 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 in large part on the significant upgrade performed this year to the reservation module within DTS, usage of the tool has increased dramatically. This year, there has been a ~75% increase in vouchers processed monthly basis over last year. 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 will more closely align DTS with the government-wide travel system, e-Travel, to capture government-wide 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 by October, 2008.

Business Enterprise Architecture (BEA)

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 decision-making mechanism while simultaneously supporting the implementation of information technology systems and services. The recently released *Concept of Operations for Business Enterprise Architecture (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.

Defense Agencies Initiative (DAI)

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 (FFMIA), 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 solution¹; 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 (USSGL) Chart of Accounts to resolve DoD material weaknesses and deficiencies.

Capitalizing on the business acumen of twenty-eight 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 re-sales 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 (CPI) / Lean Six Sigma (LSS)

Lean Six Sigma (LSS) is an important part of the Department's Continuous Process Improvement (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 in the Enterprise Transition Plan. 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. We have worked with the Defense Acquisition University to create a Green Belt and Black Belt training infrastructure, are tracking training and project metrics from all OSD and Component organizations, and are in various stages on selected DoD-wide projects.

One of the most ambitious process improvement projects that has been undertaken to date is an end-to-end reform of the government-wide 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 by December, 2008. The team has completed the first phase of its work.

Enterprise Transition Plan (ETP)

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. Two weeks ago we released the September 30, 2007 ETP, once again delivering on our commitment to Congress to update this plan every six months since its initial delivery in September 2005. 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 plan continues to mature and communicates our transformation plans, and provides 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% 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.

Accountability

While the DBSMC/IRB governance structure provides direction and oversight at the Enterprise-level, with participation from the Components, we would be remiss if we failed to acknowledge the dedication and commitment the Components have demonstrated in their own transformation. In partnership with the Components, the Department has taken major strides in business transformation at all levels. The Department has tried to create 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 multi-layered 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 Agile and Accountable Workforce

True transformation requires visionary leaders and an agile, collaborative and accountable workforce that embraces change and achieves results. In the span of less than two 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. And, 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 systems 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 (GAO) and the Office of Management and Budget (OMB)

DoD regularly and proactively engages with GAO and OMB to communicate its progress and achievements in defense business transformation. GAO has acknowledged the Department's progress in several reports over the past two years and both organizations continue to be constructive partners in our overall transformation efforts. 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. In both the effort to align DTS and e-Travel and the initiative to reform the Security Clearance process, described previously in this testimony, DoD and OMB are working closely together to bring increased capabilities to the entire Federal government. In other cases, OMB is helping DoD leverage lessons learned from similar 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 Department of Defense 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 though, 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.

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.