

**THE STANDARD PROCUREMENT SYSTEM [SPS]:
CAN THE DOD PROCUREMENT PROCESS BE
STANDARDIZED?**

HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS AND INTERNATIONAL
RELATIONS

OF THE
COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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**THE STANDARD PROCUREMENT SYSTEM
[SPS]: CAN THE DOD PROCUREMENT PROC-
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THURSDAY, FEBRUARY 7, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS
AFFAIRS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:36 a.m., in room 2247, Rayburn House Office Building, Hon. Adam Putnam (acting chairman of the subcommittee) presiding.

Present: Representatives Putnam, Shays, Gilman, Kucinich, Tierney, and Lynch.

Staff present: Lawrence J. Halloran, staff director and counsel; J. Vincent Chase, chief investigator; and Thomas Costa, professional staff member.

Mr. PUTNAM. The subcommittee will come to order.

The Subcommittee on National Security, Veterans Affairs and International Relations is convened here today to talk about the standard procurement system. Can the DOD procurement process be standardized? We welcome our panel and guests this morning.

This year the Department of Defense will rely on a host of incompatible, largely paper-based systems and processes to manage an account for procurement contracts worth more than \$130 billion. The President's fiscal year 2003 budget released this Tuesday pronounces those systems outdated and in need of an overhaul. Both the Comptroller General and the DOD Inspector General agree, citing longstanding financial weaknesses at the Pentagon. They also note DOD often suffers the Government-wide malady of purchasing large information technology systems that fail to meet user needs, fail to replace older, incompatible systems, and fail to meet schedule and cost projections.

The standard procurement system was meant to address both problems. Standardization of contract and purchasing processes should bring greater transparency and data commonality to DOD's tangled web of financial systems. Selection of a commercial, off-the-shelf product should have brought efficiency and discipline to the data system development.

Today we ask whether SPS, the 7-year-old, \$359 million Department of Defense effort to modernize, streamline, and unify Pentagon contracting, has become an expensive part of the problem or

a partial solution to the Pentagon's chronic financial management woes.

The supposedly standard procurement system has required extensive, unanticipated modifications to meet user demands, causing the Inspector General to question the COTS-based acquisition strategy.

The schedule has slipped by more than 3 years. Deployment of system modules has been clumsy. The military services continue to pursue non-standard approaches. A survey by the Inspector General found SPS under-utilized or used only in tandem with paper-based legacy systems.

Based on the IG's concerns and the size and significance of the SPS effort, we ask the GAO to assess DOD management of the program. Their findings describe how the potential of a solution like SPS can be sabotaged by untested assumptions of value and the resulting failure to weigh the costs and benefits of each step in a complex development process.

The Clinger-Cohen Act of 1996 provides a framework for large-scale IT acquisitions by Federal agencies. It requires explicit economic justification over the expected life of a program and specific analysis of the costs and benefits of each program increment.

But the Department of Defense appears to dispute the need for incremental justification, relying instead on an outdated, all-or-nothing economic analysis of the \$3.7 billion SPS. According to the General Accounting Office, the Department also lacks other non-economic measures to determine if SPS is meeting performance goals.

SPS is an example of good intentions corrupted by lax oversight and entrenched bad habits. The fate of SPS should offer a cautionary tale to those in the Administration entrusted with the resources needed to wage the war on terrorism, enhance homeland security, modernize U.S. forces, and maintain military readiness.

We look to our witnesses this morning to help us understand how the standard procurement system went astray and how the Department plans to make sure continued investment in SPS leads to improved financial accountability.

Again, we thank our panel for being here. At this time the Chair recognizes the ranking member from Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Putnam, Mr. Shays, and committee staff, and to the people who are testifying today, good morning.

There's two things I want to say at the beginning. First of all, I have three other committee meetings, Mr. Chair, at 10. We've had that happen before. So I'm not going to be able to stay.

Before I begin, I also want to take my privilege to recognize the leader of the Democrats in the Ohio Senate who is visiting with us today, Senator Lee Harrington. Thank you very much for your presence.

Mr. Chairman, today's Washington Post contains an OpEd piece. I'll just quote from one paragraph, because in a sense it helps to frame the challenge which is before this subcommittee and the IG's office. It says, "The Pentagon remains the largest source of waste, fraud, and abuse in the Federal Government. Its bookkeeping makes Enron look transparent. It still cannot track what it has

spent money on, what it has purchased, and what it has stored.” That’s from an article in today’s Washington Post OpEd piece by Robert Borsage.

As this subcommittee has repeatedly heard, the financial disarray within the Department of Defense has reached epic proportions. Last year we heard testimony from David Walker, the Comptroller General of the United States, regarding the high-risk nature of DOD operations, including logistics, acquisitions, planning, contracts, and management, just to name a few. The problems were highlighted when the Inspector General issued a report with some astonishing language. In fiscal year 2000, alone, “1.2T—” for trillion. And just to make sure the people are transcribing this, “1.2T—” for trillion—“in Department-level accounting entries were unsupported because of documentation problems or improper because the entries were illogical or did not follow generally accepted accounting principles.” That was \$1.2 trillion worth of improper or illogical expenditures. This is a figure that is beyond disgraceful. It is beyond unbelievable.

Contributing to these problems is the Department’s failure to manage its contracts properly. The Department of Defense spends over \$130 billion for goods and services each year, but in 1992 and every year since the General Accounting Office designated Department of Defense’s contract management as one of the largest high-risk areas within the Federal Government.

Although the Department of Defense has tried to remedy this by initiating a new standard procurement system, GAO reports that this effort is nearly \$1 billion over budget, 3½ years behind schedule, and is not meeting its objectives.

Yesterday, the President requested a \$45.3 billion increase in military spending, for a total Pentagon budget of \$379 billion—I might add, more than the combined military budgets of the next 24 largest-spending countries. In fact, the increase alone is larger than any defense budget in the world but Japan’s. It is also the largest 1-year increase in military budget authority since 1966, for a total budget 15 percent above the cold war average.

Now, given the Pentagon’s legendary accounting problems, I’m asking how can the taxpayers be sure that the Department will spend this extra money on measures that will, in fact, increase security? No major part of the Defense Department has ever passed the test of an independent audit. As “Business Week” has put it, “The Pentagon makes Enron and Arthur Andersen look like paragons of number crunching.” That’s the “Business Week.”

No sane investor would sink \$45 billion extra into a firm with this kind of performance. You have to wonder why the American taxpayer should be asked that.

We’re told that the extra money is needed to pay for war, but in reality the proposed Defense funds are largely devoted to the same weapons acquisition programs that GAO has decided are at risk of waste and abuse, programs that are of little utility in defending the Nation against the sort of attack we confronted in September. These include the F-22, the most expensive fighter ever, which, as this subcommittee has heard, has racked up more than \$9 billion in cost overruns, and includes the crusader mobile howitzer artillery weapon, which at 90 tons is so immobile that the military’s

largest transport plane can't lift it without violating flight rules. The Administration plans to spend \$11 billion to purchase 480 of these, and include the B-1 bomber, which even the Secretary of Defense admits is headed toward expensive obsolescence.

This budget rewards our Defense establishment for its fiscal mismanagement, and the allocation of this money follows the same wasteful high-risk patterns of spending that lavish politically influential military contractors with large sums to produce weapons geared toward obsolete cold war era threats. Protecting our country, our Service members, and our people is a very pragmatic endeavor and it takes practical effort. It sometimes requires some very mundane but essential tasks, such as demanding that DOD pass an audit, demanding that DOD efficiently manage its contracts, and demanding that DOD dutifully seek the best value for every dollar Congress appropriates.

I hope that after concluding this hearing on standard procurement system that this subcommittee will endeavor to take up oversight of programs such as the \$200-plus billion national missile defense system, the \$250 billion joint strike fighter, the \$70 billion F-22, the \$56 billion DD destroyer, the \$45 billion C-17, the \$37 billion V-22, and the \$11 billion howitzers.

The reason is simple. Is America getting the best defense money can buy, or are defense contractors feasting at taxpayers' expense? The question is the essence of procurement and financial management oversight.

I hope this subcommittee will schedule hearings and devote its attention to this question where these large and significant procurement programs are concerned.

I thank the chair.

Mr. PUTNAM. I thank the gentleman for his opening statement.

Before you leave, Mr. Kucinich, I'd ask unanimous consent to put into the record the written statement of Deidre Lee, Director, Defense Procurement Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, without objection.

[The prepared statement of Ms. Lee follows:]

TESTIMONY OF Ms. Deidre A. Lee, DIRECTOR-DEFENSE PROCUREMENT
OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY & LOGISTICS

BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND
INTERNATIONAL RELATIONS

February 7, 2002

TESTIMONY OF Deidre A. Lee, DIRECTOR-DEFENSE PROCUREMENT
OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY & LOGISTICS
BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND
INTERNATIONAL RELATIONS
February 7, 2002

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to provide this statement for the record discussing the Department of Defense's Standard Procurement System (SPS) and our progress toward fielding the system to the contracting workforce.

Let me begin by providing some background on why the Department undertook this project.

The Department initiated the SPS Program in November 1994. Our purpose was to provide our contracting workforce with an automated contract writing system to standardize our data transactions, provide a standard DoD contract "look and feel" to industry, help to reduce problem disbursements by reducing

repetitive manual data entry, and streamline a heavily paper-based process. As a result, the SPS is now an important component of the Department's end-to-end acquisition process that will link the DoD's Financial Management, Procurement and Logistics systems. This process envisions single-source data entry, automated transmittal of data between systems, and the eventual elimination of paper transactions. SPS will help the Department to achieve our objective of auditable financial statements and compliance with the Chief Financial Officer's Act.

Today, versions of SPS are being used by over 20,000 users at 773 sites. We learned many lessons during our initial deployments of the SPS. In particular, we found that managing our users' expectations and matching SPS functionality with user needs are critical tasks that require more attention. The program office is working diligently to establish processes that better serve and inform the user community. The user community also worked aggressively to prioritize customer satisfaction issues and the program office is working to correct software discrepancies and add functionality. When we've satisfactorily completed testing, a new version of the software will be deployed. We call this Version 4.2.

We also found that achieving our overall objectives required more software development than originally envisioned. Based on this, I took several actions to determine how best to ensure our customers receive a quality product and are satisfied with its performance. I chartered independent reviews of the SPS Program by the Gartner Group and Carnegie Mellon, Software Engineering Institute. I also directed a thorough review of the contract arrangement with American Management Systems (AMS). These reviews are complete and we are aggressively pursuing improvements to the program based on their recommendations.

Common among the review recommendations was the need for the program office to focus on Version 4.2 while also restructuring the contract arrangement. We established a Version 4.2 Integrated Product Team at the program office to develop the 4.2 deployment requirements, devise a new strategy, and devise a contract arrangement with AMS to better meet deployment and support needs. We ceased further development efforts of a new architecture to allow us to review the strategy and consider alternative approaches. The Deputy Chief Information Officer in the office of the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD/C3I) recently engaged the Integrated Process Team approach to review the entire program. The Principal Deputy Under

Secretary of Defense for Acquisition, Technology and Logistics recently signed out direction to the program clearly stating that full operational capability of SPS is successful deployment of version 4.2.

We now know that replacing all legacy contract writing systems - particularly those used for buying major systems - with a single standard, one-size-fits-all system may not be the most efficient strategy to meet our goals. The Department has shifted the program strategy to focus squarely on fielding this next version to fix many of the problems our users are experiencing with the current fielded system. Additionally, Version 4.2 will facilitate electronic transactions in support of our contract administration functions at the Defense Contract Management Agency. Version 4.2, however, will not be a 100% solution.

At the direction of the Principal Deputy Under Secretary for Acquisition, Technology and Logistics, we are establishing a team to look at alternative strategies for supporting our major systems procurement offices and determining more efficient methods of transferring financial data as needed by the comptroller. These efforts will take into account technology

changes as well as the Department's Financial Modernization efforts.

I have asked the Components to reassess the functional needs of their workforce and revalidate that SPS Version 4.2 will meet these needs before deployment. In those cases where Version 4.2 may not provide a 100% solution, we will work with the program office to manage user expectations, provide workarounds and additional training if required.

In closing, I would like to affirm my commitment to provide a quality contract writing solution to our customers, the contracting workforce. At the same time, I am committed to providing solutions that will help the Department meet its goals of financial management reform and achieving auditable financial statements. I look forward to your continued support of this critical project.

Thank you for the opportunity to provide this statement for the record.

Mr. PUTNAM. I ask unanimous consent that all members of the subcommittee be permitted to place any opening statement in the record and the record remain open for 3 days for that purpose. Without objection, so ordered.

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

I welcome to the committee the real chairman of the subcommittee, Mr. Shays from Connecticut.

Would you like to make a statement?

Mr. SHAYS. Yes, thank you. Just a very brief one.

I'd like to thank our witnesses and guests for being here. I think this is a very, very important hearing. Mr. Kucinich had some basic points right on target. It is astounding that you would have \$1.2 trillion worth of transactions that you couldn't verify as an auditor. It has come down from a few other trillion. You could look at it positively. But there is really no part of the Defense budget the is auditable, and I think we all know why. We all know why, because we don't have a choice when it comes to Defense to appropriate the money, and I think, therefore, the Defense Department has gotten used to the fact that, "You can't do without us, so we'll focus our attention on other concerns."

This borders on the line of being criminal because we are wasting billions of dollars. There has to be tremendous amount of theft, and so on, and misuse, and it has to be corrected, and it has to be corrected now—I mean now in the next few years. Over time it has to definitely change.

One of the points that I would have made to Mr. Kucinich is that this committee is dedicated to helping the GAO and others to see that happens.

I'm not chairing this hearing because I had requested the Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs of the Government Reform Committee to hold a hearing on Indian gaming and Indian recognition, and since I'm the one that requested it I feel that I need to be there, so I will be in and out of this hearing. I thank the gentleman from Florida for chairing this hearing, but I hope to be back and I hope, obviously, to listen to the first part of the panel discussion.

So I thank you very much and I thank our witnesses.

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

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COMMITTEE ON GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
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SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS,
AND INTERNATIONAL RELATIONS

Christopher Shays, Connecticut
Chairman
Room B-372 Rayburn Building
Washington, D.C. 20515
Tel: 202 225-2546
Fax: 202 225-2382
GROC.NS@mail.house.gov
<http://www.house.gov/reform/ns/>

Statement of Rep. Christopher Shays
February 7, 2002

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Both the Comptroller General and the DOD Inspector General (IG) agree, citing longstanding financial management weaknesses at the Pentagon. They also note DOD often suffers the government-wide malady of purchasing large information technology (IT) systems that fail to meet user needs, fail to replace older, incompatible systems, and fail to meet schedule and cost projections.

The Standard Procurement System (SPS) was meant to address both problems. Standardization of contract and purchasing processes should bring greater transparency and data commonality to DOD's tangled web of financial systems. Selection of a commercial, off-the-shelf (COTS) product should have brought efficiency and discipline to the data system development.

Today, we ask whether SPS, the seven-year-old, \$359 million, Department of Defense (DOD) effort to modernize, streamline and unify Pentagon contracting, has become an expensive part of the problem or a partial solution to the Pentagon's chronic financial management woes.

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February 7, 2002
Page 2 of 2*

The supposedly "standard" procurement system has required extensive, unanticipated modifications to meet user demands, causing the Inspector General to question the COTS-based acquisition strategy. The schedule has slipped by more than three years. Deployment of system modules has been clumsy. The military services continue to pursue non-standard approaches. A survey by the IG found SPS underutilized, or used only in tandem with paper-based legacy systems.

Based on the IG's concerns, and the size and significance of the SPS effort, we asked the General Accounting Office (GAO) to assess DOD management of the program. Their findings describe how the potential of a solution like SPS can be sabotaged by untested assumptions of value and the resulting failure to weigh the costs and benefits of each step in a complex development process.

The Clinger-Cohen Act of 1996 provides a framework for large-scale IT acquisitions by federal agencies. It requires explicit economic justification over the expected life of a program, and specific analysis of the costs and benefits of each program increment.

But the Department of Defense appears to dispute the need for incremental justification, relying instead on an outdated, "all or nothing" economic analysis of the \$3.7 billion SPS. According to GAO, the Department also lacks other, non-economic measures to determine if SPS is meeting performance goals.

SPS is an example of good intentions corrupted by lax oversight and entrenched bad habits. The fate of SPS should offer a cautionary tale to those in the administration entrusted with the resources needed to wage the war on terrorism, enhance homeland security, modernize U.S. forces, and maintain military readiness.

We look to our witnesses this morning to help us understand how the Standard Procurement System went astray, and how the Department plans to make sure continued investment in SPS leads to improved financial accountability.

Thank you for being here. Welcome.

Mr. PUTNAM. Thank you, Mr. Chairman. And thank you for the opportunity that you've given me to participate in this committee.

At this time we will swear in our first panel. Please rise and raise your right hand.

Do you solemnly swear or affirm that your testimony you will give before this subcommittee will be the truth, the whole truth, and nothing but the truth?

Mr. WILLEMSSEN. I do.

Ms. JACKSON. I do.

Mr. LIEBERMAN. I do.

Mr. PUTNAM. Not for the record that the witnesses have responded in the affirmative.

At this time I'd like to ask Mr. Joel Willemsen, managing director of information technology systems issues from the U.S. General Accounting Office to begin with your opening testimony.

You are recognized, sir. Welcome.

STATEMENTS OF JOEL WILLEMSSEN, MANAGING DIRECTOR, INFORMATION TECHNOLOGY SYSTEMS ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CYNTHIA JACKSON, ASSISTANT DIRECTOR, INFORMATION TECHNOLOGY SYSTEMS ISSUES, U.S. GENERAL ACCOUNTING OFFICE; AND ROBERT J. LIEBERMAN, DEPUTY INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Mr. WILLEMSSEN. Thank you, Mr. Vice Chair, Mr. Chairman. As requested, I'll briefly summarize our statement.

Accompanying me is Cynthia Jackson, Assistant Director.

DOD launched SPS a little over 7 years ago, with the goal of replacing 76 existing procurement systems with a single Department-wide system that would more effectively support contracting processes. At that time estimated costs were about \$3 billion over a 10-year period.

For information technology projects such as SPS, the Clinger-Cohen Act and Office of Management and Budget guidance emphasized the need for investment management practices to help ensure that projects are being implemented at acceptable cost and within reasonable and expected timeframes, and that they are contributing to tangible improvements in mission performance. For SPS, we reported to you last year that the Department had not met these investment and management criteria.

First, the Department had not economically justified its investment in the program. In fact, its recent analysis showed that the system, as defined, had estimated costs that exceeded anticipated benefits.

Second, it had not effectively addressed the inherent risks associated with a program as large and lengthy as SPS because it had not divided the program into incremental investment decisions that coincided with incremental releases of system capabilities.

Third, the Department had not met key program commitments that were used to justify the program. For example, the Department committed to implementing a commercially available contract management system. However, because it had modified so much of the foundational commercial product, SPS evolved into a cus-

tomized DOD system. Also, although the Department committed to fully implementing the system by March 2000, this target date has now slipped to September 2003, and program officials have recently stated that this date will also not be met.

Fourth, the Department did not know if it was meeting other key program commitments. For example, the Department had not measured whether expected system benefits were being realized. Further, DOD was not tracking actual program costs, so it does not know how much has been spent on this program.

Because of these many problems with SPS, we made several recommendations, including that investment in further enhancements to the system be made conditional on the Department first demonstrating that the system was producing benefits that exceed costs, and that future decisions be based on complete and reliable economic justifications.

In commenting on a draft of our report, DOD generally disagreed with our recommendations, noting that they would delay development and implementation of SPS. Since that time, however, the Department has either initiated or stated its intention to initiate steps that are consistent with our recommendations.

For example, officials have stated that the Department will prepare an economic analysis before investing beyond already executed contractual commitments and that it will assess the extent to which the Department is deriving benefits from SPS. These are positive steps. Nevertheless, much remains to be done before the Department will be in a position to make informed, data-driven decisions about the system. To increase the chances of program success, we believe the Department must follow through on stated commitments and implement our recommendations. Doing so means that the Department should commit to specific tasks and milestones for completing those tasks. If it does not, the Department runs the risk of continuing to spend an unknown amount of money on a system with unknown results.

That concludes a summary of my statement, and I would be pleased to address any questions you may have.

Mr. PUTNAM. Thank you very much.

[The prepared statement of Mr. Willemsen follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on National Security, Veterans
Affairs, and International Relations, Committee on
Government Reform, House of Representatives

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DOD'S STANDARD PROCUREMENT SYSTEM

Continued Investment Has Yet to Be Justified

Statement of Joel C. Willemsen
Managing Director, Information Technology Issues



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Defense's (DOD) management of its investment in the Standard Procurement System or SPS program. The department launched this program a little more than 7 years ago with the laudable goal of replacing 76 existing procurement systems with a single departmentwide system to more effectively support divergent contracting processes and procedures across its component organizations. Through SPS, the department expected to improve efficiency and effectiveness in how it awarded and managed contracts, and, at that time, estimated life-cycle costs to be approximately \$3 billion over a 10-year period.

The department's goals for SPS are reinforced by the president's recent management agenda, which emphasizes investing in information technology to achieve results. The agenda also noted that the federal government has not produced measurable gains in productivity commensurate with its investment in information technology,¹ which is now estimated to be more than \$50 billion for fiscal year 2003. The agenda reiterates that program performance and results are what matters most, and that actual program accomplishments, as well as needs, should be the prerequisite to continued funding. This emphasis is consistent with information-technology investment management provisions of federal law and guidance² and information-technology management practices of leading public- and private-sector companies.

For the SPS program, we reported in July 2001 that the department had not met these investment management criteria.³ Specifically:

- The department had not economically justified its investment in the program because its latest (January 2000) analysis of costs and benefits was not credible. Further, this flawed analysis showed that the system, as defined, was not a cost-beneficial investment.
- It had not effectively addressed the inherent risks associated with investing in a program as large and lengthy as SPS because it had not divided the program into incremental investment decisions that coincided with incremental releases of system capabilities.

¹*The President's Management Agenda: Fiscal Year 2002*, Executive Office of the President, Office of Management and Budget.

²Clinger-Cohen Act of 1996, Public Law 104-106; Office of Management and Budget Circular A-130, *Management of Federal Information Resources* (November 30, 2000).

³U.S. General Accounting Office, *DOD Systems Modernization: Continued Investment in the Standard Procurement System Has Not Been Justified*, GAO-01-683 (Washington, D.C.: July 31, 2001).

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- The department had not met key program commitments that were used to justify the program. For example, the department committed to implementing a commercially available contract management system; however, because it had modified so much of the foundational commercial product, SPS evolved into a customized DOD system. Also, although the department committed to fully implementing the system by March 31, 2000, this target date had slipped by 3 ½ years to September 30, 2003, and program officials have recently stated that this date will also not be met.
 - It did not know if it was meeting other key program commitments. For example, the department had not measured whether promised system benefits were being realized, and the information that was available about system performance showed that users were not satisfied with the system. Also, because DOD was not accumulating actual program costs, it did not know the total amount spent on the program to date, yet life-cycle cost projections had grown from about \$3 billion to \$3.7 billion.

Collectively, this meant that the question of whether further investment in SPS was justified could not be answered with any certainty. Accordingly, we recommended that investment in future releases or major enhancements to the system be made conditional on the department first demonstrating that the system was producing benefits that exceed costs, and that future investment decisions be based on complete and reliable economic justifications. We also recommended that program officials clarify organizational accountability and responsibility for the program, determine the program's current status, and identify lessons learned from the SPS investment management experience.

In commenting on a draft of our report, the Deputy Chief Information Officer (CIO) generally disagreed with our recommendations, noting that they would delay development and deployment of SPS. Since that time, however, the department has either initiated or stated its intention to initiate steps that are consistent with our recommendations. It has also taken steps to address the findings of several department-sponsored studies initiated at the time of our report. For example, it has (1) clarified organizational accountability and responsibility for the program, (2) established missing controls over key acquisition processes such as requirements management and testing, and (3) begun addressing users' concerns. In addition, department officials have stated that the department will prepare an economic analysis before investing beyond already executed contractual commitments and that it will conduct a productivity study to assess the extent to which the department is deriving benefits from SPS. These are positive steps that have advanced the program beyond where it was at the time of our report.

Nevertheless, much remains to be done before the department will be in a position to make an informed, data-driven decision about whether further investment in the system is justified. Namely, although program officials have stated their intentions to address our recommendations, they have not yet committed to specific tasks for doing so nor have they established milestone dates for completing these tasks. Further, the department may expand the functionality of the current software release to include requirements previously slated for later releases, which could compound existing problems and increase costs; and, although intended to be a standard system for the entire department, not all defense components have agreed to adopt SPS.

SPS: A Brief Description and History

In November 1994, the Office of the Director of Defense Procurement initiated the SPS program to acquire and deploy a single automated system to perform all contract-management-related functions for all DOD organizations. At that time, life-cycle costs were estimated to be about \$3 billion over a 10-year period.

From 1994 to 1996, the department defined SPS requirements and solicited commercially available vendor products for satisfying these requirements. Subsequently, in April 1997, the department awarded a contract to American Management Systems (AMS), Incorporated, to (1) use AMS's commercially available contract management system as the foundation for SPS, (2) modify this commercial product as necessary to meet DOD requirements, and (3) perform related services.⁴ The department also directed the contractor to deliver functionality for the system in four incremental releases. The department later increased the number of releases across which this functionality would be delivered to seven, reduced the size of the increments, and allowed certain more critical functionality to be delivered sooner (see table 1 for proposed SPS functionality by increment).

⁴DOD is not acquiring the source code for SPS and, unless an expanded license is obtained, is required to obtain sole-source support over the life of this system from AMS.

Table 1: Summary of SPS Functionality by Increment

Increment	Software release (subreleases)	Functionality
1	3.1	Provides base-level contracting capabilities enabling DOD procurement personnel to prepare simple contracts, which are generally fixed-price, 1-year contracts that will not be modified.
2	3.5	Provide enhanced base-level contracting functionality for DOD procurement personnel, such as reporting and contract administration capabilities, automatic edits, security features, and electronic interfaces for legacy systems being replaced.
3	4.0	
4	4.1 (a-e)	
5	4.2	
6	5.0	Provide more complex contracting capabilities, enabling DOD procurement personnel to purchase weapons systems. These contracts are generally fewer in number, but are more complicated, consisting of numerous provisions and contract line-item numbers, and usually undergo extensive modifications.
7	5.1	Provide inventory control point (ICP) functionality for ICPs, which are responsible for the support and acquisition of spare parts and supplies, enabling workload management to better manage inventories.

Source: DOD.

Since our report of July 2001,⁵ DOD has revised its plans. According to the SPS program manager, current plans no longer include increments 6 and 7 or releases 5.0 and 5.1. Instead, release 4.2 (increment 5) will include at least three, but not more than seven, subreleases. At this time, only the first of the potentially seven 4.2 subreleases is under contract. This subrelease is scheduled for delivery in April 2002, with deployment to the Army and the Defense Logistics Agency scheduled for June 2002. Based on the original delivery date, release 4.2 is about one year overdue.

The department reports that it has yet to define the requirements to be included within the remaining 4.2 subreleases, and has not executed any contract task orders for these subreleases. According to SPS officials, they will decide later this year whether to invest in these additional releases.

As of December 2001, the department reported that it had deployed four SPS releases to over 777 locations.⁶ The Director of Defense Procurement (DDP) has responsibility for the SPS program,⁷ and the CIO is the

⁵GAO-01-682 (July 31, 2001).

⁶All DOD components except the Air Force have deployed subrelease 4.1e; the Air Force has only deployed through subrelease 4.1b. The Air Force is scheduled to begin deployment of release 4.1e in March 2002.

⁷DDP is organizationally located within the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics.

<p>Numerous SPS Concerns Have Been Raised by Us and Others</p>	<p>milestone decision authority for SPS because the program is classified as a major Defense acquisition.⁸</p> <p>Our July 2001 report detailed program problems and investment management weaknesses.⁹ To address these weaknesses, we recommended, among other things, that the department report on the lessons to be learned from its SPS experience for the benefit of future system acquisitions. Similarly, other reviews of the program commissioned by the department in the wake of our review raised similar concerns and identified other problems and management weaknesses. The findings from our report are summarized below in two major categories: lack of economic justification for the program and inability to meet program commitments. We also summarize the findings of the other studies.</p>
<p>DOD Had Not Economically Justified Its Investment in SPS</p>	<p>The Clinger-Cohen Act of 1996, OMB guidance, DOD policy, and practices of leading organizations provide an effective framework for managing information technology investments, not just when a program is initiated, but continuously throughout the life of the program. Together, they provide for</p> <ol style="list-style-type: none"> (1) economically justifying proposed projects on the basis of reliable analyses of expected life-cycle costs, benefits, and risks; and (2) using these analyses throughout a project's life-cycle as the basis for investment selection, control, and evaluation decisionmaking, and doing so for large projects (to the maximum extent practical) by dividing them into a series of smaller, incremental subprojects or releases and individually justifying investment in each separate increment on the basis of costs, benefits, and risks. <p>The department had not met these investment management tenets for SPS. First, the latest economic analysis for the program—dated January 2000—was not based on reliable estimates because most of the cost estimates in the 2000 economic analysis were estimates carried forward from the April 1997 analysis (adjusted for inflation). Only the cost estimates being funded and managed by the SPS program office, which were 13 percent of the total estimated life-cycle cost in the analysis, were updated in 2000 to reflect more current contract estimates and actual expenditures/obligations for fiscal years 1995 through 1999. Moreover, the military services, which share funding responsibility with the SPS program office for implementing the program, questioned the reliability of these cost</p>

⁸DOD Regulation 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs*, specifies mandatory policies and procedures for major acquisitions. The policy also specifies that the DOD CIO is the milestone decision authority, responsible for program approval, for all major automated information systems, such as SPS.

⁹GAO-01-682 (July 31, 2001).

estimates. However, this uncertainty was not reflected in the economic analysis using any type of sensitivity analysis.¹⁰ A sensitivity analysis would have disclosed for decisionmakers the investment risk being assumed by relying on the estimates presented in the economic analysis.

Moreover, the latest economic analysis (January 2000) was outdated because it did not reflect the program's current status and known problems and risks. For instance, this analysis was based on a program scope and associated costs and benefits that anticipated four software releases. However, as mentioned previously, the program now consists of five releases, and subreleases within releases, in order to accommodate changes in SPS requirements. Estimates of the full costs, benefits, and risks relating to this additional release and its subreleases were not part of the 2000 economic analysis. Also, this analysis did not fully recognize actual and expected delays in meeting SPS's full operational capability milestone, which had been slipped by 3½ years and DOD officials say that further delays are currently expected. Such delays not only increase the system acquisition costs but also postpone, and thus reduce, accrual of system benefits. Further, several DOD components are now questioning whether they will even deploy the software, which would further reduce SPS's cost effectiveness calculations in the 2000 economic analysis.

Second, the department had not used these analyses as the basis for deciding whether to continue to invest in the program. The latest economic analysis showed that SPS was not a cost-beneficial investment because the estimated benefits to be realized did not exceed estimated program costs. In fact, the 2000 analysis showed estimated costs of \$3.7 billion and estimated benefits of \$1.4 billion, which was a recovery of only 37 percent of costs. According to the former SPS program manager, this analysis was not used to manage the program and there was no DOD requirement for updating an economic analysis when changes to the program occurred.

Third, DOD had not made its investment decisions incrementally as required by the Clinger-Cohen Act and OMB guidance. That is, although the department is planning to acquire and implement SPS as a series of five increments, it has not made decisions about whether to invest in each release on the basis of the release's expected return on investment, as well as whether prior releases were actually achieving return-on-investment expectations. In fact, for the four increments that have been deployed, the department had not validated whether the increments were providing promised benefits and was not accounting for the costs associated with each increment so that it could even determine actual return on investment.

¹⁰That is, an analysis to explicitly present the return-on-investment implications associated with using estimates whose inherent imprecision could produce a range of outcomes.

Instead, the department had treated investment in this program as one, monolithic investment decision, justified by a single, "all-or-nothing" economic analysis. Our work has shown that it is difficult to estimate, with any degree of accuracy, cost and schedule estimates for many increments to be delivered over many years because later increments are not well understood or defined. Also, these estimates are subject to change based on actual program experiences and changing requirements. This "all-or-nothing" approach to investing in large system acquisitions, like SPS, has repeatedly proven to be ineffective across the federal government, resulting in huge sums being invested in systems that do not provide commensurate benefits.

**DOD Had Not Met or
Did Not Know if It Had
Met SPS Commitments**

Measuring progress against program commitments is closely aligned with economically justifying information-technology investments, and is equally important to ensuring effective investment management. The Clinger-Cohen Act, OMB guidance, DOD policy,¹¹ and practices of leading organizations provide for making and using such measurements as part of informed investment decisionmaking.

DOD had not met key commitments and was uncertain whether it was meeting other commitments because it was not measuring them. (See table 2 for a summary of the department's progress against commitments.)

¹¹DOD Interim Regulation 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs* (January 4, 2001).

Table 2: Progress Against SPS Program Commitments

Key commitments	Commitment met?	Explanation(s)
System fully operational by March 31, 2000	No	Problems were encountered in modifying and testing the commercial product and in adequately defining requirements. For example, there were no system performance requirements in the SPS contract. ² The target date had slipped 3-1/2 years. ³
Contracting community's needs met	No	Approximately 60 percent of the user population recently surveyed by DOD's OIG were dissatisfied with the system's functionality and performance. ⁴
Acquire a commercially available software product	No	The commercial product had been extensively modified, resulting in a DOD-unique system.
Other commitments		
Replace 76 legacy procurement systems and manual processes, thereby reducing procurement system operations and maintenance costs	?	Only 2 legacy systems had been fully retired and 2 partially retired, and DOD did not know what, if any, associated cost savings had resulted. Also, DOD now plans to retire only 14 legacy systems as a result of SPS's implementation.
Increase user productivity	?	DOD is unaware of the extent to which productivity may have increased because it did not implement needed performance metrics.
Standardize policies, processes, and procedures	?	Each military service had or was planning to develop its own unique program documentation.
Reduce problem disbursements	?	DOD was unable to provide any evidence that implementing SPS had reduced problem disbursements, nor had it included this benefit in its latest economic analysis.
Life-cycle costs of \$3.7 billion over a 10-year period	?	DOD was unaware of the amount spent on the program to date because cost information was being tracked and officially reported only for the SPS program office. Costs incurred by all DOD component organizations were not accumulated and reported. ⁴

?—DOD was unaware of the extent to which the commitment had been met.

²While the former program manager attributed the delay to an increase in requirements, the SPS Joint Requirements Board chairperson stated that no additional requirements had been approved. Rather, the board's chairperson stated that the original requirements had not been well-defined and clarification was needed to better ensure that user needs would be met.

³According to the current program manager, the most recent target date of September 30, 2003, will not be met. In addition, another target date has not yet been established for completing the program.

⁴A user satisfaction manager was recently designated for this program.

⁵Based on DOD documents we obtained during our current review, at a minimum, \$511.6 million had been spent as of September 30, 2001.

To partially fill the void in knowing progress against SPS commitments, the program office initiated a study in June 2000 to validate the extent to which benefits from version 4.1 would be realized. However, the study was not well planned and executed, and while some useful information was obtained, the study did not allow DOD to validate whether expected benefits were actually being realized. For example,

- the sample selected was not statistically valid, meaning that the results were not projectable to the population as a whole,
- the study was based on the 1997 economic analysis instead of the more current 2000 economic analysis, despite key differences between the

two analyses, such as the number and dollar value of estimated benefits, and

- the information gathered did not map to the 22 benefit types listed in the 1997 economic analysis. Instead, the study collected subjective judgments (perceptions) that were not based on predefined performance metrics for SPS capabilities and impacts. Thus, the department was not measuring SPS against its promised benefits.

The former program manager told us that knowing whether SPS was producing value and meeting commitments was not the program office's objective because there was no departmental requirement to do so. Rather, the objective was simply to acquire and deploy the system. Similarly, CIO officials told us that the department was not validating whether deployed releases of SPS were producing benefits because there was no DOD requirement to do so and no metrics had been defined for such validation.¹³ However, the Clinger-Cohen Act of 1996 and OMB guidance¹⁴ emphasize the need to have investment management processes and information to help ensure that information-technology projects are being implemented at acceptable costs and within reasonable and expected time frames and that they are contributing to tangible, observable improvements in mission performance (i.e., that projects are meeting the cost, schedule, and performance commitments upon which their approval was justified). For programs such as SPS, DOD required this cost, schedule, and performance information to be reported quarterly to ensure that programs did not deviate significantly from expectations.¹⁵ In effect, these requirements and guidance recognize that one cannot manage what one cannot measure.

**Other Studies Reported
Similar Findings and
Identified Other Concerns**

Shortly after receiving our draft report for comment, the department initiated several studies to determine the program's current status, assess program risks, and identify actions to improve the program.¹⁶ These studies focused on such areas as program costs and benefits, planned commitments, requirements management, program office structure, and

¹³In January 2001, DOD issued a change to its major system acquisition policy requiring incremental investment management. Specifically, the policy notes that a program's milestone decision authority must verify that each increment meets part of the mission need and delivers a measurable benefit, independent of future increments.

¹⁴Clinger-Cohen Act of 1996, Public Law 104-106, and OMB Circular A-130 (November 30, 2000).

¹⁵DOD Interim Regulation 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs* (January 4, 2001).

¹⁶See for example, *SPS Contract Review: Preliminary Report and Status*, August 1, 2001; *The Present State of the SPS Program*, Software Engineering Institute, October 19, 2001; and *Independent Review of the Standard Procurement System Program*, Gartner Consulting, November 29, 2001.

systems acceptance testing. Consistent with our findings and recommendations, these studies identified the need to

- establish performance metrics that will enable the department to measure the program's performance and tie these metrics to benefits and customer satisfaction;
- clearly define organizational accountability for the program;
- provide training for all new software releases;
- standardize the underlying business processes and rules that the system is to support;
- acquire the software source code; and
- address open customer concerns to ensure user satisfaction.

In addition, the department found other program management concerns not directly within the scope of our review, such as the need to

- appropriately staff the program management office with sufficient resources and address the current lack of technical expertise in areas such as contracting, software engineering, testing, and configuration management;
- modify the existing contract to recognize that the system does not employ a commercial-off-the-shelf software product, but rather is based on customized software product;
- establish DOD-controlled requirements management and acceptance testing processes and practices that are rigorous and disciplined; and
- assess the continued viability of the existing contractor.

DOD Has Begun Addressing Problems, But SPS's Future Remains Uncertain

To address the many weaknesses in the SPS program, we made several recommendations in our July 2001 report.¹⁶ Specifically, we recommended that (1) investment in future releases or major enhancements to the system be made conditional on the department first demonstrating that the system is producing benefits that exceed costs; (2) future investment decisions, including those regarding operations and maintenance, be based on complete and reliable economic justifications; (3) any analysis produced to justify further investment in the program be validated by the Director, Program Analysis and Evaluation; (4) the Assistant Secretary of

¹⁶GAO-01-682, July 31, 2001.

Defense for Command, Control, Communications, and Intelligence (C3I) clarify organizational accountability and responsibility for measuring SPS program against commitments and to ensure that these responsibilities are met; (5) program officials take the necessary actions to determine the current state of progress against program commitments; and (6) the Assistant Secretary of Defense for C3I report by October 31, 2001, to the Secretary of Defense and to DOD's relevant congressional committees on lessons learned from the SPS investment management experience, including what actions will be taken to prevent a recurrence of this experience on other system acquisition programs.

DOD's reaction to our report was mixed. In official comments on a draft of our report, the Deputy CIO generally disagreed with our recommendations, noting that they would delay development and deployment of SPS. Since that time, however, the department has acknowledged its SPS problems and begun taking steps to address some of them. In particular, it has done the following.

- The department has established and communicated to applicable DOD organizations the program's chain-of-command and defined each participating organization's responsibilities. For example, the Joint Requirements Board was delegated the responsibility for working with the program users to define and reach agreement on the needed functionality for each software release.
- The department has restructured the program office and assigned additional staff, including individuals with expertise in the areas of contracting, software engineering, configuration management, and testing. However, according to the current program manager, additional critical resources are needed, such as two computer information technology specialists and three contracting experts.
- It has renegotiated certain contract provisions to assume greater responsibility and accountability for the requirements management and testing activities. For example, DOD, rather than the contractor, is now responsible for writing the test plans. However, additional contract changes remain to be addressed, such as training, help-desk structure, facilities support, and system operations and maintenance.
- The department has designated a user-satisfaction manager for the program and defined forums and approaches intended to better engage users.
- It has established a new testing process, whereby program officials now develop the test plans and maintain control over all software testing performed.

In addition, SPS officials have stated their intention to

- prepare analyses for future program activities beyond those already under contract, such as the acquisition of additional system releases, and use these analyses in deciding whether to continue to deploy SPS or pursue another alternative;
- define system performance metrics and use these metrics to assess the extent to which benefits have been realized from already deployed system releases; and
- report on lessons learned from its SPS experience to the Secretary of Defense and relevant congressional committees.

The department's actions and intentions are positive steps and consistent with our recommendations. However, much remains to be accomplished. In particular, the department has yet to implement our recommendations aimed at ensuring that (1) future releases or major enhancements to the system be made conditional on first demonstrating that the system is producing benefits that exceed costs and (2) future investment decisions, including those regarding operations and maintenance, be based on a complete and reliable economic justification.

We also remain concerned about the future of SPS for several additional reasons. First, definitive plans for how and when to justify future system releases or major enhancements to existing releases do not yet exist. Second, SPS officials told us that release 4.2, which is currently under contract, may be expanded to include functionality that was envisioned for releases 5.0 and 5.1. Including such additional functionality could compound existing problems and increase program costs. Third, not all defense components have agreed to adopt SPS. For example, the Air Force has not committed to deploying the software; the National Imagery and Mapping Agency, the Defense Advanced Research Projects Agency, and the Defense Intelligence Agency have not yet decided to use SPS; and the DOD Education Agency has already adopted another system because it deemed SPS too expensive.

In summary, effective investment in information technology depends on organizations (1) justifying programs via incremental business cases that are based on reliable data and sound analysis, (2) making decisions on investments in programs on an incremental basis, and (3) monitoring actual return on investment (benefits achieved and costs incurred) for each increment and using this information to facilitate decisionmaking about future increments. In the case of SPS, this has not occurred. While DOD has begun taking steps to strengthen its management of certain aspects of the program and committed to strengthening its investment

management practices, questions still remain as to what will be done and when. To increase the chances of program success, the department must expeditiously follow through on its stated commitments and address each of our recommendations. If it does not, it risks acquiring and deploying a procurement system that will not produce business value commensurate with costs.

This concludes my statement. I would be pleased to answer any questions you or Members of the Subcommittee may have at this time.

**Contact and
Acknowledgement**

For further information regarding this testimony, please contact Randolph C. Hite, Director, Information Technology Systems Issues, at (202) 512-3439, or Cynthia Jackson, Assistant Director, Information Technology Systems Issues, at (202) 512-5086. You may also contact them by e-mail at hiter@gao.gov or jacksonc@gao.gov, respectively.

Mr. PUTNAM. Thank you very much. At this time I'd ask Mr. Robert Lieberman, Deputy Inspector General, Office of Inspector General, Department of Defense, to give your opening statement.

You are recognized, sir.

Mr. LIEBERMAN. Thank you, Mr. Chairman.

As requested in your invitation letter, my written statement focuses primarily on results of my office's three audits on the standard procurement system. To put our findings in a broader context—

Mr. PUTNAM. Could you move the microphone a little bit closer?

Mr. LIEBERMAN. To put our findings on the SPS in the proper context, I believe it is important to recognize the fact that information systems are the primary tools that we put into the hands of DOD employees to carry out the internal business processes of the Department—things such as contracting, contract administration, paying contractors, and accounting.

As I reported to you in a hearing last March, the DOD has had chronic difficulties in fielding information systems that are up to par in terms of meeting cost, schedule, and performance expectations.

The SPS is no different from many other system acquisition initiatives in the Department that have had problems. It is not uncommon for information system acquisition projects to have the kinds of problems that SPS has encountered. In fact, most studies indicate that fewer than one in three large information system projects in both the public and private sector meet expectations in terms of cost, schedule, and performance. This is not an excuse, but I do think we need to recognize how inherently difficult a large information system development project is.

We support the basic concept of SPS. The idea of modernizing the information system tools in the hands of contracting personnel and rationalizing the jumble of legacy systems that we have in the Department, none of which are really adequate to meet user needs, and few of which talk to each other in any rational way, is a compelling need.

Our criticisms of the SPS project have to do with its planning and management, not with the basic concept of achieving as much standardization as possible. Even a total standardization is probably too ambitious a goal.

Turning now to the results of our findings, in 1996 we reported poor planning from the standpoint of identifying user needs, providing for rigorous testing, and otherwise managing what we felt were obvious developmental risks in this project. I want to make it clear that we certainly were never against the idea of acquiring a commercially available system and modifying it to Defense Department needs. We certainly support the idea that the private sector has leading IT technology and the Department needs to get access to those products.

What we criticized, though, was the idea that you can merely transplant a commercially available system to DOD processes without massive changes to either the system or the processes or both. Any time you attempt to do something like that, you are automatically incurring a lot of risk and you are very much in a developmental mode, as opposed to just buying something off the shelf that

has very little risk. We never felt that the SPS project adequately recognized the risks that were being taken, and therefore we criticized what we would characterize as the risk management in the program.

In response to the 1996 auditors—audit, managers generally agreed that the program carried risk and took various measures to formalize the testing requirements, limit the Government’s financial exposure, and provide ongoing monitoring. Most importantly, we were assured that each future acquisition milestone decision would be accompanied by a rigorous review of system functionality, contracting method, testing, and risks. In retrospect, it seems to me the managers remain preoccupied with maintaining system deployment schedules instead of focusing on the functionality of the system.

It is clear that not enough was done to keep the commitment expressed by the Defense Logistics Agency in response to our report, which was that, “SPS will not be deployed to any DOD procurement site wherein we cannot provide equal to or better than existing functionality.”

Because we lacked confidence that the program was on track, we performed a followup audit during 1998. We raised or reiterated a number of concerns, which are listed in my statement on pages six and seven. The management responses were mixed. By and large, program managers appeared to believe that the latest version of the system would correct the performance problems that we had found.

In late 1999, the House Budget Committee received a number of complaints from SPS users in the Department of Defense about the cost and usefulness of the system, so we did a user survey. We reported on the results of that survey in March 2001. Its results are summarized in pages eight and nine of my written statement. Basically, user dissatisfaction levels were still very high—abnormally high in such a late stage of the program. We also reported that the licensing arrangement for the software was inefficient, and we concluded that the program needed better performance measures to control risk and enable management to make informed decisions in how to proceed in the road ahead.

To sum up, we believe that SPS was a good idea, remains a good idea, will result in more efficient contracting and related processes such as financial management, but the program needs restructuring at this point. We understand that is being done. I would defer to the second panel to provide you the particulars. I remain cautiously optimistic that SPS will end up being at least a partial solution to the Department’s information system problems in this area, but we shouldn’t be naive and think that the road ahead will be smooth. Several important decisions need to be made about the exact scope of the project, and it needs to be adequately resourced to get from here to there.

Thank you for considering our views.

That concludes my statement.

Mr. PUTNAM. Thank you very much, Mr. Lieberman.

[The prepared statement of Mr. Lieberman follows:]

HOLD FOR RELEASE
EXPECTED 9:30 A.M.
FEBRUARY 7, 2002

**STATEMENT
OF
ROBERT J. LIEBERMAN
DEPUTY INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
HOUSE COMMITTEE ON GOVERNMENT REFORM
ON
THE STANDARD PROCUREMENT SYSTEM
FEBRUARY 7, 2002**

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to participate in this important discussion about one of the most critical Department of Defense information system initiatives, the Standard Procurement System (SPS).

As requested in your invitation letter, my statement focuses primarily on the results of my office's three audits on this program. First, to put our findings on SPS into a broader context, I will repeat a few observations from my testimony before you last March on Top Defense Management Challenges.

"Given the considerable dependence on "IT" and the high cost of large system investments, the historically poor record of the DoD for controlling the proliferation of incompatible systems with nonstandard data elements, acquiring new systems that meet user needs within reasonable timeframes, controlling cost, and ensuring the quality and security of data has been a major concern. Recognizing that such problems are common across the Federal Government, the Congress specified in the Clinger-Cohen Act of 1996 that Chief Information Officers in each agency would oversee well disciplined information technology acquisition processes. This is a daunting challenge for a department with 71 major information system acquisition projects and hundreds of "smaller" system acquisition and modification projects belonging to dozens of organizations. The DoD has been candid about the need for more effective management controls in this crucial area, but progress has been slow and the goals of the Clinger-Cohen Act have not yet been achieved.

The Department has revised its basic information system acquisition procedures and tried to be responsive to our recommendations. Nevertheless, we believe this area deserves continued close attention... At the present time, virtually every information technology project that we audit exhibits significant management problems. Those flaws include poorly defined requirements and frequent user dissatisfaction."

The SPS is one of those 71 major systems. Many of the issues raised during the past few years by my office, SPS users and the General Accounting Office pertained directly to incomplete compliance with the Clinger-Cohen Act, inadequate definition of requirements and user dissatisfaction. Its problems and challenges are not atypical in the DoD information system acquisition world.

When discussing the SPS program, it is also important to keep in mind that it represents one of the Department's most aggressive attempts to modernize and standardize its information processing in a core business function. The SPS was originally intended to replace a jumble of between 70 and 80 existing systems and to support what the Department refers to as the End-to-End Procurement-Finance Model. The concept of a common system to be used by all Military Departments and Defense Agencies for the whole gamut of procurement tasks, with efficient links to the finance systems, is extremely challenging. Nevertheless, it has

been well worth pursuing even if total standardization proves to be impossible, as is likely to be the case.

Finally, the SPS program merits close attention because of:

- the need for productivity enhancing information tools to offset the 50 percent reduction of the Defense acquisition workforce over the past several years;
- its prominence as a major attempt to tailor off-the-shelf commercial software for government use; and
- its spiral development and incremental deployment approaches, which have been widely touted as the best means to get new technology to users as quickly as possible.

Now to recap our three reports on SPS.

The SPS program began in November 1994. From April through October 1995, four draft contract solicitations were issued for comment. During that process, we received allegations to the DoD Hotline regarding what functional requirements had been initially identified, the program's acquisition approach and its testing plans. We reported our findings on these matters in

Audit Report No. 96-219, Allegations to the Defense Hotline
Concerning the Standard Procurement System, September 5, 1996.

We determined that, despite Assistant Secretary of Defense
(Command, Control, Communications and Intelligence) review and
approval for SPS to proceed past Acquisition Milestone I in
August 1995, much more needed to be done to control program
risks. Specific risks were as follows:

- the testing plan was inadequate because of uncertain
operational performance requirements and a compressed schedule;

- the acquisition strategy was to purchase an off-the-shelf
commercial system, although it was recognized that very
substantial follow-on software development would be needed to
operate in the Defense environment;

- initially, a fixed price contract was planned, despite
numerous uncertainties;

- functional requirements were delineated too broadly and
there was insufficient assurance that user needs had been fully
identified;

- specific site requirements were not well defined; and

- alternative deployment approaches were not fully analyzed.

In response to our audit, managers generally agreed that the program carried risk and took various measures to formalize the testing requirements, change the contract terms and provide ongoing monitoring. We were assured that each future Acquisition Milestone decision would be accompanied by a rigorous Office of the Secretary of Defense level review of system functionality, testing and risks. In retrospect, it is clear that not enough was done to keep the commitment expressed by the Defense Logistics Agency in reply to our report:

"By prior direction of the Director, Defense Procurement, SPS will not be deployed to any DoD procurement site wherein we cannot provide equal to or better than existing functionality."

We performed a follow-up audit during 1998, resulting in Audit Report No. 99-166, Initial Implementation of the Standard Procurement System, May 26, 1999. We raised or reiterated the following concerns:

- The commercial software was providing only 45 percent of the required functionality, not the 60 to 75 percent that was originally predicted;

- the drastic makeover of the system to add functionality had created a DoD-unique system, yet in contractual terms SPS remained a licensed commercial product and DoD was locked into a sole source for life cycle support;

- initial users were complaining about the system's limited capability, the newly installed SPS software was not being used at 13 of 25 sites that we visited, and the "equal or better functionality" guidelines had not been enforced;

- the schedule was slipping and costs had increased;

- training, guidance and help desk support for users were inadequate;

- inefficient workarounds were frequently in use at sites where SPS had been deployed;

- a more accurate life-cycle cost estimate was needed; and

- although considerable time had passed since Congress provided additional contracting flexibility for buying commercial products, DoD still lacked internal guidance on acquiring commercial computer software for major information systems, including the SPS.

The management responses to our May 1999 report were mixed. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) agreed to issue guidance on acquiring commercial software and did so in July 2000. During the audit, in May 1998, a Requirements Board was established to evaluate deficiencies identified by users. The Board determined that 36 additional capabilities were needed. The program office also took various measures to improve customer support. By and large, however, program office managers appeared to believe that the problems cited in our report had been solved in the latest releases of the SPS software. As subsequent events proved, this was not the case.

By December 1999, four versions of SPS had been deployed, the latest being version 4.1. At about that time, the House Committee on the Budget opened its own Internet hotline for citizens to report waste in Government and received multiple complaints about SPS from Defense personnel at sites that had

received it. The Committee referred these allegations to us and we decided to conduct a web-based survey of statistically selected SPS version 4.1 users. Although the Department had great difficulty providing accurate user identities and e-mail addresses, we received about 600 replies to the survey instrument between May and July 2000.

The survey results were published in Audit Report No. D-2001-075, Standard Procurement System Use and User Satisfaction, March 13, 2001. The only reasonably good news was that 86 percent of the SPS users stated that the system was available always or most of the time. Otherwise, although numerous software improvements had been made and many respondents praised the system's potential, user dissatisfaction levels were still unexpectedly high. For example:

- 61 percent of SPS users preferred a procurement system other than SPS,
- 46 percent of the users stated that the number of workarounds had increased,
- 51 percent of the users stated that productivity had not increased since SPS version 4.1 was implemented, and

- 64 percent of the users stated that SPS had not substantially contributed to the DoD goal of paperless contracting.

Further, based on survey responses, we projected that about 27 percent of the personnel licensed to use SPS version 4.1 had not used it, because SPS either lacked the functionality for those sites or employees received SPS when it was not needed to perform their jobs. We estimate that the Department spent up to \$2.1 million on licenses for users who could not or did not need to use SPS.

We made numerous recommendations and offered the following general conclusions.

"DoD has experienced a 50 percent reduction in the procurement workforce without a commensurate reduction in workload. Conceptually, SPS should assist in automating and standardizing a variety of procurement tasks and thus assist in more efficiently completing the workload. According to the survey, however, functionality remains a serious concern. Management needs to respond to this concern when deploying new SPS versions and, if SPS does not fully meet mission needs, should consider supplementary and alternative tools for the procurement workforce."

"There is a need for more appropriate testing prior to future deployment. About 38 percent of respondents contend that SPS version 4.1 had only some or none of the functionality needed, despite testing. Present performance measures do not address mission needs such as enhancing

customer service, reducing problem disbursements, increasing contracting personnel productivity, or eliminating redundancy."

Several actions have been taken, in response to our audits and various other reviews, which lead me to be cautiously optimistic about the future of this effort. For example:

- the Director, Defense Procurement, explicitly directed the Military Departments and Defense Agencies to assess and validate functional requirements against user needs before deploying any future versions of the SPS;
- it is apparent that the Department insisted on rigorous testing of SPS version 4.2, which was actually returned to the contractor for rework last year;
- a contractor has been hired to provide Independent Validation and Verification of SPS software;
- independent management assessments by consultants and DoD acquisition experts strongly indicated higher than acceptable levels of risk remaining in the program and seem to have added impetus to efforts to improve its discipline and risk management;

- a working group is developing the performance measures that are badly needed to monitor this program properly;

- the SPS acquisition strategy and economic analysis will be reviewed and updated; and

- senior Office of the Secretary of Defense managers are clearly more engaged in this program's issues than was the case earlier in the program.

In conclusion, I believe that the SPS concept is fundamentally sound and the Department will be well served by replacing the outmoded and unintegrated legacy systems. Nevertheless, despite the numerous commendable actions recently taken, it would be premature to assume that further execution of this program will necessarily be smooth. In the near term, the program continues to need close attention and perhaps more restructuring if it is to fulfill the Department's expectations. The exact scope of the program and its funding requirements need to be resolved this year. From the standpoint of DoD financial management, the effectiveness of the data transfer between SPS and the DoD finance and logistics systems will be an especially significant

concern, particularly because those other systems and related standards are in various stages of redesign or replacement.

The recent suggestion by GAO that a DoD "lessons learned" report be written on the SPS experience is a very good one, although it would be important to ensure that such a report be thoroughly objective and reflect what may be a range of opinion about what those lessons are.

Thank you again for considering these views.

Mr. PUTNAM. Let me just apologize to everyone for the temperature in this room, although it is getting better. This is Florida day in Congress, and so we are trying to make it as hot and muggy as possible in here.

Mr. Willemsen, Mr. Lieberman just concluded that, the its core, SPS is a good idea and is a functional program that is in need of additional resources and restructuring. Do you agree with that basic premise?

Mr. WILLEMSSEN. I think much of what Mr. Lieberman mentioned in terms of standardization at its core could be beneficial, but, in and of itself, we still need to identify exactly what the benefits are and what the contributions are to improve mission performance.

Does it mean that we are going to be able to get rid of some of the 76 systems, for example, that SPS was intended to replace? If so, then there are tremendous benefits associated with that. Does it mean that on the battlefield that our troops will be able to procure systems immediately and get the article delivered to them? Could be tremendous benefits. We haven't seen that analysis, though, demonstrating that SPS is going to necessarily deliver those kind of—has delivered those benefits, so what we are asking for right now is, before there are further investments beyond existing contractual commitments, let's make sure of what we are getting for our money. How much have we spent? And what are the associated benefits? Let's make some assessment of that, and then let's go forward and see what additional benefits we can get for our money.

Mr. PUTNAM. Have any of the 76 systems been replaced or partially replaced thus far?

Mr. WILLEMSSEN. Let me defer to my assistant director. I believe there are a couple that have been replaced at this point.

Cynthia.

Ms. JACKSON. Yes. At this point two have been fully retired as a result of SPS and two partially retired, meaning they will still be used—they are still being used by some of the other Defense agencies at this time.

Mr. PUTNAM. Can you assign a percentage of implementation that SPS is at this stage? Is it 50 percent in place, 80 percent in place?

Mr. WILLEMSSEN. I think it would be difficult to assess a percentage until you define exactly what the program is going to be. And I—our view would also be that now is a good time to take a pause and understand where the Department is at with SPS before it decides to move forward. There are releases out there that are being used that, of course, don't provide the full functionality that was envisioned for SPS, but I think it would be prudent to make that kind of an assessment at this point.

Anything you want to add, Cynthia?

Ms. JACKSON. No. Not at this time.

Mr. PUTNAM. Mr. Lieberman, did you want to add anything to that last question?

Mr. LIEBERMAN. No, sir. I think the second panel is most qualified to tell you where this reassessment stands, but I think they

do have a responsive story to tell in terms of what has been done in response to our reports and GAO's.

Mr. PUTNAM. How will the—when totally implemented, how will it help assure total asset visibility, that we'd have a handle on everything that is in the DOD inventory?

Mr. LIEBERMAN. I don't think that total asset visibility is one of SPS's features. It is not an inventory management system. There are separate logistics systems that do that. This is a system that connects with those inventory management systems, rather than one that is intended to do inventory management, itself. This is a system for identifying what needs to be procured for helping people select the right contracting mode, write the contracts, put all the right clauses in, administer the contracts, get them placed, pay the contractor, or at least provide the information to the finance people to pay the contractor, and that sort of thing, but it is not a supply management system.

Mr. PUTNAM. How will it interface with that payment process, that payment portion of the equation?

Mr. LIEBERMAN. The finance centers will have—they get information from the contracting community on what to pay contractors and how to deal with the invoices that they receive, so there are elaborate interfaces. In fact, that's one of the primary challenges of a system like this—being able to connect efficiently to the finance systems so that the contractors can be paid correctly and we won't have the kind of overpayments or payments from the wrong accounts that we've had in the past because of poor information coming into the finance centers, among other things. And also the accounting systems, keeping track of what funds have been spent out of each account, need to interface into these systems, also.

Therein lies the challenge. In the commercial sector you don't have nearly as many different systems. It is a much more integrated picture. That's why it has been very hard to just transplant an off-the-shelf commercial system to the Government process.

Mr. PUTNAM. Are the payment systems and inventory management systems among the 76 that this was to phaseout, or are we talking about even more systems than that? To whomever can answer that.

Mr. WILLEMSSEN. We're speaking of more systems than that.

Mr. PUTNAM. OK. It's just me and you all now. Work with me here. Nobody else wanted to come.

How—you know, I guess all this begs the core question. How and when will we know whether SPS has met the hype, the expectations, the objectives? I mean, we're 5 years into an 8-year program, I assume, and we're not doing so hot so far, so when can we have some expectation or some basis for understanding whether or not we're still headed in the right direction after all this investment?

Mr. WILLEMSSEN. Well, I would answer the question in this fashion, Congressman—and, again, somewhat similar to what Bob said in terms of the second panel, but it is incumbent upon the Department to commit to milestones and the tasks associated with those milestones to implement, we think, our recommendations focused at exactly the question you are asking—when are we going to know how much this system costs and what we are getting for that money?

Right now I would submit we don't know for sure what we're getting, and that's why we think it important for the Department to commit to taking those actions and commit to you to when those steps are going to be completed. Without milestones to get it done, this can continue on for several more years.

Mr. PUTNAM. Mr. Lieberman, do you want to—

Mr. LIEBERMAN. I certainly agree that more explicit documentation of where we are going and where we are is extremely important. When we talk about the lack of performance measures, it may be sort of an esoteric term, but basically we're saying the same thing. In order to measure whether we have achieved success or not, we need some very specific parameters laid out as to what success constitutes, and we really don't have that right now in this program.

There are some positive signs. It was used recently during a military exercise in Thailand where people plugged into the system from over there and were able to place purchase orders all over the world to buy supplies that they needed, and the feedback from that was very positive. The system seems to work well for small, local-level purchases.

The big question with it is: is it simply too much to ask for the same system to handle all those millions of small purchases and then those gigantic weapons systems contracts also? That's probably a bridge too far, and I would predict that the Department will probably decide to let SPS concentrate on the small-and medium-sized purchases and deal with its problems in the weapon systems and the inventory control points with a different system some time in the future.

Mr. PUTNAM. Just out of curiosity, in a \$350 billion budget what is a medium-sized purchase?

Mr. LIEBERMAN. Well, there's a definition of micro purchases, which is \$2,500 or less, so those are the little, bitty ones. I don't know where large starts. In Defense terms, everything is relative. But the weapons systems contracts normally are tens of millions of dollars, and in some cases even much greater than that, so they are clearly the high end of the spectrum in terms of individual dollar value. In terms of numbers, those small procurements are 95 percent of the contracting activity.

So if SPS can support those smaller type of purchases well, it will be dealing with 90 percent of the number of contracting actions that we place, which will be a considerable achievement.

Mr. PUTNAM. Mr. Willemsen, would that type of bifurcated process achieve some efficiencies?

Mr. WILLEMSSEN. It very well could, and on the surface that sounds reasonable. All I would add is to have the decisions be data driven. It may, indeed, prove that through the next release, which will focus more on the small and medium contracts, that's where you get a lot of the benefits. That's where you get a lot of your efficiencies. And if we looked forward on the later phases of the original planned SPS with the larger and more complex efforts, that may not be worth the effort, worth the cost to do because you're not going to get the same return on investment that you could with these first increments, so I think that's—it very well could be the

outcome. My only caveat would be—is have the decision be data driven, not what we think it looks like.

Mr. PUTNAM. But the 10 percent that would be remaining is what percent of the money?

Mr. WILLEMSSEN. Well, it's a large percent of the contract money, but it is not necessarily as large a percent of the activity associated with managing contracts, the steps you have to go through from cradle to grave in contract management, which there's a lot of resources associated with just doing that.

What you may find—and I think what program managers have already found—is when you get into the larger, more complex contracts there tends to be a lot more unique features that a standardized system may not map well to, and it could be a little bit more difficult to standardize in that regard. A lot more complexity.

Mr. PUTNAM. Who is ultimately responsible for achieving the SPS mission objectives?

Mr. WILLEMSSEN. Responsibility for the program—there is a program office that has responsibility, and then also, because this is considered a major system acquisition, C3I office, the Chief Information Officer has a major role at key decision points along the way of the life cycle of the system to make sure that it is being kept on track.

Mr. PUTNAM. Did your report evaluate the level or quality of oversight that office has provided in this program?

Mr. WILLEMSSEN. We looked at it from the perspective, not so much individualizing the organizations, but what kind of key tenets of effective investment management should be done, and in the case of SPS they were not done as they should have been.

Mr. PUTNAM. Thank you.

At this time the Chair recognizes the gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chair.

Just two brief questions. One is: if you were to project forward on this thing, just how many years behind schedule do we anticipate this will run? And how much over budget?

Mr. LIEBERMAN. Sir, that depends on the outcome of the Department's current deliberation on where to go from here. They have not made an irrevocable commitment that SPS will be used for every kind of contract. So if you cutoff large segments of the problem here, SPS could end up having a much smaller scope than was originally envisioned, and I think that there will be various options in terms of how much more to try to do with SPS and how much that is going to cost.

Mr. TIERNEY. Do we have a range?

Mr. LIEBERMAN. I don't.

Mr. TIERNEY. You don't?

Mr. LIEBERMAN. No, sir.

Mr. WILLEMSSEN. The end date on the full program was late 2003, but then program officials told us they were not going to be able to meet that either, so what the end date is for the full-blown program I think is up in the air right now, and it goes back to what Mr. Lieberman said. They're going to have to make a decision about whether we are going to do the full system or just significant pieces of it.

Mr. TIERNEY. OK. Mr. Lieberman, a somewhat unrelated issue but similar on that. About a year or so ago you shared with us the fact that you thought there was over \$1 trillion unaccounted for in the Department of Defense budget. Have we made any progress in locating any of that money?

Mr. LIEBERMAN. Well, you're referring to the \$1.3 trillion worth of unsupported adjustments to the year-end financial statements.

Mr. TIERNEY. Right.

Mr. LIEBERMAN. It is impossible to retroactively figure out those accounting adjustments. The way the financial statement auditing works is that each year the Department creates new end-year statements, and each year we audit those. The reports on the end-year statements for fiscal year 2001 are due later this month. I don't candidly expect that you are going to see much difference in terms of the audit opinions. We will still find all of the major financial statements, with the exception of the military retirement fund, which is in good shape. We'll find the rest to be unauditible. And the unsupported adjustment figure will still be very high, probably less than it was last year because the Department has been trying to fix the reasons why those kinds of adjustments have to be made and improving the audit trail so that the auditors don't deem them to be unsupported.

I should explain that what we're talking about is the ability to portray financial statements in the year-end statements. Saying that there are unsupported adjustments in those statements does not necessarily mean that the Department doesn't know where the money is, but it can't—the information on where the money is is down in the roots of the Department, and we have no efficient way to summarize that information and portray it at the end of the year in the financial statements.

Mr. PUTNAM. Is there a plan to do just that? Is there a guide which Department people or personnel could follow to get to that point some time soon?

Mr. LIEBERMAN. Yes, there is. The Department is currently spending \$100 million that the Congress just appropriated to it to lay out a road map on what has to be done to overcome that problem, plus a lot of money is being spent—we're not quite sure how much, but we are in the multi-billion-dollar range—on financial management system improvements, all of which are designed to, among other things, create auditible financial statements.

Mr. TIERNEY. Thank you.

Thank you, Mr. Chairman. I have no further questions.

Mr. PUTNAM. Thank you, Mr. Tierney.

Mr. Willemsen, in the GAO report and in your testimony you state that, "In commenting on a draft of our report, DOD generally disagreed with our recommendations, noting that they would delay development and implementation of SPS. Since that time, however, the Department has either initiated or stated its intention to initiate steps that are consistent with our recommendations." To what do you attribute the change of heart?

Mr. WILLEMSSEN. A couple factors come into play, not the least of which is congressional oversight. To the extent—and I've seen—witnessed this beyond Department of Defense, but when congressional committees and subcommittees exert oversight over the ac-

tivities, or major information systems, in this case, of a particular department, they get a lot more attention at the department level when they know that congressional subcommittees such as yours are actively engaged in oversight, so that is a key factor.

Second, I think when you look at the facts of the Department can't tell us how much in total it has spent on SPS and they can't tell us what they've got for their money, I think that's a hard position to defend indefinitely.

Mr. PUTNAM. Mr. Lieberman.

Mr. LIEBERMAN. I totally agree. I think that, as I mentioned in my opening statement, unfortunately, the kinds of problems we see in the SPS project are the kinds of problems that we find in most of the audits that we do of DOD information acquisition projects. We need a more-disciplined process, and the Department has been working on that for several years, but progress has been slow and I think any objective assessment would still have to say that we're a long way away from achieving the goals of the Clinger-Cohen Act.

Mr. PUTNAM. We began this questioning with your statement about the fundamental—your fundamental support of SPS, but certainly stating that it was in need of restructuring. Would you like to elaborate on some of the restructuring recommendations that you have?

Mr. LIEBERMAN. Well, I should preface anything I say by making it clear that we have not been into this program for over a year now. But I think, in general terms, the question of whether to try to push SPS into the inventory control points, where we buy a centrally managed item like aircraft repair parts and things like that, and to push it into the weapons systems contracting world, which is so radically different from what the current version of SPS can support, that's really, I think, where serious consideration has to be given to drawing the line and saying this is too much for one system to handle and we're going to explore another option.

Mr. PUTNAM. Mr. Willemsen, what recommendations for restructuring have you all made? And, of those, which have been implemented?

Mr. WILLEMSSEN. Among the recommendations that we would have for restructuring within that realm is, before the Department invests in future releases of SPS, that it be made conditional on the fact that they can demonstrate that what's out there to date is providing results that exceed the amount of money that has been spent, and DOD has told us that they plan to do that.

Second, that those future investment decisions be based on reliable and complete economic analysis. Again, the Department has said they are going to do that. And also to determine—we think it is important to determine the current status of program commitments, and the Department has said that they would do that, in terms of where each of the releases of the system are and what they are getting for that.

We also think it is important that the Department look at this system in retrospect and identify lessons learned and report on those lessons learned so it can use them for subsequent systems. This is not the way to go about managing a multi-billion-dollar IT project.

And Mr. Lieberman is correct. There are many other examples of where this has occurred. In fact, the reason Clinger-Cohen was passed in 1996 is, frankly, the Congress became fed up with repeated stories of major information technology projects that failed. You can look at FA advanced automation system—couple billion dollars; Internal Revenue Service tax system modernization, \$3 billion—and the list goes on. That’s why Clinger-Cohen was put in. It was to say, “We want cost benefits and risks managed, not just at the beginning of a project, but throughout its life cycle, so that if this project starts going off-track, we want management in there to say, ‘Hold it. We’ve got to take action.’” That’s what needs to occur with SPS.

Mr. LIEBERMAN. Sir, could I add something to that?

Mr. PUTNAM. Mr. Lieberman.

Mr. LIEBERMAN. One of the recommendations we made in one of our reports was that DOD issue guidance on how to buy commercial software. The Congress strongly encouraged doing so with acquisition reform legislation in 1994, and as late as the year 2000 DOD still had not put out guidance to its contracting and program management people on how to do that and what pitfalls might exist and how to avoid them, so we recommended that be done, and it was done with a white paper issued in July 2000. That is really an excellent document, in terms of what to do and what not to do when buying COTS products. Now the challenge is to get people to read it and apply it to their own program.

Mr. PUTNAM. And, finally, for the entire panel, what is the likely outcome of the Department continuing with current plans for this acquisition of SPS without implementing the recommendations? What’s the—what types of consequences can we expect if this continues?

Mr. WILLEMSSEN. Namely, the Department, if they didn’t implement the recommendations—but I believe they will, but if they didn’t I think they’d continue to limp along year after year, spending money on a program, an unknown amount of money with an unknown set out outcomes about what we’re getting for that investment. But I don’t think that’s going to be the outcome. I think the Department is going to move in the right direction and make an assessment of where they’re at and either decide to, as Mr. Lieberman said earlier, either essentially cutoff after the next release or go forward with future releases.

Mr. PUTNAM. Do you agree, Mr. Lieberman?

Mr. LIEBERMAN. Yes, I do. I think the Congress has already expressed dissatisfaction with the current plan through a major cut to the appropriate for SPS for 2002. The Department can’t expect the Congress to support the old program plan in future budgets, so it is going to have to be restructured, and that restructuring is underway. So, as I said, I remain cautiously optimistic that SPS can fulfill a large part of the requirement.

Mr. PUTNAM. Very good. Mr. Lieberman, Mr. Willemsen, Ms. Jackson, I am very appreciative for your time and your talents this morning in sharing this with us.

We are going to recess for me to run and go vote before we seat the second panel, so at this time everybody can just enjoy this summer weather and I’ll be back in just a few moments.

This subcommittee is in recess.

[Recess.]

Mr. PUTNAM. The subcommittee will reconvene.

I'd like to welcome our second panel. I look forward to your testimony and to helping us fill in some of the gaps from the first panel. There were several references to the second panel may be able to answer that a little better, and so we look forward to that.

We will begin our second panel testimony by swearing you all in, so if you will please stand and raise your right hand, do you solemnly swear or affirm that the testimony you give before this subcommittee will be the truth, the whole truth, and nothing but the truth?

Mr. THURSTON. I do.

Colonel HAYNES. I do.

Ms. MYERS. I do.

Mr. PUTNAM. Thank you. Note for the record that the witnesses responded in the affirmative.

We will begin the second panel with Dr. Margaret Myers, the Deputy Assistant Secretary of Defense, Command, Control, Communications, and Intelligence.

Welcome. You are recognized.

STATEMENTS OF MARGARET MYERS, DEPUTY ASSISTANT SECRETARY OF DEFENSE, COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE [C3I], DEPARTMENT OF DEFENSE; GARY THURSTON, DEFENSE CONTRACT MANAGEMENT AGENCY, DEPARTMENT OF DEFENSE; AND COLONEL JAKE HAYNES, PROGRAM DIRECTOR, SPS PROGRAM OFFICE, DEFENSE CONTRACT MANAGEMENT AGENCY, DEPARTMENT OF DEFENSE

Ms. MYERS. Good morning. Mr. Chairman, the director of defense procurement, Ms. Lee, regrets not being here today, but she had a previous commitment to host the DOD-sponsored SPS users' conference.

Mr. PUTNAM. We won't hold it against her. Nobody would have been here to listen, anyway, except me.

Ms. MYERS. All right. Well, I appreciate the opportunity to discuss the DOD chief information officer's oversight of SPS. My organization is responsible for acquisition and Clinger-Cohen Act oversight of the SPS.

The DOD CIO, Mr. John Stenda, is the milestone decision authority for SPS. A key part of this responsibility is ensuring that the program complies with the Department's acquisition policies and the Clinger-Cohen Act. The 1994 initiative of SPS as an acquisition program occurred prior to the Clinger-Cohen Act. By mid 1997, however, we began to retrofit SPS to meet the act's requirements. One particularly bright spot is the procurement community's initiative to document the as-is and to-be end-to-end procurement processes consistent with the Clinger-Cohen Act mandates for enterprise architectures and business process reengineering.

In mid 1998 the Department set two performance goals that significantly impacted SPS. These were a successful Y2K changeover and a transition to paperless contracting. As a result of senior leadership emphasis, both outcomes were achieved by January 2000.

SPS played a critical role in retiring non-compliant legacy procurement systems and in making the contracting process over 80 percent paperless.

In spite of intensive management oversight, however, the SPS program experienced some problems during this period, and we took appropriate risk management actions, such as directing the program manager to re-baseline the program.

We are aware that the SPS program still has issues that need attention. Nearly a year ago, my boss formally asked the director for Defense procurement to conduct a program review. As a result, she sponsored two independent reviews, and we are in agreement with the findings.

The director for Defense procurement and I will continue to review the program with the stakeholders to ensure that the acquisition direction is properly executed. We look forward to working with the committee to ensure that this program is a success.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you may have.

Mr. PUTNAM. Thank you very much, Dr. Myers.
[The prepared statement of Ms. Myers follows.]

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**TESTIMONY OF
THE PRINCIPAL DIRECTOR FOR THE
DEPUTY CHIEF INFORMATION OFFICER,
DEPARTMENT OF DEFENSE,
OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR
COMMAND, CONTROL, COMMUNICATIONS & INTELLIGENCE**

**BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS,
AND INTERNATIONAL RELATIONS**

FEBRUARY 7, 2002

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you and discuss the DoD Chief Information Officer's (CIO) oversight of the Standard Procurement System (SPS).

I am the Principal Director for the Deputy CIO for the Department of Defense (DoD). My organization is responsible for Clinger-Cohen Act (CCA) and acquisition oversight of the SPS acquisition system and approximately 40 other DoD Major Automated Information Systems (MAIS) or major information technology (IT) investments in such areas as Logistics, Finance, Health, Personnel, Intelligence and Command and Control.

I know that one of your primary goals for this hearing is to learn how program risks have been minimized for the SPS program. Therefore, I will address how my office approaches risk mitigation for MAIS in general and SPS in particular.

The DoD CIO, for whom I work, is the Milestone Decision Authority (MDA) for SPS. The CIO's primary responsibility as the MDA is to make decisions on whether a MAIS should be initiated and whether that program should proceed into the various phases of the acquisition life cycle. At each major decision point, the MDA must determine whether the program or a key increment of the program should be terminated, modified or approved to proceed. A key part of this responsibility is determining whether the program is complying with the Department's acquisition policies in the DoD 5000 series and the requirements of the CCA.

The CIO carries out these responsibilities with the advice and assistance of other oversight officials in the Office of Secretary of Defense (OSD), the Joint Staff and in the DoD Component responsible for acquiring the system. Among the most important of these is the Director for Defense Procurement, who is the Principal Staff Assistant or functional sponsor for the SPS program. She is responsible for determining and approving the needs and requirements for the program and for establishing the mission-related performance outcomes that the program is intended to achieve. The Component Acquisition Executive (CAE), the Component CIO, and the Program Executive Officer are also key oversight officials, as they are closest to the program, oversee the day-to-day actions of the program manager and are primarily responsible for ensuring that the program is compliant with the Department's acquisition and IT policies and regulations. These individuals and a number of other OSD and Joint Staff officials comprise a team that advises the DoD CIO as to whether a program should be terminated, modified, or approved to proceed. These offices work in Integrated Product Teams (IPTs). Per DoD policy, virtually all of the Department's acquisition and acquisition oversight activities are conducted through the IPT process. The highest level IPT for MAIS is the IT Overarching IPT (OIPT), which is led by the CIO's Director for IT Investment and Acquisition. The IT OIPT makes recommendations to the MDA; and, when a decision is made about a program such as SPS, the IT OIPT members are consulted and their coordination is sought on any decision memoranda.

The Department's acquisition policies are contained in a series of DoD directives comprised of DoD Directive 5000.1, DoD Instruction 5000.2 and DoD Regulation 5000.2-R. These directives underwent major updates in January 2001. Per DoD Instruction 5000.2, an Automated Information System (AIS) that exceeds certain dollar thresholds is a MAIS and is subject to oversight by the DoD CIO. Those dollar thresholds are program costs in any single year in excess of \$32 million; total program costs in excess of \$126 million; or total life-cycle costs in excess of \$378 million. The SPS program exceeds those thresholds and is therefore a MAIS.

In the January 2001 version of DoD Instruction 5000.2, the Department implemented a number of the requirements of the CCA, as part of our implementation of Sec. 811 of the Fiscal Year 2001 National Defense Authorization Act and Section 8102 of the FY 2001 Defense Appropriations Act. These include a requirement for the Component CIO to certify to the DoD CIO that the program is being developed in accordance with the CCA and for the DoD CIO to certify same to the congressional defense committees before the DoD CIO approves program initiation or entry into any subsequent acquisition phase. These phases include concept and technical development, system development and demonstration, and deployment.

The CCA was enacted in 1996, a few years after the inception of the SPS program. However, we have tried to apply the tenets of the CCA and good acquisition management to the program. A CCA compliance certification to Congress has not been required for SPS because no milestone approvals have been requested since the enactment of the requirement for such certifications in Fiscal Year 2000. However, due to a major cost and schedule breach in FY 1999, the DoD CIO staff directed the SPS Program Manager (PM) to address the requirements of the CCA. That submission was received in February 2000 and indicated that the Defense Contract Management Agency (DCMA) has taken seriously the requirements of the CCA.

Among the actions we have taken to reduce the risks of the SPS program are the following:

- Prior to the enactment of the CCA, we obtained and oversaw the execution of the Delegation of Procurement Authority from the General Services Administration (under the former Brooks Act).
- We have led and participated in many IPT meetings regarding SPS in such areas as test and

evaluation, cost documentation, funding and milestone decisions.

- As a result of the above, the DoD CIO (or his predecessor) has granted a number of milestone approvals for SPS. These approvals were documented in the following Acquisition Decision Memos (ADMs) from February 1995 through October 1998. These ADMs approved a number of actions and directed a number of risk mitigation steps.

February 13, 1995

- Provided approval to proceed with the Concept Exploration and Definition phase, based on a Mission Need Statement approved by the Director for Defense Procurement.
- Constrained maintenance and modernization actions for legacy systems.
- Directed that the following be established for the program: operational performance parameters; a Test and Evaluation Master Plan suitable for acquiring a commercial product; and an economic analysis which reflects SPS total functional and technical costs and benefits and is consistent with the Director, Program Analysis and Evaluation, guidance.

August 4, 1995

- Provided conditional approval to proceed with the Demonstration and Validation Phase subject to:
 - The SPS Program Manager providing: a report on SPS migration strategies that address technical risks; an SPS Migration Plan expanding on how these migration strategies are to be implemented and addressing the heterogeneous SPS computing environment; and an updated Mission Need Statement and SPS program baseline reflecting the major measurement criteria contained in the Test and Evaluation Master Plan.
 - The Economic Analysis to support the next Milestone Review including Component

coordination comments.

- CAEs providing the SPS PM their minimal acceptable operational requirements.
- The Test and Evaluation Master Plan addressing the SPS strategy for evaluating the expandability and adaptability of selected system architectures to accommodate additional SPS functional requirements.

22 May 97

- Provided deployment approval for SPS Increment 1 (to 125 sites).
- Directed the Director of Defense Procurement to provide, prior to Increment 3 testing, an updated Operational Requirements Document containing performance measures and key performance parameters that are procurement business process relevant and not technical operational requirements and support for Army and Air Force SPS Economic Analysis cost and benefit estimates.

29 Aug 97

- Provided conditional deployment approval for SPS Increment 2.
- Directed the SPS PM to provide the OIPT leader a report on how enhanced security requirements are to be met.
- Directed the Director of Defense Procurement provide an updated Operational Requirements Document supplying performance measures that are procurement-business relevant before Increment 3 testing is initiated.

17 Jul 98

- To support the needs expressed by the Navy and Army Senior Procurement Officials, this

ADM authorized the SPS PM to perform installation and training of SPS Increment 3 to Navy's Automated Procurement and Data Entry system and Standard Army Automated Contracting System sites, limited to \$2.4 million and \$3.1 million for the Navy and Army respectively.

29 Oct 98

- Delegated authority to make operational use decisions regarding SPS Version 4.1 and subsequent SPS Increment 3 maintenance releases to the CAEs.
- Recognizing the importance of SPS to the goals and schedule of the Department's Paperless Contracting Initiative and CAE willingness to accept the risk of early deployment of SPS Version 4.1, this ADM authorized limited deviation from the normal practice of completing operation test and evaluation before deployment.
- For Increment 4, directed the Director of Defense Procurement to determine whether the SPS ORD should be updated to reflect any paperless contracting or additional deferred Increment 3 requirements.

All of these decision memos were coordinated with the OSD, Joint Staff and DoD Component stakeholders who participate in the oversight of MAIS.

We also required and approved an Acquisition Program Baseline (APB) specifying the cost, schedule and performance parameters for the program. We also approved an update to that APB as a result of the major cost and schedule breach in FY 1999. The Director for Defense Procurement and the DoD Comptroller coordinated on these APBs.

At the time of the APB breach, my staff directed the SPS PM to update the economic analysis to determine whether it was still in the best interest of the Department to proceed with the program in

light of the increased cost and schedule. That economic analysis was completed and was reviewed and endorsed by the Office of the Director, Program Analysis & Evaluation (ODPA&E). That economic analysis showed that the restructured program continues to result in a positive return on investment (ROI). We understand that the General Accounting Office (GAO) questions whether that economic analysis properly justifies the continuation of the program. The DoD CIO, DCMA and ODPA&E staffs have explained our disagreements with GAO on that point, both in meetings with GAO staff and in our formal reply to the draft report. DoD CIO personnel have also discussed the issue with congressional committee staff. We have agreed to work with GAO staff to develop a better understanding of each others' procedures for calculating ROI to avoid similar disagreements on future DoD IT programs.

The DoD CIO staff also oversees the SPS program by participating in quarterly program reviews held by the DCMA Director and by reviewing quarterly Defense Acquisition Executive Summary (DAES) Reports prepared by the PM to document program progress and status.

The PM recently reported that the program is in breach of its August 2001 Acquisition Program Baseline cost, schedule, and performance parameters. As a result, the DDP, the PDUSD(AT&L) and I, working together, have issued a series of memos providing formal acquisition direction. A 15 Jan 02 memo to the Director, DCMA, from my boss, the Deputy CIO, directed the following actions for the program:

- Limit development efforts to SPS Version 4.2.
- Cease work on Version 5.0 and assess critical requirements of the Version 4.2 baseline.
- Update the Acquisition Strategy and the economic analysis to determine the costs and benefits, including return on investment, of the rebaselined program.

- Brief (within 30 days) the OSD and Joint Staff Integrating IPT on the program status.
(Scheduled for 1 Feb 02.)

In addition, the new SPS PM, in response to the findings of the numerous independent reviews of the program, has instituted a number of management control processes that I believe will improve overall program performance and reduce risk.

Most IT programs, in both the public and private sectors, are difficult to keep within cost and schedule estimates. Joint IT programs in the DoD are particularly problematic, as it is very difficult to agree on common business practices and requirements among the Military Departments and Defense Agencies. We are aware that the SPS program has issues that need attention. Early this year, DoD CIO formally recommended that the Director for Defense Procurement conduct a review of the program. She chartered two independent reviews and has shared the findings with my office. We are in agreement with the recommendations and actions the Director has made so far. I have participated with her in the SPS Executive Steering Group with the program stakeholders to identify solutions and direct their implementation. In addition, my staff has conducted program review meetings with the program manager, the DDP staff, and other key OSD oversight offices, and, as stated above, we have issued formal acquisition direction to the program. On February 1st, an Integrating IPT was conducted with OSD and Joint Staff participation. As a result, a fully coordinated Acquisition Decision Memorandum providing comprehensive program guidance will be issued. The Director for Defense Procurement and I will continue to review the program with OSD, the Joint Staff and Component stakeholders to ensure that the new acquisition direction is properly executed. We will implement the recommendations in the GAO report with which we have agreed and look forward to working with the committee to ensure this program is a success.

I would be happy to take any questions.

Mr. PUTNAM. Thank you very much, Dr. Myers. At this time I'd recognize Mr. Gary Thurston, Defense Contract Management Agency, Department of Defense.

You are recognized.

Mr. THURSTON. Good morning, Mr. Chairman. I appreciate the opportunity to be here today to discuss the standard procurement system. I will summarize my submitted testimony with a review of some of the history of this program, outline the progress through August 2001, and address some of the concerns that have been raised about the system.

As the director of Defense procurement stated in her written testimony, the Department initiated the program in 1994. Most of the Department's contract writing and invoice payment systems were then approaching the ends of their useful lives and would soon need replacement. The Department decided that it would be far more cost effective to develop just one standard system to create and manage contracts and make invoice payments than to separately replace each of the systems being used. That way the Department would save on systems development costs and also enjoy considerable additional savings by updating and maintaining only one system instead of many. Thousands of users at 777 locations are using the standard procurement system worldwide. Roughly one-third of the Department's contracting actions in both numbers and dollars are being accomplished by the standard procurement system. Four existing major contracting systems needing replacement have been retired, and plans are on hand to replace ten more such major systems.

As regards to the economic value of this program, I understand the General Accounting Office has criticized some of the methods and assumptions used in the Department's two analysis of the value of the standard procurement system. I will only note here that my staff, as well as staff from the Office of the Department of Defense Chief Information Officer, have all reviewed the latest economic analysis and have assured me that the program, despite its increase in cost and schedule, still has a net positive return. That makes sense to me, given what I know about the size and complexity of some of the elderly contracting systems now in use. They would have to be replaced separately if it were not for the fact the standard system will replace them all.

I also suggest an additional value not yet fully accounted for in any analysis will become apparent in the timeliness and accuracy of the management information available to the Department once all the new systems in the end-to-end procurement process model are on line and fully operational.

In summary, we began the program with an open competition of a commercial item from industry sources. We did a two-phase selection process. We used user assessment criteria and financial criteria for selecting the most-qualified vendor. We justified investment in the program. We have one-third of the Defense work force using the standard system. Procurement professionals in the Army, Navy, Air Force, and Defense agencies are performing their operational mission with the standard procurement system. We are improving the software to respond to user concerns. The SPS acquisi-

tion is a major undertaking to revolutionize the procurement processes and systems operating with the Defense Department.

In response to your question—can the DOD procurement process be standardized—I believe it can. The SPS software is only one facet, though. Users' willingness to change is also vital to the standardization of the DOD procurement process.

That concludes my opening remarks. I look forward to answering any questions you may have.

Mr. PUTNAM. Thank you very much, Mr. Thurston.

[The prepared statement of Mr. Thurston follows.]

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TESTIMONY OF GARY J. THURSTON,
DEFENSE CONTRACT MANAGEMENT AGENCY
BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
FEBRUARY 7, 2002

TESTIMONY OF GARY J. THURSTON,
DEFENSE CONTRACT MANAGEMENT AGENCY
BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM

February 7, 2002

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss the Standard Procurement System. I will review some of the history of this program, outline the progress through August 2001, and address some of the concerns that have been raised about the system.

As the Director of Defense Procurement has stated in her testimony, the Department initiated this program in 1994. Most of the Department's contract writing and invoice payment systems were then approaching the ends of their useful lives and would soon need replacement. The Department decided that it would be far more cost-effective to develop just one standard system to create and manage contracts and make invoice payments than to separately replace each of the systems being used. That way, the Department would save on systems development costs, and also enjoy considerable additional savings by updating and maintaining only one system instead of many.

The conceptual design for the Standard Procurement System at that time included three major components: a contracting module, a payments module, and a large centralized database that would allow the Department's contracting and financial

management communities to share summary data about contract obligations, contractor performance, and payment histories. The Department planned to purchase only the “core” of the centralized database as a commercial-off-the-shelf product because the Department’s market research at that time was indicating that there were no commercial products available yet that could meet the Department’s unique statutory contracting and financial management requirements.

Over the course of the following year, the Department realized that the concept of a centralized “shared” database offered great potential for helping the Department to improve its financial management systems and accountability overall. It had by then become obvious that the primary deficiency in the Department’s “legacy” financial management and other systems was those systems’ inability to exchange or share data except through manual transcription. The Department’s people have proven repeatedly that they are capable of meeting the highest possible standards of transcription accuracy, but all human beings occasionally make mistakes; and, as one of my agency’s comptrollers once remarked, financial management is a field in which less than 100 percent accuracy is absolutely unacceptable.

Electronic interfaces, though, if properly constructed and validated, are completely accurate. In recognition of that fact, the Department soon directed the Defense Finance and Accounting Service, or “DFAS,” to begin concept exploration for, and eventually acquisition of what are now known as the DFAS Corporate Database and Data Warehouse. The DFAS Corporate Database, when fully deployed, will contain

electronically transmitted detailed records of all the Department's financial contracting transactions, while the Data Warehouse will offer on-line "searchable" summary-level data from the Corporate Database. Those two database products, along with the Defense Procurement Payment System and Defense Standard Disbursing System, replaced the payment module and centralized database in the original Standard Procurement System design concept. Today, those new databases and payment systems, together with the Standard Procurement System, form the core of the Department's "End-to-End Procurement Process Model." The electronic interfaces between those systems and databases promise to bring unprecedented reliability and accuracy to the Department's procurement-related financial management information and data.

At about the same time that the Department decided to proceed with the new DFAS programs, the Department looked again at commercial-off-the-shelf contract writing systems that could be modified to meet its unique contracting requirements, and which could also be equipped with interfaces to exchange data electronically with the DFAS Corporate Database as well as with legacy accounting, material management, and other management information systems. In 1995 the Department initiated a two-stage acquisition that involved a first round of competition between all competitors' products. The two winning products from that first round were then competed against each other on the basis of end users' satisfaction with the products as they then existed and the products' suitability for further modification. That competition commenced in 1996, and ultimately resulted in the April 1997 selection of the Standard Procurement System's current development contractor as the "best value" provider for the Department's needs.

Thousands of users at 775 locations are using the Standard Procurement System worldwide, and roughly one third of the Department's contracting actions, in both numbers and dollars, are being accomplished by the Standard Procurement System. Four existing major contracting systems needing replacement have been retired, and plans are in hand to replace ten more such major systems.

With those facts in mind when I look back at all of the Department's early decisions about this program, I come to the conclusion that the Department made exactly the right decisions for exactly the right reasons. Building one system to replace many systems is always less costly than replacing those many systems separately, and building systems that can exchange data electronically will always result in more timely and accurate management information, which will lead to better decisions about the use of financial and other resources. However, it seems evident now that nearly everyone involved with this program substantially underestimated the number and complexity of the interfaces needed to link the Standard Procurement System to the Department's accounting and other management information systems.

I mentioned earlier that nothing less than 100 percent accuracy is acceptable for financial management. Exactly the same is true for building interfaces. The proper protocols and standards must be selected and adhered to perfectly, and the rules for transforming the data used by one system into a form that can be used by another must be totally comprehensive and perfectly accurate. Above all, there cannot be even a single

typographical error in programming the interface or the entire interface will likely be inoperable.

The extensive effort to find and correct the data transformation errors is, in my opinion, the root cause of many of the concerns about this program. That effort has not only added to the program's cost and delayed its schedule, and thereby led to concerns about the program's economic value, it has also used up time that otherwise could have been used to correct some of the system features that many end users have found so annoying. For example, SPS printed information with different fonts and formats than were found in existing contract writing systems. Initially, a user could only print contracts with two line items on a page. The system now allows up to six per page. Another example is calendar date that is used differently in systems. Some fields are month, day, and year, and others are year, month, and day. The initial changes were focused on correcting data being transmitted electronically. We are now working on both the data transformation and features corrections.

As regards to the economic value of this program, I understand that the General Accounting Office has criticized some of the methods and assumptions used in the Department's two analyses of the value of the Standard Procurement System. I will only note here that my staff, as well as staff from the Office of the Department of Defense Chief Information Officer, have all reviewed the latest economic analysis and have assured me that the program, despite its increase in cost and schedule, still has a net positive return. That makes sense to me, given what I know about the size and

complexity of some of the elderly contracting systems now in use that would have to be replaced separately if it were not for the fact that the Standard Procurement System will replace them all. I will also suggest that an additional value not yet fully accounted for in any analysis will become apparent in the timeliness and accuracy of the management information available to the Department once all the new systems in the End-to-End Procurement Process Model are on-line and fully operational.

In summary, we began the program with an open competition of a commercial item from industry sources. We did a two-phase selection process. We used user-assessment criteria and financial criteria for selecting the most qualified vendor. We justified investment in the program. We have one third of the Defense workforce using the standard system. Procurement professionals in the Army, Navy, Air Force, and Defense Agencies are performing their operational mission with the Standard Procurement System. We are improving the software to respond to user concerns. The SPS acquisition is a major undertaking to revolutionize the procurement processes and systems operating within the Defense Department. In response to your question of "Can the DoD Procurement Process be Standardized?" I believe it can. The SPS software is only one facet though. The users' willingness to change is also vital to the standardization of the DoD procurement process.

That concludes my prepared remarks. I look forward to answering any questions that you may have.

Mr. PUTNAM. At this time I would like to call upon Colonel Jake Haynes, the program director for the SPS Program Office, Defense Contract Management Agency, Department of Defense.

Colonel, welcome to this committee.

Colonel HAYNES. Mr. Chairman and members of the committee, good morning. I appreciate the opportunity to appear before you today to discuss the SPS program and its crucial role in standardizing Defense procurement practices. This program has tremendous importance for our ability to meet the needs of our servicemen and women and, consequently, has a vital impact upon our overall military readiness.

On 6 August of last year, I assumed the position of program manager for the SPS system. As a result, other witnesses before this committee can better address the history and the background of the SPS program. I believe my testimony will avoid repetition of other witnesses and contribute to the committee's understanding of the SPS program by focusing on three major areas.

First, I would like to contribute my initial impressions of the SPS program upon assuming my current position.

Second, I would like to offer my perspective on some of my current concerns expressed about the SPS program.

Finally, I would like to make a few comments about the actions that can help facilitate greater acceptance of the SPS program throughout the Defense procurement community.

Upon assuming my current position, I was struck by the enormity of the SPS program. In many ways, it was unprecedented step from both the Department of Defense procurement community and information technology within the Department of Defense. This initiative was designed to replace several dozen existing legacy systems with a single system based upon commercial, off-the-shelf COTS business software. Its reach included the entire Defense professional procurement community—over 43,000 different users in all services and Defense agencies.

Finally, the comprehensive approach included both standardization of existing procurement functions as well as the inclusion of enhanced contract management tools that will ultimately result in end-to-end integrated processes with interoperability across the entire Department of Defense. When I fully understood the scope of the SPS program, I was impressed by the progress reached prior to my arrival.

SPS has now been deployed to 21,900 procurement professionals at 773 sites, reaching over half of all intended users and over two-thirds of intended sites. In fiscal year 2001, Defense procurement professionals used SPS for over 480,000 contracting awards, procuring more than 36 billion in goods and services. The fact that such a massive undertaking has advanced to the current level of implementation is a credit to the numerous Defense officials, including my colleagues on this panel.

At the same time, I was also impressed by the enormous benefits offered by standardizing of Defense procurement practices in general and the potential advantages of the SPS program, in particular.

A single, integrated procurement process would allow the Department of Defense advantages almost too numerous to mention,

including greater financial accuracy, improved operational efficiency, and substantial cost savings. Implementation of this program will provide the Department with greater resource visibility needed to optimize spending and track funding, improve management and oversight capabilities, and ultimately provide better support to America's war fighters.

It will be accomplished—these objectives, by reducing administrative time required for contract management and allowing procurement personnel to focus on quality of goods and services, as well as eventually reducing administrative or overhead costs associated with contract management and freeing more appropriated funding to go to the needs of the war fighter.

SPS will also enhance productivity and interoperability of our procurement work force. This standardization will be an important component in the Department's ability to comply with the requirements of the Chief Financial Officer Act and balance his books.

In summary, SPS is transforming the Defense procurement community, and its full benefits are just beginning to be recognized. An appreciation of the size of the SPS program, both in terms of the number of users and breadth of procurement functions, helps one understand the likelihood, if not inability, of challenging in implementation phase. As I began reviewing various reports and talking to numerous people involved in the program, from supervisory officials to end users, I developed an understanding of both the concerns expressed by this committee and the GAO and the actions being taken to address them.

In reviewing comments on the SPS program to date, many have focused on the lack of user satisfaction with the new system. I fully appreciate the importance of acceptance of SPS within the user community and would like to address the situation in a number of different respects.

First, the Inspector General Audit on Standardized Procurement System Use and User Satisfaction Report, number D2001-075, dated March 13, 2001, noted many users—many areas for training enhancements and improvement throughout the program. The current program budget includes extremely limited funds for exchange management activities, which include training, business process re-engineering, and dedicated communication activities dedicated at end users. All parties, including the PMO, services, agencies, and contractor believe that the program requires additional training efforts. We will be engaged in a continuing effort to identify means and resources to enhance the quality and amount of training available to end users.

I would also like to stress the broader concept of change management with regard to end user acceptance of the SPS program. Communication and an understanding of the ultimate objectives of any business change or technology implementation is critical for success. The evolving nature of the program and the focus on the technical and software resulted in less than clear communication to the end users regarding the goals of the program and its impact on the procurement work force, which, in turn, led to unmanaged and often unrealistic expectation for both the SPS program and the implementation process.

Greater communication on the broader goals of the SPS program and the upcoming deployment of SPS version 4.2, with its improvements and add-in functionality, would help remedy their situation.

Nonetheless, we also recognize the absolute importance of being responsive to the user needs and taking positive actions to meet user expectation for the SPS program. My No. 1 focus is on user satisfaction with SPS. As described in the testimony of Director Lee, the Department has undertaken a number of steps designed to ensure overall customer satisfaction with regards to all aspects of the SPS program.

The Department has fully committed to taking actions to ensure that end user needs are met by both the operational capabilities of the new SPS version 4.2 and the overall deployment process.

I would like to address some of the new measures we have taken within the Program Management Office to implement our new focus on the end user satisfaction. We have adopted a two-prong approach that involves improving both PMO processes and communications with the SPS users. Within the PMO, we have set up and are enforcing discipline processes to handle all aspects of the SPS program, including the requirements process for the new version 4.2. In this area, as in all areas of the SPS program, we are focusing on the SPS user. I also have a strong new management team in place within the PMO with a defined set of responsibilities and priorities, including monitoring and reporting on user satisfaction issues.

We are also taking steps to increase communications with users about the SPS program in both directions. First, we are continually stressing to users the importance of their programs and the many means of communications devices available to them. For example, my first contribution to the SPS program newsletter stressed our goals of addressing users' concerns in improving communication. We have also initiated an SPS communication survey that we expect to provide the PMO with both substantive comments on the SPS program and ideas on how we can continue to improve our communications with the SPS users.

Finally, this very week we have been conducting the SPS end users conference sponsored by the PMO with the support of the program contractor. I am confident this dialog would benefit the program. At the same time, a vital part of the PMO dialog with users must involve continuing efforts to explain why the SPS program is so important to the future of the Department. We understand the perspective of a user being faced with a challenging—a challenge of learning a new system that does not seem to offer obvious advantage to their legacy systems. Once users better appreciate the Department's commitment to the end-to-end model and the critical importance of linking procurement, financial, and logistics communities in an integrated process, we believe that users will then understand the need to implement the SPS program.

Since I assumed my responsibilities as program manager for the SPS program, I believe that we have made major strides in restoring focus to the basic and crucial task of making SPS work at the user level. I am convinced that the commitment of the Department's team to identify and implement actions more oriented to-

ward user satisfaction will have beneficial effects throughout the SPS program.

I am also pleased to report that the program contract is fully supportive of the need to increase end user satisfaction within the SPS program and has cooperated fully with the efforts recently undertaken to devise an improved approach to resolving these issues.

In summary, the Department recognizes both the importance of the SPS program and the continuing need to address the concerns expressed to this committee. Achieving greater efficiency in the Department's business practices is a crucial means of meeting modern procurement challenges and enhancing overall readiness to meet 21st century missions. We recognize that we can only achieve our goals through a more-focused effort to maximize our greatest resource—the skilled and dedicated professionals who serve our Nation at all levels.

We will be working to provide the committee with confidence that ultimately standardization of the Department of Defense procurement process can and will occur in the years ahead and that our national security will be improved as a result.

Thank you for the opportunity to appear before this committee. I will be pleased to answer any questions at this time.

Mr. PUTNAM. Thank you very much, Colonel Haynes. We appreciate your being here.

[The prepared statement of Colonel Haynes follows:]

TESTIMONY OF COL. JACOB N. HAYNES, U.S. ARMY,
SPS PROGRAM MANAGER,
BEFORE THE U. S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
FEBRUARY 7, 2002

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to discuss the Standard Procurement System (SPS) and its crucial role in standardizing defense procurement practices. This program has tremendous importance for our ability to meet the needs of our service men and women and, consequently, has a vital impact upon our overall military readiness.

In August of last year, I assumed the position of Program Manager for the Standard Procurement System. As a result, other witnesses before this Committee can better address the history and background of the SPS program. I believe that my testimony can best avoid repetition of other witnesses and contribute to the committee's understanding of the SPS program by focusing on three major areas.

First, I would like to contribute my initial impressions of the SPS program upon assuming my current position. Second, I would like to offer my perspective on some of the current concerns expressed about the SPS program. Finally, I would like to make a few comments about actions that can help facilitate greater acceptance of the SPS program throughout the defense procurement community.

Upon assuming my current position, I was struck by the enormity of the SPS program. In many ways, it is an unprecedented step for both the Defense procurement community and information technology within the DoD. This initiative was designed to replace several dozen existing legacy systems with a single system based upon commercial-off-the-shelf (COTS) business software. Its reach included the entire defense professional procurement community, over 43,000 different users in all Services and defense agencies. Finally, the comprehensive approach included both standardization of existing procurement functions, as well as the inclusion of enhanced contract management tools, that will ultimately result in end-to-end integrated processes with interoperability across the entire Department of Defense.

When I fully understood the scope of the SPS program, I was impressed by the progress reached prior to my arrival. SPS has now been deployed to 22,150 procurement personnel at 777 sites, reaching over half of all intended users and over two-thirds of intended sites. In FY2001, defense procurement personnel used SPS for over 490,000 contracting awards, procuring more than \$36 billion in goods and services. The fact that such a massive undertaking has advanced to the current level of implementation is a credit to numerous defense officials, including my colleagues on this panel.

At the same time, I was also impressed by the enormous benefits offered by standardization of defense procurement practices in general and the potential advantages of the SPS program in particular. A single integrated procurement process will allow the Department of Defense advantages almost too numerous to mention, including greater financial accuracy, improved operational efficiency, and substantial cost savings. Implementation of this program will provide the Department with greater resource visibility needed to optimize spending and track funding, improve management and oversight capabilities, and, ultimately, provide better

support to America's warfighters. It will accomplish these objectives by reducing the administrative time required for contract management and allowing procurement personnel to focus on quality of goods and services, as well as eventually reducing the administrative or "overhead costs" associated with contract management and freeing more appropriated funding to go directly to the needs of the warfighters. SPS will also enhance the productivity and interoperability of our procurement workforce. This standardization will be an important component in the Department's ability to comply with the requirements of the Chief Financial Officer (CFO) Act and balance its books. In summary, SPS is transforming the defense procurement community and its full benefits are only just beginning to be recognized.

An appreciation of the size of the SPS program, both in terms of number of users and breadth of procurement functions, helps one understand the likelihood, if not inevitability, of challenges in the implementation phase. As I began reviewing various reports and talking to numerous people involved in the program, from supervisory officials to end users, I developed an understanding of both the concerns expressed by this Committee and the General Accounting Office, and the actions being taken to address them.

In reviewing comments on the SPS program to date, many have focused on a lack of user satisfaction with the new system. I fully appreciate the importance of acceptance of SPS within the user community and would like to address this situation in a number of different respects.

First, the Inspector General's Audit on Standard Procurement System Use and User Satisfaction, Report No. D-2001-075, March 13, 2001 noted many areas for training enhancement and improvement throughout the program. The current program budget includes

extremely limited funds for change management activities, which include training, business process reengineering and dedicated communications activities directed at end users. All parties including the PMO, Services, Agencies and contractor believe that the program requires additional training efforts. We will be engaged in a continuing effort to identify means and resources to enhance the quality and amount of training available to end users

I would also like to stress the broader concept of change management with regard to end user acceptance of the SPS program. Communication and an understanding of the ultimate objectives of any business change or technology implementation is critical for success. The evolving nature of the program and the focus on the technical and software resulted in less than clear communication to the end users regarding the goals of the program and its impacts on the procurement workforce, which in turn led to unmanaged and often unrealistic expectations for both the SPS program and the implementation process. Greater communication on the broader goals of the SPS program and the upcoming deployment of SPS Version 4.2, with its improvements and added functionality, will help remedy this situation.

Nonetheless, we also recognize the absolute importance of being responsive to user needs and taking positive action to meet user expectations for the SPS system. My number one focus is on user satisfaction with SPS. The Department has undertaken a number of steps designed to ensure overall customer satisfaction with regard to all aspects of the SPS program. The Department is fully committed to taking action to ensure that end user needs are met by both the operational capabilities of the new SPS Version 4.2 and the overall deployment process.

I would like to address some of the new measures we are taking within the Program Management Office (PMO) to implement our new focus on end user satisfaction. We have

adopted a two-pronged approach that involves improving both PMO processes and communication with SPS users.

Within the PMO, we have set up and are enforcing disciplined processes to handle all aspects of the SPS program, including the requirements process for the new Version 4.2. In this area, as in all areas of the SPS program, we are focusing on the SPS user. I also have a strong new management team in place within the PMO with a defined set of responsibilities and priorities, including monitoring and reporting on user satisfaction issues.

We are also taking steps to increase communication with users about the SPS program in both directions. First, we are continually stressing to users the importance of their comments and the many means of communication available to them. For example, my first contribution to the SPS program newsletter stressed our goals of addressing users' concerns and improving communication. We have also initiated an SPS Communications Survey that we hope will provide the PMO with both substantive comments on the SPS program and ideas on how we can continue to improve our communications with SPS users. Finally, this very week we have been conducting an SPS end users' conference sponsored by the PMO with the support of the program contractor, and I am confident that the resulting dialogue will benefit the program.

At the same time, a vital part of the PMO dialogue with users must involve continuing efforts to explain why the SPS program is so important to the future of the Department. We understand the perspective of a user being faced with the challenge of learning a new system that does not seem to offer obvious advantages to their legacy system. Once users better appreciate the Department's commitment to the End-to-End (E2E) Model and the critical importance of

linking the logistics, procurement, and financial communities in an integrated process, we believe that users will understand the need to implement the SPS program.

Since I assumed my responsibilities as program manager for the SPS program, I believe that we have made major strides in restoring focus to the basic and crucial task of making SPS work at the user level. I am convinced that the commitment of the Department's team to identify and implement actions more oriented towards user satisfaction will have beneficial effects throughout the SPS program. I am also pleased to report that the program contractor is fully supportive of the need to increase end user satisfaction within the SPS program and has cooperated fully with the efforts recently undertaken to devise an improved approach to resolving these issues.

In summary, the Department recognizes both the importance of the SPS program and the continuing need to address the concerns expressed to this Committee. Achieving greater efficiency in the Department's business practices is a crucial means of meeting modern procurement challenges and enhancing overall readiness to meet 21st century missions. We recognize that we can only achieve our goals through a more focused effort to maximize our greatest resource, the skilled and dedicated professionals who serve our nation at all levels. We will be working to provide the Committee with confidence that ultimate standardization of the DOD procurement process can occur and will occur in the years ahead and that our national security will be improved as a result.

Thank you for the opportunity to appear before this Committee. I will be pleased to answer any questions that the Committee may have for me.

Mr. PUTNAM. At this time the Chair recognizes and acknowledges for the record that the gentleman from Massachusetts, Mr. Lynch, has arrived, and we welcome him to the subcommittee.

Mr. LYNCH. Thank you, Mr. Chairman. I can say on this committee I am very proud to serve and I'm here to learn, here to listen, so I thank you for your testimony.

Mr. PUTNAM. And the distinguished gentleman from New York, the chairman emeritus of the International Relations Committee, Mr. Gilman.

Mr. Gilman, I understand you have a statement. You are recognized.

Mr. GILMAN. Thank you very much, Mr. Chairman. I am being called to another meeting, and I appreciate your calling on me at this time, and I want to welcome our panelists on a very important issue and thank you for convening today's hearing to examine the status of the standard procurement system for the Department of Defense.

The oversight of Federal agencies is an extremely important congressional responsibility, and, of course, this committee carries out that responsibility. Nowhere in today's climate is it more important than to make certain our Defense Department has the ways and means to do whatever they need to do.

Given the current military environment in which we find ourselves, it is prudent and appropriate that we work to make certain that the Department of Defense is getting the best value for the money it spends on new equipment, and with the increased budget it becomes even more important.

In 1992, the GAO listed DOD contract management as a high risk component that required additional senior management oversight. This led the Department of Defense to initiate a 12-year program to create and implement a standard procurement system, the SPS, which we are examining today to replace a myriad arrangement that evolved over 35 years, and when I take a look at DOD's chart on—GAO's chart on DOD's current systems environment for contract and vendor pay, I wonder how anyone can keep up with all of those crossed lines that take place and all of the other agencies that are involved.

We are now 7 years into that progress, and we've already missed the original target date of March 2000, for full implementation of this system. And the Defense Department revised its target date, as I understand it, by 3½ years to September 2003—is that correct?

Colonel HAYNES. Yes.

Mr. GILMAN. But that new goal may also be further delayed, as I understand it.

Given the Administration has requested historic increases in Defense spending over the next 5 years, it makes sense then for the Congress to require that the DOD's procurement system be as streamlined and as efficient as possible as we perform our oversight responsibilities.

Just two quick questions before I have to run.

What cost savings have been realized to date as a result of implementing SPS? I address that to any of our panelists who could tell us that.

Mr. THURSTON. We did a productivity study last summer, and we have documented, we believe, around \$75 million on an annual basis.

Mr. GILMAN. And that has been the accumulation of savings each and every year?

Mr. THURSTON. That was just during 2001 with the deployments that happened from 1997 through 2001. We expect that number to grow as more deployments would happen and more use would happen.

Mr. GILMAN. And how do you determine those cost savings?

Mr. THURSTON. We took a team and went out to 50-some sites and actually conducted interviews with the people who were using the system and went through a list of productivity factors that we had.

Mr. GILMAN. Now, can the panelists tell me about the justification that exists for the Department's continued investment in SPS? Any of the panelists? Is there justification? I notice that GAO has raised some issues about the continued investment, and they say it has yet to be justified. What are your thoughts?

Ms. MYERS. The SPS has followed all of the Defense Department's acquisition policies, to include doing an economic analysis. I believe the disagreement comes in that the GAO doesn't like the way we did the economic analysis.

I heard the number cited earlier of this is a \$1 billion program. From our perspective, it is about a \$300 million program. The difference comes in that the GAO would like us to account for infrastructure and program cost.

Let me give you an example. If I have a computer on my desktop and somebody comes to me and asks me to load SPS so that I can write a contract, or whatever, we would not count the cost of that computer on my desk. We would consider it part of the infrastructure that's already there. It would be subject to normal upgrades with all desktop automation, as is normal. The GAO believes that we should have counted all that infrastructure, and if you do count it, that's where they get up to \$1 billion.

Mr. GILMAN. Let me ask, then, if the program costs over \$300 million, is that right, and you're getting a savings of \$75 million—

Ms. MYERS. Per year.

Mr. GILMAN. Yes. Where is the cost—where is the benefit of that system? Where is the actual benefit in dollars?

Mr. THURSTON. The \$300 million cost was from 1995 when we started the program through 2005, a 10-year program cost. And what I was suggesting was a \$75 million on an annual basis. So the accumulation over once we started the full-scale deployment from 1999 and on, you will have a 75 million, so in 4 years you would recoup that investment.

Mr. GILMAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. PUTNAM. Thank you, Mr. Chairman.

Dr. Myers, my understanding is your office is in charge of the milestones. What is the next milestone for SPS and when will we know whether it has been achieved?

Ms. MYERS. We have directed the program manager to take what we've called a "strategic pause," and he has, at this point in time, some number of requirements that he has assembled that will comprise release 4.2. He has also taken a cut in his budget for this fiscal year. So we have asked him to baseline or re-baseline release 4.2 based on the funding that is available and determine what requirements he can deliver with that funding and how long it will take. His current schedule looks like we're talking this would happen roughly in the next year.

That is essentially part one is baseline 4.2, and we will do the economic analysis that the GAO has requested for that increment.

Anything beyond that we consider part of release 5.0, and we have directed the procurement users community to identify and to essentially re-look the requirements for release 5.0. This is where we got into the discussion in the last panel of the major weapons systems. So we, the acquisition community, have asked the functional owners of this process to take a look at their requirements and reassess whether it is prudent to proceed with 5.0. It is entirely possible that they will do that analysis of alternatives and come back and say that we will stop this program at the end of release 4.2. They may come back and say, "No, we want to proceed." They may come back and say, "We found a system in the Air Force that we think we could adopt." At this point, they are just beginning that analysis.

Mr. PUTNAM. These milestone 4.2 and 5, those are versions?

Ms. MYERS. Yes.

Mr. PUTNAM. OK.

The gentleman from Massachusetts, Mr. Lynch, is recognized.

Mr. LYNCH. Thank you, Mr. Chairman.

Given the significant increase in Defense spending—and certainly we all want to support this President, and especially under today's circumstances—I think it would be important, however, to make sure that we are spending all this money wisely.

One of the things that I find disturbing in the GAO report—and I don't accept it all as gospel, but they certainly know when they're not getting information that they request, and that's one of the troubling parts of their report is that they, when they asked for information, they didn't get it. And I want you to address that concern, as well as the GAO's assessment that there was no system of accountability to know whether we are meeting certain goals along the way. That is troubling, as well. So I don't know which of the panelists would like to address the GAO's concerns, and if you can't address those specifically, then suggest to me what the source of the GAO's concerns are or why they would take this position.

Colonel HAYNES. Sir, I would like to address it.

Mr. LIEBERMAN. Sure.

Colonel HAYNES. From 6 August as the new program manager or the program manager of the system, I can say that we have engaged fully with GAO to address their concerns, to provide the information that they have requested in a timely manner, and we have a track record of everything that we've released to them.

In addition, we have invited GAO to come in and be a part of our integrated process, our reviews where we go through every as-

pect of the program addressing the processes normalized in software development, and they have been a part of that.

Approximately 2 weeks ago members of the GAO staff came and spent approximately 8 hours in the office to better understand our path forward, our get well plan, and the processes that we currently have in place to ensure that the quality of the software meets the users' needs.

So I can only speak from 6 August and to the current time, and I can attest to the fact that we have been fully engaged with GAO and very cooperative in their requests.

Mr. LYNCH. Thank you, Colonel.

What of the other sense that there was not a reliable system of—

Mr. PUTNAM. Mr. Lynch, I think Mr. Thurston wanted to answer your first question.

Mr. LYNCH. Sure. That would be great.

Mr. PUTNAM. I didn't mean to cut you off, but—

Mr. LYNCH. All right.

Mr. PUTNAM [continuing]. I wanted you to get a full—

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. THURSTON. Since the report was on my watch, I wanted to respond about not getting the information that they were requesting.

I'm not sure exactly what specific text. If it was in the area that we were not able to supply actual cost of the program—was that related to—

Mr. LYNCH. That would do it. Yes.

Mr. THURSTON. OK. That's a difficult job in our Department when we look at implementing an information technology system. As Dr. Myers talked about, when we have 700 sites and 20,000 users, what expense has been spent at each of those sites on the IT information was not something that us, as a program office, could go out and collect, nor, when we asked for that from the military departments, we were provided some ballpark information, but, again, it is a tiering or layering effect of how a site through a command into a military department. So when they asked why we could not report actual cost, we had no way to collect actual cost. That's one of our issues in the Department.

Mr. LYNCH. So no one is tracking that?

Mr. THURSTON. Well, not to say that no one is tracking it. When you look at the whole Department and try to understand, in all the different pieces that we were touching, it was not obtainable. I think even Mr. Lieberman talked about it is not that it's illogical in an audit statement, but to go down to the very specifics is an issue for the Department, that it's tracked about many different levels.

Mr. LYNCH. OK. Well, at least you're honest. Thank you. That will undoubtedly shake the confidence of some Members who would otherwise be willing to vote for—you know, go to appropriations. If we don't have a reliable system of accounting for when and where and how these dollars are being spent, it's sort of a blank check, don't you think?

Mr. THURSTON. I don't see it as a blank check, sir. I think it is the scope of what the GAO is requiring us to obtain information

on as a program office. Just as Dr. Myers talked about, trying for us as a program office to track all the individual expense at each of the sites of what they're spending on information technology—their personal computers, their servers, their communication lines—where I'm just providing software to that operation to perform their mission, but I'm not out there collecting all the information on all of their finances of putting in support infrastructure.

Mr. LYNCH. But as a business practice, building in accountability, that would be an important part of that.

Mr. THURSTON. Well, that's a part that we're heading down with the standardization for the procurement community and the standardization of the finance community and the standardization of the logistics community that have all of these systems that can interact and flow data to provide those type of an accounting process.

Ms. MYERS. I believe there is a nuance here in that the Army, Navy, and Air Force, and the Defense agencies account for what they spend on information technology infrastructure, so they know what they spend. The program office doesn't know what the Navy spent to put—to upgrade the computers on people's desktops that they might have upgraded anyway and SPS happens to be one of the applications running on those computers.

Mr. LYNCH. I understand what you're saying in a general sense, but I don't—I mean, what—apparently what the GAO was looking for was a breakdown on a per-site basis, what we're spending here, and, at least in their report that I have here, they're not satisfied that anybody knew what these things cost and, you know, there's no sense of accountability. So that would appear to be a problem.

Ms. MYERS. I think the issue—

Mr. LYNCH. From up here, anyway.

Ms. MYERS [continuing]. Is different channels of accountability, and that we do not have an easy means to marry up what is spent through one channel in IT infrastructure with what the program manager was spending on SPS.

Mr. LYNCH. I must be honest with you. I find this conversation surprising. It just—it would appear that, given the size of the budget, there would be a greater level of accountability and a more precise response to the GAO, that someone would find a way to respond to them so that they could do their job. That's all I'm saying.

That's all I have.

Mr. PUTNAM. Thank you, Mr. Lynch.

The Clinger-Cohen Act and OMB guidance provided framework for IT investment management by setting the requirements for economically justifying proposed projects on the basis of reliable analysis of life cycle cost, benefits, risk, using those analysis throughout the project's life cycle, and doing so for large projects by dividing them into a series of smaller incremental sub-projects or releases.

Now, in doing that the risk associated with these huge investments ought to be able to be effectively measured against cost, schedule, capability, and our benefit expectations.

Now, we've heard testimony that DOD has not followed this incremental approach for funding and cost/benefit analysis. You represent those who are—those positions that are responsible for this, so how do you respond to the criticism that it is not being acquired and deployed under the specific guidance of Clinger-Cohen?

Ms. MYERS. I think there are a couple of reasons here. No. 1, the program was initiated before the Clinger-Cohen Act was passed, so that it was—to as great an extent as we could, we tried to retrofit the incremental strategy, but, again, it was difficult to change—to make significant changes. We did, at the beginning of the SPS program, require a thorough economic analysis, so the implication is that none was done. There was one done. The issue is the GAO would like to see a follow-on analysis for each increment.

We, in fact, had a difference of opinion with the GAO on whether that was required. There were within my office several people who worked on Senator Cohen's staff at the time that the legislation was written, and they believe that our methodology—our people believe that our methodology was appropriate. GAO felt otherwise.

We just found out last week—we asked GAO to go back and verify that, and their lawyers determined, I heard last week, that they thought they were right, so we have agreed and the program manager will follow their guidance for doing any—an economic analysis for increment 4.2.

Mr. PUTNAM. Anybody else want to pitch in on that one?

Colonel HAYNES. I'd like to also add that this, the EA, a scalable EA to support incremental releases is something that we feel is in concert with the GAO's vision. More importantly is that the EA is not used to satisfy a requirement but used in our business case analysis to determine what the future of the program and how we build version four, our user community.

So it is a—we've taken a very proactive stance, and we'll feed the data in real time to GAO and all of the other bodies that help support the program, to include OSD and the integrated process team that provides oversight to our program prior to a milestone decision.

Mr. PUTNAM. Colonel, you've testified that 22,000 people in two-thirds of the desired sites, half the users are equipped with the SPS system, and last year it was used to purchase \$36 billion worth of whatever.

Colonel HAYNES. Yes, sir.

Mr. PUTNAM. How much—if we're that far along in the process on the ground, if two-thirds of the sites already have it and half the people have it, then why at the macro level does it appear to be so far behind, and why is there such a high level of dissatisfaction amongst those who are using it?

Colonel HAYNES. Sir, I'd like to answer the question in two parts. First, I'd like to start with the latter part of your question. I mentioned in my testimony that when we deployed SPS to the user community we, at the Department, did not communicate the overall benefits to the Department to the actual users on the ground, and we could have done a better job, and we're currently doing that through our communication process to the users. Ms. JoAnn Patell for DFAS, for example, is a keynote speaker at the SPS conference in San Diego, ongoing as we speak.

Once the users understand what the benefits of the Department from an end-to-end perspective, they then understand that the additional keystrokes or the source edits that we enforce on the front end of SPS satisfies a greater need.

Initially, most of the users thought that SPS would replace their legacy system one for one, and that was not the case. The power of SPS in providing end-to-end through EDI is much greater than any legacy system that they currently have.

So as we communicate to our users, we are finding that the user satisfaction is increasing through that process.

On the second part of the question, on the remaining one-third, which does represent some of the weapons system community and the ICP community, the original strategy to wait for 5.0 and 5.1 to deploy to those sites we have found was probably a flawed strategy in that it was a good deployment strategy, but for incremental releases it is functionality that is required throughout the entire SPS community.

We have seen some success in the weapons system community with the current 41E version that's currently in the Navy today in the NAV-AR community. So we are starting to see SPS moving to the other communities and satisfying some of those requirements.

Mr. PUTNAM. Another key SPS program commitment which was indicated DOD failed to attain was to use commercially available software, and this was discussed a little bit in the first panel. The contractor has modified the commercial product extensively in an attempt to tailor it to meet your needs. As a result, it has become a DOD unique solution rather than a truly COTS product, and I've got to tell you that all these acronyms sounds like a "Saturday Night Live" skit. According to the program manager, SPS as a commercial product provided 45 percent of the functionality that you need, but according to the industry best practices, software modifications to a commercial product should have 90 to 95 percent functionality. Since it is now essentially a DOD-specific solution, the Department will not be able to take advantage of the reduced risk associated with using proven technology that a wide consumer base participates in. As a result, DOD may not accrue the reduced costs and greater benefits associated with the use of a COTS product.

Now, recognizing, of course, that there isn't really anybody else in the world out there like the Department of Defense, and so I stipulate that, was it ever intended to be a true COTS product, and why has it had to be modified so extensively after the original choice was made that particular program was what met your needs?

Mr. THURSTON. I'd like to respond to that. In 1994 the Department was assessing what to do to standardize its different business communities. Each of the different business communities took an approach of whether to do development for a unique system or go to a commercial and determine which would be the best.

We did a request to industry, and they delivered about eight different systems that we looked at, and we found out that there were systems that could do procurement. So when we ran the competitive process, we found that the best system could only do 45 percent, and none of the other systems were even above that, so we knew we were starting with a commercial base that did have a proven technology that could operate, but we knew that it would only perform a piece of the Defense method of doing procurement.

Most of the standardization has been about connecting all the systems, as Mr. Gilman pointed out, among the different finance and logistics systems. That is where a lot of the development has been. There has been some development in tailoring the way we do procurement, because, as you know, there is a Federal acquisition regulations and then there is the Defense Federal acquisition regulations, and so we knew that we would be commercially derived but that we would have to do development to meet the full DOD commitment of procurement.

Mr. PUTNAM. Dr. Myers, did you want to add anything to that? I'm not putting you on the spot.

Ms. MYERS. No, thank you.

Mr. PUTNAM. Colonel.

Colonel HAYNES. No, sir.

Mr. PUTNAM. Are all DOD components and agencies required to acquire and deploy SPS?

Colonel HAYNES. As part of our deployment strategy, the 43,000 users that is the target audience for SPS will accommodate all of the DOD and the majority of the other Defense agencies.

Mr. PUTNAM. At this time we are going to have another vote. I would ask the commitment from each of you to submit answers to questions that the subcommittee may present to you in writing. I appreciate that commitment and I thank you very much for your time. I apologize that we're cutoff and aren't able to more fully explore these and give you an opportunity to be more fully heard. It is a crazy congressional schedule and I apologize for that, but we thank you again for being here. We thank the first panel. We thank our guests. With that, the subcommittee stands adjourned.

[Whereupon, at 11:38 a.m., the subcommittee was recessed, to reconvene at the call of the Chair.]

