

**BUSINESS PROCESS MODERNIZATION AT THE
DEPARTMENT OF DEFENSE**

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
AND FINANCIAL MANAGEMENT

AND THE

SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS AND INTERNATIONAL
RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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BUSINESS PROCESS MODERNIZATION AT THE DEPARTMENT OF DEFENSE

WEDNESDAY, JULY 7, 2004

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT, JOINT WITH THE SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL RELATIONS, COMMITTEE ON GOVERNMENT REFORM,

Washington, DC.

The subcommittees met, pursuant to notice, at 2 p.m., in room 2247, Rayburn House Office Building, Hon. Todd R. Platts (chairman of the Subcommittee on Government Efficiency and Financial Management) presiding.

Present: Representatives Platts, Shays, Towns, Watson, Blackburn, Kanjorski, Tierney, and Ruppertsberger.

Staff present: Lawrence Halloran, staff director and counsel; J. Vincent Chase, chief investigator; Robert Briggs, clerk; Mike Hettinger, staff director; Larry Brady and Tabetha Mueller, professional staff members; Amy Laudeman, legislative assistant; Adam Bordes and Andrew Su, minority professional staff members; and Jean Gosa, assistant clerk.

Mr. PLATTS. This joint hearing of the Subcommittees on Government Efficiency and Financial Management and National Security, Emerging Threats and International Relations will come to order.

I would first like to thank our witnesses here today as well as your staff for your written testimony you have prepared and we look forward to your oral testimony and our chance to have Q&A with you.

We are here today to discuss business processes at the Department of Defense. Today, we will review the status of the overall modernization effort. My committee, the Government Efficiency and Financial Management Subcommittee will conduct a followup hearing in 2 weeks from yesterday, July 20, to review some specific problems with Army Reservist pay.

The Department of Defense is the largest and most unique entity in the entire world with over \$1 trillion in assets, a work force of 3.3 million and disbursements of over \$400 billion. DOD has a worldwide presence of nearly 500,000 military and civilian personnel deployed across the globe. To support its operations, the Department relies on more than 2,000 business systems. As I think we will hear in Mr. Lanzilotta's testimony, it is actually over 4,000 and counting, everything from accounting and logistics to procurement and personnel. Nearly \$19 billion was requested in 2004 to maintain and modernize these systems. The inherent challenge is

that these systems are not integrated and regardless of the amount of investment, the fact remains that until these systems are integrated, they will not function effectively.

The Business Management Modernization Program launched in 2001 is an aggressive, bold attempt to achieve this important goal. This hearing will discuss the progress being made in implementing BMMP and the remaining challenges that need to be overcome before DOD will have integrated systems in place that produce timely, reliable data.

While we continue to hope that DOD will achieve a clean audit opinion in 2007, as has been projected, there is much more at stake here. Problems with business systems are starting to have an impact on the Department's mission. Over the past 2 years, we have heard from the General Accounting Office about serious problems relating to financial management and business systems—chem bio suits unaccounted for, soldier's not receiving the right compensation, vehicles cannibalized for parts because of inadequate supply systems. These instances are troubling because they hinder operational effectiveness and the ability of our troops in the field to fulfill their important missions. Congress has the responsibility to see that these problems are addressed and that is the reason my subcommittee scheduled a followup hearing to look at the military pay issue in greater detail.

While it is important to fix these problems as soon as possible, we need a solution, the right solution for the long term. These are the concerns that must be balanced as the Department moves forward with the broad based reforms envisioned in the BMMP.

Today, we are proud to have with us and glad to hear from first, Larry Lanzilotta, Acting Under Secretary of Defense and Comptroller, Department of Defense. We appreciate your being with us again. We also have Mr. Greg Kutz, Director of Financial Management and Assurance, General Accounting Office. Mr. Kutz will be joined during the question and answer period by Mr. Keith Rhodes from the General Accounting Office. We appreciate all three of you being with us as well as your staff and their work in preparing for this hearing.

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

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Opening Statement

Representative Todd R. Platts

July 7, 2004

I would like to thank our witnesses for appearing before the Subcommittees to discuss business processes at the Department of Defense. Today we will review the status of the overall modernization effort. My Subcommittee will conduct a follow-up hearing on July 20th to review problems with Army Reservist pay.

The Department of Defense is the largest and most unique entity in the entire world, with over \$1 trillion in assets, a workforce of 3.3 million, and disbursements of over \$400 billion. DoD has a worldwide presence of nearly 500,000 military and civilian personnel deployed across the globe. To support its operations, the Department relies on more than 2,000 business systems – everything from accounting and logistics to procurement and personnel. Nearly \$19 billion was requested in 2004 to maintain and modernize these systems. The inherent challenge is that these systems are not integrated, and regardless of the amount of the investment, the fact remains that until these systems are integrated, they will not function effectively.

The Business Management Modernization Program, launched in 2001, is an aggressive, bold attempt to achieve this important goal. This hearing will discuss the progress made in implementing the BMMP and the remaining challenges that need to be overcome before DoD will have integrated systems in place that produce timely, reliable data.

While we continue to hope that DoD will achieve a clean audit opinion in 2007 as they have projected, there is much more at stake here. Problems with business systems are starting to have an impact on the Department's mission. Over the past two years we have heard from the General Accounting Office about serious problems relating to financial management and business systems: chem-bio suits unaccounted for, soldiers not receiving the right compensation, vehicles cannibalized for parts because of inadequate supply systems. These instances are troubling because they hinder operational effectiveness. Congress has a responsibility to see that these problems are addressed, and that is the reason my Subcommittee has scheduled a follow-up hearing to look at the military pay issue in greater detail.

While it is important to fix these problems as soon as possible, we need a solution – the right solution – for the long term. These are the concerns that must be balanced as the Department moves forward with the broad-based reforms envisioned in the BMMP.

Today we will hear from **Mr. Lawrence Lanzilotta**, Acting Under Secretary of Defense and Comptroller, Department of Defense and **Mr. Greg Kutz**, Director of Financial Management and Assurance, General Accounting Office. Mr. Kutz will be by **Mr. Keith Rhodes** from GAO for the Q&A portion of the hearing. Thank you for being with us today.

Mr. PLATTS. I would now like to yield to our ranking member from New York, Mr. Towns, for the purpose of an opening statement.

Mr. TOWNS. Thank you, Mr. Chairman.

In March of this year, the subcommittee held a hearing on the consolidated financial statements of the U.S. Government. It was clear from that hearing that while many Federal agencies continue to improve in their compliance with the financial management requirements, the Department of Defense continues to fail in demonstrating adequate financial accounting and internal control practices. Furthermore, quantifying the problems at DOD remains a challenge due to the extensive amount of money involved as well as the complexity involving its many financial management programs.

The Defense Department receives approximately one-half of the discretionary budget of the United States each year with an annual allocation of about \$400 billion, assets valued at over \$1 trillion and approximately 3 million military and civilian employees. Within these totals, DOD spends approximately \$18 billion annually on information technology and upgrades to its roughly 2,300 agency-wide business systems. Despite these resources, its financial management system practices and procedures are hampered by critical weaknesses and minimal oversight.

Since 1995, GAO has designated the financial management system at DOD as high risk because they are vulnerable to waste, fraud and abuse. Once again, as has been the case for the last 8 years, the Inspector General of the Department of Defense could not provide an opinion on the agency's financial statements. Such widespread chronic, financial and internal control problems have hindered all of DOD's major components and programs from achieving a clean independent financial audit.

Specific challenges facing DOD include: the lack of adequate documentation for nearly \$1 trillion in asset holdings, including both weapons systems and support equipment; complete and reliable information on its environmental liabilities under Federal law; and structural accounting procedures resulting in extensive under and over payment to contractors. While not exhaustive, the problems I have mentioned are longstanding in nature and will require extensive changes within the operations and culture of DOD in order to be remedied.

In 1995, the DOD Inspector General testified before Congress that a turnaround in the Pentagon's financial management practices might be expected by the year 2000—2000 has long gone. Nearly a decade later, DOD has yet to demonstrate such progress and it remains unclear how much longer it will take for us to realize our goal of a clean agency audit.

As we continue to allocate the necessary resources to support our troops abroad and define the long term needs of our military, it is imperative for us to ensure that such funding is used effectively and appropriately. The achievement of a clean agency audit will provide evidence that our efforts are working.

Mr. Chairman, thank you again for holding this hearing. I know I have no time to yield back, but I will yield.

[The prepared statement of Hon. Edolphus Towns follows:]

Statement of Congressman Ed Towns
Subcommittee on Government Efficiency and Financial
Management

July 7, 2004

Thank you Mr. Chairman, and welcome to our witnesses.

In March of this year, the Subcommittee held a hearing on the consolidated financial statements of the United States Government. It was clear from that hearing that while many federal agencies continue to improve in their compliance with financial management requirements, the Department of Defense continues to fail in demonstrating adequate financial accounting and internal control practices. Furthermore, quantifying the problems at DOD remains a challenge, due to the extensive amounts of money involved, as well as the complexity involving its many financial management programs.

The Defense Department receives approximately one-half of the discretionary budget of the United States each year, with an annual allocation of about \$400 billion, assets valued at over

\$1 trillion, and approximately 3 million military and civilian employees. Within these totals, DOD spends approximately \$18 billion annually on information technology and upgrades to its roughly 2300 agency-wide business systems. Despite these resources, its financial management systems, practices, and procedures are hampered by critical weaknesses and minimal oversight.

Since 1995, GAO has designated the financial management systems at DOD as “high risk,” because they are vulnerable to waste, fraud, and abuse. Once again, as has been the case for the last eight years, the Inspector General of the Department of Defense could not provide an opinion on the agency’s financial statements. Such widespread chronic financial and internal control problems have hindered all of DOD’s major components and programs from achieving a clean independent financial audit.

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including both weapon systems and support equipment, complete and reliable information on its environmental liabilities under federal law, and structural accounting procedures resulting in extensive under- and over-payments to contractors.

While not exhaustive, the problems I have mentioned are long-standing in nature and will require extensive changes within the operations and culture of DOD in order to be remedied. In 1995, the DOD Inspector General testified before Congress that a turnaround in the Pentagon's financial management practices might be expected by the year 2000. Nearly a decade later, DOD has yet to demonstrate such progress, and it remains unclear how much longer it will take for us to realize our goal of a clean agency audit.

As we continue to allocate the necessary resources to support our troops abroad and define the long-term needs of our military, it is imperative for us to ensure that such funding is

used effectively and appropriately. The achievement of a clean agency audit will provide evidence that our efforts are working.

I thank you, Mr. Chairman, and ask that my written remarks be submitted for the record.

Mr. PLATTS. Thank you, Mr. Towns.

We will proceed to our witnesses testimony. If I could ask our two witnesses and your staff to stand and take the oath before we begin.

[Witnesses sworn.]

Mr. PLATTS. We appreciate your written testimony. We are going to try to stay with the 5-minute opening statements if you want to summarize and then get into a give and take on the question and answers.

Mr. Lanzilotta, if you would like to begin?

STATEMENTS OF LAWRENCE LANZILOTTA, UNDER SECRETARY OF DEFENSE AND ACTING COMPTROLLER, DEPARTMENT OF DEFENSE; AND GREG KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY KEITH A. RHODES, CHIEF TECHNOLOGIST, APPLIED RESEARCH AND METHODOLOGY, CENTER FOR ENGINEERING AND TECHNOLOGY

Mr. LANZILOTTA. Thank you, Mr. Chairman and members of the committee.

Thank you for this opportunity to discuss the Department of Defense business management. This will be one of my last hearings before leaving the Department. I also want to give you my observations from the last 3 years of working on DOD management challenges.

Led by Secretary Rumsfeld, transforming DOD management has been a top priority. Our overarching aim has been to achieve an integrated environment of DOD business processes, supported by systems that efficiently deliver relevant decisionmaking information to leaders and fulfill all financial management requirements.

My message today is, the Department of Defense has undertaken an unprecedented, comprehensive and visionary transformation to achieve this aim. We are making progress to correct weaknesses and control business system investment. Strong and consistent congressional support of this transformation is vital to sustaining our progress.

To transform DOD business management, the Department must succeed with all three independent pillars of its strategy: overhaul and integrate DOD business processes and systems throughout the Department's Business Management Modernization Program; refine and advance the financial improvement plans of the military services and defense agencies to enable them to produce auditable financial statements resulting in a clean audit opinion, and audit line items on financial statements as they become ready for such an audit by developing a capability to do so.

Each of these pillars is essential and must be advanced simultaneously. None can be stopped or slowed without hurting the progress of the entire transformation. This transformation will not only dramatically improve DOD's business and financial management, it will also enable DOD leaders to make resource decisions based on the best information and data obtainable. It enables the Department to meet the Chief Financial Officers Act and other legal requirements including satisfactory financial statements.

During the last 3 years, the Department began its business management transformation and we have had substantial accomplishments. The Department established a progressively more comprehensive inventory of all DOD management systems; began to build a blueprint or architecture to guide the transformation from its current stovepiped conglomeration of DOD business systems into an integrated environment of overhauled systems and processes; designed an incremental strategy to achieve our transformational goals and defined the focus for each increment; developed a governance process to provide strategic direction to oversee transformation of business processes and systems so that they will transcend organizational boundaries and become integrated; organized all major DOD business activities into six areas or domains and designated an Under Secretary of Defense as a domain owner to oversee each business area; established a portfolio management process by which domain owners would oversee investment in information technology to ensure full integration of all DOD business processes and systems; established a DOD Audit Committee to provide a concerted senior leadership focus to produce auditable financial statements resulting in a clean opinion; developed for individual reporting entities improvement plans that show planned improvements and milestones; and implemented additional discipline in our quarterly reporting processes that have accelerated the preparation of our financial reports and elevated our commitment to quality. More importantly, we developed a common set of shared values for the Department to address this issue.

It is important to note that domain owners are responsible for overseeing the transformation of business activities managed by the military services and other DOD components. This governance plan has already demonstrated that it can work and we are continuing to strengthen and expand it. Some observers do not believe that we are moving fast enough, yet acknowledge that DOD is one of the world's largest and most complex organizations with huge business transformational challenges.

The Department is in business transformation for the long term. It will take years to fix our systematic problems which evolved over several decades. DOD's accomplishments over the last 3 years have significantly benefited from both congressional and GAO support of our comprehensive transformation initiative. In view of this strong past support, we are concerned by the apparent contradictory direction given by the Congress in both House and Senate in the fiscal year 2005 defense authorization bills. Both bills cut funding that is essential to achieve transformation that everyone agrees is essential. The rationale seems to be that progress has been too slow, yet funding cuts will make continued progress more difficult.

Besides funding cuts, both authorization bills propose radical change in the role of domain owners. Changing the domain owner's role of oversight of business systems to being responsible for virtually all aspects of business systems. Today, the DOD approach has given domain owners oversight responsibility using prescribed architectural standards and business rules. This structure will enable domain owners to control business-related investment and ensure that standards are adhered to and move DOD business and processes toward full integration. The complimentary nature of the

domain process to traditional acquisition management enhances our ability to meet service unique war fighting needs while implementing business standards across the Department.

We should be careful about derailing this governance structure. It promises to overhaul and integrate DOD business activities ultimately saving billions of dollars. Changing this governance structure could prevent us from eliminating stovepiped systems or creating new stovepipe problems. For decades, the DOD and the congressional leaders have recognized the need for operational expertise and perspective in managing business systems. We should resist centralization of all business systems decisions and losing this expertise and perspective.

In closing, I urge you and other congressional leaders to continue to support the Department of Defense in its efforts to transform DOD business management. Congress and the Department must continue to be partners in this unprecedented undertaking. Our business transformation progress is consistent with U.S. industry standards and it is all the more remarkable that our accomplishments have occurred while we fight the global war on terror and advance bold initiatives to transform America's military capabilities.

This is a critical time for ensuring that DOD's management of the business systems becomes just as superlative as the military forces they support. We in the Department of Defense appreciate and continue to need the congressional support to achieve this vital priority.

Thank you.

[The prepared statement of Mr. Lanzilotta follows:]

**Statement of Larry J. Lanzillotta
Acting Under Secretary of Defense (Comptroller)
House Government Reform Committee
Subcommittee on Government Efficiency and Financial Management,
Subcommittee on National Security, and Subcommittee on Technology
7 July 2004**

Mr. Chairman and Members of the Committee, thank you for this opportunity to discuss Department of Defense (DoD) business management. This will be one of my last hearings before leaving the Department of Defense, and so I want to give you my observations from the last three years of working on DoD management challenges.

Led by Secretary Rumsfeld, transforming DoD business management has been a top priority. Our overarching aim has been achieving an integrated environment of DoD business processes -- supported by systems that efficiently deliver relevant decision-making information to DoD leaders and fulfill all financial management requirements.

My message today is: The Department of Defense has undertaken an unprecedented, comprehensive, and visionary transformation to achieve this aim. We are making progress to correct weaknesses and control business system investments. Strong and consistent Congressional support of this transformation is vital to sustaining our progress.

A Three-Pillar Strategy

To transform DoD business management, the Department must succeed with all three, interdependent pillars of its strategy:

- (1) Overhaul and integrate DoD business processes and systems through the Department's Business Management Modernization Program (BMMP).
- (2) Refine and advance the financial improvement plans of the military services and defense agencies to enable them to produce auditable financial statements resulting in clean (unqualified) audit opinions.
- (3) Audit line items on financial statements as they become ready for such an audit.

Each of these pillars is essential. They must be advanced simultaneously. None can be stopped or slowed without hurting the progress of the entire transformation.

This transformation will not only dramatically improve DoD business and financial management. It also will enable DoD leaders to make resource decisions based on the best information and data obtainable. And it will enable the Department to meet Chief Financial Officers (CFO) Act and other legal requirements -- including satisfactory financial statements.

Accomplishments in Transforming of DoD Business Management

During the three years since the Department of Defense began its business management transformation, we have had substantial accomplishments. The Department has:

- Established a progressively more comprehensive inventory of all DoD business systems. (Total is currently over 4000 systems, and more systems are expected to be identified.)
- Began to build a blueprint, or architecture, to guide the transformation from the current, stove-piped conglomeration of DoD business systems into an integrated environment of overhauled systems and processes.
- Designed an incremental strategy to achieve our transformation goals and defined the focus for each increment.
- Developed a governance process to provide strategic direction to oversee the transformation of business process and systems so they will transcend organizational boundaries and become integrated.
- Organized all major DoD business activities into six areas or domains, and designated an Under Secretary of Defense (USD) as a Domain Owner to oversee each business area – for example, the USD for Acquisition, Technology and Logistics to oversee all logistics business activities.
- Established a portfolio management process by which Domain Owners will oversee investments in information technology to ensure full integration of all DoD business processes and systems.
- Established the DoD Audit Committee to provide a concerted senior leadership focus to produce auditable financial statements resulting in clean audit opinions.
- Developed for individual reporting entities improvement plans that show planned improvements and milestones.
- Implemented additional discipline in our quarterly reporting processes that have accelerated the preparation of financial reports and elevated our commitment to quality.

It is important to note that Domain Owners are responsible for overseeing the transformation of business activities managed by the Military Services and other DoD components. This governance plan has already demonstrated that it can work, and we are continuing to strengthen and expand it. Some observers do not believe that we are moving fast enough, yet acknowledging that DoD is one of the world's largest and most complex organizations, with a huge business transformation challenge.

The Department of Defense is in business transformation for the long-term. It will take years to fix our systemic problems, which evolved over several decades.

Congressional Direction and Support

DoD accomplishments over the last three years have significantly benefited from both Congressional and GAO support of our comprehensive transformation initiative. In view of this

strong past support, we are concerned by the apparently contradictory direction given by the Congress in both the House and Senate FY 2005 defense authorization bills. Both bills cut funding that is essential to achieving the transformation that everyone agrees is essential. The rationale seems to be that progress has been too slow, yet the funding cuts will make continued progress more difficult.

Besides funding cuts, both authorization bills propose a radical change in the role of Domain Owners: Changing the Domain Owners role from oversight of business systems to being responsible for virtually all aspects of business systems. To date, the DoD approach has been to give Domain owners oversight responsibility using our prescribed architecture standards and business rules. This structure will enable Domain Owners to control business-related investments, ensure that standards are adhered to, and move DoD business systems and processes toward full integration. The complimentary nature of the domain process to traditional acquisition management enhances our ability to meet Service unique warfighting needs while implementing business standards across the Department.

We should be careful about derailing this governance structure. It promises to overhaul and integrate DoD business activities – ultimately saving billions of dollars. Changing this governance structure could prevent us from eliminating stove-pipe systems or create new stove-pipe problems. For decades, DoD and Congressional leaders have recognized the need for operational expertise and perspective in the managing of business systems. We should resist centralizing all business system decisions and losing this expertise and perspective.

Closing

In closing, I urge you and other Congressional leaders to continue to support the Department of Defense in its efforts to transform DoD business management. Congress and the Department must continue to be partners in this unprecedented undertaking.

Our business transformation progress is consistent with U.S. industry standards. And it is all the more remarkable that our accomplishments have occurred while we fight the global war on terrorism and advancing bold initiatives to transform America's military capabilities.

This is a critical time for ensuring that DoD management and business systems become just as superlative as the military forces they support. We in the Department of Defense appreciate and continue to need the Congress's support to achieve this vital priority. Thank you.

Mr. PLATTS. Thank you, Mr. Lanzilotta. Thank you also for your more than 3 years of service at the Department in the area of financial management. We wish you well in your new position. We are sorry to be losing you from the Department but are grateful for your past work and your presence here today in what we understand will be your last House hearing prior to your departure.

Mr. Kutz.

Mr. KUTZ. Thank you, Mr. Chairman.

Thank you for the opportunity to discuss financial management at the Department of Defense. My testimony has two parts, first, examples that demonstrate the need for reform and second, the status of reform efforts and two suggestions for legislative action.

First, DOD's financial management and related problems result in significant waste and inefficiency. Just a few examples include: over \$115 million wasted on unused airline tickets; \$8 million of potentially fraudulent travel claims; at least \$100 million lost annually because payments to DOD contractors with unpaid Federal taxes are not levied; and \$179 million spent on two failed financial systems efforts.

These problems also impact DOD's mission and have other consequences. Examples include: substantial problems accurately paying Army National Guard soldiers that distracted them from their missions, imposed financial hardships on their families and has had a negative impact on retention; the inability to recall 250,000 defective chemical and biological protective suits resulting in concerns that our forces in Iraq were issued these defective suits; and improper issuance of defective chem bio suits to local law enforcement agencies with no warning that use could result in death or serious injury. These and many other examples clearly demonstrate the need for reform.

My second point is that the lack of sustained leadership, inadequate accountability and cultural resistance to change continues to impede DOD's reform efforts. DOD's stovepiped, duplicative business systems continue to contribute to operational problems and will cost taxpayers \$19 billion in 2004. That is \$52 million a day.

Attempts to modernize DOD's business systems routinely costs more than planned, miss their schedules by years and deliver only marginal improvements or are terminated with no benefits at all. The two systems we evaluated as part of our report that is being issued today are examples of systems that were not designed to solve corporate problems. For example, although DOD testified to the contrary before Chairman Shays, we found that DLA's BSM Project will not provide the total asset visibility needed for the chemical and biological protective suits. As a result, if a batch of the new JSLIST suits were found to be defective, BSM does not provide the capabilities to recall defective suits.

DOD is continuing its effort to develop and implement a business enterprise architecture to oversee and control its systems investments. We support DOD's architecture efforts to date but progress has been slow and control of ongoing investments has been ineffective.

Our testimony offers two suggestions for legislative consideration that could help address DOD's longstanding financial and business

management problems. First, to ensure sustained, focused leadership in business transformation, we suggest the creation of a chief management official. This position could be filled by a Presidential appointment with Senate confirmation for a set term of 7 years with the potential for reappointment. We envision this position being filled by an individual with a proven background in the transformation of large, complex organizations. We see this individual as an integrator across DOD's business lines working full-time on business transformation.

Second, we propose that the leaders of DOD's functional areas, known as domains, control business systems investment decisions and funding rather than the services and the Defense agencies. We believe that effective budgeting and control of the investment technology money by the domains is critical to their success.

Before closing, I too, Mr. Chairman, want to acknowledge Mr. Lanzilotta for his years of dedicated public service at DOD and before that at the Senate Armed Services Committee. GAO has had a very constructive relationship with Mr. Lanzilotta and we wish him the best in his new position in the private sector.

In conclusion, DOD's superior war fighting capabilities were clearly demonstrated in Afghanistan and Iraq. However, that excellence is often achieved despite the enormous problems with DOD's business systems and processes. With the significant fiscal challenges facing our Nation, the potential for billions of dollars of savings through successful DOD transformation is increasingly important.

That concludes my statement. Mr. Rhodes, our Chief Technologist, will be happy to answer your questions.

[The prepared statement of Mr. Kutz follows:]

United States General Accounting Office

GAO

Testimony
Before the Congressional Subcommittees

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DEPARTMENT OF
DEFENSE

Long-standing Problems
Continue to Impede
Financial and Business
Management
Transformation

Statement of Gregory D. Kutz
Director, Financial Management and Assurance

Keith A. Rhodes
Chief Technologist, Applied Research and Methodology
Center for Engineering and Technology



July 7, 2004

DEPARTMENT OF DEFENSE

Long-standing Problems Continue to Impede Financial and Business Management Transformation

GAO Accountability Integrity Reliability Highlights

Highlights of GAO-04-907T, a testimony before the Congressional Subcommittees

Why GAO Did This Study

GAO has previously reported on the Department of Defense's (DOD) financial management and business related problems and key elements necessary for successful reform. Although the underlying conditions remain fundamentally unchanged, DOD continues to be confronted with pervasive problems related to its systems, processes (including internal controls), and people (human capital). These problems impede DOD's ability to operate its numerous business operations in an efficient and effective manner. The Subcommittees asked GAO to provide its views on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD, (2) the underlying causes of DOD business transformation challenges, and (3) DOD's business transformation efforts. The GAO report released today highlights the challenges and impediments facing the department as it continues to transform its financial and business management operations.

In addition, GAO reiterates the key elements to successful reform: (1) an integrated business management transformation strategy, (2) sustained leadership and resource control, (3) clear lines of responsibility and accountability, (4) results-oriented performance, (5) appropriate incentives and consequences, (6) an enterprise architecture to guide reform efforts, and (7) effective monitoring and oversight.

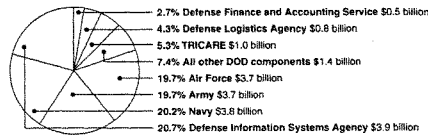
www.gao.gov/cgi-bin/getrpt?GAO-04-907T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9505 (jkutz@gao.gov) or Keith Rhodes, (202) 512-6412 (rhodesk@gao.gov).

What GAO Found

DOD's leadership remains committed to transforming the department's business operations. Overhauling decades-old financial management and business-related problems of one of the largest and most complex organizations in the world is a daunting challenge. DOD's financial and business management weaknesses have resulted in billions of dollars in annual wasted resources in a time of increasing fiscal constraint. These weaknesses exist despite DOD requesting approximately \$19 billion in fiscal year 2004 to operate, maintain, and modernize its reported 2,274 nonintegrated business systems. At a March 2004, hearing, DOD's Comptroller stated that the actual number of systems could be twice the number reported.

DOD's Fiscal Year 2004 \$19 Billion Business System Budget Request



Source: GAO analysis of DOD IT budget request for fiscal year 2004.

As DOD continues to develop and implement a business enterprise architecture and establish control over its business systems investments, the underlying operational conditions remain unchanged. GAO found that DOD continues to spend billions of dollars on business systems that will not result in corporate solutions to its long-standing problems such as total asset visibility. GAO reviewed two such systems: the Defense Logistics Agency's Business Systems Modernization project and the Army's Logistics Modernization Program. GAO found that both projects encountered problems that, if not corrected, will result in two more nonintegrated systems that do not resolve DOD's long-standing financial and business management problems.

To improve the likelihood of meaningful, broad-based reform at DOD, GAO has previously testified that a senior management position should be established to manage and oversee DOD's business transformation efforts. Further, in the report released today, GAO proposes that Congress shift the control and accountability for business system investments from the DOD components to the recently created functional areas known as domains. DOD disagrees with this concept, explaining that its portfolio management process would provide the appropriate control over business system investments. In GAO's view, providing the funding to the domains would be one way of overcoming DOD's embedded culture and parochial operations and help preclude spending billions on duplicative, nonintegrated systems.

United States General Accounting Office

Mr. Chairman and Members of the Subcommittees:

It is a pleasure to be here to discuss key aspects of business transformation efforts at the Department of Defense (DOD). At the outset, we would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve. The involvement of these Subcommittees is critical to ultimately assuring public confidence in DOD as a steward that is accountable for its finances. DOD continues to confront pervasive decades-old financial management and business problems related to its systems, processes (including internal controls), and people (human capital). Of the 25 areas on GAO's governmentwide "high risk" list, 6 are DOD program areas, and the department shares responsibility for 3 other high-risk areas that are governmentwide in scope.¹ These problems preclude the department from producing accurate, reliable, and timely information to make sound decisions and to accurately report on its trillions of dollars of assets and liabilities. Further, DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements.

Today, we will provide our perspectives on (1) the impact that long-standing financial management and related business process weaknesses continue to have on DOD, (2) the underlying causes that have impeded the success of prior reform efforts, (3) the keys to successful reform, and (4) DOD's business systems transformation efforts. In addition, we will offer two suggestions for legislative consideration, which we believe improve the chances that DOD business systems transformation efforts will succeed. Our statement is based upon the report² being released at this hearing, as well as previous GAO reports and testimonies.

¹ U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003). The nine interrelated high-risk areas that represent the greatest challenge to DOD's development of world-class business operations to support its forces are: contract management, financial management, human capital management, information security, inventory management, real property, systems modernization, support infrastructure management, and weapon systems acquisition.

² U.S. General Accounting Office, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004).

Summary

DOD's substantial long-standing business management systems and related problems adversely affect the economy, efficiency, and effectiveness of its operations, and have resulted in a lack of adequate accountability across all major business areas. These problems have left the department vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint. The following examples indicate the magnitude and severity of the problems.

- Ninety-four percent of mobilized Army National Guard soldiers from the six units we reviewed had pay problems. According to the individuals we interviewed, these problems distracted from their missions, imposed financial hardships on their families, and had a negative impact on retention. For example, the commander of one of the Army National Guard Special Forces case study units stated in January 28, 2004, testimony that 25 soldiers left his unit as a direct result of the pay problems they experienced and that another 15 asked for transfers to the inactive National Guard.
- DOD sold new Joint Service Logistics Integrated Suit Technology—chem-bio suits—on the Internet for \$3 while at the same time DOD was buying them for over \$200.³ Further, ineffective supply chain management resulted in thousands of defective suits being declared excess by DOD, and then improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.⁴
- Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, including cannibalization of vehicles for parts and duplication of requisitions.⁵

³U.S. General Accounting Office, *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

⁴U.S. General Accounting Office, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-81TNI (Washington, D.C.: Oct. 7, 2003).

⁵U.S. General Accounting Office, *Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom*, GAO-04-305R (Washington, D.C.: Dec. 18, 2003).

Further evidence of DOD's problems is the long-standing inability of any military service or major defense component to pass the test of an independent financial audit because of pervasive weaknesses in financial management systems, operations, and controls.

Over the years, the department has initiated several broad-based reform efforts intended to fundamentally reform its business operations. However, these efforts have not resulted in the fundamental reform necessary to resolve the department's long-standing management challenges because the department has not addressed the four underlying causes that have impeded meaningful reform:

- lack of sustained leadership and management accountability;
- deeply embedded cultural resistance to change, including military service parochialism and stovepiped operations;
- lack of results-oriented goals and performance measures and monitoring; and
- inadequate incentives and accountability mechanisms for business transformation efforts.

These four issues, to a large degree, have impeded DOD's efforts to modernize its business systems—a critical factor in its transformation efforts. DOD's stovepiped, duplicative, nonintegrated systems environment contributes to its operational problems and costs the taxpayers billions of dollars each year. For fiscal year 2004, DOD requested approximately \$19 billion to operate, maintain, and modernize its reported 2,274 business systems. The existing systems environment evolved over time as DOD components—each receiving their own funding—developed narrowly focused parochial solutions to their business problems. Unfortunately, however, these system solutions have not been implemented on time, within budget, and delivered the promised capability. The two systems—the Defense Logistics Agency's Business Systems Modernization (BSM) effort and the Army's Logistics Modernization Program (LMP)—discussed in the report released today are no exception.

Successful reform of DOD's fundamentally flawed financial and business management operations must simultaneously focus on its systems, processes, and people. While DOD has made some encouraging progress in addressing specific challenges, it is still in the very early stages of a departmentwide reform that will take many years to accomplish. Secretary Runsfeld has made business transformation a priority. For example, through its Business Management Modernization Program (BMMP), DOD is continuing its efforts to develop and implement a business enterprise architecture (BEA) and establish effective management oversight and control over its business systems modernization investments. However, after about 3 years of effort and over \$203 million in reported obligations, we have not seen significant change in the content of DOD's architecture or in its approach to investing billions of dollars annually in existing and new systems. We have made numerous recommendations aimed at improving DOD's plans for developing the next version of the architecture and implementing controls for selecting and managing business systems investments.⁶ To date, DOD has not addressed 22 of our 24 recommendations.

The seriousness of DOD's business management weaknesses underscores the importance of no longer condoning "status quo" business operations at DOD. To improve the likelihood that the department's current business transformation efforts will be successful, we have previously suggested⁷ that a chief management official⁸ position be created. The individual would be responsible for overseeing key areas such as strategic planning, performance and financial management, and business systems modernization, while also facilitating the overall business transformation effort within the department.

⁶See Related Reports.

⁷U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Financial and Business Management Transformation*, GAO-04-551T (Washington, D.C.: Mar. 23, 2004) and U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation*, GAO-04-628T (Washington, D.C.: Mar. 31, 2004).

⁸On September 9, 2002, GAO convened a roundtable of executive branch leaders and management experts to discuss the Chief Operating Officer concept. For more information see U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

Further, in the report released today,⁹ we also suggest that to improve management oversight, accountability, and control of the department's business system funding, Congress may wish to consider providing the funds to operate, maintain, and modernize DOD's business systems to the functional areas, known as domains, rather than the military services and the defense agencies. Currently, each military service and defense agency receives its own funding and is largely autonomous in deciding how to spend these funds, thereby hindering the development of broad-based, integrated corporate system solutions to common DOD-wide problems. Transforming DOD's business operations and making them more efficient would free up resources that could be used to support the department's core mission, enhance readiness, and improve the quality of life for our troops and their families.

Background

Because DOD is one of the largest and most complex organizations in the world, overhauling its business operations represents a huge management challenge. In fiscal year 2003, DOD reported that its operations involved over \$1 trillion in assets, nearly \$1.6 trillion in liabilities, approximately 3.3 million military and civilian personnel, and disbursements of over \$416 billion. For fiscal year 2004, the department was appropriated more than \$425 billion, which included approximately \$65 billion for contingency operations. Execution of DOD operations spans a wide range of defense organizations, including the military services and their respective major commands and functional activities, numerous large defense agencies and field activities, and various combatant and joint operational commands that are responsible for military operations for specific geographic regions or theaters of operation. To execute these military operations, the department performs an assortment of interrelated and interdependent business processes, including logistics management, procurement, healthcare management, and financial management.

⁹GAO-04-615.

Transformation of DOD's business systems and operations is critical to the department providing Congress and DOD management with accurate and timely information for use in decision making. One of the key elements we have reported¹⁰ as necessary to successfully execute the transformation is establishing and implementing an enterprise architecture. In this regard, the department has undertaken a daunting challenge to modernize its existing business systems environment through the development and implementation of a business enterprise architecture (BEA)—a modernization blueprint. This effort is an essential part of the Secretary of Defense's broad initiative to "transform the way the department works and what it works on." Secretary Rumsfeld has estimated that successful improvements to DOD's business operations could save the department 5 percent of its budget a year, which equates to over \$20 billion a year in savings.

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

For several years, we have reported that DOD faces a range of financial management and related business process challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the department. As the Comptroller General testified in March 2004 and as discussed in our latest financial audit report,¹¹ DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal control and processes and fundamentally flawed business systems.

¹⁰U.S. General Accounting Office, *Department of Defense: Status of Financial Management Weaknesses and Progress Toward Reform*, GAO-03-531T (Washington, D.C.: June 25, 2003).

¹¹U.S. General Accounting Office, *Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, GAO-04-477T (Washington, D.C.: Mar. 3, 2004) and our report contained in the U.S. Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: Feb. 27, 2004).

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that obtaining a clean (unqualified) financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that without sound internal control and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure of accountability for the American people. The Joint Financial Management Improvement Program (JFMIP)¹² principals have defined certain measures, in addition to receiving an unqualified financial statement audit opinion, for achieving financial management success. These additional measures include (1) being able to routinely provide timely, accurate, and useful financial and performance information; (2) having no material internal control weaknesses or material noncompliance with laws and regulations; and (3) meeting the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).¹³ Unfortunately, DOD does not meet any of these conditions. For example, for fiscal year 2003, the DOD Inspector General (DOD IG) issued a disclaimer of opinion on DOD's financial statements, citing 11 material weaknesses in internal control and noncompliance with FFMIA requirements.

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

¹²JFMIP is a joint undertaking of the Office of Management and Budget, GAO, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government.

¹³FFMIA, Pub. L. No. 104-208, div. A., §101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996), requires the 23 major departments and agencies covered by the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990) (as amended), to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) *U.S. Standard General Ledger (SGL)* at the transaction level.

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- Of the 481 mobilized Army National Guard soldiers from six GAO case study Special Forces and Military Police units,¹⁴ 450 had at least one pay problem associated with their mobilization. According to the individuals we interviewed, DOD's inability to provide timely and accurate payments to these soldiers, many of whom risked their lives in recent Iraq or Afghanistan missions, distracted them from their missions, imposed financial hardships on the soldiers and their families, and has had a negative impact on retention.¹⁵ More specifically, in January 28, 2004 testimony, the commander of one unit stated that 25 soldiers left the unit as a direct result of the pay problems they experienced and that another 15 asked for transfers to the inactive National Guard. He also stated that because it would take an estimated 2 years and \$250,000 to train each replacement, these losses have had a significant negative impact on the unit's mission capability—one of only six such units in the nation.
 - DOD incurred substantial logistical support problems as a result of weak distribution and accountability processes and controls over supplies and equipment shipments in support of Operation Iraqi Freedom activities, similar to those encountered during the prior Gulf War. These weaknesses resulted in (1) supply shortages, (2) backlogs of materials delivered in theater but not delivered to the requesting activity, (3) a discrepancy of \$1.2 billion between the amount of materiel shipped and that acknowledged by the activity as received, (4) cannibalization of vehicles, and (5) duplicate supply requisitions.¹⁶

¹⁴The six case study units reviewed include the Colorado B Company Special Forces, Virginia B Company Special Forces, West Virginia C Company Special Forces, Mississippi 114th Military Police Company, California 49th Military Police Headquarters and Headquarters Detachment, and the Maryland 200th Military Police Company. In addition, our limited review of pay experiences of soldiers in the Colorado Army Guard's 220th Military Police Company, which recently returned from Iraq, indicated that some of the same types of pay problems that we found in our case studies had also affected soldiers in this unit.

¹⁵GAO-04-89.

¹⁶GAO-04-305R.

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- Our analysis of data on more than 50,000 maintenance work orders opened during the deployments of six battle groups indicated that about 29,000 orders (58 percent) could not be completed because the needed repair parts were not available on board ship. This condition was a result of inaccurate ship configuration records and incomplete, outdated, or erroneous historical parts demand data. Such problems not only have a detrimental impact on mission readiness, they may also increase operational costs due to delays in repairing equipment and holding unneeded spare parts inventory.¹⁷
 - Inadequate asset visibility and accountability resulted in DOD selling new Joint Service Lightweight Integrated Suit Technology—the current chemical and biological protective garment used by our military forces—on the Internet for \$3 each (coat and trousers) while at the same time buying them for over \$200 each.¹⁸ DOD has acknowledged that these garments should have been restricted to DOD use only and therefore should not have been available to the public.
 - Some DOD contractors have been abusing the federal tax system with little or no consequence, and DOD is not collecting as much in unpaid taxes as it could. Under the Debt Collection Improvement Act of 1996, DOD is responsible—working with the Treasury Department—for offsetting payments made to contractors to collect funds owed, such as unpaid federal taxes. However, we found that DOD had collected only \$687,000 of unpaid taxes as of September 2003. We estimated that at least \$100 million could be collected annually from DOD contractors through effective implementation of levy and debt collection programs. We also found numerous instances of abusive or potentially criminal activity¹⁹ related to the federal tax system during our audit and

¹⁷U.S. General Accounting Office, *Defense Inventory: Opportunities Exist to Improve Spare Parts Support Aboard Deployed Navy Ships*, GAO-03-887 (Washington, D.C.: Aug. 29, 2003).

¹⁸GAO-02-573T.

¹⁹We characterized as “potentially criminal” any activity related to federal tax liability that may be a crime under a specific provision of the Internal Revenue Code. Depending on the potential penalty provided by statute, the activity could be a felony (punishable by imprisonment of more than 1 year) or a misdemeanor (punishable by imprisonment of 1 year or less). Some potential crimes under the Internal Revenue Code constitute fraud because of the presence of intent to defraud, intentional misrepresentation or deception, or other required legal elements.

investigation of 47 DOD contractor case studies. The 34 case studies involving businesses with employees had primarily unpaid payroll taxes, some dating to the early 1990s and some for as many as 62 tax periods.²⁰ The other 13 case studies involved individuals who had unpaid income taxes dating as far back as the 1980s. Several of these contractors provided parts or services supporting weapons and other sensitive military programs.²¹

- Based on statistical sampling, we estimated that 72 percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and that 73 percent were not properly justified. During fiscal years 2001 and 2002, DOD spent almost \$124 million on tickets that included at least one leg in premium class—usually business class. Because each premium class ticket costs the government up to thousands of dollars more than a coach class ticket, unauthorized premium class travel resulted in millions of dollars of unnecessary costs being incurred annually.²²
- Control breakdowns resulted in DOD paying for airline tickets that were not used and not processed for refund—amounting to about 58,000 tickets totaling more \$21 million for fiscal years 2001 and 2002. DOD was not aware of this problem before our audit and did not maintain any data on unused tickets. Based on limited data provided by the airlines, it is possible that the unused value of the fully and partially unused tickets DOD purchased from fiscal years 1997 through 2003 with DOD's centrally billed account could be at least \$115 million.²³

²⁰A "tax period" varies by tax type. For example, the tax period for payroll and excise taxes is one quarter of a year. The taxpayer is required to file quarterly returns with IRS for these types of taxes, although payment of the taxes occurs throughout the quarter. In contrast, for income, corporate, and unemployment taxes, a tax period is 1 year.

²¹U.S. General Accounting Office, *Financial Management: Some DOD Contractors Abuse the Federal Tax System with Little Consequence*, GAO-04-95 (Washington, D.C.: Feb. 12, 2004).

²²U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, GAO-04-229T (Washington, D.C.: Nov. 6, 2003), and U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel*, GAO-04-58 (Washington, D.C.: Oct. 24, 2003).

²³U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars of Wasted on Unused Airline Tickets*, GAO-04-396 (Washington, D.C.: Mar. 31, 2004).

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- We found that DOD sometimes paid twice for the same airline ticket—first to the Bank of America for the monthly credit and bill, and second to the traveler, who was reimbursed for the same ticket. Based on our mining of limited data, the potential magnitude of the improper payments was 27,000 transactions for over \$8 million. For example, DOD paid a Navy GS-15 civilian employee \$10,000 for 13 airline tickets he had not purchased.²⁴

These examples clearly demonstrate not only the severity of DOD's current problems, but also the importance of business systems modernization as a critical element in the department's transformation efforts to improve the economy, efficiency, and effectiveness of its operations, and to provide for accountability to Congress and American taxpayers.

Underlying Causes of Financial and Related Business Process Transformation Challenges

Since May 1997,²⁵ we have highlighted in various reports and testimonies what we believe are the underlying causes of the department's inability to resolve its long-standing financial management and related business management weaknesses and fundamentally reform its business operations. We found that one or more of these causes were contributing factors to the financial management and related business process weaknesses previously discussed. Over the years, the department has initiated several broad-based reform efforts intended to fundamentally reform its business operations and improve the reliability of information used in the decision-making process. Unfortunately, these initiatives have generally proven to be less successful than anticipated because DOD has not addressed the following four underlying causes:

- lack of sustained top-level leadership and management accountability for correcting problems;
- deeply embedded cultural resistance to change, including military service parochialism and stovepiped operations;

²⁴ U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Resulted in Millions of Dollars of Improper Payments*, GAO-04-576, (Washington, D.C.: June 9, 2004).

²⁵ U.S. General Accounting Office, *DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste*, GAO/T-NSIAD/AIMD-97-143 (Washington, D.C.: May 1, 1997).

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- lack of results-oriented goals and performance measures and monitoring; and
 - inadequate incentives and accountability mechanisms relating to business transformation efforts.

If not properly addressed, these root causes, which I will now highlight, will likely result in the failure of current DOD transformation efforts and continue to hinder the department's ability to produce accurate, reliable, and timely information to make sound decisions and to accurately report on its billions of dollars of assets, such as inventory.

Lack of Sustained Leadership and Adequate Accountability

Historically, DOD has not routinely assigned accountability for financial management performance to specific organizations or individuals who have sufficient authority to accomplish desired goals. For example, under the Chief Financial Officers Act of 1990,²⁸ it is the responsibility of the agency Chief Financial Officer (CFO) to establish the mission and vision for the agency's future financial management and to direct, manage, and provide oversight of financial management operations. However, at DOD, the Comptroller—who is by statute the department's CFO—has direct responsibility for only an estimated 20 percent of the data relied on to carry out the department's financial management operations. The remaining 80 percent comes from DOD's other business areas such as acquisition and personnel, which are not under the control and authority of the DOD Comptroller.

²⁸Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838, 2843 (Nov. 15, 1990) (*codified, as amended, in scattered sections of title 31, United States Code*).

Further, DOD's past experience has suggested that top management has not had a proactive, consistent, and continuing role in integrating daily operations for achieving business transformation performance goals. It is imperative that major improvement initiatives have the direct, active support and involvement of the Secretary and Deputy Secretary of Defense to ensure that daily activities throughout the department remain focused on achieving shared, agencywide outcomes and success. While DOD leadership has demonstrated its commitment to reforming the department's business operations, the magnitude and nature of day-to-day demands placed on these leaders, given the current world events associated with fighting the war on terrorism, clearly affect the level of oversight, commitment, and involvement they can devote to the transformation efforts. Given the importance of DOD's business transformation efforts, it is imperative that it receives the sustained leadership needed to improve the economy, efficiency, and effectiveness of DOD's business operations. Based on our surveys of best practices of world-class organizations,²⁷ strong executive CFO and Chief Information Officer (CIO) leadership and centralized control over systems investments are essential to (1) making financial management an entitywide priority, (2) providing meaningful information to decision makers, (3) building a team of people that delivers results, and (4) effectively leveraging technology to achieve stated goals and objectives.

Cultural Resistance and Parochialism

Cultural resistance to change, military service parochialism, and stovepiped operations have all contributed significantly to the failure of previous attempts to implement broad-based management reforms at DOD. The department has acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating practices of a complex, multifaceted organization and that many of these practices were developed piecemeal and evolved to accommodate different organizations, each with its own policies and procedures. Recent audits reveal that DOD has made only small inroads in addressing these challenges. For example,

²⁷U.S. General Accounting Office, *Executive Guide: Creating Value Through World-class Financial Management*, GAO/AIMD-00-134 (Washington, D.C.: April 2000) and U.S. General Accounting Office, *Executive Guide: Maximizing the Success of Chief Information Officers: Learning From Leading Organizations*, GAO-01-376G (Washington, D.C.: February 2001).

as discussed in our May 2004 report,²⁸ DOD does not have the processes and controls in place to provide reasonable assurance that it is in compliance with the fiscal year 2003 defense authorization act,²⁹ which requires the DOD Comptroller to review all system improvements with obligations exceeding \$1 million. As a result, DOD was not able to satisfy our request for information on all obligations in excess of \$1 million for system modernizations since passage of the act. Based upon a comparison of limited information provided by the military services and defense agencies for fiscal years 2003³⁰ and 2004, as of December 2003, we identified a total of \$863 million in obligations that exceeded \$1 million for system improvements that were not submitted to the DOD Comptroller for required review.

Additionally, as discussed in the report³¹ released today, DOD continued to use a stovepiped approach to develop and fund its business system investments. As shown in table 1, DOD requested approximately \$18.8 billion for fiscal year 2004 to operate, maintain, and modernize its reported 2,274 nonintegrated, duplicative, stovepiped business systems. The table also shows how business system funding is spread across various DOD components.

²⁸U.S. General Accounting Office, *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, GAO-04-731R (Washington, D.C.: May 17, 2004).

²⁹ Subsection 1004 (d) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2629 (Dec. 2, 2002), provides that any amount in excess of \$1 million may be obligated for financial system improvements before approval of its enterprise architecture and a supporting transition plan only if the DOD Comptroller makes a determination that the improvement is necessary for (1) critical national security capability or critical safety and security requirements or (2) prevention of significant adverse effect on a project that is needed to achieve an essential capability. The act further provides that after the architecture is approved, the DOD Comptroller must determine before making obligations that exceed \$1 million for system improvements that such improvements are consistent with the enterprise architecture and the transition plan.

³⁰We requested obligational data for fiscal year 2003 for the period December 2, 2002, the date of the enactment of the act, through September 30, 2003.

³¹GAO-04-615.

Table 1: DOD Fiscal Year 2004 Information Technology Budget Request for Business Systems by DOD Component

Dollars in millions	
Component	Total
Army	\$3,652
Navy	3,776
Air Force	3,737
DISA ^a	3,938
TRICARE ^b	980
DLA ^c	774
DFAS ^d	502
Other DOD components ^e	1,440
Total	\$18,801

Source: GAO analysis based on DOD's fiscal year 2004 IT budget request.

^aThe Defense Information Systems Agency provides DOD and other organizations with a wide range of information services, such as data processing, telecommunications services, and database management.

^bTRICARE is the health care system for DOD's active duty personnel, their dependents, and retirees.

^cDLA is DOD's logistics manager for all consumable and some repair items; its primary business function is providing supply support to sustain military operations and readiness.

^dDefense Finance and Accounting Service is the centralized accounting agency for DOD.

^eOther DOD components include entities such as the Office of the Secretary of Defense and the Defense Contract Management Agency.

The existing systems environment evolved over time as DOD components—each receives its own system funding and follows decentralized acquisition and investment practices—developed narrowly focused parochial solutions to their business problems. DOD's ability to address its current "business-as-usual" approach to business system investments is further hampered by its lack of

- a complete inventory of business systems—a condition we first highlighted in 1998. In fact, the DOD Comptroller testified in March 2004²⁰ that the size of DOD's actual systems inventory could be twice the size currently reported;

²⁰U.S. General Accounting Office, *Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation*, GAO-04-626T (Washington, D.C.: Mar. 31, 2004).

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- a standard definition of what constitutes a business system;
 - a well-defined BEA; and
 - an effective approach for the control and accountability over business system modernization investments.

Until DOD develops and implements an effective strategy for overcoming resistance, parochialism, and stovepiped operations, its transformation efforts will not be successful. Further, there can be little confidence that it will not continue to spend billions of dollars on duplicative, nonintegrated systems that do not optimize mission performance and support the warfighter.

Lack of Results-Oriented Goals and Performance Measures

At a programmatic level, the lack of clear, linked goals and performance measures handicapped DOD's past reform efforts. As a result, DOD managers lacked straightforward road maps showing how their work contributed to attaining the department's strategic goals, and they risked operating autonomously rather than collectively. As of March 2004, DOD formulated departmentwide performance goals and measures and continues to refine and align them with the outcomes described in its strategic plan—the September 2001 Quadrennial Defense Review (QDR). The QDR outlined a new risk management framework, consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. According to DOD's Fiscal Year 2003 Annual Report to the President and the Congress, these risk areas are to form the basis for DOD's annual performance goals. They will be used to track performance results and will be linked to resources. As of March 2004, DOD was still in the process of implementing this approach on a departmentwide basis.

DOD currently has plans to institutionalize performance management by aligning management activities with the President's Management Agenda. As part of this effort, DOD linked its fiscal year 2004 budget resources with metrics for broad program areas, e.g., air combat, airlift, and basic research in the Office of Management and Budget's (OMB) Program Assessment Rating Tool.³³ We have not reviewed DOD's efforts to link resources to metrics; however, some of our recent work notes the lack of clearly defined performance goals and measures in the management of such areas as defense inventory and military pay.³⁴ Further, without modern integrated systems and streamlined business processes, the accuracy and reliability of DOD's performance data will be questionable.

One program that has yet to establish measurable, results-oriented goals is the BMMP.³⁵ The BMMP is the department's business transformation initiative encompassing defense policies, processes, people, and systems that guide, perform, or support all aspects of business management, including development and implementation of the BEA. A key element of any major program is its ability to establish clearly defined goals and performance measures to monitor and report its progress to management. Since DOD has yet to develop performance measures for the BMMP, it is difficult to evaluate and track, on an ongoing basis, specific program

³³ OMB developed the Program Assessment Rating Tool to strengthen the process for assessing the effectiveness of programs across the federal government. For fiscal year 2004, OMB rated the following 12 defense program areas: Air Combat; Airlift; Basic Research; Chemical Demilitarization; Communications Infrastructure; Defense Health; Energy Conservation Improvement; Facilities Sustainment, Restoration, Modernization, and Demolition; Housing; Missile Defense; Recruiting; and Shipbuilding. DOD linked metrics for these program areas, which represent 20 percent of the department's fiscal year 2004 budget; it linked another 20 percent in the 2005 budget and 30 percent in the 2006 budget, for a total of 70 percent.

³⁴ In July 2003 we reported that DOD and the military services do not have an effective approach to prevent and mitigate equipment corrosion, and that DOD's strategic plan should contain clearly defined goals, measurable, outcome-oriented objectives, and performance measures. (U.S. General Accounting Office, *Defense Management: Opportunities to Reduce Corrosion Costs and Increase Readiness*, GAO-03-753 (Washington, D.C.: July 7, 2003)). Similarly, in January 2004 we testified that existing processes and controls used to provide pay and allowances to mobilized Army Guard personnel prevented DOD from being able to reasonably assure timely and accurate payroll payments. We stated that DOD needs to establish a unified set of policies and procedures, as well as performance measures in the pay area. (U.S. General Accounting Office, *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-113T (Washington, D.C.: Jan. 28, 2004)).

³⁵ GAO-04-731R.

progress, outcomes, and results, such as explicitly defining performance measures to evaluate the architecture's quality, content, and utility of subsequent major updates. Given that DOD has reported obligations of over \$203 million since architecture development efforts began 3 years ago, this is a serious performance management weakness.

DOD recognizes that it needs to develop detailed plans and establish performance metrics to measure and track program progress to determine what it planned to accomplish by a certain point in time, what it actually accomplished at that point in time, and what has been spent thus far. In its March 15, 2004, progress report on the implementation of the BEA, DOD reported that it plans to establish an initial approved program metrics baseline to evaluate the cost, schedule, and performance of the program and that, beginning with the fourth quarter of fiscal year 2004, it plans to begin formal tracking and reporting of specific program goals, objectives, and measures. Without explicitly defined program baselines, detailed plans, and performance measures, it is difficult to validate or justify the \$122 million requested for fiscal year 2005 and the \$494 million estimated to be needed for fiscal years 2006 through 2009.

Lack of Incentives for Change

The final underlying cause of the department's long-standing inability to carry out needed fundamental reform has been the lack of incentives for making more than incremental change to existing "business-as-usual" operations, systems, and organizational structures. Traditionally, DOD has focused on justifying its need for more funding rather than on the outcomes its programs have produced. DOD has historically measured its performance by resource components such as the amount of money spent, people employed, or number of tasks completed.

The lack of incentive to change is evident in the business systems modernization area. Despite DOD's acknowledgement that many of its systems are error prone, duplicative, and stovepiped, DOD continues to allow its component organizations to make their own investments independently of one another and implement different system solutions to solve the same business problems. These stovepiped decision-making processes have contributed to the department's current complex, error-prone environment. For example, our March 2003 report³⁶ noted that DOD

³⁶ GAO-03-465.

had not effectively managed and overseen its planned investment of over \$1 billion in four Defense Finance and Accounting Service (DFAS) system modernization efforts. One project's estimated cost had increased by as much as \$274 million, while the schedule slipped by almost 4 years. For each of these projects, DOD oversight entities—DFAS, the DOD Comptroller, and the DOD CIO—could not provide documentation that indicated they had questioned the impact of the cost increases and schedule delays, and allowed the projects to proceed in the absence of the requisite analytical justification. Such analyses provide the requisite justification for decision makers to use in determining whether to invest additional resources in anticipation of receiving commensurate benefits and mission value. Two of the four projects—the Defense Procurement Payment System and the Defense Standard Disbursing System—were terminated in December 2002 and December 2003, respectively, after an investment of approximately \$179 million that did not improve the department's business operations.

GAO and the DOD IG have identified numerous business system modernization efforts that are not economically justified on the basis of cost, benefits, and risk; take years longer than planned; and fall short of delivering planned or needed capabilities. Despite this track record, DOD continues to invest billions of dollars in business systems modernization, while at the same time it lacks the effective management and oversight needed to achieve results. Without appropriate incentives to improve their project management, ongoing oversight, and adequate accountability mechanisms, DOD components will continue to develop duplicative and nonintegrated systems that are inconsistent with the Secretary's vision for reform.

Keys to Successful Reform

Successful reform of DOD's fundamentally flawed financial and business management operations must simultaneously focus on its systems, processes, and people. While DOD has made some encouraging progress in addressing specific challenges, it is still in the very early stages of a departmentwide reform that will take many years to accomplish. At this time, it is not possible to predict when—or even whether—DOD's reform effort will be successful.

Our experience has shown there are several key elements that collectively would enable the department to effectively address the underlying causes of its inability to resolve its long-standing financial management problems.

These elements, which we believe are key to any successful approach to transforming the department's business operations, include

- addressing the department's financial management and related business operational challenges as part of a comprehensive, integrated, DOD-wide strategic plan for business reform;
- providing for sustained and committed leadership by top management, including but not limited to the Secretary of Defense;
- establishing resource control over business systems investments;
- establishing clear lines of responsibility, authority, and accountability;
- incorporating results-oriented performance measures and monitoring progress tied to key financial and business transformation objectives;
- providing appropriate incentives or consequences for action or inaction;
- establishing an enterprise architecture to guide and direct business systems modernization investments; and
- ensuring effective oversight and monitoring.

These elements, which should not be viewed as independent actions but rather as a set of interrelated and interdependent actions, are reflected in the recommendations we have made to DOD and are consistent with those actions discussed in the department's April 2001 financial management transformation report.³⁷ The degree to which DOD incorporates them into its current reform efforts—both long and short term—will be a deciding factor in whether these efforts are successful. Thus far, the department's progress in implementing our recommendations has been slow. Further, as will be discussed in more detail later, we have not yet seen a comprehensive, cohesive strategy that details how some of the ongoing efforts are being integrated. For example, we have not seen how the department plans to integrate its objective of obtaining an unqualified audit opinion in fiscal year 2007 with the BMMP. It appears as if these two key efforts are being conducted in a stovepiped manner.

³⁷ Department of Defense, *Transforming Department of Defense Financial Management: A Strategy for Change* (Washington, D.C.: Apr. 13, 2001).

**DOD Business
Transformation Efforts**

Over the years, we have given DOD credit for beginning numerous initiatives intended to improve its business operations. Unfortunately, most of these initiatives failed to achieve their intended objective in part, we believe, because they failed to incorporate key elements that in our experience are critical to successful reform. Today, we would like to discuss one very important broad-based initiative—the BMMP—that DOD currently has underway and, if properly developed and implemented, will result in significant improvements in DOD's business systems and operations.

Effectively managing and overseeing the department's \$19 billion investment in its business systems is key to the successful transformation of DOD's business operations. The transformation also depends on the ability of the department to develop and implement business systems that provide users and department management with accurate and timely information on the results of operations and that help resolve the numerous long-standing weaknesses. As DOD moves forward with BMMP, it needs to ensure that the department's business systems modernization projects—such as BSM and LMP, discussed in the report released today—are part of a corporate solution to DOD long-standing business problems. To assist the department with its ongoing efforts, we would like to offer two suggestions for legislative consideration that we believe could significantly increase the likelihood of a successful business transformation effort at DOD.

**Business Management
Modernization Program**

The BMMP, which the department established in July 2001 following our recommendation that DOD develop and implement an enterprise architecture,³⁸ is vital to the department's efforts to transform its business operations.³⁹ The purpose of the BMMP is to oversee development and implementation of a departmentwide BEA, transition plan, and related efforts to ensure that DOD business systems investments are consistent with the architecture and provide world class mission support to the fighting force. A well-defined and properly implemented BEA can provide

³⁸ DOD has one Enterprise Information Environment Mission, and six departmental domains including (1) acquisition/procurement; (2) finance, accounting, and financial management; (3) human resource management; (4) logistics; (5) strategic planning and budgeting; and (6) installations and environment.

³⁹ GAO-01-525.

assurance that the department invests in integrated enterprise-wide business solutions and, conversely, can help move resources away from nonintegrated business system development efforts.

However, we recently reported⁴⁰ that since our last review,⁴¹ and after about 3 years of effort and over \$203 million in reported obligations, we have not seen significant change in the content of DOD's architecture or in DOD's approach to investing billions of dollars annually in existing and new systems. Few actions have been taken to address the recommendations we made in our previous reports,⁴² which were aimed at improving DOD's plans for developing the next version of the architecture and implementing the institutional means for selecting and controlling both planned and ongoing business systems investments. To date, DOD has not yet addressed 22 of our 24 recommendations.

Further, DOD has not yet developed either near-term or long-term plans for developing the architecture that explicitly identify and establish a baseline for the actions to be taken, milestones to be achieved, cost estimates to be met, and targeted outcomes to be achieved. DOD has adopted an incremental approach to developing the architecture, including the transition plan, and plans to refine and extend the architecture in three increments, the first of which includes in part the department's efforts to obtain an unqualified audit opinion of DOD's consolidated fiscal year 2007 financial statements.

However, it is unclear what the increments individually or collectively mean, and what they will provide or allow DOD to achieve in the near and long term, because, as previously discussed, DOD has yet to develop detailed performance measures. Although the three increments were identified in November 2003, program officials do not expect to have a plan for increment one until the next version of the transition plan is completed in August 2004. According to program officials, the goals and scope for the second and third increments were only recently approved and, therefore, detailed plans of action and milestones do not yet exist.

⁴⁰ GAO-04-731R.

⁴¹ GAO-03-1018.

⁴² GAO-03-458 and GAO-03-1018.

Currently, DOD has three initiatives under way to support increment one. First, the program office is developing a plan of action for increment one and intends to complete the plan by August 2004. Second, the accounting and finance domain is conducting workshops to develop needed business rules and requirements for extending and evolving version 2.0 of the architecture. Last, DOD components are developing individual plans detailing their respective efforts for supporting increment one. However, there is no evidence that the program office is coordinating with the components and that the components are coordinating amongst themselves. Because there are not yet detailed plans guiding the program's activities, it is unclear whether and how these activities support each other and whether they support the department's goal of achieving an unqualified audit opinion in 2007.

As DOD moves forward with the BEA, it will be essential that the department have the management structure and processes in place to (1) improve the control and accountability over its billions of dollars of business systems investments; (2) develop corporate solutions to common business problems; and (3) implement system projects within budget, on time, and deliver the promised capability. The failure of the department to have the appropriate management structure and processes could result in billions of dollars continuing to be at risk of being spent on more systems that are duplicative, are not interoperable, cost more to maintain than necessary, and do not optimize mission performance and accountability.

Control and Accountability Over
Business System Investments

As previously discussed, DOD continues to lack adequate control and accountability over its billions of dollars of business systems investments. Each DOD component continues to make its own investment decisions, which has led to the proliferation of systems. As shown in table 2, the department has reported that it has at least 2,274 business systems. For example, the department reportedly has 665 systems to support human resource management, 565 systems to support logistical functions,⁴³ 542 systems to perform finance and accounting functions, and 210 systems to support strategic planning and budget formulation.

⁴³ According to logistics domain officials, there are currently about 3,000 systems just within the logistics domain. Of that amount, about 1,900 systems have been validated by the DOD components as logistics systems—that is, they are not merely a spreadsheet or a report. Such a determination has not been made for the other 1,100.

Table 2: Reported DOD Business Systems by Domain and Functional Area

Domain	Air Force	Army	Navy/ Marine Corps	DFAS	Other	Total
Acquisition	27	31	61	3	21	143
Accounting and finance	43	88	195	165	51	542
Human resource management	71	387	86	33	88	665
Installations and environment	12	98	9	1	8	128
Logistics	180	191	104	11	79	565
Strategic planning and budgeting	23	63	98	15	11	210
Enterprise information environment	1	5	2	3	10	21
Total	357	863	555	231	268	2,274

Source: GAO analysis of BMMP data.

These numerous systems have evolved into the overly complex and error-prone operation that exists today, including (1) little standardization across DOD components, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, (4) manual data entry into multiple systems, and (5) a large number of data translations and interfaces that combine to exacerbate problems with data integrity. The proliferation of systems has resulted because DOD components are largely autonomous and each receives its own business system funding.

DOD has recognized the need to improve its control and accountability of its business system investments and has various initiatives underway and planned. For example, in response to our recommendations,⁴⁴ DOD issued a policy in March 2004 that assigns the domains the responsibility for IT portfolio management. However, the procedures to be followed to implement the policy are currently being developed and no time frames for completion have been provided. In addition, specific roles and responsibilities of the domains have not yet been formalized, standard criteria for performing the system reviews have not been developed, and explicit authority for fulfilling roles and responsibilities has not been assigned. Although DOD recognizes the need to clarify the roles and responsibilities associated with managing the domains' portfolios of business systems and ensuring compliance with the architecture, it has not yet established time frames for completing these activities.

⁴⁴ GAO-01-525 and GAO-03-458.

While DOD is continuing to work toward establishing the structure and processes to manage its business systems investments, it has not yet conducted a comprehensive system review of its ongoing IT investments to ensure that they are consistent with its BEA efforts. Additionally, execution of a comprehensive review of all modernization efforts by DOD before billions of dollars have been invested will reduce the risk of continuing the department's track record of business systems modernization efforts that cost more than anticipated, take longer than expected, and fail to deliver intended capabilities.

Corporate Solutions to Common Problems

The department's business transformation also depends on its ability to develop and implement business systems that provide corporate solutions to DOD's numerous long-standing problems. This approach should help preclude the continued proliferation of duplicative, stovepiped systems and reduce spending on multiple systems that are supposed to perform the same function. However, as discussed in our report⁴⁵ released today, DOD is still developing systems that are not designed to solve corporatewide problems. BSM and LMP were initiated in November 1999 and February 1998, respectively, prior to DOD undertaking the BEA and establishing the domains. As such, they were not directed towards a corporate solution to the department's long-standing weaknesses in the inventory and logistics management areas, such as total asset visibility. Rather, both projects are more focused on DLA's and the Army's respective inventory and logistics management operations. Today, I would like to focus on one of those issues—total asset visibility, because of its significant impact on DOD's operational effectiveness.

In October 2002, a DLA official testified⁴⁶ that BSM would provide improved control and accountability over the Joint Services Lightweight Integrated Suit Technology (JSLIST), which is a lightweight, two-piece garment—coat and trousers—designed to provide maximum protection against chemical and biological contaminants. Total asset visibility is critical for sensitive items such as the JSLIST. For example, tracking the specific location of each suit by lot number is necessary if for any reason

⁴⁵GAO-04-615.

⁴⁶ *Chemical and Biological Equipment: Preparing for a Toxic Battlefield. Hearing Before the House Committee on Government Reform, Subcommittee on National Security, Veterans Affairs and International Relations, 107th Cong. 119 (Oct. 1, 2002)* (statement of Deputy Commander, Defense Supply Center Philadelphia, Mr. George H. Allen).

they have to be recalled, as was the case with the JSLIST predecessor the Battle Dress Overgarment (BDO).

Over 700,000 of the BDOs were found to be defective and were recalled. Since DOD's systems did not provide the capability to identify the exact location of each suit, a series of data calls were conducted, which proved to be ineffective. We reported in September 2001⁴⁷ that DOD was unable to locate approximately 250,000 of the defective suits and therefore was uncertain if the suits were still in the possession of the military forces, or whether they had been destroyed or sold. Subsequently, we found that DOD had sold many of these defective suits to the public as excess, including 379 that we purchased in an undercover operation.⁴⁸ In addition, DOD may have issued over 4,700 of the defective BDO suits to local law enforcement agencies. This is particularly significant because local law enforcement agencies are most likely to be the first responders to a terrorist attack, yet DOD failed to inform these agencies that using these suits could result in death or serious injury.

At the October 2002 hearing, the DLA official stated that JSLIST would be included in BSM at the earliest practicable date, which was estimated to be December 2003. BSM, however, is not designed to provide the corporate total asset visibility necessary to locate and track the suits throughout DOD's supply chain. While the suits are expected to be included in a future deployment of BSM, at the time of our review program officials had not yet specified a date when they will be included. Even when the suits are included, BSM is designed to provide visibility over the suits only within the DLA environment—something DLA has stated already exists within its current system environment.

As we have previously reported,⁴⁹ the lack of integrated systems hinders DOD's ability to know how many JSLIST it has on hand and where they are located once they leave the DLA warehouse. For example, we found that military units that receive JSLIST from DLA warehouses maintained

⁴⁷ U.S. General Accounting Office, *Chemical and Biological Defense: Improved Risk Assessment and Inventory Management Are Needed*, GAO-01-667 (Washington, D.C.: Sept. 28, 2001).

⁴⁸ U.S. General Accounting Office, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-81TNI (Washington, D.C.: Oct. 7, 2003).

⁴⁹ GAO-02-873T.

inventory data in nonstandard, stovepiped systems that did not share data with DLA or other DOD systems. The methods used to control and maintain visibility over JSLIST at the units we visited ranged from stand-alone automated systems, to spreadsheet applications, to pen and paper. One military unit we visited did not have any inventory system for tracking JSLIST. BSM does not address asset visibility outside of DLA's supply chain for the JSLIST, and thus cannot provide DOD with the capability to readily locate JSLIST for any reason, including any potential need for a recall of defective suits.

Similarly, the report released today⁵⁰ also states that LMP will not provide the Army with total asset visibility until a suite of other systems has been developed and implemented. Specifically, Army officials have stated that LMP will require integration with other Army systems that are under development in order to achieve total asset visibility within the Army. These additional systems are the Product Lifecycle Management Plus (PLM+) and Global Combat Support System—Army (GCSS-A). According to the Army, PLM+ is to integrate LMP and GCSS-A to create end-to-end solution for Army logistics. However, time frames and cost estimates have not been developed for these two additional system initiatives.

Further, to help provide for departmentwide total asset visibility, DLA is undertaking the implementation of the Integrated Data Environment (IDE) program. According to DLA, this initiative is intended to provide the capability for routing data from multiple systems within DLA and DOD into one system. According to DLA, IDE is expected to reach full operational capability in August 2007, with a current estimated cost of approximately \$30 million. However, successfully meeting this completion date depends on other departmental efforts being completed on time, such as PLM+, for which a completion date had not been established.

Project Management and Oversight

While the success of BMMP and improved control and accountability of business system investments are critical aspects of the department's transformation efforts, equally important is the ability of DOD to implement chosen systems solutions on time, within budget, and with the promised capability. The department has not demonstrated the ability to achieve these goals. The previously discussed DFAS system projects—DPPS and DSDS—are a clear case in point. After several years of effort

⁵⁰ GAO-04-615.

and an investment of \$179 million, these two projects were terminated without any improvement in departmental operations.

As discussed in the report⁶¹ released today, BSM and LMP have also experienced cost increases, schedule slippages, and did not deliver planned system capabilities in their first release. Our analysis indicated that many of the operational problems experienced by BSM and LMP can be attributed to DOD's inability to effectively implement the disciplined processes necessary to reduce the risks associated with these projects to acceptable levels. Disciplined processes have been shown to reduce the risks associated with software development and acquisition efforts to acceptable levels and are fundamental to successful systems acquisition. Said another way, a disciplined software development and acquisition process can maximize the likelihood of achieving the intended results (performance) within established resources (costs) on schedule.

Specifically, in the case of these two projects, they had significant deficiencies in defining requirements and testing—two areas that form the foundation for a project's success or failure. In fact, DLA and Army program officials acknowledged that requirements and testing defects were factors contributing to the operational problems and stated that they are working to develop more effective processes. To their credit, DLA and the Army have decided that future deployments of BSM and LMP will not go forward until they have reasonable assurance that the deployed systems will operate as expected for a given deployment. Lacking disciplined processes exposes projects to the unnecessary risk that costly rework will be required, which in turn will continue to adversely affect a projects' cost, schedule, and performance goals. Our analysis of selected BSM and LMP key requirements⁶² and testing processes found that (1) the functionality to be delivered was not adequately described or stated to allow for quantitative evaluation; (2) the traceability among the various process documents (e.g., operational requirements documents, functional or process scenarios, and test cases) was not maintained; and (3) system testing was ineffective. Historically, projects that experience the types of

⁶¹ GAO-04-615.

⁶² BSM and LMP have identified and documented 202 and 283 system requirements, respectively. For BSM, we reviewed 13 requirements related to finance, order fulfillment, planning, and procurement. For LMP, we reviewed 12 requirements related to planning and budget development, asset management, inventory management, and maintenance analysis and planning.

requirements and testing process weaknesses found in BSM and LMP have a high probability of not meeting schedule, cost, and performance objectives.

The problems we identified in the areas of requirements management and testing contributed to BSM and LMP experiencing difficulties when they became operational.

- Army and DFAS officials reported that LMP's operational difficulties at Communications and Electronics Command and Tobyhanna Army Depot have resulted in inaccurate financial management information. More specifically, the depot is not (1) producing accurate workload planning information; (2) generating accurate customer bills; and (3) capturing all repair costs, which is impeding the Army's ability to calculate accurate future repair prices. These problems can also hinder the Army's ability to accurately report the results of its depot operations and limit customers' ability to develop accurate budget estimates.
- BSM experienced significant data conversion problems associated with purchase requisitions and purchase orders that were created in the Standard Automated Materiel Management System (SAMMS). Moving the data from SAMMS to BSM proved difficult because BSM required more detailed information, which was not identified during the requirements phase. This additional information needed to be manually entered into BSM, resulting in numerous errors that caused vendors not to be recognized and shipments from the depot to be rejected. As a result of these problems, additional tables, such as vendor master files, were created within BSM to process orders for the converted purchase requisitions and purchase orders.

One of the long-standing problems within DOD has been the lack of integrated systems. This is evident in the many duplicative, stovepiped systems among the 2,274 that DOD reported as its systems environment. Lacking integrated systems, DOD will have a difficult time obtaining accurate and reliable information on the results of its business operations and will continue to rely on either manual reentry of data into multiple systems, convoluted system interfaces, or both. These system interfaces provide data that are critical to day-to-day operations, such as obligations, disbursements, purchase orders, requisitions, and other procurement activities. For BSM and LMP, we found that the system interfaces were not fully tested in an end-to-end manner, and therefore DLA and Army did not

have reasonable assurance that BSM and LMP would be capable of providing the intended functionality.

We previously reported⁵³ that Sears and Wal-Mart, recognized as leading-edge inventory management companies, had automated systems that electronically received and exchanged standard data throughout the entire inventory management process, thereby reducing the need for manual data entry. As a result, information moves through the data systems with automated ordering of inventory from suppliers; receiving and shipping at distribution centers; and receiving, selling, and reordering at retail stores. Unlike DOD, which has a proliferation of nonintegrated systems using nonstandard data, Sears and Wal-Mart do not allow individual systems development and require all components and subsidiaries to operate within a standard systems framework that results in an integrated system.

For the first deployment of BSM, DLA has had to develop interfaces that permit BSM to communicate with more than 23 systems, including 3 DFAS, 6 DOD-wide, and 14 DLA systems. The Army has had to develop 215 interfaces that permit LMP to communicate with more than 70 systems, including 13 DFAS, 6 DLA, 2 Navy, 5 Air Force, and over 24 Army systems. When BSM and LMP became operational, it became evident that the system interfaces were not working as intended. Such problems have led BSM, LMP, and organizations with which they interface—such as DFAS—to perform costly manual reentry of transactions, which can cause additional data integrity problems. While these numerous interfaces are necessary because of the existing stovepiped, nonintegrated systems environment, they should have been fully developed and tested prior to BSM and LMP being deployed. In moving forward with the future deployments of BSM and LMP, it is critical that program officials ensure that the numerous system interfaces are operating as intended.

In commenting on the report⁵⁴ released today, the department acknowledged that the initial implementation of BSM and LMP experienced problems that could be attributed to the lack of adequate requirements determination and system testing. To address these inadequacies, the department noted that requirements analysis had been expanded to include greater specificity and that the successful completion

⁵³ GAO-02-873T.

⁵⁴ GAO-04-615.

of comprehensive testing would be required prior to further implementation of either system.

Suggestions for Legislative Consideration

We would like to offer two suggestions for legislative consideration that we believe could contribute significantly to the department's ability to not only address the impediments to DOD's success but also to incorporate needed key elements to successful reform. These suggestions would include the (1) creation of a chief management official and (2) centralization of the funding business systems investments with the domain leaders responsible for the department's various business areas, such as logistics and human resource management. We provided similar views in our testimonies on

March 23, 2004,⁵⁵ before the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, and on March 31, 2004,⁵⁶ before the Subcommittee on Terrorism, Unconventional Threats, and Capabilities, House Committee on Armed Services.

Chief Management Official

I will now discuss our first matter for consideration. Previous failed attempts to improve DOD's business operations illustrate the need for sustained involvement of DOD leadership in helping to assure that DOD's financial and overall business process transformation efforts remain a priority. While the Secretary and other key DOD leaders have demonstrated their commitment to the current business transformation efforts, the long-term nature of these efforts requires the development of an executive position capable of providing strong and sustained executive leadership over a number of years and various administrations.

⁵⁵ GAO-04-551T.

⁵⁶ GAO-04-626T.

However, the tenure of the department's top political appointees has generally been short in duration and as a result, it is sometimes difficult to maintain the focus and momentum that are needed to resolve the management challenges facing DOD. For example, the former DOD Comptroller, who was very supportive of the current transformation effort, and one of its principal leaders, served as the DOD Comptroller for slightly over 3 years. Further, the current Principal Deputy and the Deputy Under Secretary of Defense for Management Reform, within the office of the DOD Comptroller, will soon be leaving the department. He also was in that position for slightly over 3 years. Additionally, leadership voids have existed in other key positions such as the program manager for BMMP. From May 2003 to February 2004, there was no program manager to identify, direct, and execute program activities.⁶⁷ The resolution of the array of interrelated business system management challenges that DOD faces is likely to span several administrations and require sustained leadership to maintain the continuity needed for success. One way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive level II position for a chief management official⁶⁸ who would serve as the Principal Under Secretary of Defense for Management. This position would provide the sustained attention essential for addressing key stewardship responsibilities such as strategic planning, performance and financial management, and business systems modernization in an integrated manner. This position could be filled by an individual, appointed by the President and confirmed by the Senate, for a set term of 7 years with the potential for reappointment. Such an individual should have a proven track record as a business process change agent in large, complex, and diverse organizations—experience necessary to spearhead business process transformation across the department, and potentially administrations, and serve as an integrator for the needed business transformation efforts. In addition, this individual would enter into an annual performance agreement with the Secretary that sets forth measurable individual goals linked to overall organizational goals. Measurable progress towards achieving agreed-upon goals would be a basis for determining the level of compensation earned, including any related bonus. In addition, this individual's achievements and compensation would be reported to Congress each year.

⁶⁷ GAO-04-731R.

⁶⁸ GAO-03-192SP.

Functional Domain Control and
Accountability Over Business
System Investments

We have made numerous recommendations to DOD intended to improve the management oversight and control of its business systems investments. However, progress in achieving this control has been slow and, as a result, DOD has little or no assurance that current business systems investments are being spent in an economically efficient and effective manner. DOD's current systems funding process has contributed to the evolution of an overly complex and error-prone information technology environment containing duplicative, nonintegrated, and stovepiped systems. Given that DOD spends billions of dollars annually on business systems and related infrastructure, it is critical that actions be taken to gain more effective control over such business systems funding.

The second suggestion we have for legislative action to address this issue, as contained in the report⁵⁹ released at today's hearing and consistent with our open recommendations to DOD, is to establish specific management oversight, accountability, and control of funding with the "owners" of the various functional areas or domains. This legislation would define the scope of the various business areas (e.g., accounting, acquisition, logistics, and personnel) and establish functional responsibility for management of the portfolio of business systems in that area with the relevant Under Secretary of Defense for the six departmental domains and the CIO for the Enterprise Information Environment Mission (information technology infrastructure). For example, planning, development, acquisition, and oversight of DOD's portfolio of logistics business systems would be vested in the Under Secretary of Defense for Acquisition, Technology and Logistics.

We believe it is critical that funds for DOD business systems be appropriated to the domain owners in order to provide for accountability and the ability to prevent the continued parochial approach to systems investment that exists today. The domains would establish a hierarchy of investment review boards with DOD-wide representation, including the military services and defense agencies. These boards would be responsible for reviewing and approving investments to develop, operate, maintain, and modernize business systems for the domain portfolio, including ensuring that investments were consistent with DOD's BEA. All domain owners would be responsible for coordinating their business systems investments with the chief management official who would chair the proposed Defense Business Systems Modernization Executive Committee and provide a

⁵⁹ GAO-04-615.

cross-domain perspective. Domain leaders would also be required to report to Congress through the chief management official and the Secretary of Defense on applicable business systems that are not compliant with review requirements and to include a summary justification for noncompliance.

In commenting on our report, DOD stated that it did not agree with this funding concept. The department stated that the portfolio management process being established—to include investment review boards—would provide the appropriate control and accountability over business system investments. DOD also stated that beginning with the fiscal year 2006 budget review process, the domains will be actively involved in business system investment decisions. DOD stated that the military services implement their own statutory authorities for acquisition and IT systems development in consultation with DOD. While the establishment of the investment review boards is consistent with our previous recommendations, we continue to believe that appropriating funds for DOD business systems to the domains, rather than the various DOD entities, will significantly improve accountability over business system investments. DOD's comments indicate that the domains will be more accountable for making business system investment decisions, but unless they control the funding, they will not have the means to effect real change. Continuing to provide business system funding to the military services and defense agencies is an example of the department's embedded culture and parochial operations. As a result of DOD's intent to maintain the status quo, there can be little confidence that it will not continue to spend billions of dollars on duplicative, nonintegrated, stovepiped, and overly costly systems that do not optimize mission performance and accountability and, therefore, do not support the department's transformation goals.

Conclusion

The excellence of our military forces is unparalleled. However, that excellence is often achieved in the face of enormous challenges in DOD's financial management and other business areas, which have serious and far-reaching implications related to the department's operations and critical national defense mission. Our recent work has shown that DOD's long-standing financial management and business problems have resulted in fundamental operational problems, such as failure to properly pay mobilized Army Guard soldiers and the inability to provide adequate accountability and control over supplies and equipment shipments in support of Operation Iraqi Freedom. Further, the lack of appropriate accountability across all business areas has resulted in fraud, waste, and

abuse and hinders DOD's attempts to develop world-class operations and activities to support its forces. Additionally, DOD cannot provide Congress reasonable assurance that the billions of dollars spent annually on business systems modernizations are not being wasted on projects that will perpetuate the current costly, nonintegrated, duplicative systems environment. If DOD is unable to address the underlying causes that have resulted in the failure of previous broad-based reform efforts, improvements will remain marginal, confined to narrowly defined incremental improvements.

As our nation continues to be challenged with growing budget deficits and increasing pressure to reduce spending levels, every dollar that DOD can save through improved economy and efficiency of its operations is important. DOD's senior leaders have demonstrated a commitment to transforming the department and improving its business operations and have taken positive steps to begin this effort. We believe that implementation of our open recommendations and our suggested legislative initiatives would greatly improve the likelihood of meaningful, broad-based reform at DOD.

The continued involvement and monitoring by congressional committees will also be critical to ensure that DOD's transformation actions are sustained and extended and that the department achieves its goal of securing the best performance and highest measure of accountability for the American people. We commend the Subcommittees for holding this hearing and we encourage you to use this vehicle, on at least an annual basis, as a catalyst for long overdue business transformation at DOD.

Mr. Chairman, this concludes our statement. We would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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Cary Russell, John Ryan, Katherine Schirano, Darby Smith, Carolyn Voltz,
Marilyn Wasleski, and Jennifer Wilson.

GAO Related Products

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Mr. PLATTS. Thank you, Mr. Kutz. We appreciate your written and oral testimony as well. We will move right into questions with the expectation that we will be joined by some other Members from both sides. We will start with the 5-minute rule and see how that goes.

I would like to start with the issue of the chief management official proposal. Mr. Lanzilotta, your predecessor, Mr. Zakheim, talked about his support for that when he left the Department. In your position now and given your 3 years at the Department as well as your work on the Senate side, what do you think of the benefits of this type of position? Especially in view as we all acknowledge, and as you said in your opening statement, that this transformation is going to be years in the process, it is not going to happen quickly. Also, because of the length of time involved and there likely being turnover of key personnel such as yourself. The proposal from GAO would perhaps bring greater stability and continuity to the focus and the prioritization of this transformation process. I would be interested in your opinion and any recommendations you have of how, if we were to look at this proposal in more detail, we should go about that process?

Mr. LANZILOTTA. This proposal, like most of GAO's proposal, I agree in concept. I think mostly our differences have been on implementation. I think the fact that there is a Chief Operating Officer in the Department of Defense is a concept that has not only been looked at by GAO but has been looked at by the Defense Business Board and they are looking at it for the Secretary as to how that would be implemented. I think the problem is not in the concept but in the implementation of it. Knowing the Department's psyche, per se, that would be more difficult than just legislating it.

Mr. PLATTS. What do you think will be most difficult for the new officer to actually get people to do as he instructs in the sense of across the Department? Is it the service branches? Can you give more specifics on what challenges in implementation you see?

Mr. LANZILOTTA. I think, first of all, we have to get a detailed study of the statutory requirements of each position. Both the Chief Financial Officer for the Department and the Acquisition Executive are set in statute. The Operating Officer, if he was placed above that, we would have to look to see how this interface would take place or what laws would have to be changed. I don't know the answer to that. I also don't know if you maintained a Deputy Secretary and a Chief Operating Officer how that interface would take place. I am not quite sure, even if I am smart enough to figure out how that would take place.

I know that the Secretary has been made aware of this proposal. I know he has the Defense Business Board, made up of business leaders, looking at it as to whether he should develop this proposal or how it would be developed, and I guess I would kind of wait to see how these guys come out with it to see what their recommendation would be.

Mr. PLATTS. Is your concern what level of authority the new position would have, in other words, how these others would answer to your work and partner with a new CMO?

Mr. LANZILOTTA. On both ends of it. I don't know if I understand the interface of how this position would work in relationship to the

Deputy and the Secretary and how that interface works and I don't know how this person works in relationship with my successor as the CFO. The CFO has certain Title 10 responsibilities that he is held accountable for. Right now they are very specific as to what those responsibilities are. I think we would have to go back and look at Title 10 and see where these things interface to see what changes we would want to make and then I don't know—I guess I am kind of rambling but you certainly don't want to loosen the accountability of certain things that the Under Secretary for Acquisition and Technology must do or the Under Secretary Comptroller must do but the concept of a Chief Operating Officer is very attractive.

Mr. PLATTS. Mr. Kutz, what do you envision at GAO to address those relationships with the CFO, with the Acquisition Officer for example, what level of authority this new position would have relative to existing positions and basically what leverage the new person would have is going to be key?

Mr. KUTZ. I think this position attacks some of the causes better than probably the current situation where again I think if you look at the in-box, Mr. Lanzilotta went over to the Department with the idea that he would be spending full time on transformation. The reality of the situation is that is not going to happen. So from the standpoint of getting someone there to attack the causes of having someone full-time championing this, I think this is something that has some merit to it.

I think there are issues with respect to legislation, how you would write it, how the interactions would take place but certainly it would be a position at a higher level than the current Comptroller position which is kind of the champion of this right now and might have better leverage over the services because that is one of the real situations, you do have cultural issues with the different services and you have issues with the business systems and other things, just getting everybody to play in an integrated manner. That goes over to the weapons side too but on the business side, that is true.

We would see this as similar to having a Deputy for Policy and Mission-related Activities and this would be the Deputy for Mission Support Activities. You would have to somehow draw the line as to where those two crossed over. You would have dual reporting of the Under Secretary AT&L to both of those Deputies probably so there would be certain issues with that.

If there was a silver bullet or an easy way for this to happen, it would have already happened, so I think we do need to think about some out of the box kind of thinking to try to solve this very difficult problem.

Mr. PLATTS. But however you align the authority, you see the benefit of a fixed term position to have that continuity of focus will enhance the likelihood of success?

Mr. KUTZ. Two things, continuity of focus across administrations and someone who works on this full-time. This is their responsibility regardless of what else is happening in the world, because there is always going to be various conflicts that become emergencies in the Department of Defense. It would be someone that this is what

they do period and this is their responsibility and it gives someone for Congress to hold accountable.

Mr. PLATTS. I think I am going to come back to that but I want to yield to the ranking member. Before I do, we have been joined by the gentlelady from California, Ms. Watson, and our Vice Chair, the gentlelady from Tennessee, Mrs. Blackburn. I appreciate both of you being with us.

Mr. Towns.

Mr. TOWNS. Thank you very much.

Why 7 years, Mr. Kutz? Why would you appoint him for 7 years?

Mr. KUTZ. We said 5 to 7 years, something that would cross administrations. Right now, the current political appointee turnover is every 2 or 3 years. The Comptroller position has routinely turned over ever 2 to 3 years. It is very difficult to sustain efforts over 2 to 3 years that are going to take possibly a decade or more. That would be why.

Mr. TOWNS. Mr. Lanzilotta, first of all, let me join my colleagues in wishing you well. I understand why you are testifying with a smile on your face. [Laughter.]

Some have said the Pentagon's books are in such utter disarray that no one knows what America's military actually owns or spends. What changes have you made that will enable the Department to effectively carry out its stewardship and responsibilities over the funding, equipment and other assets it receives from America's taxpayers? They are saying that nobody knows where the equipment is and how much we are spending, it is in total disarray. Would you respond to that?

Mr. LANZILOTTA. Prior to 1990 and the Chief Financial Offices Act and several other acts, the Department's financial systems were geared toward what we called appropriation accounting. Basically, when the Congress gave the Department a certain amount of money, it was kind of like checkbook accounting. It isn't that we don't know how much money we are spending or where it is, but standards after 1990 changed to an auditable financial statement which is a different standard.

The problem we had in the past and what we are trying to correct now, which goes to the basis of your question, I think, is our supply people developed supply systems and they developed systems that met their needs to track certain items the way they thought they should be tracked. There was no integration with the financial systems to ensure that we had an end to end process from buying something to inventory back to actually paying the vendor and tracking it through its life.

What we are trying to do now and why it is so complicated is we are trying to build an architecture that maps out the business processes of the Department. When we look at the finance and accounting domain, which is all the finance and accounting systems, we went to look to see how many business rules, processes and regulations we had to build into the review in these processes. It was like 180,000 of them. Those have to be reviewed to make sure they are valid and that our systems incorporate those because as we get to stovepipe systems what is wrong is they don't incorporate all those standard business rules and don't incorporate cross integration between logistics or maintenance or whatever the system is

with the financial system. I am corrected, there are 5,000 for the accounting and finance domain and 180,000 departmentwide.

That is what was wrong and that is what has to be done and that is what has taken so much time. For us to get this right, we need to make sure we understand the interface of all our systems, we know what touches what and what happens if we change something. If we don't, we will learn the same lesson private industry has learned over and over which is the main reason why ERPs fail in private industry. It is the lack of planning prior to implementation that causes most of these systems to fail. With the Department, it is complicated.

Mr. TOWNS. Mr. Kutz, would one chief management person be able to do this? This is colossal. Could we look at maybe how it could be divided because when you look at the fact the Department has made its goal of getting a clean opinion on its financial statements a top priority, their efforts seem to be futile under the current circumstances. Looking at the fact we wasted so much money with systems, we go so far with them and then stop and then go in a different direction. Do you think one Chief Operating Officer could do this or should we find a way to divide this and have two? I am asking you because you have spent a lot of time on this and I really want to get your thinking.

Mr. KUTZ. I agree with you, I don't think one person can do this but one person needs to lead this and needs to be accountable within the Department and to the Congress for this. We believe that would be the kind of person you would want, someone with a proven track record in business transformation. All transformations have a leader, a point person, someone you can go out and touch and say you are responsible and you are accountable, but you are right, they can't do it alone. They are going to need all of the functional areas to work together with them to develop integrated solutions to the various problems the Department has.

I agree and say they do need a chief management official or something like that but they also need a lot of people to pull together to solve this very complex and significant challenge.

Mr. TOWNS. We will get another round, right?

Mr. PLATTS. Yes, we will come around again. Thank you, Mr. Towns.

Before I go to our Vice Chair, we have been joined by Mr. Kanjorski from Pennsylvania. Thanks for being with us, Paul.

Mrs. Blackburn.

Mrs. BLACKBURN. Thank you, Mr. Chairman, and thanks to all of you for being here.

We had a hearing last year pertaining to some of these issues and I think it is disappointing to see there is not a lot of progress or energy that has gone forward in correcting some of this. Let us continue to talk for just a moment about this leadership structure and the type of leadership structure that would be necessary to implement in order to go through the business process modernization because I think that is really important and the accountability, Mr. Kutz, as you just said, somebody has to be the one who is responsible and held responsible and accountable not only to us but to the American people and the taxpayers for actually putting something in place. Let us talk about that for a moment.

Mr. Kutz, I would like to hear from you and Mr. Lanzilotta from you also as to what you see the leadership structure looking like to carry this forward. You are talking about a decade or 7 years preferably. How would that go through an evolution?

Mr. KUTZ. With respect to the structure, again I think this would be the point person. They would report directly or be part of the box that says Secretary of Defense. They would have responsibility over the business side versus the mission and the weapons side of the Department of Defense. Again, as Mr. Lanzilotta said, it would require certain legislative drafting and organizational responsibilities be clarified but they would be someone who would have a set term for sustained leadership purposes and would be brought in with a certain type of background. You are looking for someone that Secretary Rumsfeld himself or whoever is the Secretary is going to have to make a call and get someone with special qualifications who is going to want to come to the Government and money is not going to be the issue for them, they are going to want to make an impact on the Government. This is certainly one of the biggest challenges you could possibly envision for someone from the private sector to come in and actually try to do.

Mrs. BLACKBURN. So you envision it being a team that is brought in from the outside and not utilizing talent that exists within?

Mr. KUTZ. I think the leader would be someone brought from the outside but I think they may bring some of their own people in to serve certain functions because there are a lot of talented people within the Department of Defense. I have looked across the Government and they have some of the very best people in the Federal Government and in the private sector I have dealt with. There are a lot of good people in the Department of Defense. There aren't a lot of people that have had experience in the transformation at the Department of Defense. There are probably better people outside that have experience leading these kinds of transformational efforts.

Mr. LANZILOTTA. Actually, Mr. Towns brought up some of the concerns or issues that I think need to be wrestled with. It is a colossal effort and it may be too big for one guy. I am just going to give you observations from working on this for the last 3-plus years.

I have found that the CIO has to be a strong player in this effort. If you don't have a strong CIO with a marriage with the Comptroller because that allowed us to get the technical expertise from somebody who was familiar with the IT business, familiar with fielding IT systems and brought that in that expertise along with, I don't want to say the threat of money but the ability of somebody to sit down and say, sometimes you just have to be unreasonable with people to get a point across, to make a go. This is what we are going to do and if you don't do this, we are going to take your money. You don't find that. What I have a hard time with, you don't find that one individual that brings the total package together. It has to be a marriage of certain skills.

When I was looking for a program manager to head this program, I advertised for 2 years to try to find a guy that brought the skills necessary that I thought were needed to manage a program like this. I finally had to settle on somebody—not settle—let me

edit the record and get it straight. I found a very good individual but I set my goals too high because there wasn't anybody in private industry that had the type of experience to deal with something of this magnitude. I talked to CIOs of private enterprise, I don't want to mention names but some of the largest corporations. I went to the largest conglomerates looking for help because I figured a large conglomerate was most similar to the Department where they were trying to manage all the information systems from all the various sectors that this conglomerate had. I think there were 200 different sectors this conglomerate had, to try to get some ideas of what the qualities were of the person.

This individual we are trying to get, the Government does have good people. The Government has some of the very finest people but this particular individual has to have a certain set of skills that are very difficult to find. That is one of the concerns about trying to get one of these guys. It is colossal.

The only way I think you can attack this is to break it up in pieces. I think it is a marriage, a conglomeration of people that have to come together to make this work. I don't think if you create another layer of bureaucracy in the Pentagon for operating versus operational versus the other staff, you are going to make any progress because the staffs will just fight each other all the time. We just won't go anywhere.

I agree in concept. I just have questions or concerns on how it is implemented because after 3 years in the Pentagon I became a little jaded with how things work.

Mrs. BLACKBURN. Thank you, sir.

Mr. PLATTS. We will come around again for more questions.

Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman.

Looking at the title of the subcommittee hearing, the Subcommittee on Government Efficiency, so I read through the preparation that my staff had given me last night and one of the things I picked up on is the communication and across lines, I guess across units, understanding what the general principles are in terms of financial management. Would you address that after my second question?

You had said previously that DOD and GAO agreed on strategy but that you need to do more studying before you can proceed with this implementation. Have you begun such a study and if not, what are the obstacles that are in the way of the study and what can we do to help expedite this? I feel there still doesn't seem to be the kind of communication and general procedures that are understood across lines.

Mr. LANZILOTTA. The Defense Business Board, a group of men the Secretary has put together to advise him on business processes, has brought this concept to the Secretary and the Deputy for study. I do not know what the outcome of that is. The concerns I had expressed not in concept but some of the things I spoke about previously, the things that need to be thought through and which I haven't done on how to make this work.

I think the devil is in the detail. I think it is going to take somebody to go through Title X and all the statutory requirements and clearly define the scope of what everyone is going to do. I still have

the concern Mr. Kutz expressed that this is a huge effort. My personal belief is that it may be better implemented with a marriage of people, each bringing a different expertise to the playing field than just one individual. I guess if you could find the right guy with all this, you would be set to go. I just think he is exceptionally hard to find.

Ms. WATSON. I think you have to recommend that. You need to have several people. I don't think you will ever find that person with expertise across the board. That ought to be your major recommendation.

Mr. LANZILOTTA. I agree.

Ms. WATSON. The other thing, in reading through materials, it seems as if there is a bit dragging of the feet because there is fear that some of the dysfunctioning of this process might be revealing some things that have to do with the way Defense operates and the war we are fighting, etc. What do you find? That is on the political side.

Mr. LANZILOTTA. I guess it really depends on where you sit. I know GAO has made comments that our progress hasn't been as fast as it should be and I am thinking I am moving at lightening speed and probably the truth is somewhere in the middle. We addressed this communication issue and the communication issue became very vital for two reasons. First of all when we divided all the business systems into business lines and the six business lines we divided them into, we had to deal with something we have never dealt with in the Department before, the cross domain issues where one issue crosses a number of lines or number of responsibilities. Most of the problems—I shouldn't say most. Lanzilotta believes a lot of our problems evolve when an issue goes across responsibilities. If it is strictly in my area, then I focus on it and take care of it, but when you talk about some of the issues that Mr. Kutz talked about before like unused airline tickets, tax and everything and travel, that actually crossed five staff areas of responsibility. It is those cross domain issues that we are struggling with and where the communication has become very important.

How did we do this? Lanzilotta believes and this is Lanzilotta believing, I have my six domains and I put them in a room and that is all they do, talk about these issues. We call it a Do It Committee. There are representatives from each of these business lines and as we bring up these issues, these people are responsible for figuring out how to make this work. They now then come to a steering group if they can't get resolution within a couple of days. If they can't come to an agreement, it is immediately elevated to the Executive Steering Group for decision.

I feel it is two things. First of all, communications, you have to bring everybody involved into the same room, give them a lot of coffee and not let them leave and if they can't resolve the issue, you can't let them work on it for weeks. It has to be one of these things where after a certain time limit, it has to be elevated for decision. We have found we have had remarkable success in that area. The communications you brought up as the second part of your question is key on making these changes and also on change management. Everybody has to know what everybody is doing,

there has to be complete transparency, everybody has to agree to what the facts are.

We might disagree like GAO and Mr. Kutz and I do on the implementation of some of this stuff but I don't think there is disagreement on the facts. I don't think there is disagreement on the findings. We just disagree sometimes on the best way to implement it or make change but the communications is key. That is maybe two observations I painfully had to work through, how to get this done and we call it a little group, let's do it and that is all they do.

Ms. WATSON. That do it concept ought to go across all domains.

Mr. LANZILOTTA. It takes in all domains.

Ms. WATSON. And we shouldn't have barrier walls. I think throughout the system, when we want to get rid of something that is a little natty problem, we go to study. We are beyond that. Let's just do it. I would suggest that your policy of do it be something across, as you say, all domains, just do it, let's get it done because I think your job is essential since we are in a time of war and this is defense budgeting that we do and we don't have the information and so on. You certainly need it and need to know how the dollars are working and so on. We have to have a do it approach across all domains, communication and transparency now.

Mr. LANZILOTTA. I agree. I hope I didn't mislead you because it is something we are trying to do.

Ms. WATSON. No, you didn't. I am just supporting what you say you are doing.

Mr. LANZILOTTA. I am out of time but I would like to give you some examples later on of things we have done.

Ms. WATSON. Thank you.

Mr. PLATTS. Thank you.

Mr. Kanjorski.

Mr. KANJORSKI. Do you think we ought to just privatize the Defense Department?

Mr. LANZILOTTA. Sometimes with 180,000 business rules.

Mr. KANJORSKI. Back in May 1998, the Defense Travel System Program Management Office awarded a \$263 million contract to Northrop Grumman to develop and implement an automated electronic travel management system for all DOD components worldwide, probably a good idea. Is Northrop Grumman the major software manufacturer in this country. I thought they were a munitions factory?

Mr. LANZILOTTA. Because of my personal considerations on this, I am going to have to recuse myself from talking specifically about Northrop Grumman. I would be glad to talk to you about the process.

Mr. KANJORSKI. Are you associated with them?

Mr. LANZILOTTA. On the 17th.

Mr. PLATTS. He is leaving his current position to go to Northrop in a few weeks.

Mr. LANZILOTTA. I can talk to you about the process and I can talk to you about Defense's travel system. I can't answer any questions on Northrop Grumman.

Mr. KANJORSKI. I am not particularly addressing Northrop Grumman other than they are the contract holder.

Three years later, the system was deployed in August 2001 and it was determined it didn't work. Under that original contract, all the development costs were to be borne by the company but under the new administration, a new contract was entered and they restructured that contract and the U.S. Government picked up all the development costs to improve that program.

There is a highly critical Inspector General's report of the contract award and here we are in 2004 and the system still doesn't work. It cost twice its original cost, so more than the original contract costs were borne by the taxpayers and it still purchases tickets sometimes \$1,200 more than the lowest available fee.

I am wondering assuming half a billion dollars has been expended, how long can the Department of Defense go on putting Band-aids on all of its contracts or systems that don't work?

Mr. LANZILOTTA. I can talk about the process. First of all, the system was originally designed by a company known as TRW and TRW was later merged into Northrop Grumman and that is how they became involved. The Department currently has 42 or 43 different travel systems. When GAO did some work on unused airline tickets, premium travel and some other areas, they found they were deficient. The problem was we had no way to look at an integrated system for Defense travel. Defense travel did start out as a seriously flawed program but the requirement for a Defense travel system never disappeared.

The Department needed an end to end system that allowed it to go all the way through the process from the time a traveler made a reservation to the time he got paid to keep it in the financial statements. That way we would have tracked what people were doing. That requirement remained.

The Department had a troubled program, and I am not disputing the fact that Defense travel initially started out as a wrong contract vehicle, maybe a strange concept and later evolved into what I think is a very successful system. We are in the process of fully deploying Defense travel systems throughout the Department. The Defense travel system has competed on the Government's e-travel and has been picked up as one of the vendors for e-travel governmentwide.

Mr. KANJORSKI. That is another question I have. First of all, do you have any idea what was spent on this system?

Mr. LANZILOTTA. I can get you that for the record. I don't have that with me.

Mr. KANJORSKI. Would it be reasonable to say in excess of half a billion dollars?

Mr. LANZILOTTA. Over the last 10 years?

Mr. KANJORSKI. Over the last 5 years?

Mr. LANZILOTTA. I don't know if it is that much. Before I hazard a guess, I would like to get the information.

Mr. KANJORSKI. I would like to know why it ended up in the ownership of the company that had the contract to develop it when the United States paid for the development costs? You brought up the point you are now competing with other Government agencies with a process that has been developed by the taxpayers' money for the Department of Defense.

Mr. LANZILOTTA. The Government bought the license and bought the program.

Mr. KANJORSKI. Then why is the company bidding with other Government agencies using that process?

Mr. LANZILOTTA. There are two ways to pay for it. We bought the developmental costs up front, that way we would own the software, we would own the system and wouldn't have to pay the developmental costs over the transactional fee. Government on e-travel is paying for the developmental costs by each transaction as people use it. There will be a huge savings when we get one integrated system in two ways. First of all, we won't have to spend so much money processing claims on paper for travel.

Mr. KANJORSKI. That is for the Defense Department.

Mr. LANZILOTTA. I can only speak to the Defense Department.

Mr. KANJORSKI. I understand but Northrop Grumman is now selling this to 13 other Government agencies using the development money the U.S. taxpayer forwarded to develop your system. I don't think that is smart. The Defense Department should have formed a corporation, developed its own system and then contracted with other Government agencies to handle their system. If there is going to be a profit made in the development of the system, it seems to me it should inure to the benefit of the American taxpayers, not to Northrop Grumman.

Mr. LANZILOTTA. I can't speak to that.

Mr. KANJORSKI. There are some travel agencies in this country that function pretty well. Have you looked into just contracting that out? You fellows are always talking about privatizing. Why didn't you go to Travelocity or someone else and say give us a system that works, here is what we want to pay. We want the lowest fare and contract it out?

Mr. LANZILOTTA. Truth of matter, our services are contracted out to Carlson, Sado, I forget how many different companies we have different contracts with. We were looking for an integrated system that would go into our pay systems and allow the traveler to go all the way from his travel, go through our finance and accounting systems and then come back and disburse the money to him. The only way we are ever going to get a clean opinion is if it wasn't a matter of just going to Travelocity or one of those other systems because we have systems now that will make a reservation, 43 of them. We were looking for a total end to end system that would allow us to automate the entire process because the savings we would get from this is manpower, paper reduction and then the most efficient use.

I can't get to a clean financial statement, the Department can't get to a clean financial statement if we go to Travelocity, get a certain rate and it has to manually be put into a finance system, then manually put in somewhere else because each one of the manual inputs my friend Mr. Kutz is going to come by and slap. I need the total integrated system if I am ever going to get to a clean financial statement and I am also able to with one data base to look to see if there are any abuses for premium travel, unused ticket.

Mr. PLATTS. If we could maybe come back, I am trying to get to everyone. My understanding is we have votes in the next 10 or 15 minutes. I will come back to you for another round after all Members have had one round.

We have been joined by Mr. Tierney from Massachusetts. Thanks for being with us as well. The esteemed chairman of the National Security, Emerging Threats and International Relations Subcommittee, Mr. Shays from Connecticut. Mr. Shays, you are recognized.

Mr. SHAYS. Thank you.

I think this is an important hearing and I apologize for not being here. This week is even worse than most of my Wednesdays. I will be leaving for a Budget Committee meeting but I want to put my statement in the record.

Mr. PLATTS. Without objection.

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

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Statement of Rep. Christopher Shays
July 7, 2004

The business of the Department of Defense is to train, equip and deploy military forces to secure vital national interests. That critical enterprise cannot be planned or executed successfully on paper-based, error-prone management systems. The citizen-soldiers we call upon today, and in the future, to conduct the nation's most dangerous business deserve to be supported by 21st century business systems as smart as the weapons they wield.

But, the Department continues to report material weaknesses in virtually every aspect of its business operations. Fundamentally flawed business systems affect mission effectiveness and can contribute to the waste, abuse and fraud identified by the General Accounting Office (GAO). For example, DOD was unable to provide timely and accurate salary payments to mobilized Army National Guard soldiers. And, due to poor inventory controls, GAO found that DOD sold new Joint Service Logistics Integrated Suit Technology (JLIST) on the Internet for \$3 while at the same time the Pentagon was buying these chemical and biological personal protection suits for over \$200.

In March 2003, DOD witnesses promised a sustained, far-reaching effort to transform Pentagon financial management into a precision tool of program formulation, program execution and detailed accountability. To measure the depth of that commitment, we asked GAO to identify DOD's

fiscal year 2004 estimated funding for business systems, determine if DOD has effective control and accountability over business system investments and determine whether selected business systems will effectively manage and resolve DOD's financial management problems.

Today, GAO will testify the Department of Defense has made little progress implementing business modernization plans. As a result, DOD still cannot produce the reliable and timely information needed to inform critical decisions. Billions continue to be invested in business systems with inadequate oversight and accountability. Duplicate systems continue to be developed in a stovepiped environment yielding only parochial solutions to yesterday's business problems.

Because DOD is one of the largest and most complex organizations in the world, overhauling its business operations represents a huge management challenge. This year, the Department requested \$19 billion to maintain, operate and improve business data systems. Yet the two case studies in today's GAO report appear to prove that more, rather than smarter, spending on business systems will not produce corporate solutions to longstanding financial management problems.

We appreciate the continued assistance, and the persistence, of the GAO in our ongoing oversight of DOD business system modernization. We welcome all our witnesses today and look forward to their testimony.

Mr. SHAYS. Also I want to compliment the staff on their good briefing paper about DOD.

I know that all three of you want this system to be dealt with, but it is amazing to most of us that no one seems to crack it, no one seems to break through and get a system that works better. I am curious as this relates to hearings on the chem-bio suits, we were basically dealing with control and accountability. We were basically in need of making sure we had the best protective gear. We had too many of the brand new suits and some of them were being sold for a fraction of the cost, and we were increasing production so that we could get more suits. I want to get your view.

In your view, what are the two or three most important steps DOD needs to take in order to prevent the asset visibility and accounting problems illustrated by the chem-bio suits from continuing in the future, buying when we are actually selling some because we have excess in some places?

Mr. KUTZ. With respect to the problems with the BDO suits which were the prior suits, you had the hearings on the defective suits that they were unable to recall, we had an issue with total asset visibility. When the suits were shipped from the Defense Logistics Agency to the Army, for example, accountability was lost and the Army did not have systems to account for that inventory. If you wanted to know where the suits were once they left the Defense Logistics Agency, you had to do a data call.

One of the systems we looked at is part of today's hearing and that we issued a report on goes back to a hearing you had where DOD represented to you that BSM, a current system effort at DLA, was going to solve that asset visibility problem. I testified earlier to the subcommittee here that the system as implemented right now will not fix that problem.

If we had another situation where you had the defective suits out there or another need to recall them for some other emergency that might arise that required suits to be moved from one part of the country to the other, you would need to still do a data call today and for the foreseeable future because the systems development effort did not involve the integration of the Defense Logistics Agency systems with the Army, for example. That problem has not been fixed as a result. So you still have that risk and the other risk that you mentioned of selling suits at the same time that we need to be buying them.

Mr. SHAYS. So we will just continue right now?

Mr. KUTZ. Right now I don't see a solution necessarily for this. The BSM system is relied upon all these other things happening which may never happen to provide that asset visibility. For the JS list, the current suits, it is too late, those suits are already out there and you don't have your accountability for those.

Mr. SHAYS. Does DOD agree with that?

Mr. LANZILOTTA. I think Mr. Kutz has stated the facts accurately. There is no short term solution to this problem because it doesn't go just to the suits, this problem goes to asset visibility. The suits are just systematic. It also goes to the gentleman's question about travel. We need integrated systems so we can track whether it is a travel voucher or a reservation or a suit or a widget, no matter what it is we need to be able to track it as it goes

through the process. Now we have numerous systems that do the same thing and we lose where it is in the system because we don't have the middle system.

Mr. SHAYS. The implications of all this is mind boggling because we are talking incredible amounts of assets and inventory. I was thinking about this after reading the briefing paper because after 17 years I hear the same story, not all 17, but a good chunk of it that I have been in Congress. I am almost struck by the fact that the President and Congress have to agree and get someone with a term of office of 10 years like General Accounting Comptroller and basically assign this task and integrate the 2,300 systems we have. I would love some long term solution because I don't think there is a short term. I don't think we have it yet. I don't think we have the continuity yet to guarantee that it will be carried over from one administration to another.

Mr. KUTZ. We agree with you and we talked about it in some of your subcommittee hearings, the need for a chief management official and someone to be responsible for business transformation, integration of systems, improving human capital and processes across all business lines. We agree. This person would need to have a term of 5 to 7 years with potential for reappointment so they could be there long enough to sustain change.

One of the nice things about working at the GAO is we know David Walker is going to be the Comptroller General for 15 years. If he was a bad Comptroller General, that would be one thing but I believe he is a good one. We have plans and processes in place and he has sustained transformation of our organization and we know it is there to stay. It is not going to change, so that is a positive and one of the reasons I am at GAO and I plan to stay because of sustained quality of leadership of my organization.

Mr. SHAYS. Thank you.

Mr. PLATTS. Thank you. We appreciate your being here on I know a hectic day for you as well.

Mr. Shays touched on why we can't get this done. One example was on the number of systems. Last year at our hearing we were in the 2,400 systems range and now we are at 4,000 and still counting. We are having difficulty even getting our arms around what is out there.

One issue deals with CMO as an accountable individual or who is going to be responsible for what is happening or not happening and the cultural resistance at the Department to change and having more accountability. I wanted to specifically focus on the 2003 Defense authorization bill where we put the requirement that the Comptroller had to approve any expenditures over \$1 million on systems to try to have everything be part of that business enterprise architecture and the fact GAO's numbers on a limited basis identified at least \$863 million of obligations that were not appropriately reviewed as the statute required, as well as an effort to have lots of contracts that would be just under the \$1 million threshold to avoid having to go through the approval process.

Mr. Lanzilotta, if you could address your assessment of that \$863 million of expenditures that were not properly approved and specifically what, if any, consequences occurred within the Department

once those inappropriate transactions occurred? Who, if anyone, was held accountable for not following the statute?

Mr. LANZILOTTA. I will say Mr. Kutz was kind, there is probably much more out there than identified in the report. As you mentioned, there were 4,000 systems and we are also trying to capture the maintenance contracts. We found you can call something a maintenance contract and it also is really a systems development contract because the guys sit there with no maintenance to be done, so they work on upgrades to the system. We are trying to capture all that.

We always had a procedure to do that. We didn't have the ability to do it which is a difference. We have now gone through a lengthy process to bring in something we call portfolio management. I can't explain away the sins of the past. I can talk to you about what we will do in the future to correct. We have portfolio management, a leading business industry practice we brought to the domains and our IT investment. I think we are effective and it is now being exported to the war fighting systems as well as a way of managing the war fighting portfolios.

In these six domains, they will come through under portfolio management and in the palm I imagine the program objective memorandum, the future year plan, 2006–2011, each of these services are responsible for reviewing the IT systems in their domain. We are taking responsibility for the systems over \$1 million and have told the domains they have the flexibility to review the systems under \$1 million to get to 100 percent.

The problem is one of workload. I know my successor won't be able to come to this committee and guarantee that we looked at 4,000 systems. The finance and accounting domain is one of the domains personally under the Comptroller. I can look at I believe 20 systems and 80 percent of the dollars, so I believe we can get the majority of the dollars and look at those systems. It is like the vendor pay and the tax issue which we haven't gotten to. I have 20 vendor pay systems, 8 represent 85 percent of the dollars disbursed, 12 represent 15 percent of the dollars disbursed. My priority is to look at those eight systems that represent 85 percent of the dollars disbursed and go after them. I will pick up or the Department will pick up in the future those other 12 systems that represent 15.

Mr. KUTZ. Can I quickly address that?

Mr. PLATTS. Yes.

Mr. KUTZ. I think you hit on a very important point, that there are no consequences. In fact the consequence might be that they are going to get more money next year and that sets up the incentive systems in place. When I mentioned it in my opening statement, that is what I meant. We see it not just in areas of compliance with the law, but for misuse of Government funds. When people are found to misuse Government funds at DOD, we found there are no consequences, nothing happens to them. I think that gets back to the culture and some of the reasons why you don't see change.

Mr. PLATTS. If your examples with the \$863 million of expenditures not found in the approval process as set in the statute, was

the Inspector General involved in looking into any of those from what you found?

Mr. KUTZ. Not that I am aware of, no, and I again, I don't know for sure there were no consequences but if history is accurate, there were no consequences.

Mr. PLATTS. You said you can't undo the wrongs of the past but try and go forward. As part of going forward, is there being laid out within the senior leadership of the Department the message, whether a civilian department employee or a uniformed officer who makes these transactions, engages in them inappropriately, there will be consequences, you will not be promoted, you will be demoted, you will be held accountable in some way?

Mr. LANZILOTTA. I want to clear up one issue. If we are talking about fraudulent transactions, the Secretary has made it very clear there should be consequences and disciplinary actions taken.

Mr. PLATTS. What about where it is not fraudulent, but they said I am not going to get approval. I need this, I am going to do it and I am not going to the Comptroller to get approval to do this?

Mr. LANZILOTTA. I would like to tell you that won't happen but it probably will.

Mr. PLATTS. If it does happen what would be the recommendation for action in response to it happening inappropriately?

Mr. LANZILOTTA. There is only one action and everyone knows what that action is. It is like HOV violators on the HOV. You can try to get through there and maybe on a certain day you will but if I catch you, everybody knows the consequence is you lose your money. We set up a portfolio management system, each of the domains came in and briefed their concept to the services on how it was going to work for the future year's defense plan and for the budget and they are getting ready to go through another round of briefings on how they are going to implement that information in August. The word has gone out if we find you we are going to take the money. We don't normally find systems like this where you can find the one guy who actually did it because the system might be at Fort Polk, LA and maybe that guy didn't get the word properly and he put in a budget request for something that wasn't reviewed. If we find it, we will take it. He might not have known that he was violating departmental guidance but the guidance is out there.

Mr. PLATTS. We are also talking about violating statute too. If it is in the Defense authorization, it is law. It is saying you won't do this, so it is not just guidance, it is saying we are going to follow the law. The Department has a responsibility to make sure your acquisition officials know what the law is. Send out the word, if you are looking at a system over \$1 million, you may not procure it without approval from the Comptroller. There is a duty of the senior leadership to make sure they do know what the law is.

Mr. LANZILOTTA. I agree. Also we are looking at it as a potential ADA violation, along with the investigative things that go with that.

Mr. PLATTS. I think that there has to be consequences whether monetary funding for a program or personnel consequences for those not complying with the law as Congress has said it will be.

I want to get to Mr. Towns.

Mr. TOWNS. Quickly, at this moment in time, what mechanism does DOD have in place to say no to proposed system investments across the Department and to pull the plug on ongoing systems that are not cost effective and in accord with the Department's overall future of its business support operations? Have there been any instances in which DOD has said no or pulled the plug on such systems? If so, could you give me an example?

Mr. LANZILOTTA. We have two ways of pulling the plug. We have asked the domains to look at the service and Defense agency budget submissions and certify these systems ought to go forward. We also have another way that in the acquisition process when the large systems go through for their milestone decisions, part of the requirement is they have to say I am going to put the system on and these following systems get canceled or turned off and this is when the systems get turned off. This is implemented in something we call the budget review process and we will issue a program budget decision with the results of these reviews as to how they occur. That is how we plan to handle that.

The second question goes to when we turn off systems that waste dollars. The truth is in the Comptroller shop we have turned off systems because we didn't think they were going to be effective. We find ourselves in a situation right now that some of these systems were developed prior to our being able to develop architecture and being able to develop the guidance as to what these systems would do. We have found some systems in the course of development we didn't think they were going to do what we wanted them to do. Rather than take on the full life cycle cost of these systems and put them out there because we know once we deploy a system, it is out there for a good long time before we find the money to replace it, we terminated those systems we didn't feel were going to happen. We also have cases where we modified systems to make these old systems be somewhat compliant. The entire transformation of the Department's systems isn't going to be something that happens in 2007. That is when we are shooting for a clean statement but the automation and replacement of the investment in our automation systems is going to be an ongoing effort. This transformation effort will never stop because technology changes every 18 months. We are using things now in our new systems that weren't even available to us when we started the program. I always try to get the people in the Defense Department to understand this transformation will never stop and we are setting up a permanent structure to handle our business lines that will continually reevaluate how this works.

Mr. TOWNS. Thank you.

Mr. PLATTS. Mrs. Blackburn went to vote and will come back so I can vote. I can try to get through more questions.

I would like to address a question or two to Mr. Rhodes on the technology side. A lot of what we are talking about is using technology to compile useful information, information that is timely and relied on and acted upon. From a personnel standpoint, what do you see as the challenges for the Department? We talked about a Chief Management Official or other realignments and recommendations from GAO about domain focus across all service

branches. From a personnel standpoint, what do you see DOD's challenge is regarding personnel on the technology side?

Mr. RHODES. DOD has some of the most talented technology people in the world. The struggle for DOD is that I and other engineers can build anything you tell us to build. Prior to coming to Government, I designed airplanes that disappeared, I designed large scale systems but they were designed to meet a set of requirements. When Mr. Lanzilotta answered Mr. Kanjorski, he used the term end to end. If you leave it to me as the chief engineer to define end to end, I promise you I will be wrong, I will be completely right from my perspective, I will not solve your problem, I will solve what I think is interesting. I cannot fix your problem in a vacuum. If the Chief Management Officer or whoever this person is going to be who is in charge of all this is going to have to be able to say end to end means x.

Mr. PLATTS. Spell out what it is.

Mr. RHODES. Spell out what end to end is. The reason the Department of Defense, talking about the Marine Corps, the Navy and the relationship between the Navy and the Marine Corps, there are so many systems out there and now I have to define end to end. First of all, end to end is not technology, it is a human function. You have to explain it to me from a business perspective, what are we going to do. Why do we lose chem bio suits? Because nobody knows where they went because I am in my area. Where did it go when you were done with it? I don't know, that is not my responsibility, I don't care about that.

Everybody has to understand that it is not just code, it is process. Process is a bad word for a lot of engineers because we look at it and say it is meaningless. It is meaningless because we never had it explained to us necessarily as succinctly and clearly as I need to go from A to B to C to D; what are the relationships between these entities so I can know what systems I can turn off.

Mr. PLATTS. So we need to emphasize or strengthen the relationship, the communication between our technology people and the management officials?

Mr. RHODES. Absolutely. Technologists are just as guilty of being arrogant and domain specific and looking at others as being lower life forms and being all that because we are the engineers and what not, but there has to be a translation that takes place between this is a human process to the bits and bytes that have to move on this cable from point A to point B and what those human interfaces are between the systems based on process so you can engineer the system interfaces so the messages can pass.

Mr. PLATTS. When we go forward with the systems and there are lots of investments being made, what do you think we could do better or DOD could do better to avoid this \$863 million of expenditures on systems that weren't checked to make sure they would jive with the architecture we put in place? what do we need to do better to ensure they all are going to work hand in hand?

Mr. RHODES. One thing I would want to see coming from whoever this person is or whatever this entity is that is going to be the chief management function is instilling of discipline and requirements development process. The requirement has to be clear, concise, unambiguous, testable. We didn't look at all the requirements

associated with the systems involved. We looked at a small subset. Every one of them had a problem, so if I only look at 10 percent of them, I understand I don't have a statistically valid sample. If 100 percent of the 10 percent I looked at had a problem, then I know I have a serious flaw in the development, requirements analysis and requirements management process. That would be what I would want. This is the technology perspective, the technology personnel view of the development cycle. I would want that individual through carrot, stick, money, punishment, whatever to be able to instill in everyone across the services, across the domains, across the Department of Defense, that we are going to get one set of requirements, one definition of financial management and no, Service X, you are not going to get a waiver for weighted valuing of that asset.

Mr. PLATTS. Uniformity.

Mr. RHODES. Absolutely, consistency, uniformity, translated so that I can actually build a system because I don't know any contractor, having been one, that gets up every morning and says how can I screw up the system. It is how can I build the system to meet the vague requirements I have in a changing environment.

Mr. PLATTS. I am going to have to run and vote and the Vice Chair should be here shortly. I am going to recess briefly and pick up where we left off.

[Recess.]

Mrs. BLACKBURN [assuming Chair]. We will call the committee to order.

I will begin with my question and when the chairman returns, he will retake the Chair. Thank you for being patient and waiting.

Mr. Kutz, the 94 percent of mobilized Army National Guard soldiers from the six units we reviewed had pay problems. That is on page 2 of your summary. This is something that is important to figure out if we are addressing those pay problems with the National Guard, the per diem, etc. and the other part, the Defense travel system we talk so much about. Is that equipped to cover or not cover the National Guard soldiers being mobilized?

Mr. KUTZ. We were just speaking of that as you were out. Our understanding is the Defense travel system will not deal with contingency travel for mobilized Army National Guard or Reserve soldiers. Mr. Lanzilotta says there appears to be another potential solution to that.

Mr. LANZILOTTA. When we were looking at DTS, it was designed to do TDY and the process was reengineered and the system built to do TDY. When we looked at two other aspects of travel, one is mobilization and the other is permanent change of station travel, DTS did not perform to the standard we wanted. We are looking now at the implementation of another system called Reserve Travel System that does a better job and we are looking at a PCS Travel System that does a better job of doing that.

Instead of having the 42 systems, I think our solution will be 3. Eventually we will get down to one but we need to fix these problems sooner versus later. One thing is to get to a system that will do it. The overall solution is not going to be defense travel. The overall solution is going to be Dimers. What happens to us now is most of these pay problems aren't generated because they are pay

problems, but because there are personnel problems. There is something in the personnel records that keep the pay from being correct. A case in point, a reservist is mobilized, so the personnel tells us he is mobilized. For some reason, he doesn't come on active duty, medical or some other problem that he has that he is later not activated. If the personnel system doesn't come back and say he has been demobilized, it is very hard for us to catch him and catch that with our systems. We know who the active is and who the reserve is and do bumps to see if anybody is paid on both systems but if someone is paid on the active system and the personnel doesn't catch up to tell us he is not supposed to be there, if the commander doesn't do a review of his records and tell us that or if our procedures fail, then we develop a pay problem.

In most cases, they really break down not in the systems but break down in our procedures and policies that have caused these problems to occur. We recently went through and I have asked each of the services to verify that we later weren't going to find the same problem in the Navy Reserve, the Air Force Guard and the Air Force Reserve, that we have a handle on it. If GAO catches us, we should thank them and correct the problem and look forward and make sure we don't have the problems in other areas. Each Service FM came back and said they reviewed it and don't believe they have a problem.

We are still looking for ways to correct our procedures to see if there is a procedure that will allow us to see these people that are in between systems, on the active system but should be on the reserve to make sure they are paid the right amount for the service they have done on the right system.

Mrs. BLACKBURN. We would hope that you can find a solution to that because coming from a State with thousands of Guardsmen and Reservists who are deployed, this is something we hear from the families regularly, that there are irregularities, they have to wait a long time to get the pay, there is a backlog. There just seems to be innumerable problems.

I have one other question. Chairman Shays mentioned he had heard you are working on improving things for 17 years. I have only been here a year, only had the last hearing and this one and he is a much more patient person than I am. I remain a bit baffled. We sit here and talk about this, have a hearing and thank you for being here. Then we touch base a couple of times watching what is taking place during the year and talk about the need for leadership in addressing the business modernization, talked about the need for a timeline and consistently hear we need more money, we need more money. I am fully convinced this is not something you can sit here and answer today but it is something I think would be a good productive exercise for your team and the team that is going to oversee the modernization of the practices with DOD.

I would love to see a realistic timeline, a realistic leadership chart and a realistic cost of what this is going to be whether 10 years or 7 years because I think it is unfair to the American people and to us to continually say, there are big problems out there, we can't get our hands around it, we need more money, we need a technological architecture that is going to work in a framework.

I am not asking you to answer it today but I am asking you submit in writing something that we can look at so we don't have to talk in generalities next year when whomever is your successor comes in. We can look at some specifics. Having a timeline and an expectation of when you think a goal can be realistically achieved is an excellent exercise. It doesn't matter if it is your children with summer goals, if it is your family, if it is a business, if it is a governmental agency. I think that would be a most productive exercise. I would encourage you to do that and I would love to see the finished product.

Mr. PLATTS. Thank you, Mrs. Blackburn.

Mr. Rhodes, talking about the uniformity and consistency, it is my understanding the Joint Financial Management Improvement Program has specific standards for testing any new financial management systems to be acquired and any package presented has met the standards, yet we find a lot of the systems purchased and put in place are not fulfilling their requirements.

Any insights to why that is the case? It seems we have tried to get up this uniformity, every system needs to at least do this to get after that approach and yet we still have the problems of a failure?

Mr. RHODES. JFMIP core requirements are codified. They are, however, at an extraordinarily high level for me as an engineer or software engineer to build to. This is why I make my plea for whoever is going to be in charge of transformation to be in charge of stabilizing the requirements management and bringing the discipline because yes, everybody in Government can look at the JFMIP core requirements and say fine, these are the requirements for how you are supposed to report out your financial system. Moving that to where someone actually designs the system is the difficulty and where the parochial nature of the various stovepipes within any department or agency, whether Department of Defense or whomever, that is where the difficulty comes. Now it is fine, we are going to do this function. Now everyone has to agree on the interpretation of what that process definition, that business process definition, is.

At least from my experience, that is where it all breaks down. If the requirements management process were disciplined so there was a feedback loop and I as a designer were giving the information back to those beginning only with the JFMIP core requirements which are not everything anyone needs in order to have a financial management system but a subset, then the system we are designing will have more chance of being correct.

Mr. PLATTS. Do I understand that in designing those core requirements there wasn't enough input, feedback from the technology side?

Mr. RHODES. There is not enough detail. Everyone understands that who is trying to build a financial management system, whether you are a vendor or an integrator or the Government agency, everyone says yes, we all agree to the JFMIP core requirements, the subset of requirements but translating those into code is the process that I am making a plea for in terms of definition because you have to be able to take that highest definition in the core requirement and as you decompose it into system design, you have to

make certain that your description is concise, specific, not arbitrary or open to interpretation.

Mr. PLATTS. Otherwise you get lots of discretionary decisions in the code?

Mr. RHODES. Absolutely. As I say, if you give me a requirement in a vacuum, I will build my own interpretation of it. I don't know any engineer who understands financial management.

Mr. PLATTS. Mr. Lanzilotta.

Mr. LANZILOTTA. If I could emphasize the points Mr. Rhodes has made, I fully agree. That is why staying the course in development of the architecture is so important. The architecture is going to define the activities, the processes the Department will use. When we go to Mr. Rhodes' first point, the engineer says I get to define what the end to end process means, no, the engineer doesn't, the process owner doesn't, the owner of the system doesn't. We go to the architecture and it says it is this. This is what the process is.

We are working with IBM right now because when we look at this approach, we knew we weren't going to be able to flip a switch and have all the business systems redefined. We went to an incremental approach. We said the most pressing issue is to eliminate our material weaknesses. We went to the finance and accounting domain and said, out of all the evils here, you are going to be the lead domain. You are going to build the standard definitions, the rules, the business rules, do the verifications, define what a financial transaction is, the requirements. When the other domains start looking at their systems, they will have the standard definition and these business rules that they have to build to which goes to the other point. It is not only important that you define the process from end to end and it is something everybody has and nobody can have open for discussion, it is also important that inside that are those definitions and those common points clearly defined.

We are working with IBM to get this done. We have three deliverables and the proof will be in the pudding to see if that meets the needs. We need that to go forward. It is important, I feel, that we stay the course, that we are to the point where we have this mapped out, we know the interrelationships. Mr. Rhodes is right, the element of detail isn't there all the way and it has to be further defined. This is going to be an ongoing effort. We have the definitions and they will be available for the other domains to look at to build systems to.

I agree with Mr. Rhodes that we do have some of the most talented people. I feel our problem isn't one of quantity. When we came to the area of financial statements and getting a clean audit, we looked at the capability to be able to audit our statements. The growth we are seeing in our budget is when we weren't doing it, the money wasn't there to do the audits. Now we are putting the money there to do the audits and I have two concerns. The market won't bear the capability we need to do the work on our financial statements.

When we went to BMMP and tried to ramp up this effort about the definitions, they had to hire 40 accountants. They were slow because they had a hard time finding 40 CPAs willing to work on this project. When we start auditing all our statements and developing this capability, if we are to have it by 2007, you need to start

putting auditors on in 2005, 2006 and 2007 to get up there, my fear is the guys aren't out there, the CPAs aren't out there to do the audit work we need and we are going to bid ourselves up.

I agree I have some of the finest CPAs you can find. One is sitting behind me right now. The problem is only one of them is sitting behind me right now. I need more. That is something we have to deal with as a Government.

I agree on the JMFIP compliance but another reason why we need to have the architecture and the standardization is the problem we are experiencing right now is in the implementation. These systems have the core accounting procedures and principles built into them. Unless you change them, these systems are flexible enough that you can take a perfectly compliant system and wreck it. It is in the implementation. To get the implementation right, you have to have your architecture right, your definitions right, these common processes defined. ERPs fail in the private industry because of planning. The Department has the most complex problem and it has to do the planning to make this work.

My last plea in leaving Federal Government is that we stay the course and don't change directions after 3 years and try to reinvent it because eventually we will come back to the same route we are on because I believe we are on the right route.

Mr. PLATTS. The importance is it is going to pay dividends if we stay the course, not be impatient, that we need to take what is there and build on it and not try to start over. I think Congress trying to recognize DOD not just in financial management but across the board needing more flexibility has given somewhat unprecedented human resource flexibility which hopefully will help address some of the needs of financial management, as well as hiring and recruiting and being able to get good people to come in and stay in the Department.

Mr. LANZILOTTA. The Congress has been very generous helping implement personnel until Civil Service reform implementation. I want to thank the Congress for doing that because without it, we can't succeed. We need to be able to get the IT folks and bring them on board, get the accountants and bring them on board. My concern is how many of them are out there.

Mr. PLATTS. Especially accountants as the SEC is ramped up and there are lots of entities out there that are competing more and more within the Federal Government let alone the private sector as we put more demands on them through some of our new legislation. You are right, it is going to be a tough market.

Earlier you talked about partnership between the Department, GAO, Congress and all of us working together. In Mr. Kutz's testimony, GAO obviously spent a lot of time over many years and continue to invest a lot of time and effort in trying to complement the Department's efforts and be a partner. He references the fact that of 24 recommendations regarding the architecture being put in place, 22 of the 24 recommendations have not been addressed by DOD. First, Mr. Kutz, what do you mean when you say have not been addressed and Mr. Lanzilotta if you could respond from a Department perspective why there is not more receptiveness to these recommendations?

Mr. KUTZ. Several have been partially addressed. We have in the appendix to the report the partially addressed ones and some have not been addressed at all. I went back and did look at those recently. The most common one that cuts across the ones that have not been implemented at all relates to the investment technology management oversight, the oversight of ongoing investments. The Department has been particularly troubled as to whether or not they can get their hands around what is going on. Mr. Lanzilotta said we are now up to 4,000 potential systems. They still don't have a good handle on how many systems there are, how much money is being spent on them, where all those buckets of money actually are. Not only do you have RDT&E money, procurement money, working capital fund money, all kinds of different money being spent on business systems. Getting your hands around this whole thing is a major challenge.

The corporate governance and management of ongoing investments have been the two areas that we see the slowest progress. On the governance side, Mr. Lanzilotta has acknowledged that they have made more progress in recent months. Hopefully they are further along than when our report was finalized.

Mr. LANZILOTTA. Mr. Kutz is too kind. I think there are 42 recommendations not 22. I agree in concept with the GAO recommendations. I think we disagree in implementation of how those recommendations ought to be placed. One was COO and we have talked to that as to where we are on that. On the investment board, I think we have a governance process where it goes with the domains, steering group, executive steering group, that takes care of the need of the investment board.

We are going to develop and are in the process of developing a data base that captures all these automation systems and the budgetary resources associated with them. Mr. Kutz is right, it is all in different colors but that is based on appropriation law, before I can move and tell Congress this is how I think we ought to budget for IT systems, I owe it to the Congress to identify where all these systems are, to sit down and say they are in working capital funds and there is all the different business activities in the working capital funds, they are in R&D, O&M, in procurement, in all the different accounts. When we developed this data base which we are in the process of doing, we will identify these systems.

We are using OMB Exhibit 300 for the IT 300 as a basis for starting to get together all these requirements we have on automation systems and try to standardize them all into one system. Right now I have five data bases of what these systems are. At the end, I will have one that will have everything. The way we are enforcing it is if your system ain't in this data base, it ain't funded. We are going to tell the services this is what the data base has in it, if you want to correct a data base and get your system in there, then do that. If you don't, then you lose the money.

I think after we do that, then we can better address the GAO concerns. It is not that we disagree with the GAO recommendation, it is how we are implementing it that I think sometimes we disagree on implementation of that recommendation.

Mr. KUTZ. There is a difference between issuing a memo from headquarters and actually having something done. I think we

talked about it earlier with the \$1 million threshold. That is something where they might have declared victory because the Comptroller issued a memo and said everyone shall follow the \$1 million threshold. The reality is because they don't have good investment management controls, nobody follows it. That gets back to the consequences. You get back to some of the themes of the things we are seeing slower progress on. I think they have a pretty good handle on the Comptroller and the DFAS systems and lot has happened there. It is a lot harder to deal with the Army, Navy, Air Force, Marine Corps and DLA systems from where Mr. Lanzilotta sits than maybe has acknowledged. I think that is a lot harder nut to crack than just saying we will take our own systems at DFAS and within the Comptroller's control and terminate them or control them. The other is much, much more difficult.

Mr. LANZILOTTA. Let me say what only a guy who is leaving the Department would ever say, the proof is in the pudding. Whether I complied with this recommendation to the extent Mr. Kutz has said will be known in January because that will be the first time we actually do a budget request to the Congress based on this new guidance to the domains and to the services. Whether the memo was enough or whether we should have done more or the actions we did, the proof will be in January when we submit a budget request. It is either there or not.

I also need the hammer or something that I have to explain this. I need to be able to go back to the people working this problem and say this is how we have to have it done because in January or February, I am going to be called up there to answer what we got done.

Mr. PLATTS. The dialog between the Department and GAO has been pretty constant and my hope is that now and in the future that partnership will continue because there is that shared goal we want, good processes being put in place and benefiting the personnel at the Department making decisions for the American public.

I have two final areas. One is specifically about how much we are spending on programs that are then terminated. DFAS is the subject area. The two systems totaling \$179 million in GAO's report last year, in March 2003, talked about the Defense Procurement Payment System, and the Defense Standard Disbursing System and they were terminated. My understanding is there is another system, the Corporate Warehouse System at DFAS that is still unjustified or unproven that we have already spent \$129 million on. What safeguards are we taking? I think the answer is we get this enterprise system in place and that is going to allow for better and more informed decisions to be made on what we invest in or what we don't. In the interim right now, \$179 million is gone and no benefit, another \$129 million perhaps at risk. What are we doing in the interim to really make sure we are not going to keep repeating these expenditures for naught?

Mr. LANZILOTTA. The systems we terminated were Comptroller systems. We did not feel they were ever going to be compliant or were ever going to forward the ball. We looked at the life cycle costs of these systems and there have been others we have canceled, and we determined the life cycle cost was not justified for fielding these systems. So we did away with them.

On the data warehouse, DFAS, we are using that system at the same time we are evaluating it. It contains my vendor pay, my 370,000 registered vendors I use when corporations or businesses submit their invoices to me. I need this. As we go along, these systems are all going to be eliminated. As we go along on the new architecture, these systems were designed and put into place well before the architecture started and are now coming to fruition. We have a generation of new systems coming that we are looking to see if they fit in the architecture and do what we want to do.

We are not going to be able to replace all these systems but I think I would be misleading you to say we are not going to terminate other systems. My goal is to terminate these systems because I save on the operating cost of these and if they are not going to get us to where we need to go, then we need to reduce our losses and cut them out. In the future, it is much more grave if we design a system under the new architecture and it doesn't work. If it doesn't fit into our plan, I think that is much more serious. I expect a rash of systems that were developed in the early or mid 1990's before we saw where they fit in the architecture. It seems so amazing to me that we have 42 travel systems, they are going to go. At the end of the day, I think in the short term we will have three and then ultimately one and all the other systems need to go and be terminated.

Each one has someone who thinks they are better than sliced bread. I think it is important to have congressional support because your constituents if they own one of these are going to say, the Department spent all this money on a system they are now terminating. It happens to be in your district, what do you think about that but it is coming.

Mr. PLATTS. That is a major issue here. If you look at \$19 billion, major contracts, I don't know how many jobs are behind that in how many districts, that is a major issue and it is important for Congress to be on board for this effort as a partner as well.

Mr. Kutz, any other comments on the interim efforts? I understand some systems will be terminated because of where they were in the pipeline but we are not continuing to repeat that as we go forward?

Mr. KUTZ. I look at the architecture a little different than the stuff we saw with the two systems we looked at today, the BSM and LMP systems where it has guiding principles versus the issues we saw with respect to those two projects even though they weren't designed to be corporate solutions, so they were flawed from the start.

The other issues we saw requirements and testing were project management issues and we see this across the Department. You can design the architecture which would be like designing what you want your house to look like, but unless you have people who can actually build it and do the project management, you are never going to be successful. So I think there is a separate aspect to this that needs to get some sunshine at the Department of Defense. That is actually day to day project management of going through and implementing what Mr. Rhodes talked about with an off the shelf software package from SAP for example.

Mr. RHODES. The only point I would make is that at its highest level, an architecture is trying to help you design your home, but the guiding principle is you need shelter. That is not necessarily a home but you have to have that level of abstraction, I need to be warm, dry, cover from the elements and then you can start talking about why don't we build a house and then the house needs a roof and the roof needs shingles.

The architecture is a guide, the No. 1 artifact of the discipline of management. The architecture is not something that you define, you bind and put on the shelf. Every engineering principle I have ever used in my 25 years has been a DOD engineering principle. They invented them, they come up with them and they sit on the shelf and get ignored. They make consultants a lot of money being able to train people on how to do this stuff but we are paying for these ideas and this rigor and this discipline several times and it is still not coming through.

The architecture is extraordinarily important but there is "end-to-end" in terms of the system and there is "end-to-end" in terms of management. It has to go from the architecture down to the lowest level of the organization and the development process.

Mr. LANZILOTTA. Not that I disagree with Mr. Rhodes because he is correct but the other aspect of it I think we need to emphasize is the Department has had tremendous value just going through the process of designing what an architecture is, figuring it out. When I started this 3 years ago, I had no idea what an architecture looked like, I had no idea of why this was important. By taking the Department through the process, in some cases kicking and screaming, we have learned a lot on how to make this work. Mr. Rhodes is right if we make it shelfware, then shame on us but I think that is what your next hearing will be about to make sure we don't do that.

Mr. PLATTS. Final question, looking into your crystal ball, you talked about 2007 and a clean audit opinion, what is the realistic nature of that goal and will it be achieved through a good system in place versus heroic efforts to get a clean audit opinion? Are we on track based on the foundation you have laid in the past 3 years as we go forward that we really are going to be where we hope to be in 2007?

Mr. LANZILOTTA. I don't think in 2007—I think our first step is we are going to get a qualified opinion and then an unqualified opinion. I think our first step is going to be a heroic effort through procedures to get this done in 2007. I don't think we are going to have the systems in place and the problem is right now the Department takes 10 years to field a major system. I can't get a system in place in 2007, it just isn't going to happen. I think we need the heroic effort and the reason I am pushing that is because if I don't have a milestone out there, if I don't say 2007, say climb tall mountains, leap tall buildings, we won't make the progress we need to get this done.

Right now, the services are going toward 2007. We will probably get a qualified opinion and then an unqualified opinion. I think that is the nature of the way accountants think. I started off on Tri-Care for life and because it is a new fund, I couldn't get an un-

qualified opinion basically because it is a new fund, so I understand how this works.

There are going to be problems but I need to have a milestone, need to say it is 2007 to be able to drive people to a solution. It is going to be procedural. Like environmental liabilities, it is not a systems problem to begin with, it is a process problem. After we fix the process, we should be able to get there. I think we will make progress on getting our liabilities ready for audit.

When we talk about what we have to do we have a whole list of things and when we think they will be ready for audit. It won't be 2007. I hope you will see progress each year, that we get better. We have eliminated two material weaknesses, hopefully we can eliminate a few more and get down to where arbitrary weaknesses are no longer material and 2007 is aggressive.

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. We haven't seen a link between the business systems modernization program and the 2007 opinion. He just said there isn't a link because the systems aren't going to be line to make that happen. I would concur, that for them to reach 2007, it would require a heroic effort. The issue is how much would that cost and is that even feasible?

Mr. PLATTS. And is it worth the investment?

Mr. KUTZ. Is it worth the investment and will that investment then take away from the longer term? It is not like we have unlimited resources of the Department of Defense from a personnel standpoint to do that. I do think heroic effort is probably also unlikely to happen. I do think it would be important to measure their progress from the perspective environmental liabilities and some interim milestones. Those are important achievements they can make between now and 2007 that should be considered successes.

I would agree that things like environmental liabilities and all liabilities, that DOD have an opportunity to be cleaned up and resolved. So those are good things. We need to keep pursuing those and from oversight, you need to try to hold them accountable for that along with the more important part which is providing world class support to the war fighter which is what this is all about.

Mr. PLATTS. I agree having a defined year as a goal kind of keeps everyone working toward it in a more aggressive fashion but your successor and the department as they look at this effort I hope that we don't get to where it is a goal set in stone, that we will spend x dollars just to have a clean opinion but through heroic efforts not through systematic improvements that we are really after and that we have a clean opinion because a system is in place that generates it. That means we have a system in place that is usable day in and day out throughout the year and not just something that looks good at the end of the year.

I hope the Department will keep pushing aggressively in having that year as a goal but at some point make the decision it is not going to be a wise investment to say we are going to have a clean opinion if it is short-lived.

That concludes the questions I have. All three of you, I appreciate your insights and wealth of knowledge you each have and have shared with us. We will look to continue to work with you in your current positions. Mr. Lanzilotta, we wish you well in your

new position and appreciate the past years of service. How many years combining your Senate and DOD service, how many years altogether?

Mr. LANZILOTTA. The truth of the matter is I am retired military and I have never worked private sector so this will be the first time in over 30 years.

Mr. PLATTS. What branch?

Mr. LANZILOTTA. Army.

Mr. PLATTS. Thank you for all your service and especially your service in uniform. I am not a veteran myself and you all who have and do wear the uniform set the example for me and everyone else in public service. We wish you well.

We will keep the record open for 2 weeks for additional information submitted. We appreciate everyone's participation. This hearing stands adjourned.

[Whereupon, at 4:22 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The prepared statement of Hon. Dennis J. Kucinich follows:]

**Statement of Rep. Dennis J. Kucinich
Ranking Minority Member
U.S. House of Representatives
Subcommittee on National Security, Emerging Threats and
International Relations**

**Joint Hearing on “Business Process Modernization at the
Department of Defense ”**

July 7, 2004

Good afternoon and thank you, Mr. Chairman, for holding this important joint hearing of the subcommittees.

DoD has some \$1 trillion in capital assets and spends nearly \$400 billion annually - yet it can't account for the spending of these funds. Instead, DOD would rather not be held accountable to the Congress at all.

The Chief Financial Officers Act of 1990 mandated annual audits at every executive agency. Yet, as the largest federal agency by far, DOD's books are still not in good enough condition to face an audit, much less pass one.

The DOD Inspector General has reported that the Department cannot properly account for over \$1 trillion in transactions. In 2001, the GAO found in its “High Risk” Series report that DoD could not match \$22 billion worth of expenditures to the items they purchased. DoD routinely overpays contractors such as Halliburton, and the GAO has reported that the Department is responsible for 9 of the 25 highest risk areas in the federal government.

Let me give you an example of the rampant waste and mismanagement at the Pentagon. In 2000, DFAS conducted an A-76 competition for its Military Retired and Annuitant Pay functions. An A-76 is used to save taxpayers money and increase the quality of services through direct competition between federal and private workers. In this case, the *higher* bidder won the competition, when the contract was awarded to a private firm. According to the DOD IG office, taxpayers were overpaying by \$30 million. In the course of the IG’s investigation, DFAS was

notified of an error that resulted in the costly award of the contract to the private bidder, yet did nothing about it.

Under prodding from this committee, DFAS commissioned an independent evaluation of options. But that too, was plagued by errors. The DOD IG concluded that DFAS had not been performing sufficient oversight to draw any meaningful conclusions about the contractor's performance. Yet, DFAS was renewing its contract each year with the erroneous private winner of the ill-fated competition.

Not only do these financial management problems continue and grow, but DoD has now also chosen to shield them from our scrutiny. The annual audit requirement, along with over 100 notification and reporting requirements to the Congress, were simply waived in last year's Defense Appropriations bill. Congress and the American taxpayers are now left totally in the dark as to overspending and waste at the Pentagon. Yet, despite these problems, DoD continues to ask for, and receives, funding increases and supplemental funds each year.

The waste of taxpayer dollars is appalling to me, but even more troublesome is the fact that these bad accounting practices have left our troops vulnerable. At a hearing last June, the National Security Subcommittee heard testimony from the GAO on the shortage of protective vests worn by service members to protect themselves against chemical or biological attacks. Though service members were clamoring for these \$200 suits, the GAO found that the Pentagon was simultaneously selling them at deep discounts on the Internet for \$3 apiece - a 99% discount from their actual cost to U.S. taxpayers! The Pentagon's accounting systems are so bad that several military units actually thought they had an excess of the protective suits.

The "Business Enterprise Architecture" (BEA) is supposed to give guidance to the department-wide transformation efforts. This program is key to preventing future financial mismanagement and troop readiness issues. But it will take years, if not decades, to implement the BEA, and the early indications do not appear promising.

GAO reports that \$203 million has been spent in the last three years on the BEA implementation, with little or no changes to show for. DOD has not changed its architecture, its investment mechanisms, or its management best practices. DOD requested an additional \$188 million in FY05 for business management and modernization programs. I believe we are continuing to throw away good money after bad.

Mr. Chairman, I have been very frustrated at this situation for many years. I urge that our subcommittees continue to work together to provide the necessary oversight over DOD and its business modernization reforms. The Pentagon and its leaders must be held accountable for every taxpayer dollar they spend.