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STATEMENT OF  
RICHARD GRECO, JR.  
THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
BEFORE THE  
SENATE ARMED SERVICES COMMITTEE  
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## **Introduction**

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear at these proceedings today and to submit a statement for the record. Transforming the Department of the Navy's (DON) business processes, while concurrently supporting the Global War on Terrorism, is a formidable but absolutely essential task. It will require time, resources, and leadership focus from every business area of our Department. It also will drive many changes, in processes as well as in systems, and the effort will not succeed unless our Sailors, Marines, civilian employees, and their Commanders and executives understand and embrace this transition.

Although I have been in my position for less than one month, I strongly believe that the concerted, coordinated efforts in DON and throughout the Department of Defense will improve business operations that will result in improved financial management information. This higher-quality information, in turn, will aid managers at all levels in the Navy and Marine Corps to make better informed and more accurate decisions about using their resources to achieve the Department's mission.

## **DON Transformation Goals**

The Secretary of Defense has challenged each military service to pursue an aggressive transformation of their warfighting capabilities in order to meet emerging 21<sup>st</sup> century threats. To complement this transformation in critical mission support areas, we need an equally aggressive strategy for business transformation. I am pleased to report that the Department of the Navy has proactively moved to modernize our business systems and improve processes that will ultimately improve the quality of our financial information. At the same time, our business transformation efforts must be synchronized with broader, ongoing DoD programs to achieve the necessary total enterprise goal. The same interoperability which is critical to joint operations on the battlefield is also necessary for efficient processes that support the warfighter.

To put this discussion into context, the DON's business transformation strategy includes four primary elements:

- **Business Management Modernization Program**. While not a DON initiative, OSD's Business Management

Modernization Program (BMMP) has developed a blueprint for modernization called the Business Enterprise Architecture (BEA). Still in an evolutionary form, BEA serves as the **framework** for our future systems. It contains basic business rules and dictates process flows so that our supporting systems can exchange information effectively and seamlessly.

- **Enterprise Resource Planning**. In the late 1990s, we embarked on a series of Enterprise Resource Planning (ERP) pilot programs in selected business areas, providing an immediate contribution to those operations as well as critical implementation experience. We are currently working to merge the pilot implementations of this commercial off-the-shelf product to deploy its capabilities more broadly. This will serve as the **cornerstone** of our business modernization effort. It will drive process re-engineering using commercial best practices wherever possible across diverse business areas (such as weapons systems program management, R&D, and depot maintenance). This effort is in compliance with the business rules and process flows set out in the broader BEA.

- **Functional Area Managers**. To move to DON's standard IT network infrastructure, the Navy-Marine Corps Intranet (NMCI), we needed to establish a process to inventory and catalogue our robust portfolio of applications. Since Functional Area Managers (FAMs) provided us with early portfolio management, they are now natural interfaces with corresponding BMMP domains. This portfolio baseline and the supporting FAM process will serve as the **transition tool** to help us move from our current legacy systems and into the future target environment.
- **DON Financial Improvement Plan**. The Financial Improvement Plan (FIP) is our program to achieve a clean audit opinion on our financial statements. Recognizing that this plan continues to evolve, we must consider and **integrate** key milestones of each of the major initiatives above, specifically evaluating different alternatives for accomplishing corrective action (e.g., manual, or legacy enhancements while awaiting replacement systems).

The elements of our transformation strategy are large and complex initiatives that continue to develop over time. In addition to being intricate, each of these elements has distinctive challenges involving communication and change management. Recognizing that each has its own timeline and may provide constraints to the others, we believe that the real value comes in integrating these efforts. We have made significant progress in each area. Over time, the integrated value of the total will be greater than the sum of its parts. This integration is ongoing, and there is much to do; however, I would like to look briefly at what we have accomplished in each of these areas.

**Business Management Modernization Program (BMMP)**

We strongly support OSD's efforts to map out standard processes and business rules to be used throughout the Defense Department. The evolving Business Enterprise Architecture (BEA) will provide a common framework and business rules leading to fewer, but more efficient, complementary systems and integrated applications. While I will defer to the DoD Comptroller for the details of this extensive effort, I do want to make two key points.

First, Navy-Marine Corps representatives have been fully engaged in workshops that have helped develop the architecture. We continue to gain an improved understanding of the emerging structure and what it will mean to our operations. Second, among BMMP leaders, there has been increased awareness and support of our Navy-Marine Corps business initiatives, most notably the ERP pilots and the FAMS; we have shared our lessons learned with the BMMP domains, as well as with the other Services, as we make progress, and our continuous dialogue better ensures that our efforts are compatible with the BEA.

### **Enterprise Resource Planning (ERP)**

Five years ago, we initiated four ERP pilot programs in different business areas of our systems commands. Each one of these test projects has matured and has provided value to the Department of the Navy and its mission. While the propensity may be to engage in a large, enterprise-wide effort, lessons from private industry showed that smaller, more focused efforts are much more likely to succeed; and we have been successful. We are now working to integrate the business rules and processes of the four pilots into a single ERP. This merged system will become the standard solution for diverse Navy business areas, including

financial management, major weapons systems program management, inventory and supply-chain management, and depot and intermediate maintenance support.

This single ERP is our Navy ERP Program. The program has been certified by BMMP leadership to be architecturally compliant with the BEA and has successfully passed Milestone A/B. We expect that the final Navy ERP product will be available for use in each of our Systems Command Headquarters and warfare/system centers, Regional Maintenance Centers, and Aviation maintenance facilities in the near future. The Navy ERP, as well as the predecessor pilots, employs commercial off-the-shelf software that has been approved by the Joint Financial Management Improvement Plan (JFMIP). The BEA has been designed to support commercial software that embodies the "best practices" of the private sector while reducing government software maintenance costs.

We have realized a number of positive results from our ERP pilot experience:

- The Converged-Enterprise Resource Planning is a system that will significantly improve logistics movement ashore and afloat. The system will provide an end-to-

end supply chain integration for sustainability producing benefits in cycle time reduction, and asset visibility. In the Naval Aviation community, Engineering Change Process approval time decreased from 87 to 25 days, and over one million inventory transactions were processed with less than 0.5 percent error rate.

- The Naval Sea Systems Command (NAVSEA), Task Force Lean Implementation Plan focuses on efforts to align the entire NAVSEA command to a culture that recognizes the practices of Six Sigma, theory of constraints, and a prioritized application of these methodologies to achieve maximum business results. Examples include a 92 percent flow time reduction in ordering material for SSN 688 Los Angeles class submarine maintenance periods resulting in a 44 percent productivity improvement.
- The Marine Corps Logistics Modernization program takes industry, government and military best practices to maximize combat effectiveness and lethality by substantially improving the logistics chain processes. The Global Combat Support System is the key technology enabler. Results from implementing changes at the Marine Corps Depot in Albany, NY include reducing

repair cycle time anywhere from 14 to 75 percent, and reducing the quantity of assets in maintenance by 50 percent.

### **Functional Area Managers (FAMs)**

Three years ago, DON started portfolio management of business systems in conjunction with the Navy-Marine Corps Intranet (NMCI) implementation. The Y2K effort had forced us to face the problem of systems and applications proliferation, but NMCI implementation allowed us to take action. Functional Area Managers, or FAMs, have led our Departmental portfolio management; FAMs are organized by business discipline and include, for example, Finance and Accounting, Acquisition, and Logistics. FAMs report to the DON Chief Information Officer and the Director of Navy Staff.

Using the the FAM process, we have accomplished the following:

- Aggressive portfolio management has significantly reduced the number of authorized systems and applications by standardizing versions and by eliminating outdated and duplicative systems.

Financial management systems have been reduced from over 2,000 in 2001 to 338 in 2004.

- NMCI desktops can carry only FAM-approved systems and applications, providing a means of enforcing the Department's application reduction effort. This reduction is from approximately 67,000 legacy applications to a portfolio of approximately 7,000.
- Goals for further systems reductions have been established and will be executed, consistent with the domains' transition plans.

Because we needed to limit the number of systems and applications operating on desktops within NMCI, we began to catalog systems and applications, consolidating systems versions and eliminating systems superseded in ERP pilots. More work needs to be done to eliminate systems performing duplicative functions, but we now have a credible start and an effective tool in our portfolio management.

Our FAMs have a natural alignment with the OSD-sponsored functional BMMP Domains, which are also actively managing DoD-wide portfolios. Under the leadership of the DON CIO, we are working collaboratively with the BMMP to use our baseline systems inventory to develop a meaningful, time-phased, and resourced transition plan for movement into new

systems such as the Navy ERP. This is another area where our progress has been adopted and used by OSD on a broader scale. The systems inventory database, originally used by DON FAMS, is now being used at the OSD-level within the BMMP.

### **DON Financial Improvement Plan (FIP)**

One of the key objectives of the President's Management Agenda is improved financial management. The DON FIP is the overarching element that will drive toward this objective for the Department of the Navy.

In addition to implementing a better integrated systems environment, we realize that the ultimate goal of our business transformation must be to establish a culture and sound business processes that produce high-quality financial information for decision making. Only a clean opinion on our financial statements can confirm that we have met this standard. Much-improved financial information will provide a self-reinforcing mechanism on which our leadership will rely; leaders will in turn demand that this quality be maintained. With that as a premise,

our plan provides the roadmap to measure outcomes and evaluate progress toward this goal.

Our Financial Improvement Plan by necessity must integrate the evolving elements of our business transformation strategy. In reviewing and validating our business processes to prepare for audit, we will be using the business rules and standards that have been developed by the BMMP to date. Corrective actions must be evaluated against the systems transition plan to ensure that any investment in a legacy system has a solid cost justification and can be sustained. As a recent GAO report\* highlighted, we must work to integrate fully these external elements into our FIP; however, we have made significant progress.

DON's FIP evolved into a comprehensive, detailed plan after extensive consultation with major DON organizations. We identified key material weaknesses, in either processes or systems, that affected the audit quality of specific lines on our financial statements. We are mapping the required flow of this information and assessing whether present or

\*GAO-04-910R DOD Fiscal Year 2007 Audit Opinion

planned business systems could give us this data efficiently.

As we identified actions needed to correct known deficiencies, the DoD Comptroller recently developed a much-needed, structured process for audit preparation. This procedure is a rigorous set of business rules requiring that we lay out our processes in a structured and well-documented way. This validation and assertion process is time-consuming and deliberate, but it is essential so that we do not waste auditors' time and resources. The process also encourages managers to take ownership of their own business processes and consider their internal controls environment as a key element supporting the preparation of financial statements.

**Synchronizing the Business Management Modernization Program and DON's Financial Improvement Plan**

Achieving the goals set by the BMMP while simultaneously pursuing DON's FIP will be a complex undertaking. However, both projects seek to standardize business processes and data elements, and both seek to make the flow of this management information more accurate and efficient. Regardless of the cause, the more-efficient flow of

standard data is the desired outcome. If each project moves DON toward this result, then there will be a synergy in doing both. The "business transformation" called for in the BMMP will not be a "Big Bang" event; rather, it will be evolutionary in development.

Depending on the timing of legacy systems' transition, investment in these systems may be justified if an improved and more auditable process is the result.

Specifically, any action requiring an investment of resources must result in meaningful, sustainable results, not "heroic" actions that may temporarily correct a problem. Synchronizing FIP with key elements (a systems transition plan and business rules or standards that are part of the BEA) of the BMMP will allow both initiatives to progress.

DON's FIP will document the specific tasks that will move us toward this end-state. Acting on this conviction, the Navy-Marine Corps team has fully funded its FIP in FY05 and beyond through completion, including out-year maintenance funding. I would be happy to provide this Committee detailed information about the evolution of our FIP, its

organization, its planned administration, and the comprehensive results that we want to achieve.

### **Conclusion**

In summary, the Department of the Navy is moving forward with an aggressive business transformation strategy and refining that strategy to adapt to our priorities and the larger transformation that is taking place across DoD. Our transformation focuses on changes for our people, processes and systems. There are three key elements that are currently being executed within the broader context of the OSD Business Management Modernization Program: The Navy Enterprise Resource Planning, our Functional Area Managers process, and the Department of the Navy Financial Improvement Program.

Each element is large and complex; all elements continue to evolve, but each is also providing near-term benefits. They also must be synchronized because they are interrelated, and segments of one plan may depend on completion of tasks in another. For example, the systems transition plan in BMMP is critical to making meaningful long-term progress in the Financial Improvement Plan.

We are working diligently to accomplish this synchronization. I am personally committed to implementing improvements that will produce meaningful and sustainable results, and more importantly, ensure that timely and accurate financial information is available to our Department's leadership.

I thank the Committee for their support in this endeavor.