

**Statement of the Honorable Tina W. Jonas
Under Secretary of Defense (Comptroller)
Senate Armed Services Committee
Subcommittee on Readiness and Management Support
November 18, 2004**

Mr. Chairman, members of the Committee, I appreciate this opportunity to discuss our progress concerning financial management and the transformation of our business processes and systems in the Department of Defense (DoD).

Before doing that I want to thank this Committee for your continued strong support for the men and women of our Armed Forces and their families.

Turning now to business transformation, I am glad to be back in the Department of Defense and to help lead this critically important work. In the few months I have had to review our transformation efforts, I have found that the Department is making progress. However, we have difficult challenges to overcome. We recognize that we must change how we do business in the Department of Defense in order to meet the changing requirements of our Armed Forces. We are committed to providing the best possible support to our men and women in uniform through improved business processes and financial management.

Improving DoD Financial Management

The Department's efforts to improve financial management have focused on two integrated programs—the Financial Improvement Initiative (FII) and the Business Management Modernization Program (BMMP).

The Financial Improvement Initiative focuses on efforts to identify and correct reporting deficiencies as well as efforts to clean up data to lay the groundwork for systems improvements. The Business Management Modernization Program focuses on business process reengineering and business systems modernization.

These initiatives are closely linked. Both initiatives are central to our ability to achieve an unqualified audit opinion, and both have yielded measurable results.

Accomplishments

In 2001, only three organizations in the Department received an unqualified or “clean” audit opinion. Since then, we have steadily added to those numbers, and in 2004 we expect to receive at least six clean opinions -- possibly seven -- and one qualified opinion. These six clean opinions are for: the Defense Finance and Accounting Service (DFAS), Defense Contract Audit Agency (DCAA), Military Retirement Trust Fund, Defense Commissary Agency, Defense Threat Reduction Agency, and Office of Inspector General. The Medicare Eligible Retiree Healthcare Fund received a qualified opinion.

In addition, we are making progress on our material weaknesses. The Department has eliminated two of its material weaknesses (military retirement health care data and problem

disbursements) and is focused on eliminating the remaining eleven. Of the weaknesses remaining, our analysis shows that some weaknesses are primarily process problems, not systems problems. In particular, we are optimistic about eliminating the Department's environmental liabilities weakness because we have made progress in identifying the sites to be restored and in the reliability of our estimating techniques.

We agree with the concerns of many that we should not attempt to obtain a clean opinion through "heroic" efforts that do not correct underlying business systems problems and thus would not result in a sustainable clean opinion. However, we also believe that there are improvements that can and should be made in order to strengthen internal controls, correct weaknesses, and lay the groundwork for financial systems improvements.

The Financial Improvement Initiative has given us insight into the actions required to resolve our reporting deficiencies -- without wasting audit resources--and we are integrating the financial improvement plans with the Business Enterprise Architecture (BEA). The improvement plans identify deficient processes, and we use these plans to ensure that the BEA addresses those deficiencies. The BEA in turn provides the business rules for the corrective actions outlined in the plans. We are developing a web-based tool to assist us in tracking corrective actions across the Department, and we will continue to make process improvements because often process improvements—not new systems—are what is needed to correct a problem.

DoD Business Transformation

A key driver of DoD business transformation has been the Business Management Modernization Program. The goal of BMMP is to improve the efficiency and effectiveness of DoD business operations and provide the Department's leaders with accurate and timely information.

We believe that achieving this goal will ultimately save millions of dollars. But more importantly, it will allow us to channel limited resources to the warfighting mission of the Department. We are pursuing the improvement and alignment of three key functional business processes in the Department:

- Financial management
- Acquisition, materiel, and asset management
- Human resource management

We are improving these three business processes by implementing greater standardization and streamlining our work. We are aligning these three processes by ensuring that the systems that support them, and the critical data that flows between them, adhere to Department-wide business rules and standards. These business rules and standards are embedded in the Business Enterprise Architecture.

This is a large and complex undertaking. Nonetheless, we are energized by the potential benefits that the program will deliver. BMMP has laid a strong foundation for transformation across the Department and has given us the knowledge to move ahead smartly.

Accomplishments

Since initiating its business transformation, the Department has had a number of accomplishments.

We developed the Business Enterprise Architecture to serve as a roadmap for transformation. The architecture depicts over 90 core business processes, and includes approximately 25,000 rules and regulations that are necessary to get us to our future vision and desired end-state. These processes, rules, and regulations are required to control investments and to configure new systems to ensure interoperability and data integrity.

We established a consolidated information technology repository to focus on the major information technology (IT) business systems. This will help us to control investments and prevent unnecessary IT spending. The repository contains 362 systems that represent 54 percent (\$2.8 billion) of the total budget for DoD business systems. The repository is a subset of a larger inventory of all DoD business systems.

We initiated a specific process to control spending on the development and modernization of business systems and to ensure that funds are spent on systems that comply with the enterprise architecture. In FY 2004, we reviewed 56 systems that represented approximately 34 percent (\$0.6 billion) of the budget for that year. This was a good start, and in FY 2005 we will go further by reviewing 132 systems representing 78 percent (\$1.4 billion) of this year's development and modernization budget. To date we have withheld \$220 million in FY 2005 funding pending determination of compliance. For systems that we find to be noncompliant, we will not invest in them.

We initiated a formal process for controlling spending on older, "legacy" systems. This process, called "portfolio management," helps us eliminate redundant systems that do not fit with our future architecture. We estimate portfolio management will facilitate the phasing out of hundreds of systems within the next several years. For example:

- Navy Converged Enterprise Resource Planning (ERP) System. This program -- the Navy's enterprise solution for automated information in its intermediate-level maintenance and wholesale and plant supply activities -- will facilitate the phase-out of 58 systems.
- The Defense Enterprise Accounting and Management System (DEAMS). This new Air Force enterprise accounting system is being implemented at the U.S. Transportation Command (TRANSCOM) and will facilitate the phase-out of 12 systems.
- General Fund Enterprise Business System (GFEBS). This new Army system for managing general funds will facilitate the phase-out of 28 systems.
- Defense Integrated Military Human Resource System (DIMHRS). Our new human resources enterprise solution for military personnel management will facilitate the phase-out of about 100 systems.

We developed and published a Standard Financial Information Structure to standardize budget and accounting codes so that all DoD entities use the same descriptors to classify financial activity. Standardization is extremely important and will allow us to consistently trace

financial activity. Today we rely on coding that results in data errors and inhibits our ability to maintain a clean audit trail. Standardization will correct this problem.

We adopted the U.S. Standard General Ledger as our approved DoD ledger system. Today, all new accounting and business systems in DoD must comply with this standard. Similar to the Standard Financial Information Structure, adoption of this common general ledger will permit standard data entry and improve our ability to achieve a clean audit opinion.

Business Systems Transition Plan

Building on these accomplishments, the Department is developing a Transition Plan that includes key milestones to mark the path from where we are to where we are going. This plan is critical to our ability to understand and measure the steps and milestones required for transformation. There is much work to be done as we continue to develop the plan and make it more comprehensive and specific. The real work of transition planning is taking place in the Domains and Military Services. BMMP is leading the effort and is focusing on a common set of transformation objectives. When complete, the plan will include an agreed-upon list of the most critical new systems, the existing systems they will replace, and a reasonable timeline for such replacements.

There are several steps involved in the development of this plan, and we have a lot of work to do. But let me tell you where we are today.

First, we are completing work on a definitive list of existing “legacy systems” and projected new systems. Second, we are working with the Services and the Domains to develop a detailed strategy for modifying or replacing existing systems, as necessary, to ensure compliance with the architecture. Third, we are establishing a master schedule and milestones for each new major system development and modification.

We expect to fulfill the Authorization Act requirements by September 2005 and expect our plan to contain cost estimates and system migration data for the systems in our inventory.

New BMMP Governance

We understand that in order to succeed, the Department’s leadership must continue to be fully engaged and supportive of this effort. Therefore, we believe that our goals are consistent with the provisions of the FY 2005 DoD Authorization Act. The Defense Business Systems Management Committee (DBSMC), to be chaired by the Deputy Secretary of Defense, will help strengthen the program. The provisions that expand and strengthen the responsibilities of the Domain Owners by requiring them to certify that their system changes are compliant with the enterprise architecture are also consistent with sound management and are helpful to senior leadership. To ensure greater control and compliance, under the legislation, the Domains’ investment review boards will review all business systems in their functional area.

The Authorization Act also adds incentives and controls to enforce compliance with the BEA. Effective October 1, 2005, the Department may not obligate funds for any business system modernization with costs exceeding \$1 million unless the modernization complies with

the Department's enterprise architecture, and the Defense Business Systems Management Committee approves it.

Closing

In closing, I would like to emphasize our commitment to improve the way we do business in the Department of Defense. Our success is essential to provide strong support to our military forces and to make the best use of taxpayer funds. As our military forces transform their capabilities to adapt to a changing security environment that requires speed, agility, and flexibility, so must we change our business processes to ensure that we can provide support to them in the most efficient and effective way.

The Department is grateful for this Committee's support. Mr. Chairman, I thank you for the opportunity to discuss our progress in financial management. I would be happy to answer your questions at this time.