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SENATE ARMED
SERVICES COMMITTEE

STATEMENT OF
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BEFORE THE
SENATE ARMED SERVICES COMMITTEE
READINESS AND MANAGEMENT SUPPORT
SUBCOMMITTEE
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Introduction

Chairman Ensign, Senator Akaka, and distinguished members of the committee, thank you for this opportunity to comment on our progress with business management transformation in the Department of Defense and, more specifically, to share with you the details of our ambitious, bold, yet very necessary journey to transform a component of that larger change – Air Force Financial Management (FM). This, as you know, is an imperative directed by Congress and inspired by the President (through his President’s Management Agenda), the Secretary of Defense (expressed most urgently in his “Bureaucracy to Battlefield” remarks on 9-10-01) and the Secretary of the Air Force (when he declared “our financial professionals will enable the Air Force to achieve its transformational goals...”)

I echo the views expressed by Secretary Jonas (and my Service counterparts) in her written statement to you on the Department’s (and by extension the Services’) progress, successes and challenges in this undertaking. The Air Force Financial Management community is in lockstep with OSD Comptroller and my Service colleagues in working to achieve an enterprise-wide business and financial management capability that is modern, comprehensive, and responsive to the warfighter – it’s crucial that we modernize our total “back office” to achieve enterprise transformation. Indeed, our very presence here today is a testimony of our solidarity and firm resolve to see this through. In short, we care. Your presence and this hearing are powerful signs that this matters, and I thank you for that. And, I’m pleased to say, we can all be encouraged by the fact that the basic building blocks for DoD-wide process and systems integration are

beginning to produce tangible results enabling achievement of Business Management Modernization Program (BMMP) objectives.

But, there's more to business management reform than just the usual focus on financial management. For instance, while non-financial processes and systems account for the bulk of transactions across the Air Force, most of them drive a financial consequence. Improving financial management then, fundamentally requires transforming management processes and systems in all major functional areas, not just financial. And there's more to financial management reform than just the conventional emphasis on Information Technology (IT). For example, in financial management, we must jettison our transaction orientation and embrace a decision support mindset so that we can help warfighters make better, more informed and timely decisions. As financial professionals, then, we need to become less like accountants of an industrial age and more like consultants (or even *e-accountants*) for an information/knowledge age.

In other words, Business and Financial Management Transformation – like any large organization-change exercise – is more about changing people, behavior, and culture than it is about installing new IT platforms. It also is as much about changing the way we do business (our processes) as it is about eliminating redundancy and non-compatible systems. On top of that, we have to change while we operate – build the airplane while we're flying it, transform while we fight wars – because we don't have the luxury of timeouts.

That's why I'll comment on the comprehensive nature of transformation in financial management and later cover some of the broader features that are DoD-wide and Air Force-specific in scope. Along the way, I'll touch on the progress we've made in

spite of our incompatible legacy systems, the work we're doing to "fix" them, and the continuing refinement we're making to our transition plan.

What will success look like? In its purest form we will be able to do what we cannot do today, namely, produce and track accurate, reliable, relevant, and timely management and financial information that we can use to help decision makers make more prudent and informed decisions. But I know what success will look like along the way there. It won't exclusively be measured in terms of the number of clean opinions we get or the number of legacy systems we shut down, although these metrics are useful. Instead, you and I will be able to "smell and taste" success by how much of this continuous improvement process is imbedded and institutionalized in the fabric and DNA of this Department.

Although much work lies ahead, I smell and taste it [success] already! We've sized up the challenge and know what we're up against; we have a clear vision of where we want to be and what has to be done; and we have a plan (already in execution) to get there. At my confirmation hearing, I committed myself to addressing our business and financial management problems. I suggested then that we tackle this "from an enterprise-wide perspective, beginning with developing a systematic architecture for the Department."¹ We've done just that, Mister Chairman, and I'm pleased to report we have transformed many of the Air Force's business and support functions. Some of what we laid out in our vision is now taking shape and we can all share in that and leverage it for greater success.

¹ Quoted from Michael Montelongo's 27 June 2001 testimony before the Senate Armed Services Committee

Bottom Line: I believe the Department of Defense and the Air Force are well positioned to achieve business and operational integration across the Department over time. But, as the Comptroller General has stated, “it’s going to take time [as we] go from patience to persistence to pain before, ultimately, we prevail.”² Mr. Chairman, we will prevail.

Air Force Financial Management Transformation

Our Shared Vision

“Our Air Force is in the midst of a profound, exciting, and critical transformation. Warfighters, acquirers, maintainers, trainers and testers are coming together in new and unprecedented ways to ensure that when our people go in harm’s way – 5, 10, 15, 20+ years from now – they will have the training, equipment, and support they need to assure decisive victory.”³

This is how our “Vision for Financial Management Leadership and Strength” begins and how we began our transformational journey by expressing our great ambition in the financial function to be “*strategic partners recognized as the ultimate source for financial and management information ... providing high-quality, customer-focused decision support and financial services.*” That’s what we, as financial professionals, must be and do to deliver financial capabilities that are every bit as sophisticated and “leading-edge” as the warfighting concepts and systems we support.

² Quoted from 24 March 2004 Hearing before the Senate Armed Services Committee, Subcommittee on Readiness and Management Support

³ Quoted from the Air Force Financial Management Vision Statement

And when we get there, what will it look like? Well, just “imagine an Air Force wing operating at peak effectiveness and efficiency ... one where every dollar strikes the correct balance between supporting the mission, maintaining the infrastructure and taking care of our people. Imagine a wing where the key leadership knows the true costs of its major processes and can make the proper trade-offs when confronted with unforeseen requirements. Imagine a wing where Air Force people can take care of all their pay requirements from their phone or computer without a trip to Finance, where status of vendor payments is transparent, and where connections with the Defense Finance and Accounting Service (DFAS) are seamless ... Imagine an Air Force where all wings achieve this level of performance and where our consolidated financial statements are both auditable and meaningful.”⁴

This is the world that our vision seeks to place us in – where we have the tools and skills that we need to complete our work with optimal efficiency. This is an FM where broad professional and personal growth and development are integral to our jobs. This is an FM whose processes are streamlined, free of rework, rekeying, and manual intensity. This is an FM free of data calls because financial and feeder systems are fully integrated, compatible, and interconnected in an end-to-end Enterprise Architecture (EA).

This is an FM where professionals, enabled by enhanced skills, efficient processes, and flow-through systems across the Air Force now have time to perform the highly valuable analysis that our commanders want and need to support the warfighter. To get there, we developed a comprehensive Strategic Plan that links our vision with concrete actions and measurable results. I’ve included a copy of this plan for the record.

⁴ Quoted from the Air Force Financial Management Vision Statement

Our Strategic Plan – “Financing the Fight” and How We Will Do It

Using modern tools like the Balanced Scorecard and insights from experts like Professors Bob Kaplan and John Kotter, both from Harvard Business School, we outlined a specific set of activities, initiatives, and projects to improve the people, processes and systems dimensions of our business. In doing so, we decided to specifically focus our work on three strategic themes, namely, Warfighter Support, Strategic Resourcing and Cost Management, and Information Integration and Reliability.

In Warfighter Support, we are dramatically improving our personal finance service delivery by increasing our self-service capability. For example, partnering with DFAS, we are using web-based technology on a wider basis, similar to what most citizens would find on commercial banking and financial services websites (we call it myPay) to handle routine military and civilian pay inquiries. Think about it – Airmen, part of an Expeditionary Air Force, deployed to Camp Doha, Kuwait now with 24/7 access to conduct routine pay transactions, costing the Service only pennies per transaction! The functionality and user-friendliness of myPay is so good, I’m pleased to say that last month we fully implemented electronic pay statements for our Airmen through myPay instead of by mail (we expect to save over \$1 million annually with this action). Once we complete the requisite union negotiations, we will require our civilian workforce to do the same. In the near future, we will do even more to deliver efficient services to the warfighter by centralizing and automating our back-office operations that today are fragmented and very labor intensive. Early efforts here have already manifested themselves as we continue to make great strides toward reducing late payment penalties and realizing vendor discounts. For instance, interest penalties are down from a

high of \$343 per million disbursed in 2001 to \$81 per million disbursed in 2004 – reflecting a 77% savings for the Air Force. We have also lowered our Government Travel Card (GTC) delinquency rates from a high of 9% in 2001 to a low of 3% in 2004. The Air Force has also aggressively tackled the processing of Anti-Deficiency Act (ADA) cases. Through improvements in ADA process training, and stressing the importance of timely investigations, we have been able to reduce late cases from a high of 12 in 2002 to just one this year. The Air Force also met the Department's goal of closing all cases over 12 months old.

In Strategic Resourcing and Cost Management we will employ concepts and tools like performance-based budgets to maximize resource effectiveness and cost efficiencies. Using pilots underway, the work in this area is designed to move us from a regulatory-oriented regime to a more performance management-oriented framework. This will give our senior leaders, including yourselves, a much clearer picture of the critical linkages among our strategic goals, investments, and the value we derive from those investments.

Our Information Reliability and Integration work is designed to streamline our processes and integrate our technology so that we can produce relevant, reliable, accurate, timely and actionable financial and management information. This is the area that is typically addressed by the Department of Defense's BMMP, to which I'll speak more about later. For now, I'll say that our focus is on end-to-end information flows, accessible and transparent to users anytime, anywhere. The final proof that shows we've arrived will be a clean opinion on our financial statements. We're not there yet, but we've got a solid plan to get there, and we've "moved the ball downfield" considerably.

For example, by institutionalizing rigor and discipline into the process, we have already reduced our financial statement preparation cycle time by almost one-half!

Finally, all of this is built upon the foundation of our great people, which symbolizes the importance of the role they play in the successful execution of our plan. That is why we are taking a “People First” approach to develop, groom, mentor, educate and train our workforce (even as we streamline processes and integrate technology) so that they have the sophisticated skills to deliver 21st century financial management capability. Our Air Force Force Development Program – soon to be complemented by the National Security Personnel System (NSPS) that you passed earlier this year – is designed to purposefully broaden the experiences of our workforce throughout a career in public service to achieve both personal and organizational goals. The idea is to ensure the right people, with the right talent, are in the right jobs at the right time with the right tools and information they need to succeed and be challenged, rewarded and valued in the process. The result is an Airman, military and civilian, that is progressively better qualified to tackle and solve the challenges of today and tomorrow; the result is an FM professional more capable of “financing the fight” for a much more complex and dynamic world.

Technology/Systems – An Element of Transformation

As I stated previously, technology and systems – the Information Reliability and Integration piece of our financial management strategy – are but an element of a more comprehensive financial management reform journey and business management transformation that we have undertaken. But it’s a key element because if done correctly,

it can institutionalize effective and efficient processes, integrate them, and empower our workforce to deliver more value-added services.

Business Management Modernization Program (BMMP)

Enterprise Architectures

It was with this prospect in mind that the Secretary of Defense launched the BMMP – a framework to deliberately modernize not just our financial systems, but also our business management systems infrastructure over time. From the very beginning, the Air Force has played a strong, collaborative, and involved role with our DoD and Service colleagues to develop BMMP products like the DoD Business Enterprise Architecture (BEA) and serve in domains and governance committees. This is a key point because an architecture lays out the fundamental standards and guidelines that describe how an enterprise coheres or how it operates in an integrated fashion – it’s a blueprint we’ve never had before and a major step forward!

Architectures “connect” an organization – they permit a large enterprise like DoD to align its many disparate pieces and achieve the kind of integration we’re all seeking. To drive this connection further, the Air Force has developed a complementary “business” architecture that addresses both combat support and business activities – the Air Force Business Enterprise Architecture (BEA). The Air Force BEA is linked to the DoD BEA and focuses on the activities and processes that provide business support to the Air Force warfighters; it also gives the Air Force the ability to define, evaluate, and improve these processes in a cross-functional environment. Finally, these DoD

architectures are connected to the Federal Enterprise Architecture, which further extends alignment and standards government-wide.

Enterprise Resource Planning (ERP) Systems

Because these aligned architectures form the basis for business and operational integration, we can employ modern tools like Enterprise Resource Planning (ERP) systems with greater confidence than we ever have. Having the architectural blueprint is one reason; another is that ERP systems are maturing (through greater scalability, interoperability, and flexibility) to include the unique requirements of the Department. DoD's voice as a major ERP customer is growing louder and hence, strengthening the Department's position to influence ERP industry capabilities. For example, all ERPs competing for U.S. Government business must pass Joint Financial Management Improvement Program (JFMIP) testing to achieve JFMIP standards-compliance certification.

A third reason why our "ERP readiness" has increased is the Air Force's and DoD's move toward net-centricity and data sharing – doing more of the fundamental and foundational tasks that facilitate enterprise integration. In this area, the Air Force has developed a common technical framework for providing warfighting and supporting activities with timely, accurate, and trusted combat support and business information. The technical framework has been developed under our Air Force portion of the DoD Global Combat Support System (GCSS). Within GCSS, the Air Force Portal (our gateway to applications and information) is the standard user interface to all Air Force support data and functions. The Air Force Portal includes personalized, role-based access and single sign-on information for over 100 capabilities within combat support and

business areas that have been reengineered to be self-service accessible to our Airmen both at home and deployed. We see tangible evidence of this in the logistics, human resources and personal finance functions where they have greatly improved their respective service delivery capability to the warfighter.

A key part of the technical framework is a common Air Force-wide Enterprise Data Warehouse. Incrementally, the Air Force is moving data locked in our legacy systems to this Enterprise Data Warehouse which provides an integrated platform for the storing, processing, and managing of enterprise data. With the Data Warehouse, Airmen and commanders can now rapidly access authoritative information and perform ad hoc queries dramatically reducing the time to perform critical support functions. For all these reasons outlined above, we are now pragmatically poised for the next stage to fully achieve the enterprise business and systems integration we all seek!

An excellent example of an ERP project being developed under the DoD BMMP and consistent with our EAs is the Defense Enterprise Accounting and Management System (DEAMS)⁵. The current Air Force accounting system has been with us since the early 1960s. DEAMS will replace a number of antiquated Air Force and U.S. Transportation Command (USTRANSCOM) systems with a new, Commercial-Off-the-Shelf (COTS) finance and accounting system that will process and record all budgetary, accounting, and vendor pay transactions; we will use this opportunity to perform business process reengineering and implement industry best practices throughout the Air Force.

⁵ The other projects are the Expeditionary Combat Support System (ECSS) and the Defense Integrated Military Human Resource System (DIMHRS). ECSS will replace (500+) legacy IT systems with a COTS IT suite of 10+ integrated modules with software/hardware, embedded/updateable best business practices, with capabilities in product support & engineering, supply chain mgmt, expeditionary logistics C2, and maintenance, repair and overhaul while DIMHRS will provide a single database for all military personnel information.

As an approved BMMP pilot project, DEAMS is being developed by a joint Air Force, USTRANSCOM, and DFAS team based outside of Scott Air Force Base and demonstrates a continuing trend toward DoD-wide – rather than component-specific – business and operational systems. Initial fielding of DEAMS at Scott AFB will occur by FY 2007; current plans call for fielding to the Air Force Operational Major Commands by FY09. The DEAMS Executive Steering Group includes representation from the Air Force, Army, Navy, OSD and DFAS and thus the program has joint oversight.

The major takeaway from all this is that, today, we have a working blueprint for business and systems integration, we are beginning to field new systems based on that road map, and (as I'll discuss later) we have an effective process in place to drive and monitor progress and control and coordinate investments in business systems.

Governance

To direct and manage all these moving parts (i.e., develop/implement the BEAs, develop/implement a systems migration path or transition plan from the current to future state, ensure that IT investments are consistent with the BEAs and migration path) and provide direction and oversight for Air Force business and combat support modernization efforts, the Secretary of the Air Force and Chief of Staff created a BMMP analogue called the Air Force Operational Support Modernization Program (to emphasize the warfighter linkage) and chartered a Commanders' Integrated Process Team (CIPT). The CIPT is led by the Deputy Chief of Staff, Warfighting Integration (AF/XI) with the Air Force Chief Information Officer (AF-CIO) as the vice chair. Its membership includes Major Command (MAJCOM) representation and mirrors the DoD BMMP Domains where we are full partners with our DoD and Service colleagues in five areas: Human

Resource Management, Acquisition, Accounting and Finance/Strategic Planning and Budgeting, Logistics, and Installations and Environment. Together, we work through these Domains to promote and achieve broad BMMP goals.

The Commanders' IPT will guide and integrate the transformation of processes and systems supporting Air Force business and combat support areas in order to meet BMMP goals and objectives. On an Air Force-wide basis, it will be the forum that provides Joint and Air Force Commanders with robust business support products, services, and information, effectively "closing the seams that divide our capabilities today."⁶

Funding and Investments

All our business modernization funding and efforts will be overseen by the CIPT governance structure outlined above. To accomplish this oversight, the Air Force Chief Information Officer has implemented a comprehensive IT portfolio management process that is consistent with the provisions of the 2005 National Defense Authorization Act. This process provides visibility into IT expenditures and enables control and prioritization of IT resource requests for sustainment of existing systems and development of new ones. For example, business systems expending over \$1 million (in modernization) must be certified for architectural compliance and sound business cases.

One of the success stories in our portfolio management efforts is that we've been able to hold the line on spending in the Combat Support/Business areas of the portfolio. For FY05, our spending here represents only 9 percent of our total spending on information technology, which is down from about 11 percent in FY04. Meanwhile, our

⁶ General John Jumper, USAF, as quoted in *Government Executive Magazine*, 19 March 2002 (<http://www.govexec.com/dailyfed/0302/031902db.htm>)

spending on business and combat support IT is significantly less, almost half, of similar organizations within DoD. In both instances, we attribute progress to the discipline and rigor of our portfolio management process. Even more important than expense control, however, is that we're investing in the right systems that are standards-compliant and consistent with our BEA requirements and migration plan.

Financial Statements – the “Good Housekeeping Seal of Approval”

This brings us to auditable financial statements and the progress we are making there. We don't consider financial statements an “end unto themselves” but rather an affirmation or validation that our systems and processes can, indeed, produce reliable, accurate, and timely financial and management information. The clean opinion is an objective declaration that our financial management engine is clicking on all cylinders.

In this area, like our counterparts in the other services, we have developed an action plan to achieve auditable financial statements. We call it the Air Force Information Reliability and Integration (AFIR&I) action plan. This plan outlines the specific actions, responsible persons, and timelines required to fix our processes and systems. The plan is monitored and executed by a cross-functional team called the Accountability and Financial Management Integrated Process Team, which includes representation from DFAS and the DoD Comptroller. Furthermore, we've established an Executive Steering Committee to monitor the plan's progress. All of these elements – the plan, the action team and oversight structure – provide the roadmap we need to achieve our clean opinion goals. Recently, the General Accountability Office (GAO) critiqued our plan and offered several constructive recommendations that we are presently incorporating. Once complete, Air Force will integrate our plan with our Service

counterparts' plans to create a consolidated DoD Financial Improvement Plan, which will also be more closely linked to BMMP milestones and objectives. That will be key because, remember, information required for financial statements must come from many different sources – logistics, acquisition, human resources and others.

Finally, the Secretary of the Air Force established the Air Force Audit Committee to help us improve the effectiveness of the financial statement preparation process and the unqualified audit opinion process. It is composed of non-Air Force individuals with extensive experience in federal government financial management. I personally met with the committee earlier this month and each member – all volunteers – is excited about the prospect of helping us build and strengthen our financial management capability.

Conclusion and Summary

I want to close, Mister Chairman, by thanking you and members of this committee, on behalf of the Secretary and Chief of Staff, for your continued support of our Airmen and their families in so many areas, particularly by providing them what they need to fight the Global War on Terror and defend the nation. I'm personally grateful to the Armed Services Committee for the privilege of serving in this office and for your support of this important transformation.

I am excited, enthused and passionate about what we're doing. We have a powerful vision focused on delivering integrated business products and sophisticated financial services to our commanders and Airmen. Our transformation plan is prudent, comprehensive, and disciplined by architectures, portfolio management processes, and oversight structures like the Commanders' Integrated Product Team. Our investments in

people, processes, and information technology are designed to address our capability shortfalls so any reduction in funding these activities and projects will severely impact providing operational capabilities to the warfighter.

We're fully aware of the magnitude and difficulty of this challenge and the hard work that lies ahead of us, but with your active participation and help and support for our plans – from BMMP to our Service equivalents, all of which form a solid framework to address our challenges – I am confident we will succeed and leave the Air Force and the Department more financially sound and capable of “financing the fight” for a promising future. Indeed, if we institutionalize these plans and build on the progress we've made to date, I believe this reform movement will enjoy the full support of succeeding administrations. I look forward to working with you and thank you again for this opportunity to address the committee.