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ARMED SERVICES COMMITTEE**

**TESTIMONY OF**

**KENNETH J. KRIEG**

**UNDER SECRETARY OF DEFENSE**

**(ACQUISITION, TECHNOLOGY & LOGISTICS)**

**BEFORE THE UNITED STATES SENATE**

**COMMITTEE ON ARMED SERVICES**

**READINESS AND MANAGEMENT SUBCOMMITTEE**

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ARMED SERVICES COMMITTEE**

## **Business Transformation and Financial Management**

**The Honorable Kenneth J. Krieg  
Under Secretary of Defense  
(Acquisition, Technology and Logistics)**

Chairman Ensign, Senator Akaka, and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss the Department's progress in the areas of business transformation and financial management. My primary focus in Acquisition, Technology and Logistics (AT&L) is on the customer – the warfighter of both today and tomorrow. Customers expect our acquisition community to deliver the capabilities they need to defend America and its interests, not only today, but into the future. In doing so, we must also provide timely information and analysis to assist Secretary Rumsfeld in his efforts to balance resources against requirements. As stewards of the American taxpayer, those of us in the acquisition community have a responsibility to wisely invest and manage the hard-earned tax dollars of our citizens to enhance and expand our National defense capability. To ensure that the American people stay informed, we must make sure that the Congress is well informed of our efforts.

As part of our Quadrennial Defense Review (QDR), the Secretary directed General Duncan McNabb and me to lead a review of our acquisition and other business processes to ensure they are capable of meeting customer needs. To

improve our ability to acquire capability efficiently, I have identified a number of key principles I believe we must follow:

- First, we must understand and define success in terms of the customers' success. In other words, we must be successful in the customers eyes, not simply our own.
- Second, we must align authority, responsibility and accountability---all conceived in a joint context with associated standards. This will facilitate delegation of authority and decentralization of execution, while ensuring accountability consistent with identified standards.
- Third, we must base our decisions on authoritative data captured in a comprehensive management information approach linked not only to acquisition, but also to requirements, and the Planning, Programming, Budgeting and Execution system. This will help us to achieve insight and clarity, and honestly balance risks at the portfolio level to get the best value for the taxpayer.
- We must develop policy that allows even greater agility so we can acquire, mature, transition, and field advanced technology in ever shorter cycle times.

Finally, we must accept the fact that our acquisition environment is in constant change and our acquisition system must also change consistent with that dynamic. Change is not the exception; it is a constant that we must manage.

History has proven to us that those that respond to changing conditions survive

and succeed and those that don't will inevitably fail. I am very much aware of that fundamental lesson and will do all I can to develop an acquisition system capable of responding to the rapidly changing world we live in. We must ensure that the Department's business operations must be more flexible and adaptable than ever in order to effectively support our warfighters with the information and resources they need, when they need them.

### **Senior Leadership Oversight**

In February of this year, the Defense Business Systems Management Committee (DBSMC) was established to oversee Department-wide business transformation efforts. The DBSMC is chaired and actively led by the Acting Deputy Secretary of Defense and includes senior leaders, both civilian and military, from across the Department. I sit on this committee as the vice-chairman, and I can say to you that the Department's senior leadership is fully engaged in making real, measurable progress in transforming our business operations. This committee meets to set the business information and process priorities for the Department; it discusses and evaluates how to organize and integrate efforts to produce results across functional and hierarchical structures; and to review and approve investment certifications. While much work remains to be done, the senior leadership represented on the committee is committed to ensuring that transformation of our business operations remains a top priority.

In addition, I have appointed the Deputy Under Secretary of Defense for Business Transformation who reports directly to me as the Under Secretary of

Defense (AT&L) and the Comptroller has appointed the Deputy Under Secretary of Defense for Financial Management - who reports directly to her to serve in a joint capacity, overseeing defense business transformation efforts on a daily basis. These key steps, as well as the Acting Deputy Secretary's active involvement, ensure executive leadership and oversight of our transformation efforts at the most senior levels of the Department.

### **Significant Progress to Date**

This year the Department has made significant progress in the evolution of its business transformation efforts. First, with the establishment of the Defense Business Systems Management Committee (DBSMC), we have continual oversight of business systems modernization efforts. Secondly, investment control is now exercised by a series of Investment Review Boards, led by the appropriate Under Secretaries of Defense and guided by a consistent set of policies and procedures. Finally, I'm pleased to say, that on September 30, 2005 the DBSMC delivered the Departments' Business Enterprise Architecture v3.0, to guide and constrain business capability development and investment, and Enterprise Transition Plan, which outlines the Department's priorities and initiatives supporting transformation.

To guide transformation going forward, the DBSMC established the Defense Business Transformation Agency (BTA) to support the DBSMC and Principal Staff Assistants in their efforts to define Department-wide business transformation goals and objectives. This organization includes a Defense

Business Systems Acquisition Executive (DBSAE) to manage the execution of identified programs delivering Department-wide capabilities.

### **Investment Control**

Responsibility for driving business transformation decisions within the five core business missions of the Department's Business Mission Area is assigned to the appropriate Under Secretary of Defense as Principal Staff Assistants (PSAs) to the Secretary. The PSAs have established Investment Review Boards (IRBs) that form the decision-making bodies for the Core Business Missions. Using standard procedures and guidelines, and with representation from the relevant Services, Defense Agencies and Combatant Commands, each IRB assesses modernization investments relative to their impact on end-to-end business process improvements supporting warfighter needs and makes recommendations to the DBSMC for systems certification approvals.

There are currently four IRBs, including two that I directly oversee as Under Secretary of Defense (AT&L). The first combines Weapon Systems Lifecycle Management and Materiel Supply and Services Management Mission Area Leadership in order to ensure that, when we are reviewing business system investments that provide capabilities in areas of acquisition of weapon systems, we consider all the impacts and issues across the lifecycle, and from the factory to the foxhole. The Deputy Under Secretary of Defense for Business Transformation chairs this IRB for me, and it includes senior leadership from my staff, the Joint Staff and the Deputy Commander of United States Transportation Command

(USTRANSCOM). The second IRB under my purview is the Real Property and Installations Lifecycle Management IRB. This IRB reviews all business systems that provide business capabilities used to manage the Department's Real Property and Installations. It is chaired for me by my Deputy Under Secretary of Defense for Installations and Environment, and membership includes the Joint Staff, Services and the DoD CIO. The remaining IRBs are overseen by my peers Ms. Tina Jonas, who chairs the IRB for Financial Management and Dr. David Chu, the Under Secretary of Defense for Personnel and Readiness, who chairs the IRB for Human Resources Management.

On June 3, 2005, the Department issued IRB policy guidance that incorporated the FY05 NDAA-required governance structure and outlined standard procedures to ensure consistency and compliance. This policy outlines a standard certification process, and provides a standard certification template and certification criteria and reporting.

To date, the IRBs have reviewed more than 180 business systems certification packages received from the Services, Defense Agencies, USTRANSCOM, and the five Business Mission Areas leaders and recommended approval of those certification requests. The investment dollars reviewed to date totals approximately \$3.3 Billion.

## **Business Enterprise Architecture / Enterprise Transition Plan**

With the release of the Business Enterprise Architecture v.3.0 (BEA) and the Enterprise Transition Plan (ETP) on September 30, 2005, the Department has a clearly defined blueprint and roadmap to guide its transformation efforts. Within both the BEA and ETP, these efforts are focused and framed at the DoD Enterprise level around six strategic Business Enterprise Priorities (BEPs): Personnel Visibility, Acquisition Visibility, Common Supplier Engagement, Materiel Visibility, Real Property Accountability, and Financial Visibility. These BEPs represent those areas where increased focus will bring the most dramatic and immediate positive impact on the Core Business Missions of the Department of Defense.

Within the overall plan, we have identified these enterprise priorities for such measurable program and business capability deliverables spread over the next several years. They will provide enduring improvements to the Department's business infrastructure, benefiting the warfighter through integration of enterprise business processes, reducing system redundancies, and continuously improving financial visibility.

### **Establishment of the Business Transformation Agency**

A key to success of our business transformation efforts going forward will be centralized management and coordination of the corporate level of capabilities determined to be corporate-level, while allowing freedom to manage within the Services and Agencies.

The Acting Deputy Secretary and the Defense Business System Management Committee approved the establishment of a defense agency to lead and coordinate business transformation efforts across the Department of Defense (DoD).

The BTA shifts the existing resources working on business process and system modernization into a unified, focused organization. In doing this, the Department is encouraging further collaboration, and achieving centralized visibility to investments in DoD-wide business modernization efforts. The agency will be responsible for supporting and integrating the work of the OSD Principal Staff Assistants in the areas of business process re-engineering, core business mission activities and Investment Review Board (IRB) matters, as determined by the DBSMC.

Another responsibility of the agency will be the execution of those programs that make up the corporate level of shared services provided to the entire Department. These programs will no longer be managed by disparate executive agents across the Department, but by the Defense Business Systems Acquisition Executive (DBSAE) within the agency

### **The Next 6 Months**

Over the next six months, the central focus of the Department's business transformation efforts will be shifting towards execution and delivery. With the establishment of the Business Transformation Agency and institution of the Defense Business Systems Acquisition Executive, we will begin to focus efforts

on delivering DoD Enterprise capabilities outlined in the Enterprise Transition Plan (ETP). We will continually monitor progress of programs and initiatives described in the ETP, looking for opportunities to accelerate delivery of specific capabilities that will allow us to affect the transformation of the Department's business operations faster.

Additionally, in order to better gauge the success of our efforts across the Department, we will be initiating a comprehensive metrics program. This will allow the Department to monitor performance of how each of our end-to-end core business missions is improving warfighter support, reducing costs, improving financial stewardship, and enabling better informed decisions. This program is currently in development and will be rolled out with the next update of the Enterprise Transition Plan that we plan to deliver at the end of the second quarter in 2006 .

### **GAO Contributions to Business Transformation**

I would like to recognize the contributions made by the GAO in working with us to identify and address many issues related to Business Transformation. The GAO made many recommendations over the past few years regarding architecture, investment control and the governance of the Department's business transformation effort. We have incorporated many of these recommendations into our programs and products and believe the vast majority of their issues are addressed in the Department's new Business Transformation governance and investment review structures and newly issued Business Enterprise Architecture

and Enterprise Transition Plan. Additionally, with the establishment of the Business Transformation Agency, the Department has taken an important step towards ensuring continuity and consistency of leadership for DoD Business Transformation. We look forward to a continued, healthy dialog with the GAO.

### **GAO High Risk Areas within DoD**

All but one of the Department's High Risk Areas fall under my purview. The Acting Deputy Secretary asked me to track the progress on each High Risk Area goal and milestone and provide him with periodic updates on our progress. I am committed to aggressively addressing the High Risk Areas under our purview. The respective Department leads have collaborated with both the Office of Management and Budget (OMB) and GAO staff to develop plans and identify appropriate milestones and metrics to reduce risks in these areas critical to DoD, and I provided those to OMB this fall. Likewise, I have committed to the Acting Deputy Secretary to monitor the milestones and metrics for progress for each area and will begin quarterly review this month.

### **Conclusion**

All the progress I've just described demonstrates the level of commitment the Department's senior leadership has toward business transformation. The Department has established clear and specific management responsibility, accountability, and control over overall business transformation-related activities and applicable resources. In addition, we have developed a clear and integrated strategic plan for business transformation with specific goals, measures, and

accountability mechanisms to monitor progress, including a well-defined blueprint, our business enterprise architecture. We have put in place a comprehensive and integrated business transformation plan; and are moving to centralize the people with the needed skills, knowledge, experience, responsibility, and authority to implement the plan within the Business Transformation Agency. The Enterprise Transition Plan documents program and capability milestones that will measure our performance and that link institutional, unit, and individual performance goals and expectations to promote accountability for results. These actions collectively demonstrate the Department's commitment to Business Transformation and Business Systems Modernization.

In closing, Mr. Chairman, thank you for the opportunity to testify before the Committee about our Business Transformation efforts. I would be happy to answer any questions you and the Members of the Committee may have.