

House Government Reform Subcommittee on Government Management, Finance, and Accountability Holds Hearing on Defense Business Systems Modernization

PLATTS:

A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance and Accountability will come to order.

On September 10, 2001, Secretary of Defense Donald Rumsfeld outlined his vision for a new DOD. He envisioned a dramatic transformation that would correct problems outlined in hundreds of studies and reports with a common theme: DOD's urgent need to modernize its management structure. From accounting to logistics, the computer systems and business processes that support the department's operations are cumbersome, inefficient and hopelessly out of date.

The world changed dramatically the day after Secretary Rumsfeld delivered that speech. Following the tragic events of September 11, 2001, the entire federal government re-evaluated its missions and priorities, none more so than the Department of Defense. To the department's credit, the push for management reform was not abandoned.

In the face of shifting priorities, wars in Afghanistan and Iraq, and the largest deployment of National Guard and Reserve troops since World War II, the operational impact of management problems has become increasingly apparent. From pay problems to inadequate tracking of supplies, the need to improve management is more important than ever before, and it must be balanced against the urgent need to defend our nation against new threats.

Restructuring what amounts to the world's largest nonmarket economy would be enough of a challenge without the unique institutional constructs that have contributed to DOD's problems in the past. While the secretary sets the tone from the top, each branch of the service -- Army, Navy, Marine Corps, Air Force -- has its own way of doing business, its own natural constituency and its own appropriations.

Yet each branch cannot act alone. It is imperative that joint operations run smoothly and that information flows freely among the service branches. This is the only way DOD can function as a cohesive unit.

The vision behind Secretary Rumsfeld's plan is not a new idea. Several transformation efforts have come and gone at DOD since the 1980s with billions spent on new computer systems that never performed as expected. This latest effort, however, the Business Management Modernization Program, or BMMP, has made slow but steady progress, earning its share of criticism as well along the way.

DOD officials have responded to critics with program improvements and a shift in focus away from just balancing the books at DOD and towards the true goal of supporting the war-fighter. Congress has a responsibility to guide and oversee this transformation every step of the way to

ensure that goals are clear and that investments in computer systems are made wisely. This hearing is part of that ongoing oversight.

We are pleased to have a panel of witnesses with a wealth of knowledge on this topic. First, we're glad to again hear from Mr. Greg Kutz, director of financial management and assurance at the United States Government Accountability Office.

Mr. Kutz, thank you for being here. Again, we appreciate your work and cooperation and assistance you've provided this committee over my tenure as chairman and I know before as well.

Mr. Kutz will be accompanied here today by Mr. Randy Hite, who is the director of information technology, architecture and systems issues at GAO.

We will also hear from officials representing the Department of Defense, and we're pleased to have Mr. Thomas Modly, the deputy undersecretary of defense for financial management who will represent the Office of the Undersecretary of Defense Comptroller and Mr. Paul Brinkley, special assistant to the undersecretary of defense, acquisition, technology and logistics, for business transformation, will testify on behalf of the Business Management Modernization Program.

We appreciate all four of you being here, as well as your written testimonies that have provided to us and look forward to your testimonies here today in person.

I now yield to the ranking member, the gentleman from New York, Mr. Towns.

TOWNS:

Thank you, Mr. Chairman.

Let me begin by saying thank you for holding this hearing on business modernization efforts at the Department of Defense.

I would also like to welcome our witnesses from both DOD and GAO. I look forward to your testimony.

Mr. Chairman, the chronic failure of system integration and maintenance at DOD has been a focal point of our subcommittee for some time. Although many other federal agencies have improved their financial management efforts, DOD continues to fail in demonstrating adequate financial accounting and internal control backup. The root cause of many failures is elusive, however, due to the stovepipe nature of many business systems, the complexity of maintaining so many unique financial management programs.

Since 1995, GAO has designated the financial management system at DOD as high risk, due to the system vulnerability, making them targets for those three nasty words: waste, fraud and abuse. This has been the case for the last nine years. The inspector general of the Department of Defense could not provide an opinion on the agency's 2004 financial statement.

The lack of financial and internal controls department-wide remains the root cause of these failures.

I will conclude, Mr. Chairman, by saying simply this. As we continue to allocate the necessary resources to support our troops abroad and at home, it is imperative to ensure that such funding is used effectively and appropriately.

I thank you, Mr. Chairman, and ask that my entire statement be placed in the record.

PLATTS:

Without objection, so ordered.

We'll now proceed to our testimonies. The practice is that we could ask our witnesses to stand and be sworn in and any others who will be assisting in your testimonies, if they'd like to stand and take the oath as well.

Do you solemnly swear that the testimony you will give before the subcommittee will be the truth, the whole truth and nothing but the truth?

Thank you. You may be seated.

The clerk will note that all witnesses affirmed the oath.

We'll now proceed. Mr. Kutz, we'll begin with you, and we're going to have a five-minute clock. From what we're told, we're in good shape with votes not until later this afternoon, so, if you need to go over a little bit, that's fine, but we do want to get to the Q&A as well and have a good exchange.

So if you'd like to begin?

KUTZ:

Mr. Chairman and Representative Towns, thank you for the opportunity to be here to discuss DOD financial management and business systems modernization.

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 waste and inefficiency.

Let me give you a few examples: over \$115 million wasted on unused airline tickets; the Navy paying for fraudulent calling card charges and communications lines that had not been used for years; and, as I testified yesterday before Chairman Shays and Ranking Member Waxman, hundreds of millions of dollars of waste associated with DOD giving away, selling for pennies on the dollar or destroying inventory that's needed by our military forces.

These problems also impact DOD's mission and have other consequences. Examples from prior testimony before this subcommittee include: substantial problems accurately paying Army National Guard and Reserve soldiers that distracted them from their mission, caused financial hardships for their families and has had a negative impact on retention; additional pay problems for injured Army Guard and Reserve soldiers that resulted in gaps in their pay and medical benefits; and travel reimbursement problems impacting hundreds of thousands of mobilized Army Guard soldiers.

These examples and others clearly demonstrate the need for reform.

My second point is the lack of sustained leadership. Inadequate accountability and cultural resistance to change continue to impede reform efforts. DOD's stovepiped duplicative systems contribute to the operational problems I discussed and will cost the taxpayers \$13 billion in 2005. That's \$35 million a day. Attempts to modernize DOD's business systems routinely cost more than planned, miss their schedules by years and deliver only marginal benefits or are terminated with no benefit at all.

DOD continues to lack accurate data on the number and total cost of its business systems. For example, the reported number of business systems increased from about 2,300 in April of 2003 to 4,150 in March of 2005. At the same time, the reported cost of these systems decreased by \$6 billion. Without a handle on the number and cost of its business systems, it's not surprising that billions of dollars continue to be spent by the services on parochial, stovepipe solutions.

Development of a business enterprise architecture, which is critical to successful transformation, has not progressed well. In fact, after spending almost four years and over \$300 million, DOD does not have an effective architecture program.

DOD has recently taken steps to improve its transformation efforts consistent with the 2005 Authorization Act. For example, the Defense Business Systems Management Committee has been established to oversee modernization efforts. In addition, talented individuals, like Mr. Brinkley and Mr. Modly, are working full time on transformation efforts. Time will tell whether DOD efforts will result in improvements in its operations.

Although the 2005 Authorization Act is a step in the right direction, we believe additional legislation is necessary to provide a foundation for successful reform. Our testimony highlights proposals for a chief management official and more centralized control of the allocation and execution of all business systems appropriations.

In conclusion, history shows that the status quo of part-time, constantly changing leadership on business transformation will not succeed. Our legislative proposals do not guarantee successful transformation, but we believe they create a more favorable environment for true reform. With the fiscal challenges facing our nation and with the potential for billions of dollars of savings through successful transformation, these proposals should receive strong consideration.

Mr. Chairman, that ends my statement. Mr. Hite and I will be happy to answer your questions.

PLATTS:

Thank you, Mr. Kutz.

We're going to move to Mr. Modly with your statement please.

MODLY:

Thank you.

Chairman Platts, Congressman Towns, I appreciate this opportunity to address your concerns about the department's progress in the area of business systems modernization and improved financial management.

Over the last several months, we as a department have taken a significant step forward in our business transformation efforts, and I am grateful for the opportunity to discuss this progress with you here today.

I was appointed to my current position as deputy undersecretary of defense for financial management in February of this year. Prior to that appointment, I had been serving in the Department of Defense as the executive director of the Defense Business Board. This is the board of senior executives, 20 distinguished private-sector senior executives, who have been providing advice and recommendations to the secretary of defense over the last three years regarding transformational strategies for the department's business mission.

My experience with the Defense Business Board, as well as my own private-sector experience, has been critical in building my understanding of the challenges we face at the department. There is no larger or more complex organization in the world than the Department of Defense. However, lessons learned from other large and complicated entities can be still applied to good effect if we recognize the scale and scope of our challenges and our environment and are smart about the way we apply these lessons.

At the department, we have identified and are actively correcting the problems we have had in modernizing our business systems. We agree with the recommendations cited by the GAO in their recent report and all their other reports on this program, and we are taking specific action to address each individual recommendation.

What is not apparent in the GAO report, however, is the progress that we have made and continue to make in transforming our business systems environment and the broader progress we have made at transforming financial management across the Department of Defense.

Contributions that the Business Management Modernization Program has made to this progress is significant. Most importantly, we now have a much better overall understanding of our business systems environment and the many cross-organizational interdependencies that must align to achieve those objectives, we have also established data standards and strategies for the interoperability of business and financial information, and we have established a process for centralized control over IT investment for business systems modernization. These are significant accomplishments for an organization of the department's size.

Since assuming my current position in February of this year, I have been also working very closely with my colleague, Paul Brinkley, who's here with me today to shift the BMMP program from its previous architecture and discovery phases into a new phase. This program is now leveraging these foundational accomplishments of the last three years in focusing on implementation of actual DOD enterprises and systems and standards.

To reinforce this enterprise approach to transformation, we have established the Defense Business Systems Management Committee. As a result, overall business transformation leadership now rests with the chairman of the DBSMC who is the deputy secretary of defense.

Concurrent with the formation of the DBSMC, we also established investment review boards that will be required to approve all business systems investments in excess of \$1 million. This new governance will ensure board senior-level involvement in business systems modernization decisions across the Department of Defense.

The BMMP program itself has also identified six key enterprise transformation priorities. Each priority is associated with a key program and initiatives that support the achievement of

improved business capabilities that improve war-fighter support in six-, 12- and 18-month increments. The DBSMC will be actively engaged in monitoring measurable progress for each one of these priorities.

Although the successful implementation of BMMP enterprise priorities will have a significant long-term impact on the business operations of the department, BMMP is not the comptroller organization's sole focus in our day-to-day efforts to improve DOD financial management.

As an organization, we are committed to eliminating all other DOD financial management deficiencies identified as high-risk areas by the GAO, and we are developing a realistic plan to affirm that success through the financial audit process.

This plan, which is currently being refined and integrated with the BMMP Transition Plan, already has key milestones we expect to achieve by 2007, including a significant increase in the department's balance sheet line items that we expect the auditors will determine have been accurately stated.

We are refining this plan and integrating it with the Systems Transition Plan to be delivered by the BMMP program in September.

In closing, I would like to emphasize that systems improvements and reductions should not be viewed as the sole drivers of business transformation. DOD culture also must change, as well as many of our fundamental business processes.

Such change is being driven from the top through active engagement of both the secretary of defense and the acting deputy secretary of defense. The acting deputy, in particular, is asserting his leadership of the DBSMC in support of this new alignment of BMMP and through a thorough review of our business systems investments and priority programs.

Senior leadership is engaged and committed, and our success will be a direct result of broad cooperation, collaboration, integration and cultural change across the department.

Thank you, Mr. Chairman, Congressman Towns, and I look forward to the committee's questions.

PLATTS:

Thank you, Mr. Modly.

Mr. Brinkley?

BRINKLEY:

Chairman Platts, Congressman Towns, thank you for the opportunity to appear before you to discuss the department's business systems modernization and business transformation initiatives.

I am Paul Brinkley, special assistant to the undersecretary of defense for business transformation. I recently joined the department from private industry and am responsible for the leadership of the department's business transformation initiatives and, specifically, the Business Management Modernization Program.

Successful business transformation initiatives in the private sector have the following characteristics: They improve the ability of the organization to service their customer; They

leverage the managerial structure of the organization to ensure accountability; and, They focus on end-to-end business process improvement and break down barriers to appropriate information access.

The BMMP program was created to achieve a clean department-wide financial audit by modernizing and simplifying the complex business systems environment present across the DOD. The scope of the effort to date has been DOD-wide, focusing on establishing a business systems architecture for all tiers of the department's operations.

As a result of this work, we've established data standards and business rules that when fully deployed will enable visibility and valuation of key assets throughout their life cycle, greatly benefiting the war-fighting mission in addition to our financial management objectives.

I've had the opportunity to lead business transformation within multinational corporate environments resulting from merger and acquisition activity. These initiatives involved the efforts of thousands of people who spoke different languages, worked in highly varied corporate national cultures using different financial currencies. They also did not initially share a collective view of the goals of the corporation. Yet I've witnessed such organizations come together to achieve remarkable change by aligning their effort to a shared mission.

It is difficult to drive a change in business systems when the incentive for the end user is a high-level financial objective or a net reduction in IT systems. In my time at the department, it has become clear that at each tier of the organization there's a passionate desire to support the war-fighters in their critical national security mission and to do whatever it takes to make their job easier and to keep them safe.

Our realignment of the BMMP requires that business systems modernization investments directly enable business process improvements that measurably support the war-fighting mission. Streamlined business processes are by their very nature more financially transparent than a reliance on a smaller number of modernized business systems.

If multinational corporations striving to improve their quarterly financial performance can come together to achieve transformed business operations, I am confident we can achieve far greater improvements in the Department of Defense, as long as we focus on servicing the customer, and our valued customer is the war-fighter.

To achieve this, we've structured the program to prioritize business systems modernization investments based on their impact to our core business missions. These missions are exhibited.

Additionally, we have established a tiered accountability model for the department's transformation effort. In a large multinational corporate environment, each level of the organization is responsible for defining clear transformation goals and objectives associated with their own tier of responsibility. The seams or interfaces between each layer are clearly defined to ensure that information can flow upward to support rapid decision-making at the appropriate level.

We're adopting this approach in our realignment of the BMMP. This approach aligns business transformation to take advantage of the existing management structure of department.

Finally, we've taken advantage of the new management structure established by the fiscal '05 NDAA to institutionalize appropriate senior management engagement in this critical effort. As Tom indicated, Acting Deputy Secretary England is fully engaged in leading the Defense

Business Systems Management Committee, which is meeting monthly, and is providing full support for the realignment and the execution of the BMMP.

In September, as required by the FY '05 NDAA, we will deliver a revised business enterprise architecture and a corresponding transition plan and acquisition program baseline. These products will reflect the realignment of the BMMP, and they will ensure that we're providing ongoing institutionalized improvement to our business processes that benefit the war-fighter, while also continuously improving our financial transparency and reducing our systems complexity.

In closing, Mr. Chairman, I thank you for the opportunity to testify before the committee about business systems modernization. I will be happy to answer any questions you and the members of the committee may have today.

PLATTS:

Thank you, Mr. Brinkley.

We'll proceed to questions, and we have been joined by Mr. Gutknecht from Minnesota.

Glad to have you here as part of the hearing.

We'll try to stay roughly with five minutes and have numerous rounds to have a good exchange.

Mr. Kutz, I'll begin with you and Mr. Hite. As we try to provide effective oversight of the ongoing efforts at DOD and then now as you referenced four years in the works and hundreds of millions of dollars expended, what would you suggest as maybe the best approach, benchmarks that we should set or be looking at to assess, you know, the progress being made? How can we be effective in our oversight responsibility? Certainly, your work has helped us identify things that we need to be watching, but, you know, what benchmarks do you think are going to be most helpful?

KUTZ:

Let me start with operational things. Then Mr. Hite can talk about information technology things.

For operational, let's use the military pay, the hearings that we've had with you on those issues, and, certainly, there's benchmarks there for things that they could do in the short term with human capital and in the long-term with the business systems.

They have done a lot of work in that area in particular in trying to improve the situation for the soldiers. However, the big concern is: Are they going to ever be able to deliver a re-engineered system that they call DIMRS which is supposed to provide integrated (inaudible) personnel functionality necessary to support these soldiers in a kind of a more world-class payroll and personnel type situation.

So, certainly, you would want to see some progress operationally in actual military pay, the ability to reconcile their fund balance or their checkbook, and the ability to make their disbursements on time and other types of things, and they're working on those things from a human capital and a process perspective, but the systems modernization part has been very, very difficult and taken more time and not been as successful, I would say.

HITE:

Mr. Chairman, I would add to that, in doing your oversight, one of the things you want to do is fix accountability, fix accountability for outcome, and it's the department's responsibility to define what those outcomes are.

Heretofore, it hasn't done a good job, but what the DOD witnesses have told you is their intention to produce a set of commitments September 30 in terms of what they intend for the modernized set of systems to look like from an architecture standpoint and how they intend to deliver on those through a transition process where new systems will be introduced, old systems will be retired.

To me, that would be the point of accountability. The commitments they make in those documents are what you want to judge them against, and the commitments that they make should not be multiyear commitments as much as they should be incremental commitments so that, in fact, you can measure progress on an incremental basis through your oversight.

PLATTS:

So, in essence, the benchmarks that they set year to year should be very defined so that we can ensure that we are making progress.

HITE:

Absolutely.

PLATTS:

As we go through here, I'm sure each answer will target at some specific examples that I want to follow up on, and I'm going to try to stay on a theme.

But, right away, Mr. Kutz, you gave an example of one of the challenges. You mentioned DIMRS as an example of trying to get more accountability in the pay issue which we've tried to focus on because of the quality-of-life issue for our courageous men and women in uniform, and my understanding of your testimony is that even if DIMRS is successful in coming aboard, it will replace 113 of 713 current human resource systems out there. So there are still 600 more that aren't yet addressed.

KUTZ:

There are a number. I'm not sure of those. I don't know those numbers. I haven't memorized those numbers, but I know that there are a number of systems that will remain even after DIMRS is implemented, if it's implemented.

PLATTS:

Is that an example of us trying to take a step forward at the department, in your opinion, but, in the long term, not really making a lot of progress because we're addressing 113, but there's 600 that are still going to be out there kind of at this point still up in the air?

KUTZ:

Well, certainly, if DIMRS replaced 113 and provided the kinds of capabilities that they have planned, that would be a step forward. No one could doubt that.

The other thing that we have reported on is there appeared to be other investments that they were making that were duplicative with DIMRS, and that would be the bigger concern, is that DIMRS is supposed to provide capabilities A, B and C, and we saw money being potentially spent on duplicative systems also trying to provide those capabilities, and that's the longstanding problem that they've had, is making investments on multiple systems that do the very same thing.

PLATTS:

You reference in your testimony there are now over 4,000 systems out there not coordinating with each other.

KUTZ:

That's a moving target.

PLATTS:

Yes.

KUTZ:

I mean, that's the number it was as of February, March of this year, and I know they're continuing to try to refine their estimates and determine what are and aren't systems, but, yes, that's a large number of systems.

PLATTS:

Mr. Kutz, you said in your oral testimony that, you know, we're here four years, \$300 million plus, and the department does not yet have an effective enterprise architecture. How would you describe what they do have four years and \$300 million later? You know, do we have a foundation or not even a foundation yet constructed?

KUTZ:

At this juncture, I would quote the DOD witnesses where they said they have a better understanding of the complexity of what they're dealing with. In terms of the foundational artifacts, the models upon which to build on, I think we are at a point where we have very little utility and a lot of investment to show for it.

So we certainly aren't in a position where we've got value commensurate with cost and time that's gone into this, and I think what the DOD witnesses have described is a realignment or a refocus or a restructuring of their efforts, and what they're talking about is narrowing the focus, narrowing the scope of what's going to be dealt with on a DOD-wide basis from an architecture standpoint and what the services are going to be allowed to pursue separately.

So I think we're at a point where what we've done up to this point hasn't produced a whole lot of value, and we're trying to salvage some of what we have, and I think there's very little to salvage.

PLATTS:

I want to yield to the ranking member, but kind of give the department a chance to respond on that specific question, expanding on your statement of where you think the department is after four years and \$300 million.

And I appreciate both of you in coming to the department from the private sector.

Mr. Brinkley, I'm nursing a head cold and took a good dose of cough medicine, hoping I don't have a coughing attack while we're in this hearing myself. So I appreciate what you're struggling with.

But I appreciate both of you coming from the private sector, and I also appreciate that we're, you know, I think probably maybe four months or so in your positions so you're kind of just getting, I imagine, given the complexities, yourselves situated to understand what the challenge is -- and, Mr. Brinkley, a little longer -- but, in view of the fact that you have come from the private sector to public service, we're grateful for that, and we want you to succeed.

But I would be interested in your frank assessment of how you would categorize where we are, what do we have after four years and hundreds of millions of dollars.

MODLY:

Sir, my assessment would be that there -- and I don't take issue with anything that Randy said on that point -- are elements of what we paid for over the last several years that we will definitely use, definitely leverage, definitely be critical of the transformation efforts going forward. There are other elements to that that my candid assessment and my colleague's candid assessment probably won't be able to leverage.

But I would say that the value of the last three years is broader and less tangible, and that is having the opportunity to work across the department to understand what it's going to take to actually get this done was a huge discovery process that we needed to go through in the department. We understand that now.

We've developed some very key enterprise standards that we are going to implement, such as the standard financial information structure, which is essentially a common financial language. To put it into context, every different financial system within the components of the department speaks a different language. They code financial information in different ways.

Getting to a process and to a consensus across this organization in terms of what that common language will be is very difficult. We've completed that, and we're starting the phase of

implementing that starting this month. So this is an evolutionary process. I think we have some value. We're trying to figure out what exactly that is.

In terms of deliverables that we're going to have in September, we feel very confident that what we will deliver in September will allow us to transform along the priorities of the program, and, in terms of measuring that, which I think is another point that was made, measuring our progress based on the number of systems that go away, to me, coming from private sector -- and I think Paul would agree -- is not a valid way to measure whether or not we're getting value.

What we've asked all of our enterprise priority leaders to do is to determine six months, 12 months, 18 months from now what will we see in terms of improved business operations because of the implementation of the system. We don't want them to think about, oh, we'll have a final operating capability on this system in two years. That doesn't tell me anything. I want to know what is it going to do to improve war-fighter support, and that's really what we're focusing on.

So, if you want to hold us accountable, we will have those six-, 12-month deliverables prepared in September, and that's what we're holding our teams accountable for, and we should be held accountable for that as well.

PLATTS:

Mr. Brinkley, do you want to add?

BRINKLEY:

The only thing -- I get choked up on the topic of architecture -- I would add is that you made the point in your introductory statement and Mr. Kutz reinforced it. The effectiveness of an architecture is a direct measure of how useful it is, how you can implement it.

When we talk about what we can use and not use in the architecture effort to date, a big delineator for Tom and I is what we have, given the managerial structure of the department and the appropriation process used to fund systems initiatives in the department, the ability to rapidly deploy and implement, and defining the scope of the efforts so that it's clearly aligned and not in conflict with the managerial structure of the department so that we can put in place accountability for implementation, as Tom mentioned, of data standards that ensure interoperability for materiel management, but ensure the ability to cascade financial information up to the Naval Rapid Decision-Making, those are things that we're very much empowered to do at the top level of the department.

So the architecture effort is focused on those things because they translate into direct benefit. So this discussion of what's been useful or not been useful has a lot to do with what can we use to rapidly deploy, and that's where we want the future architecture effort to focus as opposed to more of the discovery, as Tom described it, effort that's taking place today.

PLATTS:

Would it be accurate to say that what you're seeking to do now is to have a more realistic architecture as opposed to an idealistic architecture?

BRINKLEY:

That's correct. One that is not in conflict, as I mentioned earlier. It may be an interesting thing to try to forecast the ability to put all of our logistics operations on three or four systems when we currently have 2,000, but it's not a very relevant topic in terms of our ability to quickly transform logistics. That's a good example.

So focusing on data standards that regardless of whether we have 2,000 logistic systems or one logistic system, they enable us to interoperate and communicate and act as a single enterprise to support joint war-fighting, that's a very powerful and deliverable objective, and it also translates very well into a benefit to the joint war-fighting mission of the department.

PLATTS:

And you've given me some additional follow-ups, but I do want to yield to my ranking member, Mr. Towns, and I'll come back to you on that same issue.

Mr. Towns?

TOWNS:

Thank you very much, Mr. Chairman.

Let me begin with you, Mr. Kutz. You mentioned that legislation is necessary. Could you be more specific in terms of exactly what you're talking about?

KUTZ:

Yes, we had two proposals in our testimony. One is one we've talked about at prior hearings before this subcommittee, is the chief management official or deputy secretary for management which would be a level two political appointment, Senate confirmation, that would have a seven-year renewable appointment term that would be the transformation focal point for the department full time.

That's been one of the reasons, we believe, that we've had trouble transforming, is you've had part-time leadership that has not been sustained over more than a couple of years, and, again, it isn't the only solution, but we believe it will provide a stronger foundation for transformation to be successful.

The other one has to do with the way that the business systems modernization and overall business systems appropriations are controlled and appropriated from a budget and execution standpoint. Right now, there are a lot of people that get money to spend on the business systems, and there's not a whole lot of corporate oversight or control over that, so that's how you sometimes get multiple systems being developed at the same time that do the same thing, and that's how you get to the thousands and thousands of systems, is because different people have gotten money to implement systems without a whole lot of corporate oversight.

TOWNS:

Let me ask you, Mr. Modly. Do you feel that legislation is necessary?

MODLY:

No, sir, I don't believe that legislation is necessary.

TOWNS:

Is that because you're new?

(LAUGHTER)

MODLY:

I'm trying to react to the legislation from last year.

But, honestly, sir, at this point, I don't think that that legislation that Greg is talking about is necessary. We received some very strong language in the NDA Act from last year that established the Defense Business Systems Management Committee, and, in my view and in the department's view, that does address some of the concerns that Greg mentioned.

One is the issue of investment control over systems investments. We are now required by law to review and approve any business systems investment over \$1 million, and so we've established Investment Review Boards to do just that. Those have to be approved by the Defense Business Systems Management Committee. That committee is chaired by the deputy secretary of defense, vice chaired by a level two political appointee, the undersecretary of defense for acquisition and technology.

So, in my view, I think that this governance that was imposed in the law last year should be given a chance to work. I think we can make it work. In terms of senior-level engagement, Paul and I are actively engaged in this program daily, so I believe that we have an opportunity here, with the law as it is and an acting deputy secretary who, quite frankly, is very interested in business transformation and is very involved working with us, to move this program forward.

TOWNS:

So, when you look at the examples that have been given, it makes you wonder, when you look at this travel alone. I think the number was \$150 million. Is that correct?

KUTZ:

\$115 million of unused airline tickets. Is that the example?

TOWNS:

Yes.

KUTZ:

Yes.

TOWNS:

I mean, so you're saying now that the type of system that will be implemented will be reviewed by this group. They'll make a decision as to whether it comes in or not. I mean, explain it to me.

MODLY:

Sir, every system that will be invested in in the Department of Defense for business management will be reviewed by this Investment Review Committee. That is the role of this.

The specific instance of the \$150 million dollars in unused airline tickets problem is a combination of a systems problem and a business process problem and a training program. It's not simply reliant upon a systems problem. We've taken aggressive corrective action to address that, and I would be happy for the record to submit specifically what we've done to address the unused airline tickets issue.

However, this is not solving the business management of the department. It is not just reliant on systems approach. It won't be one system. It will be multiple systems across the department.

What we want to be able to do is have a rationale approach to understanding what those systems are, do they make sense, do they fit into the architecture that we've established at the high levels of the department, and that's what this new governance committee is allowing us to do.

In the past -- Greg is right -- that was not taking place in the department.

TOWNS:

Let me just go back here. Mr. Kutz, if DOD proceeds with the business enterprise architecture, some very difficult decisions will have to be made on which systems are turned off. What are some of these issues and what can the Congress do to assist in this matter? I just hear, you know, your opposed and all that, but it seems to me that more help is needed.

KUTZ:

Well, I think one of the issues is going to be similar to the BRAC issue where you've got a lot of contractors and a lot of systems involved to the extent you do end up having less systems somewhere, and that may not be the right way to judge this, but, ultimately, if you are successful at transformation, you may not have 4,000 systems. You may be able to replace all the travel systems with the defense travel system, for example.

There are contractors out there that have business and jobs and all those types of things associated with those systems that are going to be terminated, and I think in the past, when the department has tried to terminate those systems, they have gotten some pressure from the Congress, from their constituents on those types of issues.

So, realistically, that could be something you need to help them with with respect to being able to streamline and better provide (inaudible) solutions within the department for various areas we talked about today.

TOWNS:

Thank you.

Mr. Modly, according to GAO's testimony, there were 30 systems valued at \$243 million that were modernized in 2004, but failed to be reviewed by the comptroller's office. Can you offer any explanation as to why these systems were not reviewed?

MODLY:

Yes, sir. The requirement for the comptroller to review systems investments over \$1 million was imposed by a comptroller memorandum and an enforcement of the law from the fiscal year '03 Act. We did not have at the time of that law an infrastructure within OSD to perform that.

So it's been a process of discovery, as I mentioned before, first of all, understanding where those systems are, then getting the message to them that they needed to submit for certification. So I would candidly admit that, in that first year, we missed some systems. We did not get them all. We are trying to get better at that process.

One of the motivators behind our work on the development of these new Investment Review Boards is to create a system that provides visibility and understanding where all these systems are that we need to get to so we don't have that problem again.

We're also streamlining the process. What happened in the past is that program managers would submit their systems for certification, and they ended up getting lost in a series of different bureaucratic processes in the department. One of the key elements of making these IRBs work is ensuring that we have a very streamlined process, a standard set of questions and a standard for determining whether or not these systems are compliant.

We will do much better in the future on those.

KUTZ:

Could I add to that because I think one of the other problems is that for them to even know which systems have obligations of \$1 million or more requires a data call. They do not have systems and processes in place to automatically be able to figure out who's obligating over \$1 million. That gets back to all the pots of money that are out there for systems investments.

So they don't have an automated way to even determine after the fact who obligated money for systems modernization. So I'm not sure how they'll ever solve it until they're able to deal with that because, otherwise, it's an honor system.

TOWNS:

Mr. Chairman, I know my time is up. I sure hate to end on that note, but go ahead.

PLATTS:

Well, we'll come back to you.

Mr. Gutknecht?

GUTKNECHT:

Well, thank you, Mr. Chairman, and thank you for having this hearing.

You know, a few years ago, we had some scandals in the corporate community and Congress responded and some might have even said we overreacted by passing Sarbanes-Oxley, and, among other things, we require the CEOs now to sign off on their financial statements.

In a sense, we are the board of directors here. The Congress is the board of directors of this massive company called the Department of Defense, and it is troubling to me as just one member that this department, for as long as I've been here, I think, cannot pass an audit.

I guess if I were to boil it down to one simple -- maybe not so simple -- question, it's: Can the Department of Defense pass an audit today, and, if not, when do you think they will be?

MODLY:

Is that directed to the GAO?

GUTKNECHT:

That's to anybody who has a microphone.

MODLY:

I would say, in my professional opinion, that the department could pass an audit today if it had enough money and enough resources to do it. That means having the ability to trace every single transaction, understand the manual processes that are required to bring information up to the corporate level.

But understand, sir, that we have 59 separate entities that have to submit financial statements in order for us to get a clean opinion. I don't think that it's a wise use of the taxpayers' dollars, and we're talking billions of dollars in order to be able to do that.

One of the things that we're trying to do with the BMMP program is over time drive that cost-of-audit curve down by increasing financial visibility and traceability through both systems and standards so that, at some point in the next several years, we will be able to make those investments to do the manual workarounds required to get a clean opinion. That's our position.

So I think we could get one. I believe it would cost in excess of a billion dollars to do it in a year, and I don't think that's a wise use of taxpayer dollars to do it.

Let me also state that there is a difference between being accountable and having that accountability affirmed in a clean audit opinion, and I understand the way that the private sector requires clean audit opinions for their financial statements.

In our case, we can still show that we're accountable. We can still show that we can trace where the money's going into certain programs and how it's being spent and not necessarily pass the technical qualifications required by an audit. But I will say that the department's goal is to get a clean audit opinion. BMMP is a process and a program that's helping to drive us towards that.

KUTZ:

Let me add a few things about that. The kind of audit he's talking about, they call a shoebox audit where basically management can't account for everything on their own, so they throw all the records in a shoebox and have the auditors sort everything out. I mean, that's honestly what they call it. So I don't know how many years that would take or how many billions of dollars or if it's even feasible.

But, right now, I mean, they don't have a realistic, feasible plan as to how to get an audit, and, really, that's not the goal. The goal is to provide world-class mission support to the war-fighter. I think we agree with them on that issue, but, you know, you have lots of issues with human capital, the business systems we've talked about here today, and I don't believe they're anywhere close to being able to pass an audit. Certain parts of the department have been able to pass audits, but not the ones that are very systems reliant and have significant human capital issues.

GUTKNECHT:

Well, could you reduce that to a couple of sentences that I can explain that to my constituents then? I'm serious about this because it's not just the Department of Defense. We have a lot of departments that can't pass audits right now, and we have businesspeople in our districts who say, "Wait a second. You know, I have to sign off on this, and, if it's not right, I can go to jail. I mean, how come the government isn't held at least as accountable as I am?"

So what I heard is a lot of, you know, systems techno-speak here, but that still doesn't quite answer the question. My real concern is this -- one other concern -- that is that we sort of have a pattern around here. Every year, there are some hearings like this, or there are studies or reports that come out.

I'll pick on a different department for a minute. The Department of Education can't pass its audit, and so, when it comes times for their appropriation, ultimately, the Congress decides, "Well, I guess we're just going to have to give them more money," and, to a lot of our constituents, that doesn't really pass muster.

So I would remind you that we won World War II in three-and-a-half years. I mean, the Department of Defense can do things it wants to do when it wants to do them, but this has never been a very high priority, in my opinion. I mean, if this were a high priority, we would have this problem solved today, and I guess I'm really trying to find out what do we do to put a little fire under the folks down there to really make this a higher priority.

MODLY:

Sir, let me say that, a couple years ago, the comptroller of the Department of Defense put out a stretch goal out there of trying to achieve a clean opinion by 2007. Financial improvement plans were developed to support that process, and these are plans that have to be developed through all the services and all the agencies, et cetera.

We were prohibited by law this past year in NDAA language, in Section 352, from spending any money on those plans until such time as we got our transition plan delivered and we got the

architecture delivered. So some of our inability in the last couple years, the last year at least, has been restricted by the Congress's restrictions on us from spending money on this.

PLATTS:

Let me just give you one of the causes real quick.

GUTKNECHT:

Could I just come back? So it's Section 352?

MODLY:

Yes.

GUTKNECHT:

So, when the bill comes up this year, some of us ought to pay attention to that section because I don't remember that being debated on the House floor.

MODLY:

Sir, we were restricted from spending any money on the mid-term financial improvement plans which were designed to get a clean opinion by 2007.

GUTKNECHT:

OK. Thank you.

PLATTS:

Thank you, Mr. Gutknecht.

I guess I would comment on the priority. I think one of the challenges here is that we thankfully do have a secretary who, as I've referenced in his statement of September 10, has made this a priority. The challenge is we're dealing with almost 50 years worth of actions and decisions that have complicated the ability to fulfill Secretary Rumsfeld's priority in any faster or timely sense because we're trying to undo decades of poor management decisions, and I think that's what you're trying to get your hands around to go forward.

You did touch on, though, I think the reason your limitation was placed on DOD, is that rather than spending money on trying to get a clean audit that would result, in essence, in this heroic effort to get an audit, but not really benefit us in the sense of changing practices at DOD is that we'd be better focused on trying to improve the processes and the internal controls that will then generate a clean audit, you know, clean books that can be audited.

Mr. Modly, you said you were not able to get a clean audit today, you know, without a huge effort, and the merits of that would not be very wise to go forward with. How about in trying to

get closer and closer to an audit regarding internal controls, which gets to that foundation that we're talking about?

MODLY:

Yes, sir. That's a very good question. What we're doing now, as we're working on our transition plan for systems and understanding that better and looking at the deliverables for September, we are concurrently with that developing this comprehensive audit plan for audit readiness and financial improvement plans for the entire department, so we understand what are the systems dependencies and when do we expect those to be ready and understanding how the audit process will marry up with that over time.

We have within that initial look an opportunity not to take heroic measures and yet make substantial progress between now and 2007, if you look at line items and getting a favorable opinion on certain line items. Right now, if you look at our balance sheet, on our asset side, we have basically clean opinion on 16 percent of our assets and about 49 percent of our liabilities.

We think we can take that number to about 62 percent of our assets by 2007 and about 53 percent of our liabilities by 2007, and that's by focusing on business process improvement, not taking heroic measures, getting things ready for audit and having the auditors take a look at them and giving us a favorable look at those pieces.

So we do have (inaudible). We all agree, sir, with you that this is critical to our credibility with the taxpayers and our accountability to the taxpayers. So we're not abandoning that process. However, we want to make sure we're doing it in a way that is concurrent with the processes of improving how we're doing our business, not just being able to have an opinion that a year later we can't sustain.

PLATTS:

Right. And that's been the focus of this committee, not just with DOD, but across the board and working with GAO, is to get in places processes that year in and year out you're able to have effective management information, not just at the end of the year to try to get a clean audit, but, you know, the systems in place.

I appreciate your frankness in that 2007 is not doable for a true clean opinion, your willingness to share, maybe only being there four months, your willingness to be more frank, I think, is a good because, quite frankly, you know, I'd rather wait until '08 or '09 or '10 because we truly are getting to the root of the problem, rather than just trying to, you know, come up with what looks good but really doesn't address the problems.

I do want to go back on the issue of the \$1 million approval process, and you referenced the '03 legislation and then the '05, and, in your testimony, you talked about now we have in law, you know, this requirement for \$1 million. We did have it in law in '03 as well, but, as GAO pointed out, there were hundreds of millions of dollars of expenditures on systems improvements that were not approved.

I guess I want to better understand. You referenced not having a system in place to get the word out. I guess I'm not certain why there wasn't even in a blanket department-wide e-mail to say,

"Here's a new law. Anybody who's looking at a systems, you know, improvement, you know, this is the law that we need to comply with." What efforts were made to get the word out?

I mean, I guess what I'm trying to get to is why should I feel comfortable with that because of the '05 law. We're actually going to see approval occur or funds not being spent versus the hundreds of millions of dollars that were spent despite the '03 law being in place.

MODLY:

Let me let Mr. Brinkley answer that because he's been very closely involved with the new IRB process.

BRINKLEY:

First of all, the 2005 NDAA includes the motivator of an Antideficiency Act violation in the event funds are obligated without approval. It serves as a motivator, obviously.

To speak to why we feel more confident now than we did in 2003, there were two reasons. One is, as Randy mentioned, you were relying a bit on an honor system and something very new.

In the Office of the Secretary of Defense, traditionally the majority of its responsibilities are policy setting and regulations of policy, and, when the department declares that that organization is now going to take an active role in business systems management and business systems oversight, you're creating a need for a set of skills, a set of managerial acumen that don't exist or did not exist at the time at the department level.

The department needed time to put that in place, communicate effectively with the different functional communities, logistics, acquisition, finance, personnel, across the department, establish those channels of communication so that the awareness was completely embedded across the department at many different tiers.

So we are confident, again, given the language in the NDAA and the effort to date to establish those managerial disciplines that did not exist before at the DOD level, that we will have a much more effective review process going forward.

PLATTS:

Mr. Kutz, your thoughts on that, you know, the change from the '03 requiring it and your investigation finding all those approvals, your assessment of whether we're at a point where we are likely to be more successful in that not repeating itself?

KUTZ:

We haven't looked at whether we're more likely going forward. I do believe that a little more teeth in it with the Antideficiency Act for an obligation over \$1 million that's not approved provides a little bit more incentive for people not to do it, but it's still the Department of Defense and there's a lot of Antideficiency Act issues that they've had over the years.

So that may not even deter people from being honorable in coming forth with the information because, again, I think they don't have -- I'm not aware of it. I haven't heard them say they have it

-- a system where they can systematically go in and identify all obligations over \$1 million related to IT that would tell them for sure they got everything.

PLATTS:

Well, that was going to be my follow-up, is to have an actionable, you know, violation, you have to know about it, and the only reason we really knew about it here is because of GAO going in and doing a review as best possible. I think either in the report or in your statement that you're not really sure you even found everything that's out there.

KUTZ:

We relied on a data call.

PLATTS:

Right. So, again, it's kind of good faith, you know, of what was done or not. So what are you trying to do to better ensure that you are, you know, crossing the "t"s, dotting the "i"s, that, you know, this isn't going to continue going.

KUTZ:

We indicated in our report to Congress in March -- and to reiterate here -- the NII organizations, the CIO's organization within the department, has published policy establishing a single repository for defense business systems across the Department of Defense and has set firm dates for getting the information about our business systems inventory -- Mr. Kutz referenced the 4,000 systems, the 2,000 systems -- to get that inventory accurate, to get it in a single repository so that, as we assess modernization investments, it's done off of a base of information as opposed to a strict honor system.

So we are moving to address that, and we're working with the NII organization to ensure that repository is fully populated and exercised.

PLATTS:

One follow-up on that, and I'll yield to Mr. Towns.

We've talked in this committee a number of times about consequences, and one of the challenges in the federal government is lack of consequences.

Regarding those expenditures that were over \$1 million and not appropriately approved, has there been any, you know, investigation into, you know, how many, if any -- I would assume there were -- were done with knowledge of the '03 requirement and what consequences were suffered by those who made the expenditures contrary to federal law because that goes to that issue my constituents have?

They say, "I've got to follow the law, you know, back home, and, you know, if I'm caught speeding, I'm going to get a ticket. If federal employees violate a law, what happens?"

Is there any knowledge base there?

MODLY:

Sir, I'm going to have to investigate that and get back to you on it. Sir, I don't know for certain. I was with the department in 2003 but with the Business Board, and I was not actively engaged in the certification process. I will investigate that and get back to you on it.

PLATTS:

Yes, if you could follow up, and I'd be interested in, you know, was there anyone held accountable for expending funds contrary to federal law because of not having the comptroller's approval for their expenditure?

Mr. Kutz, from your report, I don't know that you're aware of any consequences.

KUTZ:

I'm not aware of any, and that's something. We do a lot of fraud, waste and abuse type of investigations at the Department of Defense, and that is one of the issues, is no one's ever held accountable for things even more severe than what we're talking about here.

PLATTS:

Yes.

KUTZ:

So that really leaves an environment where people know that even if they get caught, nothing's going to happen.

PLATTS:

I want to come back to that environment issue and consequences.

I'm going to yield to Mr. Towns. I know you have a time crunch.

TOWNS:

Yes. Thank you, Mr. Chairman.

You know, let me tell you you guys are a breath of fresh air. I want you to know. You really are. But I'm not sure, you know, how you're going to get a handle on this because, as I understand it, you know, many agencies place extensive reliance on contractor support to prepare financial statements.

How does this impact on the agency like yours? I mean, to build and sustain a long-term financial management reform of the -- I mean, there are human capital needs. I mean, this is just not clear to me. I mean, do you really have enough people to do this? Or are you -- I mean, something is missing here, and I'm not sure what it is.

MODLY:

We absolutely do not have enough people in the Department of Defense to do the audit work that's required to get a clean opinion. And so, we do rely on contract personnel to help us with that. Now, not only do we not have the skills, we don't have the sheer volume of people that we need.

So we do rely heavily on a contractor base to help us with both preparing for audit opinions and preparing our financial improvement plan, but also in actually executing those. So we are heavily reliant on a contractor base to get a lot of this work done.

TOWNS:

That makes it more difficult to get a handle on it.

MODLY:

I think it requires a level of managerial expertise within DOD that Mr. Brinkley and I are really trying to upgrade by bringing in some more people into the government who have that level of experience and have that level of expertise to help manage the contractor base. And that is a challenge that we have, but we are exercising our use of special hiring authorities, et cetera, to bring in more people that have broad experience within the private sector doing this type of work.

As was stated before, the department never had a clean financial opinion for the entire department. And the government itself is challenged in that way. So having a cadre of people in the department who really know what it takes to get it done is a challenge. And so, we are trying to bring more people in from the outside, but bring them in as government employees rather than as pure contractors so that we can have people inside the department that can manage that contractor base that we need to get it done.

BRINKLEY (?):

I would agree with that. I think that's a critical element here of when they come up with this plan that they're developing human capital is probably more important than anything else because without the human capital, the systems aren't going to happen, the audits aren't going to happen, and the transformation is not going to happen.

And the market is fairly tight right now for bringing in good financial people. We're competing for the very same financial people and the I.T. people, Mr. Hite, that they might be competing for out there. And the market's tight. There's a lot of consulting firms and accounting firms and others who are competing for that same group of talent, particularly in the Washington, D.C. area. I think it's a little easier to compete for talent outside of the Washington, D.C. area and federal environment. I think they found that also in the field.

TOWNS:

Right.

Thank you very much, Mr. Chairman. I yield back.

PLATTS:

OK. Thank you, Mr. Towns. Appreciate your participation.

I want to come back to the issue of the environment of the department. And I think we are fortunate to have Secretary Rumsfeld and someone who on September 10th and even despite the attacks of the 11th has maintained his commitment to, you know, this transformation on the business side of it. If we do better with how we manage the department, we're going to do better at how we support the war-fighter.

And I think that's what this is all about, is in the end, you know, we save that \$150 million that was lost on unused tickets, plane tickets. That's \$150 million that's either in quality of life for soldiers and their families or to equipment, armor, whatever it may be.

You mentioned, Mr. Modly, in your testimony that you and Mr. Brinkley in working together and kind of shifting the focus of the business management modernization program into its implementation phase. And in that sense, the way I read it is kind of trying to sell the merits of it, that you get that buy-in within the department, that if we do this, there's going to be a benefit all around, you know, to everybody, especially to our mission, supporting that war-fighter.

How do you think that's going? How's that sales effort going, you know, as you try to change that mentality over there?

MODLY:

I'm getting a little tired of having to go with (inaudible), but other than that, it's been very effective, sir. We try to go out as often as we can together to show that finance and AT&L -- and AT&L is really where a lot of these business transactions happen. That's where they occur.

And the culture of the department does not devalue of the financial information that comes out of that transaction. We are trying to go out and communicate together that the program is an enterprise program. We tell our people, "Think about the enterprise. Don't think about your silo." It's the whole purpose behind shifting the focus more horizontally to look at end-to-end processes and looking at the customer as being the war-fighter.

So for us, it's been very effective. And we're going to continue to do it as long as we possibly can because that message has to go to a very, very large organization. And it's not just he and I, but it's the people that work for us and the people that work for those people that have to also start communicating at that level. So as long as we stay engaged at our level, I think that helps reinforce that message.

HITE:

Mr. Chairman, if I could just add to that.

PLATTS:

Yes.

HITE:

We talk about the business enterprise architecture up to this point and the modernization program and what we have after four years. I think one of the root causes for how little we have thus far has been the absence of an effective communication strategy to achieve that buy-in. So I would applaud these efforts and raise them up as keys to success for the modernization program.

PLATTS:

Excuse me, Mr. Hite. That kind of leads to my question for all of you and especially, I guess, starting with our DOD officials on the chief management officer. Because I do commend you. And Mr. Towns' statement that you're a breath of fresh air, your frankness and your approach on this issue.

The worry is that a year from now, you, for whatever reason, choose to do something else and we're always starting over. And that when we get this commitment, get the leadership of Secretary England, who I think the world of and has served us so admirably in a number of positions in the last four years, very difficult times, and has always stepped forward when asked to and doing a great job. But that worry about turnover of personnel and then we lose that momentum.

And that's what I see the CMO being about, is ensuring that there's, you know, a continuity. And I want to make sure I understood from your testimony that your statements here today and the position of the department is not supportive of legislative CMO position. Is that accurate?

(UNKNOWN)

That is correct.

PLATTS:

Do you think that -- and maybe not -- I don't mean as specifically as proposed in the Senate bill, you know, and what is associated with that legislation. But do you agree that having a more permanent position that we know is going to, you know, be there across administrations and long-term maybe would help to, you know, change some of the mindset, the environment in the department, that if everyone says, "Well, hey, Congress really means it this time, they've created this new position. It's a seven-year term, it's a five-year term, 10-year term, whatever it may be, but that, you know, we really need to do this"?

Is there hope, you know? You know, is that a legitimate hope if we would go that route?

(UNKNOWN)

I'll respond. I think the formal position of the department is that there is great risk in separating business activity from war-fighting activity through dividing the deputy secretary's responsibilities in that manner. He gave a formal response to that, and that was the crux of it.

If you think about a world in which we're moving to performance-based logistics and we're having contract business resource support delivering value into theater directly to the war-fighter

-- and all of our theme today has been about clearly articulating the benefits of business process reengineering to the war-fighter. Anything that creates a separation of the war-fighting activity of the department from the business activity of the department works counter to what we're trying to drive home, which is the very real fact that these things are entirely complimentary and they are supportive.

And they are going to get more supportive as we move into new arrangements with the defense industry base. So that's one response in terms of why that's not, that particular proposal, is not appealing to the department.

We are working to establish continuity in the program. Tom and I talk all the time. People are constantly asking us the same point you made. "Well, what happens if you guys go," -- I want to talk to that in a different way in a moment. But specifically we've established the BMMP as an ACAT-1 (ph) acquisition program of special interest to the Department of Defense. That in and of itself with a program baseline creates a continuity that extends beyond resource turnover at the senior level as well as even administration turnover.

So we're taking advantage of that. We're continually looking at ways, as Tom mentioned, to bring in people from private sector for terms and extended appointments and permanent career positions within the department to contribute and provide continuity and to create a critical mass of leadership that understands the importance of this and has experience actually engaging in effective business transformation activity.

But the most important point I want to focus on here today is that the leadership issue is a significant challenge for the department. But we could put that leadership in place, and there has been leadership in place in the past in past efforts of the department that has not succeeded to its full extent because the mission of the department did not require it to succeed.

We have a moment in time here where the needs of joint war-fighting are making it extremely apparent that continuing to execute our business operations as independent entities and those independent entities are the drivers of the siloed information is no longer sustainable, that the rapid requirements, the speed of decision making necessary to meet the war-fighting challenges of the 21st century drive and create an absolute need for us to execute effective business transformation.

So whether Tom and I are here in the long-term or our replacements are here in the long-term, that mission will trump all other aspects of leadership. That is the sufficient condition for effective business transformation. And the leadership is something we're also addressing.

I think that is the missing ingredient that's not been present in prior efforts, that we're more focused on systems, streamlining and financial management. The mission itself is completely in alignment with the need. And I am confident, given that fact, that we're going to be successful as we go forward.

PLATTS:

The point of having, you know, these efforts hand in hand under one deputy secretary, I think, are well stated in that ideal world. And earlier I asked about a realistic approach versus an idealistic approach. And if Secretary England doesn't mind spending 48 hours a day on doing both, I agree.

But the challenges, you know, the way I see the department and, you know, the benefits of a CMO is that that's not realistic because of what we're demanding day to day in that war-fighting side, that general operation of the department of appropriate necessity whoever is the secretary, whoever is the deputy secretary, you know, their focus is, you know, what battles are we fighting today and do our troops have what they need and the support. And, you know, it doesn't allow them to give the time that we need on the modernization effort.

And that's why in concept supporting, you know, the GAO's position and legislation that's now been introduced, you know, we need to look at the specifics, you know, maybe is that trying to be realistic, you know, it's just not humanly possible, I don't think, given the magnitude of the challenge. I mean, the fact that we have two of you sitting here, not one, kind of makes the case that, you know, you're partners in this, you know, from finance and the logistics and working together makes the point that it's, you know, for one person, you know, it really isn't going to work.

And so, you know, the thought of a CMO is one I think we need to look at.

Mr. Kutz, I don't know if GAO has taken a specific position with the Senate bill.

KUTZ:

Yes, we support the Senate bill. I mean, as you say, we believe that there's two jobs here, and one's never been filled. The one job of the deputy secretary is to do policy and military transformation. The other one, business transformation, always takes a second seat. And you discussed the reality.

The reality is when the administration came in, they thought they were going to be able to spend a lot of time on transformation. Then September 11th happened. And guess what?

PLATTS:

If we were back in the '90s, you know, we might have had, you know, with some conflicts. But...

KUTZ:

It didn't happen then, either.

PLATTS:

Not global. You know, we might have been able to do it.

KUTZ:

Right.

PLATTS:

I mean, with the same commitment from an administration that we have today, if we had had that in a more peaceful time, one person maybe could have overseen both.

KUTZ:

Right. It's that constant turnover you mentioned. And I'll just use -- I've been at this for four or five years. And there's been, I bet, a dozen or more hearings. And we've probably had eight or nine sets of witnesses.

PLATTS:

Yes.

KUTZ:

And so, you know, at some point in time, is Mr. England -- and he's a perfectly capable person. I think the comptroller general thinks he could probably do this job if it was full-time for seven or more years. The question is will it be full-time, and will it be for seven or more years. It does not appear to us that that would be the case.

And will he be able to come to hearings like this and be held accountable by Congress? Is he going to come to 10 or 12 hearings in a row and represent the department as their representative for business transformation? I doubt it. I think he's going to have more important things, in his view. But we'll see. I mean, we certainly will see. But we do support the legislation.

PLATTS:

And what are you -- and we may have shared this -- you may have shared this before. But the specific criteria that you think is most critical to a CMO position being effective and worth pursuing.

KUTZ:

Well, certainly the executive level two position, number three in the department, deputy secretary for management, seven-year renewable term, someone with private sector and potentially government experience with transformation successful of large, complex organizations. And so, those are some of the kinds of things that are in that legislation specifically. And we certainly support that.

PLATTS:

If I remember from your testimony, Mr. Modly, you fulfill those requirements, I think, right?

MODLY:

I think so.

PLATTS:

The business and the government experience, in essence what you're doing. But we want you to do it at a higher level and more full-time.

MODLY:

I'm not looking for a different job right now. I'm perfectly happy where I am. But I would say that what's more important, I believe, in the transformation is not what happens. I mean, it's important for senior level direction and continuity, I agree with the objectives. And if the objectives can be cast properly up front and those clear requirements of what we're trying to accomplish can be cast properly up front, it really -- transformation falls to the people that are three, four, five, six, seven levels below us.

And so, we have to change the overall culture of the department. And we have to seethe the organization with people who have had experience across broad industries and understand what it takes to get this kind of thing done. And I'm not sure you solve that necessarily with one person at the top.

KUTZ (?):

Can I just address that culture thing just for a minute? Because, I mean, if you look at GAO, we've got the comptroller general for 15 years. We know he's not going away. And fortunately we're confident he's doing a good job. But the transformation is going to be a 15-year transformation. We know he's not going away.

And the Department of Defense and other federal agencies you know two years is your window. You know these people are going to turnover constantly. And you know that nothing is going to last that long. And that's really -- if you look at some of the efforts over time, that's the reality of what's happened.

PLATTS:

Right, and I think that's where trying to jive the two statements is that I agree that effort at that five or six levels down. But then you take Mr. Kutz's comment, if you are five or six levels down and, you know, it's your system that, you know, created and you really don't want to change it because you like it, it works for you even if it doesn't work in a bigger sense. Then you think, "Well, you know, I can just sit this out."

You know, we can spend some money, we can -- but, you know, you're going to be gone, you know, the higher up in a year or two years. And, you know, we'll still be here. And I think that's part of that. It's a combination of your two statements.

It is critical at this lower level, you know, staff. But for them to take it seriously, they need to know that the person telling them to do it is going to be there and going to hold them accountable long-term, not just in the short-term. And I think that's where trying to mesh this, that permanency.

The departments transfer the responsibility from comptroller to AT&L and that this is going to maybe allow you to better support this transformation process. Can you expand why that's going to be the case, why, you know, in the current environment is that going to work better?

HITE (?):

There were three primary reasons driving the shift over. The first one was if you look across the department, we understand this concept of where the transactions start. Two thousand of these 4,000 systems are logistics oriented systems. So it made sense to shift it over for that reason.

The second reason was that if you looked at the composition of the DBSMC, the Defense Business Systems Management Committee, the second ranking person on that committee is undersecretary for AT&L, not the comptroller. The undersecretary for AT&L is a level two political appointee, as is the deputy secretary of defense.

So the deputy secretary as the chair -- it made sense for the vice chair of that committee to be AT&L and therefore, for the program to shift up there. So it was an elevation essentially of the program management to a higher level in the department consistent with what the GAO had said.

The third reason has to do with program management and control over spending. We are taking these key priority initiatives and making specific effort, as Paul mentioned, to designate the MMP as an ACAT-1 (ph) program. We're going to centralize the funding for all those key programs within the DMMP office.

And that made sense to do that under the AT&L because they have all the acquisition discipline and they essentially write the acquisitions of discipline for the department. And I don't know if Paul wants to comment on that any more.

BRINKLEY:

No, just to reinforce, I think you asked the question earlier about the two of us being here together and Tom alluded to earlier the fact that we seem to do road shows frequently. There are two elements to this. The program and the accountability for the execution of the program is within AT&L reporting to myself. So there's no lack of clarity about accountability now for execution and success.

But the cultural change we're trying to drive -- and again, if there were a CMO at the top of the department, I'm sure he would essentially add to cultural change or not. But Tom and I and our subsidiary organizations are very focused on driving home again the fact that financial management discipline is complimentary to clean, streamlined business processes.

That's not part of the awareness of the department. It's not part of its culture. So the discussion earlier -- the department doesn't deliver quarterly financial results and the quality of those quarterly financial results are not requisite for its success or failure in its core mission. So over those 50 years of systems being created, there is no embedded awareness that a financial focus is or is not complimentary to executing our primary mission in terms of delivering material to war-fighters.

So we will continue to drive this, you know, call upon each other to reinforce that message. But the accountability for the program is here and for the reasons he cited.

PLATTS:

And my referencing your both being here is a positive. The fact that you are here, I think, is an example of what I see as progress of moving forward and that we actually start getting to implementation. And, you know, we have been trying to identify the problems in the systems and what's out there, but that you actually now are moving forward and your partnership in essence is

about action and that we end up improving the systems ultimately for the benefit of the war-fighter out there.

Let me ask about a specific, you know, case that was highlighted as one of the examples by GAO. Mr. Towns mentioned the airline tickets as an example of the waste of dollars. The one specifically I'd like to focus on as to what the current status is is really more about the quality of life and how we support those courageous Americans. And it deals with the injured Reserve component soldiers who apparently because of glitches in our tracking our management personnel systems have routinely been bumped off of full-time active duty status, which makes them ineligible for their continuing Medicare.

And the one example was, I think, a special operations soldier injured in Afghanistan who over a 12-month period was knocked out of his active duty status numerous times totaling \$12,000 in lost pay and, you know, delays in getting medical treatment for him and his family. What has been done with that specific focus of injured soldiers and the fact that, you know, we do right by them?

HITE (?):

Yes, sir. First of all, those types of incidents are as a former active duty military member and have friends and relatives who are in theater, it's embarrassing, and we try everything we can to keep that from happening. What happened in that particular instance and those instances in general was that as Reserve units came back from the theater and they had injured soldiers within hospitals, they deactivated the unit, which automatically caused the stop in pay and they didn't account for the soldiers that were in -- they didn't account for the soldiers that were in the hospitals.

We are now actively monitoring all the soldiers in all the hospitals to ensure that they have an advocate, to ensure that their pay is taken care of. And my understanding is that we have had very, very few in the past several months instances, if any, of problems with pay regarded to injured soldiers.

PLATTS:

Well, I hope that's the case because it certainly is embarrassing. Maybe more so, it's demoralizing and just unacceptable, given the courage of these men and women. And, you know, one of the finest privileges I've had is to visit wounded at Landstuhl as well as in theater in Iraq and Afghanistan. And if there is a group of Americans who we need to do right by, it's they and their families.

HITE (?):

Yes, sir.

PLATTS:

I also thank you for your own service. I'm not sure who else of the panel were former military, but I appreciate your service. And we're blessed because of you and others who have and are wearing the uniform.

So I think, you know, we've touched on the broad areas that I hoped to address here today. And, you know, one of the challenges for our committee and for me as chairman is I'm asked actually in the district, "Well, what exactly does your committee do and how do you do it?" And I said, "Well, you know, as more of an oversight committee, our efforts are to try to continue to keep the focus on issues. And by keeping everyone's attention, kind of eye on the ball, that we'll hopefully advance that ball down the field."

And that's what today's hearing is, again, about, specifically relating to DOD with the assistance of GAO and with the efforts of you two and your colleagues at the department that we advance the ball down the field, specifically and maybe again most importantly, for DOD because of the importance of your mission to the defense of our nation and in that, you know, it's about doing right by those men and women who are out there defending our nation. We'll continue to work with each of you, both at the GAO and at the department.

And one of the things that I want to offer is that, you know, I'm not here to play got you. And, you know, when we find things that are wrong, we want to make sure that those errors are corrected, but also learned from. And it sounds like, as in the case of the injured, that there is a new approach being taken to ensure, you know, that we learn from that mistake or mistakes, but to be part of this team of all of us working together.

Because it just is so evident that if we have success in this effort -- and it's not exciting necessarily. Although for those of us who like to balance our checkbooks, it's exciting. For most, maybe it's not. But it certainly is critical to the operation of the federal government and specifically to the defense of our country. Because, you know, when we are debating whether we can afford, you know, this new military equipment, you know, this new technology or, you know, a cost associated and how we compensate and provide for our men and women and their families, every dollar we save by more efficient operations is dollars that are then available for better equipment, for better pay, better housing, whatever it may be, quality of life.

And so, this certainly is an area that we cannot let up on and we must succeed on. And if it takes us two years or five years, in the end, we just need to do it. And I think the approach you're taking that is -- I wrote down at one point when you talked about -- and I forget, Mr. Modly or Mr. Brinkley, if it was -- which one of you said it. But it was about you're not really interested in how many systems, whether you have 2,000 or one, but are you achieving the necessary -- I mean, are you doing the job, in essence, an outcome based approach.

And although I'd still be worried if we're duplicating through too many systems, but outcomes is what we need to be about and how we achieve those outcomes. And I think you're on the right track in your efforts. And, you know, I wish you great success in your efforts. And I hope you'll also turn to GAO because Mr. Kutz and Mr. Hite, you know, others there have a history, you know, a wealth of knowledge that I think would benefit each of you in your new positions as you go forward and what maybe has been tried in the past they can share with you and, again, that you had opportunity to learn from the errors of the past.

So we'll keep the record open for two weeks for any additional information such as specifically any consequences from the violations of the law in the past. Again, thank each of our witnesses, thank the staff on both sides for all the leg work.

And this hearing stands adjourned.

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