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Introduction

Chairman Thornberry, Congressman Langevin and members of the Subcommittee, I appreciate the opportunity to update you on the management of the Department of Defense's business operations, including our progress in the oversight and implementation of modern, interoperable defense business systems. The Department has always taken its duty to be an excellent steward of taxpayer dollars very seriously. As the DoD Deputy Chief Management Officer, I am the Secretary and Deputy Secretary of Defense's primary agent for integrating and improving our critical business operations. I am responsible for instituting a framework to define clear business goals, create meaningful performance measures, and align activities via repeatable processes. The purpose of DoD's overarching management agenda, and the focus of the work undertaken by my office, is to establish an effective, agile, and innovative business environment that is fiscally responsible. There are many on-going efforts that are crucial to achieving this agenda, including the definition and refinement of the end-to-end processes that comprise the Department's business operations and IT acquisition reform, both of which I discussed when I last testified two years ago before this committee. While I am pleased to be able to report progress in both of these areas since that time, much remains to be done and a number of other important initiatives have been started.

The Department's defense business systems support critical functions such as financial management, supply chain, contracting, healthcare, and military personnel and payroll. However, many of these systems are old and handle or exchange information in ways that do not readily support current standards. These systems need to be modernized or replaced to support the achievement of key business outcomes, such as auditability, and the Department must do a better job at delivering these modern capabilities on time and within budget. Success in this area requires the alignment of broad Departmental strategy, functional business area strategy, and organizational investment decisions, as well as appropriate acquisition approaches and oversight. It also requires the proactive identification of enterprise data and process standards that will help us achieve an effective, agile, and innovative business environment.

Over the past number of years, attention to DoD defense business systems modernization has steadily increased and Congress has been instrumental in shaping the governance framework and supporting processes that the Department uses to oversee these efforts. We are particularly thankful for the changes introduced through Section 901 of the Fiscal Year 2012 National Defense Authorization Act, which have been a catalyst for dramatic improvements.

Today, I will update you on our integrated business framework, which has resulted from these recent changes, the maturation of our business enterprise architecture, and some of our recent successes and challenges in the implementation of our largest IT systems.

Investment Management

Section 901 of the Fiscal Year 2012 National Defense Authorization Act, now codified at Title 10 United States Code § 2222, included significant changes to the requirements for investment review and certification of defense business systems before funds can be obligated. Continuing to build on existing statutory guidance that requires Business Process Reengineering (BPR) and alignment to the Business Enterprise Architecture (BEA), Section 901 required the establishment of a single Investment Review Board (IRB), chaired by the DoD Deputy Chief Management Officer (DCMO), and investment management process.

Section 901 also significantly expanded the scope of systems requiring certification to include any business system with a total cost in excess of $1 million over the period of the current future–years defense program, regardless of type of funding or whether any development or modernization is planned. In the prior IRB process, approximately $1.8 billion in funding was assessed and certified each year, covering only those systems that were actively being developed or modernized. The expanded scope in Section 901 will result in virtually all of the more than $7 billion annual business system information technology funding being assessed and certified.

To execute this new investment management process, the DCMO issued guidance that established a portfolio-based approach with several key elements and chartered a new governance body, the Defense Business Council to serve as the Department's single IRB. The Defense Business Council has successfully brought together and integrated the efforts of a number of existing governance bodies to provide a single forum in which to manage DoD business operations from the creation of our overarching business management strategy to implementation of the strategy's underlying programs and initiatives.

As part of this portfolio-based investment management approach, each year, Functional Strategies, aligned with the Department's Strategic Management Plan (SMP), are created by the appropriate business line owner that provide guidance to DoD Components on the strategic vision, goals, priorities, outcomes, measures, and any mandatory enterprise solutions for a given functional area (e.g., financial management, human resources, etc.). Organizational Execution Plans are then developed by DoD

Components (e.g., Military Departments, Defense Agencies, etc.) that include details on the Component's proposed business system investments, such as their alignment with the Department's functional strategies and their adherence to BPR and BEA requirements. The Organizational Execution Plans also demonstrate cross functional integration and articulate any other mission imperatives of the Component. Then, the Defense Business Council, which is comprised of senior business representatives from across the Department, reviews the proposed investments and the DCMO, as chair of the Defense Business Council, approves the Organizational Execution Plan certifications, recording the outcomes in decision memoranda.

The Department's new investment management process ensures that investments are aligned to strategies, allows the Department to make more informed investment decisions, eliminates legacy systems that are no longer required, enhances interoperability, and helps the Department transform to an environment where business applications are able to be rapidly deployed on a common computing infrastructure. The process also ensures that each investment is an appropriate use of taxpayer dollars and meets our shared goal of delivering agile, effective and efficient business solutions that support and enable our warfighters. The certification process that we went through for Fiscal Year 2013, for example, identified approximately 10% of the systems reviewed as legacy systems that would be retired over the next three years. Steps have been taken to ensure that those systems will actually be terminated.

The Department is now in the midst of the process of certifying investments for Fiscal Year 2014. The SMP, which is the Department's highest-level plan for improving business operations and is designed to align all business goals and operations for the Department of Defense, has been updated and a new version will be issued early this spring. New Functional Strategies are being written to align with this new strategic guidance and will provide implementation details needed to achieve the goals of the SMP. Then, as we move through the spring and into the summer, new Organizational Execution Plans will be compiled and reviewed by the Defense Business Council. This new investment management process allows the Department, for the first time, to more holistically manage our entire portfolio of business systems in a deliberate and organized manner, including our legacy systems that are in sustainment, and is truly serving as a catalyst for dramatic improvements.

Business Enterprise Architecture

One of the key supporting elements of the Department's improved, portfolio driven, and strategically aligned investment management process is the Business Enterprise Architecture. The purpose of the Business Enterprise Architecture is to

provide a blueprint for DoD business transformation that helps ensure the right capabilities, resources and materiel are rapidly delivered to our warfighters – what they need, where they need it, when they need it, anywhere in the world. The Business Enterprise Architecture does this by articulating the data standards, business rules, laws, regulations, and policies that are needed to effectively execute the Department's end-to-end processes and that DoD business system investments must adhere to.

The Business Enterprise Architecture's content is driven by and aligned with the Strategic Management Plan, Functional Strategies, and Organizational Execution Plans and it, in turn, drives the content of those documents as well. Together, these documents and the processes that support them enable the Department to make wise investment decisions that track from top level strategy all the way down to individual system execution. It also guides information technology investment management to align with strategic business capabilities as required by the Clinger-Cohen Act, and supporting Office of Management and Budget (OMB) and Government Accountability Office (GAO) policies. On February 14, 2013, the Department issued Business Enterprise Architecture Version 10.0. This new release makes important improvements to previous releases both in its structure and in its content.

Defense Business Systems Successes and Challenges

As I've outlined, the Department has continued to mature its governance processes and its architectural framework. These strides forward are extremely important, foundational improvements. However, they will only be judged successful if they can effectively enable better system implementations and business outcomes.

Some of the Department's most visible defense business system implementations are our Enterprise Resource Planning systems (ERPs), both because of their sheer size and also because of the challenges that they have experienced over the years. Today, DoD is implementing multiple ERPs across the Military Departments and Defense Agencies to serve as the business backbone for our operations. Each of these implementations is at a different stage in its lifecycle and most have experienced challenges as they have moved from design to implementation. Broadly, we continue to improve our oversight of these programs in a number of ways, including putting in place more rigorous performance measures that broaden the discussion from standard acquisition measures to key technical and business measures. This has led to a closer link between the information technology programs and the business outcomes that they are helping to enable. Additionally, we are applying lessons learned across all of the programs in the portfolio. We are also incorporating recent GAO and DoDIG findings, which have highlighted deficiencies in compliance, shortcomings in change management

or training and difficulties in management of data quality and interfaces that have created inefficiencies and labor intensive rework. We acknowledge that there have been and continue to be issues and, as GAO has noted, DoD governance has taken appropriate action to limit the pace of deployment. We are committed to working through every significant deficiency in order to realize the long term value of these investments.

Over the past 6 months, I have undertaken a substantial effort to fully understand and define the leading root causes of a program's success along the dimensions of cost, schedule, and performance. We have discovered some key findings:

- Much of a program's probability of success may be predicted early in the acquisition lifecycle, often before a request for proposal (RFP) is released.
- Focusing the Department on quality, upfront work in three areas can significantly improve program outcomes:
    - Ensuring clarity of the program's scope and requirements.
    - Testing for completeness and conducting a thorough Analysis of Alternatives.
    - Developing a quantifiable business case.
- Across the lifecycle of a program, six critical leading indicators (identified and vetted with both private and public business sector stakeholders) can inform programs' success trajectory:
    - Is the design of the program clear (objectives, requirements, technical details, and investment case) to ensure consistent understanding across stakeholders and vendors?
    - Is the program robustness enough to encounter problems or issues and remain a positive investment for the government?
    - Are program increments/requirements severable from one another to ensure the Department's Return on Investment (ROI) is delivered across the program's lifecycle?
    - Is the design of the program stable enough to minimize changes in development and prevent a ripple effect across the program?
    - Are program dependencies with other requirements, systems, or data sources identified up front to ensure program success?
    - Is accountability clear to ensure various stakeholders are aligned and recognize and communicate critical messages required for decision makers?

In recognition of these findings, I have taken the following actions:

- Implemented increased emphasis on the use of the Business Capability Lifecycle (BCL) alternative acquisition process for defense business systems to apply more rigor and consistency to programs throughout the lifecycle phases.
- Formalized a problem statement review process within the Defense Business Council to strengthen rigor in the earliest phase of a program by requiring comprehensive business cases to justify IT functionality provided by large programs.
- Undertaken reviews of large, MAIS/ACAT-1 business systems to identify the root cause drivers of program issues (and the downstream effects) at every stage in the lifecycle. Reviews are conducted at the DCMO portfolio level as well as at-the-ground level within multiple programs.
- Commissioned an effort to establish a performance management structure that measures "leading indicators" of program success to help predict / prevent a program from incurring cost increases or delays.
- Begun piloting "leading indicators" in my current program portfolio to strengthen each program's success trajectory.

My next steps include:

- Continue to examine the process by which we scope large programs – manageable increments which deliver capability in shorter development cycle.
- Continue to roll out the "leading indicators" across the Department's IT portfolio to aid in the determination if programs are set up for success and assist program teams to focus on key program attributes (e.g., requirement clarity) that drive success.
- Conduct an analysis of unsuccessful programs to leverage findings into future programs to prevent similar issues.

Conclusion

In closing, the Department is committed to improving the management and acquisition of IT systems, as well as our overarching business operations. These issues receive significant management attention and are a key part of our broad strategy to build better business processes that will create lasting results for our men and women in uniform and the American taxpayer. I look forward to continuing our work with this committee in the months and years ahead and being able to report additional gains in our quest for greater efficiency, increased effectiveness, and further agility, enabled by modern, interoperable IT capabilities.

I look forward to your questions.