

**Statement of Larry J. Lanzillotta**  
**Acting Under Secretary of Defense (Comptroller)**  
**House Government Reform Committee**  
**Subcommittee on Government Efficiency and Financial Management,**  
**Subcommittee on National Security, and Subcommittee on Technology**  
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Mr. Chairman and Members of the Committee, thank you for this opportunity to discuss Department of Defense (DoD) business management. This will be one of my last hearings before leaving the Department of Defense, and so I want to give you my observations from the last three years of working on DoD management challenges.

Led by Secretary Rumsfeld, transforming DoD business management has been a top priority. Our overarching aim has been achieving an integrated environment of DoD business processes -- supported by systems that efficiently deliver relevant decision-making information to DoD leaders and fulfill all financial management requirements.

My message today is: The Department of Defense has undertaken an unprecedented, comprehensive, and visionary transformation to achieve this aim. We are making progress to correct weaknesses and control business system investments. Strong and consistent Congressional support of this transformation is vital to sustaining our progress.

**A Three-Pillar Strategy**

To transform DoD business management, the Department must succeed with all three, interdependent pillars of its strategy:

- (1) Overhaul and integrate DoD business processes and systems through the Department's Business Management Modernization Program (BMMP).
- (2) Refine and advance the financial improvement plans of the military services and defense agencies to enable them to produce auditable financial statements resulting in clean (unqualified) audit opinions.
- (3) Audit line items on financial statements as they become ready for such an audit.

Each of these pillars is essential. They must be advanced simultaneously. None can be stopped or slowed without hurting the progress of the entire transformation.

This transformation will not only dramatically improve DoD business and financial management. It also will enable DoD leaders to make resource decisions based on the best information and data obtainable. And it will enable the Department to meet Chief Financial Officers (CFO) Act and other legal requirements -- including satisfactory financial statements.

## **Accomplishments in Transforming of DoD Business Management**

During the three years since the Department of Defense began its business management transformation, we have had substantial accomplishments. The Department has:

- Established a progressively more comprehensive inventory of all DoD business systems. (Total is currently over 4000 systems, and more systems are expected to be identified.)
- Began to build a blueprint, or architecture, to guide the transformation from the current, stove-piped conglomeration of DoD business systems into an integrated environment of overhauled systems and processes.
- Designed an incremental strategy to achieve our transformation goals and defined the focus for each increment.
- Developed a governance process to provide strategic direction to oversee the transformation of business process and systems so they will transcend organizational boundaries and become integrated.
- Organized all major DoD business activities into six areas or domains, and designated an Under Secretary of Defense (USD) as a Domain Owner to oversee each business area – for example, the USD for Acquisition, Technology and Logistics to oversee all logistics business activities.
- Established a portfolio management process by which Domain Owners will oversee investments in information technology to ensure full integration of all DoD business processes and systems.
- Established the DoD Audit Committee to provide a concerted senior leadership focus to produce auditable financial statements resulting in clean audit opinions.
- Developed for individual reporting entities improvement plans that show planned improvements and milestones.
- Implemented additional discipline in our quarterly reporting processes that have accelerated the preparation of financial reports and elevated our commitment to quality.

It is important to note that Domain Owners are responsible for overseeing the transformation of business activities managed by the Military Services and other DoD components. This governance plan has already demonstrated that it can work, and we are continuing to strengthen and expand it. Some observers do not believe that we are moving fast enough, yet acknowledging that DoD is one of the world's largest and most complex organizations, with a huge business transformation challenge.

The Department of Defense is in business transformation for the long-term. It will take years to fix our systemic problems, which evolved over several decades.

## **Congressional Direction and Support**

DoD accomplishments over the last three years have significantly benefited from both Congressional and GAO support of our comprehensive transformation initiative. In view of this

strong past support, we are concerned by the apparently contradictory direction given by the Congress in both the House and Senate FY 2005 defense authorization bills. Both bills cut funding that is essential to achieving the transformation that everyone agrees is essential. The rationale seems to be that progress has been too slow, yet the funding cuts will make continued progress more difficult.

Besides funding cuts, both authorization bills propose a radical change in the role of Domain Owners: Changing the Domain Owners role from oversight of business systems to being responsible for virtually all aspects of business systems. To date, the DoD approach has been to give Domain owners oversight responsibility using our prescribed architecture standards and business rules. This structure will enable Domain Owners to control business-related investments, ensure that standards are adhered to, and move DoD business systems and processes toward full integration. The complimentary nature of the domain process to traditional acquisition management enhances our ability to meet Service unique warfighting needs while implementing business standards across the Department.

We should be careful about derailing this governance structure. It promises to overhaul and integrate DoD business activities – ultimately saving billions of dollars. Changing this governance structure could prevent us from eliminating stove-pipe systems or create new stove-pipe problems. For decades, DoD and Congressional leaders have recognized the need for operational expertise and perspective in the managing of business systems. We should resist centralizing all business system decisions and losing this expertise and perspective.

### **Closing**

In closing, I urge you and other Congressional leaders to continue to support the Department of Defense in its efforts to transform DoD business management. Congress and the Department must continue to be partners in this unprecedented undertaking.

Our business transformation progress is consistent with U.S. industry standards. And it is all the more remarkable that our accomplishments have occurred while we fight the global war on terrorism and advancing bold initiatives to transform America's military capabilities.

This is a critical time for ensuring that DoD management and business systems become just as superlative as the military forces they support. We in the Department of Defense appreciate and continue to need the Congress's support to achieve this vital priority. Thank you.