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**Before the House Committee on Government Reform**  
**Subcommittee on Government Efficiency and Financial Management**  
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Mr. Chairman, members of the Committee, I am pleased to be here to discuss financial management in the Department of Defense (DoD).

The Department of Defense faces substantial financial management challenges. Over the past two years, we have made dramatic progress in overcoming these challenges. But complete success will take years, not months. And we will need to continue to make additional near-term investments before realizing long-term savings.

**DoD Financial Management (FM) Challenges and Causes**

The overarching challenge facing us is to reform DoD business processes and systems. That will require both an overhaul of those processes and systems and a cultural change for the people using them. For success, our reformed processes and systems must:

- Efficiently provide DoD decisionmakers with timely, accurate, and reliable information.
- Facilitate integration, streamlining, and modernization of all DoD business functions.
- Lead the Department in transforming how it does business.
- Fulfill all financial management laws, standards, and requirements.

Why are DoD business processes and financial management systems not able to meet this challenge? The primary reason is that those processes and systems were not designed to meet today's requirements. In the past, each major DoD organization was allowed to design and manage its own systems without having to integrate into a DoD-wide architecture. This created a stove-piped support structure that was inefficient and unresponsive to leaders' needs. Additionally, until recently DoD financial management has been focused almost exclusively on accounting for annual budget appropriations, not producing clean financial statements and other requirements.

Clearly the Department of Defense needs much more than marginal changes to set things right. The solution is the long-term, comprehensive reform of its financial management and business processes.

**Reforming DoD Financial Management and Business Processes**

The Department of Defense has undertaken just such a comprehensive overhaul of its business processes and financial management. The main goal is to streamline processes and integrate systems to enable DoD decisionmakers to get timely and accurate information to make

the best allocation of defense resources and people. The overhaul also will enable us to meet all business management requirements including clean audit opinions on DoD financial statements.

To achieve our business management goals, our strategy is to:

- 1) Use a DoD-wide architecture to prescribe standard business and financial rules.
- 2) Employ a DoD-wide oversight process, directed by DoD senior leaders, to implement the architecture and to guide DoD spending.
- 3) Refine and extend the architecture to create a seamless connection between it and other Federal and DoD transformation initiatives.
- 4) In the near-term, address critical financial problems – notably DoD financial reporting.

### **Business Management Modernization Program (BMMP)**

The Department's Business Management Modernization Program was developed to overhaul DoD business management. The blueprint for this overhaul will be our Business Enterprise Architecture (BEA), which we recently made public.

In developing the BEA, DoD and IBM experts applied over 160 business and technology practices used by successful industry organizations. The Architecture is a compilation of functional and technical requirements for defining and integrating DoD business processes. It will provide the roadmap to reduce our 2000+ systems to a much smaller number of integrated, compatible systems.

What is different from previous approaches for reform is that the Department has created what we term domains. Under seven domains or business lines, we have grouped all our major business processes. These domains define and illustrate the scope of the Business Management Modernization Program. The domains are Logistics; Acquisition/Procurement; Installations and Environment; Human Resources; Accounting and Financial Management; Strategic Planning and Budgeting; and Technical Infrastructure.

Domain leaders will implement the architecture by reengineering business processes and developing a systems solution that is consistent with the Enterprise Architecture. In this way, leaders who are experts in each domain will reengineer the way the Department does business and formulate business improvements.

The DoD senior leadership has developed a strong governance process to guide implementation and refinement of the Business Management Modernization Program and Business Enterprise Architecture. Our governance process will ensure that all improvements fully support our long-term goal for cohesive business management across the entire Department. It also will guide investments in information systems and technologies.

## Accomplishments and Progress in Improving Financial Reporting

The overhaul being advanced by the Business Management Modernization Program promises to greatly improve the Department's financial reporting. But we cannot put off fixing DoD financial reporting until BMMP is fully implemented. We must achieve clean audit opinions on DoD financial statements as soon as possible.

We recognize that DoD is critical to the success of financial reporting for the entire federal government. Financial reporting also is critical because they will help decision-makers get timely and accurate information and analysis. Secretary Rumsfeld and his senior leadership is squarely behind the improvement of DoD financial reporting.

As the senior official directly responsible for financial reporting, Under Secretary of Defense (Comptroller) Dov Zakheim is intensely involved in improving financial statements. Of special note, he has directed each of the major DoD reporting entities to prepare a comprehensive plan for how it can achieve a favorable audit opinion in 2004. Our Comptroller leadership also is receiving periodic briefings on our progress.

Specific accomplishments. In his April 8 testimony before this subcommittee, Comptroller General David Walker noted that DoD is unable to comply with applicable financial reporting requirements in six areas. Here is an update on our progress in those six areas:

- 1) Plant, Property, and Equipment (PP&E). We have a major initiative to accurately report the value of PP&E with a goal of a qualified opinion in 2004.
- 2) Inventory and operating materials and supplies. We are phasing in a methodology that will accurately report the value of our inventory over the next several years.
- 3) Environmental liabilities. Auditors are validating our improvements, and we expect favorable audit results in 2004.
- 4) Military retirement health care liability. We expect a favorable opinion on new Medicare Eligible Retiree Health Benefits Fund.
- 5) Intragovernmental eliminations. We are participating in a pilot project that will implement the government-wide standard rules internally prior to a government-wide pilot in 2004.
- 6) Cost accounting. We are exploring possibilities for capturing and using existing data elements to meet this requirement prior to pilot programs associated with the long-term solution.

We have had other accomplishments as well. We have reduced Problem Disbursements over 80% over the past few years. This means we are matching our disbursements with valid obligations in our accounting records. We believe that this is no longer a material weakness for the Department's financial reporting. Additionally, we have asked auditors to perform an assessment of the Fund Balance With Treasury account to determine if it is ready for audit.

While making these improvements, we have accelerated the reporting schedule in accordance with the OMB guidance. We plan to submit the FY 2003 financial statements forty days ahead of the required January 31, 2004 due date.

Overall, we are addressing DoD's financial reporting problems on a very broad front – and we are not waiting for the long-term to arrive before we put solutions in place. The Department has achieved clean audit opinions on four of its reporting entities. These clean opinions represent approximately 26% of our assets and 50% of our liabilities. Other entities with clean opinions on the horizon will bring us to over 90% of our liabilities supported by a clean opinion.

### **Other DoD Management Improvements**

The Department of Defense is making improvements in management areas outside the focus of this hearing.

Last year we overhauled DoD management of its government charge cards. We clarified and strengthened policies, increased oversight to prevent abuses, and made other changes to ensure that charge card programs will be a source of government savings, not an opportunity for abuse.

The Department is changing its budgeting process to increase our focus on program performance and results. We are developing and increasing the use of performance metrics to measure a program's effectiveness. And we have moved to a 2-year internal budget cycle, requiring us to formulate a complete new budget only every other year. This will enable an off-year focus on budget execution and program performance.

We are continuing our adherence to realistic budgeting. All pieces of the DoD budget must be based on sound cost projections. For acquisition programs, realistic budgeting is key to sustaining stable funding, which is essential to having efficient, cost-effective defense acquisition.

We are continuing studies of 226,000 DoD positions to determine which public or private organization can best provide the functions of those positions. Once the results of the studies are implemented, savings for FY 2006-2009 would likely exceed \$300 million.

DoD is seeking statutory authority to transfer the Personnel Security Investigation function to the Office of Personnel Management, which would make it the central provider of these services for the federal government. This would eliminate redundancy and other inefficiencies.

The Defense Logistics Agency will divest its Document Automation and Production Service, finance various logistics studies from within available resources, and demolish obsolete fuel facilities. The Defense Contract Audit Agency will conduct a pilot test for outsourcing its audit workload.

We are working to achieve savings by pooling and bundling unused cell phone minutes by organization, installation, or regional level. This initiative now has been broadened to encourage users to obtain flexible cell phone plans that are tailored to their needs and most cost effective.

We are advancing the use of several efficient means for outsourcing non-core DoD functions to the private sector. Such means include direct service contracts and the commercial cost comparison option permitted by the Federal Acquisition Regulation. One example: One DoD organization outsourced its desktop computer services by defining them as a new requirement, then negotiating with the private sector for the efficient delivery of those services.

For DoD contracts, we are looking to convert from paper-based to web-enabled process. This would speed up processing, make payments more timely and thus reduce penalties against DoD, and save operating costs.

### **Closing**

In closing I want to assure this committee that the Department of Defense is advancing as rapidly as possible its bold agenda for overhauling DoD financial management and business processes. Our ultimate aim is a streamlined, integrated, and modernized business management system that fully and efficiently meets the needs of DoD decisionmakers and all financial management requirements. Short-term, we are making strong progress toward achieving unqualified audit opinions on its financial statements and making a broad range of management improvements.

Transformation of its business management is a top priority of the Department of Defense, and we are confident of success. Thank you.