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STATEMENT OF THOMAS R. BLOOM
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BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
AND
INTERNATIONAL RELATIONS
AND
SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY
INTERGOVERNMENTAL RELATIONS AND CENSUS
ON
STRENGTHENING OVERSIGHT OF DOD BUSINESS SYSTEMS
MODERNIZATION

MARCH 31, 2003

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Mr. Chairman and members of the Subcommittees. My name is Tom Bloom and I am the Director of the Defense Finance and Accounting Service (DFAS). Thank you for the opportunity to testify on behalf of DFAS and to discuss strengthening oversight of DoD business systems modernization.

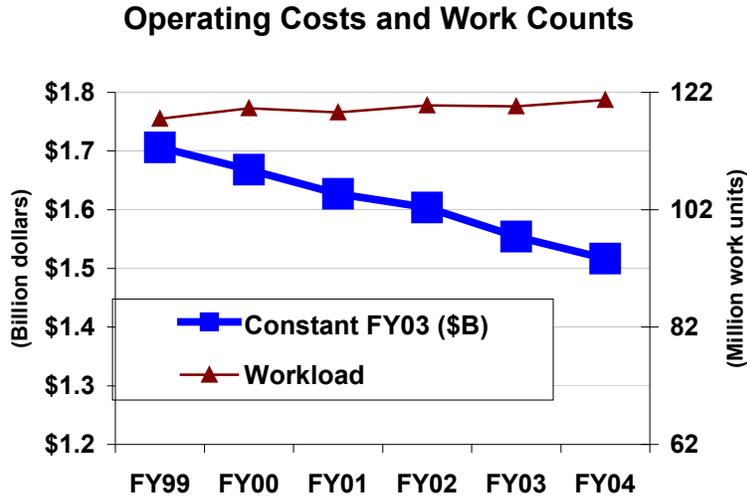
I will begin with the scope of our responsibility and operations. DFAS is the world's largest finance and accounting operation. In Fiscal Year 2002, the DFAS team paid 5.7 million people. We processed 11.2 million invoices from contractors, recorded 124 million accounting transactions, and disbursed \$346.6 billion. We paid 7.3 million travel vouchers, managed more than \$176 billion in military retirement trust funds, and accounted for more than \$12.5 billion in foreign military sales. We are responsible for 267 active DoD appropriations.

I am proud of DFAS' success in reducing costs to the taxpayers. In Fiscal Year 2002, we reduced our costs to DoD customers by more than \$144 million from Fiscal Year 2001; we are forecasting another \$108 million reduction this fiscal year.

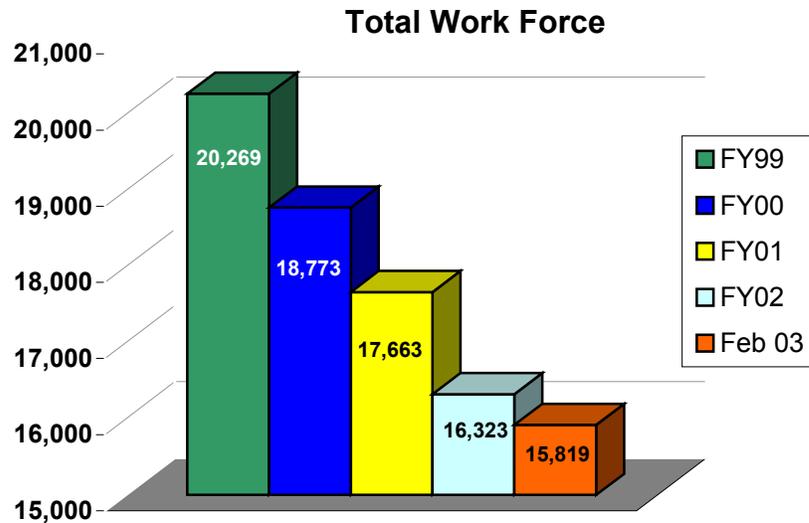
Cost to Customers (\$M)

	FY 01	FY 02	FY 03
Army	\$613.0	\$555.0	\$515.0
Navy	\$389.0	\$346.0	\$320.0
Marines	\$83.0	\$78.0	\$75.0
Air Force	\$334.0	\$314.0	\$288.0
Agencies	\$264.0	\$246.0	\$233.0
Total	\$1,683.0	\$1,539.0	\$1,431.0

Our operating costs are decreasing even while our workload has been increasing. We are paying more DoD personnel, retirees, and annuitants. We are processing more invoices from defense contractors, and we are performing more accounting transactions.



We truly are doing more with less. Our total workforce has declined from 20,269 in Fiscal Year 1999 to 15,819 as of February 2003.



We have improved the quality of our service across all the DFAS business lines:

- Military and Civilian Pay Services has web enabled customer access to pay account information through “myPay”. Approximately 1.7 million customers are using this system and that number increases daily. For example, in one day, a unit deployed to the Middle East requested personal identification numbers for 2000 more members to access myPay.
- In the last 12 months, Commercial Pay Services lowered by 30 percent the amount of interest paid per million dollars by decreasing the number of over-aged invoices to the lowest level in DFAS history, from 9.03 percent in April 2001 to 4.1 percent in January 2003. Projecting this trend through Fiscal Year 2003, we anticipate DoD savings of approximately \$3.5 million in interest payments compared to Fiscal Year 2001.
- In Fiscal Year 2002, Accounting Services achieved a 99.96 percent timely delivery rate for departmental accounting reports and reduced the average number of days to produce the reports from 14 to 13 days. We reduced problem disbursements by 90 percent from the 1998 baseline. We achieved our third straight DFAS clean audit in Fiscal Year 2002, and we enabled the Defense Contract Audit Agency, the Defense Commissary Agency, Military and Retired Trust Fund and the Defense Threat Reduction Agency to achieve unqualified opinions on their consolidated financial statements.

Because of our increased efficiencies, DoD spends less than one half of one percent of its budget on our services. This is a 20 percent decrease from Fiscal Year 1999 to Fiscal Year 2002. We expect that trend to continue.

When DFAS was created in 1991, we had 324 core finance and accounting systems and were in over 300 locations with independent operations. Today, we have consolidated our operations at 26 locations; we have consolidated many duplicate, non-standard, stove-piped systems; and we have a standard, secure technical infrastructure.

DFAS' success has been recognized outside DoD. When we competed our civilian payroll system and operations with the private sector, no one chose to bid against us. More recently, the Office of Personnel Management selected DFAS as one of four agencies to provide payroll services across the Executive Branch. Of the four agencies selected, our payroll operation and system unit costs are the lowest. We anticipate paying 300,000 more civilian employees by September 2004, more than one half of all federal civilian employees in total.

We have made great progress since 1991. Our course has not been without its pitfalls, and we have learned many lessons along the way. We recognize and generally agree with the GAO that in the past, there have been some weaknesses in our investment management oversight process. The four Information Technology investments specifically reviewed by GAO each reflect some of these problems, each with different outcomes. Schedule delays and associated cost growth are not in dispute. However, the complexities of these initiatives made GAO's evaluation difficult and their report does not completely depict unique circumstances.

The Defense Procurement Payment System (DPPS) is an example of where we were trying to do the right thing, and in retrospect, in the most difficult way possible. DPPS was intended to make paying DoD bills part of a seamless end-to-end procurement process. We started with a Commercial Off The Shelf (COTS) software base, anticipating that we would

change DoD business processes and use existing feeder systems to support this process by including a central corporate database. To accommodate many statutory and procedural requirements and an evolving end-to-end process, we customized the COTS package too much and mitigated its benefits. Legacy financial system integration through the Corporate Database required additional development that further delayed DPPS implementation. Unlike a feeder application, DPPS could not be implemented until all elements of the DoD end-to-end solution were in place including the Standard Procurement System.

When key programmatic decisions were made from 1995-1998, DPPS was the right concept without the proper foundation. Having an enterprise architecture, identifying best business practices and standards up front, and having an effective governance and oversight process across the Department are critical to success. The lack of these fundamental elements was a significant impediment to the DPPS program. The DoD Comptroller terminated DPPS funding and reduced associated DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) funding because DPPS did not fit the DoD Financial Management Enterprise Architecture (FMEA). The FMEA provides the blueprint for future programs. We have already applied the lessons of the DPPS program and the DOD end-to-end procurement process.

On the other end of the spectrum, GAO criticized the Defense Departmental Reporting System (DDRS) program for not updating traditional cost documentation. In fact, timely business analyses and decisions were made that supported continued investment. The DDRS–Audited Financial Statement (DDRS-AFS) enables rapid data collection from numerous sources and transforms it into financial statements that automated and improved the timeliness of Departmental Reporting. DDRS transformed a manual process into a web-

based solution that promotes standardized processes and report generation from a single DoD database.

Additionally, in April 2002, DDRS met the Office of Management and Budget challenge to implement the DDRS Data Collection Module (DDRS-DCM) in time to support preparation of the Fiscal Year 2002 annual financial statements and meet the new quarterly reporting requirements. Within six months, the DDRS-DCM provided an automated mechanism for military services and agencies to collect financial data from non-financial sources throughout DoD.

The DDRS Budgetary module provides the Fiscal Year and Appropriation Level reporting required by the U.S. Treasury and DoD. It is the vital link between the DoD installation level accounting systems and the financial statements. To date, DDRS has completely transformed the Department's Financial Statement process. Consistent with DoD regulation, the DDRS Program Manager completed a Life Cycle Cost Estimate (LCCE) for each milestone decision. The LCCE is being updated for the July 2003 Milestone C decision for DDRS Budgetary Reporting.

The DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) is the most complex of the four IT investments reviewed by GAO. It provides a technical infrastructure based on modern database technology. Because it has been developed to support and enable improved processing within other applications, a traditional Economic Analysis is not applicable. Instead, a more appropriate cost benefit analysis was conducted to economically justify this investment.

The DCD/DCW concept is to support any application that requires a bridge between target and legacy applications. This compensates for the lack of common data among

applications, translates non-standard transactions into those requiring Standard Fiscal Code, and consolidates financial information for customers whose funds are executed in multiple accounting systems. The Cost Benefit Analysis showed that the DCD is providing quantitative and qualitative benefit to DoD in its current production applications.

DCD/DCW has successfully demonstrated direct support for mission performance.

- The DCD/DCW currently contains the shared repository for Corporate Electronic Funds Transfer data that is used by entitlement applications. A single remittance data source ensures that correct information is used when paying DoD vendors and reduces the possibility of unauthorized access and fraud. This DCD/DCW segment has produced over \$4 million annual savings.
- The DCD/DCW allows legacy accounting transactions and summaries to be processed through it and communication with other compliant systems without costly modifications to older applications. The US Special Operations Command (SOCOM) uses this capability to translate and consolidate accounting information stored in multiple military service systems. Because SOCOM personnel are involved in the Afghanistan operations, this result has made a positive impact on the war on terrorism. During a recent visit with the SOCOM Commander, General Holland voiced his deep appreciation to DFAS. Because of our help, SOCOM now has timely execution of information and can concentrate on the war on terrorism.

Because the DCD/DCW will allow feeder system transactions to integrate stove-piped applications such as acquisition, accounting and entitlement, we determined that the required data could be captured and reused for disbursements to treasury. For this reason, a standard disbursing system was designed as an application that would actually exist within the

DCD/DCW. As stated in the GAO report, the Defense Standard Disbursing System (DSDS) has been impacted because of the interrelationship between DCD/DCW and DPPS development.

Since the termination of DPPS, we have limited further investment in DSDS until a business case analysis is complete that evaluates alternative solutions and demonstrates return on investment and compliance with the Financial Management Enterprise Architecture. This includes incorporating the functionality, cost and schedule associated with the interfaces and crosswalks to provide a complete program cost and benefit as well as compliance with the Financial Management Enterprise Architecture.

The GAO review focused on oversight processes of the past and the history of the four programs I've just discussed. I don't believe the report adequately recognizes DFAS and Departmental efforts in the past two years to strengthen our oversight processes.

- The Financial Management Modernization Program is a significant department-wide effort to improve business operations, and one of the Secretary's top ten priorities.
- The DFAS Business Evolution (DBE), implemented in October 2000, established Business and Product Lines to better focus the workforce and make Business Line Executives accountable for performance.
- DFAS has clear mission, vision and goals, and in October 2001 we began using a Balanced Scorecard framework to monitor progress.
- To support the DBE structure, we reorganized our governance processes and established an Investment Review Board chaired by the Chief Information Officer (CIO) and the Business Integration Executive (BIE). This Council of senior

executives is responsible for reviewing business cases and recommending investments to a higher level review board, monitoring the progress of those investments, identifying corrective actions, and recommending appropriate milestone decisions in accordance with DoD policy and regulations, the Clinger Cohen Act, and the Financial Management Modernization Program.

- In July 2001, I chartered a Strategic Planning Steering Group (SPSG) as that higher level review board to ensure that our investments support our strategy, and are clearly linked to our budget. This group connects our internal process and the Department's new governance process.
- After an independent assessment, the SPSG recommended a Portfolio Management Process that became effective in October 2002. Portfolio Management is a structured process for aiding decision-makers in allocating and investing resources and balancing risk with a return on investment. Portfolio Management will ensure that all our investments are selected, controlled and evaluated based on how well they support the corporate strategy and goals. Further, the Portfolio Management Process is integrally linked to our budget process, the CIO/BIE Council investment oversight process, the SPSG and the Financial Management Modernization Program governance processes.
- Since 2000 we have emphasized positive education and certification requirements for Program Management staff. At that time, only one percent of our Program Management staff was acquisition certified. Today 81 percent of the staff has achieved certification. The Director of Systems Integration and the majority of Program Managers are Acquisition Level III certified in Program Management.

Many others are certified in other acquisition areas as well. In addition, we follow up with system and program managers with on-site System Life Cycle training on a recurring basis

- We have published step-by-step guidance on life cycle management tasks and investment review criteria and have made that information available throughout the agency. The CIO/BIE Council uses these established criteria to evaluate programs.

These activities were underway or at least planned prior to and independent of the GAO review and are consistent with best practices in the GAO's Information Technology Investment Model. We can readily concur with the GAO recommendations because we have done these things.

I assure you that the military and civilian employees of DFAS seek to provide the best stewardship of taxpayer dollars, the best service to our customers. They deserve nothing less. We have made great progress, and we are striving to do better. We will vigilantly monitor and continuously improve our investment oversight processes. That concludes my formal remarks. Ms. Audrey Davis, the DFAS Chief Information Officer, and I will be happy to answer your questions.