

NOT FOR PUBLICATION UNTIL RELEASED BY THE
HOUSE ARMED SERVICES SUBCOMMITTEE

STATEMENT OF

MR. ROBERT WORK
UNDER SECRETARY OF THE NAVY

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

ON

MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT BUDGETS

JULY 22, 2010

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Chairman Skelton, Representative McKeon, distinguished members of the Committee, I would like to thank you for this opportunity to discuss the work the Department of the Navy is doing to create efficiencies in business systems and financial management. The Department of the Navy is executing meaningful and sustainable changes in Navy-Marine Corps business management and will continue the drive to improve effectiveness, realize efficiencies, and provide a more straightforward and tighter focus on business transformation.

The Department is committed to improving our business operations and understands the Congress' frustration associated with information technology cost overruns and schedule delays. The Secretary of the Navy has assembled a very capable team to orchestrate business transformation. Our plan is to integrate and optimize existing processes, organizations, and capabilities across the Department to accomplish critical strategic and enterprise level business objectives.

As the Department of the Navy Chief Management Officer, I view my role as the leader of transformation across the enterprise. My responsibilities are to:

- Develop the vision and goals for Department of the Navy business transformation,
- Ensure that we address our issues from an enterprise perspective; developing and integrating the Department's blueprint for transformation,
- Integrate people and organizations to achieve complex enterprise business objectives that are difficult to accomplish within the traditional Department of the Navy organizational structure, and

- Lead the transformation of our governance structure including chairing the Business Transformation Council which oversees the management and improvement of the Department of the Navy's business operations.

I view "business operations" as a sub-set of "management," and "management" extends across the entire Department of the Navy. We are looking beyond the business side of the enterprise; I intend to apply this same rigor to the business operations of all programs, including weapons systems.

The Department of the Navy is fully committed to executing meaningful and effective Business Transformation and will make significant changes in the way we do business. Our goal is to establish a legacy of transformation in the Department by instilling a culture of business innovation and ingenuity, codifying the role and mission of the Department of the Navy Chief Management Office, establishing critical governance forums and prioritizing, articulating, and executing the transformation agenda.

As an example, the Business Transformation Council is the top level enterprise decision body to enable and inculcate business transformation within the Department of the Navy. The Business Transformation Council was dormant for nine months prior to my arrival as Chief Management Officer. Since then we have held six Business Transformation Councils on topics including the Future Pay and Personnel Solution, Navy Enterprise Resource Planning, and the Next Generation Enterprise Network. We have more work to do, but re-invigorating the Business Transformation Council has reinforced the importance of business transformation throughout the Department.

A priority for the Business Transformation Council is to translate Department of Defense high-priority performance goals into Department of the Navy action. One example is in-sourcing. Leadership across the Department is taking action to verify mission requirements, eliminate functions that are no longer required, and organize activities to promote efficient, and economical operation by optimizing personnel utilization. Our objective is to in-source services, not the individuals performing the services. Under any circumstances, however, contractors will remain a vital source of expertise and support services.

Transformational efforts are not restricted to the Business Transformation Council. We are looking to strengthen the Chief Management Officer position by empowering the Deputy Chief Management Officer. In that regard, I have created efficiencies internal to the Secretary of the Navy organization and improved effectiveness by critically looking at the Department's organizational design. To date we have eliminated the Office of Program Appraisal and reallocated virtually all military billets to fleet activities. We have also begun to restructure the Administrative Assistant to the Secretary in order to consolidate functions across the Secretariat, the Navy and the Marine Corps.

As stated, the Department of the Navy provided performance management input to the Office of the Secretary of Defense to address the strategic objectives outlined in the Quadrennial Defense Review. We are in the process of assessing the current Department of the Navy strategic objectives and establishing objectives for the upcoming fiscal year.

We will further define these objectives to identify measures and metrics that will provide valuable information for management decisions.

As articulated in the fiscal year 2010 National Defense Authorization Act, my responsibilities as the Department of the Navy Chief Management Officer now include the requirement to determine whether or not each defense business system modernization is in compliance with the enterprise architecture for defense business systems and has undertaken appropriate business process re-engineering efforts. The Department of the Navy now has a process in place to make these determinations. These reviews are conducted to ensure that our business capabilities are properly aligned and that we understand these processes when making information technology investments.

Through our business transformation plan, we will emphasize improving business operations, generating efficiencies and aligning business processes. Although our processes associated with the business enterprise architecture and business process re-engineering are still relatively new, they are integral to our transformation efforts and I expect that they will yield significant benefits in achieving our transformation goals.

We believe the use of continuous performance improvement techniques up front and early will provide significant benefits as we transform our business operations. Toward that end, the Department of the Navy has assembled a small but highly qualified workforce that is trained in industry proven methodologies to assist in identifying efficiencies.

The Department of the Navy supports the goal set forth in the fiscal year 2010 National Defense Authorization Act, which requires the Department of Defense to achieve audit readiness by September 30, 2017. We will continue to execute our strategy to establish robust controls over business systems and processes impacting financial reporting. The Department of the Navy will continue the execution of the Financial Improvement Program, which is a component of the Department of Defense's Financial Improvement and Audit Readiness Plan. The Financial Improvement Program's primary goal is to establish robust internal controls over business processes impacting financial reporting. Departmental internal controls will be regularly tested and corrective actions will be implemented if necessary leading to accurate, auditable financial reports.

From strengthening controls and standardizing processes, financial management operations will become more efficient through less rework and improved stewardship of taxpayer funds. In addition, financial information will be more timely, accurate, and reliable. This effort is a key component of our business transformation strategy, requiring implementation of sustainable change management actions.

As a first step toward auditable financial statements in the Department of the Navy, the Marine Corps has achieved audit readiness on its Statement of Budgetary Resources. An audit is currently underway on this statement, conducted by a private firm. This is an important milestone on the path to auditability for Department of the Navy and the rest of Department of Defense, and all of the Services will benefit from the

lessons learned by the Marine Corps during the audit. This will result in more effective preparations for future audits and minimize associated costs.

The Department of the Navy's audit readiness strategy is based on continuous process improvement. Challenges in making this strategy work include: convincing all levels of Department of the Navy to embrace the added value of audit readiness; executing the changes needed for compliance upon acceptance of the value proposition; maintaining proper levels of funding to support the Department of the Navy auditability plans; forging a higher-level collaboration with external service providers, primarily the Defense Finance and Accounting Service.

In all these efforts, the Department of the Navy has greatly benefited from a close working relationship with the Department of Defense Chief Management Officer/Deputy Chief Management Officer. In addition, the Military Department Under Secretaries/Chief Management Officers meet regularly to work and coordinate issues jointly, as well as share the best practices.

In closing, the Department of the Navy appreciates the legislation that Congress has enacted which improves our ability to re-engineer our processes and implement transformational changes in our business operations. The Department recognizes that business transformation will be challenging and difficult, and is committed to working with Congress. We realize that business transformation is a top management priority, one made more important by Secretary Gates' efficiency initiative. The Department

views this initiative as an opportunity to establish a business enterprise culture of innovation, efficiency, and effectiveness that matches our warfighting prowess.

The Department of the Navy's goal is to foster the business transformation we need to efficiently and effectively support the world's most powerful Navy and Marine Corps, and the Sailors, Marines and their families who so admirably serve both.