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SENATE ARMED
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STATEMENT OF
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BEFORE THE
SENATE ARMED SERVICES COMMITTEE
READINESS AND MANAGEMENT SUPPORT SUBCOMMITTEE
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Mr. Chairman, Senator Akaka and distinguished members of the Readiness and Management Support Subcommittee, thank you for the opportunity to speak with you today about Defense Business Transformation and the progress that we in the Department of the Navy (DON) have made toward our transformation goals. Our transformation efforts are geared to both: (a) attain our vision of net-centric operations to increase combat power and effectiveness, and, (b) dramatically transform our management and business practices to maintain our competitive advantages over current and potential enemies. Improved business processes and associated controls are important weapons in our arsenal and represent the keys to improved financial accountability. We fully recognize the many competing national priorities and are committed to getting the most out of every defense dollar that you and the taxpayers entrust to us. The successes achieved have made us stronger, more efficient and more effective; the results of our continued action will bring us closer to our vision of a naval warfighting team armed with the secure, assured, accurate and timely information needed to fight and win.

The DON's business transformation vision is to increase significantly the readiness, effectiveness, and availability of warfighting forces by employing business process change to create more effective operations at reduced costs and by exploiting process improvements, technology enhancements, and an effective human capital strategy to assure continued mission superiority. Our DON Information Management/Information Technology (IM/IT) Strategic Plan links our IM/IT transformation objectives to the strategy laid out in our guiding documents, Naval Power 21, Sea Power 21, and Marine Corps Strategy 21.

This vision is outlined in our Enterprise Transition Plan, which focuses on five key efforts to achieve our transformation goals.

1. Create a Seamless Infrastructure. The swift and effective use of information will be central to the success of our future operations, and so the Department has made significant progress in aligning our information technology infrastructure into a core set of networks that support the Navy-Marine Corps team. ONE-NET (OCONUS network), Integrated Shipboard Network System (ISNS - afloat network), the Marine Corps Enterprise Network (MCEN), and the Navy Marine Corps Intranet (NMCI) form the nucleus of a consistent naval network infrastructure that enables effective, consistent standards and information access to Department of the Navy personnel around the globe.

2. Create Optimized Processes and Integrated Systems. Process change is crucial to successful business transformation, and when done correctly, allows for the insertion of new technology to dramatically improve processes rather than just to automate inefficient operations. Experience in private industry and our own efforts have shown that the application of Lean Six Sigma (LSS) techniques can profoundly improve process effectiveness and efficiency. We are presently engaged in a vigorous campaign to train every leader in the Department of the Navy to use these powerful techniques, and, under Secretary Winter's direction, are executing an aggressive three-year plan for process improvement affecting service, support and transactional aspects of the Navy-Marine Corps enterprise. "Lean" embodies methods to identify and remove non-value-added

activities from processes, reducing cycle time and increasing productivity. “Six Sigma” methods improve quality, reduce variability, and measure performance. Within the Navy Secretariat’s transactional processes, LSS has resulted in a 48% reduction in cycle time for Below Threshold Reprogramming actions, while the Justification and Approval process for contract awards experienced an 87% cycle time reduction with significantly increased automation. Numerous other DON commands and activities have achieved efficiency and productivity improvements averaging a 4 to 1 return on investment ratio in 3,300 rapid improvement events and projects. Marine Corps Aviation Continuous Process Improvement (CPI) is ongoing and has achieved numerous successes through a blending of the Theory of Constraints (TOC) with Lean and Six Sigma techniques. The following are illustrative of CPI successes during the past year:

- Activated 100% of all work centers in less than a year and reduced Expeditious Repair (EXREP) items from 26 (average per month) to 4 (average per month)
- Applying Lean principles to ordnance supply processes led to reduction in Time to Reliably Replenish (TRR) for over 5,000 line items of Armament Weapons Support Equipment (AWSE) and Aviation Armament Equipment (AAE) from 125 days TRR to 12 days, and reduction in backlog from 1,100 to less than 200 items.
- Use of “kitting” (i.e., assembling a kit, normally consisting of consumable parts) for power plants reduced ordering time from 10 hours to 40 minutes.

One of the pillars of the Navy’s Sea Power 21 strategy is Sea Enterprise, the plan to use lessons learned from industry to create efficiencies on the business side of the Navy that will free up resources for reapplication on the warfighting side. A key enabler of Sea

Enterprise is Navy Enterprise Resource Planning, or Navy ERP. Navy ERP will create speed through integration of our acquisition, finance and logistics capabilities, reduce costs by eliminating redundant systems and optimizing inventory postures, and improve the accuracy of our financial information. Required changes in the Navy's maintenance structure, and other influencing factors, necessitated a reordering of priorities and rebaselining of Navy ERP, but the project is moving forward. Navy ERP is an ambitious undertaking, but the scope is necessary in order to achieve the return we expect.

The program has built upon our successful ERP pilot projects that executed focused business transformation for limited user groups. One pilot, SMART, has been retired. The three remaining pilots (SIGMA, CABRILLO and NEMAIS) continue as limited production systems supporting over 23,000 users until replacement by Navy ERP. The first retirements are planned for Fiscal Year 2008.

Navy ERP is the cornerstone of the future business environment, providing the "backbone" for the majority of required financial management capabilities including budget formulation and execution; funds distribution; core proprietary, budgetary, and cost accounting; and internal DON information and reports. Navy ERP will, over time, replace all core Department of the Navy accounting systems and underlying financial feeder/budget/management information systems across the DON, including those that interface with the Defense Financial Accounting Service. Navy ERP is the Navy's primary means of compliance with statutory and policy requirements for financial reform, including the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the DoD Business Management Modernization Program. Navy

ERP Release 1.0, Echelon II & III Financials and Acquisition, will encompass General Fund and Working Capital Fund activities and enable funds management from Echelon I through Echelon III. Navy ERP will provide allocation, visibility, tracking, and reporting functionality as well as the ability to perform funds execution from distribution through disbursement. The program will conduct thorough demonstration and operational testing in Fiscal Year 2007, while concurrently executing extensive change management, and user training.

3. Optimize Investments for Mission Accomplishment. In a concerted effort to rationalize the DON's legacy applications and embrace portfolio management best practices, the DON established senior headquarters functional process owners to serve as Functional Area Managers (FAMs). FAMs are responsible for working with Echelon II and Major Subordinate commands to align processes and identify a minimal set of applications required to execute the Department's mission. We are waging an aggressive campaign to eliminate legacy networks, consolidate server support, and eliminate redundant applications. We will track and manage the remaining portfolio of investments to provide the Department with the capabilities required to perform its missions with the greatest possible efficiency.

4. Transform Applications and Data into Web-Based Capabilities to Improve Effectiveness and Gain Efficiencies. The replacement of legacy applications and isolated processes with web-based capabilities is key to improving business processes and freeing Sailors, Marines and DON Civilians from administrative functions to focus on core

missions. DON enterprise portals and employment of open standards will give Sailors and Marines access to secure self-service transactions from anywhere in the world and enable transformational change in our logistics, maintenance, manpower, and financial operations.

5. Align Business Mission Area Governance to Produce a Single, Integrated Enterprise.

We have taken great strides to ensure our organization remains aligned during these transformation efforts. The Department has aligned and integrated Navy and Marine Corps IT governance. The designation of Deputy CIOs for the Navy and Marine Corps has aligned policy development with operational responsibilities, and established formal reporting relationships with information officers throughout the chain of command. The realignment of Navy warfighting and warfighting support networks under the Deputy Chief of Naval Operations for Communication Networks (N6) integrates responsibility for network requirements, resourcing, and development under a single authority. Our portfolio management efforts are aligned with DoD's Core Business Missions, and executive members of the DON are assigned as voting representatives of the DoD Investment Review Boards corresponding to their staff responsibilities to facilitate transformation efforts and the Business Transformation Agency investment review process.

Our annual IT budget execution guidance, and the work performed by our Functional Area Managers ensure that organizations' projects support the strategy and conform with policy and statute. Recent Government Accountability Office reports acknowledge the

progress we have made in concert with the OSD staff, the Defense Business System Management Committee (DBSMC), chaired by the Deputy Secretary of Defense, and the Business Transformation Agency (BTA) on IT governance, portfolio management, and enterprise architecture development, and these efforts continue to move ahead. The DBSMC's capability portfolio approach is the right way to tackle the task of getting to the right set of investments for the DoD Enterprise. The work of the DBSMC and the BTA continues to build momentum, and the strong leadership and vigor that Mr. Brinkley and Mr. Modly have brought to Business Mission Area transformation have produced excellent results during their tenures, and I anticipate that the pace of improvement will continue unabated. Similarly, our work with the Department of Defense Chief Information Officer (DoD CIO) and my fellow Military Department CIOs reflects a level of cooperation and sharing of ideas and initiatives that is unrivaled in the history of the Department. A strong partnership also exists in the financial management community, and I would now like to address our plans for financial improvement and audit readiness.

The provisions of the John Warner National Defense Authorization Act for 2007 provide opportunities that will serve to strengthen and improve our efforts—the goal is to improve the quality, timeliness and accuracy of financial information that our processes produce. Our financial improvement efforts have been fully coordinated with those infrastructure improvements that I have described earlier. They are integrated into the BTA framework of enterprise-wide systems and standards, the Navy ERP program and our legacy system transition plan. The Department of the Navy's Financial Improvement

Program (FIP) is a detailed component of the broader Department of Defense (DoD) Financial Improvement and Audit Readiness (FIAR) Plan. The OSD financial management and system transition framework have enabled us to develop practicable and executable plans. Our strategy is fully consistent with the requirements and intent of Section 313.

We are well into a phase of discovery, identifying deficiencies in our business processes and systems, taking immediate action where possible and incorporating remaining corrective actions into the FIP. The DoD FIAR and DON FIP provide a roadmap that will result in improved financial information for management and reporting and eventual audit readiness.

Regarding section 804 and the new reporting requirements for Major Automated Information Systems (MAIS), while we believe that DBSMC oversight has substantially increased senior level attention on the Department's MAIS programs, the additional reporting for programs that fail to achieve Initial Operating Capability within five years of Milestone "A" approval is an effective means of focusing executive leadership attention.

In working with the rest of the DoD team on our transformation efforts, I have been extremely impressed by the spirit of cooperation and determination to deliver improved support to our warfighters. This spirit has sustained us during the work that has been accomplished, and will serve as the basis for continued improvement. Together, we are making great strides toward achieving net-centricity and the business process transformation we need to maintain America's warfighting advantage into the future.

Continued Congressional interest and support has proven to be invaluable in setting the course and providing the impetus to move these initiatives forward. I am confident that we have the right leadership and processes in place to guide us the rest of the way. The prospects for the Department and the Nation are bright.

Mr. Chairman, members of the Subcommittee, I thank you again for allowing me the opportunity to speak to you today. We greatly appreciate your support of our business transformation efforts, and look forward to our continued cooperation on this important work. I would be happy to answer any questions you may have about the Department of the Navy's information technology and business transformation initiatives.