

**DEPARTMENT OF THE AIR FORCE
PRESENTATION TO THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

**SUBJECT: MANAGING THE DEPARTMENT OF DEFENSE IN A TIME OF TIGHT
BUDGETS**

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Mr. Chairman, Mr. McKeon, members of the committee, I am very excited that my first opportunity to testify is in a familiar setting back here at the House Armed Services Committee. Thank you for everything you do for all servicemembers, particularly our Airmen. I also appreciate what you do to ensure the sound management of the Department of Defense (DoD). The Committee has been instrumental in passing key legislation in past National Defense Authorization Acts (NDAA) and in the Weapon System Acquisition Reform Act (WSARA) which focus on achieving higher standards in business operations and management directives. Your continuing efforts assist the DoD and the Services in effectively and efficiently using our resources.

Role of the Air Force Chief Management Officer

As both the Under Secretary and Chief Management Officer (CMO) of the Air Force, I am charged with ensuring that the Air Force can achieve its global missions while being a wise steward of taxpayer resources – in essence, driving the organization toward ever greater effectiveness and efficiency. This responsibility is even more important during these challenging fiscal times.

Mission success is paramount. The successful management of our business operations must be carried out in a way that supports the Air Force's global missions. Through business process improvements and efficiency initiatives, we can direct critical resources towards warfighting and readiness programs. As CMO, I am focused on developing and implementing proven business practices that support the mission and put the Air Force on a sustainable, healthy, long-term fiscal path.

In managing the business operations of the Air Force, I work closely with Deputy Secretary of Defense William Lynn and Deputy CMO Elizabeth McGrath, as well as my partners in the other Services. We are all dependent on one another and have a responsibility to collaborate in meeting our statutory and administrative mandates.

Air Force Management Approach

After the creation of the DoD and Service Chief Management Officer positions, the Air Force built CMO duties into the Under Secretary's mission description. We also created a 3-star equivalent career civilian position to serve as Director, Business Transformation and Deputy Chief Management Officer, with a supporting office, to provide full-time focus at the senior executive level. Our intent was to ensure that achieving business transformation in the Air Force was afforded the proper level of leadership commitment needed for success.

One of the Air Force's first efforts after establishing our CMO framework was to revamp our strategic planning process, using guidance from the Quadrennial Defense Review and the DoD Strategic Management Plan. We developed our Air Force Strategic Plan to align with the strategic management and business goals of the DoD. The Air Force business priorities directly support the Air Force Strategic Plan and are aligned with the DoD Strategic Management Plan's five top-level business priorities, which in turn support the overarching strategic objectives established in the National Defense Strategy.

The Air Force's Business Transformation Plan is also underway, in part to address the High Risk Areas identified by the Government Accountability Office (GAO). Our current efforts in these areas focus on Weapon Systems Acquisition, Contract

Management, Supply Chain Management and Financial Management. The Air Force intends to complete our Business Transformation Plan by March, 2011.

As we strengthen our management practices, it is imperative that our systems and business process re-engineering support the core missions and priorities of the Air Force. As an example, to support the Air Force priority of modernizing our air and space inventory, we have outlined major changes in our end-to-end logistics and supply chain processes to better align support with expeditionary operations. These changes will increase equipment availability while reducing costs, allowing us to reinvest in modernization. This significant effort is called Expeditionary Logistics for the 21st Century (eLog21). As a part of this effort, we defined the processes needed to achieve enterprise-wide supply chain management and total asset visibility. These changes will ensure the warfighter is supplied with equipment and supplies when and where they are needed.

We have already implemented organizational changes as part of eLog21. The Air Force Global Logistics Support Center (AFGLSC) was established to maintain end-to-end visibility across the Air Force supply chain. The AFGLSC has produced tangible warfighter benefits by significantly reducing the amount of time, from weeks to hours, required to confirm total asset visibility – in short, we know where our equipment and supplies are and can move them where they are needed with minimum delay.

The next piece in our logistics business transformation is the implementation of information technology that supports streamlined logistics. The Expeditionary Combat Support System (ECSS) is a major information technology initiative that is crucial to supporting the enterprise goals and outcomes of eLog21. By consolidating

unconnected legacy logistic and supply information systems, ECSS will eliminate the enormous inefficiencies in those legacy systems that resulted from a lack of visibility throughout the supply chain. Once fully implemented, ECSS, in support of eLog21, will allow the Air Force to maintain smaller inventories, with a greater percentage of our equipment in the hands of those that need it.

To support the Air Force priority to develop and care for Airmen and their families, we are transforming military and civilian personnel processes and systems. Under the Air Force Personnel Services Delivery program, we have realized major personnel efficiencies by centralizing services across the total force. We are also currently overhauling processes for total force management. As we re-engineer these processes, we are working to deploy the Air Force Integrated Personnel and Pay System, an information technology system which will integrate our Service-level personnel and pay systems to support our Total Force of active duty Airmen, Air National Guardsmen, and Air Force Reservists.

Another Air Force business priority seeks acquisition excellence. We have endeavored to transform the way we acquire systems in the Air Force for many years, and the passage of the 2008 NDAA and WSARA served to enhance our reform efforts. The Air Force is applying WSARA guidelines and shaping our programs with discrete capabilities and deliverables to support our revitalized processes. Our efforts include hiring more cost estimators, establishing program control discipline, institutionalizing cost estimating into our corporate decision-making process, and improving our cost estimating infrastructure.

As we work toward these business process transformations, the Air Force is using Business Process Re-engineering (BPR) principles to guide our efforts. Mapping process changes against an authoritative enterprise architecture is key to ensuring the linkage across activities. Consistent management and oversight in implementing these transformations will help ensure our business re-engineering efforts and associated system deployments are successful.

Managing a business operation also must include sound financial management. The Air Force is committed to achieving a clean audit; doing so by 2017 is required by statute. While that is a challenging deadline, we are moving forward with a strong leadership engagement, additional financial resources, and effective management of our financial systems. The Chief Financial Officers' Act provides direction for achieving a clean audit through leadership commitment, modernizing the government's financial management systems, and strengthening financial reporting. In addition, the Air Force Financial Improvement Plan is closely aligned with the DoD strategy to achieve clean audit readiness. We are focusing our efforts on the information most relevant to decisionmakers.

In order to resolve financial audit and material weaknesses we are not only making improvements to our processes, we are also making investments into interrelated information technology systems. One of the key enablers to financial improvement and audit readiness in the Air Force is the Defense Enterprise Accounting Management System (DEAMS), a partnered effort with United States Transportation Command. The intent of DEAMS is to provide timely, accurate and reliable financial information which enables efficient and effective decision making by DoD managers.

DEAMS will provide general ledger capability for appropriated funds and our Transportation Working Capital Fund and has a key linkage to ECSS for Working Capital Funds. Without new systems such as DEAMS and ECSS, we will be unable to achieve audit readiness because legacy accounting systems are not compliant with the CFO Act.

Implementing the business processes I have mentioned requires dedicated leadership attention. The Air Force Council is the key governance body within the Air Force that directs both investments and execution and is one way we are using oversight and incorporating performance goals and accountability into everything we do. In my role as co-chair of the Council, along with the Vice Chief of Staff, General Howie Chandler, I ensure that the Air Force is practicing wise stewardship of resources. In addition, through the Council, process changes are tracked to ensure accountability in meeting our business priority goals.

Efficiencies Across the Enterprise

The steps we have taken in our management agenda and our corporate process for decision-making and performance measurement are preparing the Air Force well to meet Secretary Gates' challenge to find \$100 billion in savings across DoD. In a time of restricted budgets, identifying and implementing efficiencies is critical to preserving and enhancing DoD's warfighting capabilities, readiness, and force structure. Finding efficiencies in our business operations is also central to our commitment to be good stewards of the taxpayers' resources.

As we consider how we can achieve efficiencies, the Air Force is looking across the enterprise, thinking broadly and creatively across business areas – from our organizational structure, to logistics, acquisition reform, and communications.

In attaining efficiencies, we are building on areas of past success. Energy is a business priority in which the Air Force has made progress by reducing aviation fuel use, installation energy intensity, and vehicle fleet petroleum consumption. We are already making significant reductions in aviation fuel use through the implementation of demand reduction initiatives adopted from commercial industry best practices as we recapitalize our mobility fleet. We expect that these demand reduction practices will result in annual savings of nearly 70 million gallons of fuel. We intend to reinvest savings gained through energy efficiencies into more capable fleets. At the same time, as the Air Force upgrades our legacy platforms, we are working on ways to continue to reduce fuel consumption.

The Air Force has reduced energy intensity on our installations nearly 15 percent since 2003. We are continuing to utilize practical and innovative solutions to meet our goal of reducing energy intensity by 30 percent by 2015 – from replacing outdated heating systems, to using energy efficient light bulbs, to working with local communities to build large solar arrays and wind turbines on installations. And to reduce our use of vehicle fleet petroleum, on our installations we maintain over 7,000 flex fuel and hybrid vehicles and over 1,800 low-speed vehicles. The Air Force has made significant progress and is committed to further energy efficiencies wherever we can find them.

As this Committee has demonstrated in passing legislation that requires the DoD to refine its business practices, the way to achieve success in efficiency and

effectiveness is through good management and accountability. As we think about the framework needed to turn efficiency goals into outcomes, aggressive leadership and follow-through will be critical. Achieving efficiency goals requires a sustained culture change in all departments across the DoD.

The Air Force is working to change the mindset of all of our Airmen by enabling a culture of continuous improvement in effectiveness and efficiency. Based on Lean Six Sigma techniques, a well-known business management strategy for achieving operational excellence, the Air Force launched Air Force Smart Operations for the 21st Century – or AFSO21 – in 2006 to maximize value and minimize waste in our operations. To date, over 70 percent of Air Force general officers have undergone senior level training on AFSO principles. AFSO principles are also currently embedded into professional military education training for all Airmen. Solidifying a fundamental change in the mindset of our Airmen and in the Air Force culture is critical to maximizing the returns in both efficiency and effectiveness that lean thinking and discipline are capable of delivering.

The Air Force is also building a process for achieving efficiency goals by designating responsible individuals from the very beginning and ensuring ongoing senior leadership involvement. Each of our efficiency targets will be integrated into our Air Force performance management. The Air Force Council is responsible for the achievement of our efficiency targets, while other senior leaders within the Air Force are also being given responsibility for managing the targeted outcomes.

Conclusion

Although the Air Force made some progress in re-engineering our business processes and becoming more efficient, I am aware that much work remains. To maintain warfighting capability in difficult budget times, we must find efficiencies in how we do business. And we must keep our focus on achieving these efforts over the months and years that follow.

Through the DoD, we must sustain mission effectiveness, while continuing to pursue efficiency. Part of that pursuit is to implement lasting reforms that will return cost-savings and strengthen performance year after year. The Air Force has had success in realizing some transformations, but the DoD has set even more aggressive targets which the Air Force is actively striving to hit. To achieve these goals, I look forward to partnering with this Committee and my colleagues testifying today. Realizing business transformation and efficiencies will only be achieved through a sustained team effort.