



UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



COMPTROLLER

MAR 16 2004

The Honorable Duncan Hunter  
Chairman, Committee on Armed Services  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

I am very pleased to provide you with a report on the recent progress of business transformation in the Department of Defense (DoD). Under the robust leadership of Secretary Rumsfeld, the Department has made significant strides down the road towards reforming and modernizing those business processes and systems that comprise its support infrastructure.

The Business Management Modernization Program has been working diligently to identify the requirements needed to implement more efficient and effective business processes and systems in the Department. We delivered the initial DoD Business Enterprise Architecture (BEA) and the Transition Plan on May 1, 2003, and have since developed enhanced versions of both. The report I am sending to you discusses many of those improvements. It also meets the requirements of Public Law 107-314, Section 1004 – which requires the Secretary of Defense to provide annual reports on the progress of the Department's BEA and Transition Plan. This progress report is similar to the semi-annual status report I sent to you on January 31, 2004, but also includes in-depth descriptions of most of our planned activities.

The Department's business transformation initiative is vital to the continued superb performance of our armed forces. By eliminating stove-piped processes and systems, integrating business practices, and eradicating duplicative processes, we can make sure the war-fighters receive world-class business support. I look forward to working with you as we continue to improve DoD's business operations.

Sincerely,



Dov S. Zakheim

Enclosure:  
As stated

cc: The Honorable Ike Skelton  
Ranking Member



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UNDER SECRETARY OF DEFENSE  
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MAR 16 2004

The Honorable Jerry Lewis  
Chairman, Subcommittee on Defense  
U.S. House of Representatives  
Washington, DC 20515

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cc: The Honorable John P. Murtha  
Ranking Member



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MAR 16 2004

The Honorable Ted Stevens  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
United States Senate  
Washington, DC 20515

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cc: The Honorable Daniel K. Inouye  
Ranking Member



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WASHINGTON, DC 20301-1100



MAR 16 2004

COMPTROLLER

The Honorable John W. Warner  
Chairman, Committee on Armed Services  
United States Senate  
Washington, DC 20510

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cc: The Honorable Carl Levin  
Ranking Member



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WASHINGTON, DC 20301-1100



MAR 16 2004

The Honorable C. W. Bill Young  
Chairman, Committee on Appropriations  
U.S. House of Representatives  
Washington, DC 20515

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cc: The Honorable David R. Obey  
Ranking Member

*Department of Defense*  
*Business Management Modernization Program*



**Response to Public Law 107-314, Section 1004**

**March 15, 2004**

**Office of the Under Secretary of Defense  
(Comptroller)**

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## **Purpose of this Report**

This report has been prepared in response to Public Law 107-314, Section 1004 – *Development and Implementation of the Financial Management Enterprise Architecture*. The Law directs the Secretary of Defense to provide the congressional defense committees annual reports on the progress the Department of Defense (DoD) has made in implementing a business enterprise architecture and associated Transition Plan – both developed to support the goals of the Business Modernization Management Program (BMMP).

# **Executive Summary**

## **Program Overview**

In July 2001, the Secretary of Defense established the Business Management Modernization Program (the program) to transform and modernize DoD's business and financial processes and systems. Its overall goal is to optimize the efficiency and effectiveness of all the Defense business processes – financial, logistical, personnel, procurement – that support and equip the Armed Forces of the United States. Those forces will remain second-to-none only as long as their support infrastructures incorporate the best and most modern business processes and information systems. The people of this program aim to find these tools and put them into place. Moreover, the Secretary remains committed to the success of business transformation – the list of his top-ten priorities includes business transformation. We will transform DoD's business operations so that accurate, reliable, and timely business information is available on a routine basis to support informed decision-making at all levels in the Department.

## **Accomplishments**

While we have faced many challenges establishing a solid foundation for this business transformation, we are pleased to report program successes. In the last year alone, our transformation team completed the following:

- Developed and implemented a broad-based program strategy,
- Created initial versions of a Business Enterprise Architecture (BEA) and a Transition Plan,
- Established a Department-wide governance structure for business transformation,
- Produced a set of preliminary performance metrics to measure the program's overall progress,
- Outlined a portfolio management process to guide and constrain the Department's Information Technology investments,
- Initiated business process reengineering (BPR) and modeling, and
- Developed an initial inventory of business systems.

## **Next Steps**

We have developed an architecture framework that includes high level business processes and the initial levels of process modeling. Nevertheless, there is still much more to do. We are working hard to complete the architecture and a transition plan and at the same time to gain control over our investments in business systems. The following major activities are currently in various stages of completion:

- Building the architecture to the level of detail needed to begin full-scale implementation of business processes and to begin the acquisition of new business systems (if necessary),
  - o Including estimating the total cost of business transformation enterprise-wide,
- Creating performance metrics that would allow us to manage at every organizational level needed to effect thorough and efficient transformation,
- Developing a Transition Plan that effectively guides, in sufficient detail, the process of transformation,
- Fully implementing a satisfactory and comprehensive process for managing our portfolios of business systems,
- Establishing sunset dates for many of our legacy business systems, and
- Achieving the financial management improvement goals of the President's Management Agenda.

### **Why Business Transformation is Important**

Our business transformation initiative will provide value for the entire Department. By eliminating stove-piped processes and systems, integrating business practices, and deleting duplicate processes and systems we will improve the delivery of business services our war-fighters and provide more reliable and timely information to our decisionmakers.

## **Status of the Business Management Modernization Program**

The Department of Defense remains committed to transforming its management processes and systems. Our strategy combines building a technologically advanced infrastructure with the elimination of the inefficient stovepipe processes that prevent the Department from optimizing combat and business support to our operating forces. These accomplishments embody the key components of the foundation upon which we will continue building a more efficient support infrastructure for the Department. By transforming the Department's business processes we intend to provide our nation's combat forces with the world-class business operations necessary to support any mission at any time.

### **Program Strategy**

We have put in place a wide-ranging strategy to implement the enterprise-wide solution being created by the BMMP. The major elements of our strategy include:

- *Build and extend a business enterprise architecture,*
- *Establish an agency-wide transformation governance process,*
- *Reengineer the Department's business processes using an incremental approach,*
- *Create and implement an enterprise-wide portfolio management process,*
- *Test and Implement systems solutions, and*
- *Reduce or eliminate redundant, outdated, and stove-piped systems using a systems review process.*

### **Next Steps – Program Strategy**

We are implementing transformation activities in three major increments. The program's managers plan to significantly reengineer Departmental business processes in each increment. Our goals for Increment 1 include (to be completed by First Quarter, Fiscal Year 2007):

- Implementing the capability to achieve an unqualified audit opinion on DoD's Fiscal Year 2007 Consolidated Financial Statements by:
  - o Improving asset accountability,
  - o Improving human resources management processes, and
  - o Conducting relevant Business Process Modeling and Reengineering.

Our strategy for business transformation includes delegating implementation responsibility and accountability to the Department's major business areas (those areas managed by the Principal Staff Assistants to the Secretary). The Governance section contains more information about the management scope of business transformation.

The proposed goals for Increments 2 and 3 include:

- Increasing visibility of assets DoD-wide, (Increment 2)
- Enabling effective management of DoD's human resources by leveraging best practices found in Government and Industry, (Increment 2)
- Aligning acquisition cycle time with best practice benchmarks found in Government & Industry, (Increment 3)
- Achieving integrated total force management (Increment 3), and
- Implementing Planning, Programming, Budgeting and Execution process improvements. (Increment 3)

The following chart provides a graphical overview of our proposed activity schedule.

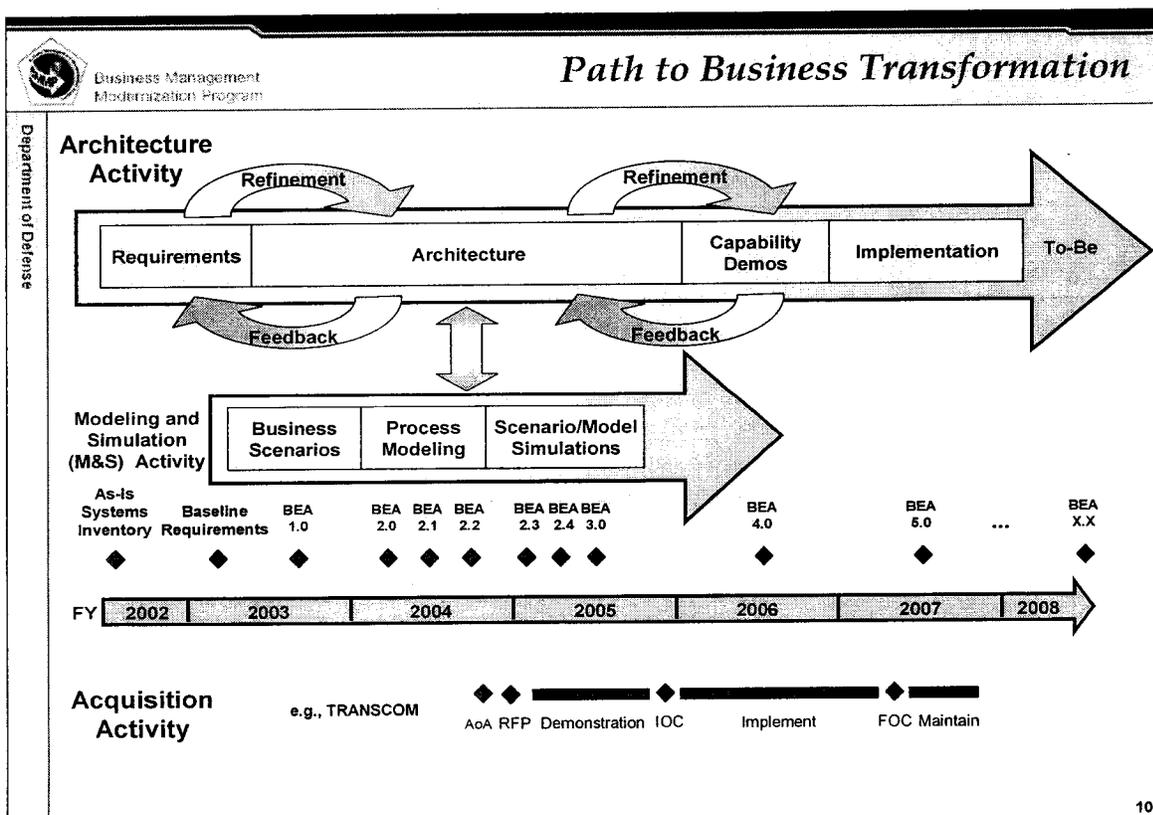


Chart 1

## **Business Enterprise Architecture (BEA)**

The Department's BEA is one of the largest, most complex, and most pervasive business architectures developed to date, in either the public or private sector, anywhere in the world. Essentially, the architecture is an integrated blueprint for Departmental business transformation. It includes work products consisting of models, diagrams, tables, and narratives, all of which translate DoD's business activities into meaningful, representations of business processes.

The Department will eliminate or reengineer the inefficient business processes that impede our ability to conduct business in a timely and efficient manner. The architecture not only identifies many existing business processes – it also incorporates best business practices from both the private and public sectors. Essentially, the architecture is an integrated blueprint for Departmental business transformation.

The architecture will also define a Defense-wide information technology infrastructure. The architecture will include all appropriate system requirements associated with critical infrastructure protection and information assurance to ensure consistency with DoD's Joint Technical Architecture. The architecture is accompanied by a transition plan that charts a course to improved business operations. As envisioned by the management of BMMP, the architecture and the Transition Plan will help move the Department to its future business environment in an effective, efficient, and timely manner, while minimizing the impact of the transition on current operations, organizations, and personnel.

Since last year's report, we have refined our strategy, solidified our approach and established the BEA as the overarching framework for achieving our successful business transformation initiatives. We have advanced from a model using mostly high level business activities to a process that divides the work into manageable process increments. Increments based on business processes better lend themselves to an integrated solution.

Much energy and cooperative effort has gone into building the blocks that produced the BEA. In our recent accomplishments we:

- Completed a significant number of business process workshops with our Domain partners (Domains are shown on Chart 2 and listed on page 12), resulting in:
  - o an initial baseline for an end-to-end view of the Department's business transactions, and
  - o identification of accounting rules necessary to correct material weaknesses in the Department's Financial Statements,
- Identified the basic template for a Standard Accounting Code Structure,
- Identified the template and pro forma entries for implementation of a Standard General Ledger,
- Developed the template for a Standard Cost Accounting Methodology,

- Developed an initial Business Process Reference Model to use as a starting point for Business Process Reengineering (BPR) and Modeling across the Department, and
- Developed an integrated schedule to complete the initial Business Process Modeling/Reengineering by July 2004.

### **Next Steps – Business Enterprise Architecture**

The BMMP personnel delivered the initial version of the architecture in April 2003. Future versions of the architecture, as well as follow-on transition plans, will capture the refinements needed to transform business operations on an incremental basis. Over the next 12-18 months our goal, and that of our business area partners, is to further refine and extend the architecture. We expect to publish additional versions of the architecture, with each version progressively adding more detail and clarity to the business processes being delineated.

Architecture versions 2.1, 2.2, 2.3, and 2.4 will be released respectively, in April, July, and October of 2004 and January of 2005. Each version will further enhance our capability to achieve unqualified audit opinions by adding more explicit business rules and processes. Version 3.0 of the architecture is scheduled for release in the 2nd quarter of FY 2005 – and will include the relevant business process modeling necessary to support the implementation of Increment 2. These versions of the architecture will focus on building end-to-end business process models that define capabilities, data ownership, information flows, and unique responsibilities within the business domains of the Department.

Currently, recent and planned architecture versions and their contents are described as follows:

Release of BEA Version 2.0 – <i>Includes the integrated DoD BEA Baseline Process Models</i>	February 2004
Release of BEA Version 2.1 – <i>Updates selected financial rules and requirements</i>	April 2004
Release of BEA Version 2.2 – <i>Integrates selected Increment 1 requirements and transactions into end-to-end DoD business processes</i>	July 2004
Release of BEA Version 2.3 – <i>Regularly scheduled release – to include recent BPR and updated activity model</i>	October 2004
Release of BEA Version 2.4 – <i>Regularly scheduled release – to include recent BPR</i>	January 2005
Release of BEA Version 3.0 – <i>Includes initial BPR to support Increment 2 capability</i>	Qtr 2, FY 2005

**Table 1**

### **Transition Plan**

Our Transition Plan provides a high level approach to guiding the implementation of the business architecture. The plan is evolutionary and is designed to support the architecture’s business capability-based structure. Defined business capabilities are the fundamental building blocks of the Transition Plan. They represent an implementable portion of the architecture and replace the former concept of segments. The plan:

- Outlines a systematic approach for managing the implementation of the architecture by grouping it into increments,
- Establishes key milestones for the implementation of each capability, and
- Provides an enterprise-level view of the transition process by summarizing implementation plans and related decisions from the business Domains and DoD's Components.

#### **Next Steps – Transition Plan**

- We also plan to update the Transition Plan by identifying more specific timeframes for our transformation efforts and by adding portfolio reviews of IT (information technology) investments. Future versions of the Transition Plan will incorporate the pertinent changes stemming from the release of each version of the architecture – with each update to the Transition Plan succeeding the release of a version of the architecture by about a month.

Future versions of the Transition Plan will be released as follows (there will be no version 2.1):

- Version 2.0 – April 2004,
- Version 2.2 – August 2004, and
- Version 3.0 – 3rd quarter, FY 2005.

Lastly, we will continue to work closely with the Chief Information Officer to ensure that the requirements included in the architecture conform to the Department's net-centric strategy.

#### **Governance**

The management, or Governance, of business transformation, has been vested with the owners of the Department's major business areas, called Domains. The Department's Comptroller and Chief Information Officer oversee the major activities undertaken in implementing business transformation. Specifically, governance:

- Provides a management approach to efficiently execute, guide, and oversee DoD's business transformation and compliance activities,
- Creates a structure (and uses associated performance measurements) which help define organizational boundaries, responsibilities, and tasks, and
- Aligns systems' acquisition, budgeting, and implementation with the strategic direction of the program.

As promised in last year's report, we have established a Governance structure that includes the participation of the Department's senior civilian and military leaders. We have created, and are using, a hierarchy of governance committees to address and resolve

both higher-and lower-level management issues. Through the Program’s Executive and Steering Committees, the Secretary’s senior political leadership provides strategic direction and guidance. These committees and other program governing bodies include representatives from both the Office of the Secretary of Defense and the Military Services.

The following slide provides a pictorial representation of our governance structure:

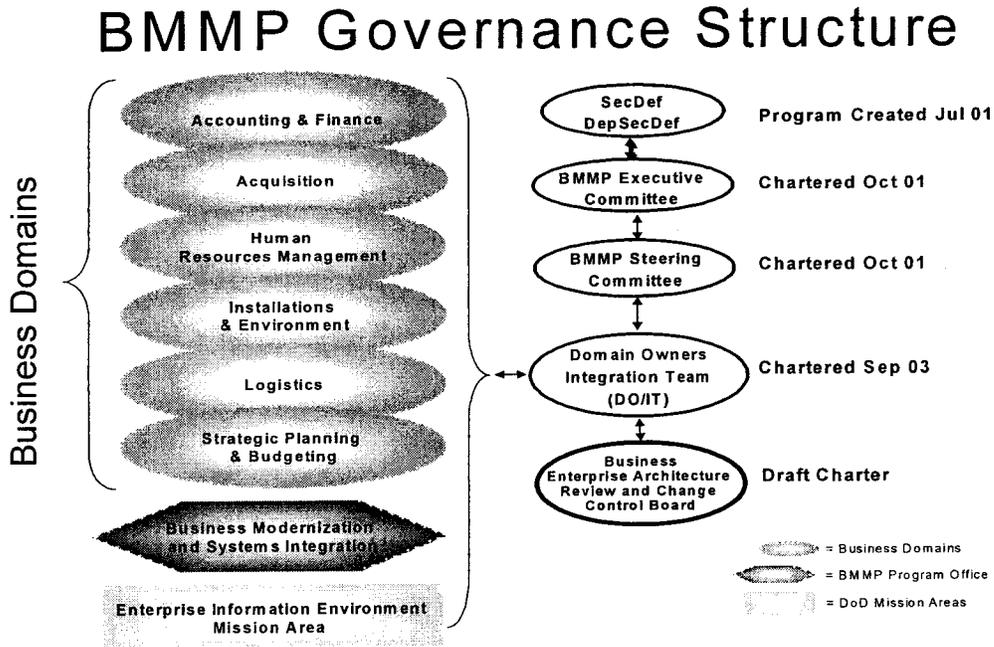


Chart 2

**Business Domains and Mission Area.** The following are the six Departmental Domains and one mission area responsible for business transformation – also shown are the pertinent Principal Staff Assistants to the Secretary:

- **Accounting & Finance** - Under Secretary of Defense (Comptroller),
- **Acquisition** - Under Secretary of Defense (Acquisition, Technology and Logistics),
- **Human Resources Management** - Under Secretary of Defense (Personnel and Readiness),
- **Installations & Environment** - Under Secretary of Defense (Acquisition, Technology and Logistics),
- **Logistics** - Under Secretary of Defense (Acquisition, Technology and Logistics),

- **Strategic Planning & Budgeting** - Under Secretary of Defense (Comptroller), and
- **Enterprise Information Environment Mission Area** - Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer.

Each Domain is responsible for leading the overall business transformation effort within its Domain, including:

- Establishing and maintaining an intra-Domain governance process,
- Developing the enterprise architecture, and
- Managing its portfolio IT systems and ensuring compliance with the BEA.

### **Next Steps - Governance**

Further refinement of the Governance structure is necessary to ensure the success of transformation – especially with regard to clarifying the roles and responsibilities associated with portfolio management. We are currently developing additional programmatic charters, including an overarching architectural Concept of Operations, that will outline the roles and responsibilities of all transformation partners in greater detail. Our goal remains to complete the Concept of Operations by the end of the second quarter of FY 2004.

### **Performance Metrics**

A key element of any major program is its ability to measure progress. Feedback to management is critical in ensuring that the goals of the Department's senior leadership are being met. We have developed performance metrics that define and measure, at a high level, the forward movement of the program. The development of specific goals, objectives, and measures has allowed us to begin tracking various aspects of the program.

The following table provides an example of some of the metrics we have developed to assess program progress. It focuses on our goal of establishing the capability to provide timely, accurate, and reliable information for business management.

<b>Goal 1.</b>	<b>Provide timely, accurate, reliable information for Business Management</b>
<b>Objective 1.1</b>	<b>Achieve unqualified audit opinion on 2007 <u>consolidated</u> DoD financial statements</b>
Measure 1.1.1	Percent of identified material weaknesses eliminated for each material weakness category ( <i>Component Responsibility</i> )
Measure 1.1.2	Number of balance sheet line items and other financial statements that have passed the scrutiny of audit ( <i>Component Responsibility</i> )
Measure 1.1.3	Percent of BEA extended to incorporate financially relevant business rules and requirements in DoD's end-to-end business processes ( <i>Domain Responsibility</i> )
Measure 1.1.4	Percent of BPR completed on DoD business processes to institutionalize practices and systems that will consistently produce an unqualified audit opinion on DoD consolidated financial statement ( <i>Domain Responsibility</i> )
Measure 1.1.5	Percent of investments being managed as a portfolio to ensure DoD end-to-end business processes and systems are implemented to support BEA ( <i>Domain Responsibility</i> )
<b>Objective 1.2</b>	<b>By 2007, achieve total visibility and accurate valuation of assets to include Operating, Materials and Supplies (OM&amp;S); Inventory; and Property, Plant and Equipment (PP&amp;E)</b>
Measure 1.2.1	Percent of process established for measuring total visibility and accurate valuation of assets
Measure 1.2.2	Percent of confirmed asset inventory and valuation by category
Measure 1.2.3	Percent of in-transit asset data providing accurate visibility
<b>Objective 1.3</b>	<b>By 2007, achieve total personnel visibility to include: military service members, civilian employees, military retirees, and other U.S. personnel in a theater of operations (including contractors and other federal employees)</b>
Measure 1.3.1	Percent of DoD personnel at home assignment who are accurately tracked
Measure 1.3.2	Percent of DoD personnel in mobilization who are accurately tracked
Measure 1.3.3	Percent of military personnel in TDY status who are accurately tracked
Measure 1.3.4	Percent of U.S. personnel in theater of operations (including contractor and other federal employees) who are accurately tracked
<b>Objective 1.4</b>	<b>Provide DoD decisionmakers timely access to business information</b>
Measure 1.4.1	Percent of process established for measuring information timeliness

### **Next Steps – Performance Metrics**

We are developing more specific performance metrics (targets) to add additional rigor to the measurement, and management, of BMMP. Also, our metrics team is assisting our Domain partners in developing Domain-specific performance measures. Domain-specific performance measures will be tailored to assess the progress of transformation within each of Domains, yet will be part of, and fit into, the measures developed for the program overall.

Our near-term plans (and associated completion dates) for the further development of performance measures include:

- Establishing an initial approved metrics baseline (program and domain levels) – May, 2004,
- Developing plans and procedures for implementing program metrics – May, 2004, and
- Starting initial progress reporting – 4<sup>th</sup> quarter, FY 2004.

### **Portfolio Management for Information Technology Investments**

A strong, aggressive agency-wide IT portfolio management strategy is absolutely essential to the success of business transformation in the Department. Our focus is on creating a centralized approach that stops, and reverses, the unchecked proliferation of business management systems. Our plan is to use existing Department processes (e.g., acquisition management, Planning, Programming, Budgeting System) to control spending on the development and deployment of business systems. The Department's Chief Information Officer is creating specific policies and procedures that will be used by the program's Business Domains to manage the IT portfolios for which they are responsible. The Chief Financial Officer and Chief Information Officer will jointly oversee, as required, the Domains' management of their IT portfolios.

The architecture created within the BMMP is, in essence, the business extension of the Department-wide enterprise architecture, the Global Information Grid (GIG). The responsibility for GIG development and maintenance belongs to the Chief Information Officer. Both the GIG and BEA represent a framework of requirements for transforming business processes and systems. The Business Domains must adhere to the requirements included in both the GIG and BEA. Moreover, we are ensuring that our business architectural efforts conform to the requirements of the Federal Enterprise Architecture.

### **Next Steps – Portfolio Management**

During the next month we will complete formal reviews of the portfolio management approaches currently being used by the program's Domain owners. Each Domain has been required to brief the program's senior-level Steering Committee regarding the following:

- Domain portfolio management vision and strategy,
- Domain Governance structure for portfolio management,
- Domain Migration plan (from “As Is” to “To Be”),
- Domain Investment strategy based on migration plan, and
- Domain Compliance with established Department-wide goals and programs (e.g., GIG, BEA, etc.).

In the longer-term, we intend to link together all current portfolio management efforts – including those in both the warfighter and business arenas. We are also creating the policies and procedures needed to implement a centralized portfolio management approach, without adding new and excessively burdensome requirements to the existing processes.

## Funding Information – Obligation and Expenditure Data

The following table provides obligation and expenditure data for the

- FY 2002/2003 Research, Development, Test and Evaluation (RDT&E),
- FY 2003/2004 RDT&E,
- FY 2004/2005 RDT&E,
- FY 2003 Operation and Maintenance (O&M), and
- FY 2004 O&M appropriation:

As of March 12, 2004, (\$ in Millions)

	Funding Appropriated	Obligations	Disbursements
FY 2002/2003			
RDT&E - DW	94.5 <sup>1</sup>	94.5	83.0
FY 2003/2004			
RDT&E - DW	67.2 <sup>2</sup>	67.2	11.9
FY 2004/2005			
RDT&E - DW	45.1 <sup>3</sup>	8.5	0
FY 2003			
O&M - DW	24.9 <sup>4</sup>	24.9	16.1
FY 2004			
O&M - DW	26.1 <sup>5</sup>	8.3	0

- 1 \$100.0M less general reductions of \$5.6M and \$3.4M reprogramming, plus an increase of \$3.5M for use by the Domains. These funds are no longer available for obligation.
- 2 \$96.3M less general reductions of \$5.4M and \$25.0M reprogramming to O&M, plus an increase of \$1.3M for the Domains.
- 3 \$113.8M less general reductions of \$3.3M, \$27.0M reprogramming to O&M, and reprogramming of \$38.4M to resource the Domains totals \$45.1M FY2005 PresBud amount. Additional general reductions of \$2.4M is proposed, reducing the amount to \$42.7M.
- 4 Reprogramming from RDT&E of \$25.0M less \$86K for general reductions. These funds are no longer available for obligation.
- 5 Reprogramming from RDT&E of \$27.0M less general reductions of \$859K.

- The FY 2002/2003 research and development funds supported the initial delivery of the architecture, transition plan, and change management and communications initiatives. Funds are 100% obligated.
- FY 2003/2004 research and development funds were used to refine the Enterprise Architecture through business process modeling/reengineering for Increment One; fund test and evaluation activities and independent verification and validation efforts and engineering support. Funds are 100% obligated.

- FY 2004/2005 research and development funds will be used to complete Increment One efforts and begin work on Increment Two; fund the integration of the Enterprise Architecture, engineering support, and test and evaluation activities.
- FY 2003 Operation and Maintenance funds were used for salaries, facilities, supplies, and program management support contracts. Funds are 100% obligated.
- FY 2004 Operation and Maintenance funds are being used for salaries, facilities, supplies, and program management support contracts.

**Planned Obligations**

The unobligated FY 2004/2005 RDT&E funds of \$36.6M are planned for obligation as follows:

BEA Increment One	\$ 3.4M	2 <sup>nd</sup> Qtr FY 04
BEA Increment One	\$16.9M	3 <sup>rd</sup> Qtr FY 04
BEA Increment Two and Integration	\$16.3M	4 <sup>th</sup> Qtr FY 04
Total	\$36.6M	

The unobligated FY 2004 O&M funds of \$17.8M are planned for obligation as follows:

Government Labor	\$5.9M	2 <sup>nd</sup> Qtr FY04
Administrative Support-Government Provided	\$1.8M	2 <sup>nd</sup> Qtr FY04
Data Repository Support	\$1.2M	3 <sup>rd</sup> Qtr FY04
Program Management & Acquisition Support	\$1.9M	3 <sup>rd</sup> Qtr FY04
Support for Domains	\$3.6M	3 <sup>rd</sup> Qtr FY04
System Review Support	\$3.1M	4 <sup>th</sup> Qtr FY04
Website Maintenance	\$0.3M	4 <sup>th</sup> Qtr FY04
Total	\$17.8M	