

**Transcript from DON IT Efficiencies/DON IT Way Ahead Discussion held May 12, 2011
at the DON IT Conference in Virginia Beach**

Mr. Terry Halvorsen, DON CIO: The first thing I'd like you all to do is look under your seat. If you didn't get anything, that is the prize. Some seats had a huge bill. So for those of you who got nothing, you won. That's our new way of rewarding people: by not punishing them.

We are going to talk today about where we are heading with some of the things we need to do to gain both effectiveness and efficiencies. We would like to put effectiveness as the big key. In the coming year, efficiency is going to be a big thing too. There is no other way around that. We are challenged to save a very significant amount of money; we don't know how much that is yet, but it's going to be a big number. There's no way it can't be a big number. So what I'm going to talk about today, with the help of Janice Haith from N2/N6, is things that we are going to consider and look at. I guess I want to preface this with: not everything that we put out on the table to look at is everybody going to be happy with. There are going to be times when N6 is going to say we don't like that plan, and times when the Marine Corps isn't going to like that plan, and times when DON CIO isn't going to like that plan, but there are a lot of things we need to consider.

We are going to do some things in the coming years that I think people would have said we'd never do. We are going to move forward in some areas. I've had the opportunity in the past few months to meet with the SECNAV a couple of times, the UNDER many times, and with Mr. Stackley and other various senior leaders. We've got to change the way we are doing business. How that happens is going to equal a fun summer. For those of you who have worked for me, you know that my definition of fun might be a little off.

I want to give a little background about some of the things that hurt the way we achieve effectiveness inside of our IT environment. I'm going to focus a lot on business IT. I fully understand that sometimes it is difficult to separate business IT from the rest of IT and from Warfighting IT. But I think we are going to have to make some attempts to do that. We are going to take risks. The one thing I don't want to do is to take risks when we don't have to in areas that affect the tip of the spear, or the thing we are in business to do, which is to exert fear. Or, you could even call it what it is, which is to kill the enemy. That is what we are paid to do. That is the business of this corporation. Like any business, I don't think we want to take any risks for our major business function. That means that we've got to take risk in those areas that don't directly deliver direct mission action. That is a fancy way of saying to put bullets on target. We want to take risks in other areas. I think that makes sense.

We've got to take risks in some of the ways we do business IT. Yesterday, if you were fortunate and stayed and heard CAPT Shawn Hendricks talk about NGEN, you heard where we are with NGEN. I'd ask you to put a couple of things in perspective just to give you some sense of it. NGEN today in the DON encompasses over 800,000 people. Let's just say it roughly costs \$1.2 billion dollars. Divide that by 800,000. That's basically what it costs you per user to operate. When you look at that number, it actually isn't that high. It is certainly at the high end, but it's within a reasonable range. There are some things we have to do that a lot of businesses don't have to worry about. We do have extra security that we

have to put on there. So we've got a system that does that, and we have an acquisition strategy for NGEN that I think is a good strategy. The important thing is how we execute that strategy and what do we look at. But what makes it hard, and we get a lot of complaints about NMCI, but it is a network with a reliability of over 98.6% at a time. That's pretty good. For those of you who follow IT news, how long was Amazon down? It was two weeks. You look at outages, and I'm not saying we shouldn't get better, but for as big a system as it is, it performs pretty well. Things that complicate it are some of the things that maybe we need to look at taking some risk in.

How many applications run on a standard industry network? Anyone have an idea? The best I can tell you is that the normal Fortune 500 company runs less than 150 apps on its system. Let's say I am off by three times, and they run 500 apps; but I can't find any company that runs that many apps. How many apps do we run on our Navy system? We are up in the 2,000 range. If you know anything about networking and connectivity, what do you think that does for the complexity of your network? All of that stuff has to play together. How many versions of Microsoft do you think Fortune 500 companies run on their big networks: one, maybe two. We run considerably more than that on our network. There are reasons for all of that. I am not saying that it was done for one reason or another. I'm just saying these are facts. What do you think that does for your network structure? It complicates it. It makes everything harder and it costs a lot of money. And it costs a lot of money not even in the buying of the applications, but in the testing, certifying, maintaining, and all of the other things you need to do to run those applications.

We store just a little bit of data in the DON. I can't give specifics here because we are working some things that I think you will see come out of acquisition, but I'll tell you this, the way we store data doesn't help us either. So if you've been following industry trends, people are working virtualization and they are consolidating storage and driving down the cost of storage. We have got to do that. We have done well in the DON, and with Janice here, closing down data centers this year. Five already this year have closed, and we are down to about 140 data centers. How do you count a data center? There are all kinds of ways. So we use some standard definitions where we could range from about 140 to about 170 using those definitions, and depending on how you count it, but we are coming down. By the end of 2013 we will be down to less than 100 data centers inside the DON. That's just a start however. We have a lot of capacity inside the DON and we have it in places that make sense. We want to go to data centers that meet current standards and future standards. We happen to have them in the Marine Corps and the Navy, but not all of them. You want to look at the cost. The way we have it set up geographically hurts the way our network works. We didn't select them all based on where they are co-located with key access points. Do all of our data centers have the kind of connectivity that lets them do the things we need to do in the timeframe we need to do them? We need to look at that. That's across the Department. The way we structure it right now, we don't have very good data standards, but we've got to get there. All of those things remove complexity, and they let the network perform better.

We don't have, and this is my fault because I took the job, the right level of governance. We have to have better governance across all of our IT functions. So I'm going to work with the Marine Corps and the Navy, and I'll work with the Echelon IIs. But everybody is not going to like this, because we are going to end up with more centralized governance. But don't read "centralized governance" as: you've got the

Department of the Navy executing and running it. That's not what I mean. It means centralized governance through the two services, because I think that gets us where we probably need to go in most cases. There can be some centralized oversight at the DON level. That is one option. There are other options too. I'm not sure yet how I feel about them. It would be easier in some ways to have it at the DON level, but I don't know that we would execute it well. We are going to need some governance and it's going to have some more centralized execution and oversight.

What are some of the things we are going to look at? We are going to collapse data centers, and one of our problems is visibility into not just the data center but also the cost of the data center. One of the things that I think we can immediately save some money on, and it might be the wrong way to save it, is if we put a moratorium on buying any data storage until we've done a review to see if we already have the capacity inside the DON, meaning we could put Navy data inside a Marine storage center, or Marine data inside a Navy center. And that is controversial. The services aren't all on board with that yet, but we are going to have to look at that, and as we take risks, we are going to have to say that might be an area where we can take risks. Maybe you can live with that risk better than the risk of moving other data that we want to keep spread out. That's part of the equation we are going to have to go for.

Janice, with N2/N6, tell them about the NAVADMIN you've already put out.

Mr. Janice Haith (N2/N6): Back in January we put out a NAVADMIN basically establishing a moratorium in the Navy on establishing new data centers and on hardware purchases. We didn't put it on software purchases, but we are standing up, with the Marine Corps, a DON Enterprise Licensing Program Office under the Marine Corps. And the Navy has agreed to use the Marine Corps tools and processes, so we will no longer authorize software purchases through the Navy. It will go through a contract vehicle that the Marine Corps has established. The first one out is Microsoft, and we are well on our way to having a very robust enterprise license for the DON that everybody can use. We are also moving a thin client pilot out that's broader based to encompass what we believe is over 50% of the Navy. A thin client virtual desktop environment would help us reduce our software procurement in the long run. We are also looking at cloud and working that, but it's not going to happen overnight. There are a lot of issues that need to be addressed from a privacy and security standpoint. DoD is going to have to help with that in terms of coming up with some rules and guidelines for all of us to use. We are moving those things rapidly, and as soon as we can get them out the better. We are working actively with the DON CIO and the Marine Corps on how we are going to get there.

Mr. Halvorsen: I will change one word that Janice said. She said that we were going to have this Microsoft enterprise license that people can buy Microsoft from, but it will be the only avenue available to buy Microsoft from. There will be no waivers to that. One of the things we are going to have to do is not allow the waivers that we have had in the past. We in the DON, and I can't speak for the other services but I would be willing to bet that the same is true for them, we take a lot of time and we spend a lot of money customizing off the shelf software. Customizing off the shelf software costs us a lot of money: not so much in the direct buying of it, but the maintaining of it. And if you've customized your software, you then have to pay for all of the testing and updating costs, and you aren't sharing that cost with industry because it's not their product any longer. We've got to have a much better way of

deciding, with some more centralized governance, when do you get customized. Sometimes that's going to mean changing the process so that we don't have to customize when that makes sense.

One of the things we have done, working with the two services, is develop a business case analysis template that includes mission factors and some other risk factors. All of the IT decisions that we make on the business IT systems will be guided by that one template. There will no longer be multiple templates that you can use. We are going to get to a point where that is going to be a requirement for anybody, anywhere, buying anything at some value, and I don't know what the value is yet. We have to find a balance for that value. The Marine Corps has a policy in place, and they see anything over \$25,000 dollars. That's a little smaller budget and they can execute that, but that gives them an unbelievable transparency to where all of the IT money is. No secret. Navy can't do that today, and it needs to be able to do that. That will be a big change. That will help us know what we are spending.

A lot of you have heard about grey IT money. We think we spend a lot of grey IT money, but the operative word there is "think." We don't actually know. We are going to work to control that. In addition to that, we are working with the great help of finance managers. They have been helpful with helping us to come up with some new processes and procedures inside the Department that will help us identify IT spending. Not everybody is going to like that, but it has to be one of the first things we do. The other thing you are going to see is that we are going to not just put some controls on applications, we are going to either put a percentage or a money target that says X percent or X dollars of applications in 2012 come off the system. We are going to call it application rationalization, and here are some of the ways that we will do that. It will be maybe one of the more unpopular things that happen, but it's going to happen. Now these are examples, so don't walk away saying it's going to happen, but these are things we are going to consider. I don't know which ones we will end up choosing.

So, in the DON, we run at least nine systems for records management and tasking. We are going to one. It makes no sense. Now, I get that they may be meeting somebody's requirement, but the question is, is that requirement worth the additional money that we are paying for that system? The answer is no. That makes no sense. In the end, records management is important, but if I miss something, do you think anything happens to a Marine in the field? No, I don't think so. I don't think anything happens to a sailor on the ship. So if I am going to advise people where to take risks, that's going to be high on my list. We have other applications like that where we run multiple systems that basically do that same thing. We are going to do that math, and if the math says those 100,000 people are costing us an additional 25% percent against the 1.2 million people that we serve, that system is gone. You are going to see a lot of that this year. We have to do that. We are going to do that with some major systems. We have on our business side overlaps of major systems, or we don't have modernized major systems yet. We are going to pick out what works and we are going to move forward. That is one of the things that I think Oracle got right.

I had a chance to sit down with their CEO and he starting telling me about their processes, and I said that they are the Borg. He said, "Absolutely, and you will be assimilated." When they buy a company, they bring them on the Oracle systems. They take the part they bought it for, they pull it in and they throw everything else away. We have got to start doing that. Maybe not to that level, but we have got

to get consistency and eliminate some of the variance. It is costing us too much money. That is probably going to take longer to get done, but we will have some of those decisions made by the first of October. We have no choice. We have to do that. We are going to look across the board at enterprise licenses, and for big things you will buy. It's no secret, you could go to public records and find out what we buy. I can't say that's where we are going, but we are going to follow the money. That's where the savings we need are going to be.

In addition, we are going to look at usage. We are going to look at usage in a lot of areas. Let's stay with applications. We have now on our big networks a fairly significant set of applications that are used by a very small percentage of people. Those applications cost us a fair amount of money to maintain and operate. That does not mean we will eliminate all of them, but we will eliminate some of them. Other ones we may look at -- how we procure. Instead of buying 100,000 licenses for an application across the Department, we are going to buy 15 consecutive user licenses, and we are going to host that in a cloud. And that's how you go get that app. We have some issues with the cloud and we are going to have to get some governance on that. How do you govern a cloud that's provided to you commercially? We've got to wrestle through that. That doesn't mean that we aren't going to ask: can some of what we do be secure enough that we could do it in a commercial environment. We are going to ask the question and look at how we get there. I think we are going to look at the potential for savings. You can absolutely secure it, I think that the question becomes: how much is the commercial provider willing to expose of their internal workings to the government so that we can actually see if it's secure.

We are going to be asking people what other things, inside and outside the government, should we be looking at to save dollars and keep the mission moving forward. The other piece of this is, in some cases, you might have to change how you get the information to do the mission. You can't argue with anybody's mission requirement. What you can argue with is how fast do you need it, when do you need it, and how much of it do you need? One of the things we are going to have to get better at is prioritizing data, because if every piece of data is the number one priority and has to be accessed, then we have failed. You can't afford to do that for all data. We are going to have to look at how do we prioritize data and how we access it, and how do we build in this ability, because the data that we said that about today might not be the data that we need tomorrow. Part of that is if you have fewer places you are storing data and they all have good connectivity, you can prioritize and send the data that you want faster. That's very hard to do when you have data stored in different standards in 140 different locations that may or may not have the right connectivity, and may or may not have the right level of backup or COOP. I will tell you this: it is a lot less expensive to COOP less than 100 places than it is to COOP more than 100 places. That's just a given.

How do we possibly start controlling bandwidth? It is an ugly topic, but I will tell you that we are looking at the bandwidth usage data and it's getting very high. If you've seen the movie *Field of Dreams*, bandwidth works like that. If you provide it, they will come, and suck it all up. We have made huge investments in certain places and brought the bandwidth within good operating specs, and within three months we are now past that. Are there some things we should put in place to drop bandwidth costs or at least contain them? I think the answer is going to have to be yes. We are going to have a discussion about that. In the private sector, things that help us would be things we would be interested in as we go

forward. That's the kind of things we are going to put out. We have put the DON CIO campaign plan out, which was coordinated with the two services, and there are some things in there that we are going to have some fun-filled and lively discussions on over the summer. However, we are going to get a target, and the target's not going to be one where we get a mission where we say: "Hey, it would be really nice if you could get these savings." It's going to be: "This is your goal; this is your target; and you will hit that target." It's going to be substantial. Getting there smartly is going to be the big challenge, and having a rational discussion about how we can get there. Anybody who thinks we are going to take that at every service level and everything is going to remain the same isn't very good at math. There are going to be areas in some service levels where we are going to take risks. Some things are going to have to change, and it could be as simple as changing your help desk system.

The sheer size of NMCI generates a problem. No one else is doing anything that big or complicated today. It's got lots of applications and has to serve all over the world. We have it in places in Europe today, and we are also going to put more things on an enterprise network. I suspect it will be NGEN. There may be some alternatives that we look at, but we are going to go to an enterprise network structure inside the Department. One of things we also have to do -- and we are going to try to get this done by the end of the summer -- but there really is no technical reason why anybody in the DON shouldn't be able to go to an NMCI machine, log on and get what they want. That is not a technical issue. That has to do with policy and governance. We have to change that. We have to be able to do that. In fact, where we really have to be if we want to keep in the lead on this, is at some point, anybody in DoD needs to be able to come in, put their CAC in our machine, and get access to what they need. If we are going to do this, at some point we are going to have to expand so we can do that with allied and coalition partners. Now, that's down the road a bit, but we certainly have got to be able to do that inside the DON soon. And then inside the DoD with the other services fairly soon after that. That has to be done. We are either going to do it or it's going to get done for us, and I don't know that we want to pay the cost to get it done for us, so we've got to get there. That will take some changes in the way everybody looks at the network. Again, it's not a technical issue, but there are some policy and governance issues that we need to come to agreement in. I have rambled enough. Janice, anything you want to say?

Ms. Haith: I think some people are concerned about where we are going with efficiencies. It's a loss of control in some people's minds, and they don't want to lose the control that they have. But I think Terry's right, that everybody needs to realize that we have a huge bill to pay to help this country with our deficit reduction, and some of the stovepipes that we've created over the years just cannot be tolerated anymore. So going to a single records management system sounds like a good idea to me, and it shouldn't just be DON. We should be able to get one within the whole DoD and the other agencies. We should be able to talk and share across lines. Some people are aware that we are about to put out a policy that when we do data center consolidation, we have made it very clear that for now we will only have data centers consolidated within the SPAWAR environment or the NMCI. That is purposeful; we have excess capacity and we can use it, and that does not negate Marine Corps as well, but we have excess capacity and we need to use it. We are going to continue to go down that path. There is an energy savings we are trying to calculate. So all of the things that we are doing, the Navy is 100 percent

supportive. We don't all agree with the way we are going about these things, but for the most part we've collaborated so that this is as transparent as possible and to prove to the Department that we can all work together to get where we need to be.

Mr. Halvorsen: So the takeaway needs to be this: we are going to get more efficient and effective. We are going to do some centralization of both oversight and execution where we can do it at the service level because they are at a better position to execute. Those things aren't in question. We are going to do that. It's the "how" we get there that's going to be the healthy debate this summer. The fact that we are going to get there is not up for debate. We'll get there one way or the other. Hopefully it will be the smart way. The other thing that we have to do is count savings. Don Reiter from the DON CIO has been directed to be ruthless in counting and defining. So I'm going to give everybody here the definition of savings: it means that I spend less money out of today's money. It doesn't work like, sometimes one of the discussions I have at home where my wife will go out and say "I saved us a lot of money today." And I say "Then why is the bank account lower?" And she says "Well I had to spend that money to save it." Don isn't interested in that money. I'm interested today because we have to get there. We spend X amount of dollars today, and we are going to spend X minus amount of dollars next year. Savings are what we take away. Does that mean we won't look at cost avoidance plans? No, we'll certainly do that, but when we do that, Don is going to be very ruthless and say "Ok, we gave you 2 dollars, and you said if we gave you 2 dollars the next year you would save us 4. Not cost avoid, you said you would save us 4." We are taking the 4. We are going to be ruthless. If we don't do it, it's going to be done for us. So industry: when you come to see all the people that you come talk to in the government, when you say we are going to save you money, we understood that you said you are going to spend less money today. If you are saying you could spend less money if we gave you more money, ok, we'll listen to that, but the people who will get more response are the people who can say we can spend less money and still retain your service. This is about spending less money. Questions?

Audience member: So far what I've heard, and correct me if I'm wrong, is that you are very business oriented. What about combat systems?

Mr. Halvorsen: The things that are logistics or supply parts of a combat system, I include those in my business systems definition. Things that target, track, and actually put the weapon on target, I don't think that the DON CIO office is the office that is qualified to have that discussion. That discussion I know is going to happen, but it's going to happen with the right people. They have to be looked at, but while I think there's some potential in there, I think we need to use that potential to reinvest in the things we don't have that we need. That's a different plan. The plan that I'm in charge of is going to get more efficiencies out of my business IT systems, and that includes personnel, pay, and all of those things, so that I can sustain my combat systems. The SECNAV wants to take risks in those areas, not in the combat systems. I suspect we will end up taking some risk there, but that's not what we are going to focus on. I actually believe there is enough money in the business systems that support the combat systems that we can get the savings that we need there. The business side of this should take more risks, I want to do this right, but if we make some mistakes on the business side, nobody dies. It might be disruptive, but nobody will die.

Audience member: If you look at afloat and ashore, do you see that afloat has business apps?

Mr. Halvorsen: Absolutely. A carrier is a floating city. It uses business apps. We are going to look at the business apps side of that. I clearly understand that's not clean. It is going to be a part of that healthy discussion. I say logistics and supply are not in that mix. The Marine Corp would say that they agree with part of that, but there are some logistics and supplies that the Marines believe are keys to their delivery. We'll have to have that discussion. We will err always on the side of the operator. We are going to do that at least as long as I sit in this job. If you take away one other thing from this session, it's that we will always err on the side of the operator.

I thank you all for your time, hope you got something out of this conference, and we'll look forward to seeing you in San Diego in six months or so.