AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. Hrg. 112–445

IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

SEPTEMBER 15, 2011

Available via the World Wide Web: http://www.fdsys.gov

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

72–479 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00001 Fmt 5011 Sfmt 5011 P:\DOCS\72479.TXT JOYCE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JOSEPH I. LIEBERMAN, Connecticut, *Chairman*

CARL LEVIN, Michigan
DANIEL K. AKAKA, Hawaii
THOMAS R. CARPER, Delaware
MARK L. PRYOR, Arkansas
MARY L. LANDRIEU, Louisiana
CLAIRE MCCASKILL, Missouri
JON TESTER, Montana
MARK BEGICH, Alaska

SUSAN M. COLLINS, Maine
TOM COBURN, Oklahoma
SCOTT P. BROWN, Massachusetts
JOHN MCCAIN, Arizona
RON JOHNSON, Wisconsin
ROB PORTMAN, Ohio
RAND PAUL, Kentucky
JERRY MORAN, Kansas

MICHAEL L. ALEXANDER, *Staff Director*
NICHOLAS A. ROSSI, *Minority Staff Director*
TRINA DRIESSNACK TYRER, *Chief Clerk*
JOYCE WARD, *Publications Clerk and GPO Detailee*

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

THOMAS R. CARPER, Delaware, *Chairman*

CARL LEVIN, Michigan
DANIEL K. AKAKA, Hawaii
MARK L. PRYOR, Arkansas
CLAIRE MCCASKILL, Missouri
MARK BEGICH, Alaska

SCOTT P. BROWN, Massachusetts
TOM COBURN, Oklahoma
JOHN MCCAIN, Arizona
RON JOHNSON, Wisconsin
ROB PORTMAN, Ohio

JOHN KILVINGTON, *Staff Director*
WILLIAM WRIGHT, *Minority Staff Director*
DEIRDRE G. ARMSTRONG, *Chief Clerk*

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00002 Fmt 5904 Sfmt 5904 P:\DOCS\72479.TXT JOYCE

CONTENTS

	Page
Opening statements:	
Senator Carper	1
Senator Brown	4
Senator Coburn	5
Prepared statements:	
Senator Carper	35
Senator Brown	38

WITNESSES

THURSDAY, SEPTEMBER 15, 2011

Hon. Robert F. Hale, Under Secretary of Defense (Comptroller) and Chief Financial Officer, U.S. Department of Defense and the Honorable Elizabeth A. McGrath, Deputy Chief Management Officer, U.S. Department of Defense	6
Hon. Gladys J. Commons, Assistant Secretary of the Navy, Financial Management and Comptroller, U.S. Department of the Navy, accompanied by Caral E. Spangler, Assistant Deputy Commandant (Resources), U.S. Marine Corps	10
Hon. Mary Sally Matiella, Assistant Secretary of the Army, Financial Management and Comptroller, U.S. Department of the Army	12
Hon. Jamie M. Morin, Assistant Secretary of the Air Force, Financial Management and Comptroller, U.S. Department of the Air Force	13
Asif Khan, Director, Financial Management and Assurance, U.S. Government Accountability Office	16

ALPHABETICAL LIST OF WITNESSES

Commons, Hon. Gladys J.:	
Testimony	10
Prepared statement	49
Hale, Hon. Robert F.	
Testimony	6
Prepared statement	40
Khan, Asif:	
Testimony	16
Prepared statement	70
Matiella, Hon. Mary Sally:	
Testimony	12
Prepared statement	54
Morin, Hon. Jamie M.:	
Testimony	13
Prepared statement	62

APPENDIX

The chart referenced by Senator Carper	93
Questions and responses for the Record from:	
Mr. Hale	94
Ms. McGrath	112
Ms. Commons	123
Ms. Spangler	127
Ms. Matiella	128
Mr. Morin	135
Mr. Khan	143

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00003 Fmt 5904 Sfmt 5904 P:\DOCS\72479.TXT JOYCE

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00004 Fmt 5904 Sfmt 5904 P:\DOCS\72479.TXT JOYCE

IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

THURSDAY, SEPTEMBER 15, 2011

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:34 p.m., in Room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Brown and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The Subcommittee will come to order.

Senator Brown, I welcome all of the witnesses and our guests. Nice of you to come. It is an important hearing and we are delighted that you could be with us. Thanks for your preparation and for your willingness to respond to our questions.

Normally, when we have a hearing of this nature, I introduce each of our witnesses and provide some background on each. We are going to start voting I think at 4 o'clock, and so I will mention your names, your titles but we are not going to tell where you went to high school and how many kids you have and stuff like that. So, this will be the shorthand version.

But we are happy to be here. This is something we have been looking forward to, and we have done this kind of hearing before, and we are going to keep doing it until we get it right.

Since the 1990s, Federal agencies have been required to produce auditable financial statements. Currently, the Department of Defense (DOD) is incapable of doing this. In fact, it is one of two departments, the other being Homeland Security, although Janet Napolitano, the Secretary there, told us this week that they are making some progress, and I think they are. But the books at the DOD I am told are so bad that auditors cannot even attempt to perform a complete audit, and that is clearly unacceptable.

A year ago we met in this same room and held a hearing, maybe a hearing with the same title, I am not sure. But we talked about how the Department of Defense was going to meet its statutory deadline of achieving financial auditability by 2017. And we are here today to get an update. We know the Marine Corps is cur-

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00005 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

rently attempting, its second try at auditing a portion of its financial books and are learning from these audits.

As our witnesses and my colleagues know, successful financial statement audits are simply the outcome of strong financial management. Keeping a Federal agency's books in order, ensuring good financial controls, and getting a clean audit helps to ensure that taxpayers are getting the services they paid for at a price we can afford. Unfortunately, these basic managerial tasks have proven challenging to the Department of Defense.

Federal agencies should always strive to be good stewards of our taxpayer funds; but as we struggle to address our massive Federal debt and deficit, this effort has taken on an even greater importance. We must improve the basic financial management practices at the Department of Defense, the Department of Homeland Security (DHS), and throughout the Federal Government. After all, we cannot effectively identify areas to reduce spending if we do not know how much and where we are spending that money in the first place.

Unfortunately, most Americans question whether those of us in government are capable of making the kind of tough decisions that they and their families make with their own budgets and with their checkbooks every month.

They wonder why a massive arm of the Federal Government like the Department of Defense can be so incapable year after year of doing the same kind of work. It is hard to blame those citizens for their frustration and skepticism with us.

Now more than ever, we need to establish a different kind of culture in Washington when it comes to spending. Clean, auditable financial statements can provide the roadmap we need to move from what I call a culture of spendthrift towards a culture of thrift. Cleans statements would give an agency leadership, and those of us here in the Congress, the information we need to look at every nook and cranny of the Federal spending and ask this question. Is it possible to get better results for less money?

When it comes to the Department of Defense, it is clear to me that we can get better results and save money, promote our national defense, and provide better support for the war fighters in the field and across the world.

The department's finances have been on the Government Accountability Office's (GAO's) high risk list since 1995, in part due to pervasive management deficiencies that would never be tolerated in private sector businesses. In fact, these deficiencies are not tolerated even at most Federal agencies. These deficiencies make it difficult, if not impossible, to know for certain how and when the Department of Defense spends its money.

The Department of Defense has annual expenditures of nearly $700 billion, spending approximately $2 billion every day. Managing this level of spending requires transparent information that is reliable and relevant. Without quality financial data and the assurance of a clean audit opinion, the department is unable to assure the Congress, and the American people that the funds that we entrust them with are spent prudently.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00006 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

A series of recent reports detail a litany of the Pentagon's oversight problems. This is not a complete list but it is a list that I think is illustrative.

First, members of this panel recently wrote to the Department of Defense about the Inspector General's (IGs) report on the Department's inability to recoup about $200 million in delinquent debts due to poor but basic record keeping.

Second, just last week we learned about a helicopter contract through which the Army has overpaid millions of dollars for spare parts. The size of some of these overpayments is staggering. An $8 helicopter door part, for example, went for $284 in DOD's accounting world. In another instance, the Army paid five times too much for a $1,500 rotor part that turned out to have already been in the military warehouse.

Third, in fact, we have seen from the Department of Defense that at any given time there is roughly $1 billion of spare parts on order that the Department simply does not need, but the Pentagon inventory system does not allow for the order to be changed.

This kind of thing drives me crazy. I am sure it drives Senator Brown crazy, taxpayers crazy, and it must keep you up at night as well.

Fourth, USA Today recently reported that the Department of Defense racked up $720 million in late fees for shipping container leases by not returning the containers on time. The $720 million in late fees was on top of the cost of the actual leases.

And finally, the Commission on Wartime Contracting found earlier this month that there was an estimated $60 billion in Department of Defense waste and fraud related to the Iraq war. In these tough economic times, this level of waste is just unacceptable.

Even worse are the fraud, waste, and abuse that we cannot identify at the Department of Defense because the financial management systems are so poor.

Fortunately, momentum is building to address this widely recognized problem. The House of Representatives has formed a panel to study financial management at the Department of Defense, and as Mr. Hale can attest, he is often called to testify in front of Congress on the Department's progress in this area.

And most encouraging of all, Secretary Leon Panetta, who was good enough to stop by my office about a month ago, has expressed his intent to greatly improve financial management at the Department of Defense.

We have a chart[1] over here that has a quote from the Secretary and reads, "It is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less."

Was that his testimony at his confirmation hearing?

Mr. HALE. Very similar to his confirmation.

Senator CARPER. No?

Mr. HALE. It was a statement. That part is from a statement he made to the employees in the Department of Defense.

[1] The chart referenced by Senator Carper appears in the appendix on page 93.

H605-41331-79W7 with DISTILLER

Senator CARPER. Oh, good.

Mr. HALE. But he made similar statements at his confirmation hearing.

Senator CARPER. That is what I call being on message, and it is a good message to have. All right.

We have an opportunity to make financial management at the Department of Defense better so that every day decisions can be made on quality information. This way we can support, better support the men and women in uniform in a way that obtains the best results for a fair and reasonable price.

Today we have been joined by several witnesses who are each key players in helping the Department of Defense improve its financial management processes and controls.

Your work, if successful, will allow the department to produce reliable financial statements that regularly produce critical information for decisionmakers.

More importantly, doing this job well will enable us to support the war fighters, the men and women on the line fighting every day to protect our freedoms. That is what this is all about.

And as a guy who spent about 23 years active and reserve duty as a Naval flight officer, someone who cares deeply about these issues personally, whose family has spent a lot of time in uniform, these issues are even more personal and important to me.

With that, let me turn to Senator Brown for any comments he would like to make. Senator Brown.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Mr. Chairman. You said a lot on this issue. We have talked about this issue a lot since I have been here; and as you know, DOD has suffered from significant financial system weaknesses, problems of bookkeeping, incomplete documentation, weak internal controls.

And efforts to fix these problems, such as modernizing key business systems, have themselves been plagued by mismanagement, going years over schedule and billions over budget at a time when we obviously cannot afford it.

DOD faces a deadline of 2017. These challenges are numerous and pervasive. However, there are some encouraging signs. The persistence of this Subcommittee and other committees is paying off; and senior leadership at DOD, including our witnesses today, are finally giving this the priority it deserves.

Mr. Chairman, you noted Secretary Panetta's recent comments on this issue. It is something that, as you have said many times before and I agree, we need to do it better between the three people that are up here, Senator Coburn, you and me and others. We are just trying to find a way to maximize Federal dollars, find out where the holes are, plug them up, and use our resources better.

I had the honor recently to go to Afghanistan on your CODE L which was great, and then to followup as a soldier. But to see our men and women fighting and it also concerns me deeply about the draw down and how, in fact, we are going to continue on with the mission with the limited resources that are potentially going to be made available is deeply troubling to each and every one of them serving.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00008 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

So, I want to make sure that we do it right and we need to do it immediately. So, I am anxious to hear what is being said and thank you for holding the hearing.

Senator CARPER. You bet. Thanks for being here and being a part of it. Senator Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Mr. Chairman, I very much appreciate you continuing to focus on this issue. We have a distinct obligation under the Constitution to defend the country and I appreciate all of your service in that regard.

We also have a unique aspect of the Constitution which I thought I would read because it is just as applicable as any other area of the Constitution. It is Article 1, Section 9, clause 7 which says, "No money shall be drawn from the Treasury but in a consequence of appropriations made by law and a regular statement and account of the receipts and expenditures of all public moneys shall be published from time to time."

Well, the Pentagon cannot do that. And in a very depressing and little noticed report, the IG reported the following in their summary on DOD office of audits of financial management for 2010, and I think there is some significant things here.

"Financial management systems DOD has put in place to control and monitor the money flow do not facilitate but actually prevent DOD from collecting and reporting financial information that is accurate, reliable, and timely. DOD frequently enters unsupported amounts in its books and uses those imaginary figures to make the books balance. DOD managers do not know how much money is in their accounts at the Treasury nor when they spent more than Congress appropriates to them nor does DOD record, report, collect, and reconcile funds received from other agencies or the public, and DOD tracks neither buyer nor seller amounts when conducting transactions with other agencies."

And that is just the few. And I know you all are working on that. But we are in a whole new set of realities in our country; and many at that table I visited with before, they know my intensity on the issue; and my hope is is that we can help you do what I know you want to do, and we will not be a hindrance to it but we will be a help to it.

So, there is no questioning of your motives that you want to try to solve it. It is a big problem. We all know that. The question is is how do we get it solved, and how do we get it solved quickly, because we do not have the luxury anymore of allowing it to continue, given our fiscal situation.

Senator CARPER. Well said. We are going to just lead off with Hon. Robert Hale, Under Secretary of Defense, Chief Financial Office (CFO) of the U.S. Department of Defense. Welcome back. The Hon. Elizabeth McGrath, Deputy Chief Management Officer (DCMO), U.S. Department of Defense.

The Hon. Gladys J. Commons, Assistant Secretary of the Navy, Financial Management and Comptroller, U.S. Department of Defense. A pleasure. Ms. Caral Spangler, Assistant Deputy Commandant, U.S. Marine Corps. I understand you are going to be

H605-41331-79W7 with DISTILLER

joining Ms. Commons. How are you all going to do this in terms of presenting the testimony? How is this going to work?

Ms. COMMONS. I will make the opening statement, and then Ms. Spangler will answer any questions that you might have.

Senator CARPER. OK. Good.

The Hon. Mary Sally Matiella, Assistant Secretary of the Army, Information Management and Comptroller, U.S. Department of the Army. Ms. Matiella, welcome.

Jamie Morin, Assistant Secretary of the Air Force, Financial Management and Comptroller, Department of the Air Force.

And Asif Khan. Great to see you. Director of Financial Management and Assurance. I like that "and Assurance". We can always use some of that from GAO.

Your whole statement will be made part of the record. I ask you to proceed. The last I heard, we are going to start voting at 4 o'clock. So, we would like to be able to move through this and be able to complete your statements, have our questions, and be out the door shortly after 4 o'clock.

Please proceed, Mr. Hale.

TESTIMONY OF HON. ROBERT F. HALE,[1] UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE AND HON. ELIZABETH A. MCGRATH, DEPUTY CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. HALE. Well, thank you, Mr. Chairman, Ranking Member Brown, Senator Coburn. Thank you for the chance to discuss our efforts to improve financial management of the Department of Defense.

I appreciate your interest and your support in helping us keep a focus on improving defense financial management, and I can assure you that this is an issue that is of personal interest to me. It was of personal interest to me 10 years ago when I was with the Air Force FM. It still is, and the same, I think, is true of Ms. McGrath. I am joined by Beth McGrath, our Deputy Chief Management Officer, and we will summarize our joint statement together.

Let me start with the significant weaknesses and the problems that the department faces. I think you know these. I will go quickly. We have enterprise-wide weaknesses in defense financial management.

There are two main ones. Our problems are our legacy systems are old. Some of them are several decades old, and those that are still there do not always provide adequate financial controls, and they often do not accumulate data at a level that the auditors require for auditability.

But systems are not our only problem. The other is financial controls outside of the systems that are not always adequate. They are either not strong enough to support audits or they are too variable across commands to convince auditors that we have a consistent set of controls.

These weaknesses manifest themselves, as you well know, in our inability to obtain a clean audit opinion. The problems are signifi-

[1] The prepared statement of Mr. Hale appears in the appendix on page 40.

H605-41331-79W7 with DISTILLER

cant and are of great concern to me. We are working to solve them, and in a moment Beth McGrath and I will tell you more about what we are doing, as will the service FMs that follow us.

But first, in an effort to provide balance, I want to do one more thing, and that is to mention a strength of defense financial management, and that is, that I believe we are meeting our mission. We could do it better, but we are meeting our mission by effectively providing resources and services to our war fighters. There are problems and auditable financial statements would help. But when I ask senior commanders, they almost always tell me that they get the financial support that they need, and I might add that we are doing this despite some incredible obstacles—something I have not seen in more than 30 years of working in and around defense financial management. The 6-month continuing resolution which just drained support that we needed to do other things. Planning for a government shutdown that consumed an enormous amount of attention. Fortunately, we did not have to implement it. Planning to run out of cash, which consumed less-but significant' attention, especially in places like the Defense Finance and Accounting Service (DFAS), and now innumerable what-if drills on sequesters.

So, I think there are strengths to defense financial management. I am not going to dwell on them after this but I would like you to keep them in mind. I believe we are meeting our basic mission.

Let me turn back, now, to the systematic weaknesses in defense financial management, and what we are doing to address them. When I took over as CFO in February 2009, one of my key goals was to fix these problems and achieve auditable financial statements, or at least get as far as I could.

I knew we needed a new approach. The one we had was not working. Everybody was kind of going in their own direction. We needed to establish some priorities. This is an enormous problem and we cannot fix it all at once, and we have a new approach, one that focuses on budgetary information and accounts and locations of our assets; key information we use to manage.

I knew we needed to make auditability a priority. It is now on DOD's top-10 priorities list, and of course, as I might add, my new boss, Secretary Panetta, as your quote shows, feels strongly about the need for auditable financial statements, and I am working actively with him in this area.

I knew we needed resources. When I walked into this building, there were not resources available to all the departments. There certainly was not anything 10 years ago when I was Air Force FM.

Now every service in the Defense Finance and Accounting Service has substantial resources for auditability programming throughout the 5-year planning period.

And I knew we needed goals and not just long-term goals. Part of our problem has been that we set these goals out to 2017. That is important, but nobody wakes up in the morning thinking: I have to get to work today to meet a goal 5 or 6 years from now. We need short-term goals, and we have established them and the plans to meet that.

I also knew that we needed to do more than plan. We had to make tangible progress toward auditability, something that could

H605-41331-79W7 with DISTILLER

convince us we could do it and convince you; and one of the most important accomplishments is improving our financial systems.

And I would like to ask Beth McGrath to address those.

Ms. MCGRATH. Sir, thank you very much for also allowing us the opportunity to come back and talk more about the progress the Defense Department is making with regard to our financial management operations.

Our approach toward overarching management reform efforts emphasizes improving our ability to access execution through performance, strengthening governance, and ensuring leadership accountability, and also making necessary changes to the way we procure our information technology.

In each of these areas, we rely heavily on tools that Congress provided us through the last several National Defense Authorization Acts (NDAA), and for that we are very appreciative.

As Secretary Hale makes clear, improvements to our business systems and the business environments in which those systems operate are important to achieve the goals for auditability that the Department and Congress share.

In pursuit of these goals, we are taking an enterprise approach to meet the challenges of implementing information technology systems on time, within budget, and with the needed capabilities, as required.

We are also establishing effective governance over their operations; not only the management of those programs, but also how they are going to be used once they are fielded.

To improve our financial systems, we have oriented them around end-to-end business processes that support audit goals, including procure-to-pay and hire-to-retire. Each of these has been identified and documented in our Business Enterprise Architecture (BEA), whose success requires that we appropriately implement and utilize our enterprise resource planning systems; modernize legacy systems only when necessary and supported by a business case; and aggressively sunset legacy systems that are obsolete, redundant, or not aligned with our business objectives.

As you saw in greater detail in our written statement, we have placed significant emphasis and effort in several areas: Managing the business processes from end-to-end across the government, the way we actually execute our business; improving business systems acquisition; implementing the architectures as I mentioned; and improving process controls across functions and organizations.

Our focus on business operations to include financial management at the department, is an area of great and immediate interest to all of our senior leadership, as well as an area of serious activity and concerted efforts. We are on the way to creating better business processes that will create the kind of lasting result our country deserves.

As always, I appreciate the opportunity to work with Congress to optimize performance across the department. I look forward to your questions.

Mr. HALE. We need to improve financial controls. I know we are running a little late. Do I get to count this as two witnesses?

Senator CARPER. Go ahead.

Mr. HALE. I will go fast.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00012 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

We need to improve the controls, financial controls outside the system. So, we have set up teams in each service trying to rely on the service of auditors to actually go out and help us start making those controlled changes now even if we are not going to be audited for a while.

We need to get key personnel outside the department or outside the financial community involved in this process. This is a DOD-wide issue, not just DOD FM. So, each service has put audit goals into the performance plans of appropriate members of the Senior Executive Service (SES) so their professional success and bonuses are tied to audit success.

And we need to have independent checks on our progress. So, we have hired independent public accountants, or sometimes we are using the DOD IG, to audit or validate what we are doing.

The biggest one is the Marine Corps audit or the statement of budgetary resources which I am cautiously optimistic that we are going to get a positive opinion. We have recently received a clean opinion on what is called "appropriations received." That is our funds distribution process. That clean opinion reassures me, and I think it should reassure you regarding a key step in knowing where we are spending the public's money.

Defense Finance and Accounting System recently received a clean opinion on a system that handles civilian pay. We have independent auditors, as we speak, looking at the Army's emerging business environment and their new system, the General Fund Enterprise Business (GFEB) system; and the Air Force currently has auditors looking at their ability to reconcile their so-called Funds Balanced with Treasury, essentially their checkbook with Treasury, if you will.

And I could go on. There are a number of others, but in the interest of time I will not.

Now, I can already hear some of our critics saying, there he goes again suggesting everything is fixed. So, in the interest of balance, let me acknowledge our continued problems.

We could have better plans. GAO will tell you about that. We need to look at them again, but I would rather focus the resources I have, and they are limited, on having auditors actually go out and check what we are doing. I think we will learn a lot more and get there quicker.

We have missed some milestones which frustrates me, but in many cases we are catching up. We were overly optimistic early on.

And finally, and most importantly, I know we have a long way to go. We are working to address the fundamentals of defense financial management, but it is a journey that will inevitably take a number of years.

So, just summing up, I believe there are some significant strengths in defense financial management, but there are also systemic problems and weaknesses. We need to focus on those. I think we are making progress, but I understand we have a long ways to go.

With that, I will stop and be glad to answer your questions.

Senator CARPER. Good. Thanks, Mr. Hale.

Ms. Commons, I think you are next. Please proceed.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00013 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

TESTIMONY OF HON. GLADYS J. COMMONS,[1] ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER), ACCOMPANIED BY CAROL E. SPANGLER, ASSISTANT DEPUTY COMMANDANT OF THE MARINE CORPS PROGRAM AND RESOURCES

Ms. COMMONS. Chairman Carper, Senator Coburn, thank you for the opportunity to discuss our efforts to improve financial management and achieve audit readiness.

The Department is fully committed to improving our financial data. Our senior leaders, Secretary Ray Mabus, Under Secretary Work, the Chief of Naval Operations, and Commandant of the Marine Corps are all engaged, and so are our major commands and field activities.

We have met with every senior executive responsible for executing our business processes, and as Secretary Hale noted, we will include an audit readiness objective in their performance plans.

We are also engaging our flag and general officers. We are working with our business process owners and service providers to ensure that we all understand what must be done and who is responsible.

We support the priorities established by Secretary Hale and have focused our plans and efforts on achieving an auditable Statement of Budgetary Resources (SBR) and proving the existence and completeness of our military equipment. We are making steady progress.

The Marine Corps is currently undergoing the second year of audit on its Statement of Budgetary Resources. It has been challenging but both the Department of Defense Inspector General staff and the private firm auditing the Statement of Budgetary Resources have noted the significant progress made by the Marine Corps this year.

They have already agreed that 11 of the remediation actions taken by the Marine Corps are effective, and third quarter testing will assess the effectiveness of the remaining remediation actions. They have indicated they will provide their assessment to me in October.

We have embraced the lessons learned from the Marine Corps and have incorporated them in our departmentwide plan. We are also sharing these lessons with the other Departments. We know we must strengthen the internal controls surrounding our business processes end to end and our systems. We are working to do so.

It is also crucial that we prove the accuracy of our beginning balances for our approximately 200 open appropriations before we start the final audit of our Statement of Budgetary Resources.

Because of the large volume of supporting documentation required during an audit, we know we must have an audit infrastructure that will allow the smooth and quick transfer of immense volumes of data to the auditors.

The Department recently received an unqualified opinion on our appropriations received process examination as noted by Secretary Hale. So, we are comfortable in knowing that the amounts appro-

[1] The prepared statement of Ms. Commons appears in the appendix on page 49.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00014 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

priated by the Congress are well controlled and that we meet the intent of the Congress in allocating those resources.

The Department of Defense Inspector General is currently examining the existence and completeness of our ship, submarine, ballistic missile, and satellite inventories. We believe this examination will be successful and prove that the number of assets recorded in our systems of record represent the actual assets available. It will demonstrate that we have the necessary stewardship over assets important to our mission.

We are also ready for an examination of the existence and completeness of our aircraft and ordnance inventories.

The auditors have noted that because of the number of systems we use in the accounting and reporting, it is critical that we perform reconciliations of the transactions between our systems in order to support our Funds Balance with Treasury (FBWT).

Our accounting partner, the Defense Finance and Accounting Service, has identified an automated tool, the Business Activity Monitoring tool, to accomplish these reconciliations. We recently conducted a sample manual reconciliation down to the penny to ensure that the Business Activity Monitoring tool was performing effectively.

We did find that some adjustments were needed in the tool and the Defense Finance and Accounting Service Cleveland is working to make those adjustments and expect to complete these actions by December.

Our intent is to use the tool to produce monthly reconciliations of our Funds Balance with Treasury linked to transaction level details as required by auditing standards.

Earlier this year we believed our Civilian Personnel Pay process was ready for audit. But closer examination by the Financial Improvement and Audit Readiness Team, the Department of Defense Inspector General, and the Government Accountability Office noted that our sampling and testing was insufficient.

Even though we were not ready for assertion, viewing our process through the auditors lens has proven to be very helpful. We are now completing the necessary remediation actions and retesting and we believe we will be ready for examination next summer.

In addition, the Defense Finance and Accounting Service, through an independent public accounting firm, will conduct a Statement on Standards for Attestation Engagement (SSAE 16), on the civilian pay system. This will complete an end-to-end review of our civilian personnel pay process.

Achieving auditability is challenging, and there is much work to be done. We are committed to this effort and we are making process.

Thank you for your interest and support of our efforts. I will be pleased to answer any questions you might have. Thank you.

Senator CARPER. Thank you.

Ms. Spangler, do I understand that you are not going to be giving a statement but you are here to answer questions?

Ms. SPANGLER. That is right, Senator.

Senator CARPER. My first questions, I will just ask one question of you and then go to Ms. Matiella. How did she do, how did Ms. Commons do?

H605-41331-79W7 with DISTILLER

Ms. SPANGLER. Oh, she covers me very well.

Senator CARPER. Fair enough. Thank you. Ms. Matiella.

TESTIMONY OF HON. MARY SALLY MATIELLA,[1] ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER, U.S. DEPARTMENT OF THE ARMY

Ms. MATIELLA. Thank you. Chairman Carper, Ranking Member Brown, Members of the Subcommittee, thank you for the opportunity to testify today regarding financial management in the U.S. Army and our commitment to achieving auditable financial statements.

Secretary John McHugh, Chief of Staff Odinero, Under Secretary Westphal, and all of our senior leaders recognize the value and importance of achieving the mandate of the 2010 National Defense Authorization Act, which requires the Army to be audit ready by September 30, 2017.

Past audits have demonstrated the importance of leadership, governance, accountability, competent workforce, effective ERP systems, and improved internal controls. We have incorporated these factors into our financial improvement plan.

The Army's leaders, soldiers, civilians are dedicated to achieving audit readiness goals. These professionals are transforming our financial and business systems to improve financial management, provide timely, accurate, and relevant information for decision-makers, and to assure American taxpayers and Congress that the Army is a trustworthy steward of public funds.

I am confident that we will be audit ready by September 2017 because we have a sound and resource financial management plan which conforms to the department's financial improvement and audit readiness plan.

Army senior leaders are committed to providing governance and oversight of our audit readiness efforts and will hold personnel accountable for achieving specific milestones. For example, audit readiness performance criteria will be included in senior executive performance plans in fiscal year (FY) 2012.

Further, we have a solid enterprise resource and planning strategy guiding our business systems development and deployment. Our plan contains detailed corrective actions and milestones, identifies accountable organizations, incorporates lessons learned from the Army Corps of Engineers and Marine Corps audits, and aligns with our business systems strategy.

Our plan calls for annual audit examinations by an independent public accounting firm each year from fiscal year 2011 to 2014. These examinations focus on management and information technology systems controls and business practices in the ERP environments.

We are now examining three installations and by October of next year, 2012, all of our installations, stations, and posts will be under examinations.

The accounting firms conducting these examinations will identify controlled deficiencies and issue corrective actions. This will enable us to correct the deficiencies in time to have assert the general

[1] The prepared statement of Ms. Matiella appears in the appendix on page 54.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00016 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

fund Statement of Budgetary Resources in fiscal year 2015 and all of our financial statements in fiscal year 2017.

These audit exams will also serve to condition the Army on how to support financial statement audits and ensure our readiness tragedy is sound and remains on schedule. At the same time, we are also ensuring that we have a financial management workforce that is knowledgeable in audit requirements and thus allowing the Army to sustain these processes and system improvements.

Each year we are repeating a cycle of assessing, testing, and identifying deficiencies and corrective actions. Additionally, each audit exam expands our assessment of business processes and systems controls.

We recently completed an examination of our appropriations which received an unqualified audit opinion from an independent auditor. This confirms our ability to receive and account for nearly $232 billion of appropriations.

Execution of our financial improvement plan and enterprise resource planning strategy combined with focused senior-level oversight and accountability will enable the Army to be audit ready by September 30, 2017.

I am personally committed to accountability and auditability. I look forward to continued collaboration with the Members of this Subcommittee, your counterparts in the House of Representatives, the GAO, Comptroller Hale, DCMO McGrath to ensure the continued improvement of the Army's business environment.

I look forward to your questions.

Senator CARPER. Thank you very much for that testimony. Did you say personally committed, I am personally committed?

Ms. MATIELLA. I am personally committed.

Senator CARPER. We do not hear that every day. Good. Thanks. Dr. Morin, please proceed. Thanks.

TESTIMONY OF HON. JAMIE M. MORIN,[1] ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER, U.S. DEPARTMENT OF THE AIR FORCE

Dr. MORIN. Thank you very much, Mr. Chairman. Dr. Coburn, thank you also. I appreciate the Subcommittee's invitation to testify today and the interest of really the entire Congress on this issue. We have had a great deal of interest. If I may, I would like to just summarize my written testimony and place it in the record.

Senator CARPER. Everyone's testimony will be made part of the record. Please summarize. Thank you.

Dr. MORIN. Thank you, sir. Let me just start by saying, business as usual is the enemy of success in the financial improvement and audit readiness (FIAR) effort at DOD. In the Air Force, we are committed to getting to auditability and we are committed to not letting business as usual be the enemy of success.

This is a charge I too take very personally and intensely, and we very much appreciate the intensified focus that Secretary Panetta has placed on audit readiness and the leadership that his team and Secretary Gates's team had provided.

[1] The prepared statement of Dr. Morin appears in the appendix on page 62.

H605-41331-79W7 with DISTILLER

Personally, I am a strong advocate of the re-focusing on the financial improvement and audit readiness effort that Under Secretary Hale has laid in place. His emphasis on getting the sort of information that managers use to manage and prioritizing that at the head of our audit readiness efforts has been very helpful in getting us on the sort of virtuous circle where the leaders in the department see the value of the audit readiness effort. It ties it more directly to business outcomes and things they need to know in order to manage their organizations.

In the Air Force, we have seen already the fruits of that prioritization. I have seen additional resources approved by the topmost leadership of the Air Force. I have seen additional focus from the Secretary, from the Chief of Staff, the Under Secretary, the Vice Chief, all of them are seeing the value of this effort. It has been a good step in the right direction.

I think thanks to that focus we have made real progress over the last year or so although, to be clear, there is a long way to go.

Some of the key wins that we have achieved. First, a clean opinion on our appropriations received from an independent public accounting firm. That was a key step that should be able to give the confidence to the Congress and the American people that we understand how the Congress appropriates money and where it ought to be allocated.

We have also had what looks like a successful assertion on our Funds Balance with Treasury reconciliation process. You heard Mr. Hale talk about that. That is balancing a check book with 1.1 million entries a month. It is not a trivial matter. Again, a key step on the way. It does not get us all the way there but it is a key step, and that is looking like a good assertion there.

We asserted audit readiness on the existence and completeness of our military equipment and several categories of our operating materials and supplies like cruise missiles and aerial targets.

Again, I think this is directly attributable to the strong commitment of our leadership. In May, our Chief Management Officer, Under Secretary Erin Conaton, and our Vice Chief of Staff, General Philip Breedlove, wrote to all the commanders of the Air Force major commands talking specifically about the need for personal accountability on this issue and moving forward along our path of senior leader accountability, senior executive accountability toward audit readiness goals, extending that outside of just the financial community and extending it outside of just the headquarters, two key steps.

We really led the way in building direct financial incentives into senior executives performance plans in the Air Force, and we have a number of senior executives that have it in their plans already. But we are pressing that further now, getting it out to the field where the rubber really hits the road.

As we have worked through this substantial number of audit readiness assertions over the past year or 2 years, we have learned some very important lessons that are helping us as we move further down the road.

For example, we have found that things like lack of timely updating of our real estate, our real property accountability system was not happening consistently in the field. We are not consistently

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00018 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

getting that timely updated, and that is the sort of decision that actually affects allocation of resources.

If the system does not know that you own property, you will not get the funds to maintain it. So, we have put in place the corrections necessary and the training necessary to make sure that the folks at a base level are making those transactions in their system, recording them timely, saving resources, making sure resources are adequately aligned.

Again, while we have made significant progress toward the 2017 deadline, I think we do still have a ways to go. The Air Force is catching up but we are still behind the other services.

That is in part because our audit readiness efforts for quite some many years focused heavily on the balance sheet and on valuation of assets which is the area we de-emphasize because of the business case analysis on the value of that to managers.

So, our ability to achieve audit readiness I think depends pretty heavily on successfully fielding new financial systems, modernized financial systems.

We have a variety of them. Defense Enterprise Accounting and Management System (DEAMS) is our fundamental accounting systems. We have personnel systems, logistics systems. We need modernization because we are relying on 1970s era bookkeeping systems that do not conform to the standard general ledger, do not roll up transactions at an appropriate level in order to produce financial statements that will withstand auditability.

Again, these systems are good at handling budgetary resources as appropriated by Congress and providing controls on them. That is what they were designed to do. They do not fit the CFO Act and the need to produce financial statements.

We are trying to follow a deliberate and careful path. Again, because we are a little bit behind the other services, we have had an opportunity to learn some lessons from their efforts.

For example, we are not pushing wide deployment of systems perhaps as fast as sometimes has happened. The DEAMS accounting system we have now had in the field at Scott Air Force Base for, this will be the second year that we have closed out on that system.

We are getting it stable. We are getting it to a degree that it does not drive too much manual workload for the users before we turned it on Air Force-wide, but, you know, processing billions of dollars of transactions there.

I think because of the historical challenges DOD has faced in major IT acquisition, I do see a moderate level of risk as we march toward 2017, and that is, not because we do not have plans that get us to audit readiness by 2017 but because those plans are contingent on us achieving goals for fielding of systems.

And looking at history, I know that across DOD those plans do not always stand up 5 years down the road. So, I do see a moderate level of risk. But as a result, we are focusing on a sort of belt and suspenders approach here where we are looking at our legacy systems, making remediation in those systems in some cases where it would be otherwise subsumed by the follow-on system but we can perhaps give ourselves a little less risk toward the 2017 deadline

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00019 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

by having both approaches available. Again, we do need business systems modernization to get to a clean audit.

So, let me just briefly come back to where I started. We cannot rely on business as usual if we are going to get to a clean audit by 2017.

If we are going to achieve the financial modernization, better financial practices we need true accountability. We need investment in real systems modernization, both our ERPs and our enduring legacy systems. We need responsive and effective acquisition of IT systems. We need to learn lessons from one another, each of the services, and we need involvement to reach from the headquarters to the field and from the financial community to the broader world.

We have to be willing to change our processes, change our practices; and we have to take this charge seriously. I think the Air Force is on the right course and I know that my senior leadership is backing me up in this effort.

Thank you again for the commitment.

Senator CARPER. No, not at all. Thanks, Dr. Morin. Mr. Khan.

TESTIMONY OF ASIF KHAN,[1] DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KAHN. Thank you, Mr. Chairman, Ranking Member Brown, and Dr. Coburn. Good afternoon. It is my pleasure to be here today to discuss the status of Department of Defense financial management improvement and business transformation.

As you said, Mr. Chairman, the Federal Government's fiscal challenges highlight the need for accountability and effective financial management, and this is particularly so at the most important and the largest department in the government, the DOD. I would like to thank the Subcommittee for holding this important hearing.

In my testimony today, I will summarize three areas related to DOD's continuing efforts to remediate its long-standing financial management weaknesses and become auditable.

First, I will discuss the progress made by the DOD Comptroller in issuing the Financial Improvement and Audit Readiness guidance for DOD military services.

Next I will highlight the challenges experienced by these services in implementing the FIAR guidance. And finally, I will focus on improvements needed in DOD's oversight and monitoring of its readiness process.

My testimony is based on recent and ongoing work at DOD, including two reports we are issuing today and another two that will be issued in the next few weeks.

First, regarding the progress made. The DOD Comptroller has established a focused approach to achieve the FIAR Plan audit readiness goals. The Army, Navy, Air Force, and other defense agencies, including the Defense Logistics Agency, have key roles in implementing this Plan.

After reviewing the FIAR guidance issued by the DOD Comptroller in May 2010, we concluded it provides a reasonable method-

[1] The prepared statement of Mr. Khan appears in the appendix on page 70.

H605-41331-79W7 with DISTILLER

ology for DOD components to follow in developing and implementing their individual Financial Improvement Plans.

Nevertheless, DOD's ability to achieve audit readiness is highly dependent on the military services' effective implementation of this guidance and that leads me to my second point, the challenges experienced by the military services and their recent financial management improvement efforts.

In our recent work, we examined specific areas including Navy civilian pay, Air Force military equipment, Fund Balance with Treasury at the Marine Corps and Navy, the Statement of Budgetary Resources audit efforts at the Marine Corps, and the Army and Air Force's business systems. We did find significant weaknesses in each of these areas.

As discussed in our report released today, the Navy and Air Force did not follow the FIAR guidance in implementing the Financial Improvement Plans that we reviewed—Navy civilian pay and Air Force military equipment. As a result, they did not conduct sufficient or appropriate work to support their conclusions that these two areas were ready for audit.

In another example, auditors for the Marine Corps fiscal year 2010 Statement of Budgetary Resources issued a disclaimer of opinion, meaning that they were not able to audit those financial statements even though the Marine Corps had concluded that the statements and underlying financial transactions were ready for an audit. The processes identified 139 internal control weaknesses that need to be addressed and remediated.

The Marine Corps has begun making progress. But our report issued points out that the remediation efforts were focused on short-term heroic efforts that may not result in sustained improvements over the long-term.

Our preliminary work has identified significant weaknesses in the Navy and Marine Corps's ability to reconcile their Fund Balances with Treasury. This reconciliation, as Ms. Commons mentioned, is a procedure similar to reconciling a checkbook to a monthly bank statement.

It is a key step in achieving accurate financial information, tracking available budgetary authority and preparing a reliable Statement of Budgetary Resources.

Preliminary results of another audit identify significant weaknesses in the implementation of two major IT systems. The effectiveness and timely implementation of such systems is crucial to DOD-wide audit readiness and meeting the fiscal year 2017 goal.

My third point deals with the need for effective DOD oversight and monitoring of the FIAR implementation effort. DOD and the military services have designated offices and established committees responsible for overseeing audit readiness efforts.

However, these responsibilities were not carried out effectively. As a result, the Navy and Air Force incorrectly asserted audit readiness in two key audit areas.

Oversight and monitoring are important for keeping improvement efforts on track, making steady progress and ultimately achieving auditability goals and within the timeframe designated.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00021 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Effective oversight can also help to ensure that lessons learned are disseminated throughout the services so others can avoid similar problems.

In closing, I am encouraged by the recent efforts and commitment by DOD leaders. However, the challenges that I am highlighting are significant and include putting into place some very basic building blocks of sound financial management with effective oversight and monitoring of the process.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions that you or other members may have.

Senator CARPER. Good. Mr. Khan, thanks. And thanks to all of you for your statements.

Let me start with you, Mr. Khan, if I could. I have a friend whenever he is asked, how are you doing, he says compared to what. I want to ask really a variation of that same question.

How are we doing compared to the last time we met here? Some of you testified, I think you were present. How are we doing compared to roughly a year ago? How are we doing? Are we doing better and where are the areas we should be most concerned about?

The last thing I want to say is what do we need to do. What do we need to do on our end? Those are like about three questions. How are we doing compared to what, a year ago? What should we be encouraged about? And you said some of this already. What should we be concerned about? What do we need to do to help make sure we stay on the right path?

Mr. KAHN. Senator Carper, the positive is that there is a good plan. The key is in implementation of the plan. Last year we had mentioned that the plan has some phases which need to be filled out. That is an important element.

So, in one way DOD does have a plan. However, the path is not clear to reaching auditability by 2017. The Comptroller office, I understand, is working on defining the remaining steps of the FIAR Plan.

However, the picture changes when we begin to look at the components. Admittedly, the plan has to be executed and it has to be executed properly. Based on what I have mentioned and the reports that we have issued today, the results are very mixed, and that is of concern.

One key point. The systems have to be implemented and be in place well before 2017, and just looking at the time line it is a bit worrying because their completion time line is very close to 2017 to be able to affect a successful audit. Thank you.

Senator CARPER. My last question. How do we help? What can we do at our end? And I asked this question a lot as my colleagues know. What can the Legislative Branch do here?

Sometimes the answer is more resources. Sometimes it is get somebody confirmed for a position of leadership. A lot of times I hear the answer to that question is do more oversight, keep doing what you are doing, keep putting a spotlight on whatever the issue of the day is, and keep holding us accountable. What advice would you have for us?

Mr. KAHN. I am going to reiterate what you have just said, Senator Carper. One of the issues that I have mentioned is stronger oversight and monitoring of the implementation of the plan itself

H605-41331-79W7 with DISTILLER

that would be critical to understanding where the shortfalls are, and not allowing some of these areas to go forward when they would not be likely to succeed.

Similarly, I would like to reflect the same point for you is oversight hearings are important because they really help to focus on what the issues are and to be able to focus resources to resolve those issues.

Senator CARPER. I would note to our witnesses and to our audience and to my colleagues, when the President spoke last Thursday evening and addressed the Nation in the joint session of Congress, he had a lot of great applause lines but none of them dealt with the clean financial audits statements or audited statements.

We had the Republican, and I think it was the second of a series of Republican debates, Presidential candidate debates, and not one of them ever touched on this issue to either draw applause or just to make a point.

However, our colleague Scott Brown just led a cadre over to Afghanistan. One of the things I want to make sure that we do with Afghanistan when we pretty much pull out by the end of 2014 is that we leave behind a country that can feed itself, a country that can govern itself, and a country that can defend itself.

And more than most people would realize are doing these jobs well, our ability to do these jobs well, to better ensure that we have that kind of success 3 or 4 years down the line is to improve financial management.

Somebody talk to me about the selection of independent auditors. We have heard a lot of discussion of independent auditors for this or that or the other. How do we select those? How do you all select those? And we will start with the comptroller, Mr. Hale, do you want to take a shot at that?

Mr. HALE. Sure. We have a blanket purchasing agreement, it is called. We did that competitively. All audit firms that were interested and could meet our requirements could bid, and we selected a number of them. I want to say six, about six audit firms, teams.

Then when we have a particular task, they go out to the teams, they give us a price estimate, but they have been pre-qualified. So, it is a lot quicker at that point.

So, it is a competitive process, and we have several audit firms working right now. If I may say so I think this is a good way to go. I believe in plans. We can probably do better with the plans.

But we are learning so much because when you finally get somebody looking out there that actually does this for a living; they are really auditors; they know financial audits. We do not at the Department of Defense, frankly.

They have helped us immensely, because they can often say, "you are not going to make it here but if you did this . . . ." They cannot do it for us, but they can say, "if you did A, B, and C, you would be OK."

I think it has been enormously helpful in the case of the Marine Corps. We got some advice on appropriations received although we got a clean opinion there. I think it will be true in many of the Independent Public Accountant (IPA) engagements, Independent public accountant engagements that we have in mind for the future.

H605-41331-79W7 with DISTILLER

Senator CARPER. Does anybody else want to add or take away from that response? Anyone else? OK. Who are the firms? Can you give us some idea of the firms, who the firms are?

Mr. HALE. May I give you that for the record. May I do that? I can name a couple of them but I do not want to not name all of them. Is that OK?

Senator CARPER. Oh, sure.

INFORMATION FOR THE RECORD

The Department has established a Multiple Award Purchase Agreement (BPA) for Financial Management System Auditability Assessments, Audit Readiness Validation, Examinations and Audit to acquire the services to perform validations for Service interim goals. Six firms are awardees for the BPA—they are as follows:

- Ernest & Young LLP
- Kearney & Company, PC
- KPMG LLP
- PricewaterhouseCoopers LLP/Grant Thornton LLP
- Williams, Adley & Company DC, LLP
- Lani Eko & Company, CPAs, PLLC

Mr. HALE. You would recognize them. I mean, I can tell you one for sure. Grant Thornton is working on the Marine Corps audit. KPMG and Price Waterhouse Coopers are two that we have used so far.

Senator CARPER. Thanks. To change gears just a little bit. My colleagues often hear me say everything I do I know I can do better. One thing they do not hear me say as much is I learn more from my mistakes probably than what I do well. And the Marines are the first on the beach trying to lead the way into this promised land. We are delighted with that.

What have you learned from your mistakes and missteps along this path, in particular? And what have you learned that you think might be informative to our other services, our other departments that are here today?

Ms. COMMONS. First off, I will let Caral, since she is much closer to this than I am. But certainly, we have learned that we must validate our beginning balances before we go to audit. We know that we must tie out our transaction level detail to the general ledger accounts. If we cannot do that, it will be very difficult to get an audit opinion.

We also learned from the Marine Corps that we need an audit infrastructure. We need to have a methodology for passing information to the auditors, and it is a large volume of information.

We have also learned from the Marine Corps that we need to get everybody involved. Leadership, business process owners, our service providers. This is not just a financial management problem. We need to look at our business processes end to end and make sure that those processes are compliant as well.

So, we have learned a tremendous lesson from the Marine Corps stepping out and starting this audit. Certainly, we have incorporated those lessons in our plans. Caral.

Senator CARPER. Ms. Spangler, my time has expired. I am going to yield to Senator Brown.

Senator BROWN. Why don't you just go ahead.

Senator CARPER. Why don't you just respond if you would and then I will yield to Senator Brown. Thanks.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00024 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Ms. SPANGLER. I would actually say that some of our lessons learned are summarized in the GAO report, and we would agree with a lot of those lessons learned, and we can see the other services picking them up and running with them.

As Ms. Commons talked about, some of just the very physical things, logistics challenges of dealing with the audit and the volumes of data, we had to establish a Web site to be able to take in all the data as opposed to what the Army Corps of Engineers did which was have boxes and boxes of information.

To the more esoteric type issues, we have also learned things like ensuring the documentation is there. In some of our older accounts, that has been a problem for us. We also have put in place reconciliation actions. We have been working with DFAS, the accounting service, to make sure——

Senator CARPER. What is DFAS? I am sorry.

Ms. SPANGLER. The accounting service. I am sorry. To make sure that they have all the reconciliations in their repeatable processes, and that lesson has been translated to the other services and is being reflected in their plans.

We also learned about establishing relationships with the people that do business for us, that work with us, the service providers in making sure that they understand what their role is.

Also just preparing for the logistics challenges and then rehearsing our response to it, we found that it was very difficult sometimes to pull the data accurately the first time and get it posted and sent to the auditors. So that is critical. And if the other services would do things like rehearse that, that would be very beneficial.

Senator CARPER. Good. I am going to telegraph a pitch and the pitch I am going to telegraph is the next question when it comes back and I get to ask a question. What I am going to ask is how do we go about sharing what is working and what is not working? For example, how do we share what we learned with the Marines, with other departments, with the Navy as such? Do not answer now, but also with the Air Force, and the Army. That is my next question.

Senator BROWN. Thank you. Of course, Mr. Chairman, I always like to give you leeway.

Senator CARPER. I wish that my other colleagues were as considerate.

Senator BROWN. I will remember that.

So, the Marine Corps should be commended for being first up. I mean, they are always the first into battle usually. So that does not surprise me.

They started the audit in 2010 and it was ultimately unsuccessful and now we are told it will be 2012, 2013 before they can reasonably achieve a clean opinion, and it is just one part of the overall audit, the smallest part at that. I know there is a learning curve.

However, Mr. Hale, how does this time line, 5 years to see an assertion and a clean opinion affect your confidence about being audit ready to the degree that you had planned by 2017?

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00025 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Mr. HALE. Well, as you know, the law requires audit readiness, so, I am cautiously optimistic we will make that by 2017 DOD-wide.

I am more optimistic that we will make it for the high value information that we actually use every day, the budgetary information, and accounts, and locations of our assets.

But I hear your point. We need to pick up the pace. I am counting on a learning curve. Once we get to audit-ready, it will take a couple of years to go through this process. We have seen this with the Army Corps of Engineers. It actually took them about 6 years. They were doing all of their statements.

We are seeing it with the Marine Corps. I am sure we will see it with the other services, because once you jump into the pool, we discover there are things that we did not expect that we have to fix.

Senator BROWN. Do you think you will see similar types of up and downs—learning curve issues?

Mr. HALE. I do. We will learn some from it. I will answer the Chairman's question in a moment. But you cannot learn to swim on the beach. I mean, until they are actually under audits. That is why I am so anxious to do these validations, take pieces of this and get started and let us learn from the independent public accountants who do this for a living, and then we can fix those problems and we will be that much further along.

Moreover, we will begin to establish some knowledge on the part of the auditors of our business processes. That is another thing is that when the auditor comes in, they do not know us either, and so it takes them a while to get up to speed so they can function effectively.

Senator BROWN. Sure. I guess if we assume that all of DOD is audit ready by 2017, we could reasonably assume that the entire department will be able to receive a clean audit by 2020. That is a full 30 years since the passage of the CFO Act in 1990.

But considering 2017 is looking optimistic, would 2025 be a more accurate estimate for the clean opinion for DOD?

Mr. HALE. I am sticking with 2017 for audit-ready.

Senator BROWN. OK.

Mr. HALE. But I hear your concern about the fact that it has been so long. To be candid, in the early years—it was actually 1994 that they passed the Government Management Reform Act that required auditable statements.

Senator BROWN. Thank you.

Mr. HALE. In the early years, there was just not a commitment by senior leadership on the part of the Department of Defense, and it has been variable, frankly, since then.

But I believe in this Administration there has been a commitment from day one. The comment has never been as strong as it is right now. I have never briefed Secretary Panetta in the first month that he was in office on audits. That is a first. So, he clearly has a commitment, I think stronger than anything we have seen before, and that is going to help a lot.

Senator BROWN. Just as a side note. As I said, I did go to Afghanistan and speaking with a lot of the leaders on the ground, General McHale, for example. He indicated to me that he has 50

H605-41331-79W7 with DISTILLER

independent audits going on right now. Fifty, and a lot of the questions are from different entities, different groups, and they are saying the same thing.

I would like to maybe speak to you and Mr. Khan and whoever else, obviously the IG too, as to whether our soldiers there to do audits or to do the mission? And is it affecting readiness and safety and security? So, that is just a side note. Maybe we can talk offline.

Mr. Khan, does all of what you just heard from Mr. Hale seem reasonable in light of the challenges you have described in your reports?

Mr. KAHN. I have concerns about some of the challenges that we have highlighted in our report and that really is the implementation of the plan by the components. In a few areas that we have looked at over the last 12 months, the results have been very mixed. I wish there was something more positive to add.

Senator BROWN. I just want the facts. You do not need to sugarcoat it. I appreciate your honesty.

Dr. Morin, I think you are the newest one here, the newest and freshest face in the DOD having been appointed in 2009, 6 years on the staff of obviously Senate Budget.

As a relative outsider, what is your perspective on addressing the challenge from your own recent experiences?

Dr. MORIN. Senator Brown, I think that the perspective I have developed on the Air Force's audit readiness efforts is really threefold.

First of all, the intense importance of senior leadership commitment. The fact that the Secretary of the Air Force is a former Air Force comptroller, the fact that Secretary Hale is a former Air Force comptroller provides me with a lot of top cover, a lot of engagement, a lot of focused interest that helps motivate the entire organization.

The second point is that breaking this effort out of a purely financial lens into an operational lens, into a lens that crosses all of the various stovepipes that make up a big institution like the Department of Defense or the Air Force is absolutely key.

We will not get to audit readiness without aggressive involvement from the personnel community, the acquisition and contracting community, without aggressive involvement from the logistics community, and many others.

If it does not play in the field and if it does not play in those silos of functional expertise that hold much of the data and conduct much of the business activities of the department, we will not get there.

A third piece is that there really is not at present a culture in the department of managing from financial statements, and it is probably the case that there will not be. The government agencies that have clean audit are not generally managing from their financial statements, and that is why Mr. Hale's focus on the Statement of Budgetary Resources specifically is a useful bridge.

It is the entry point into the relevance of the financial statements, because the managers in the department do understand how to do their budgetary accounting and how to understand what appropriations they have available and how they expend them. So

H605-41331-79W7 with DISTILLER

that helps us down the way of using these to actually run our business type operations and squeeze the maximum amount of combat capability out of each dollar we have entrusted to us.

Senator BROWN. I will save for the next round, if that is all right.

Senator CARPER. Let me come back to, if I could, to Comptroller Hale on Secretary Panetta's statement. As I mentioned in my opening statement, the words of the Secretary over here are not the kind of thing we always hear from Secretaries of Defense. I have known a bunch of them. I do not recall everybody being quite this direct on this subject.

He said much of the same thing in my office about a month and a half ago. He said that in any number of forums and people start to believe them. I think it is just usually helpful to have the person at the top saying this is what one of our key goals and to hold people accountable.

But I applaud his commitment to the goal and I am going to work during my time as Chairman on this Subcommittee to partner with the department toward this goal of better accountability.

As I said earlier, war fighters are counting on us. Frankly, so are the taxpayers, because we spend money we do not have and we have to do our best efforts for our war fighters. By the same token, we have to face these huge deficits as you know, and we have to be all over them.

I will not repeat the Secretary's words. They are here for us to see. But, Comptroller Hale, could you just tell us what changes are forthcoming and how you plan to continue to respond to Secretary Panetta's commitment to not only meet the 2017 goal of auditability but to meet the Secretary's challenge of becoming auditable before 2017?

Mr. HALE. Well, I am working actively with Secretary Panetta and his senior staff. I do not want to get ahead of him on this. So, I am not going to make a pronouncement. I am going to let him do that. I think it will be soon. He has a lot on his plate as he addresses issues from Afghanistan and the budget and everything in between. But he is very interested.

I think my jobs are two. The main one is to serve him and make sure I do what he wants. But also, frankly, to figure out how I can exploit his interest in order to make this process move faster and place more emphasis on the effort of the Department.

Senator CARPER. It is enormously helpful to be able to say to folks up and down the line in the different branches of our armed forces, the Secretary says we are going to get this done.

Mr. HALE. It is enormously helpful. I have used that phrase already. I think all of us at this table and all of the DOD employees are well aware of it.

Part of my job is to make sure everybody in DOD is aware of it, and we have some thoughts on how to do it. So, I know I am being vague but I do not want to get ahead of him on this. I have given him some suggestions, but I need to let him decide how and when and what he wants to do and how and when he announces it.

Senator CARPER. All right. Let me just ask our other branch witnesses, and Ms. Spangler, you might get your shot here.

But if you all could take a moment and tell us in as much detail as possible what your branch is doing to help meet Secretary Pa-

H605-41331-79W7 with DISTILLER

netta's new goal. And do you want to just lead it off and then we will turn to the folks from the other branches?

Ms. SPANGLER. I think by leading the charge on the Statement of Budgetary Resources and sharing those lessons learned with people, I mean, we were in progress on doing that. I think we will have some notable successes this fall.

We do not know yet what the result will be. But as Ms. Commons said, she is waiting for them to come back to her in October to give us an assessment of whether we can keep going with the effort. The lessons learned I think do translate to the other services, and I think that is part of what we are doing to lead the charge.

Senator CARPER. Ms. Commons, do you want to add or take away anything away from that?

Ms. COMMONS. We have a very aggressive schedule. We anticipate that by 2013 we will be ready for audit on our Statement of Budgetary Resources. So, we are very aggressive. We are focused. We are putting our energy and our resources behind this effort, and I am cautiously optimistic that we will get there and that we will meet our deadline which is well ahead of the 2017 deadline.

Even if we do not make 2013, I believe we have enough time built into our schedule to self-correct and that we will get there.

Senator CARPER. Is it true that as Governor of Mississippi, Governor Mabus could have cared less about clean audited financials? Now he is starting to get religion. Is that true?

Ms. COMMONS. I cannot speak for what kind of religion he had as Governor. I can tell you that he is fully committed to this effort. He is supporting us and we are working very hard.

Senator CARPER. I am just kidding. We were Governors, not at the same time, but I thought he was a great Governor. Staying in the religions vein though, every now and then I say people need "a come to Jesus message" from one of their leaders and I think the Secretary of Defense has provided that.

How about the Army?

Ms. MATIELLA. It is very important to Secretary McHugh and the senior leadership to make a resource-informed decisions. Given our budget situation, it is important, like you said, to stretch a dollar as far as we can and to use it as effectively as possible, and the way to make those resource-informed decisions, the way to implement a cost culture that will be effective is to have accurate and timely data.

And for that reason, it is important to our senior leaders to change that, to change the systems, to change the practices, to change the controls, to change our workforce so that they are able to create this accurate data, capture accurate data, and present the information to our leadership and our leaders that will help them make these resource-informed decisions, to make the best possible decision that in terms of what to buy, when to buy it, how much it costs, and so, I believe that auditability will help us in our endeavor to develop a cost culture.

Senator CARPER. Mr. Morin, would you respond to the same question on behalf of the Air Force?

Mr. MORIN. Absolutely. Well, I can begin with the personal level where the Under Secretary Chief Management Officer of the Air

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00029 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Force, Ms. Erin Conaton, was, in a previous job, the staff director of the House Armed Services Committee at the time that that Committee initiated the legislation that gave us the 2017 audit deadline.

So, to say she feels a personal commitment to that effort and that she is driving——

Senator CARPER. That is encouraging.

Mr. MORIN. Yes. It really goes without saying but I said it anyway.

On the few substantive issues where I think the Air Force is leading the way, even though across-the-board we are behind the other services, is the Funds Balance with Treasury reconciliation effort that we have done working very closely with the Defense Financing and Accounting Service. I think that is going to be helpful for the other services.

We use different systems so they just cannot take our tools wholesale. But working through that process and getting to 99.997 percent reconciliation each month, which is where we are right now, is a useful example.

I think our effort to lead on the personal accountability issue and the tying audit readiness outcomes to senior executives performance goals is helpful. Working with Mr. Hale on that has been rewarding.

And though we are still working through some discrepancies and some corrective actions associated with our existence and completeness of military equipment assertion, we were further along on that in many respects and I know that the other services are learning from the work we have done there and the input that has come from the GAO and the office of the Secretary of Defense on that assertion.

Senator CARPER. Good. Thanks. I said earlier at the end of my last questioning I was going to ask you how you cross pollinate from lessons learned. When I have another shot, I really am going to ask that question. Senator Brown.

Senator BROWN. Thank you. This will be my last round because I have to get ready for our votes. I just have a few questions. I need to make sure I understand one of the issues that we are working on.

But, Ms. McGrath, you look lonely so I figured I would ask you a question.

In considering the importance to the overall FIAR efforts, this is also a concern as the pressure builds to fully deploy the ERPs. There has already been criticism of some of the ERPs regarding the number of interfaces and manual workarounds that are required to fully integrate these systems into the current financial accounting environment. These systems were intended to solve a lot of these issues, not create more.

How are you ensuring that the components are fixing the major weaknesses with long-term solutions and not just creating more kind of bureaucracy and overlap and similar problems?

Ms. MCGRATH. Thank you very much for the question. You have heard a lot today in terms of themes, business process re-engineering; taking an end-to-end perspective; the engagement from across

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00030 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

functional perspectives so it is not just the financial community. It is all across the department.

And in my opening statement, in our written testimony, it articulates, really, the different approach the department is taking not only to audit, but our entire business environment. We really are looking from an end-to-end perspective.

You tend to see the disconnects in the system implementations. What we are doing is ensuring that we are identifying what those lessons are and baking those into our overarching business process re-engineering.

The National Defense Authorization Act, Section 1072 actually was very helpful in illuminating our collective responsibility to identify appropriate Business Process re-engineering (BPR) so that before these systems go into implementation, there is a documentation path that is articulated, that says, "I understand how I am going to execute my business and how this system plays in doing that." And part of that documentation is the identification of the interfaces that are needed.

Historically, what we would do is deploy a logistics system. It would define its own interfaces; and now, we are saying, "well, really, are those the right ones? How would you best optimize the entire business environment?"

So, we are identifying interfaces that do not need to happen anymore, trying to maximize the investment that we have made than not only in the ERPs but those capabilities that surround it. So, it is a much broader, wider aperture regarding systems implementations.

Some of what you have heard today in terms of the learning experience to turn on these systems once you have identified you have a stable platform, you have gone through the initial operational test and evaluation, then you ought to turn it on because that is the best way to learn and that is the best way to also identify the change management in both challenges and opportunities that come with systems implementations.

So, it is a long answer.

Senator BROWN. No. Fine.

Ms. MCGRATH. I would also say that it is more than just the system itself. It is all the surrounding conversation that happens with the implementations.

Senator BROWN. Well, thank you. I appreciate that.

Ms. Matiella, as a long-term DFAS veteran, how has this informed your experience with a working relationship between DFAS and the Army in regard to the audit readiness?

And then take it a step further. What are your concerns regarding the interaction that is required and the impact that the potential problems at DFAS have on the Army not being at a State of readiness?

Ms. MATIELLA. Having worked in DFAS, I saw people work extremely hard with a very high customer service ethic. They are doing the best they can with what they have, and they too, just like us, they have systems that are not creating transaction level information that updates general ledgers. They have obligations that come in bulk instead of at transaction level.

H605-41331-79W7 with DISTILLER

So, whatever challenges we say that we have with our financial data and the way it is being created by our feeder systems or within our accounting system they have those same challenges.

And so, there has been a lot of manual workarounds both on their part and our part, and that is why they are equally, I think, supportive of us changing to systems that are more compliant because it will help them as well as us do our work.

They are, I think, equally mindful of the fact that we have to change, that we have to improve what we are doing, and they are our No. 1 cheerleader in terms of getting a clean audit, and I am 100 percent confident that DFAS will help us get there.

But again they too have to change like we have to change. So, it will be a challenge for them as well as for us.

Senator BROWN. Thank you. And, Ms. Commons, with a career spent in Navy financial services, I would like to get your perspective on the challenges that you faced with this issue over the years and how you are addressing it in your leadership role now.

Ms. COMMONS. I was the principal deputy in 1994 when the Act was passed, and I can tell you that we tried at that point in time to get interest in auditable financial statements.

At that time, it was really viewed as a financial management issue and certainly the leadership pushed it right over onto my plate. I kept saying it is not just a financial management issue.

And so, we have come a long way in establishing this as a department-wide issue across all of our business processes and with all of our stakeholders.

Also, back in 1994, we tried to do everything. We tried to do every statement, and it was just too much of a bite of the apple. So, I was very gratified that Secretary Hale brought focus to this initiative and that we could focus on two things as opposed to trying to do everything within the statement.

That has been very helpful for us. We are working lockstep with DFAS Cleveland. They are very supportive of us. In fact, we have what we call a monthly drumbeat with them to talk about progress and the things that we need to accomplish.

So, it is a very different environment and culture from the time I was there in 1994.

Senator BROWN. Very well. Thank you for that thorough answer.

Thank you, Mr. Chairman, for holding the hearing.

Senator CARPER. Not at all. I said to the fellow sitting behind you, our staff, one of the principal authors, maybe the principal author of the Chief Financial Officer Act was Senator Roth, our senior Senator, and I worked in the House as a Congressman but after that period of time. But he is deceased now.

But in terms of legacies for him, if we are able to continue on his path and actually achieve the auditability and get some clean audits by 2017 or thereabouts that would be a great legacy for him, and a very good thing I think for our country.

I want to come back, and somebody mentioned and I am not sure who maybe it was Ms. Matiella mentioned I think workarounds. I want to come back with a different question on workarounds and direct to Ms. McGrath, if I could.

I think in his testimony Asif Khan explained that following the implementation of the Army's general fund, the enterprise business

H605-41331-79W7 with DISTILLER

system, approximately I think he said two-thirds of the invoice and receipt data must be manually entered, and eventually this type of increasing amounts of repetitive data entry become infeasible due to the amount of data that would need to be entered in the Air Force system.

The Defense Enterprise Accounting and Management System. Workarounds are needed to process data such as travel debts data I believe. This seems to be maybe an odd situation. And when we see a huge increase in data entry costs by implementing a modern billion-dollar financial system, it just seems counter intuitive to me, and maybe to others as well.

But I would just ask Ms. McGrath, can you explain how you are working with the different branches as they implement these very expensive systems to make them as efficient as possible, make sure that these types of workarounds and manual entries are not ultimately necessary?

Obviously, these problems are not sustainable and they cannot be allowed to continue to occur. Would you tackle that for us?

Ms. MCGRATH. Sure. I would also ask that Dr. Morin and Ms. Matiella augment as necessary.

Senator CARPER. Would you all be willing to do that? They said yes.

Ms. MCGRATH. Yes. I think, too, with the DEAMS, the Air Force's financial system is still in what we call a "tech demo" status——

Senator CARPER. Tech demo, I wanted to use that word today.

Ms. MCGRATH. It is a technical demonstration. I tried not to use an acronym.

Senator CARPER. Thank you.

Ms. MCGRATH. It has, for 2 years, been deployed at Scott Air Force Base to learn, and then to educate the workforce. You have heard a lot today about business process re-engineering and change management challenges.

A lot of the change management comes to folks who have been doing their jobs for a very long time the way they have been doing it. We have now introduced a new, modern capability that has a lot more controls and rigor, that they are not necessarily accustomed to.

They would like flexibility but flexibility equates to non-standard data which then does not enable a clean financial opinion, nor does it necessarily equate to a smooth transaction.

With the implementation of the systems, it is really a significant change management challenge, and referential integrity that comes with the implementation of these systems is really what we are after from an audit perspective, so that you can rely upon and trust the data that comes out the other end.

At the end of the day, what we are all after it is the clean data with which to make decisions.

As we implement these systems, again the DEAMS Air Force solution is in a tech demo status. So, before we deploy it to other Air Force bases, we want to ensure that we have identified and eliminated as many manual workarounds as possible before it goes to the next. We are looking for DEAMS to deploy to five additional

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00033 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

bases once it has completed its operational test and evaluation, which is scheduled for March or April of next year.

As I mentioned earlier, I think turning on these solutions is a significant way to learn what else you need to fix and what changes you need to make not only from a systems perspective, but also from a people perspective. And I would give the same but shorter answer from a GFEBS perspective.

Senator CARPER. What is GFEBS?

Ms. MCGRATH. I am sorry. The Army's accounting solution, General Funds Enterprise Business System. It deployed to many different additional sites, and so the number of users significantly increased in a short amount of time.

So again, we went to a different population. We are learning a lot more about both of the types of users. We talked a little bit about the DFAS involvement and also the Army involvement, and again I think we are ensuring that we document all of the feedback from implementation so that we can make the appropriate course corrections; again, system changes, people changes, business process.

And so, turning on the system, although there are going to be-we expect, I will say, some bumpiness when we turn it on, but we want to learn from what is happening so that we can, at the end of the day, make it the solution that works from a business process perspective, a change management perspective, and a data conversion.

Senator CARPER. All right. I think you said you were going to yield to our friends from the Army and the Air Force.

Do you all agree with anything she just said?

Ms. MATIELLA. The Army is deploying our GFEBS or accounting system very aggressively. We are going to be done with full deployment of the General Funds Enterprise Business System by next year at this time.

There is a lot of change management. One of the things about change management is that people have to learn new business practices. It is not business as usual as Dr. Morin said. They have to learn new business practices.

The old system would allow for weak internal controls, bad practices. GFEBS does not. GFEBS has a lot of edits. So as people are learning how to deal with these edits, there is going to be anxiety. There will be more data input problems.

It is not that the system is bad. It is just because it requires a lot more discipline. And so, at this point as we go back to the installations that have been on it the longest, those are the installations that can use it the best. The ones that have been on it the least are the ones that are still probably having higher anxiety levels.

In the end, the system works. There are no data integrity problems and we are improving it. For example, that 40 percent acceptance rate is now up to 70 percent acceptance rate for invoices. So, it has changed the management.

I am confident that as we train our folks to use it, as they learn over time how to use it and become accustomed to this added discipline and additional edits that we will get to where we need to go in terms of accurate and complete data.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00034 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Senator CARPER. Mr. Morin, just very briefly, anything you want to add?

Dr. MORIN. I think the others have said most of the key points but I would just point out one thing which is the fact that these systems, these enterprise research planning systems have interfaces that do not always work is most often a feature not a bug in that it reflects feeder systems and data from feeder systems which is not reliable.

So, our procurement feeder system to Deems, the interface is not working well because the data in the procurement system is not good and it is not formatted consistently as Ms. Matiella said.

So, what that does, the implementation of these more rigorous systems brings to light the process problems and the systems problems that are around the rest of the enterprise. So, I think it is helpful and it is yet another reason why we have to turn these things on and try them rather than maybe build the perfect plan and only then confront it with the real world.

Senator CARPER. OK. Our voting has begun on the Senate floor so we are going to have to wrap up here in a few minutes. What I would like to do is come back to the question I said I was going to ask and now I am going to ask it.

In the National Governors Association (NGA), during my old job as Governor, we used something called the Center for Best Practices which is really a clearinghouse for good ideas.

We could learn from other States what they are doing well or what they did not do well. We learn from their mistakes. A good idea. It is still used in terms of some of the good work in different venues here as we approach better financial auditing and accountability.

But how do we impart to other departments, whether it is Army, Navy, Air Force, Marines, how do we impart to other departments lessons learned? How do we do that in a consistent way and a helpful way?

Mr. HALE. Let me start.

Senator CARPER. And I am going to ask you to be very brief.

Mr. HALE. OK. We have set up a structure for governance by the Chief Management Officer but a quarterly meeting of a group that Beth McGrath and I chair also has service FMs on it, a number of others, and the Defense Chief Management Officer (DCMOs) from the services; and we have had a number of presentations at these sessions about lessons learned, especially from the Marine Corps audit because we are learning so much, and frankly we have had a number of problems.

I think that is one forum in which we can exchange information. My Deputy Chief Financial Officer, Mark Easton, who is sitting behind me, also chairs a monthly meeting of financial operations folks in the department, each of the military departments. They share information there.

If we have a center for excellence, I think it would be the Defense Finance and Accounting Service. They are going to be involved in every one of these audits because they serve all of the departments as service providers, and they have set up a team focused on audit, and part of what I have asked of Terroy McKay, as the Director, is to make sure we are exchanging information.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00035 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

So, we are trying, but there is no substitute for jumping in the pool. We are not going to learn to swim unless we do that. So, I am anxious to see us actually try these validations, and as soon as we can actual audits.

Senator CARPER. Another comment. Mr. Morin.

Dr. MORIN. I think Mr. Hale has left out an important point.

Senator CARPER. What is it?

Dr. MORIN. His staff is a center of excellence for the department as a whole and his FIAR team holds us to standards, helps transmit data back and forth between these services. We talk directly, of course, but they bring things to light. That is really a big part of the reason that they exist. They do a good and increasingly better job of it.

Senator CARPER. You would expect that, Mr. Hale?

Mr. HALE. Absolutely, thanks to Mark Easton and Joe Quinn, who are here, for the work they are doing.

Senator CARPER. Would they raise their hands please? All right.

Anybody else on this particular issue, cross pollination, sharing ideas? Ms. Commons, just very briefly please.

Ms. COMMONS. We also have what we call a quarterly audit committee meeting where we share with all of the stakeholders involved and with the other services. They actually attend our meeting. We tell them the things that we have learned during that quarter and actively pass that information to them.

Senator CARPER. Ms. Matiella.

Ms. MATIELLA. Communicate both formally and informally. We do it all the time. It is working well.

Senator CARPER. All right, good. We come down to my favorite part of the hearing where I go back down the list from Mr. Asif Khan to Mr. Hale and just ask each of you to take maybe 15 or 20 seconds and just give a quick closing comment you would like to leave as like a take-away for us. This is like a benediction. You all help give it.

Mr. KAHN. Thank you, Senator Carper. One of the important elements in transformation is tone at the top and we are really encouraged to see that the current leaders within the DOD and the components have the right tone and they are going through the right actions to be able to get to auditability eventually.

Senator CARPER. All right. Good. Mr. Morin.

Mr. MORIN. My final thought would be we have to keep in mind our ultimate goal here. Our ultimate goal here is not a clean financial statement audit. That is a symptom. Our ultimate goal is financial improvements across the departments so that we are better stewards of the taxpayers resources and we get that maximum amount of combat capability out of each dollar that they entrust to us.

Senator CARPER. Better results for less money or at least better results for the same amount of money. Ms. Matiella.

Ms. MATIELLA. Our focus is to provide the information that the war fighter needs to make decisions. These decisions will help the war fighter become more effective and get the resources they need to do the job, and that is our focus.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00036 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

Senator CARPER. Good. Ms. Spangler, you did not get to give an opening statement but we will give you twice as much time for a closing statement.

Ms. SPANGLER. Thank you. I do not know if I need twice as much time. But I would just say that our efforts have really been a benefit to the other services, and we have come a lot further this year than we were able to come last year.

We responded to 2,500 different sample requests from the auditors. We provided 65 million transactions to them as we establish the beginning balances. We are going to go into areas in the next few months that we were not able to go into last year, things like civilian payroll and the Fund Balance with Treasury and actually doing some testing on that as well as military pay which is vitally important for all of us since we all have military pay that we have to go forward with.

Senator CARPER. Thank you. Ms. Commons.

Ms. COMMONS. We are fully committed to this effort. We are working very hard to achieve auditability, and thank you for your support and interest.

Senator CARPER. You are welcome. Ms. McGrath.

Ms. MCGRATH. I guess I would like to say I have heard a lot of conversation today about the additional focus on the financial audit. But with the passing of the Chief Management Officer legislation, I think that has put a greater focus on the entire business space and the business outcomes of which financial auditability is one of them.

So, I do appreciate the attention that Congress has put on the entire business space.

Senator CARPER. Thank you. Mr. Hale.

Mr. HALE. I would like to associate myself with the remarks of my colleagues and add that I think we will get there more quickly if we focus on doing audits——

Senator CARPER. Focus on what?

Mr. HALE. If we focus on actually doing audits and validations. I am so anxious that we try out various pieces, get independent public accountants to give us their own opinion, and tell us where we need to do better. I would also like to thank you for your support and continued assistance.

Senator CARPER. You are most welcome.

Senator Brown has joined us more recently, and I am grateful to him for his focus and interest in these issues and his staff.

Senator Coburn has been at it even longer and he has been working the vineyards with me for, 6 or 7 years. For those of you who do not know him, he is tenacious, and I am pretty persistent myself, and we are not going away on this.

What we have here is like a situation where you have the Secretary saying this is important and you have to do this, and the Executive Branch providing leadership and with the relevant Subcommittee here in the Senate saying this is important as well.

That is what we described in the business as an echo, an echo effect. Sometimes it is helpful to have that. I am not sure who said this. Maybe it was Peter Tyler. Maybe it was Heather who said this, but what we measure we manage, and with the cost of the Federal Government we need to do a better job of measuring so

H605-41331-79W7 with DISTILLER

that we can actually manage, and that is for us to help do our jobs as well as for you and your colleagues.

But I turned around to our colleagues during the back and forth and I said, I do not know if this is my imagination but I sense sort of different spirit here at this hearing this year compared to the last time that we gathered and discussed these issues, and I am encouraged by that, and that is not to mean that we should take our foot off the accelerator.

We need to keep it right there but I think we are heading in the right direction. I think we are heading there a little bit faster, and God knows we need to.

The last question. Who is here from the Air Force? Dr. Morin. My recollection is that in the Air Force, every year they hold a competition. I think it is like Commander-in-Chief competition to pick the best Air Force Base in the country, and they usually end up with two finalists. Any idea? Have you heard who the two finalists are this year?

Dr. MORIN. I have a sneaking suspicion Dover might be one of them. [Laughter.]

Senator CARPER. One of them is Arkansas, Little Rock. But for the third time in 4 years the other finalist is Dover Air Force Base, and we are so proud of the work they do. They do a lot of work in airlift and they handle the receipt of the remains of our fallen heroes. They just do some extraordinary work.

We are very proud of them, and what I would like to see is us doing this across-the-board in every part of our armed services and Department of Defense.

We should be doing as good a job with respect to managing our finances as well as we are in Dover in handling the airlift and other important duties. That is a good standard for us to shoot for.

Some of my colleagues will be asking questions, following up in writing. Senator Coburn I know is going to do that. How long do they have? They have 2 weeks to submit those questions in writing in followup. I would just ask that you try to respond to those promptly.

And we will look forward to the next time we are gathered together and have even better news to share with all of us. Thank you all.

With that, this hearing is adjourned.

[Whereupon, at 4:14 p.m., the Subcommittee was adjourned.]

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00038 Fmt 6633 Sfmt 6633 P:\DOCS\72479.TXT JOYCE

APPENDIX

FOR RELEASE: September 15, 2011
CONTACT: Emily Spain, (202) 224-2441, or emily_spain@carper.senate.gov

U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

HEARING: "Improving Financial Accountability at the Department of Defense"

WASHINGTON – *Today, Sen. Tom Carper (D-Del.), Chairman of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, convened the hearing, "Improving Financial Accountability at the Department of Defense." For more information or to watch a webcast of the hearing, click here*

A copy of Sen. Carper's remarks, as prepared for delivery, follows:

"Today's hearing will explore the Department of Defense's plans for improving its financial accountability.

"Since the mid-1990s, federal agencies have been required to produce auditable financial statements. Currently, the Department of Defense is incapable of doing this. In fact, its books are so bad that auditors cannot even attempt to perform a complete audit. This is clearly unacceptable.

"A year ago, we met in this same room and had a hearing - maybe even with the same title - and talked about how the Department was going to meet its statutory deadline of achieving financial auditability by 2017. We are here today to get an update. We know the Marine Corps is currently attempting its second try at auditing a portion of its financial books and are learning from these audits.

"As our witnesses and my colleagues know, successful financial statement audits are simply the outcome of strong financial management. Keeping a federal agency's books in order, ensuring good financial controls, and getting a clean audit helps ensure that taxpayers are getting the services they paid for. Unfortunately, these basic managerial tasks have proven challenging to the Department of Defense.

"Federal agencies should always strive to be good stewards of taxpayer funds, but as we struggle to address our massive federal debt and deficit, this effort has taken on even greater importance. We must improve the basic financial management practices at the Department of Defense, the Department of Homeland Security, and throughout the Federal government. After all, we can't effectively identify

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00039 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.001

areas to reduce spending if we don't know how much, and where, we're spending in the first place.

"Unfortunately, most Americans question whether we in government are capable of making the kind of tough decisions they and their families make with their own budgets and checkbooks.

"They wonder why a massive arm of the federal government like the Department of Defense can be so incapable, year after year, of doing the same work. I don't blame them for frustration and skepticism.

"Now more than ever, we need to establish a different kind of culture in Washington when it comes to spending. Clean, auditable financial statements can provide the roadmap we need to move from a culture of spendthrift towards a culture of thrift. Clean statements would give agency leadership, and those of us here in Congress, the information we need to look in every nook and cranny of federal spending and ask this question: 'Is it possible to get better results for less money?'

"When it comes to the Department of Defense, it's clear to me that we can get better results and save money.

"Unfortunately, the Department's finances have been on the Government Accountability Office's high-risk list since 1995, in part due to pervasive management deficiencies that would never be tolerated in a private sector business. In fact, these deficiencies aren't tolerated even in most federal agencies. These deficiencies make it difficult, if not impossible, to know for certain how and when the Department of Defense spends its money.

"The Department of Defense has annual expenditures of nearly $700 billion – spending approximately $2 billion every day. Managing this level of spending requires transparent information that is reliable and relevant. Without quality financial data, and the assurance of a clean audit opinion, the Department is unable to assure the Congress, and the American people, that the funds we entrust them are spent prudently.

"A series of recent reports detail a litany of the Pentagon's oversight problems:

1. Members of this panel recently wrote to the Department of Defense about the Inspector General's report on the Department's inability to recoup about $200 million in delinquent debts due to poor, but basic, record keeping.

2. Just last week, we found out about a helicopter contract through which the Army has overpaid millions of dollars for spare parts. The size of some of these overpayments is staggering. An $8.00 helicopter door part, for example, went for $284.00 in DOD's accounting world. In another instance, the Army paid five times too much for a $1,500.00 rotor part that turned out to have already been in the military warehouses.

3. In fact, we have seen from the Department of Defense that, at any given time, there is roughly a billion dollars of spare parts on order that the Department simply does not need, but the Pentagon inventory system doesn't allow for the order to be changed.

4. USA Today recently reported that the Department of Defense racked up $720 million in late fees

for shipping container leases by not returning the containers on time. This $720 million in late fees was on top of the cost of the actual leases.

5. Finally, the Commission on Wartime Contracting found earlier this month that there was an estimated $60 billion in DOD waste and fraud related to the Iraq war.

"In these tough economic times, this level of waste is simply unacceptable. Even worse are the fraud, waste, and abuse that we cannot identify at the Department of Defense because the financial management systems are so poor.

"Fortunately, momentum is building to address this widely recognized problem. The House of Representatives has formed a panel to study financial management at the Department of Defense. As Mr. Hale can attest, he is often called to testify in front of Congress on the Department's progress in this area.

"And most of all, Secretary Leon Panetta has expressed his intent to greatly improve financial management at the Department of Defense.

"To quote the Secretary:

> . . . [I]t is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less.

"We have an opportunity – an imperative actually – to make financial management at the Department of Defense better so that, every day, decisions can be made based on quality information. This way we can support the men and women in uniform in a way that obtains the best results for a fair and reasonable price.

"Today, we have been joined by several witnesses who are each key players in helping the Department of Defense improve its financial management processes and controls. Their work, if successful, will allow the Department to produce reliable financial statements that regularly produce critical information for decision makers."

###

Connect with Senator Carper:

Sign up for Senator Carper's e-newsletter

This email was sent from an unmonitored account.

STATEMENT OF SENATOR SCOTT BROWN, RANKING MEMBER

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES AND INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

"Improving Financial Accountability at the Department of Defense"

September 15, 2011

Senator Carper, thank you for holding this hearing today.

For some time now, this Subcommittee has tracked the efforts of the Department of Defense to improve its bookkeeping, reach a point where it can produce auditable financial statements, and finally be in compliance with statutory requirements it has failed to meet for twenty years.

But for decades, DoD has suffered from significant financial system weaknesses, problems with fundamental recordkeeping, incomplete documentation and weak internal controls. Efforts to fix these problems, such as modernizing key business systems, have themselves been plagued by mismanagement -- going years over schedule and billions over budget.

As Mr. Khan from GAO will point out today, the challenges that DoD faces to meet the current deadline of 2017 are numerous and pervasive. There are some encouraging signs, however, that show the persistence of this subcommittee and others is paying off and senior leadership at DoD – including our witnesses today -- are giving this the priority it deserves.

I am pleased with recent statements from Secretary Panetta, sharing our concern that it is "unacceptable" that the Department cannot produce an auditable financial statement and is pushing for swifter progress on this front.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00042 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.004

As the nominee for Deputy Secretary, Dr. Carter has also assured me personally that he fully understands this priority. This kind of senior leadership buy-in will be essential to make the kind of progress required to meet current milestones and get the department where it needs to be in the next six years.

Yet, as you are well aware, Mr. Chairman, promises have been made before, deadlines have been set, and "new and improved" plans have been presented. Yet time and again, deadlines are pushed, plans are scraped, and we are left with limited success to show for the effort.

There is no doubt that the complexity, size, and institutional resistance that must be overcome with these efforts pose unique challenges. I applaud the dedication and service of our witnesses. However, consistent, tangible results must be shown to provide Congress with confidence that 2017 is indeed a reality.

In this budget environment, when significant cuts are being considered across the federal government, improving financial management is no longer simply good practice, but critical to managing diminished resources in the future. The overall objective here is not the audit of DoD in and of itself, but to have better information to make quality business decisions across the Department on a daily basis.

The ultimate goal is to ensure our military has the resources it needs to achieve its mission and support the warfighter and their families -- and do so in a way that is transparent and accountable to the taxpayer.

I thank the witnesses for their attendance today and look forward to their testimony.

Thank you Mr. Chairman.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00043 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.005

Chairman Carper, Senator Brown, Members of the Committee, thank you for the opportunity to review our progress in improving financial management at the Department of Defense (DoD).

I am Robert Hale, Under Secretary of Defense (Comptroller) and Chief Financial Officer of the Department. Joining us at this hearing today is Beth McGrath, DoD's Deputy Chief Management Officer. She will describe the actions that have been taken to improve the systems that are a key component for effective financial management. We are also joined by the Service Assistant Secretaries (Financial Management and Comptroller) who have the responsibility for improving financial management within their Departments.

We last spoke to you approximately one year ago, and while a lot has changed since then, our basic strategic guidance has remained constant. Our basic priorities – including a focus on budgetary information and existence and completeness for material -- are still valid. We continue to make important progress but also face significant challenges in transforming all elements of the DoD business environment in order to produce high quality, timely and reliable financial information.

I begin our comments by reminding the committee of the Department's three goals for financial management:

First, we strive to acquire the resources that are necessary to meet national security objectives. This is the budget side of our mission, and it requires considerable management attention as we accommodate the far-reaching changes in the Budget Control Act of 2011.

But an enacted budget is only the beginning. Our second goal is equally important -- to ensure that we are using appropriated resources legally, effectively, and efficiently. This is the implementation side of financial management, and its magnitude within the Department of Defense is immense. Every business day, we obligate an average of $2 billion to $3 billion and handle hundreds of thousands of payment transactions in thousands of locations worldwide, including combat zones. So our second financial management goal is no small task, and it is in fact where we are placing a significant amount of urgency and emphasis across the DoD enterprise. The umbrella initiative is our Financial Improvement and Audit Readiness (FIAR) effort that will strengthen our controls and lend further credibility to our achievements, such as the success we have had in sustaining a low level of improper payments.

To meet our first two goals, we are also committed to a third objective, which is to maintain a world-class financial management workforce that is trained and motivated to meet

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00044 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.006

their responsibilities in support of the DoD mission. To facilitate their continued excellence, we are developing a framework to formally guide their training and career development.

Although these three objectives predated the arrival of our new Defense Secretary, they have already attracted his strong interest. As he wrote in a message to the entire Department, "We must continue to tackle wasteful and duplicative spending and overhead staffing. We must be accountable to the American people for what we spend, where we spend it, and with what result." That same message expressed a strong commitment to achieving auditable financial statements.

Secretary Panetta has asked us to review our financial improvement strategy and to report back to him concerning both our progress and plans. That review is ongoing. The Secretary's personal interest in these issues will be very helpful in the days ahead.

This morning, I will describe the challenges we face and how we are dealing with them. But to set the context, I would like to begin with the important accomplishments that we have made over the past year and – in particular -- our efforts to improve financial information as a necessary step for achieving auditable financial statements.

Where We Are Today

To appreciate how far we have come, it is helpful to recall that less than two years have passed since the Administration took stock of previous efforts and established new priorities that would enable DoD's functional communities to work together toward a common goal of financial auditability. That objective is now accepted as a high priority across the Department.

To move forward with this new, focused approach, we have made a number of substantial changes, beginning with clear but flexible guidance so components prepare to assert audit readiness by executing detailed plans for their discovery and remediation efforts.

In addition:

- We ensured that each Military Department has programmed adequate resources to move forward with this strategy.
- We have assembled teams within each Military Department that will be tasked with improving financial controls.
- We are requiring that Senior Executive performance plans involving functional business areas that generate business events with financial impact must include financial audit

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00045 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.007

goals among their criteria. This key initiative will help to establish audit requirements in business areas outside those of the Comptroller organization.

- In addition, we have maintained a close working relationship with key stakeholders and oversight bodies, including both the Government Accountability Office (GAO) and DoD's own Inspector General.

While many process changes have been made or are in the works, we also recognize that we need to show specific progress to ensure that we are moving toward auditable financial statements in accordance with established timelines. To that end, we launched an audit of the Marine Corps' Statement of Budgetary Resources (SBR), which we believe will lead to a positive audit opinion. If successful, this would be the first time that any Military Service has completed an audit of a financial statement. Moreover, it already provides important lessons that are useful to other Defense organizations.

Other efforts across the Department are validating and demonstrating progress as well:

- In August of this year we completed an examination and validation of each Military Department's funds distribution process, known in financial terms as "appropriations received." This effort was conducted by a public accounting firm and resulted in a clean opinion on the audit readiness of this process. A similar validation will take place DoD-wide and periodic validation of appropriations received will demonstrate that we are distributing and accounting for these distributions of funds carefully and in ways that ensure compliance with the laws you enact.

- This year the Defense Finance and Accounting Service (DFAS) underwent an audit of controls related to its key civilian pay system. They received a clean opinion from the auditor. DFAS is now executing a plan to expand the scope of the audit to the full civilian pay processes and controls. This approach is a model for all service providers in the Department, and USD(C) is coordinating an effort for other internal service providers to use this approach.

- The Defense Information Systems Agency (DISA) is undergoing an audit of its Working Capital Fund financial statements. While our priorities focus primarily on the Military Services and their general fund appropriations, major Defense Agencies continue to make progress on auditability, and we are working with each of them. DISA is one of the more advanced. This audit will be completed in a few months and we expect that it will result in a clean audit opinion.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00046 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.008

- In June we began a public accounting firm (IPA) validation of the Army's organizations and bases that have implemented the business environment of the General Fund Enterprise Business System. This is a key effort to ensure that the new system is being used in a manner that is auditable.

- In July we began a public accounting firm validation of the Air Force's processes and controls to reconcile their accounts with Treasury. This "checkbook reconciliation" is an important building block for auditable financial statements.

- By the end of this calendar year we expect to begin several other validation efforts, including validations of the counts and locations of large portions of our military equipment and a first-ever validation of the budgetary information related to a major weapon system.

- Lastly, we have completed the business case analysis directed by the FY 2011 Defense Authorization Act and defined the way forward for auditing DoD balance sheets and full audits of all financial statements.

These improvements illustrate our progress, and they will help us build on our past achievements. For example, for the past three years, the Army Corps of Engineers has produced fully auditable financial statements and is maintaining them. Several Defense agencies maintain auditable statements -- including two within the Comptroller organization, the Defense Finance and Accounting Service and the Defense Contract Audit Agency. A number of the large trust funds managed by DoD are also auditable.

However, we recognize there is an enormous amount of work still ahead of us to achieve and sustain auditable financial statements. Improving our financial systems is an important component to our success. Regrettably, our current business environment does not always meet audit standards. Many of our systems are old and handle or exchange information in ways that do not readily support current standards. The systems were designed decades ago to meet budgetary rather than proprietary accounting standards. They tend to be non-standard and sometimes do not include strong financial controls. In these cases, the consistent application of internal controls becomes critical. Many of the legacy systems also do not record data at the transaction level, a capability essential to audit success.

To speak to this aspect of our program, I will now turn the floor over to my colleague, Beth McGrath.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00047 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.009

System Improvements

As Secretary Hale makes clear, improvements to our business systems, and the business environment in which those systems operate, are important to achieve the goals for auditability that the Department and Congress share. In pursuit of these goals, we are taking an enterprise approach to meet the challenges of implementing IT systems on time, within budget, and with needed capabilities and establishing effective governance over their operations.

To improve our financial systems, we have oriented them around end-to-end business processes that support audit goals, including Procure-to-Pay, Budget-to-Report, Order-to-Cash and Hire-to-Retire. Each of these has been identified/documented in our Business Enterprise Architecture, whose success requires that we appropriately implement and utilize our Enterprise Resource Planning (ERP) systems, modernize legacy systems when necessary and supported by a business case, and aggressively sunset legacy systems that are obsolete, redundant, or not aligned with our business objectives. Our goal is to deliver a streamlined, 21st-century systems environment comprised of IT capabilities that work seamlessly together to support effective and efficient business processes and operations. The DCMO and the Military Department CMOs play an integral role in the governance processes overseeing the implementation of these systems and the processes they enable.

We have placed significant emphasis and effort in several key areas:

- Managing business processes end-to-end across the Department,
- Improving business systems acquisition,
- Implementing the Business Enterprise Architecture, and
- Improving process controls across functions and organizations.

First, we continue to mature our target systems architecture that is modeled on the premise of end-to-end business processes. Using this framework of end-to-end business processes, rather than an organizationally or functionally stovepiped approach, ensures that we think about our business in a holistic way, recognizing the connections and dependencies that each individual business area has on the others. From there, we can make targeted investments in IT systems – acquiring and utilizing ERP systems or other new systems where appropriate, modernizing existing systems to bring them into compliance with our standards and target environment, and retiring legacy systems whenever they are not needed anymore. This last point is critical as it means replacing systems that do not support commercial audit standards with those that will enable Services and Defense Agencies to meet clean audit goals. This will also minimize the number of required data exchanges and system-to-system interfaces, thus reducing the potential for error and increasing the degree of process standardization.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00048 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.010

Second, we have taken steps to improve our current approach to acquiring and implementing IT systems, particularly in the business domain. Important revisions to the Department's standard acquisition process will be included in an update to the DoD Instruction 5000.2, "Operation of the Defense Acquisition System," for IT systems. These revisions will include an improved acquisition model for our defense business systems, called the Business Capability Lifecycle, which is in use today for a growing number of programs and is an essential pilot effort for our broader IT reform effort. The Deputy Secretary has made clear that one of his highest management priorities is improving the acquisition, development, and fielding of IT systems.

In addition to improving acquisition policy, the Department is working to improve specific acquisition outcomes of its business Major Automated Information System (MAIS) programs through more rigorous acquisition oversight and investment review. DOD's Program Priority/High Priority Performance Goal to "Reform the DOD Acquisition Process" includes new OMB-approved performance metrics for MAIS and business services. The Department is tying business outcomes to acquisition milestones and specifically requiring that individual programs, such as Army's General Fund Enterprise Business System (GFEBS) and Navy ERP, define the role that they play in their organizations' auditability efforts and end-to-end processes. For example, in the June 24, 2011 GFEBS Acquisition Decision Memorandum we explicitly required that the Army:

- Obtain the Under Secretary of Defense (Comptroller) (USD(C)) and Department of Defense (DoD) Deputy Chief Management Officer (DCMO) approval of the end-to-end process and system portions of the Army plan to achieve audit readiness by September 2017 as defined in Financial Improvement and Audit Readiness Guidance. Specifically, the Army plan must address the GFEBS role in achieving audit readiness in the work products defined in phases 1 and 3 of the FIAR Guidance Methodology.

- Obtain USD(C) concurrence that the end-to-end business systems and processes within Army control support auditable financial statements where GFEBS has been implemented and integrated. The USD(C) will rely on the opinion of an independent public accounting firm expressed in an examination of the Army audit readiness assertion of a GFEBS entity currently planned for December 31, 2012 and will allow for remaining minor system and process enhancements scheduled for completion within 12 months.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00049 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.011

Third, we will continue to guide our system investments using the Business Enterprise Architecture (BEA), which defines the necessary data standards, business rules, performance metrics, and standard system configurations that will allow our systems to be interoperable. This will ensure that when data is exchanged between systems, it happens securely and maintains the integrity of the data.

Improved systems alone, however, will not eliminate our weaknesses or guarantee auditable statements. Achieving auditability requires that we apply a consistent level of process controls that cross organizations and functional areas. Business and financial information that is passed from system to system must also be subject to a control environment to ensure that only authorized personnel are using the system and that these systems protect data quality and integrity and that they maintain a compliant audit trail within the end-to-end business process. This process must be controlled at the transaction level, from the source to general ledger postings, accurate trial balances, and reliable period closeouts. Only by completing these steps can we prepare financial statements that an auditor can cost-effectively review and verify.

Mr. Chairman, the bottom line is this: In order to pass an audit we need a business environment that records the financial results of business events (such as contract signing) in a consistent and reliable manner. That means systems and processes, as Ms. McGrath has described.

Continuing Challenges Remain

While systems are the most visible challenge, other challenges remain. We have confidence in a reasonable level of controls that exist within the various elements of our business, and we do know where we spend the dollars Congress appropriates. But there are enterprise-wide weaknesses in DoD financial management, and they demand an enterprise-wide business response. The lack of auditable financial statements for DoD as a whole reflects those weaknesses.

As I said at the outset, these challenges become especially daunting considering DoD's geographical dispersion and enormous size. Given those factors and our mission requirements, we are not able to deploy the vast numbers of accountants that would be required to reconcile our books manually, so fundamental changes will be required. I also mentioned the strong partnership with our oversight and audit stakeholders -- specifically the GAO and DoDIG, as well as more recently a cadre of quality Independent Public Accountants (IPAs) in commercial accounting firms who are evaluating us and making recommendations for improvement.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00050 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.012

GAO recognizes the enormity of the task of changing the way we do business in order to achieve financial auditability. We are in general agreement with their assessment concerning five major challenges: Sustaining broad, committed leadership; maintaining a competent workforce; establishing effective governance, oversight and accountability; implementing IT systems on time, within budget, and with needed capabilities; and resolving weaknesses in internal control over financial management and reporting. I mentioned our actions related to a number of these already, but several warrant further comment.

We implemented a governance structure early in the current Administration and the structure has been effective in keeping the attention of senior leaders on financial management improvement. We recognize that this governance needs to move beyond maintaining focused attention on key issues and more toward making actual improvements and validating those improvements. To that end, we have begun making increasing use of IPAs to validate our progress and provide us advice. IPAs offer a major advantage to us -- they have actual experience in financial audits and can therefore provide us guidance that goes beyond what we can learn by devoting more resources to planning.

Workforce competency is also critical. We have a dedicated and professional workforce that is doing the job and supporting key mission needs around the world. This job and the business environment around them are changing, requiring both short-term and long-term changes. In the short term, we are delivering immediate practical training to both financial managers and non-financial operators. In the long term, we are taking steps to sustain our strong financial management workforce through a course-based certification program. One element of this program will be to ensure that financial managers are addressing skill and experience gaps such as we and GAO have observed related to financial statement audits. Our people have not always had training and experience in this area, and we intend to help them to get it through this program, as well as through the examination and audit of parts of our processes and organizations.

Better Financial Systems

Ms. McGrath described our efforts to implement IT systems in a more timely manner. We have seen great desire within the Service IT acquisition communities to support prioritization of the capability needed for financial management improvement goals as part of this change.

We also need to improve our financial controls. Sound internal controls are the foundation of audit success. In the past we have asked operational organizations to self-assess

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00051 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.013

their controls to determine weaknesses impeding audit readiness. Since most people do not have the experience to evaluate controls, we have not made progress in this area fast enough. The primary improvement we have made in this area is to enlist more help from the Service audit agencies, using the results of IPA validations to inform these efforts. Service auditors have the qualified personnel to assess internal controls and to make sound recommendations for corrective actions. Each Service has committed more than 15 people who focus solely on evaluating controls at the operational level, recommending solutions for any issues identified, and then following up to ensure rapid implementation of solutions.

While none of these improvements alone will make us audit-ready, we feel that together they will enable us to meet our goals. The benefits to the Department, its mission, and the taxpayers are all obvious. This effort is consistent with the Administration's overall campaign to reduce waste across the Federal government. It will reinforce efforts to control improper payments. And it will continue our contributions to operational efficiencies across the Department.

Conclusion

In summary, we believe we are making important progress, but we recognize the challenges associated with improving financial management in the Department of Defense and especially the obstacles to improving information and achieving audit readiness. To meet those challenges, we have developed an effective partnership between the CFO and DCMO communities that will help to enable successful implementation. We have also implemented a new, focused approach that includes near-term goals, in addition to the long-term goal of achieving auditable statements by the Congressional deadline of 2017. We also use and benefit from a constructive partnership with our auditors and oversight activities. We remain committed to fully auditable statements by 2017.

Mr. Chairman, this concludes our statement. We welcome your questions.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00052 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.014

NOT FOR PUBLICATION UNTIL
RELEASED BY THE SENATE
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
COMMITTEE

STATEMENT OF

THE HONORABLE GLADYS J. COMMONS

ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)

BEFORE THE

SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

ON

FINANCIAL MANAGEMENT AND AUDIT READINESS

AT THE DEPARTMENT OF DEFENSE

15 SEPTEMBER 2011

NOT FOR PUBLICATION UNTIL
RELEASED BY THE SENATE
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS COMMITTEE

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00053 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.015

Chairman Carper, Senator Brown, members of the Subcommittee, thank you for this opportunity to discuss the Department of the Navy's (DON) efforts to achieve financial audit readiness. Achieving auditability is one of my highest priorities; I spend much of my attention on the Department's drive to improve its business/financial management processes and controls over financial reporting. These priorities are supported by Secretary Mabus and Under Secretary Work, as well as the senior uniformed leaders, the Chief of Naval Operations and the Commandant of the Marine Corps.

Our Navy-Marine Corps team has responded to our current audit readiness goals by seeking audit engagements as early as possible in the process. In our opinion, undergoing audits and examinations forcefully emphasizes the preparations that are necessary to succeed. The Marine Corps is in the second year of audit of its Statement of Budgetary Resources (SBR). This audit has provided instant feedback on the Marine Corps' audit readiness and a number of lessons learned for those who jointly manage Marine Corps business processes end-to-end. Further, the experience has provided useful, transferrable examples for the rest of the Department of the Navy, the Army, and the Air Force.

In addition to the ongoing Marine Corps SBR audit, the Department recently received an unqualified opinion on its Appropriations Received business process examination, conducted by a private audit firm. DON is currently undergoing an audit engagement by the Department of Defense Inspector General (DoDIG), examining Existence and Completeness on DON's major military assets, including ships, ballistic missiles, and satellites. We expect the DoDIG will soon include DON aircraft and ordnance in this engagement.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00054 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.016

What we have learned from these audits and examinations confirms elements of our DON audit readiness strategy. First, internal controls over our business processes and systems need to be strengthened, and their effectiveness must be sustained over time. As we improve controls, DON ultimately will be audit-ready in our everyday business/financial environment. Achieving this long-term goal will require the attention and support of all who provide goods and services to the warfighter. We are seeking to integrate all required actions to achieve SBR audit readiness, not only within DON, but also those tasks that must be completed by outside agencies providing support. Auditability is not just a financial management initiative; it will require the support of all business process owners.

We continue to emphasize the importance of auditability with our Departmental leaders and have solicited support for audit readiness at all levels. We have provided resources for financial improvement at the major command level, held annual conferences and frequent training sessions, and provided tool kits for controls implementation. We are seeking to standardize our business processes and to implement automated controls when possible. Next fiscal year, each Senior Executive who has responsibility for one or more DON business processes will have a performance objective related to audit readiness. In support of our efforts the Naval Audit Service will conduct "quick look" assessments of business process internal controls at selected DON organizations.

Second, in addition to strengthening DON's business processes, the Department will continue developing audit-specific capabilities within our financial environment. The Marine Corps SBR

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00055 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.017

audit has shown us that these capabilities must be in place and demonstrated at the beginning of an audit, before business processes can be assessed for auditability. These capabilities include: capturing and presenting a complete universe of financial transactions; reconciling DON cash balances with Treasury; establishing accurate beginning balances; and ensuring that financial statements are accurately compiled. We are working with our service providers, primarily with Defense Finance and Accounting Service Cleveland, to develop these capabilities. A major challenge confronting us in these efforts is ensuring our ability to trace transactions in our legacy accounting systems from origin to the financial statements.

A third element of our strategy is to build a robust audit response infrastructure which allows quick access to financial data required during an audit. This infrastructure must enable efficient transfer of large volumes of data to an auditor. The Marine Corps experience has provided useful examples in this area; they have assembled and transmitted large data sets during their SBR audit. We recognize, too, that the size of the data pulls will be much bigger for the entire DON during the Departmental SBR audit, and we must ensure that adequate resources are available to support data retrieval.

A greater challenge than transmitting data will be identifying and locating the business/financial data requested by the audit firm during its engagement. We have begun quarterly rounds of financial transaction testing, asking all major commands to retrieve supporting documentation for sample transactions generated by the commands. We know that the "muscles" used for this audit response capability must be routinely exercised so they can develop necessary strength. We are finding some gaps in data availability which will require remediation.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00056 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.018

As a final point, I'd like to emphasize that internal controls in our business systems must be improved. Navy's Enterprise Resource Planning (ERP) will make a significant contribution in our auditability efforts. Navy ERP will enhance these efforts because it establishes a stronger, embedded internal control framework and helps standardize business processes for a sustainably auditable environment. Implementation of Navy ERP continues on track, according to schedule.

To summarize the Department of the Navy's drive to audit readiness: we are enduring and thriving in initial financial audit engagements; we know we have some formidable challenges to achieve Departmental audit readiness; we believe we have identified most of these challenges and are tackling others as they arise; we are widening the circle of accountability for auditability within DON and among our service providers; and the Navy-Marine Corps team will aggressively move toward audit readiness as quickly as we can.

Thank you for your time, interest, and support. I'll be pleased to answer any of your questions at the appropriate time.

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00057 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.019

Statement of

The Honorable Doctor Mary Sally Matiella
Assistant Secretary of the Army for Financial Management and Comptroller

before the

Senate Committee on Homeland Security and Government Affairs

Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security

September 15, 2011

Embargoed until released
by the Senate Committee on Homeland Security and Government Affairs

0

Chairman Carper, Senator Brown, Members of the Subcommittee, thank you for the opportunity to testify today regarding the Army's approach to implementing financial improvement, my assessment of Army's progress toward achieving auditable financial statements and the implementation of Army enterprise resource planning systems. In addition, I want to convey to you that Secretary of the Army John McHugh, Chief of Staff of the Army Odierno, Under Secretary of the Army Westphal, the Army Chief Management Officer (CMO), and I commit our support, focus and leadership on improving financial management and meeting auditability requirements in law.

The Army will be audit ready by September 30, 2017 as required by Section 1003 of the National Defense Authorization Act for Fiscal Year 2010. The emphasis on audit readiness underscores the transformation in financial management across the Army enterprise. The Army employs extremely competent and hard working individuals, both Military and civilian, committed to supporting the Soldiers defending our Country. However, the improvements we are implementing will require our dedicated Soldiers and civilians to execute their business differently. Our strengthened business and financial systems, processes, internal controls and training are all keyed to improved financial management accountability and oversight that will result in timely, accurate and relevant information for decision makers.

We are following the Department's Financial Improvement and Audit Readiness (FIAR) guidance by executing an integrated, detailed, and fully resourced Financial Improvement Plan (FIP), which provides detailed corrective actions, associated milestone schedules, and identifies organizations responsible for corrective actions. Our FIP tracks multiple elements including

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00059 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.021

implementation and stabilization of the Army's Enterprise Resource Planning (ERP) systems, testing of internal controls and implementation of corrective actions where controls are not operating effectively, and the execution of multiple audit examinations conducted by independent public accountants (IPAs) to ensure corrective actions will withstand audit scrutiny. Additionally, our FIP incorporates lessons learned from the Army Corps of Engineers' successful audit, and the current audit activity with the U.S. Marine Corps. To ensure we remain on track, all Army Senior Executives will be held accountable in their fiscal year 2012 performance plans for meeting specific audit readiness milestone requirements.

Our major mid-term milestones are to assert audit readiness on the General Fund Statement of Budgetary Resources at the end of fiscal year 2015 and to verify the existence and completeness of mission critical assets by the third quarter of fiscal year 2015. These mid-term goals support requirements established by Comptroller Hale and the fiscal year 2010 National Defense Authorization Act to focus audit readiness activities on improving the information most useful to the department's managers such as budgetary information reflected in the Statement of Budgetary Resources and the existence and completeness of mission critical assets.

To ensure we achieve these mid-term goals, we have established several interim milestones in our FIP. For example the Army asserted audit readiness for all general fund appropriations received, covering about $232 billion fiscal year 2010 appropriations, and on August 19, 2011 we received an unqualified audit opinion from the auditor. The audit confirmed the Army has the appropriate controls and documentation to properly record and report appropriations received and distributed from Headquarters to all Army Commands. The

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00060 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.022

successful audit of our appropriations received represents a significant interim milestone covering a substantial reporting element on the Army's financial statements.

Another example of our interim milestones is the audit examination currently in process by an IPA of multiple business activities conducted at Army Headquarters and several installations operating the Army's financial management ERP system, the General Fund Enterprise Business System (GFEBS). This is the first of four annual interim audit examinations planned between fiscal year 2011 and fiscal year 2015 to ensure our management controls, business processes and documentation, as established in the ERP environment supported by GFEBS, are capable of meeting the rigors of a financial statement audit. Collectively, the appropriations received audit and the interim audit examinations of the ERP environment will enable us to achieve our mid-term objective to assert audit readiness of the Army's Statement of Budgetary Resources by fiscal year 2015, and to assert audit readiness of all financial statements by September 30, 2017.

In addition to audit examinations conducted by IPAs, we are also documenting our end-to-end business processes, identifying key controls within each business process, and executing discovery and evaluation activities to ensure internal controls are properly established and operating effectively. Our discovery and evaluation efforts are led by my audit readiness staff with support provided by the Army Audit Agency and the Army's Internal Review and Audit Compliance network. Our staff includes numerous certified defense financial managers, certified government financial managers, certified public accountants, and former financial statement auditors with the requisite experience to execute the FIP and achieve our milestones. Our discovery and evaluation efforts comply with the Department's FIAR criteria,

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00061 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.023

and requirements established by Office of Management and Budget Circular A-123 Appendix-A. The discovery and evaluation efforts enable us to ensure all business activity within the Army is conducted in a compliant manner, and to isolate non conforming activity for corrective actions. Follow-up audit by the Army Audit Agency and reviews by our Internal Review and Audit Compliance personnel ensure corrective actions are properly implemented.

This strategy enables us to make adjustments to our approach through early detection and correction of control and process deficiencies. We have several interim milestones that will provide us with appropriate information on our progress for meeting both the 2015 and 2017 goals. In fact, we have already started to achieve some important milestones that will pave the way for full financial statement audit readiness by September 30, 2017. Army will engage the DoD IG in FY 2014 to conduct an audit of the existence and completeness of mission critical assets, which includes nearly 700,000 general equipment, military equipment, and real property end items, as well missiles and ammunition assets. We have already completed an existence and completeness assertion of 97 percent of our aviation assets, which accounts for 17 percent of the Army's military equipment value, and we have expanded our audit readiness work to cover all mission critical assets across the Army.

The Army FIP focuses on correcting internal control weaknesses throughout the Army's business processes and business systems. The plan includes corrective actions, milestones, and performance measures, and links the replacement of non-standard, non-compliant business processes with implementation of the Army's ERP systems. Establishing and maintaining an auditable organization requires executing standardized business processes and systems, as well as complying with Federal accounting standards and the DoD business enterprise architecture.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00062 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.024

By linking the FIP with the Army's ERP Strategy, we are able to ensure the development and modernization of business systems is synchronized with audit readiness requirements.

Our ERP systems are in various stages of deployment and include a new transaction-driven general ledger for our general fund and a general ledger for our working capital fund, both of which comply with the United States Standard General Ledger published by the Treasury Department. Army ERPs also include a tactical supply system and an integrated pay and personnel system. As these systems are being implemented, legacy systems are being drawn down. Our financial managers and business process owners—including the resource management, contracting, procurement, public works, logistics, and internal review functional areas —will employ systems that comply with Federal systems requirements and operate with associated internal controls as part of a new business environment which enables management controls vital to an audit.

Since the Army's ERP systems are vital to achieving and sustaining audit readiness, we are conducting internal assessments of our business systems using the Government Accountability Office (GAO) Financial Information Systems Control Audit Manual (FISCAM). Our business system assessment is informed by the Single Army Financial Enterprise architecture, which provides all business system components and processes having a material impact on audit readiness. The FISCAM provides the standards against which an IPA will conduct a financial statement audit.

As an interim milestone, we plan to complete and document our internal assessment of GFEBS against FISCAM standards in December 2011, and conduct an audit examination by an IPA in fiscal year 2012. The results of our fiscal year 2011 FISCAM assessment and the fiscal

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00063 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.025

year 2012 follow-up systems audit will provide assurance that the GFEBS is able to fully support the Army's audit readiness goals well in advance of our fiscal year 2015 Statement of Budgetary Resources assertion. In the fall of 2011, we will begin similar FISCAM preparation work, using our Single Army Financial Enterprise Architecture as a guide, to ensure all business systems supporting the financial enterprise, including logistical services in the Global Combat Support System–Army and military human resources and pay in the Integrated Personnel and Pay System–Army, support the Army's audit readiness goals.

Since February 2010, we have experienced successes and achieved milestones never accomplished previously. For example, we fielded GFEBS to over 34,000 users. We have made several audit readiness assertions in the past nine months and received an unqualified audit opinion on a major financial statement line item, and currently have an IPA auditing business processes and controls in the GFEBS environment. Three of our four ERP systems are in deployment or deployed. GFEBS, our general fund financial system, provides the Army, for the first time, a standard, transaction driven general ledger. This general ledger provides the recording and reporting capability that enables auditors to track balances from the financial statements to the detailed transactions supporting these balances. Much of the Army's recent success can be attributed to the two years of consistent Army leader engagement toward appropriate mission-oriented audit readiness goals and the Department's focused audit readiness guidance.

Our strategy is focused on building the internal structure to sustain audit readiness and realize the benefits of an improved and controlled business environment. This corporate knowledge begins with top-down leadership engagement and accountability. The Army

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00064 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE

72479.026

recognizes that audit readiness requires engagement throughout the organization and the Army is holding all Senior Executive Service personnel—not just those in the financial management community—accountable for achieving audit readiness milestones. On May 26, 2011, the Army established assessment criteria against which all Senior Executive personnel will be held accountable in fiscal year 2012 performance plans for achieving audit readiness milestones.

I am confident we are executing a sound plan that will achieve the NDAA 2010 mandate. I do, however, recognize we have many hard challenges ahead and areas for improvement. The feedback we are receiving from our discovery and evaluation efforts, IPA audit examinations, and lessons from US Army Corps of Engineers Civil Works Fund and US Marine Corps audits are all helpful to forming and shaping our audit readiness efforts. We will continue to leverage these resources as we move forward in the execution of our FIP.

In summary, I recognize the challenges associated with improving financial information and achieving audit readiness within the Army. However, we are making great progress because of the commitment from senior Army leaders and business process owners. I am personally committed to this effort to meet our national security objectives and the mandates of the law. I look forward to working with the members of this Subcommittee, GAO, and Comptroller Hale to ensure the continued improvement of the Army's business environment.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00065 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.027

Statement of

The Honorable Jamie M. Morin
Assistant Secretary of the Air Force
Financial Management and Comptroller

before the

Committee on Homeland Security and Governmental Affairs
Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security
United States Senate

SUBJECT: Improving Financial Accountability at the Department of Defense

September 15, 2011

Embargoed until released
by the Senate Homeland Security and Governmental Affairs Committee

Thank you for the opportunity to brief the Subcommittee on your Air Force's efforts and progress towards financial improvement and audit readiness. We recognize that auditable financials will be useful tools helping the Air Force produce the maximum combat capability from each taxpayer dollar invested. The Air Force is implementing the DoD Financial Improvement and Audit Readiness (FIAR) guidance through a detailed Financial Improvement Plan (FIP) which includes discovery of problem areas, a set of milestones and interim deliverable, and assignment of corrective actions to accountable parties.

Air Force leadership is engaged and committed to our audit readiness efforts. This engagement extends to the highest levels –both uniformed and civilian. In May, the Under Secretary of the Air Force, Ms. Conaton, and the Air Force Vice Chief of Staff, Gen. Breedlove wrote to the leadership of all our Air Force Major Commands emphasizing the importance of audit readiness.

The memorandum highlighted a key focus in Air Force audit readiness efforts -- individual accountability. Toward that end, the Air Force has led the way requiring senior executives to include audit readiness objectives in their annual performance plans. These goals must be concrete, measurable and individually tailored to ensure accountability. Members of my team, the Air Force Deputy Chief Management Officer and a small number of other key leaders already have these goals in their performance plans. We continue to expand this effort to include executives in acquisition, logistics, and personnel.

Currently, the end date on Air Force's audit readiness schedule comes later than those of the other services. This is due in part to our timeline for fielding our Enterprise

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00067 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.029

Resource Planning (ERP) systems, which are part of the solution to several key audit readiness challenges. Over the last two years, we have aimed to accelerate our progress by seeking additional funding in our FY12 budget request and evaluating legacy systems for audit. Additionally, Air Force leadership placed heavy emphasis on identifying opportunities for interim progress, such as accelerating asserting Existence and Completeness for Medical Equipment and Munitions. Air Force financial managers and other responsible officials are engaging with OSD and the other services to ensure we benefit from the lessons learned by other organizations in their own audit readiness efforts.

Air Force Progress

As a result of strong leadership commitment and the changes we have made in the last year, we have made significant progress in Under Secretary Hale's prioritized audit readiness areas – Budgetary Information and Mission Critical Assets.

In September 2010, the Air Force asserted audit readiness on Appropriations received and distributed to our major commands. This assertion covers $165 billion or 94 percent of new budget authority. This assertion provides taxpayers the confidence we have control of appropriations received. KPMG, an Independent Public Accounting firm, examined our assertion and issued an unqualified audit opinion in early August.

In December 2010, we asserted audit readiness for our Fund Balance with Treasury (FBwT) Reconciliation. This is analogous to balancing the Air Force checkbook, albeit one with approximately 1.1 million transactions per month. Since April 2010, we have consistently exceeded the OSD goal of reconciling 98 percent and

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00068 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.030

in June 2011, we reconciled 99.99 percent of the dollar value. Our unmatched disbursements declined from $1.3 billion to $800 thousand since implementing our FBwT reconciliation tool and process. Our FBwT reconciliation process is currently undergoing an examination by an IPA.

We also asserted audit readiness for the existence and completeness of Military Equipment in December 2010. This includes satellites, aircraft, remotely piloted vehicles, aircraft pods, and Intercontinental Ballistic Missiles (ICBMs). With a Net Book Value of $103 billion, Military Equipment represents approximately one third of our total assets. Finally, we asserted audit readiness on the Existence and Completeness of our Cruise Missiles, Aerial Targets and Drones in June 2011. Testing will likely reveal a few areas for further cleanup, but this is a major accomplishment.

Getting to An Audit Ready Environment

Standard business rules and data structures defined in comprehensive business architecture are critical to establishing an audit ready environment. The Air Force Chief Management Officer (CMO) is responsible for ensuring comprehensive business enterprise architecture is adopted across the enterprise. The CMO's office exercises oversight of the functional communities' adoption of this architecture through biweekly meetings with representatives from all communities. This enterprise senior working group also reviews systems investments exceeding one million dollars ensuring appropriate consideration has been given to business process reengineering as an alternative to system investments.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00069 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.031

The Air Force is committed to continuous progress toward audit readiness. For several years, we have deferred enhancements to our legacy systems while we developed more robust IT Solutions, including Enterprise Resource Planning Systems (ERPs) such as Defense Enterprise Accounting Management System (DEAMS), Expeditionary Combat Support System (ECSS), Air Force Integrated Personnel and Pay System (AF-IPPS), and NexGen IT for our real estate and facilities. These ERPs were designed to replace numerous subsidiary systems, reduce the number of interfaces and eliminate redundant data entry, while providing an environment for end-to-end business processes. These systems serve as the foundation for our audit readiness which means that delays in deploying these ERPs will impact our ability to successfully complete an audit. We coordinated our FIAR plan to achieve audit readiness with the deployment of these ERPs.

For example, DEAMS will serve as the General Ledger for our General Fund while ECSS serves as the General Ledger for our Working Capital Fund and the Accountable Property System of Record for our Military Equipment, Operating Materials and Supplies, and Inventory. AF-IPPS integrates our military personnel and pay processes; recording and managing an annual payroll in excess of $33 billion. NexGen IT is our target Accountable Property System of Record for Real Property handling $32 billion or ten percent of total assets. DEAMS and ECSS have already deployed initial capabilities and are operating at Scott and Hanscom AFB respectively. We are close to completing the requirements definition process for AF-IPPS, including the "clean-audit" standards - and will release an RFP to industry in the next 8 weeks for bids on a

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00070 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.032

technical solution. NexGen IT is our target Accountable Property System of Record for Real Property handling $32 billion or ten percent of total assets.

These systems clearly will have a material impact on our statements and any delays in their deployment will impact our audit readiness goals. We are working with OSD and OMB to mitigate these risks and are exploring opportunities to accelerate the acquisition process using a new approach - the Business Capability Lifecycle model rather than the lengthier process outlined in DoD Instruction 5000.

Successfully implementing a more tailored approached to acquisition that works in the fast moving IT environment is key to achieving our audit schedule. I am also concerned about the cost and capabilities of the ERPs and am looking at alternatives for deploying several smaller discrete software releases, regularly competed to incentivize contractors assisting us. We have also encountered integration challenges with the ERPs within our current information technology architecture. While we have taken major steps to get the Air Force ERP systems on track, and I've seen real progress with DEAMS in its initial deployment, there is very little flex in the implementation schedule. Therefore, I see a moderate risk in the Air Force's overall audit readiness schedule. To hedge against the risks either our acquisition process or our systems infrastructure will fall short, I have directed an exploration of interim solutions to achieve auditability by the 2017 deadline.

During fiscal year 2012 we have several important milestones to achieve. We will do an early assessment of DEAMS and ECSS to validate they are configured with the appropriate controls and data to support an audit. I fully expect to find some issues through this review which we will correct as we work towards full deployment, but that is

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00071 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.033

a normal part of the process addressing system weaknesses. Another important FY2012 milestone is our audit assertion of the Space Based Infrared System (SBIRS) program. Because a program does not typically create stand alone financial statements that are audited, we are working with DFAS to establish the parameters of the audit, but anticipate it covering at least 90 percent of the SIBRS Procurement and R&D expenditures between FY2008 and FY2010. Our team had been working to assert Existence and Completeness for aircraft spare engines and missile motors in June 2011. However, we did not feel that the testing results were sufficient to support audit readiness and are withholding the assertions while additional corrective actions are implemented. We believe that the corrective actions will allow us to submit both assertions during the first quarter of FY2012 and begin an audit by the third quarter of FY2012.

The slippage in the assertion on space engines and missile motors underlines the importance of incremental progress and setting stretch goals. We do not expect a perfect batting average the first time through and if we built a process to deliver perfection the first time, it would not be timely. We develop the financial improvement plan and schedule primarily at Headquarters based on the best available information, but there are always unknowns due to the Air Force's decentralized operating structure. Our people conduct business at 191 bases across the world organized in 11 major commands. Many processes have evolved differently across our organization, meaning that implementing the required corrective actions sometimes takes longer than expected.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00072 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.034

As we work to achieve the 2017 deadline, Air Force leadership is setting numerous stretch goals and setting ambitious goals means occasionally missing them. On the other hand, we have also been able to accelerate some assertions based on better than expected results. We are also striving to strike the right balance between applying resources to robust planning and testing of progress versus hands-on fixing of weaknesses. Both are important. In keeping with best practices, we will rely on DoDIG or hire an independent public accounting firm to opine on each of our assertions. It is important to note that there are three or more phases of testing enroute to a clean audit – internal Air Force review prior to assertion, external review of the assertion itself, and then the actual audit of Air Force financials.

Thank you for the Subcommittee's interest and focus on this important effort. The continued involvement of Congress, OSD, and GAO as well as the very strong commitment of today's Air Force leadership is crucial to ensuring continued progress towards an unqualified audit opinion no later than 2017.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00073 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.035

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery Expected
at 2:30 p.m. EDT
Thursday, September 15, 2011

DOD FINANCIAL MANAGEMENT

Ongoing Challenges in Implementing the Financial Improvement and Audit Readiness Plan

Statement of Asif A. Khan, Director
Financial Management and Assurance

U.S. Government Accountability Office
GAO 90 YEARS 1921-2011
ACCOUNTABILITY * INTEGRITY * RELIABILITY

GAO-11-932T

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00074 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.036

September 15, 2011

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-11-932T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

DOD FINANCIAL MANAGEMENT

Ongoing Challenges in Implementing the Financial Improvement and Audit Readiness Plan

Why GAO Did This Study

The Department of Defense (DOD) has initiated several efforts over the years to address its long-standing financial management weaknesses and ultimately achieve unqualified (clean) opinions on its financial statements. In 2005, the DOD Comptroller first issued the Financial Improvement and Audit Readiness (FIAR) Plan for improving financial management and reporting. In May 2010, the DOD Comptroller issued the FIAR Guidance to provide standardized guidance to DOD components for developing Financial Improvement Plans (FIP) to implement the FIAR Plan.

GAO's testimony focuses on (1) progress made by the DOD Comptroller in developing and issuing the FIAR Guidance, (2) challenges faced by DOD components in implementing the FIAR Guidance, and (3) improvements needed in DOD's oversight and monitoring of FIAR implementation efforts.

This statement is based on four audits that were undertaken at the request of this subcommittee and other congressional requesters to evaluate the progress DOD is making in implementing its FIAR Plan and FIAR Guidance. GAO addresses findings and recommendations from two reports being issued this week (GAO-11-830 and GAO-11-851) and preliminary information from two ongoing audits. Each audit demonstrates some of the challenges DOD faces in improving its financial management and achieving the goal of auditable financial statements by 2017.

View GAO-11-932T. For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

What GAO Found

In a report issued this week, GAO concluded that the FIAR Guidance provides a reasonable methodology for the DOD components to follow in developing and implementing their FIPs. It details the roles and responsibilities of the DOD components, and prescribes a standard, systematic process components should follow to assess processes, controls, and systems, and identify and correct weaknesses in order to achieve auditability. The FIAR Guidance also requires the components to prepare and implement corrective action plans for resolving the deficiencies identified during testing and to document the results, which is consistent with federal internal control standards and related guidance.

DOD's ability to achieve audit readiness is dependent on the components' ability to effectively develop and implement FIPs in compliance with the FIAR Guidance. However, GAO's review of various DOD component efforts to achieve audit readiness found that the components experienced challenges in implementing the FIAR Guidance. Specifically:

- The Navy and the Air Force had not adequately developed the two FIPs that GAO reviewed in accordance with the FIAR Guidance. As a result, they did not conduct sufficient control and substantive testing, and reached conclusions that were not supported by the testing results.
- Auditors of the Marine Corps' Statement of Budgetary Resources (SBR) issued a disclaimer of opinion because the Marine Corps did not provide timely and relevant supporting documentation for accounting transactions and also reported that internal control weaknesses should be addressed.
- GAO's preliminary work on the Navy's and Marine Corps' Fund Balance with Treasury (FBWT) reconciliation processes identified issues with their ability to reconcile FBWT—a key step in preparing the SBR.
- Based on preliminary results, GAO identified issues in the implementation of two enterprise resource planning (ERP) systems by the Army and the Air Force. DOD has acknowledged that effective implementation of integrated systems is crucial to achieving departmentwide audit readiness.

Although DOD and its military components had established organizational structures for monitoring and oversight of audit readiness efforts, GAO found that oversight responsibilities were not effectively carried out, resulting in the ineffective implementation of FIPs and unsupported conclusions of audit readiness. For the two FIPs that GAO reviewed, neither the designated officials nor the executive committees took sufficient action to ensure that the FIPs complied with the FIAR Guidance. Effective oversight would also help ensure that lessons learned from recent efforts would be disseminated throughout the department so that others could avoid similar problems. For example, the Marine Corps' SBR audit effort provide valuable lessons that, if effectively communicated and implemented, can provide a roadmap to help other DOD components achieve audit readiness. GAO recommends actions for components to comply with the FIAR Guidance, for the Marine Corps to develop appropriate corrective action plans, and for DOD to ensure that the services consider lessons learned. DOD concurred with GAO's recommendations related to implementing the component FIPs and with three of four recommendations related to the Marine Corps SBR. Further details on DOD's comments can be found in GAO's reports.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00075 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.037

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee:

It is a pleasure to be here today to discuss the status of the Department of Defense's (DOD) efforts to implement its Financial Improvement and Audit Readiness (FIAR) Plan to improve its financial management operations. Given the federal government's fiscal challenges, there is a significant need for transparency and for the Congress, the administration, and federal managers to have reliable, useful, and timely financial and performance information, particularly for the government's largest department. For more than a decade, DOD has been on GAO's list of federal programs and operations at high risk of being vulnerable to fraud, waste, and abuse.[1] Despite several reform initiatives, DOD's financial management remains on GAO's high-risk list today. Long-standing and pervasive weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the financial status and cost of DOD activities to Congress and DOD decision makers; (2) adversely affected its operational efficiency and mission performance in areas of major weapons system support and logistics; and (3) left the department vulnerable to fraud, waste, and abuse. In addition, these long-standing financial management weaknesses have precluded DOD from being able to successfully undergo the scrutiny of a financial statement audit.[2] The National Defense Authorization Act (NDAA) for Fiscal Year 2010 mandated that DOD be prepared to validate (certify)

[1]DOD bears responsibility, in whole or in part, for 14 of the 30 federal programs or activities that GAO has identified as being at high risk of waste, fraud, abuse, and mismanagement. The seven specific DOD high-risk areas are (1) approach to business transformation, (2) business systems modernization, (3) contract management, (4) financial management, (5) supply chain management, (6) support infrastructure management, and (7) weapon systems acquisition. The seven governmentwide high-risk areas that include DOD are: (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, (6) real property, and (7) ensuring the effective protection of technologies critical to U.S. national security interests.

[2]DOD's auditors have reported material financial management weaknesses in the following areas: (1) Financial Management Systems, (2) Fund Balance with Treasury, (3) Accounts Receivable, (4) Inventory, (5) Operating Materials and Supplies, (6) General Property, Plant, and Equipment, (7) Government-Furnished Material and Contractor-Acquired Material, (8) Accounts Payable, (9) Environmental Liabilities, (10) Statement of Net Cost, (11) Intragovernmental Eliminations, (12) Other Accounting Entries, and (13) Reconciliation of Net Cost of Operations to Budget.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00076 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.038

that its consolidated financial statements are ready for audit by September 30, 2017.[3]

In 2005, the DOD Comptroller established the DOD Financial Improvement and Audit Readiness (FIAR) Directorate to develop, manage, and implement a strategic approach for addressing the department's financial management weaknesses and for achieving auditability, and to integrate those efforts with other improvement activities, such as the department's business system modernization efforts. Also in 2005, the DOD Comptroller first issued the FIAR Plan for improving financial management and reporting. The NDAA for Fiscal Year 2010 mandated that the FIAR Plan include the specific actions to be taken to correct the financial management deficiencies that impair the department's ability to prepare timely, reliable, and complete financial management information. In May 2010, the DOD Comptroller issued the FIAR Guidance to provide standardized guidance to DOD components for developing Financial Improvement Plans (FIP) to implement the FIAR Plan. In September 2010, we reported that the department needed to focus on implementing its FIAR Plan and that the key to successful implementation would be the efforts of the DOD military components and the quality of their individual FIPs.[4]

My testimony today will focus on three key issues:

(1) progress made by the DOD Comptroller in developing and issuing the FIAR Guidance to assist DOD components in implementing the FIAR Plan;

(2) challenges in the implementation of the FIAR Guidance at the Navy, Air Force, and Marine Corps; and

(3) improvements needed in DOD's oversight and monitoring of FIAR implementation efforts.

My statement is based on four audits that we have undertaken at the request of this subcommittee and other congressional requesters to

[3]Pub. L. No. 111-84, div. A, § 1003(a), (b), 123 Stat. 2190, 2439-40 (Oct. 28, 2009).

[4]GAO, *Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve*, GAO-10-1059T (Washington, D.C.: Sept. 29, 2010).

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00077 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.039

evaluate the progress DOD is making in implementing its FIAR Plan and related Guidance. Two of the reports have been issued this week,[5] and we are addressing preliminary findings for the other two reports, which are in process. Each report demonstrates some of the challenges DOD faces in improving its financial management, including its ability to achieve the goal of reliable financial information and auditable financial statements by 2017:

- The first report discusses the methodology reflected in DOD's FIAR Guidance, whether selected military component FIPs adhered to the FIAR Guidance, and DOD's oversight and monitoring of the FIP process.[6] The published report includes details on the scope and methodology for this review.

- The second report addresses why auditors were unable to complete an audit of one of DOD's financial statements, the Statement of Budgetary Resources (SBR), for one military service, the U.S. Marine Corps.[7] This report also includes details on the scope and methodology for this review.

- The remaining two ongoing audits address (1) a key process for DOD's components—the Fund Balance with Treasury (FBWT) reconciliation—which illustrates many of the department's challenges and (2) the implementation of comprehensive, integrated business systems called Enterprise Resource Planning (ERP) systems,[8] which DOD considers a critical element to improving financial management and achieving auditability. We discussed with DOD officials the preliminary findings from these two ongoing audits that are included in this testimony and considered their comments in this statement. We plan to issue these reports in October 2011.

[5]GAO, *DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Efforts*, GAO-11-851 (Washington, D.C.: Sept. 13, 2011); and *DOD Financial Management: Marine Corps Statement of Budgetary Resources Audit Results and Lessons Learned*, GAO-11-830 (Washington, D.C.: Sept. 15, 2011).

[6]GAO-11-851.

[7]GAO-11-830.

[8]An ERP solution is an automated system using commercial off-the-shelf (COTS) software consisting of multiple, integrated functional modules that perform a variety of business-related tasks, such as general ledger accounting, payroll, and supply chain management.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00078 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.040

For our work on the FBWT reconciliation, we analyzed Navy and Marine Corps policies and procedures covering the various FBWT reconciliation steps, and met with Navy, Marine Corps, and Defense Finance and Accounting Service (DFAS) officials, and performed walkthroughs of the Navy and Marine Corps FBWT processes. For our work on ERP systems, we focused on the status of two systems by reviewing the Army and Air Force Test and Evaluation Commands' reports on the systems and interviewing various DOD officials, including system users at DFAS.

Our work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Over the years, DOD has initiated several broad-based reform efforts to address its long-standing financial management weaknesses. However, as we have reported, those efforts did not achieve their intended purpose of improving the department's financial management operations.[9] The FIAR Plan, which was first prepared in 2005, is DOD's strategic plan and management tool for guiding, monitoring, and reporting on the department's financial management improvement efforts. As such, the plan contains an incremental approach for addressing the department's financial management weaknesses and achieving financial statement auditability. The plan focuses on three goals: (1) achieve and sustain assurance on the effectiveness of internal controls, (2) develop and implement financial management systems that support effective financial management, and (3) achieve and sustain financial statement audit readiness.

In August 2009, the DOD Comptroller sought to focus efforts of the department and components, in order to achieve certain short- and long-

[9]GAO, *Financial Management: Achieving Financial Statement Auditability in the Department of Defense*, GAO-09-373 (Washington, D.C.: May 6, 2009), *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-537T (Washington, D.C.: Mar. 20, 2002); *Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results*, GAO/NSIAD-00-72 (Washington, D.C.: July 25, 2000).

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00079 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.041

term results, by giving priority to improving processes and controls that support the financial information most often used to manage the department. Accordingly, DOD revised its FIAR strategy and methodology to focus on the DOD Comptroller's two priorities—budgetary information and asset accountability. The first priority is to strengthen processes, controls, and systems that produce DOD's budgetary information and the department's SBRs. The second priority is to improve the accuracy and reliability of management information pertaining to the department's mission-critical assets, including military equipment, real property, and general equipment. The DOD Comptroller directed the DOD components—including the Departments of the Army, Navy, and Air Force and the Defense Logistics Agency—to use a standard process to implement the FIAR Plan and aggressively modify their activities to support and emphasize achievement of the priorities.

In May 2010, DOD issued a revised FIAR Plan in which it introduced a new phased approach toward achieving financial statement auditability. This approach consists of five waves (or phases) of concerted improvement activities. The first two waves involve budgetary information—appropriations received[10] and the SBR. According to DOD, the components' implementation of the methodology described in the May 2010 FIAR Plan is essential to the success of the department's efforts to ultimately achieve full financial statement auditability.[11]

DOD's FIAR Guidance Provides a Reasonable Methodology

Consistent with prior GAO recommendations[12] and the NDAA for Fiscal Year 2010, DOD issued the FIAR Guidance in May 2010, which details the methodology for components to follow in order to achieve financial management improvements and auditability. The FIAR Guidance requires components to identify and prioritize their processes into assessable

[10]"Appropriations received" is an element of the SBR that represents appropriated funds made available for use by DOD components.

[11]As we have reported (GAO-11-851), the department has not yet fully defined its strategy for completing all actions necessary to achieve the FIAR goals, including actions related to the auditability of most of the department's consolidated financial statements such as the Balance Sheet and the Statement of Net Cost, and significant audit areas such as equipment valuation.

[12]GAO-09-373.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00080 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.042

units.[13] For each assessable unit, a component is required to prepare a FIP in accordance with the steps outlined in the FIAR Guidance. For example, civilian and military pay are two assessable units for which each DOD component, such as the Army, Navy, and Air Force, must develop and implement plans in accordance with the FIAR Guidance to ensure that their civilian and military pay can be audited. The steps required for these plans include assessing processes, controls, and systems; identifying and correcting weaknesses; assessing, validating, and sustaining corrective actions; and ultimately achieving audit readiness. After a component completes its evaluation of the effectiveness of corrective actions for each assessable unit, it must determine whether each assessable unit is ready for audit. For example, the Air Force, based on its implementation of the FIAR Guidance and its FIP, planned to conclude during fiscal year 2011 whether or not its FBWT Reconciliation is reliable and ready for audit. Once a component's management determines that an assessable unit is ready for audit, the DOD Comptroller and DOD Inspector General (IG) must review the related FIP documentation to determine if they agree with management's conclusion of audit readiness.

In our report issued this week, we concluded that the FIAR Guidance provides a reasonable methodology for the DOD components to follow in developing and implementing their FIPs.[14] However, as described later in this statement, we found that implementation of the FIAR Guidance for the two assessable units we reviewed was not effective. The FIAR Guidance details the roles and responsibilities of the DOD components, and prescribes a standard, systematic process that components should follow to assess processes, controls, and systems, and identify and correct weaknesses in order to achieve auditability for each of their assessable units. Overall, the procedures required by the FIAR Guidance are consistent with selected procedures for conducting financial statement audits, which include the following:

- **Conducting internal control and substantive testing**. Internal control testing focuses on assessing the effectiveness of controls that

[13]An assessable unit can be any part of the financial statements, such as a line item or a class of assets (e.g., civilian pay or military equipment), a class of transactions, or it can be a process or a system that helps produce the financial statements.

[14]GAO-11-851.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00081 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.043

would prevent or detect potential misstatements in the financial statements. Substantive tests are performed to obtain evidence on whether amounts reported on the financial statements are reliable.

- **Reconciling the population of transactions to be tested**. To conduct internal control and substantive testing, a sample of the data transactions is typically selected for testing. An organization must be able to identify the complete population of transactions so that a sample can be selected and tested.

- **Conducting tests of information systems controls**. The components are required to identify, document, and test both general and application controls for key systems that process transactions. General controls[15] are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. Application controls, sometimes referred to as business controls, are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of data during application processing and reporting.

The FIAR Guidance also requires the components to prepare and implement corrective action plans for resolving the deficiencies identified during testing and to document the results, which is consistent with federal internal control standards and Office of Management and Budget (OMB) guidance.[16]

Challenges for DOD Components' Implementation of FIAR Guidance

Although the FIAR Guidance provides a reasonable methodology for improving financial management within the department, DOD's ability to achieve audit readiness is highly dependent on the components' ability to effectively develop and implement FIPs in compliance with the FIAR Guidance. Our reviews of various DOD component efforts to achieve audit readiness found that the components faced challenges in effectively implementing the FIAR Guidance, resulting in unsupported conclusions of

[15]The objectives of general controls include safeguarding data, protecting application programs, and ensuring continued computer operations in case of unexpected interruptions.

[16]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999); and OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00082 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.044

audit readiness for Navy Civilian Pay, Air Force Military Equipment, and the Marine Corps SBR. Our preliminary work also found that a key element of basic financial management—reconciling the FBWT account—was not being done properly on a regular basis and the weaknesses were not properly identified or corrected by the Navy or the Marine Corps. Finally, to achieve fundamental improvements in financial management, DOD recognizes the importance of transforming its business operations through the implementation of Enterprise Resource Planning (ERP) systems. Our preliminary work on two key ERPs that have been partially deployed found significant issues in both systems.

FIPs for Navy Civilian Pay and Air Force Military Equipment Were Incomplete and Ineffective

Our review of the FIPs for Navy Civilian Pay and Air Force Military Equipment found that neither FIP complied with the FIAR Guidance and contained unsupportable conclusions.[17] We found similar deficiencies in both FIPs, which included the following:

- The Navy and Air Force did not conduct sufficient control and substantive testing, and contained unsupportable conclusions that the amounts being reported for Navy Civilian Pay and Air Force Military Equipment were reliable.
- The Navy and Air Force did not complete reconciliations of the population of transactions. As a result, the components could not ensure that their testing results could be projected to the populations of Navy civilian pay transactions and Air Force military equipment.
- The Navy and Air Force did not fully test information systems controls. The Navy's system testing did not include essential areas such as periodic reviews of user access authorizations and logs of changes to security access authorizations. The Air Force's FIP did not include any documentation of control testing for the two systems that maintain its military equipment data.
- The Navy and Air Force did not fully develop and implement corrective action plans to address deficiencies they identified during testing. The Navy had not developed any corrective action plans at the time that it incorrectly concluded that its civilian pay was ready for audit. The Air Force had developed some plans related to its military

[17] GAO-11-851.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00083 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.045

equipment weaknesses but not for all deficiencies identified, and moreover, it had not implemented any of the corrective actions at the time that it stated that its military equipment was ready for audit. Both components stated that they planned to complete corrective actions in the future.

Because of the deficiencies we identified, neither FIP that we reviewed provided sufficient support for the components' conclusions that the balances for Navy civilian pay and Air Force military equipment were ready for audit. Our report includes recommendations for DOD to ensure that components' FIPs comply with the FIAR Guidance. Navy officials stated that they were taking action to address the issues identified and planned to submit a revised FIP by March 2012. Air Force officials also indicated that they were taking action to address the issues identified.

Marine Corps Statement of Budgetary Resources Was Not Auditable

After DOD established budgetary information as a priority in its FIAR Plan, the Marine Corps was identified as the pilot military service for an audit of the SBR. The SBR is designed to provide information on authorized budgeted spending authority and links to the Budget of the United States Government (President's Budget), including budgetary resources, availability of budgetary resources, and how obligated resources have been used.[18] Because the Marine Corps is a military service within the Department of the Navy, its success in achieving audit readiness is intended to pave the way for the Navy to undergo an SBR audit. However, the DOD IG issued a disclaimer of opinion[19] on the Marine Corps' fiscal year 2010 SBR because the Marine Corps did not provide timely and relevant supporting documentation for accounting transactions and disbursements in key areas, which prevented the auditors from completing the audit by the November 15, 2010, reporting deadline. In addition, the auditors reported that ineffective internal control and ineffective controls in key financial systems should be addressed to

[18]Budgetary resources include the amount available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations) and unobligated balances of budget authority provided in previous years.

[19]In a disclaimer of opinion, the auditor does not express an opinion on the financial statements. A disclaimer of opinion is appropriate when the audit scope is not sufficient to enable the auditor to express an opinion, or when there are material uncertainties involving a scope limitation—a situation where the auditor is unable to obtain sufficient appropriate audit evidence.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00084 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.046

ensure the reliability of reported financial information.[20] The auditors identified 70 findings and made 139 recommendations to address the issues. Examples of the problems identified include the following:

- The DFAS location in Cleveland, Ohio, (DFAS–CL)—which performs accounting, disbursing, and financial reporting services for the Marine Corps—did not have effective procedures in place to ensure that supporting documentation for transactions was complete and readily available to pass basic audit transaction testing. For example, the auditors found that DFAS staff had only retained selected pages of the documents supporting payment vouchers, such as the voucher cover sheet, and did not have the purchase order, receiving report, and the invoice to support payments made.

- The Marine Corps did not have effective controls in place to support estimated obligations, referred to as "bulk obligations," to record a payment liability, and, as a result, was not able to reconcile the related payment transactions to the estimates. The Marine Corps estimates obligations in a bulk amount to record payment liabilities where it does not have a mechanism to identify authorizing documentation as a basis for recording the obligations.

- The auditors found ineffective controls over three major information technology (IT) systems used by the Marine Corps and reported numerous problems that required resolution.[21] For example, the auditors identified a lack of controls over interfaces between systems to ensure completeness of the data being transferred. System interface controls are critical for ensuring the completeness and accuracy of data transferred between systems.

Further, in addressing the 70 audit findings and related 139 recommendations, we found that the Marine Corps did not develop an

[20]Internal control comprises the plans, methods, and procedures to provide reasonable assurance that objectives are being achieved in the following areas: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.

[21]The three systems are the Marine Corps Total Force System (MCTFS), which is an integrated military personnel and payroll system; the Standard Accounting, Budgeting, Reporting System (SABRS), which is the Marine Corps' general ledger accounting system; and the Defense Departmental Reporting System (DDRS), which is a DOD-wide financial reporting system.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00085 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.047

effective overall corrective action plan that identified risks, prioritized actions, and identified required resources in order to help ensure that actions adequately respond to recommendations.[22] Instead, its approach to addressing auditor findings and recommendations for its prior and current audit efforts focuses on short-term corrective actions necessary to support heroic efforts to produce reliable financial reporting at year-end. Such efforts may not result in sustained improvements over the long term that would help ensure that the Marine Corps could routinely produce sound data on a timely basis for decision making. While the Marine Corps has implemented an extensive SBR remediation effort that is focused on individual initiatives to address the 70 audit findings and 139 related recommendations, such an approach could result in inefficiencies and ineffectiveness. As of July 18, 2011, the Marine Corps reported that actions on 88 of the 139 recommendations, including weaknesses related to accounting and financial reporting and IT systems, were fully implemented. However, the completeness and effectiveness of the Marine Corps' actions have not yet been tested. DOD IG auditors told us that tests performed during the Marine Corps' fiscal year 2011 SBR audit effort will determine whether and to what extent the problems identified during the fiscal year 2010 SBR audit effort have been resolved. They also confirmed that as of August 25, 2011, the Marine Corps had remediated the problems on 11 of the IT audit recommendations.

Furthermore, as described in our report being released this week, we found that the design of many of the Marine Corps actions relied on monitoring, an after-the-fact detective control; high-level quick fixes that did not address root causes; and other actions that were not consistent with the intent of the auditors' recommendations.[23] For example:

- Marine Corps remediation actions for 22 of the 56 accounting and financial reporting recommendations rely on issuing guidance, monitoring, or both, in an attempt to quickly address identified weaknesses. However, correcting underlying causes requires process improvements and in some cases, system changes.

[22]Some of these elements are consistent with the FIAR Guidance requirements for a corrective action plan, such as identifying required resources and ensuring that actions address the identified deficiencies.

[23]GAO-11-830.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00086 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.048

- Remediation actions for 20 of the 139 recommendations were not consistent with the related recommendations. For example, the auditors identified unliquidated obligations on old contracts for which performance was substantially complete. The auditors found that the Marine Corps did not have an effective process for reviewing undelivered orders and unliquidated obligations, and recommended that they strengthen these controls, whose weaknesses were the root cause of the finding. In response, Marine Corps officials stated that they had implemented a robust review process for validating obligations. However, the auditors reported that the Marine Corps developed effective written procedures but found problems with the implementation of those procedures. Thus, the Marine Corps did not fully address the recommendation or root cause of the problem.

- The Marine Corps disagreed with six auditor recommendations to strengthen SABRS system controls over information processing. For example, for three recommendations related to password and log-on controls, the Marine Corps action states that the Defense Information System Agency (DISA) and not DFAS is responsible for the actions. However, Marine Corps officials told us they had not contacted DISA officials to ensure that they would address the recommendations.

Our report includes recommendations to the Secretary of the Navy to direct the Marine Corps to develop a comprehensive, risk-based corrective action plan, confirm that corrective actions fully address auditor findings, and work more closely with service providers, such as DFAS, to clarify their roles and responsibilities on corrective actions that require cross-component work. In commenting on our report, the Navy said that it is working to address the auditor-identified deficiencies. Further details on the Navy's comments and our evaluation of them can be found in our report.

Issues with Navy and Marine Corps Processes for Reconciling Fund Balance with Treasury (FBWT)

Reconciling the FBWT account is a key financial management control. FBWT is an asset account that reflects the available budget spending authority of federal agencies. Reconciling a FBWT account with Treasury records is a process similar in concept to reconciling a check book with a bank statement. However, within the large, complex DOD environment, the FBWT reconciliation involves reconciliations between several different systems, such as the DOD components' general ledgers, the DOD-wide general ledger, DOD's cash accountability system, and Treasury records. FBWT reconciliations are a key internal control for ensuring that all receipt and disbursement transactions have been properly recorded in

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00087 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.049

federal agency accounting records. Effective fund balance reconciliations serve as a detective control for identifying unauthorized and unrecorded transactions at a federal agency or at the U.S. Treasury.

A successful audit of the SBR is dependent on an auditable FBWT, which includes the ability to reconcile the FBWT account with the Treasury records. However, our preliminary work has identified issues with the Navy and Marine Corps' implementation of effective processes for reconciling their FBWT, including issues related to financial management systems and certain policies and procedures, training, and supervisory review and approval. For example:

- DOD has not tested application controls over the Defense Cash Accountability System (DCAS)—the department's system of record for all cash activity. Navy, Marine Corps, and DFAS officials stated that they have identified over 650 system deficiencies that affect DCAS data reliability, and that over 200 of the identified deficiencies affect audit readiness. They identified the top 20 deficiencies that require immediate attention; however, they stated that a time frame for addressing these top 20 issues had not yet been established.

- DFAS did not maintain adequate documentation for the sample of items we tested to enable an independent evaluation of its efforts to research and resolve differences.

- Navy and DFAS policies and procedures did not contain detailed information on the roles and responsibilities of organizations and personnel and the process for identifying, researching, and resolving discrepancies, including maintaining required supporting documentation. The policies and procedures also did not require supervisory review and approval of reconciliation efforts and results.

Navy, Marine Corps, and DFAS officials acknowledged that existing policies and procedures are inadequate. They also stated that the base realignment and closure changes in 2006 through 2008 resulted in a loss of experienced DFAS-CL personnel and that the remaining staff have not received the needed training. Navy officials stated that they are currently developing a Plan of Actions and Milestones (POAM) to address weaknesses that affect the Navy and Marine Corps' audit readiness, including reconciling FBWT records.

We will report more fully on these issues, including actions DOD is taking to address them, in our forthcoming report.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00088 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.050

Issues with Implementation of Two of DOD's Enterprise Resource Planning (ERP) Systems

The implementation of an integrated, audit-ready systems environment through the deployment of ERP systems underlies all of DOD's financial improvement efforts and is crucial to achieving departmentwide audit readiness. According to DOD, the successful implementation of the ERPs is not only critical for addressing long-standing weaknesses in financial management, but equally important for helping to resolve weaknesses in other high-risk areas such as business transformation, business system modernization, and supply chain management. Successful implementation will support DOD by standardizing and streamlining its financial management and accounting systems, integrating multiple logistics systems and finance processes, providing asset visibility for accountable items, and integrating personnel and pay systems. Previously, we reported that delays in the successful implementation of ERPs have extended the use of existing duplicative, stovepiped systems, and have continued the funding of these systems longer than anticipated.[24] To the degree that these business systems do not provide the intended capabilities, DOD's goal of departmentwide audit readiness by the end of fiscal year 2017 could be jeopardized.

Over the years, we have reported that DOD has not effectively employed management controls to ensure that the development and implementation of ERPs deliver the promised capabilities on time and within budget. As we reported in October 2010, DOD has identified 10 ERPs—1 of which had been fully implemented—as essential to its efforts to transform its business operations.[25] We are currently reviewing the status of two of these ERPs—the Army's General Fund Enterprise Business System (GFEBS) and the Air Force's Defense Enterprise Accounting and Management System (DEAMS). GFEBS is intended to support the Army's standardized financial management and accounting practices for the Army's general fund, except for funds related to the Army Corps of

[24]GAO, *DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed*, GAO-11-53 (Washington, D.C.: Oct. 7, 2010).

[25]GAO-11-53. The 10 ERPs are as follows: Army—General Fund Enterprise Business System (GFEBS), Global Combat Support System-Army (GCSS-Army), and Logistics Modernization Program (LMP); Navy—Navy Enterprise Resource Planning (Navy ERP) and Global Combat Support System-Marine Corps (GCSS-MC); Air Force—Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS); Defense—Service Specific Integrated Personnel and Pay Systems and Defense Agencies Initiative (DAI); and Defense Logistics Agency—Business System Modernization (BSM). According to DOD, BSM was fully implemented in July 2007.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00089 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.051

Engineers. The Army estimates that GFEBS will be used to control and account for approximately $140 billion in annual spending. DEAMS is intended to provide the Air Force with the entire spectrum of financial management capabilities and is expected to maintain control and accountability for approximately $160 billion. GFEBS is expected to be fully deployed during fiscal year 2012, is currently operational at 154 locations, including DFAS, and is being used by approximately 35,000 users. DEAMS is expected to be fully deployed during fiscal year 2016, is currently operational at Scott Air Force Base and DFAS, and is being used by about 1,100 individuals.

Our preliminary results identified issues related to GFEBS and DEAMS providing DFAS users with the expected capabilities in accounting, management information, and decision support. To compensate, DFAS users have devised manual workarounds and several applications to obtain the information they need to perform their day-to-day tasks. The Army and Air Force have stated that they have plans to address these issues, and the Army has plans to validate the audit readiness of GFEBS in a series of independent auditor examinations over the next several fiscal years. For DEAMS, the DOD Milestone Decision Authority[26] (MDA) has directed that the system is not to be deployed beyond Scott Air Force Base until the known system weaknesses have been corrected and the system has been independently tested to ensure that it is operating as intended. Examples of the issues in these systems that DFAS users have identified include the following:

GFEBS

- The backlog of unresolved GFEBS trouble tickets has continued to increase from about 250 in September 2010 to approximately 400 in May 2011. Trouble tickets represent user questions and issues with transactions or system performance that have not been resolved. According to Army officials, this increase in tickets was not unexpected since the number of users and the number of transactions being processed by the system has increased, and the Army and DFAS are taking steps to address issues raised by DFAS.

[26]The Milestone Decision Authority is the senior DOD official who has overall authority to approve entry of an acquisition program into the next phase of the acquisition process and is accountable for cost, schedule, and performance reporting, including congressional reporting.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00090 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.052

- Approximately two-thirds of invoice and receipt data must be manually entered into GFEBS from the invoicing and receiving system (i.e., Wide Area Work Flow).[27] DFAS personnel stated that manual data entry will eventually become infeasible due to increased quantities of data that will have to be manually entered as GFEBS is deployed to additional locations. Army officials acknowledged that there is a problem with the Wide Area Work Flow and GFEBS interface and that this problem reduced the effectiveness of GFEBS, and that they are working with DOD to resolve the problem.

- GFEBS lacks the ability to run ad hoc queries or search for data in the system to resolve problems or answer questions.[28] The Army has recognized this limitation and is currently developing a system enhancement that they expect will better support the users' needs.

DEAMS

- Manual workarounds are needed to process certain accounts receivable transactions such as travel debts. DFAS personnel stated that the problem is the result of the data not being properly converted from the legacy systems to DEAMS.

- DFAS officials indicated that they were experiencing difficulty with some of the DEAMS system interfaces.[29] For example, the interface problem with the Standard Procurement System has become so severe that the interface has been turned off, and the data must be manually entered into DEAMS.

[27]Office of Federal Financial Management, *Core Financial System Requirements* (Washington, D.C.: January 2006) states that a Core financial system must deliver workflow capabilities including integrated workflow, workflow process definition and processing exception notices.

[28]Office of Federal Financial Management, *Core Financial System Requirements* state a Core financial system must provide an integrated ad hoc query capability to support agency access to and analysis of system-maintained financial data.

[29]Office of Federal Financial Management, *Core Financial System Requirements* state that a Core financial system financial transactions can be originated using multiple external feeder applications. These feeder systems and the Core financial system must interface seamlessly so that data can move effectively between them. The Core system must be able to process and validate the data independent of origination. There must also be a process for handling erroneous input and correction."

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00091 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.053

- DFAS officials stated that DEAMS does not provide the capability—which existed in the legacy systems—to produce ad hoc reports that can be used to perform the data analysis need to perform daily operations.[30] They also noted that when some reports are produced, the accuracy of those reports is questionable.

DFAS users also told us that the training they received focused more on how GFEBS and DEAMS were supposed to operate, rather than providing DFAS personnel training about how to use these systems to perform their day-to-day operations. The Army acknowledged that from a DFAS perspective, the training should have shown DFAS how they could use GFEBS to perform task such as the reconciliation of accounts. To help address this training issue, DFAS is in the process of developing courses and desk guides suitable for DFAS employees who use GFEBS and DEAMS on a day-to-day basis.

We will report more fully on these issues, including DOD's actions to address them, in our forthcoming report.

Improved Monitoring and Oversight of Component Financial Improvement Plans (FIP) Are Needed

In one report we issued this week, we found that weaknesses in the Navy and Air Force FIAR Plan implementation efforts indicate that the monitoring and oversight of such efforts have not been effective.[31] Although we found that DOD and its military components had established appropriate organizational structures for monitoring and oversight of audit readiness efforts, oversight responsibilities were not always effectively carried out. Both DOD and the components have established senior executive committees as well as designated officials at the appropriate levels to monitor and oversee their financial improvement efforts. These committees and individuals have also generally been assigned appropriate roles and responsibilities. However, we found that component officials as well as the oversight committees at both the component and DOD levels did not effectively carry out their monitoring responsibilities for the Navy Civilian Pay and Air Force Military Equipment FIPs. Specifically, for these two FIPs that we reviewed, neither individual officials nor the

[30]Office of Federal Financial Management, *Core Financial System Requirements* state that a Core financial system financial transactions must deliver an integrated ad hoc query capability to support agency access to and analysis of system maintained financial data.

[31]GAO-11-851.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00092 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.054

executive committees took sufficient action to ensure that the FIPs were accurate or complied with the FIAR Guidance. As a result, the Navy concluded that its Civilian Pay was ready for audit, as did the Air Force with respect to its Military Equipment, even though they did not have sufficient support to assert audit readiness.

On the other hand, once the Navy and Air Force submitted the FIPs to DOD in support of their audit readiness assertions, both the DOD Office of the IG and the DOD Comptroller carried out their responsibilities for reviewing the FIPs. In their reviews, both organizations identified issues with the FIPs that were similar to those we had identified. The DOD Comptroller, who makes the final determination as to whether an assessable unit is ready for audit, concluded that neither of these FIPs supported audit readiness.

Effective oversight and monitoring would also help ensure that lessons learned from recent efforts would be sufficiently disseminated throughout the department and applied to other financial improvement efforts. In commenting on our report about the FIPs, the DOD Comptroller stated that it is critical that the department continues to look at how effectively it applies lessons learned. For example, the results of the Marine Corps' SBR audit effort provide valuable lessons on preparing for a first-time financial statement audit. As we recently testified, lessons learned from this audit effort can provide a roadmap to help other DOD components achieve audit readiness.[32] While this audit effort provided numerous issues for the other military services to consider in their audit readiness efforts, we identified and reported on five overall lessons that are critical to success.[33] Specifically, the Marine Corps' SBR experience demonstrated that prior to asserting financial statement audit readiness, DOD components must be able to perform the following procedures;

- **Confirm completeness of populations of transactions and address any abnormal transactions and balances**. The Marine Corps SBR auditors made multiple requests for transaction-level detail for key SBR accounts. Navy officials told us that they identified problems with the way transactions map to general ledger accounts,

[32]GAO, *DOD Financial Management: Numerous Challenges Must Be Addressed to Achieve Auditability*, GAO-11-864T (Washington, D.C.: July 28, 2011).

[33]GAO-11-830.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00093 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.055

which makes it difficult to identify transaction populations. Navy officials noted that these problems impeded the Marine Corps SBR audit effort and also prevent the reconciliation of Unadjusted to Adjusted Trial Balances, FBWT reconciliations, and overall funds control.

- **Test beginning balances**. A first-year SBR audit requires substantial testing to confirm beginning balances. Navy officials noted that earlier audit readiness efforts were not sufficient to confirm beginning balances, and problems identified with the assignment of general ledger account numbers and mapping of transactions to the proper accounts will need to be resolved to ensure the auditability of beginning balances.

- **Perform key reconciliations**. The Marine Corps did not have processes in place to reconcile key accounts such as FBWT. In addition, although it made repeated attempts to reconcile the Unadjusted Trial Balance to the Adjusted Trial Balance, it was not able to do so. This reconciliation is an important step to verify that the SBR is accurate.

- **Provide timely and complete response to audit documentation requests**. The auditors reported that the Marine Corps, through its service provider, DFAS, did not consistently provide timely and accurate audit documentation. Without such documentation, the auditors were unable to determine whether a given transaction was authorized, whether the goods or services were received, whether the invoice was approved for payment, or whether the funds disbursed were correct.

- **Verify that key IT systems are compliant and auditable**.[34] The auditors informed the Marine Corps of numerous control weaknesses they identified in key systems, including some DOD-wide systems, which affected auditability. The auditability of key systems, including military payroll systems, accounting systems, and financial reporting systems, is essential to achieving and sustaining an audit opinion.

[34]DOD financial management systems are required by the Federal Financial Management Improvement Act of 1996 (FFMIA) to comply with federal financial management systems, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Pub. L. No. 104-208, div. A, title VIII, § 803, 110 Stat. 3009, 3009-390 (Sept. 30, 1996).

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00094 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.056

These five critical lessons from the Marine Corps SBR audit effort are all addressed in the FIAR Guidance as procedures that must be performed before an assessable unit can be considered ready for audit. As the Army, Navy, and Air Force move forward in developing and implementing their FIPs, in our report we recommend that they take into account the lessons learned during the course of pilot audit efforts, such as the Marine Corps SBR. Navy financial management officials indicated that they are aware of the Marine Corps lessons and that they are updating their audit readiness plan to address all five critical lessons. Army and Air Force officials indicated their awareness of some of these findings but only provided information on their efforts regarding FBWT reconciliations and ERP implementations. As noted above, DOD generally agreed with the need to effectively communicate lessons learned among its components. Our report more fully describes DOD's comments and our evaluation of them.

Concluding Observations

With the FIAR Plan and related FIAR Guidance, DOD has established a reasonable strategy and methodology for improving its financial management. However, it faces considerable implementation challenges and has much work to do if it is to meet the goal of audit readiness by the end of fiscal year 2017. These challenges, as we have previously testified, include (1) maintaining committed and sustained leadership; (2) developing and implementing an effective plan to correct internal control weaknesses; (3) establishing accountability and effective oversight to monitor progress; and (4) successfully implementing ERP systems consistent with an effective corporate enterprise architecture.[35] It is critical that DOD's current initiatives be continued and provided with sufficient resources. Oversight and monitoring will also play a key role in ensuring that DOD's plans are implemented as intended and that lessons learned are identified and effectively disseminated. Absent continued momentum and necessary future investments, the current initiatives may falter, similar to previous efforts. Continued congressional oversight will be an important factor in helping to ensure the department's success.

[35]GAO-11-835T; GAO-11-864T.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00095 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.057

Chairman Carper, Ranking Member Brown, and members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and Staff Acknowledgments

If you or your staff have any questions about this testimony please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. GAO staff who made key contributions to this testimony included Abe Dymond, Assistant Director; Francine Delvecchio; Kristi Karls; Sheila Miller; Heather Rasmussen; and David Yoder.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00096 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.058

CHART #1

" . . . it is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less."

- Secretary Leon Panetta

CHARRTS No.: SHSGACFEDMGMTGOVT-03-009
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #9

Question: The Marine Corps asserted audit readiness for its Statement of Budgetary Resources (SBR) in 2008, started an audit in 2010 that was ultimately unsuccessful, and we are now told that it will probably be 2012/2013 before the Marine Corps SBR can reasonably achieve a clean opinion. This is just one part of the audit for one service and the smallest one at that. With the Marine Corps being the first out of the gate, it is assumed that the learning curve is much steeper at the beginning.a) How does this timeline (5 years between assertion and a clean opinion) affect your confidence about being audit ready to the degree you have planned for (SBR and existence and completeness of assets) by 2017?b) Do you anticipate that the rest of the services will go through similar timelines with their SBR audits? Why or Why not?c. So if we assume that all of DoD is audit ready by 2017, can we reasonably assume that the entire Department would be able to receive a clean audit by 2020? Why or why not?

Answer: The 2010 NDAA requires that DoD financial statements be validated as ready for audit by September 2017. To achieve audit readiness, DoD entities must have effective controls to ensure all financial business events are captured in the general ledger and supported account balances. We agree that there is a lot to accomplish between now and 2017. Our recent strategic changes (more funding, more attention from non-CFO community, focus on information we use to manage) and Secretary Panetta's leadership on this issue make me optimistic we can meet the 2017 date. While it is difficult to predict the length of time it will take to obtain an unqualified ("clean") opinion once our statements undergo an audit, it is not unusual for the process to take several years. We continue to learn, not only from the ongoing Marine Corps SBR audit, but also from the audit experiences of our Defense Agencies currently undergoing successful audits, including the US Army Corps of Engineers and Defense Information Systems Agency working capital fund. We are applying these lessons learned as we continue to make progress on our near term milestones. These lessons will help to improve the quality of our plans and serve to reduce the traditional "learning curve" timeline that the USMC has experienced.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-010
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #10

Question: A repeating theme in the GAO reports as indicated by Mr. Asif Khan's testimony seems to be the impact of the Defense Finance Accounting Service's (DFAS) ability to exchange information efficiently and effectively with either the components or the auditors.a) Since your office is in charge of the service agencies, what was done to prepare them, especially DFAS, for audit preparations, especially with their interaction with the component services?b) What is being done now to solve some of the problems at DFAS that GAO has highlighted in its report, such as having effective documentation procedures in place?c) Are any of the issues at DFAS or the other service agencies going to hold up the progress of any of the service components? If so, which ones and what are you doing to resolve the problem?

Answer: The Department has established a comprehensive FIAR strategy and methodology for achieving improved financial information and auditability. The strategy focuses improvements on policies, processes and controls, systems and data, audit evidence, and human capital. Corrective actions for these assertions reviewed in the GAO reports are underway and more recent efforts continue to demonstrate improvement in both understanding and application of the audit readiness guidance. DFAS and other Service Providers participated in several rounds of control and supporting documentation testing. In addition, DFAS has enhanced electronic document retention, management and retrieval capability. This capability has proven effective in the current USMC SBR audit and is available to support future audits across DoD.

We are continuing to learn not only from recent assertions, but also from the ongoing USMC audit and the clean opinion on the DISA Working Capital Fund financial statement audit. We are sharing the lessons learned from these experiences and transferring this knowledge to both support the current plan and provide a better sense of remedial actions required. We continue to work closely with all Components, including Service Providers, in applying these lessons learned as we continue to make progress. Components and Service Providers are collaborating on several process, system and control improvements to become audit ready. All of the known corrective actions can be completed to achieve audit readiness goals.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00099 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.060

CHARRTS No.: SHSGACFEDMGMTGOVT-03-011
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #11

Question: Even though being audit ready by 2017 is the goal that has been set, the real objective is not to pass one audit, but sustain auditability. The only way to do this effectively is to solve some of the underlying problems associated with poor financial management identified in the FIAR guidance and not to rely on quick fixes and herculean efforts to solve problems and meet goals in the short term. How are you ensuring that the components are focused on solving the underlying problems and are not relying on quick fixes - that we are focusing on sustained auditability versus depending on a herculean effort to get a single clean audit opinion?

Answer: The Department has established a comprehensive FIAR Strategy for achieving improved financial information and auditability. The Strategy focuses improvements on policies, processes and controls, systems and data, audit evidence, and human capital. This clear, comprehensive strategy for achieving audit readiness is critical to ensuring that limited resources are assigned effectively to facilitate sustained and measurable progress. The strategy provides a critical path for the Department, while balancing the need to achieve short-term accomplishments with the long-term goals of improved financial information for decision making and an unqualified opinion on the Department's financial statements. Our oversight process and feedback continue to emphasize collection of key "root cause" impediments and sustainment of those corrections. An annual financial audit regimen will provide clear consistent feedback on how well our sustainment efforts are working.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-012
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #12

Question: A significant challenge with making the sweeping changes that are required to get DoD's financial house in order is the institutional resistance to change that is inherent, especially in such a large, complex organization such as DoD. This is probably also influenced by a relatively older accounting workforce, decades old legacy systems, and the legitimate priority given to the warfighting mission. This issue obviously speaks to the importance of continued senior leadership buy-in required for this effort at both DoD and the Services.a) How significant of a factor do you think this is to the slow progress DoD has made regarding FIAR over the last twenty years?b) How can DoD and the Services better address this challenge in the near future so that crucial momentum is not lost in the next five to six years, since most of the senior leadership on the witness panel will probably move on at some point during that time?

Answer:

We recognize that all elements of our business must change – people, progress and systems – to include the underlying culture that has evolved over many years.

In the past, audit efforts were too narrowly focused and viewed as only a comptroller responsibility rather than a departmental goal. Secretary Panetta has changed that and now Department of Defense audit readiness will be an "all hands" effort. Secretary Panetta's testimony before the full House Armed Services Committee on October 13, 2011, set forth his Departmental directive that financial improvement and audit readiness efforts be prioritized and accelerated, and that the Statement of Budgetary Resources for general funds be audit ready by Fiscal Year (FY) 2014. This announcement is a clear demonstration of our commitment to this effort, our faith in our current strategy, and our appreciation for the importance of this effort to meeting our obligations to the American people.

Our Service CMOs are actively involved in monitoring progress of the FIAR effort and our DCMOs also play a key role by ensuring the ERP systems are delivered with the financial management capabilities we need to be auditable. Congressional attention and pressure is the most effective means to keep FIAR as a priority across administrations. We need continued Congressional oversight to help ensure this remains a high priority through political leadership changes. Civilian leadership (SESs) are also being held accountable, through inclusion of FIAR goals in performance plans and organization strategic plans, and many will serve across administrations. All Components will be including FIAR goals in the performance plans of senior executives outside the CFO community to help ensure accountability for progress.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-013
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #13

Question: In GAO's testimony, Mr. Kahn points out that the "key to successful implementation would be the efforts of the DoD military components and the quality of their individual Financial Improvement Plans." New FIAR guidance requires a FIP for each assessable unit, such as civilian and military pay. GAO looked at two assessable units during its review, Navy Civilian Pay and Air Force Military Equipment.a) Although GAO found that the FIAR methodology is sound, implementation by the components has run into problems. GAO only reviewed two FIPs and found similar deficiencies in each. Why do you think they found similar deficiencies? Lack of guidance? Lack of audit experience across DoD? Coincidence?b) How are you taking the lessons learned from both GAO's review of these FIPs and your own internal and applying it to overall FIAR guidance.

Answer: The origins of both assertion packages that GAO reviewed predate the current guidance and may have proceeded with a strategy that was not sufficiently supported. Corrective actions for these assertions are underway and more recent efforts continue to demonstrate improvement in both understanding and application of the audit readiness guidance. We are continuing to learn not only from the ongoing USMC audit, but also from recent assertions. We need to transfer this knowledge to both support the current plan and provide a better sense of remedial actions required. We are applying these lessons learned as we continue to make progress on our near term milestones and these experiences will help to better define our longer term milestones.

Our people are experienced, well-trained, and dedicated; but they generally do not have financial audit experience. We have several activities underway to increase this knowledge and experience, including:

- implementation of a Financial Management workforce certification program;
- conducting "mock audits" through examinations of audit ready assessable units; and
- transfer of knowledge from consultants, through interaction with experienced auditors helping our audit readiness efforts.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-014
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #14

Question: How do you read Secretary Panetta's and Dr. Carter's recent statements regarding the renewed attention to financial management at DoD? They have mentioned accelerating the rate at which progress can be made.a) Is this even possible?b) What are the biggest challenges to moving forward at an accelerated pace.c) Considering how long this process has taken so far, are we not moving as fast as possible now?d) What additional resources (in budget and manpower) would be required to speed up this process?e) Do you anticipate that those resources will be available in the near term considering the anticipated budget constraints?f) What do you anticipate will be the changes?

Answer: In his October 13, 2011 testimony before the House Armed Services Committee, Secretary Panetta announced he had issued a Department-wide directive accelerating the target date for Statement of Budgetary Resources audit readiness to Fiscal Year (FY) 2014. This acceleration is a clear demonstration of our commitment to this effort, our faith in our current strategy, and our appreciation for the importance of this effort to meeting our obligations to the American people. In the past, audit efforts were too narrowly focused and viewed as a comptroller responsibility rather than a departmental goal, but with the tone being set at the top by the Secretary, this will truly be an all hands effort. We remain committed to the ambitious but achievable goal of full auditability by the FY 2017 deadline mandated by Congress.

The Secretary's directive laid out a basic framework for implementing his accelerated goals for the Department; the Components are to submit revised plans within 60 days, for the Secretary's review and the Deputy Secretary's continued oversight, to address the requirements of the new timeline. These revised plans are currently in development, but will not change the present strategy or approach to achieving audit readiness. Components are assessing whether additional resources will be required to achieve the accelerated goal. Reasonable requests for additional funds will be considered and our reports to Congress will reflect any updated funding approved.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00103 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.064

CHARRTS No.: SHSGACFEDMGMTGOVT-03-015
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #15

Question: The difficulty with long term reforms is that leadership changes, priorities change, and there is no incentive or accountability at the top. You were formerly in Dr. Morin's shoes as the Air Force Comptroller. You are now the recognized department-level leader for financial management improvements and achieving audit-readiness department-wide.a) How is the improved leadership attention, such as we have now according to your testimony, maintained during inevitable changes to management in the future?b) Who will be held accountable if 2017 comes and goes and DoD is still not audit ready?

Answer: Congressional attention and pressure is the most effective means to keep FIAR as a priority across administrations. We are committed to achieving this goal, however also need continued Congressional oversight to help ensure this remains a high priority through political leadership changes. Civilian leadership (SESs) are also being held accountable, through inclusion of FIAR goals in performance plans and organization strategic plans, and many will serve across administrations. All Components will be including FIAR goals in the performance plans of senior executives outside the CFO community to help ensure accountability for progress. At the Department level we have a FIAR Governance Board chaired by USD(C) and DCMO that provides direction to Components and reviews status to ensure goals are being met. Services participate in the FIAR Governance Board and each has their own senior leadership groups to monitor plans and progress. The Service CMOs made commitments to former Deputy Secretary Lynn for FIAR goals that will be achieved in FY11 and FY 12. Deputy Secretary Carter plans to follow up with regular meetings to ensure the Department is meeting these interim goals.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00104 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.065

CHARRTS No.: SHSGACFEDMGMTGOVT-03-016
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #16

Question: Have best practices from the Marine Corps audit had a significant impact on the efforts to advance the SBR audit readiness at other Services and DoD?

Answer: Yes. We are continuing to learn not only from the ongoing USMC audit, but also from recent assertions. We need to transfer this knowledge to both support the current plan and provide a better sense of remedial actions required. We are applying these lessons learned as we continue to make progress on our near term milestones and these experiences will help to better define our longer term milestones. As one example of sharing the lessons, we have summarized several key issues from the USMC audit and highlighted them in revised FIAR guidance as "dealbreakers." This ensures our plans are developed and executed with those key precepts in mind.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00105 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.086

CHARRTS No.: SHSGACFEDMGMTGOVT-03-017
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: USD(C) Hale
Question: #17

Question: How is DoD facilitating similar information sharing efforts throughout the audit process as each Department entity reaches related milestones?

Answer: The Department maintains a robust governance structure, involving senior leaders from across the Department. This governance structure includes a FIAR Governance Board, which engages the Department's most senior leaders from the financial management community along with the DCMOs and senior representatives from the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)); a FIAR Committee; and a FIAR Subcommittee. Lessons learned from the USMC audit, other ongoing audits, and recent assertions are shared through all levels of the FIAR governance structure. We are continuing to learn not only from the USMC audit experience, but also from recent assertions. We are applying these lessons learned as we continue to make progress on our near term milestones and these experiences will help to better define our longer term milestones.

In addition, the Department has instituted several actions to help ensure that Component's perform sufficient analysis, testing, and documentation in their financial improvement efforts. These actions include the establishment of a quality assurance team composed of experienced financial statement auditors within the OUSD(C) FIAR Directorate. The FIAR quality assurance team reviews Components plans and documentation as they are completed to provide valuable feedback and avoid assertions of audit readiness not supported by sufficient testing and analysis.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00106 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.067

CHARRTS No.: SHSGACFEDMGMTGOVT-03-018
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: USD(C) Hale
Question: #18

Question: Secretary Hale, what mechanism has your office implemented to make sure that the branches follow the best practices identified by the GAO and lessons learned from the U.S. Marine Corps audit? How will your plans require validation and verification?

Answer: The Department maintains a robust governance structure, involving senior leaders from across the Department. This governance structure includes a FIAR Governance Board, which engages the Department's most senior leaders from the financial management community along with the DCMOs and senior representatives from the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)); a FIAR Committee; and a FIAR Subcommittee. Lessons learned from the USMC audit, GAO and other ongoing audits, and recent assertions are shared through all levels of the FIAR governance structure. We are continuing to learn not only from the USMC audit experience, but also from recent assertions. We need to transfer this knowledge to both support the current plan and provide a better sense of remedial actions required. We are applying these lessons learned as we continue to make progress on our near term milestones and these experiences will help to better define our longer term milestones. My staff meets monthly with GAO leadership to advise them and receive feedback on what they are seeing during their reviews. Together, we will use this information, along with our own quality assurance reviews, to provide increased oversight.

In addition, the Department has instituted several actions to help ensure that Component's perform sufficient analysis, testing, and documentation in their financial improvement efforts. These actions include the establishment of a quality assurance team composed of experienced financial statement auditors within the OUSD(C) FIAR Directorate. The FIAR quality assurance team reviews Components plans and documentation as they are completed to provide valuable feedback and avoid assertions of audit readiness not supported by sufficient testing and analysis. In some cases, the FIAR teams are directly imbedded with components to provide "real-time" feedback.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00107 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.088

CHARRTS No.: SHSGACFEDMGMTGOVT-03-019
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: USD(C) Hale
Question: #19

Question: GAO reported the existence of over 650 system deficiencies in the Defense Cash Accountability System-the system that records all cash activity for DOD. In these challenging fiscal times, sound, reliable systems to track cash outlays are imperative. Without these strong controls, taxpayer dollars are at increased risk or mismanagement and waste. What are you doing to make sure these deficiencies are addressed, not only for auditability purposes but to control the scare taxpayer dollars under your prevue?

Answer: DCAS is the target system for the reporting of cash activity for DoD to the US Treasury. Currently, DCAS is only fully implemented for Navy and Marine Corps cash accountability reporting. The 650 system deficiencies are more properly classified as systems change requests (SCRs). These SCRs are not solely system deficiencies related to cash accountability reporting, but a combination of audit related weaknesses, user enhancements, and other changes to systems functionality requested by both technical and functional experts.

The Department has a three-faceted improvement plan in place to address the system change requests. First, the Department is currently migrating the systems platform that DCAS operates in, moving it to a web based, Common Access Card enabled environment. This migration will alleviate approximately 100 of the SCRs. Secondly, in conjunction with this platform change, the DCAS team is also reviewing and reprioritizing the remaining SCRs to determine if any of the 650 SCRs are redundant or obsolete. Thirdly, the DCAS governance board, comprised of executive level personnel will review and reprioritize all remaining SCRs after the systems migration and review. This board will be held accountable for ensuring that the scarce resources allotted to DCAS are used wisely with emphasis on ensuring auditability of the cash accountability reporting.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00108 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.089

CHARRTS No.: SHSGACFEDMGMTGOVT-03-020
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: USD(C) Hale
Question: #20

Question: The Commission on Wartime Contracting has estimated that $31 to $60 billion was lost to waste and fraud through contingency contracting over the past 10 years. Does DOD's estimate of improper payments include these amounts?

Answer: No, these estimated amounts were not included in the Department of Defense (DoD) annual estimate of improper payments for two reasons. First, in-theater disbursements were not captured for improper payment review until April 2008, when the retrograde of vendor payments (when payment documentation began being shipped state-side) for Theater transitioned from the in-country payment offices to DFAS-Rome, NY. This was done in phases with the thresholds gradually being lowered until the present level of all payments $3,000 or higher being sent to DFAS for review and payment.

Second, the Commission on Wartime Contracting definition of fraud and waste goes beyond the technical definition of improper payments. Fraud is usually identified through a tip rather than through a conventional post-payment review mechanism. Waste would be very difficult to isolate and report for annual improper payment purposes. Dollar amounts "lost" as a result of waste might possibly be identified through the contract administration or close-out process, when costs and pricing are reviewed for reasonableness, but not through the normal improper payment reviews.

We are committed to ensure the best use of every dollar.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00109 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.070

CHARRTS No.: SHSGACFEDMGMTGOVT-03-021
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: USD(C) Hale
Question: #21

Question: The DOD Office of Inspector General recent described in a July report the many challenges for the Defense Finance and Accounting System (DFAS) process for collecting delinquent debts (OIG-D-2011-084). The OIG reported $209 million in debts owed by federal contractors in that report. Were these debts included as part of the last few years improper payments estimates?

Answer: Yes, the $209 million in debts owed by federal contractors cited in D-2011-084 were included as part of the last few years improper payment reports. The $209 million represents the total debts at a specific point in time in the Contractor Debt System (CDS) entered over multiple fiscal years.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-022
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: USD(C) Hale
Question: #22

Question: In your testimony you stated "In August of this year we completed an examination and validation of each Military Department's funds distribution process, known in financial terms as "appropriations received." This effort was conducted by a public accounting firm and resulted in a clean opinion on the audit readiness of this process. A similar validation will take place DoD-wide and periodic validation of appropriations received will demonstrate that we are distributing and accounting for these distributions of funds carefully and in ways that ensure compliance with the laws you enact."- As this was an examination and not an audit, when is an audit planned in order to opine on this process?- Were any material weaknesses or reportable conditions reported based on the examination report of this process? What were the weaknesses reported, if any? Please share plans that have been developed to respond to these weaknesses.

Answer: A similar validation examination for the Defense Agencies appropriations received is planned for late 4th Quarter fiscal year (FY) 2012. If the examination results in an unqualified opinion on the audit readiness assertion, we plan to engage an independent public accountant (IPA) or other qualified, independent reviewer to commence annual audits on the appropriations received line item until the Department undergoes a full statement of budgetary resources SBR audit in 2014. The examination of the Navy's appropriations received audit readiness assertion noted Navy did not perform timely reconciliation of appropriations recorded to the public law and Treasury warrants, but that Navy did perform a reconciliation after the year to demonstrate the accuracy of appropriations received amounts recorded. Navy plans to perform this reconciliation in a timely manner moving forward.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-023
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: USD(C) Hale
Question: #23

Question: Mr. Hale, last year I asked you, in a question for the record, what progress the Department of Defense would make in the next 12 months with regards to audit readiness. You stated two issues:- "Navy will have validated audit readiness assertion for end-to-end processes for civilian pay..."- "Air Force will have ... had the audit readiness of several mission critical asset elements (existence and completeness) independently validated."The draft reports from the Government Accountability Office (GAO) state that the Navy and the Air Force were not ready as they did not have supporting documentation to show that they were.Who is responsible for the Department's inability to achieve these milestones that you laid out to Congress last year?

Answer: Corrective actions for these assertions are underway and more recent efforts continue to demonstrate improvement in both understanding and application of the audit readiness guidance. We are continuing to learn not only from the ongoing USMC audit, but also from these recent assertions.

DoD has set aggressive stretch goals in order to push the organization to meet 2017 goal. We will not meet all interim goals. We hold leaders accountable through our governance process and by including FIAR goals in our strategic plans such as the Strategic Management Plan. Starting in FY 2012, detailed FIAR goals will be included in Senior Executive performance plans throughout the DoD. This means that missing FIAR goals will have a direct impact on the compensation of senior executives.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-024
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: USD(C) Hale
Question: #24

Question: Under the current Financial Improvement and Audit Readiness (FIAR) plan, the defense agencies that are not part of the Army, Navy, and Marine Corps (such as the Department of Defense Education Activity) are not scheduled to assert audit readiness until 2014 or later. Why can these smaller agencies, many of whom are commercial in nature and created after the Cold War ended, perform similar back office functions to other federal agencies outside of DOD, not receive a clean audit sooner?

Answer: The Military Services account for over $725 billion out of $1 trillion in DoD Budgetary Resources being prepared for audit, so it makes sense that they are our primary focus. The Defense Agencies are at varying states of readiness, with several of them, including Defense Finance and Accounting Service and Defense Contract Audit Agency, currently sustaining unqualified audit opinions. I meet with the Defense Agency Comptrollers quarterly to discuss their progress and my staff is working with them to accelerate their efforts. With the increased focus on audit readiness, and Secretary of Defense Panetta's recent directive, I believe we will see several of these larger agencies achieve audit readiness sooner than their last plans indicated.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-025
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: USD(C) Hale
Question: #25

Question: None of us question that improved financial management data for analysis, decisionmaking, and reporting on the status of operations, programs, and activities is needed. Legislation has been enacted over the past decade to help ensure that the department's efforts are focused on establishing sustained process, control, and system improvements and capabilities necessary to support these functions.While material weaknesses have persisted can you elaborate on the benefits that have the department has recognized through its financial management improvement and audit readiness activities?

Answer: The Department's FIAR strategy focusing on information most often used by decision makers and the standard, phased FIAR methodology have improved the efficiency and reduced the costs of the DoD Components' efforts to improve financial information and achieve auditable financial statements. However, the most significant efficiencies and savings are resulting from FIAR improvements to business and financial operations through more effective and efficient processes, controls, and systems. Such improvements also enable the better the use of scarce resources by:

- Improving the visibility of budgetary transactions resulting in more effective use of resources,
- Providing for operational efficiencies through more readily available and accurate cost and financial information,
- Improving fiscal stewardship (ensures that funds appropriated, expended and recorded are reported accurately, reliably and timely), and
- Improving budget processes and controls (reduces the risk of Anti-deficiency Act violations).

CHARRTS No.: SHSGACFEDMGMTGOVT-03-026
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: USD(C) Hale
Question: #26

Question: The department is investing billions of dollars in the implementation of enterprise resource planning efforts in order to help transform its business operations and resolve some of its high-risk areas such as financial management. Given the importance of these systems, can the department achieve the 2017 date related to validating that the financial statements as ready for audit if the modernization of key business systems within the military departments continue to incur schedule slippages?

Answer: Modernizing the Department's business systems is a key aspect of our overall effort to achieve auditability. However, improved systems alone will not eliminate our weaknesses or guarantee auditable statements. Achieving auditability requires that we apply consistent levels of process controls that cross organizations and functional areas. Many elements of our current business environment must be changed to allow us to meet financial audit standards. So, while the Department is taking pro-active steps to more closely tie individual ERP programs with auditability outcomes, we are also focused on delivering audit ready processes and controls in concert with the ERP system implementations. As we approach audit readiness, we plan to assess the level of assurance we can cost-effectively obtain from legacy systems and then measure the relevant gap. That measurement will inform both our ongoing modernization efforts and our ability to cost-effectively achieve auditability.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00115 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.076

CHARRTS No.: SHSGACFEDMGMTGOVT-03-027
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: DCMO McGrath
Question: #27

Question: A repeating theme in the GAO reports as indicated by Mr. Asif Khan's testimony seems to be the impact of the Defense Finance Accounting Service's (DFAS) ability to exchange information efficiently and effectively with either the components or the auditors. GAO points out that the number of manual workarounds that DFAS is required to perform in order to perform day-to-day tasks for the Army's financial ERP, GFEBS, will be unsustainable as it goes into full deployment. a) Were significant manual workarounds anticipated for DFAS users to work in GFEBS? b) Why is this such a big challenge for DFAS and the Army? c) Are there similar issues with DFAS integration with the other Service's major ERPs such as the Air Force DEAMS?

Answer: Increased manual workarounds at DFAS are not a result of the ERP itself, but a result of introducing the ERP into an existing business environment that is categorized by highly fragmented legacy systems. Given the quality of the data in the legacy environment, the decision was made to not convert them to the ERP but to have a brown out phase with old data transacting through the legacy systems and new data transacting through the ERP. This mixed environment causes data to be stuck in systems and at interfacing points that have to be addressed manually. Over a period of time the legacy transactions will decline and reduce error transactions that need manual workarounds. In some cases, automated workarounds have been devised to improve the interaction between the new ERP systems and the legacy environment.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00116 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.077

CHARRTS No.: SHSGACFEDMGMTGOVT-03-028
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: DCMO McGrath
Question: #28

Question: As GAO points out, even DFAS's own financial systems, such as the Defense Department Reporting System (DDRS) and the Defense Cash Accountability System (DCAS) have some significant deficiencies to correct in order to support some necessary functions required by the audit. If these systems are not audit ready, it seems that they will hold up the progress of the rest of the components.a) How are updates and improvements to DoD-wide systems being resolved and how quickly will this be done?b) You were formerly the Director of Systems Integration at DFAS. From your perspective and experience, could any of these problems have been anticipated? Why or why not?

Answer: Identifying and correcting deficiencies in enterprise business systems, including those used by DFAS, is an integral part of the Financial Improvement and Audit Readiness (FIAR) efforts. As the Department works towards audit readiness, the Deputy Chief Management Officer and the Under Secretary of Defense (Comptroller) are facilitating collaboration between the Military Departments and their service providers to ensure that the people, processes and systems are sufficient to support the audit, and, where there are deficiencies, remediation actions are taking place. The next major audit readiness milestone is the ability to produce an audit ready Statement of Budgetary Resources for general funds by 2014. We anticipate correcting audit deficiencies for multiple enterprise systems, including DDRS and DCAS, as part of this milestone. In addition, we currently plan on having major audit deficiencies corrected for all enterprise business systems by 2017 for full audit readiness.

One of the significant challenges faced by the Department as we've deployed ERPs is effectively integrating the ERPs into business processes that are supported by both the ERPs and enterprise systems. While we did not fully anticipate all of the challenges associated with integrating the ERP systems with the enterprise systems, some were anticipated and planned for. Additionally, this has also been a learning process that has allowed the Department to identify the problems associated with integrating the ERPs with the Department's enterprise systems and remediate those problems as an integral part of the Department's audit readiness efforts.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00117 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.078

CHARRTS No.: SHSGACFEDMGMTGOVT-03-029
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: DCMO McGrath
Question: #29

Question: Even though being audit ready by 2017 is the goal that has been set, the real objective is not to pass one audit, but sustain auditability. The only way to do this effectively is to solve some of the underlying problems associated with poor financial management identified in the FIAR guidance and not to rely on quick fixes and herculean efforts to solve problems and meet goals in the short term. Considering their importance to the overall FIAR effort, this is also a concern as the pressure builds to fully deploy the ERPs. There has already been criticism of some of the ERPs regarding the number of interfaces or manual work-arounds that are required to fully integrate these systems into the current financial accounting environment. These systems were intended to solve a lot of these issues, not create more. How are you ensuring that the components are fixing the major weaknesses with long-term solutions and not addressing them simply with "quick fixes?"

Answer: The Department is fully committed to creating a business environment that can sustain auditability, both in its overall FIAR efforts and through our ERP implementations. The increased manual workarounds at DFAS that you mention are not a result of the ERP itself or other "quick fixes", but are a result of introducing the ERP into an existing business environment that is categorized by highly fragmented legacy systems. Given the quality of the data in the legacy environment, the decision was made to not convert them to the ERP but to have a brown out phase with old data transacting through the legacy systems and new data transacting through the ERP. This mixed environment causes data to be stuck in systems and at interfacing points that have to be addressed manually. Over a period of time the legacy transactions will decline and reduce error transactions that need manual workarounds.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-030
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: DCMO McGrath
Question: #30

Question: As part of former-Secretary Gates' initiatives to cut overhead costs and promote efficiencies within the Department, he specifically mentioned taking advantage of economies of scale in IT investments, consolidating these assets, centralizing processes, etc. A reason that the Business Transformation Agency (BTA) was established was to coordinate such an effort and facilitate standardization of business processes and procedures across DoD where appropriate and necessary. It has since been eliminated as part of cost cutting measures promoted by the former Secretary. a) As being "instrumental in the establishment of BTA in 2005," according to your bio, do you think this was a good idea? Why or why not? b) We have eliminated the Business Transformation Agency before "business transformation" was truly complete at the Department. How is BTA's elimination going to impact these important efforts across DoD? c) Do you think the impacts to broader enterprise-wide management improvements were considered during the deliberations to break up BTA and some of the other CIO functions? d) The responsibilities of BTA has been split up and absorbed under other various organizations at DoD, including your DCMO office. With the period of adjustment required for these offices and organizations to adjust to their expanded responsibilities and staff, will this cause further delay to the FIAR efforts?

Answer: The mission of the Business Transformation Agency (BTA), which is to guide the transformation of business operations throughout the Department of Defense and to deliver Enterprise-level capabilities that align to warfighter needs, remains valid and vital. The establishment of the position of the Deputy Chief Management officer (DCMO) in October 2008 created substantial overlap with the BTA. Therefore, it was determined that the business transformation mission could be most effectively achieved by incorporating its core functions into the Office of the DCMO. We believe that the ultimate impact to business transformation efforts at DoD will be a positive one and those impacts were considered during the decision to disestablish BTA. The Department does not believe that the disestablishment of the BTA will have an impact on the schedule of FIAR efforts.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-031
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: DCMO McGrath
Question: #31

Question: GAO reported that following the implementation of the Army's General Fund Enterprise Business System, approximately two-thirds of invoice and receipt data must be manually entered and that eventually this type of increasing amounts of repetitive data entry will become infeasible due to the amount of data that would need to be entered. In the Air Force system-the Defense Enterprise Accounting and Management system-workarounds are needed to process data, such as travel debts data. This seems to be a huge increase in data-entry costs following implementing a modern, billion dollar financial systems.- Please explain how you are working with the branches as they implement these very expensive systems to make them as efficient as possible, and make sure that these types of workaround and manual entries are not necessary?

Answer: Increased manual workarounds at DFAS are not a result of the ERP itself, but a result of introducing the ERP into an existing business environment that is categorized by highly fragmented legacy systems. Given the quality of the data in the legacy environment, the decision was made to not convert them to the ERP but to have a brown out phase with old data transacting through the legacy systems and new data transacting through the ERP. This mixed environment causes data to be stuck in systems and at interfacing points that have to be addressed manually. Over a period of time the legacy transactions will decline and reduce error transactions that need manual workarounds. In some cases, automated workarounds have been devised to improve the interaction between the new ERP systems and the legacy environment.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-032
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: DCMO McGrath
Question: #32

Question: Based upon language that was in one of the recent National Defense Authorization Acts, it is our understanding that the department commissioned with the Institute for Defense Analysis to perform analysis of the department's Enterprise Resource Planning (ERP) initiatives. Would you please provide a copy of the report to the Subcommittee staff and to GAO?

Answer: The study that you are referring to was commissioned by the Under Secretary of Defense (Comptroller) and his office will transmit the report to you under separate cover shortly.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-033
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #33

Question: The Air Force has invested hundreds of millions of dollars in the implementation of the Defense Enterprise Accounting and Management System-which is supposed to be the future general fund for the Air Force. It is our understanding there have been delays in this system's implementation.

a) What is the impact on the 2017 date for the Air Force?
b) What is the impact on the overall cost of the system?

Answer: The milestone B delay was the result of process considerations as DEAMS is a pilot for the recently approved Business Capability Lifecycle (BCL) approach to achieving the Department's business system acquisition reform objectives as a result of NDAA 2010. No delays on the 2017 deadline are anticipated. The overall costs of the system are still being evaluated with some indication that there will be a potential increase in near term costs, primarily due to accelerating fielding activities of the program. The delayed milestone decision has not negatively impacted the program's delivery schedule and work has continued to incrementally improve the fielded capability at Scott AFB preparatory to a decision to roll the system out to additional bases.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00121 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.082

CHARRTS No.: SHSGACFEDMGMTGOVT-03-034
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #34

Question: Last year the DOD Inspector General has raised concerns about the Army's Logistics Modernization Program (LMP) being not compliant with the U.S. Standard General Ledger, even though the department has invested over $1 billion in the implementation of LMP. It is our understanding the department anticipated resolving these problems around March 2011.

a) Have the issues been corrected and can LMP produce auditable financial statements for the Army Working Capital Fund?
b) If not when is it anticipated that this will occur?

Answer: The DoD-IG audit identified 42 missing general ledger accounts. Fourteen of the accounts are not required to support working capital fund activity transacted in LMP. The remaining 28 accounts have been added to the LMP chart of accounts to enable the manual postings. Business rules and posting logic have been developed and have been added to the LMP baseline in December 2011.

We will subject LMP, its feeder systems, and the encompassing business processes to the rigors of the OUSD(C) FIAR methodology to ensure the Army Working Capital Fund's financial statements are auditable by fiscal year 2017.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00122 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.083

CHARRTS No.: SHSGACFEDMGMTGOVT-03-035
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #35

Question: At the first and second LMP deployment locations, the Army used work-arounds in order continue the mission of these locations and minimize the impact on the warfighter until they could get LMP to operate as intended. a) Question: What is the overall cost to the Army of these work-arounds? Question: How much longer will these work-arounds continue at the first and second deployment locations? b) What is the overall impact of these work-arounds on the billing rates charged by the Army Working Capital Fund?

Answer: In LMP, the majority of workarounds were known prior to the fielding. Analyses were undertaken by the program office and the functional community (users) to determine the risks and benefits of deploying with a workaround rather than delaying deployment until the problem causing the workaround was fixed. The known list of workarounds was proactively managed and software updates were included in subsequent Releases (waves) eliminating workarounds required in previous deployments. According to the Army, some workarounds remain in the area of attendance/labor/production reporting driving the need for 160 personnel at a cost of $7.5M per year to support. This workaround will be eliminated with the Expanded Industrial Base release, which began design analysis and planning in December 2011.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-036
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #36

Question: It is our understanding that the department approved the reprogramming of several hundred million dollars for the Army General Fund Enterprise Business System in May 2011.
a) Question: Please explain why the reprogramming action was necessary for the system that has already obligated several hundred million dollars?
b) Where were these funds reprogrammed from?

Answer: The Army did not request approval for 'several hundreds of millions dollars' for the General Fund Enterprise Business System (GFEBS) program in FY2011.

The Army submitted a reprogramming action for $323M, FY 11-20 PA, in May 2011 requesting transfer of Defense Working Capital Funds (DWCF) to Operations and Maintenance, Army (OMA). GFEBS was referenced in the rationale for this request among several other requirements, e.g. Data Center Consolidation, Mass Transit, and Unemployment Compensation. The GFEBS' portion of the request was $30M. Subsequent to this reprogramming action, the GFEBS requirement was reduced and not funded from the DWCF transfer.

The GFEBS Program received a total of $12.2M additional funding in FY2011. These funds were all Operations and Maintenance, Army. $4M of these funds supported activities related to non-funded requirements supporting overall DoD/Army enterprise activities. $8M was provided in year-end funds to support additional Operations and Support activities associated with post-GFEBS deployment activities to support fielded installations. The GFEBS program remains on schedule and within its programmed acquisition costs.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-037
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #37

Question: It is our understanding that the department commissioned with the Institute for Defense Analysis to perform analysis of the department's ERPs. - Question: Would you please provide a copy of the report to the Subcommittee staff and to GAO?

Answer: The study that you are referring to was commissioned by the Under Secretary of Defense (Comptroller) and his office will transmit the report to you under separate cover shortly.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-038
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #38

Question: Ms. McGrath, during the recess my staff traveled to Tinker Air Force Base in Oklahoma to view the operations there. While there he was briefed on how the Air Force is partnering with Pratt and Whitney to refurbish engines. He was briefed on how Air Force employees were using a SAP Enterprise Resource Planning (ERP) system to perform the supply chain management regarding these engines. Apparently the adoption of this ERP by Air Force employees was relative quick and easy. This stands in stark contrast to the Air Force's many years and many billions of dollars in developing their two ERP systems. When my staff inquires why this is taking so long and so much money, they are told that the Air Force processes and requirements are 'different' and thus the private sector model is inapplicable to the Air Force's 'back-office' operations. It would seem that at least at Tinker this is not the case. My theory on this is that the employees at Tinker wanted the work that Pratt and Whitney could bring and thus the Air Force got their employees up to speed on Pratt's ERP in order to get more work for the depot. Under the current depot maintenance structure the Air Force can do this work either through the private sector or through the government-run depots.

- Does this anecdote show that the implementation of the Air Force's ERP's is taking entirely too long and spending too much money?
- Does it show that there is a lack of leadership emphasis on the importance of business process reengineering and change management by Air Force leaders?

Answer: The Air Force successfully partnered with Pratt & Whitney to perform narrow elements of overall Air Force supply chain management related to Tinker AFB engine support. In this commercially managed ERP, the Air Force's role is narrowly focused as an end user. While this is very important capability for the production worker on the depot floor at Tinker AFB, it is very different in size, scope and complexity from the broad based end-to-end logistics ERPs we are deploying across the department. It is also much different from the issue of providing necessary departmental oversight, business process re-engineering, development, test, configuration and sustainment for an overall ERP project. The Air Force has extensive change agent networks established in preparation of system rollout for the ERPs. The Air Force leadership is focused on successful implementation of ERPs within their business enterprise and has established an effective cross-functional governance venue and outcome measures to determine the progress made.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-039
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: DCMO McGrath
Question: #39

Question: Congress is hearing reports that the implementation of ERP systems has increased rather than decreased the workload at the Defense Finance and Accounting Service. After spending billions of dollars investing in these new systems, it is not apparent that they should create more work for DFAS which then is billed back to the military services.Is it technically possible for the new ERP systems to transact directly with the Treasury Department to perform disbursing operations? I understand that the Army is currently going through a pilot program with their General Fund Enterprise Business System. What is the status of that pilot program?

Answer: While the Army is currently using the General Fund Enterprise Business System (GFEBS) to pilot/test the feasibility of making payments directly from the Treasury to the payee, replacing many of the payment processes and systems currently employed by DFAS today, it is too early to estimate potential savings that could result from the pilot or what DFAS functions could be replaced by GFEBS in conjunction with Treasury disbursing. As part of the Department's audit readiness efforts, we will continue to evaluate this effort and determine whether it can potentially replace some DFAS processes and systems. There is a planned six month evaluation period at the conclusion of the pilot. This will include a full Cost-Benefit Analysis and Business Case. These will be used to determine if the Army should go forward with implementing the Treasury Disbursing capability Army-wide.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00126 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.087

CHARRTS No.: SHSGACFEDMGMTGOVT-03-040
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: ASN(FM&C) Commons
Question: #40

Question: A significant challenge with making the sweeping changes that are required to get DoD's financial house in order is the institutional resistance to change that is inherent, especially in such a large, complex organization such as DoD. This is probably also influenced by a relatively older accounting workforce, decades old legacy systems, and the legitimate priority given to the warfighting mission. With a career spent in the Navy financial services, what is your perspective on the challenges you have faced with this issue over the years and how are you are addressing it in your leadership role now in regards to audit readiness and business systems modernization efforts?

Answer: DON's financial management workforce is a highly motivated and dedicated cadre. However, departmental training in financial auditability has not been a priority in the past, as budgetary accounting has been the primary management focus. DON is currently working to schedule training in financial auditability during FY2012 in areas with large Navy-Marine Corps concentrations. Financial management professionals, regardless of their years served, are eager to gain this training as audit readiness becomes a more urgent priority.

DON's legacy accounting systems were not designed to do proprietary accounting; they were designed to perform "fund/budgetary" accounting functions -- to execute and report on commitments, obligations, and expenditures/disbursements. Implementing Navy ERP, with its stronger internal controls and emphasis on proprietary accounting, will be an improvement on the legacy environment. At the same time, we will assess legacy systems' control environment and their contribution to audit readiness; these systems will be improved to enable auditability, where feasible and cost-effective. Improvements will be essential, since in the near-term, approximately half of DON's obligational authority will still be executed in non-Navy-ERP legacy systems.

While supporting the warfighter remains the primary focus of DON's financial management, audit readiness is a priority recognized by DON's senior leaders. We have provided informational briefing to our leaders on both the civilian and military sides, and they recognize the added-value from audit readiness. Senior leaders have readily provided statements of support for DON's financial auditability goals; they recognize that these goals will require a team effort, across functional areas and at every level of seniority.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00127 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.088

CHARRTS No.: SHSGACFEDMGMTGOVT-03-041
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: ASN(FM&C) Commons
Question: #41

Question: In your testimony, you highlighted the benefits that the Marine Corps has already achieved as a result of its incomplete audit on its Statement of Budgetary Resources (SBR). No doubt the Navy and DoD has learned some valuable lessons from the Marine Corps experience. a) How are those lessons learned being shared with the broader DoD community?b) How can this information sharing process be improved so that the other services might get the full benefit of lessons learned from the Marine Corps and Navy audits?

Answer: DON has shared the lessons learned from the Marine Corps's SBR audit in a variety of forums. The Marine Corps joins the DoD Inspector General and the private firm conducting the audit in presenting these quarterly to the DON Audit Committee, at which the other Services have representatives. In addition, Marine Corps Audit Lessons Learned is a recurring topic in meetings of DoD's Financial Improvement and Audit Readiness (FIAR) governance structure – at monthly *F*IAR Subcomittee and FIAR Committee meetings attended by representatives from all of the Services, and at quarterly Governance Board meetings chaired by the DoD Comptroller.

Marine Corps audit managers also share their audit experiences with other Service representatives at periodic audit readiness conferences, such as the annual Department of the Navy and Department of the Army Audit Readiness Conferences, as well as the yearly American Society of Military Comptrollers Professional Development Institute. In addition, Marine Corps audit managers readily share their audit lessons learned in informal sessions with interested representatives from DoD and the other Services.

As this information is available at a variety of forums and is updated throughout the year as the SBR audit progresses, there are ample opportunities for Department of Defense managers to obtain these lessons learned. However, we in DON recognize that heightened communications with other DON/ DoD organizations are necessary as audit readiness milestones approach. We are working to provide more training in and greater access to auditability reference materials, such as Audit Lessons Learned.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00128 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.089

CHARRTS No.: SHSGACFEDMGMTGOVT-03-042
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASN(FM&C) Commons
Question: #42

Question: The Department of the Navy's fiscal year 2010 financial statement disclosures show $1.4 billion (Navy) and $2.6 billion (USMC) in unreconciled adjustments. Can you tell us what these adjustments are and how they affect auditability and the ability to make good financial decisions at the Navy?

Answer: Both the DON adjustment and the USMC adjustment were successfully reconciled. Of the $1.4 billion, 80% of the adjustments results from a reporting convention difference between DON and Treasury: Cancelled authority is not reported on DON statements but is included in Treasury's balance. The remainder of the reconciling items results from differences in trust receipts, savings deposit program, and appropriations that Navy and Marine Corps share. The $1.4 billion in adjustments are explained in the FY2010 DON Annual Financial Report, Note 3 to the General Fund Statements.

Ninety-eight percent (or, $2.54B) of the Marine Corps total reconciled difference of $2.6B results from a second DON/Treasury reporting convention difference: Treasury does not recognize Navy-Marine Corps shared appropriations, such as Procurement of Ammunition, Navy and Marine Corps (PANMC), and thus does not include this authority in the Marine Corps balance. The rest of the Marine Corps adjustments comprise suspense accounts and the savings deposit program.

Causes of these reconciling items will be addressed during the DON SBR Assertion process, as the Financial Statement Compilation and Reporting Process is assessed for audit readiness. However, the causes of most of the adjustment totals are differences in reporting conventions between DON and Treasury. These policy differences will be documented in the SBR assertion process.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-043
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASN(FM&C) Commons
Question: #43

Question: The Department of the Navy asserted that civilian pay was ready for audit even after control testing indicated 9 out of 13 controls were ineffective. Based on those findings, how did you decide controls were operating effectively as part of your assertion of auditability.

Answer: The FY2010 DON Civilian Pay assertion package stated that although nine of thirteen key controls were deemed ineffective, there was sufficient evidence to give management assurance that civilian pay totals were fairly stated. The assertion package presented substantive evidence that for the period considered, the proper employees were paid the proper amounts, and these amounts were properly recorded in the accounting systems.

However, it is clear that the evidence gathered by DON to substantiate the assertion package was not to the level of rigor required by the Financial Improvement and Audit Readiness (FIAR) Guidance, which was published after the DON Civilian Pay Assertion. This point was made in post-assertion reviews by the FIAR Directorate, the Department of Defense Inspector General, and the Government Accountability Office. For example, DON should have conducted more extensive transaction testing, given the immature civilian payroll control environment. Information systems controls should have been assessed more extensively for effectiveness. Also, a corrective action plan should have been documented. DON has targeted 30 June 2012 to submit its updated Civilian Pay assertion package, as part of its auditability plan.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-044
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASN(FM&C) Commons
Question: #44

Question: The Government Accountability Office (GAO) stated that the Navy did not show sufficient proof of its claim that it was ready to be audited in regards to civilian pay. They also said that controls were not tested or sufficiently documented.Do you agree with the GAO in this finding? If not, why not?

Answer: We agree with the Government Accountability Office that more extensive controls testing should have been conducted. DON will re-perform its Civilian Pay business process assessment in accordance with DoD's FIAR Guidance; the target date for the resulting management assertion is 30 June 2012.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00130 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.091

CHARRTS No.: SHSGACFEDMGMTGOVT-03-045
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ADC(P&R) Spangler
Question: #45

Question: GAO reported on instances when payments are made before the government can confirm that goods and services have been received. Has the Marine Corps fixed this problem? Please provide a detailed explanation of what steps were taken to improve the controls to make sure the Marine Corps is only paying for goods and services that have been delivered? Who has validated that this correction has been made? And if not, what is the timeframe to get all of the corrective actions reviewed by the auditors or the Inspector General?

Answer: While I am unfamiliar with any specific allegations, recent audit results for FY 2010 indicate all payments made to commercial vendors are accurate and proper and receipt of goods or services is confirmed prior to authorizing payment. The fiscal year 2010 General Fund Statement of Budgetary Resources (SBR) audit did not find any instances where the Marine Corps made payments for goods and services to commercial vendors prior to receipt of those goods or services, or for any goods or services that were not received. While the current audit of fiscal year 2011 is still ongoing, the Marine Corps expects our processes and procedures for payments to be validated as part of this independent audit effort. These ongoing audit efforts are validating all remediation efforts resolving payments across the spectrum of our financial portfolio.

Of possible concern may have been transactions within intergovernmental agencies. Regarding transactions with another government entity, the Marine Corps is in compliance with the Treasury Financial Manual (TFM) and Department of Defense Financial Management Regulation (DoDFMR). The Treasury process for intra-governmental billing and collection is known as Intra-Governmental Payment and Collections (IPAC). Per this guidance:

> *IPAC transactions are rendered for services purchased or supplies shipped. An agency should not consider a charge erroneous simply because it receives the billing statement before the supplies. If the agency subsequently finds that the charge is erroneous, it should make the adjustment at that time. However, the agency is limited to 90 days, upon receipt or sending of its IPAC transaction, to process the adjustment.*

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00131 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.092

CHARRTS No.: SHSGACFEDMGMTGOVT-03-046
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Brown
Witness: ASA(FM&C) Matiella
Question: #46

Question: A repeating theme in the GAO reports as indicated in Mr. Asif Khan's testimony seems to be the impact of the Defense Finance Accounting Service's (DFAS) ability to exchange information efficiently and effectively with either the components or auditors. a) As a longtime DFAS veteran, how has this informed your experience with the working relationship between DFAS and the Army in regards to audit readiness? b) What are your concerns regarding the interaction that is required and the impact that the Army's audit readiness has by potential problems at DFAS? c) Do you think a lot of these challenges could have been foreseeable and addressed earlier? d) What is the Army doing on its end to ensure that it has adequate processes and procedures to interact with DFAS effectively in regards to its audit readiness efforts?

Answer: : a) My experience at DFAS has contributed significantly to my ability to manage the Army's relationship with DFAS, specifically how DFAS supports the Army's operational and audit readiness requirements. The Army and DFAS have a strong partnership.

b) I am confident that the Army is working well with DFAS to mitigate any potential problems at DFAS that might impact the Army's audit readiness. In addition, OUSD(C) provides critical direction and oversight to the DoD's Service Providers, such as DFAS, to ensure the Military Services' audit readiness goals are supported and met by the Service Provider entities.

c) The Army and DFAS have audit readiness plans employing the Department's Financial Improvement and Audit Readiness (FIAR) guidelines. The plans identify the challenges and barriers to a clean audit and provide the corrective actions required to overcome these problems. I am confident that working within the Department's FIAR construct will enable us to identify the challenges to a clean audit and the necessary corrective actions.

d) The Army and DFAS have jointly developed integrated business process maps that identify the key business processes and procedures within specific business areas. These business process maps provide an end-to-end picture of the interactions between Army and DFAS. The process maps identify the areas of interaction between Army and DFAS and provide a solid mechanism to manage these 'touch points' effectively.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00132 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.093

CHARRTS No.: SHSGACFEDMGMTGOVT-03-047
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASA(FM&C) Matiella
Question: #47

Question: Last year the DOD Inspector General has raised concerns about the Army's Logistics Modernization Program (LMP) being not compliant with the U.S. Standard General Ledger, even though the department has invested over $1 billion in the implementation of LMP.- Please explain how the department can invest over $1 billion in a system, such as LMP, that is not compliant with the U.S. Standard General Ledger.- It is our understanding the department anticipated resolving these problems around March 2011. Have the issues been corrected and can LMP produce auditable financial statements for the Army Working Capital Fund? If not when is it anticipated that this will occur?

Answer: The DoD-IG audit identified 42 missing general ledger accounts. Fourteen of the accounts are not required to support working capital fund activity transacted in LMP. The remaining 28 accounts have been added to the LMP chart of accounts to enable the manual postings. Business rules and posting logic have been developed and will be added to the LMP baseline in December 2011.

We will subject LMP, its feeder systems, and the encompassing business processes to the rigors of the OUSD(C) FIAR methodology to ensure the Army Working Capital Fund's financial statements are auditable by fiscal year 2017.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00133 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.094

CHARRTS No.: SHSGACFEDMGMTGOVT-03-048
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASA(FM&C) Matiella
Question: #48

Question: At the first and second LMP deployment locations, the Army used work-arounds in order continue the mission of these locations and minimize the impact on the war fighter until they could get LMP to operate as intended.- What is the overall cost to the Army of these work-arounds?- How much longer will these work-arounds continue at the first and second deployment locations?- What is the overall impact of these work-arounds on the billing rates charged by the Army Working Capital Fund?

Answer: In LMP the majority of workarounds were known prior to the fielding. Analyses were undertaken to determine the risks and benefits of deploying with a workaround rather than delaying deployment until the problem causing the workaround was fixed. LMP was deployed in three waves; each wave included software upgrades eliminating workarounds required in previous deployments. There is, however, at least one workaround related to time and attendance/labor/production reporting driving the need for 160 personnel at a cost of $7.5M per year to support. This workaround will be eliminated with the Enhanced Industrial Base release scheduled to begin on December 29, 2011.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-049
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASA(FM&C) Matiella
Question: #49

Question: It is our understanding that the department approved the reprogramming of several hundred million dollars for the Army General Fund Enterprise Business System in May 2011.- Please explain why the reprogramming action was necessary for the system that has already obligated several hundred million dollars? Where were these funds reprogrammed from?

Answer: The Army did not request approval for 'several hundreds of millions dollars' for the General Fund Enterprise Business System (GFEBS) program in FY2011.

The Army submitted a reprogramming action for $323M, FY 11-20 PA, in May 2011 requesting transfer of Defense Working Capital Funds (DWCF) to Operations and Maintenance, Army (OMA). GFEBS was referenced in the rationale for this request among several other requirements, e.g. Data Center Consolidation, Mass Transit, and Unemployment Compensation. The GFEBS' portion of the request was $30M. Subsequent to this reprogramming action, the GFEBS requirement was reduced and not funded from the DWCF transfer.

The GFEBS Program received a total of $12.2M additional funding in FY2011. These funds were all Operations and Maintenance, Army. $4M of these funds supported activities related to non-funded requirements supporting overall DoD/Army enterprise activities. $8M was provided in year-end funds to support additional Operations and Support activities associated with post-GFEBS deployment activities to support fielded installations. The GFEBS program remains on schedule and within its programmed acquisition costs.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-050
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASA(FM&C) Matiella
Question: #50

Question: Last year the DOD Inspector General has raised concerns about the Army's Logistics Modernization Program (LMP) being not compliant with the U.S. Standard General Ledger, even though the department has invested over $1 billion in the implementation of LMP. It is our understanding the department anticipated resolving these problems around March 2011. aHave the issues been corrected and can LMP produce auditable financial statements for the Army Working Capital Fund? bIf not when is it anticipated that this will occur?

Answer: The DoD-IG audit identified 42 missing general ledger accounts. Fourteen of the accounts are not required to support working capital fund activity transacted in LMP. The remaining 28 accounts have been added to the LMP chart of accounts to enable the manual postings. Business rules and posting logic have been developed and will be added to the LMP baseline in December 2011.

We will subject LMP, its feeder systems, and the encompassing business processes to the rigors of the OUSD(C) FIAR methodology to ensure the Army Working Capital Fund's financial statements are auditable by fiscal year 2017

CHARRTS No.: SHSGACFEDMGMTGOVT-03-051
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASA(FM&C) Matiella
Question: #51

Question: The full deployment decision for the Army's Global Combat Support System Enterprise Resource Planning system is now FY2017 according to the FIAR plan. Will the Army be able to achieve auditability without GCSS-Army being implemented?

Answer: The Army's audit readiness plan leverages all Army ERPs to achieve and sustain an auditable business environment. GCSS-Army will have substantially deployed the necessary functionality to support the Army General Fund Statement of Budgetary Resources assertion in 2014. The program will deploy additional functionality beginning in 2015 to support the Army's audit readiness assertion for all financial statements by 2017.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00136 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.097

CHARRTS No.: SHSGACFEDMGMTGOVT-03-052
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASA(FM&C) Matiella
Question: #52

Question: In the hearing you stated that in your prior work with DFAS that a great deal of work had to be done to reconcile transactions with the legacy financial systems. However, Congress is hearing reports that the adoption of modern ERP systems is creating extra work at DFAS and that manual workarounds are still being performed in order to reconcile transactions. Is this true? If so, why does the adoption of a modern, automated, compliant ERP system not lead to a reduced workload for DFAS? Is it technically possible for the Army's ERP systems to directly transact with the Treasury Department and bypass DFAS? Do other federal agency ERP systems communicate directly with Treasury? I understand there is a pilot program underway with the General Fund Enterprise Business System (GFEBS) to determine if it can communicate directly with Treasury. What is the status of this pilot project?

Answer: ERPs require a higher level of discipline and precision in transaction processing than users were accustomed to in operating the legacy systems the ERPs are replacing. This increased precision enables auditable transactions. Consequently, ERP users may experience some short-term decreased productivity while adjusting to the new, disciplined business environment. However, within 12 to 24 months, users experience productivity gains that significantly exceed productivity and precision in the legacy environment. We are sensitive to these 'learning curve' issues and are providing substantial training for initial users and refresher training for more seasoned users.

SAP, the Commercial Off-The-Shelf (COTS) solution employed by the Army's financial and logistics ERP systems, includes standard functionality to create Ready-to-Pay Files and other reports and transactions associated with disbursements (such as disbursement clearing and exception processing) that can be accepted directly by Treasury. This direct disbursement integration with Treasury will bypass a DFAS custom developed system, the Automated Disbursing System (ADS), and reduce the amount of steps in the cash reconciliation process.

Numerous Federal agencies employ ERP systems that interface directly with Treasury. The baseline solution that supports the Army ERP is currently used by other government agencies such as NASA, IRS, CBP, USDA, DOI, and Coast Guard to integrate directly with Treasury. The Army has consulted with these agencies and has benefited from their experiences. For example, the Army has held extensive discussions with Customs and Border Patrol (CBP) about their business processes and the efficiencies that agency gained by disbursing directly through Treasury. The Army is leveraging CBP's experience while implementing the Army's Treasury Disbursing capability.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00137 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.098

As part of its Procure-to-Pay (P2P) Pilot, the Army is using GFEBS to test the feasibility of communicating payment transactions directly to Treasury and thus from Treasury directly to the payee, replacing some of the legacy payment processes and systems currently performed by DFAS. The portion of the pilot for Treasury Disbursing is scheduled to "Go Live" in December 2011 at a single Army location - Fort Jackson, South Carolina for a six month test period. Once the six month period is complete, the Army will evaluate the pilot results, and report back through its Business Systems Information Technology governance processes and the DoD Investment Review Board to determine next steps for expanding this capability.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-001
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASAF(FM&C) Morin
Question: #1

Question: The Department has invested several hundred of millions of dollars in the development of the Air Force Expeditionary Combat Support System, but yet the system is only providing very limited capability at only one location--Why is the department continuing to invest hundreds of millions of dollars in this system? For the record please provided the amount of funds that have been invested as of September 30, 2011 and the average number of daily transactions process by the system.

Answer:
Q1: The Department has invested several hundred of millions of dollars in the development of the Air Force Expeditionary Combat Support System, but yet the system is only providing very limited capability at only one location. Why is the department continuing to invest hundreds of millions of dollars in this system?

A1: The ECSS capability is intended to replace 240+ legacy logistics information technology systems originally fielded in the 1970s. In 2005 the Air Force determined the most economical approach to logistics transformation is to acquire an Enterprise Resource Planning (ERP) commercial off the shelf (COTS) product. In addition, ECSS is a component of the Air Force's plan to achieve Financial Improvement and Audit Readiness by 2017, as required by statute. The COTS-based ERP strategy has been reviewed several times since 2006, most recently by McKinsey and Company in April 2010. McKinsey and Co. reaffirmed the COTS-based ERP based solutions as the best approach to fielding the ECSS capabilities and meeting the statutory audit compliance requirements. Unfortunately the program has not delivered upon established cost and schedule expectations. As a result, on September 15, 2011, the Milestone Decision Authority (Under Secretary of Defense for Acquisition Logistics and Technology (USD/AT&L)) convened an assessment team to define and evaluate options for Air Force logistics transformation (including financial system compliance) while building on previous analysis. The Assessment Team's report is expected to complete in Fall 2011 and will be presented to the MDA for a decision on the most appropriate course of action.

Q2: For the record please provide the amount of funds that have been invested as of September 30, 2011

A2: Expenditure rates reflect a total Air Force investment of $897.8M as of September 30, 2011.

Q3: For the record please provide the average number of daily transactions process by the system.

A3: The ECSS system is not fully deployed, however, the tool/vehicle/equipment management pilots at Hanscom Air Force Base average 246 daily transactions.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-002
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASAF(FM&C) Morin
Question: #2

Question: The date for the full implementation of the Expeditionary Combat Support System to has slipped by at least 4 years and the life cycle cost estimate has increased over $2 billion. Please identify the specific reason for the schedule slippage and cost increase. Because of the schedule slippage what is the annual cost being incurred by the Air Force to operate and maintain the legacy systems that ECSS was intended to replace? What impact will the schedule slippage and cost increase of the Expeditionary Combat Support System have on the billing rates for the Working Capital Fund customers? What impact will the schedule slippage have on the Air Force's ability to meet the 2017 auditability mandate?

Answer:
Q1: Please identify the specific reason for the schedule slippage and cost increase.

A1: The schedule for ECSS implementation has slipped for several reasons. First, the program was interrupted by two protests (November 2005 and September 2006) resulting in a delay of approximately 18 months. Second, the ECSS schedule was also delayed 12 months due to technical integration issues experienced when the program transitioned to an all-Oracle product suite. This transition led to restructure of the System Integrator (SI) contract during CY09. This restructure established an additional increment plus piloting and new training efforts, which constituted the primary drivers increasing total program cost. Secondary cost drivers were the November 2007 decision to purchase automated information technology hardware in support of mobile supply disconnected operations and additional new requirements for Product Lifecycle Management, logistics financials, and data cleansing, which were identified in 2008. To be clear, the cost estimate increase stated in the question represents the difference from the pre-Milestone A, 2005 cost estimate and the 2011 cost estimate performed as part of the Critical Change Report. In addition, the SI contractor is currently underperforming on Increment 1 Pilot C development & testing, equating to an approximate six month schedule delay, however the Air Force's cost exposure to this delay is constrained by a firm-fixed price contract. As a result of the SI contractor's underperformance, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) issued an Acquisition Decision Memorandum directing the Air Force to complete development of Pilot C, suspend work on Pilot D, and assess alternative paths ahead for the program. That assessment is currently ongoing and is expected to be concluded in December 2011.

Q2: Because of the schedule slippage what is the annual cost being incurred by the Air Force to operate and maintain the legacy systems that ECSS was intended to replace?

A2: Due to delays in ECSS schedule, the Air Force will incur approximately $275M to sustain logistics legacy information systems in FY12. The Air Force expects this number to increase in future years until ECSS subsumes those systems.

Q3: What impact will the schedule slippage and cost increase of the Expeditionary Combat Support System have on the billing rates for the Working Capital Fund customers?

A3: The rates are set to recover full costs of the program and those costs are influenced by decisions made by the Air Force Corporate Structure. Impact to rates will be the delta between current legacy sustainment costs to Oracle (ECSS) sustainment costs.

Q4: What impact will the schedule slippage have on the Air Force's ability to meet the 2017 auditability mandate?

A4: The Air Force is committed to meeting the 2017 audit mandate for all financial statements as well as the earlier 2014 goal for the Air Force General Fund Statement of Budgetary Resources. We are taking a comprehensive look at our current environment to identify system and process controls to satisfy audit requirements until ECSS is implemented, but acknowledge that there are risks involved in achieving both deadlines.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-003
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: ASAF(FM&C) Morin
Question: #3

Question: The Air Force has invested hundreds of millions of dollars in the implementation of the Defense Enterprise Accounting and Management System-which is supposed to be the future general fund for the Air Force. It is our understanding the milestone B for the schedule was scheduled to occur in August 2001, but has now been postponed to around December 2011.- Please explain why the schedule continues to slip for this system? What is the impact on the 2017 audit ready data for the Air Force? What is the impact on the overall cost of the system?

Answer: The milestone B event for DEAMS had been scheduled for August 2011 and subsequently delayed until December 2011. This is the result of process considerations as DEAMS is a pilot for the recently approved Business Capability Lifecycle (BCL) approach to achieving the Department's business system acquisition reform objectives as a result of NDAA 2010. No delays on the 2017 deadline are anticipated. The overall costs of the system are still being evaluated with some early indications that there will be a potential increase in near term costs. The increases would primarily be due to accelerating near term fielding activities of the program. The delayed milestone decision has not negatively impacted the program's delivery schedule and work has continued to incrementally improve the fielded capability at Scott AFB preparatory to a decision to roll the system out to additional bases.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-004
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASAF(FM&C) Morin
Question: #4

Question: What lessons are you learning from the Marine Corps they go through their attempts to get a clean audit of their Statement of Budgetary Resources?

Answer: The Air Force views the Marine Corps audit experience as a valuable tool to prepare for our audit of the General Funds Statement of Budgetary Resources in 2014. Our audit readiness team received copies of the USMC audit report and considers these findings as we identify required controls, standard accounting principles, and reconciliations. The Air Force noted that the USMC audit report from 2010 identified 12 accounting type issues and 57 issues related to systems/IT. These covered issues ranging from password management to reconciliations between systems. As a result, the Air Force is updating our audit readiness plan to place additional emphasis on legacy and feeder system controls.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-005
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASAF(FM&C) Morin
Question: #5

Question: Can Congress expect that the Air Force will not make the same errors as the Air Force?

Answer: The Air Force meets with the OSD FIAR Directorate and members of the audit readiness teams from the other services to share lessons learned and exchange ideas on ways to accelerate audit readiness and reduce the risk of mistakes. We anticipate learning many lessons from our counterparts across the department and through our examinations as we proceed to audit readiness.

CHARRTS No.: SHSGACFEDMGMTGOVT-03-006
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASAF(FM&C) Morin
Question: #6

Question: The Government Accountability Office (GAO) stated that the Air Force did not show sufficient proof of its claim that it was ready to be audited in regards to existence and completeness of military equipment. They also said that controls were not tested or sufficiently documented. Do you agree with the GAO in this finding? If not, why not?

Answer: The Air Force disagrees with this finding. The Air Force considered the nature of the assets and operational controls and balanced this with the cost in both time and money in determining the extent of testing. For example, the Air Force documented inventory control procedures and relied on program office attestations regarding the accuracy of inventory counts for ICBMs. The Air Force is confident that the risk of loss of these assets is negligible and would be immediately apparent.

The Air Force identified issues with Satellite records and included corrective actions that have since been implemented. The Air Force recognizes the importance of progress and believes that working corrective actions through the assertion examination process is an effective use of resources and does not result in excessive risk, given that the assertion and examination process is a part of management's effort to assess audit readiness, which is itself a prelude to a full audit. The Air Force will not submit an assertion package unless it is confident that all material corrective actions have either been implemented or will be implemented by the time an independent examination is due to take place.

H605-41331-79W7 with DISTILLER

72479.105

CHARRTS No.: SHSGACFEDMGMTGOVT-03-007
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASAF(FM&C) Morin
Question: #7

Question: The Air Force has invested hundreds of millions of dollars in the implementation of the Defense Enterprise Accounting and Management System-which is supposed to be the future general fund for the Air Force. It is our understanding there have been delays in this system's implementation. a) What is the impact on the 2017 audit deadline for the Air Force? b) What is the impact on the overall cost of the system?

Answer: The milestone B event for DEAMS had been scheduled for August 2011 and subsequently delayed until December 2011. This is the result of process considerations as DEAMS is a pilot for the recently approved Business Capability Lifecycle (BCL) approach to achieving the Department's business system acquisition reform objectives as a result of NDAA 2010. No delays on the 2017 deadline are anticipated. The overall costs of the system are still being evaluated with some early indications that there will be a potential increase in near term costs. The increases would primarily be due to accelerating near term fielding activities of the program. The delayed milestone decision has not negatively impacted the program's delivery schedule and work has continued to incrementally improve the fielded capability at Scott AFB preparatory to a decision to roll the system out to additional bases.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00145 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.106

CHARRTS No.: SHSGACFEDMGMTGOVT-03-008
Hearing Date: September 15, 2011
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: ASAF(FM&C) Morin
Question: #8

Question: Dr. Morin, during the recess my staff traveled to Tinker Air Force Base in Oklahoma to view the operations there. While there he was briefed on how the Air Force is partnering with Pratt and Whitney to refurbish engines. He was briefed on how Air Force employees were using a SAP Enterprise Resource Planning (ERP) system to perform the supply chain management regarding these engines. Apparently the adoption of this ERP by Air Force employees was relative quick and easy. This stands in stark contrast to the Air Force's many years and many billions of dollars in developing their two ERP systems. When my staff inquires why this is taking so long and so much money, they are told that the Air Force processes and requirements are 'different' and thus the private sector model is inapplicable to the Air Force's 'back-office' operations. It would seem that at least at Tinker this is not the case. My hypothesis on this is that the employees at Tinker wanted the work that Pratt and Whitney could bring and thus the Air Force got their employees up to speed on Pratt's ERP in order to get more work for the depot. Under the current depot maintenance structure the Air Force can do this work either through the private sector or through the government-run depots. Does this anecdote show that the implementation of the Air Force's ERP's is taking entirely too long and spending too much money? Does it show that there is a lack of leadership emphasis on the importance of business process reengineering and change management by Air Force leaders?

Answer: The Air Force successfully partnered with Pratt & Whitney to perform narrow elements of overall Air Force supply chain management related to Tinker AFB engine support. In this commercially managed ERP, the Air Force's role is narrowly focused as an end user. This is much different from the role of providing necessary departmental oversight, business process re-engineering, development, test, configuration and sustainment for an overall ERP project. The Air Force has extensive change agent networks established in preparation of system rollout for the ERPs. The need for the Air Force ERPs has been well documented and supported by Air Force senior leadership, and the Air Force remains committed to these programs to improve our business processes. Nevertheless, the Air Force is committed to learning from successful and unsuccessful commercial implementations of ERP software.

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00146 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.107

United States Government Accountability Office
Washington, DC 20548

November 30, 2011

The Honorable Scott P. Brown
Ranking Member,
Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Response to Posthearing Questions Related to GAO's September 15, 2011 Testimony on the Department of Defense Financial Management*

Dear Senator Brown:

On September 15, 2011, I testified before your Subcommittee on the Department of Defense's ongoing challenges in implementing the Financial Improvement and Audit Readiness Plan.[1] This letter responds to questions that you asked us to answer for the record. Enclosure I contains the questions and our responses.

If you or your staff have questions about our response, please contact me at (202) 512-9869, or khana@gao.gov.

Sincerely yours,

Asif A Khan

Asif A. Khan
Director, Financial Management and Assurance

Cc: The Honorable Thomas R. Carper

Enclosure

[1]GAO, *DOD Financial Management: Ongoing Challenges in Implementing the Financial Improvement and Audit Readiness Plan*, GAO-11-932T (Washington, D.C.: Sept. 15, 2011).

Enclosure I

Post-Hearing Questions for the Record
Submitted to Asif Khan (GAO)
From Senator Scott P. Brown

"Improving Financial Accountability at the Department of Defense"
September 15, 2011

1) **The Marine Corps asserted audit readiness for its Statement of Budgetary Resources (SBR) in 2008, started an audit in 2010 that was ultimately unsuccessful, and we are now told that it will probably be 2012/2013 before the Marine Corps SBR can reasonably achieve a clean opinion. This is just one part of the audit for one service and the smallest one at that. With the Marine Corps being the first out of the gate, it is assumed that the learning curve is much steeper at the beginning.**

   a. **However, considering that the entire department is supposed to be audit ready by 2017, what concerns do you have about the time it will take between asserting audit readiness and actually receiving a clean audit opinion.**

   b. **Even considering that the entire department is audit "ready" by 2017, when do you think we could reasonably expect a clean opinion for the department?**

The National Defense Authorization Act for Fiscal Year 2010 required the Department of Defense (DOD) to ensure its financial statements are validated as ready for audit by not later than September 30, 2017. As we stated in our September 2011 report,[2] DOD's Financial Improvement and Audit Readiness (FIAR) Guidance incorporates applicable auditing, internal control, and information systems security control audit standards that the DOD components must apply in assessing their audit readiness, and, as such, it provides a reasonable methodology for achieving financial improvement and audit readiness. If DOD components properly implement the FIAR Guidance for each of their financial statement line items and related processes, it is reasonable to expect that they could achieve an audit opinion for those line items and processes within a reasonable time thereafter. However, experience has shown that a DOD component may incorrectly assert audit readiness and could go through multiple attempts to achieve validation because it did not properly follow the FIAR Guidance. Moreover, weaknesses in the audit readiness assertion and validation process can result in multiple attempts to successfully conduct a first-time audit. For example, the Marine Corps first asserted audit readiness of its Statement of Budgetary Resources in September 2008, and decided in 2010 to proceed with an audit of its fiscal year 2010 Statement, but was not able to complete an audit and is not yet able to complete an audit of its fiscal year 2011 Statement due to inadequate documentation of transactions and numerous internal control deficiencies. During fiscal year 2011, however, the Marine Corps was able to demonstrate progress toward auditability. For example, its auditors confirmed that as of October 2011, the Marine Corps had fully implemented 50 out of 139 fiscal year 2010 audit recommendations.

---

[2] GAO, *DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Effort*, GAO-11-851 (Washington, D.C.: Sept. 13, 2011).

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00148 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.109

Enclosure I

The key to achieving auditability, also reflected in our September 2011 report, is to ensure that the FIAR Guidance is carried out by having adequate resources and expertise, and effective oversight and monitoring of the implementation process throughout DOD.

However, as we also reported, DOD's schedule for completing the audit readiness process for all of the DOD-wide and component financial statement line items and processes is not yet complete. As a result, even if DOD can effectively implement the FIAR Guidance for those line items and processes for which DOD components have established a schedule, we cannot yet assess how long the entire process might take or how the department plans to meet its overall audit readiness goals.

2) **Even though being audit ready by 2017 is the goal that has been set, the real objective is not to pass one audit, but sustain auditability. The only way to do this effectively is to solve some of the underlying problems associated with poor financial management identified in the FIAR guidance and not to rely on quick fixes and herculean efforts to solve problems and meet goals in the short term. In your testimony, you discuss this issue and your related concerns regarding the Marine Corps SBR audit. What are your concerns with corrective actions being taken to address deficiencies in the FIAR process and the risk of relying on quick fixes as the pressure builds towards the 2017 deadline?**

While the FIAR Guidance provides a reasonable methodology for not only achieving, but sustaining auditability, we are concerned that to meet the September 30, 2017 deadline, DOD and its components might increasingly feel the need to resort to quick fixes to meet that deadline. To some extent, a high level of effort, including some short-term fixes for deficiencies, may be expected in the first few years of an audit; however, management must ensure these efforts are only a stop-gap measure. Such efforts are typically inefficient and are not likely to address the root causes of financial management deficiencies; short-term solutions tend to focus on detecting and correcting errors rather than preventing them in the first place. For example, we found that many of the Marine Corps's corrective actions relied on monitoring, which is a detective control, and high-level initial fixes that did not address root causes. Even though the SBR auditors made many recommendations to correct weaknesses they identified, the Marine Corps's responses included a number of actions that were inconsistent with the recommendations. However, as noted above, the Marine Corps fully implemented 50 of the auditors' recommendations.

As we testified earlier this year,[3] the department must address a number of key challenges to ensure that it not only meets its audit-readiness deadlines, but that it

[3] GAO, *DOD Financial Management: Numerous Challenges Must Be Addressed to Improve Reliability of Financial Information*, GAO-11-835T (Washington, D.C.: July 27, 2011) and GAO, *DOD Financial Management: Improved Controls, Processes, and Systems Are Needed for Accurate and Reliable Financial Information*, GAO-11-933T (Washington, D.C.: Sept. 23, 2011).

H605-41331-79W7 with DISTILLER
VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00149 Fmt 6601 Sfmt 6601 P:\DOCS\72479.TXT JOYCE
72479.110

genuinely improves its financial management operations so that auditability can be sustained. These key challenges include the following:

- Committed and sustained leadership
- An effective plan to correct internal control weaknesses
- A competent financial management workforce
- Accountability and effective oversight
- Well-defined enterprise architecture
- Successful implementation of the enterprise resource planning (ERP) systems

3) As part of former-Secretary Gates' initiatives to cut overhead costs and promote efficiencies within the Department, he specifically mentioned taking advantage of economies of scale in IT investments, consolidating these assets, centralizing processes, etc. A reason that the Business Transformation Agency (BTA) was established was to coordinate such an effort and facilitate standardization of business processes and procedures across DoD where appropriate and necessary. It has since been eliminated as part of cost cutting measures promoted by the former Secretary. Had BTA served its purpose or not been an effective model (i.e., was this a good idea in your opinion?)? What are your concerns with the elimination of BTA?

The functions that BTA carried out are important for managing DOD's IT investments. We have not yet reviewed DOD's plans for disestablishing BTA, but the former Secretary stated that BTA's functions would be reviewed and transferred to other DOD organizations as appropriate. In our recent report,[4] we noted that DOD had not yet finalized these transition plans and as a result, investment management implementation efforts had been delayed. To address the uncertainty and pending decisions, we recommended that the Secretary of Defense expeditiously complete the transfer of BTA functions, including specificity as to when and where these functions are transferred. We plan to review the status of this effort in an upcoming engagement.

[4] GAO, *Department of Defense: Further Actions Needed to Institutionalize Key Business System Modernization Management Controls*, GAO-11-684 (Washington, D.C.: June 29, 2011).

H605-41331-79W7 with DISTILLER

VerDate Nov 24 2008 12:16 Jun 25, 2012 Jkt 072479 PO 00000 Frm 00150 Fmt 6601 Sfmt 6011 P:\DOCS\72479.TXT JOYCE

72479.111