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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

OF THE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 29, 2010

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IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

WEDNESDAY, SEPTEMBER 29, 2010

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 2:37 p.m., in room 342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, McCain, and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. This afternoon's hearing will come to order. I want to start off by apologizing for being a few minutes late. Our colleague from Delaware, Senator Ted Kaufman, whose term expires, I think, on November 3, has just given his farewell address after serving for almost 2 years as a successor to Joe Biden. Ted used to be the Chief of Staff to Senator Biden for about 20 years. I like to say, John, that he made Joe Biden what he is today, or at least he helped, and——

Senator MCCAIN. They were hoping I would be giving that speech. [Laughter.]

Senator CARPER. Do you want to say that on the record? [Laughter.]

Well, I am glad to be here with Senator McCain and Dr. Coburn.

Today, we are going to hear from our panel of witnesses about financial accountability at the Department of Defense (DOD). You have three Senators up here who are very much interested in what you have to say and what we are going to be doing here on this front. One specific question is whether the Department of Defense is on track to pass a financial audit, and overall, we are going to learn today about the importance of improving the Department's financial management and accountability.

The witnesses who have joined us today will tell an important story. Keeping our Nation's military affordable and effective demands that we track the millions of transactions made each year and ensure that the hundreds of billions of dollars in expenditures are properly accounted for. If modern and effective accounting systems are not in place, then we have a system that can foster waste and fraud, and unfortunately, we see too many examples of waste

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and fraud within military programs and operations every year, and we see those in non-military operations and programs each year.

When we had a balanced budget 10 years ago, it was one thing. But today, as we are seeing our Nation's debt literally double between 2001 and 2008 and we are on track to double it again in this decade, it is not something where we can simply look the other way.

Also, with a robust and modern accounting system at the Pentagon, the Administration and Congress can make informed decisions about our Nation's security needs.

Secretary Robert Gates recently proposed a series of cost saving moves at the Department of Defense. I believe the Secretary recognizes that the way we buy and manage our weapons systems, the way we train and feed our troops, the way that we provide maintenance of hundreds of facilities, military facilities across the world, need to become more modern and business-like. However, the Department of Defense's financial system is not where it needs to be.

Most notably, the Department of Defense is one of the last Federal agencies still unable to pass a financial audit. Private businesses in America and their shareholders and top managers understand the importance of passing an audit. But the Pentagon has failed to do so. The Pentagon's financial management systems are simply not good enough, according to most estimates, to even try. Congress has established a requirement that the Department of Defense become audit-ready by 2017. This is a critical goal, and considering the amount of time and money that has gone into this effort, it is one that should have been met years ago. Not only will an audit help the Department of Defense ensure that billions of tax dollars are spent properly, but it will help to make certain that our troops have the equipment and the supplies that they need.

Unfortunately, according to the Government Accountability Office (GAO), the Department of Defense cannot even say whether the audit readiness goal of 2017 will be met. At the end of the day, making sure that the Department of Defense's financial books are in order is not just about being a good steward of taxpayers' money, although that is a top priority for me and I know for my colleagues. It is about ensuring that our brave men and women serving in our Armed Forces have the equipment and the supplies and the training that they need and that we are paying for.

Further, the GAO will testify today that the audit readiness goal faces a major and costly challenge. The Department of Defense and the military services are modernizing their financial systems, including its related computerized business systems, to become audit ready. This is an appropriate and important set of initiatives to ensure that the Department of Defense has the same modern accounting tools now common in almost every major business and in many government agencies. These upgrades, such as buying and implementing new accounting software, go by the arcane term—here it is—Enterprise Resource Planning (ERP). We will hear that several times, I think, in our testimony today.

The GAO will describe today that, overall, the financial system upgrades are years behind schedule and at least $6.9 billion over budget. That is right. The programs to upgrade our military finan-

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cial system so that we can track our dollars and ensure we spend money effectively are themselves behind schedule and over budget.

I have a couple of charts. I do not know if our staff person, would be willing to put them up here, but I have a couple of charts we want to look at this time. The first chart[1] is based on the GAO study of the Department of Defense's upgrades to its accounting and financial system. Now, I am not going to go into all the details, but the chart shows, for those of you who cannot read all of the words, the chart shows that of the nine Department of Defense programs, six have slipped anywhere from 2 to 12 years into the future and two more do not even yet have clear schedules to keep.

I have a second chart—can we take a look at the second chart,[2] please? I am not going to try to describe all the details—shows that five of the programs are over budget, for a total cost overrun of at least $6.9 billion. And one more does not yet have a cost estimate, and two more just established baselines of costs, so there is no way to calculate cost overruns. The point of these new accounting and financial management systems are to better manage programs and money, yet they themselves are over budget.

As a recovering Governor, I understand the unique challenges that come with running a major institution like the Department of Defense. However, I am also a former State Treasurer and a former Naval Flight Officer (NFO) who served over here with my hero, John McCain, so I know the importance of keeping our financial house in order. As a U.S. Senator and a taxpayer, I also understand the importance of ensuring that our Federal dollars are well spent, especially during a time of record budget deficits.

Of course, no program is perfect, at least none that I have helped to design, but Congress needs to ensure that the more than $700 billion that we spend through the Pentagon is spent effectively and efficiently.

And with that having been said, let me turn to my wingman here. Senator McCain, it is great to be with you. Thank you, John.

OPENING STATEMENT OF SENATOR MCCAIN

Senator MCCAIN. Thank you very much, Senator Carper. I would just like my statement to be included in the record.

Senator CARPER. Without objection.

Senator MCCAIN. Dr. Coburn has been involved in this issue and he may have an opening comment, if you would agree, but look, I thank you for those charts. They describe the situation far better than any statement that I have.

If this were a corporation in America, the shareholders would have fired them long ago. What I think we have to start demanding, and should have started a long time ago, is accountability. If people cannot meet the milestones that they lay down—we are not setting these milestones for them, they are saying that they can complete these tasks by a certain period of time, and you and I will probably be here for several years—we ought to start demanding that people get fired. That is what they do with corporations that have cost overruns and cannot account to their stockholders. Well,

[1] The chart referenced by Senator Carper appears in the appendix on page 149.
[2] The chart referenced by Senator Carper appears in the appendix on page 150.

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we are supposed to be representing the taxpayers. They are the stockholders. And this clearly is an unacceptable level of progress, a total lack of—well, certainly a significant lack of progress.

And I also wonder if our friends here in the Pentagon have ever called in one of these high-tech private corporations and say, "Hey, help us set up this system," because again, none of those companies and corporations in America that are privately owned could—the management could survive this kind of performance.

So I would like to say, Mr. Chairman, that starting today, that if we do not start meeting these in the next couple of years, these milestones, we ought to demand that people get fired and we get people in the job that can do the job. For the last 20-some years, you and I have been asking for an auditable Department of Defense. Last year, it was $690-some billion of taxpayers' money that was spent and we really have no real good handle on how a significant portion of that money was spent.

I thank you, Mr. Chairman, and I thank the witnesses. I appreciate their hard work. But it is about time that we start demanding some results.

Senator CARPER. Before I yield to Senator Coburn, let me thank Senator McCain not just for his statement, but for his leadership and his work as the Chair and now the Ranking Member of the Armed Services Committee on many of these same issues.

We had a hearing, Dr. Coburn may remember, about 2 years ago, and maybe not even that long. We invited in the Air Force. We had invited them to send in some of their top procurement people from the Department of Defense, some folks that worked for Secretary Gates at the time on procurement. And one of the fellows we invited to come and testify, he testified with us once, but at a later hearing was not able to come back. Instead, he sent, I think, his top lieutenant. In terms of firing people, sometimes the problem is not just firing people, it is actually hiring people.

As we said to the fellow who was here sitting in, and Tom may remember this, but the fellow was sitting in for John Young, we said to him, "How long have you been in your job?" He had been in his job for about a year or so. And I said, "What kind of turnover did you get from the person that you succeeded?" And he said, "The person I succeeded had been gone for 18 months." And I said, "Well, talk to us about how many direct reports you have." And he said, "I have six, but when I came on board, only two of them were filled."

So I think part of the secret here to getting the results is maybe firing some people. The other part of the success might be hiring some people, especially hiring the right people. So I just note that for the record. Dr. Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. I will be very brief. The threats our Nation faces today are greater than any time in my lifetime. With the budget situations that we have, the last place we want to skimp is in defending this country, which means the job of those leaders who have accepted the task of making sure we can defend our country has to be scrutinized closely.

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This is not a "hit you over the head" hearing. This is to ask the real questions of why. We have $64 billion worth of information technology (IT) purchases going on in the Federal Government. Over half of them are in the Pentagon. Yet, 50 percent of them are on the danger list of not meeting what their goals were, being over budget, being behind. It is not just the Pentagon that has this problem, however, the Pentagon is the most important agency because it is the agency that we are depending on to defend this country.

I think the importance of today's hearing is not just to have a hearing, but how do we get out of this mess when we cannot even purchase what we want effectively and we cannot implement what we have effectively? I think those are the real questions. Nobody is happy with a $6.9 billion overrun, but there are lot of reasons. It is called requirement creep, and that is a lack of management.

My hope is that we learn some things to help you help us defend this country with this hearing. Thank you.

Senator CARPER. Thank you, Dr. Coburn, and thanks very much for the good work that you and your staff continue to do.

We are not going to go away on these issues. I think we are going to be around for a while. I know Senator McCain is going to be around for at least 6 years, and maybe if Tom and I are lucky, we can join him for most of those. But we are not going to go away on these issues and we are very hopeful that you will not, either.

I want to take a moment just to introduce our witnesses. I will start with Mr. Hale. Our first witness today will be the Under Secretary Robert F. Hale. He is both the Under Secretary of Defense, Comptroller, and he is the Chief Financial Office (CFO) at the Pentagon. He has the responsibility to advise the Secretary of Defense, Robert Gates, on all budgetary and fiscal matters. He is charged with the development and execution of the Department's annual budget of more than $700 billion. Under Secretary Hale has a long history of Federal service, including as the U.S. Air Force's Assistant Secretary for Financial Management, head of the Congressional Budget Office's (CBO's) National Security Division, and served on active duty as a Naval officer. Anchors away. I thank you for being here with us today.

Our second witness is from the Office of the Secretary of Defense, Ms. Elizabeth McGrath, the Deputy Chief Management Officer (CMO) for the Department of Defense. Ms. McGrath is Advisor to the Secretary of Defense for matters relating to management and the improvement of business operations. Prior to becoming the Deputy Chief Management Officer, Ms. McGrath was the Department's Principal Deputy Under Secretary for Defense Business Transformation and also served at the Defense Finance and Accounting Service. We also thank her for being with us today.

I think Mr. Hale, if I am not mistaken, will deliver maybe joint testimony for himself and for Ms. McGrath, is that correct?

Mr. HALE. Mr. Chairman, I think she is going to follow up with some brief statements after I finish.

Senator CARPER. That is great. OK. We will look forward to that.

I am going to slip over here to Lieutenant General Robert E. Durbin, who I understand, Senator Coburn, may be a distant relative to a Durbin that we know from Illinois. We will see.

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Senator COBURN. Well, we will give him an extra hard time, then. [Laughter.]

Senator CARPER. General Durbin, whether he is related or not to our colleague, is the Special Assistant to the Chief of Staff for Army Enterprise Management and holds the position of Deputy Chief Management Officer of the Army. General Durbin has a long military record of service spanning some 35 years. We thank him for his service and thank him for participating in today's hearing.

Next, let me introduce Eric Fanning, Deputy Under Secretary of the Navy for Business Operations and Transformation. He is also the Deputy Chief Management Officer for the Navy. Mr. Fanning was previously the Deputy Director of the Commission on the Prevention of Weapons of Mass Destruction. Thank you for your service and for joining us today.

Next, let me introduce David Tillotson, Deputy Chief Management Officer in the Office of the Under Secretary of the Air Force. Along with a long service in the Federal Government—you do not look that old to have that long a record—Mr. Tillotson has also served as an officer in the U.S. Air Force. We thank you for that and for being with us today.

And finally, we have Asif Khan of the Government Accountability Office. Mr. Khan is a Director on the Financial Management and Assurance Team and is focused on financial management and audit readiness in the Department of Defense. How long have you been doing that?

Mr. KHAN. About 2 years.

Senator CARPER. OK. Thank you for that, and we thank you for appearing here today and we look forward to your testimony.

I think, unless my staff suggests otherwise, I think we will just start with Mr. Hale and just go from left to right, or should we go in the order that I introduced them? Alright.

Mr. Hale, you are our lead-off hitter. Thanks again for your testimony. Your entire testimony will be made part of the record, and if you would like to summarize, that would be fine. Try to stick to about 5 minutes. If you go way beyond that, I will have to rein you in. Thank you.

TESTIMONY OF ROBERT F. HALE,[1] UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. HALE. I will do it. Chairman Carper, Senator Coburn, thank you for your interest in financial management improvement of the Department of Defense, and thanks also for your consistent support of America's military.

I am pleased to be here with representatives from the Deputy Chief Management Officer (DCMO) at Office of Secretary Defense (OSD) and the services. I think our joint presence underscores the importance of partnering on this issue.

I believe defense financial management does have some significant strengths. Most importantly, commanders tell me that we are providing the resources and financial services they need to meet our national security objectives in Afghanistan. Iraq and elsewhere.

[1] The prepared statement of Mr. Hale appears in the appendix on page 43.

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However, I also fully understand there are enterprise-wide weaknesses in DOD financial management that demand enterprise-wide business response. The lack of auditable financial statements is an indicator of those weaknesses and it is one of the business management weaknesses that must be resolved.

Now, I know you have heard that statement before. We celebrate the 20th anniversary of the Chief Financial Officers Act this year, and the 16th anniversary of the government Management and Reform Act, which actually requires auditable statements. You might reasonably ask, what has changed? Why do we now think we will finally improve financial information in DOD and move toward audit readiness?

In my mind, there are a couple of reasons, but one that stands out to me is that we have established a new and focused approach to improving financial information and achieving audit readiness. The approach concentrates on improving the quality and accuracy of financial and asset information and moving toward audit readiness for the information that we use to manage the Department every day, and that is budgetary data. We manage the Department based on budget data, and also the number and counts and location of our weapons, which accountants call existence and completeness, because that is so important to warfighters.

This new approach, has established a demanding but meaningful goal. It will lead, for example, to the auditability of the statement of budgetary resources for all of the services. The new approach has won the support of senior military and civilian personnel. It has been generally endorsed by Congress in the fiscal 2010 National Defense Authorization Act (NDAA), and has been called a reasonable approach by the Government Accountability Office. Most importantly, we have all the services and agencies working toward a common goal, and that was not the case when I took office 18 months ago.

But those of us who have spent many years in government service know that establishing a meaningful goal, while necessary for success, is not enough to ensure success. You have to implement that goal, and that is a challenge in a Department that is rightly focused on winning the war in Afghanistan and completing the mission in Iraq. So, what have we done to implement this goal, and what are we doing?

First, we have established long-term goals, including the one you mentioned, to achieve auditability, at least for the information we most use to manage, by 2017, and we have plans to support that target. However, one of the problems we have had in the Department is that we set goals that are way out there, like 2017. Frankly, 2017 sounds like somebody else's problem, and I think it may been seen that way by many people in the Department. So we have established some near-term goals. What can we do in the next 2 years to show progress to ourselves as well as to you? You will see examples of those goals in my formal statement.

Second, we now have leadership committed to financial improvement and auditability. Both Beth and I have briefed the Deputy Secretary and the Chief Management Officer of the Department, twice in detail on this, and a third time, early in my tenure, to tell him where I was headed. He has the overall oversight responsi-

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bility. Beth and I jointly chair a senior governance board that meets quarterly and includes representatives from the Service financial management offices as well as the DCMOs. Many of the people you see sitting next to me today are on that board. And we have some subsidiary groups and we have a governance structure.

Third, we are moving to install new systems with that arcane name, Mr. Chairman, of Enterprise Resource Planning Systems. These are particularly important both for getting to auditability and for sustaining auditability. Three military services and several Defense Agencies are currently implementing ERPs. Ms. McGrath has oversight responsibility for these ERPs and other business systems and she will address the financial ERPs when I finish.

Finally, we have programmed resources in each service and in my office to carry out these tasks. You cannot make progress without resources. We are putting our money where our mouth is.

I believe that by implementing this plan we can meet the goal of auditability for the information we most use to manage by 2017. But we also recognize and understand that the NDA directed us to have fully auditable statements by 2017. Under the current audit rules, meeting that date would likely require the expenditure of large sums to acquire and improve information, especially the historical costs of exiting assets that, frankly, are just not used to manage in the Department.

We have been directed by the Senate Armed Services Committee to assess the cost effectiveness of approaches to reach full auditability and we will do so. The Committee directed that the results of the assessments be included in the May 2011 financial improvement and audit readiness status report. We will make that goal. We are also working with the Office of Management and Budget (OMB) and GAO to try to come up with approaches that would match the benefits that we are going to get out of that other data, which are few, frankly, when compared to the costs, and I expect to complete at least DOD's portion of that effort by next May and I hope that we will have overall agreement.

In summary, Mr. Chairman, our message to you this afternoon is meant to be a positive one. I know you have heard similar statements before and you have every right to be skeptical. However, I think our new focused approach and our implementation plan justifies our optimism. We are all committed to moving forward. I am personally committed to moving forward. I have worked on this for a long time in various capacities. I would like to make some progress during my tenure.

Mr. Chairman, that concludes my opening statement, and after the other witnesses have completed theirs, I would welcome your questions.

Senator CARPER. Thank you, Mr. Hale. You are right, we have been promised things before on this front and not often seen those promises fulfilled.

We have a colleague here—she is not here right at this moment—Senator McCaskill. She is from Missouri. And you know what one of their slogans is in Missouri, the "Show Me State." And I think when it comes to this stuff, we are all from the Show Me State. So we are anxious to see you show us what you can do. Thank you. Ms. McGrath.

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TESTIMONY OF ELIZABETH A. MCGRATH,[1] DEPUTY CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE

Ms. MCGRATH. Chairman Carper, Senator Coburn, thank you for the opportunity to discuss our combined efforts to improve DOD's financial operations. Thank you, too, for your support to our military members and their families.

As Secretary Hale mentioned, we do have a joint statement that we submitted, so I am just adding a few short comments as we move down the witness line here.

While the Department has always worked to improve the efficiency and effectiveness of its financial and other business operations, the imperative to achieve lasting results and the engagement of our senior Department leadership has never been greater. Our approach to overarching management reform efforts emphasizes improving our ability to assess execution through performance, strengthening governance to ensure leadership accountability, and making needed changes to the way we procure information technology. In each of these areas, we rely heavily on tools Congress provided us through the last several National Defense Authorization Acts, and for that, we thank you.

As Secretary Hale mentioned, together, we lead the Financial Improvement, Audit and Readiness (FIAR) Governance Board to ensure our business areas move forward in a coordinated manner to achieve our overarching business priorities and financial management goals, thereby integrating our financial management improvement activities with our overall business efforts.

As you mentioned, the Enterprise Resource Planning, those are a key a part of our auditability strategy, fielding those successfully, that is, looking for an interoperable structure that supports sound business practices. In my role as the Deputy Chief Management Officer, I have broad responsibility to ensure these systems are part of an overarching enterprise-wide business strategy that includes not only systems, but policy alignment and process perspective tied to investment strategy. That investment strategy must leverage data standards, business rules, and performance measures contained in our business enterprise architecture.

Focusing on business operations to include financial management at the Department of Defense is an area of great and immediate interest for our senior leadership as well as an area of serious activity and concerted effort. We are on the way to creating better business processes that will create the kind of lasting results our country deserves. I look forward to continued opportunities to work with the Congress to optimize our performance across the Department.

I look forward to your questions.

Senator CARPER. Thanks for that testimony.

Mr. Fanning, you are recognized. Your entire statement will be made part of the record. Please proceed.

[1] The prepared statement of Ms. McGrath appears in the appendix on page 43.

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TESTIMONY OF ERIC FANNING,[1] DEPUTY UNDER SECRETARY OF THE NAVY AND DEPUTY CHIEF MANAGEMENT OFFICER, U.S. NAVY

Mr. FANNING. Thank you, Chairman Carper. Thank you for the opportunity to discuss the Department of the Navy's efforts to improve its financial management processes and related business systems.

The Department of the Navy's Financial Improvement Program, our blueprint for achieving an audit-ready State, has made steady progress in establishing internal controls over business processes impacting financial reporting. But attaining an audit-ready state is not merely about obtaining a clean opinion. These efforts will optimize the resources available to the warfighter, increase readiness, build more confidence in Congress and the public with how we use taxpayer resources, and increase the timeliness, reliability, and accuracy of business and financial information for decision making.

As a first step towards auditable financial statements in the Department of the Navy, the Marine Corps has achieved audit readiness on its Statement of Budgetary Resources (SBR). An audit is currently underway conducted by a private firm. From the audit, our Department and the entire Department of Defense have accrued a number of instructive lessons. As a result, the Department of the Navy has refined the content of its overall Statement of Budgetary Resource audit readiness plan, which is scheduled for completion in December 2012.

A key enabler in achieving this goal is the continued implementation of Navy Enterprise Resource Planning (Navy ERP). Measurable results from improved financial controls, such as lower interest payments and fewer unmatched disbursements, increase the funding available for operational requirements. In addition, Navy ERP will bring other benefits, including standardization of business procedures across the universe of users, reduced cost from legacy systems retirement, efficiencies from streamlining and increased electronic workflow, and the enterprise financial and asset viability necessary to optimize Navy resources.

Implementations continue on time and on schedule. By October 2012, Navy ERP will have over 70,000 users and will manage 50 percent of our obligational authority, or about $71 billion.

We will also achieve audit readiness with those parts of the organization that still operate legacy systems and processes. Key internal control objectives are the same regardless of the business and financial environment. And while internal controls may be more robust in Navy ERP, commands which have not yet implemented it are also pursuing improved controls over their processes and systems.

Two major overarching challenges to success are common to both our Financial Improvement Programs (FIP) progress and the continued successful implementation of Navy ERP. The twin hurdles are gaining top-to-bottom organizational acceptance of and accountability for the changes these programs bring and continuing the Department's commitment to adequately fund both initiatives. To date, the Department of Navy's leadership has fully supported both

[1] The prepared statement of Mr. Fanning appears in the appendix on page 50.

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programs and we are moving forward with our strategy and objectives.

Thank you again for taking the time and interest in our efforts at audit readiness and business systems modernization. Your oversight and support will help greatly as we continue our work.

Senator CARPER. Mr. Fanning, thank you.

Mr. Tillotson, you are recognized. Please proceed.

TESTIMONY OF DAVID TILLOTSON,[1] III, DEPUTY CHIEF MANAGEMENT OFFICER, U.S. AIR FORCE

Mr. TILLOTSON. Thank you, Mr. Chairman. Thank you, Senator McCain, Senator Coburn, and Members of the Subcommittee. Thank you for all the work you do in supporting our members and families. I look forward to the opportunity to answer your questions at the conclusion of our statements.

Air Force efforts to improve audit readiness is a total effort across the entire Air Force. Both our Chief and our Secretary are committed to this effort, and our Under Secretary and Vice have day-in and day-out responsibilities for making sure that we follow through on the implementation of this activity, and it ranges not just from our financial community, but also includes our personnel community, our logisticians, and all of the other assorted business practice entities that are required in order to make a full auditable business process possible.

So this is not just about the finance folks, at least in the Air Force. It is also not just about financial auditability. Our ability to track existence and completeness of materiel to the points that were made earlier is an essential part of our warfighting capability as much as anything else. So by preparing for audit readiness, we are anticipating genuine benefits in our mission effectiveness, and that focus brought by Mr. Hale to refocus the Department on both the financial balance statement but also the existence and completeness has allowed us to energize a great deal more support because we can talk in terms that folks outside the financial community understand, relate to, and get behind. So this has been very important.

Our efforts in implementing these processes embody not only the goals of audit readiness, but we are also looking for the detailed processes and procedures, and not just tied to the implementation of IT, our information technology systems. Having said that, I will get back to the same position my other colleagues have been in. The Enterprise Resource Planning Systems and their associated audit controls are a key part at some phase of achieving final auditability posture. But to Mr. Hale's point, we are not waiting for those implementations to begin to show progress in auditability.

We have deployed initial instances or initial efforts on both of our main ERPs, the Enterprise Combat Support System and the Defense Enterprise Asset Management System, already, and we are on track to continue those deployments, and those are funded and supported by the Department.

Finally, on the issue of accountability, the Under Secretary has asked me to work across the rest of the Department of the Air

[1] The prepared statement of Mr. Tillotson appears in the appendix on page 54.

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Force to identify key leaders in the Air Force whose performance plan should explicitly include accountability outcomes, and again, not just limited to financial specialists but also to include that responsibility within our logisticians, our personnel specialists, and others who provide the essential elements of accountability to our Comptroller.

The Air Force has set itself on a planned and deliberate path to improve our financial accountability and achieve audit readiness. This path imposes on Air Force leadership the responsibility to provide the sustained and committed effort behind this work.

Thank you very much, and again, I look forward to your questions.

Senator CARPER. Mr. Tillotson, thank you.

General Durbin, welcome. Please proceed.

TESTIMONY OF LIEUTENANT GENERAL ROBERT E. DURBIN,[1] ACTING DEPUTY CHIEF MANAGEMENT OFFICER, U.S. ARMY

General DURBIN. Chairman Carper, Senator McCain, Senator Coburn, other distinguished Members of the Subcommittee, I am honored to be here today with Hon. Mr. Hale and Ms. McGrath and also my partners from the sister services. This Committee's focus on the importance of stewardship and accountability measures will improve our ability to accomplish the mission of defending our Nation both at home and abroad and I look forward to addressing your questions on how we lead and manage the Army enterprise to generate readiness at best value for the American people.

Today, the Army's financial and business systems successfully provide our commanders with information about the resources they need to accomplish their missions. I say this based upon my personal experience as a commanding general in Afghanistan for 19 months. However, while these systems do provide meaningful information to commanders, they were not designed to meet today's audit standards nor were they designed to support a single integrated enterprise.

That said, I can report significant progress toward strengthening the Army's financial management, starting with a notable change in our leadership culture. Under the guidance of Dr. Westphal in his position as the Chief Management Officer for the Army, we have energized our partnership within the Army, with our sister services, and within the Defense Department. The Assistant Secretary of the Army for Financial Management and Comptroller and the Army Office of Business Transformation and other Army stakeholders have all identified strengthening financial management as a high priority and are actively working to achieve measurable results.

But accountable, engaged leadership and improved governance are only part of the solution. The foundation of audit readiness is compliant, reliable systems and we recognize that to achieve and sustain auditable financial statements, the Army must modernize our financial systems and our business processes. We believe Enterprise Resource Planning Systems are an important enabler to leverage business process improvement, strengthening financial con-

[1] The prepared statement of Mr. Durbin appears in the appendix on page 60.

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trols and managing business operations in a more efficient, integrated manner. To that end, the Army has initiated a focused effort to explore options to refine our current ERP strategy with the goal of achieving the best possible end state within available resources.

In conclusion, we have a plan to meet our auditable requirements by their respective deadlines and what we are doing today to improve financial information, management, and auditability is critical to development of the Army's Integrated Management System, which will greatly improve the Army's ability to manage itself. Moreover, I am personally and professionally confident that Army leaders fully understand this is the right choice for the Army and our Nation in the long run.

Again, I thank you for the invitation to speak here today and for your unwavering support for the great soldiers, sailors, airmen, marines, and civilians and their families around the world.

Senator CARPER. Thanks for that statement, especially the last part.

Mr. Khan, we recognize you. We want to thank you and all of your colleagues at GAO for your stewardship and for helping us to better become the kind of stewards that our constituents expect us to be. Thank you. Please proceed.

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

Mr. KHAN. Thank you, Mr. Chairman. Senator McCain and Dr. Coburn good afternoon. It is a pleasure to be here to discuss the status of the Department of Defense financial management and audit readiness efforts. Your Subcommittee has been at the forefront in addressing DOD business related high-risk areas.

In my testimony today, I will summarize DOD's current strategy for addressing its persistent weaknesses in financial management for achieving audit readiness and in modernizing its business systems. I will also provide GAO's perspectives on DOD'S efforts on progress towards these goals. My testimony today is based on our prior work at DOD.

Over the years, DOD has initiated several broad-based efforts for improving financial management and developing the capability for preparing auditable financial statements. However, financial management weaknesses continue to affect the timeliness and reliability of information available to managers, and to date, none of the military services has achieved auditability. GAO's review of DOD's financial management improvement efforts have seen a need for active leadership and a clear strategy to put DOD on a sustained path toward transforming its financial management operations.

In May 2009, GAO reviewed DOD's Financial Improvement and Audit Readiness Plan (FIAR Plan), and made recommendations that were incorporated into the defense authorizing legislation for fiscal year 2010. In August 2009, DOD revised its strategy as reflected in the May 2010 FIAR status report. While GAO has not formally examined this report, it and the accompanying guidance

[1] The prepared statement of Mr. Khan appears in the appendix on page 66.

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appear to reflect progress on our recommendations. The issuance of the guidance is in itself an accomplishment.

The report also charts a course for achieving financial audit readiness by 2017. The revised strategy continues efforts to achieve full audit readiness, but it focuses on two priorities, achieving reliable budget data and improving the accuracy and management of information related to mission critical assets. Budget information and information on the existence and completeness of assets, such as military equipment and real property, have been identified by the Comptroller as particularly useful for DOD management. This approach has advantage for the near term, including the potential for building commitment and support throughout the Department. In the longer term, additional work will be needed to achieve full financial statement auditability.

A key element of modern financial management and business operations is the use of integrated information systems with the capability of supporting DOD's vast and complex operations. Effective implementation of these integrated business systems, or ERPs, is essential to improving and sustaining DOD financial management and related business operations. DOD is in the process of implementing a number of ERPs as part of its efforts to modernize its business systems. However, the Department's efforts to implement these systems on schedule and within cost have been hindered, in part by inadequate requirements management, systems testing, and ineffective oversight of these investments. Effective business system modernization across the Department will be the key to achieving billions of dollars of annual saving.

To strengthen DOD's leadership for financial management transformation, Congress in 2008 established the position of Chief Management Officer for DOD and for each of the military departments. The CMOs are now in place. For these new leaders to be effective, DOD needs to specify the roles and responsibilities, including their involvement in problem resolution and ensuring commitment to financial management improvement activities across components and functional areas.

Based on what we have seen to date, DOD's strategy and methodology for improving its financial management, addressing weaknesses, and achieving audit readiness reflects a reasonable approach. Sustained effort and commitment at the Department and component level will be needed to achieve auditability and produce financial management information that is timely, reliable, and useful for DOD managers.

To support this Subcommittee oversight, GAO will continue monitoring and reporting on the Department's financial management improvement efforts.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer your questions.

Senator CARPER. OK. Well, we have some, and Mr. Khan, thanks very much.

I am going to slip out and take a phone call. Senator McCain is good enough to lead off, and I will be right back. John, thanks.

Senator MCCAIN. [Presiding.] Well, thank you, Mr. Chairman.

Mr. Hale, you have a long resume of experience in this area and we appreciate all the hard work you have done for many years. As

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you recall, once upon a time, one of your predecessors, Dov Zakheim, set a deadline of 2007, and now as a result of last year's legislation, that deadline is 2017. I guess I would ask you, will DOD make that 2017 deadline?

Mr. HALE. Well, Senator McCain, I am confident that we can make the deadline for the information we most use to manage. That is the budgetary information and keeping track of where our weapons and other assets are located. We have a plan. We have commitment. I am reasonably confident we can make that date.

For the rest of the data, which is principally the historical cost data, we have to come up with a plan, and in my mind, and at the direction of the Senate Armed Services Committee it needs to be a cost-effective plan. We do not use historical data to manage, or at least do so rarely. Therefore, we need to audit it, or improve it and audit it in a way that matches the benefits.

That plan, we do not yet have. We are committed to provide that by next May. I expect to meet that deadline, and at that point I certainly intend to find some way to do it, or try, so that we can meet the 2017 deadline for full auditability. I do not know if I answered your question. I mean for the data that matters, I think we can do it.

Senator MCCAIN. I guess I would ask the rest of the witnesses if they share Secretary Hale's view. Do you, Ms. McGrath?

Ms. MCGRATH. Sir, I certainly support the Department's current strategy to achieve the auditability and——

Senator MCCAIN. My question is, do you think they can meet the 2017 deadline?

Ms. MCGRATH. So I would echo Secretary Hale's position on the achievability in 2017 of the management information. Certainly, we will put great pressure on the systems in terms of ensuring that they do not have requirements creep and they maintain the focus and scope such they contribute to the auditability goals that have been identified.

Senator MCCAIN. Mr. Fanning.

Mr. FANNING. Senator, I do agree, also, that we can—I am optimistic we can make it by 2017. The Navy is on board to be ready by that date. As Secretary Hale said, I would echo the evaluation aspect is probably the mist difficult part of that.

Mr. TILLOTSON. The Air Force supports Secretary Hale's view. The critical data, we expect to be available by 2017.

General DURBIN. The Army also supports that, and we have a solid plan to take us there.

Mr. KHAN. Senator McCain, I think the implementation of the ERPs will be the key in reaching auditability, whether it is for the statement of budgetary resources or all the financial statements.

In addition, I would just like to add that the top level management commitment like we are seeing now needs to continue. The Comptroller's Office has been engaged in this process, along with the DCMO, and now that we have the military CMOs in place, their involvement is going to be critical. A lot of this activity is going to occur in other functions, such as logistics and acquisition. That is where the transactions originate. The role and responsibilities have to be defined so that they can reach across their specific functions to the other functions to be able to get their buy-in to

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have the processes in place to provide the management information which they can use on a useful basis.

Senator MCCAIN. So you estimate that the actual life cycle costs for the 10 major ERP systems will be well over $6 billion over their original estimates, right?

Mr. KHAN. Correct.

Senator MCCAIN. And $5.8 billion has already been invested to develop and implement these systems, only one of which is currently fully deployed. Have any of these investments ever been in jeopardy of being terminated for cost overruns or schedule delays? Ms. McGrath.

Ms. MCGRATH. So each one of these programs is in a different life cycle in terms of the acquisition process. We constantly look at the performance of these programs. A couple of them, I will highlight.

The Army's General Fund Enterprise Business System back in the, I will say, late summer had initial operational test and evaluation and the results did not find them effective or suitable. So instead of pursuing with the next wave of deployment, the Army put together a mitigation strategy, thought it was sound both from the Army's Test and Evaluation Command (ATEC) and from a performance management perspective, allowed them to test their mitigation strategy to the next deployment site, put those measures in place, was tested by our Operational Test and Evaluation Command (OPTEC), and found to be suitable and effective.

I use that as an example because if your question was, do we ever think about terminating or slowing the funds down, we absolutely are putting more structure and rigor in the management of these programs such that they——

Senator MCCAIN. So the answer is no?

Ms. MCGRATH. Well, sir, I believe the answer is yes. We absolutely wanted to ensure that they had the mitigation plans in place to ensure that the——

Senator MCCAIN. You have terminated——

Ms. MCGRATH [continuing]. Next stage of the program——

Senator MCCAIN. You have terminated programs?

Ms. MCGRATH. Of the programs that are on this particular list, and I do not know if the Defense Integrated Team and Resource Systems is on——

Mr. HALE [continuing]. The successor is on——

Ms. MCGRATH [continuing]. Is on that list. Certainly, we did terminate the Defense Integrated Military Human Resources Systems (DIMHRS)—thank you—terminate the DIMHRS program.

Senator MCCAIN. As we mentioned earlier, the $6.9 billion cost overrun and several question marks that we are not sure of, has anyone above the program manager level ever been fired or demoted?

Ms. MCGRATH. Sir—well, specifically, I would have to take that question for the record and determine whether or not someone has been fired. Again, the——

Senator MCCAIN. I think maybe it would not have escaped your notice if someone had been fired. Do you know of anyone who has been fired?

Ms. MCGRATH. Sir——

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Senator MCCAIN. Or demoted?

Ms. MCGRATH. I know we have made changes in the program management structure, specific programs when program managers were not performing. Whether or not they were fired from the government, I would have to check.

Senator MCCAIN. Well, I know it is a large organization, but I think you would know if someone was fired, or I would hope that you would have enough attention to your own organization to know if anyone was fired or demoted or not. Apparently not, from your answer.

Mr. Khan, you have been involved in this for a long time and scrutinizing this. What do you think Congress ought to do in the exercise of its responsibilities, given light of the fact that back many years ago, Dov Zakheim said it was going to be completed by 2007. Now it is 2017. And frankly, by the testimony that we have received here today, we do not think we have seen the last of the cost overruns, nor do we really have any solid evidence that 2017 will be the year this can be completed, except that it is a long time from now.

Mr. KHAN. Senator McCain, I think hearings such as this one are going to be critical in giving you the visibility and accountability that is needed in the Department of Defense. I think it is going to be very important not just to have the Comptroller's Office here, but also the departmental level CMOs. Most of the heavy lifting, whether it is on audit readiness or implementing the ERPs, is going to happen at the military services. I think that oversight is going to go a long way to provide you a real-time status.

Senator MCCAIN. I thank you Mr. Chairman. I thank the witnesses.

Senator CARPER. [Presiding.] Yes, sir.

I am going to ask Dr. Coburn to go next, if you would, please.

Senator COBURN. Mr. Khan, would you go back through the last part of your testimony for me where you said ineffective oversight, I believe were some of your words, cost overruns. Would you give that to us again, that paragraph where you had ineffective oversight?

Mr. KHAN. I will find that place. I am sorry, Dr. Coburn. That was relating to the ERPs.

Senator COBURN. Yes. I want you to reread that, if you would, please.

Mr. KHAN. Effective implementation of these integrated business systems (IBS), or ERPs, is essential to improving and sustaining DOD financial management and related business operations. However, the Department's efforts to implement these systems on schedule and within cost have been hindered, in part by inadequate requirements management, systems testing, and ineffective oversight of these investments.

Senator COBURN. All right. So what you are saying is your criticism is there has not been effective oversight. There has not been effective management of requirement creep. And there has not been significant systems testing, right?

Mr. KHAN. That is correct.

Senator COBURN. All three of those?

Mr. KHAN. Yes.

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Senator COBURN. That leads me to think that the management has not been effective in implementing these systems. Would you agree with that?

Mr. KHAN. We did not specifically look at the project management.

Senator COBURN. Well, let me go back, then. I will not put words in your mouth. I will make them my words. If somebody is not doing effective oversight, they are not managing the requirement list, and they are not managing the system testing, is that effective management?

Mr. KHAN. No, sir, that is not.

Senator COBURN. OK. So that is the problem. Now, what I want to ask each of the separate branches, from your chiefs, whether it be the Secretary of the Army, Navy, Air Force, or from General Schwartz, Admiral Roughead, or General Casey, is it a part of the command structure that we are going to get this done and are you hearing that regularly? Unless the leadership buys into getting this done, I know how the military works. It will be third place, fourth place, fifth place in terms of the priority. Are you hearing that?

General DURBIN. Sir, I will start since I am hearing it loud and clear. I hear it both from our Secretary and from the Chief, for the Chief for the last 2 years, since he pulled me out early from division command to focus on this effort, and specifically now since the beginning of this year when officially I started working for the Under Secretary of the Army in his role as the Chief Management Officer. And I will just give you two specific examples.

In June, we stood up a new governance body that is chaired by the Chief Management Officer, Dr. Westphal, specifically focused on business systems, information technology. It is the Executive Steering Group (ESG). The Under Secretary of the Army in his role as CMO chairs it. It is a Committee that includes all of our Assistant Secretaries of the Army and each of our Army primary staff. We are relooking everything associated with our current ERP strategy and we will make the hard decision—the Secretary of the Army will make the hard decision that new governance body recommends we do to hold ourselves accountable and achieve the results that our plan says we have to do with our ERPs.

Mr. TILLOTSON. General Schwartz personally put a direction out and has assumed quarterly oversight review of our Enterprise Combat Support System. When that program required restructure, he put it on notice that if it did not meet the restructured time tables and keep on schedule and cost, he would take the action to terminate the program. That program continues to be reviewed by him every quarter.

The remaining Enterprise Resource Planning Systems, the Air Force made a corporate decision to go ahead and put resources against them, with the provision that they go back and report to our governance body, which is called the Air Force Council, which is chaired by the Vice Chief of Staff and the Air Force Under Secretary, on a routine basis to ensure that they also meet progress on cost and schedule or, again, we will take action to address those program content.

Like the Committee, this is a substantial investment for the Department of the Air Force to make at a time when we are involved

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in combat operations. We believe it is worth it in that we are going to get payoff in terms of accountability of assets and in terms of better support to the warfighter. But having said that, we are as mindful as the Committee is and appreciate your concern that we are actually spending the money and getting a payoff from it.

So, yes, I hear it directly from my uniformed leadership.

Senator COBURN. Mr. Fanning.

Mr. FANNING. I would agree. I hear regularly from my leadership, both in the Navy and the Marine Corps and on the civilian side, of the importance of these programs and of getting them right. I think a big part of the change, which you have already heard today, the creation of the CMO, the Chief Management Officer position. The Under Secretary takes that role very seriously. We have also created a senior governing body for these types of programs, the Business Transformation Council. He chairs it with the Assistant Commandant of the Marine Corps and the Vice Chief of Naval Operations. The Assistant Secretaries are also at the table, as are the relevant three-stars.

We have put this into our Department of the Navy strategic objectives as one of the high-order objectives. It gets monitored on a quarterly basis by those leaders.

Senator COBURN. That is good enough. I am going to run out of time.

Mr. Khan, are these cost-plus contracts?

Mr. KHAN. I am not aware of that, sir.

Senator COBURN. Are they cost-plus contracts? They are fixed-price contracts?

Mr. TILLOTSON. Fixed price.

Senator COBURN. How come they are over cost, if they are fixed-price contracts?

Mr. TILLOTSON. Unfortunately, with a fixed-price contract, if we make an adjustment to the requirement, then there is a basis for readjusting the cost.

Senator COBURN. So that is called requirement creep.

Mr. TILLOTSON. In some cases, the requirements were changed deliberately to actually address some of the concerns that Mr. Khan has raised about whether we have a risky schedule, whether we need to parse the deployment up into more controllable chunks. Again, in the Enterprise Combat Support System deployment, we deliberately moved the program into a series of measured decisions and that did generate some of the cost increases. So yes, it was a requirement to change. It was a deliberate requirement change to accommodate some of the management deficiencies that were identified, in fact, with the GAO audit, and these are actions we have taken since their audit time in April.

Senator COBURN. Let me see if I have this right. We have spent $5 billion so far, is that correct, Mr. Khan, and we are anticipating $6.9 billion in overruns so far?

Mr. KHAN. That is correct.

Senator COBURN. And with no guarantee that we are going to have what we need in the end?

Mr. KHAN. Right.

Senator COBURN. Who are the prime contractors for the Army, Navy, and Air Force on these programs?

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General DURBIN. Sir, we have Northrop Grumman for two, Computer Science Corporation for one, and Accenture for one.

Senator COBURN. OK.

Mr. TILLOTSON. We have Accenture for one, Computer Science Corporation for one, and we have not let the contract on the third one. That is the Integrated Personnel Pay system (IPPS). We are still in the development of analysis of alternatives and pending a solicitation.

Senator COBURN. Mr. Fanning.

Mr. FANNING. We have IBM, Deloitte, and GD IT.

Senator COBURN. I want to ask one final question of each of the branches. What is your thought about the fact that GAO says there is ineffective oversight, there is ineffective requirement management, and there is ineffective systems testing? What is your response to GAO's findings?

General DURBIN. Sir, just for the record, for the Army, I just highlight that we are not over cost, although we do have one system that is over the time.

Senator COBURN. You get the "atta boy" for today's hearing.

General DURBIN. OK, so——

Senator COBURN. Even if your last name is Durbin. [Laughter.]

General DURBIN. Thank you. So I would say that we agree with the GAO findings and the recommendations. That is part of the purpose for enhancing our governance, and we have the correct leadership at the right level that is focused on this and putting this on the front burner. So I think we will address each of those concerns and they are part of our plan as we move forward.

Senator COBURN. Mr. Tillotson.

Mr. TILLOTSON. We also agree with the GAO's findings. We have, in fact replaced program management on both of our major ERP programs and actually elevated that attention, separated them out from layers where they were kind of hidden down in the acquisition structure. We have already implemented, again, within the Expeditionary Combat Support System (ECSS), many of the schedule control requirements that were identified back in the April 2009 period, and for our Defense Enterprise Accounting Management System (DEAMS), we are in the process of doing the same again. Our Integrated Personnel and Pay System, which is the replacement for Defense Integrated Military Human Resources System (DIMHRS), will lay that in from the beginning because we are taking those lessons learned from that. So the answer is we are taking the review very seriously. We actually appreciate the review. We have had similar additional reviews from the OSD level, so our partners at the DOD DCMO have also been paying attention to this, and quite frankly, we take the feedback seriously.

Senator COBURN. Mr. Fanning.

Mr. FANNING. We also have new program managers, or have replaced the program managers in both the programs, definitely instituted increased oversight. I think the program managers would agree strongly with that. Testing is another area where I think we have made substantial improvements, as we have with requirement mission creep, although that would be of your three the one that I think we still need the most effort on, but that is tied into

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the new very senior-level oversight that is paying attention to these programs.

Senator COBURN. Would you indulge me a couple of minutes? Thank you.

Correct me. My understanding was most of these purchases were supposed to be essentially off-the-shelf programs. Is that not correct?

General DURBIN. Yes, sir.

Senator COBURN. Is that correct?

Mr. TILLOTSON. Yes, sir. That is correct.

Senator COBURN. And the changes were supposed to be minimal when we started this, correct? The idea was to take a proven system and interject there.

Mr. TILLOTSON. That is correct, and we are, at least within the Air Force, are maintaining true to that direction.

Senator COBURN. OK. And so the only other question that I would have is going back and looking at our problems with procurement, because what I am seeing at this hearing is really the same problems we are seeing throughout the Pentagon with difficulties with procurement. Is any of that a problem with our procurement officers directly? Is it a problem that we have lost experienced staff? Where is our problem? I mean, it is not just in our auditing attempts and in our IT attempts that we are having difficulty, you all would agree with that, across the services. We are having difficulty with procurement. So where do you see the problem?

Mr. TILLOTSON. Again, I will speak only for the Air Force and I will defer to my colleagues for their inputs. The problems we are seeing within the Enterprise Resource Planning System deployments right now tend to be stemming not so much from the software itself, which to your point is purchased commercial software, but these systems require the enterprise as a whole, the Air Force as a whole, to actually make some fairly substantial business practice changes, some fairly substantial data changes in other systems, and then to actually deploy that across a fairly large target audience. That is actually where most of the time and money is being spent.

Senator COBURN. So the cost overruns are not really with the package you are buying. It is adjusting the rest of the systems to feed into those?

Mr. TILLOTSON. Yes, sir, and also doing training to make the workforce capable of using the new system, as well as then deploying that system into the communications layers that exist within the Department, so——

Senator COBURN. One final follow-up question. You are contracting for your other systems to be able to feed in?

Mr. TILLOTSON. Yes. sir.

Senator COBURN. Are they cost-plus contracts, service contracts?

Mr. TILLOTSON. I cannot give you a universal answer. Some may be cost-plus. Some are actually in sustainment, so they are probably on a sustainment contract of some kind.

Senator COBURN. All right. Any other comments from the other two?

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Ms. MCGRATH. I would actually just like to add, put a finer point on what Mr. Tillotson said in terms of the business process reengineering, which is another way of talking about what are the data requirements, understanding exactly how are you going to use this IT capability to execute the business. With the 2010 NDAA, specifically Section 1072, the requirement to conduct a business process reengineering prior to the investment is critical, and I think what the Department lacked previously was that focus on understanding exactly how they were going to use and execute the business process within their enterprise prior to implementing, and what we are learning over the last few years is that really has been an area that we have not paid attention to. So you are talking about requirements creep. It is requirements creep plus an understanding of how you are going to execute the business.

So you have heard all the military departments talk about the governance. That absolutely is part of the conversation the equation, taking these systems forward. So I would like to think that we are actually better managing with stronger governance all these programs going forward by requiring each of the organizations to articulate how they are going to use the business prior to the implementation so we do not go forward until they demonstrate their ability to actually articulate that, and that is extremely key.

All of these ERPs are cross-functional in nature. They go across their entire organization. So it is not just the financial community. It is logistics. It is personnel. The whole enterprise needs to understand, how are you going to execute what you are going to execute prior to this systems piece, and I cannot overstate that.

Mr. HALE. I would just add one thing. You asked, Senator Coburn, whether we had an adequate procurement staff. It is not my primary area of expertise, but the answer is clearly no. We made cuts in the 1990s which were too large, and in the early part of the 2000s, and we have committed to adding 20,000 people to our acquisition workforce over the next 5 years. Ten thousand of those will replace contractors, because we think there are too many contractors and some of them are doing inherently Governmental work, and 10,000 will be a net add to the size of the acquisition workforce. We also have a number of training initiatives.

Congress has been helpful with things like the Defense Acquisition Workforce Development Fund (DAWDF) in terms of paying for this, but we have ways to go, and it is a high priority with Secretary Gates. He has exempted it from the limits that he has placed on staffs in the Department of Defense in connection with his efficiency initiative. Therefore, we are working this issue with Ash Carter, the Under Secretary of Defense for Acquisition, Technology, and Logistics. We know it is a problem.

Senator COBURN. Thank you Mr. Chairman.

Senator CARPER. Those were some pretty good questions.

Mr. HALE. How were the answers? [Laughter.]

Senator CARPER. Some were pretty good, but some, I will be real honest with you, some were pretty hard to follow.

Let me just back up a little bit. I want to put this hearing maybe in a little bit of context. We all know that we live in a dangerous world. We know that there are threats, the likes of which, 20, 30 years ago, I never imagined we would face, at least not when I was

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on active duty or in the Reserves. We are, as I think Mr. Hale noted, involved very much in a hot war in Afghanistan and beginning to withdraw our troops as the Iraqis transition to take over their own security in Iraq.

We are a country trying to get out of a recession. I think we are starting to, but it is slower than any of us would like, and revenues are recovering slower than any of us would like. We have been spending a lot of money to try to stimulate the economy. It is kind of like one foot on the accelerator, and now with the deficits high, starting to tap down on the brake, among other things, a three-year freeze on domestic discretionary spending is about to begin, the kind of work that the Department of Defense is doing under Secretary Gates's leadership to really carve about $100 billion out of spending over the next 5 years.

I think Dr. Coburn serves, if I am not mistaken, I think he serves on this Deficit Reduction Commission (DRC). Some people do not have much hope for anything comprehensive. But with the bipartisan agreement coming out of that Commission, I am more hopeful, and I know you are working hard and we need for them to be successful so that we can have a chance for success.

But all told, we are just spending a lot of money. We say we are spending taxpayers' money, and that is true to some extent. But really, a lot of the money we are spending is not taxpayers' money. A lot of the money we are spending is money that we go around the world borrowing. It is almost like we have a tin cup and we are out there borrowing money from just about anybody that would lend us money, including the Chinese, and we are trying to get them to do something on their currency, try to let their currency float, and they can push back against us and say, we will stop buying your Treasuries if you want to push too hard. We look to places like South Korea and Japan, folks in Europe, Asia, the Middle East, really to borrow the money.

As much as anything, when we think about these issues, I want us to focus more on the need to stop doing that, to stop doing that. And as we figure out, is this something we can do by 2017 or not, we have to do it. We need the clear setting of goals. We need a strategy in place. We need strong leadership. We need buy-in up and down the ranks, including uniformed armed services and civilian. We need to monitor progress, and we have GAO over here trying to help us monitor progress on an ongoing basis, and our responsibility is to provide ongoing oversight to try to back up GAO and really to complement the work that they are doing.

Senator McCain said there have to be consequences. There have to be consequences, positive for good performance and negative for not good or not acceptable performance.

I am going to ask, Mr. Khan, you are sitting on that side of the witness table. Let us say you are sitting over here. Let us say you are sitting over here with Dr. Coburn and Senator McCain and myself. You are a Member of this Subcommittee addressing this problem. This is one we have been trying to solve for years. I think Senator McCain said we were supposed to try to address this several years ago, and without success. I do not want us to be here in 2017 and you be sitting out here and the rest of you be here and say,

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"Well, we still have not made it." I want us to address this problem and do it in a satisfactory way.

We have asked, what can we do to be helpful. You have indicated that in some cases—I think Mr. Hale said with respect to acquisition forces, more people. Replace some of the contractors and hire other folks to come on board and help us with the acquisition. We have done that. We have been trying to help on the training side. I think we have provided fairly generous monies for some of these systems to enable us to stand up accounting systems and to do this job.

What more do we need to do? If you were sitting over here, what would you be doing beyond what we have already done?

Mr. KHAN. Mr. Chairman, I think you should continue doing what you are doing. Oversight hearings like these will go a long way. Like I had mentioned before, I think it will be important to consider where all the heavy lifting is going to be done, and I think we all recognize that most of the work, whether it is in the ERP implementations or audit readiness, is going to be at the military departments. So it is going to be critical to have the DOD Comptroller's Office, as well as the senior-level representatives from the military services to provide you with an ongoing status so you can have a real-time picture of what is going on and what needs to be done. I think that would be non-burdensome.

We, for our part, are working with them, providing oversight, and we have an open communication, with the Comptroller's Office. We have started dialogue with the DCMO's Office and CMOs in the military services as part of the ERP report that will be issued shortly.

Senator CARPER. Let me just interrupt. My question of you was, what more—if you were sitting on this side of the dais, what more would you be doing than what we are now doing?

Mr. KHAN. Continuing to have non-burdensome oversight hearings will go a long way.

Senator CARPER. Dr. Coburn, when are you up for reelection?

Senator COBURN. This year.

Senator CARPER. This year? How is it going?

Senator COBURN. Well.

Senator CARPER. He may——

Senator COBURN. Do you want me to make a political statement? [Laughter.]

Senator CARPER. I am going to be around for at least a couple more years, maybe even beyond that. Senator McCain is going to be around for, it looks like at least another 6 years, and Dr. Coburn for another 6 years. So what you are going to have, or what we are going to have here are three guys who are on this Subcommittee who care about these issues and are really committed to creating what I call a culture of thrift—a culture of thrift—not just in Defense, but throughout our Federal Government. And we are going to have hearings. We are not going to have them every day or every week or every month on this subject, but we will have them at least every year if I get to be the Chairman of this Committee or Subcommittee for a little bit longer. And if Dr. Coburn or others want to hold them, I will certainly be here. I just want to put that out there very clearly.

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I want to follow up on something that Senator McCain said earlier. We appreciate your being here. We appreciate your responses and all. I do not think we wish to imply that no progress has been made, obviously, there are some pockets of encouraging progress and that is welcomed and hopefully we will see a good deal more.

I was talking with my staff about this hearing several days ago and said, we do not expect the whole Department of Defense to sort of stand up and all at once accounting systems, accountability systems that basically are from soup to nuts, from A to Z, that is not going to happen. It is going to be maybe the Air Force, maybe the Army, maybe the Navy, Marine Corps who will be pockets of excellence and basically help show the way for the rest of the Department of Defense.

But I also agree with the importance of properly prioritizing goals and knowing that there is a lot of work still to be done to get ourselves to a clean audit.

Let me just ask Mr. Khan, do you believe that we have yet to see a complete plan to achieve audit readiness and to achieve the key goals for better financial management for the Department of Defense? Let me say that again. Do you believe that we have yet to see a complete plan to achieve audit readiness and to achieve the key goals for better financial management for the Department of Defense? And also, let me just add a P.S. to that. What must the Department of Defense and the military services do to ensure a more complete plan which will get us to the point where we will actually see the Department ready to conduct successfully a financial audit?

Mr. KHAN. The current plan is primarily focused on the short-term, that is, to get the statement of budgetary resources auditable. That is the budgetary information used by the managers on a day-to-day basis. And the second one is the existence and completeness of mission critical assets. The plan itself does not go into the remaining piece of the financial statement auditability, if you are looking to achieve full financial statement auditability. So the remaining pieces have yet to be filled in. In the status report that was issued in May, it was mentioned that additional information is going to be forthcoming in the November issue. So to answer your questions, there are several steps which need to be completed so we can have a complete picture of how 2017 is going to be attained.

Similarly, at the military departments, they need to also have a plan, which they are working on, which needs to align with the departmental plan. That was a key recommendation in our May 2009 report, and in our discussions with the Comptroller's Office, we believe that the military services are working on it, though we have not yet evaluated the plan.

So those are the two steps which will be critical for us to have a plan that can be evaluated, that can be followed through.

Mr. HALE. May I add to that?

Senator CARPER. Yes, please. But before you do, let me just kind of stay with you for just a moment, Mr. Khan. You heard our witnesses testify. We have heard folks from each of the branches of our Armed Services. What do you find most encouraging in what

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you have heard today? What should we find encouraging in what we have been told?

Mr. KHAN. Very much the commitment. To have all the DCMOs here from the services and getting down to the granular level of detail, which is really needed to be able to manage this process, is very encouraging. Similarly, GAO is very encouraged by the plan and the beginning process of the implementation to bring the plan in unison. Before the FIAR plan or before the prioritization, each of the military services had their own plan. The FIAR aligns it into one direction by defining the priority that Mr. Hale did last year. That helped to make sure that the entire Department was going in one direction, which is of great benefit.

Senator CARPER. OK, thanks.

Mr. Hale, go ahead, please.

Mr. HALE. Mr. Chairman, if we try for everything, I am afraid we will again get nothing. I believe firmly we have to pick some priorities and go after them, and we have done that. And the only way in my mind to set those priorities is to focus on the information we use to manage in the Department of Defense. I mean, it seems to be common sense. I believe we have done that. I am encouraged to hear that my colleagues in the services seem to agree so that we do not have to order them to do things. They feel that we are approaching, or trying to improve audit readiness and achieve audit readiness for data we actually need.

Then there is the issue of what to do about the rest of the information, which, frankly, we do not use to manage. It is mainly the historical costs of assets. Under current audit rules, I would have to spend the taxpayers' money to go out and gather data on what we spent on the F–22, including every modification that we have done to it. I would have to allocate the Program Office costs to it. I would have to support historical cost with invoices for it to be auditable. We do not use that information for managing the Department. We use the Selected Acquisition Reports (SARs), to manage costs. We do not use historical cost information.

Therefore, I am looking for ways to either change the rules—I would like to do that—but if I am not allowed——

Senator CARPER. Who makes the rules? Are we talking about laws——

Mr. HALE. Well, it is the——

Senator CARPER [continuing]. Or are we talking about regulations, or are we——

Mr. HALE. Yes, to some extent OMB, and ultimately the Financial Accounting Standards Advisory Board (FASAB), would pass on this. I am not trying to point fingers. We owe them a proposal that makes sense for the rest of the data. I want to spend 80 percent of our time trying to do something. I want to get something done, and I know you do, too. I am frustrated by this, also. But I understand we have to address the rest of the issue, and we are thinking about it. We need to do it in some way that is high level and relatively inexpensive, in my view, so we do not spend a lot of money improving information that will never use.

Senator CARPER. When I was a kid growing up, my father used to say to my sister and me—she is about 15 months older—he would say to us from time to time when we were kids doing stuff

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around the house or the yard, he would always say to us, "Just use some common sense." We must not have used it very often, because he said that a lot, and he did not say that quite nicely.

But he would be pleased to know—he is now deceased, but he would be pleased to know that as I take up my responsibilities here, I think a lot about using common sense, and there are instances when you are going to see when we do not, and the instances where we are not using common sense may be things that are internal within one of the various Armed Services, they may be internal to the Department of Defense, may flow out of something out of OMB, may flow out of some kind of law that we have passed.

One of the things I would like to encourage through the course of these hearings is when the Congress is doing things that, frankly, do not make common sense, that do not really add up, you need to tell us. When there are resources that are needed, whether there are 20,000 people who work in acquisition, whether it is voting to confirm somebody that is nominated for one of these confirmable positions, you have to have the kind of relationship, particularly with our staff members, to let us know that, and we need to be advised by them, by the people on my left and right behind me, of those points.

Let me come back, if I could, to Mr. Fanning, please. Mr. Fanning, I understand that the Marine Corps—by the way, we just saw the department of one of the great Members of our Subcommittee staff, Eric Hopkins, who has been to a lot of these hearings over the last 3 or so years. He is off to become a Marine Officer. He reports, I think, the first of October down at Quantico and we miss him and wish him well.

But I understand the Marine Corps will be the first of the military services to have a major financial piece under audit. Is that correct?

Mr. FANNING. It is correct. It is under audit right now.

Senator CARPER. Good. I think the U.S. Marine Corps was the first military service to assert audit readiness of a financial statement since the Department first articulated its financial improvement strategy, I want to say maybe 5 years ago, December 2005 is what I am told. In fact, I understand the Marines put out a report showing the benefits of improving their financial systems, including a net savings of money, some, I guess, $15, $16, $17 million.

So, if you will, just give us the status, please, of the Marine Corp's Statement of Budgetary Resources audit. What type of opinion do you expect that they will be receiving on this first-year audit, please?

Mr. FANNING. I think Mr. Hale has more insight into this. It is underway right now. I am optimistic about the opinion, but we will know soon. We do not yet know. We have learned a number of lessons. It is much harder than we thought it was, so it is taking longer, so I think that the major issue at stake here is just the timing and how much longer we have. But I am optimistic about the progress we have made.

Mr. HALE. We have asked the Marines to take a lot of beachheads in our history——

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Senator CARPER. Yes, we have——

Mr. HALE [continuing]. And we are asking them to take a financial beachhead, and I appreciate their efforts. As Eric said, we have learned a lot from the audit of their Statement of Budgetary Resources. It is budget data. That is one of our high priority areas. The deadline for an audit opinion is November 15. We are not going to make that. We will get a disclaimer, that is the Marines will.

We will then decide whether to continue the audit. We have struggled, to be honest with you. Frankly, the problems with our business processes have been greater than we expected and we are not going to complete the audit by November 15. We will have to decide whether to continue that audit and seek an out-of-cycle opinion, or stop it and go on to fiscal year 2011.

Regardless of what decision we make about the audit, we have learned a lot, and I am still cautiously optimistic. I am optimistic that we are going to get there. The Marines are committed, as only Marines can be, and I think they will get to a clean audit opinion and will be a major accomplishment for the Department and we will have learned much that we can apply to the other services.

Did that answer your question?

Senator CARPER. Yes. That is good. I know when the Naval Academy plays the Air Force Academy or Army-West Point that there is a pretty good competition in the athletic area. Maybe could we look for a little competitive spirit here, as well?

Mr. HALE. Absolutely. I served as the Air Force Financial Manager, and saw benefits from interservice competition, but we must use correctly. You do not want to use it incorrectly. Used correctly it is a powerful tool.

I will say for the record, the Department of the Navy is the leader here. The Army and the Air Force are working hard, but the Navy is in the lead, and the Marine Corps in particular, and I appreciate it.

Again, what we have to do is learn from the Marine Corps' audit. We do these quarterly meetings of this governance board. Every one that I have attended has included a briefing from the Marines about the problems they are having with this audit lessons learned that must be passed, on to the Air Force and the Army. So again, I appreciate what they are doing.

We will get there. It is just—it is difficult. Our business systems and processes are not conducive to audits. They are pretty good at getting the resources out to the warfighters. I think we do well there. The commanders are happy with the service they get. They are not, as I said, conducive to audits, and we are struggling, but we are going to get there.

Senator CARPER. Does that say something about the kind of training that we provide for some of our officers? Not every officer needs to be trained to do this kind of thing. Some do, some do not. Many do not.

Mr. HALE. Eighty percent of the Defense Financial Managers are civilians. About 20 percent are officers. Both the civilian and officers are trained to handle our money in the ways that are legal and effective while getting it out to the warfighters, to obey the laws, and we do pretty well at that, unfortunately, not always, but

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generally we do. We have not focused on standard business processes, and we have too many systems and that just drives auditors nuts because you cannot reconcile the data and it is very difficult for them.

We have to move toward more standard processes, but I do not want to lose the effectiveness of the overall— of the ability to support the warfighters. That has to stay there. We have to find a way to do both, and that is the challenge.

Senator CARPER. Yes, that is.

I am not picking on the Army or the Air Force, but let me just take this opportunity to ask either Mr. Fanning, Ms. McGrath, or Mr. Hale, what do you think, in terms of lessons learned from the work that is going on in the Navy and the Marine Corps in particular, but what are some of the lessons learned from the Marine Corp's Statement of Budgetary Resources audit?

Ms. MCGRATH. If I can start——

Senator CARPER. Would you?

Ms. MCGRATH. Mr. Hale identified a few of the challenges in terms of our business processes and the fact that our systems are not interoperable. When the auditors sort of taste the paper in terms of the audit trail, it really highlights, I will say, how broken the business processes are or how much more we need to document what they are. And I mentioned a few minutes ago the importance of this thing called business process reengineering, understanding how you do what you do. It really highlights how well we are not documented when we are going through audit.

And so we use that as a big lesson learned in terms of our future investments, so sort of the systems on the board, they are taking the lessons learned from the Statement of Budgetary Resources audit from the Marine Corps and saying, what did we find and how do we influence our systems and our processes going forward, because if we do not capitalize those lessons, then shame on us for not then applying those to the future investment.

So that is a critical area that we have learned, and I also mentioned earlier, I used a term cross-functional, meaning all different types of businesses in organization. They almost participate, and in the audit, they almost participate in order to achieve the auditability in the records, and again, that is a big lesson learned as we are implementing these new systems such that it is not just the financial folks with their implementation. It takes the entire organization, Army, Navy, Air Force, or department to successfully implement these, and those are significant lessons that we are learning from the Marine Corps audit that will drive both behavior going forward and also systems implementation.

Senator CARPER. Mr. Fanning.

Mr. FANNING. I would really just echo what Ms. McGrath said. I think as big as the Marine Corps is, we are dependent on agencies and organizations outside to reach a clean opinion, which is why we need to work on this together, which is why Mr. Hale has pulled us all together.

Mr. HALE. I could bore you to death with what we have learned from the Marine Corps audit, however, I will only give two examples to give you a sense of what we learned.

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We have struggled to balance our checkbook with Treasury—it is formally known as Funds Balance with Treasury but because we do not have the data and the systems that track it in the detail that auditors expect, I do not know whether we have finally gotten the beginning balance right.

The other example I will give you is contract close-out. We have a habit in the Department that when we complete the contract and get what we ordered, there is a little money left. The contract has to be formally closed. There has to be reconciliation. Sometimes there has to be an audit to determine the final payment amounts and if everything is correct. Many of those things do not get done because people are busy. That is part of the job for those 20,000 folks that we need to add to the acquisition workforce. Therefore, we have many open contracts that have caused us problems in this audit.

There are two pages in my notes of things we have learned. I cannot remember them all, but I hope it gives you a flavor. It is not sexy stuff. It is blocking and tackling. We have just got to get better at it.

Senator CARPER. OK. I am tempted to just ask—we have a little bit of time here—I am just tempted to ask each of the witnesses, let us kind of go back to—you have heard some of the questions my colleagues and I have asked. You have heard the responses that you have given, that your fellow witnesses have given. You all had a chance to give an opening statement, an abbreviated or truncated statement because you just could not talk forever. Otherwise, we would never get out of here. Just any thoughts that kind of occur to you as we are going through this hearing that you would like to put on the table, as well?

And while you are thinking about that, let me ask a question that kind of goes back to a comment I made at the end of Senator McCain's questioning. He was asking, has anybody been fired for their inability to move the ball down the field in terms of these goals that we are talking about? A question I said, "Maybe it is not just a firing issue, but maybe a hiring issue, as well." And we talked about the 20,000 people who work in acquisition.

And I always go back—Mr. Hale, did you know John Young?

Mr. HALE. Yes.

Senator CARPER. Does Ash Carter have his position now? Is that the way——

Mr. HALE. Yes.

Senator CARPER. OK. Among the things, and we have a lot of hearings that we sit through, I will never forget that day the fellow who was then John Young's deputy who came in and testified, he said, basically—I mentioned this earlier—he said—we asked him what kind of turnover he got from his predecessor and he said, "Well, the guy left 18 months before I got here." And how many direct reports do you have, and he said, "I am supposed to have six, but we only had two when I came on board."

That suggests to me that the Department of Defense was not doing a very good job, in some cases, of filling key positions. And maybe it partly is our problem, not doing a good enough job confirming, or the administration, whether it was President Bush or President Obama, doing a good enough job of nominating people,

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good people, to serve in these positions. Probably no one is devoid of blame.

But on the hiring side, on the confirmation side, on the nominating and vetting side, what more can be done? That is not sexy stuff, but it is blocking and tackling, and let me just ask, how are we doing there?

Mr. HALE. I have been through confirmation twice. My wife made me swear I would never do it again.

Senator CARPER. Did you take the oath? You said you would never do it again, or——

Mr. HALE. She made me promise I would never do it again. I did not agree. [Laughter.]

It is an onerous process. I understand why the President and the Congress or the Senate would expect to have a thorough vetting of candidates. It does take a long time, and frankly, it often gets tied up in other issues—I did not get put on hold this time, but when I was the Air Force FM nominee, I was on hold for about 4 months because a member wanted some more C–130s at a base. It had nothing to do with me. It is just the process. Can we do better? Yes, we need to find a way to speed it up and I make that statement in a bipartisan fashion. I think it applies to both parties.

Most of the FMs—it is a little less true in acquisition. I only have one——

Senator CARPER. Let me just follow up on this a little bit. Do you, in your experience—and anybody else who wants to respond to this, feel free—but in terms of the positions that we have in the Department of Defense that you are aware of that are confirmable and those which do not require confirmation, do we have too many that require confirmation?

Mr. HALE. Oh my goodness. Well, probably. I mean, now you are going to ask me which ones——

Senator CARPER. No, I am not going to ask you——

Mr. HALE. There are about 50 confirmable positions in the Department of Defense, about 30 in the Office of the Secretary of Defense, 20 in the services. So you can draw the conclusions you want. I think there probably are enough and maybe too many.

Senator CARPER. Right.

Mr. HALE. One of the things that I always look for is the continuity of civilian senior leaders—of career civilian senior leadership, because there will be a hiatus when we go through changes of administration. It is inevitable. Therefore, you need to have a back-up plan in terms of who will run the show in the absence of the confirmed appointees.

I must say, I spent a long time—I have never been in the civil service, but I worked for the Congressional Budget Office and was more or less career person for a number of years before taking political appointments. Being a political appointee changes your point of view. It changes your time horizon. I know I only have a couple of years, both because of my wife and probably because of the politics. Meanwhile, I want to get something done, and that is why you hear me talk about interim goals with regard to this and other aspects.

I think there is a proper place for confirmed appointees. We may have a few too many but there is a place for them.

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Senator CARPER. Speaking of getting something, I go back and forth to Delaware at night and come back on the train in the morning, and usually I drive from my home to the train station, which is not that far away. Sometimes I will listen to National Public Radio (NPR) coming in and catch the morning news. A couple of weeks ago, they had a report on a study that was done where they asked—it was not NPR that did the study, it was someone else that did the study, and they asked what were the factors that gave people satisfaction in the work that they did. What gives you joy or satisfaction in the work? And they asked a whole lot of people around the country what gave them—and they asked, is it salary? Is it benefits? Is it your working conditions, the people you work with, your office space or whatever work space you have? What is it?

And the winner was, getting something done. People really want to feel like they are getting something done that is worthwhile, and as a recovering Governor, one of my frustrations here is, especially in a little State like Delaware where Democrats and Republicans kind of like each other——

Mr. HALE. Mm-hmm. [Laughter.]

Senator CARPER [continuing]. And we have a tendency to actually work together more often than not, it is a real frustration, just getting something done.

Mr. HALE. I call that driving home satisfaction. It does not happen every day, but there are times when you are driving home and I can think, I really was able to do something to help the people in the Department of Defense.

Senator CARPER. Let me go on. I said I was going to ask each of you to see if there are some thoughts that occurred to you during the course of this hearing that you would like to put on the table. General Durbin, let me just start with you, if I could. Please, General Durbin.

General DURBIN. Thank you, sir. Three quick comments. Back to Secretary Hale's comment about the audit standards, I have learned more in the last 2 years and specifically the last 4 months associated with what audit readiness means in the audit standards, and I will tell you that at a certain point, you get to where your father would say, perhaps we have gone beyond the common sense, specifically with valuation, historical valuation and so forth. So I would ask that you favorably consider the request that Secretary Hale gave, because I think it has a lot of merit.

Senator CARPER. OK.

General DURBIN. We would still move the needle in the right direction and we would do what is right for the Department and we would manage it much better and we would support our soldiers, sailors, airmen, marines.

The second is that perhaps the same request might come for some potential changes, I do not know what they might be and I do not know if they will be, but from the IT, the Information Technology Acquisition Reform Task Force that we are focused on inside the Department. I might also lay out some appropriate changes for how we handle the acquisition of IT much different than how we do for major weapons systems. I will tell you, there are significant differences.

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And then the third point would be I really appreciate you raising my competitive spirit in your comments about our sister service. Those who are my direct reports are probably really excited about you raising my competitive spirit.

Senator CARPER. Good. Thank you. Mr. Tillotson.

Mr. TILLOTSON. Thank you, Mr. Chairman. I will start with the reiteration, I think, of a message we all gave you. We are collectively committed and reasonably confident that 2017, for at least those priorities that Secretary Hale has set, are achievable. That goal is not without its challenges. You heard from Mr. Khan that the ERP systems, the Enterprise Resource Planning Systems, remain both a key contributor, but also a key challenge, and the breadth of that challenge is one of the things that keeps us at least us in the Air Force and me personally focused.

So the good news and bad news is, we do have people paying attention, and I think that is a major message to give back to you, is the senior leadership within the Air Force, and I think you have heard from my colleagues, is very focused on achieving this outcome because of the second point, which is that Secretary Hale has focused the effort on some things that carry with it value to the Department, and more importantly, value not just to the financial side of the Department, but value to the mission side of the Department, as well.

It is hard to argue with a value proposition that says it would be nice to know where your cash is and it would be nice to know where your equipment is. That is a hard thing for anybody to argue with, and there is huge benefit to the warfighters to finding both of those things because it means we will provide not just the information about those and enhance the decisions, but quite frankly, we will make sure that the warfighter in the field gets the things they need at the time they need it. So there is huge benefit to focusing on that and I applaud Secretary Hale for having focused that effort.

The third thing——

Senator CARPER. Let me just interrupt you. That was a wonderful riff you just gave us there. It is good to know where your cash is. It is good to know where your equipment is. I am glad we got that one for the record.

Mr. TILLOTSON. Yes, sir. I am the class dummy in the group, so I have to bring it down to my level, so there you go.

The third thing I would note is that while I appreciate your challenge on—or the challenge of competition, joint warfighting is about, the way I phrase it from an old college phrase, cooperate and graduate. And so the truth of the matter is, we are watching with great interest what the Navy, Department of the Navy, and the Marine Corps are doing, because to Secretary Hale's point, they are, in fact, kind of leading the way on this, which is very helpful to the rest of us.

What is perhaps even more helpful is that there is a very open and transparent spirit amongst the people you see here. We talk to each other routinely. We share information. We share bad news stories along with good news stories because we learn from them, and I think that is a major foundation of success because it is the Department as a whole that has to succeed, to the point that Mr.

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Fanning made. The Marine Corps can do a lot of things internally, but a lot of the information they get come from other services, other departments, other defense agencies, and so learning those lessons jointly is kind of a key and essential part.

So while I love the competitive spirit component of this, I am also very much in the joint, let us cooperate and graduate, and quite frankly, I am gratified that all my colleagues share that view, and I think that is something that should be an encouragement to this Committee.

Senator CARPER. All right. Thank you. Mr. Fanning.

Mr. FANNING. Thank you, Mr. Chairman. A couple of things. First, business process reengineering. I think we still have not placed enough emphasis on that as a department. Ms. McGrath is leading the charge on that and I wholeheartedly applaud. I think part of why we have some problems with these systems that extend so far back is we made them acquisition programs too soon. I look at technology as an enabler and a tool, not as the solution. And until we get our governance structure and our business processes in place in very large scales, we should not be applying technology on top of them. What we are learning is that it is as easy to automate bad processes as it is to automate good processes, so we have to get the processes right first.

The second thing in the category of be careful what you wish for, you asked what more you could do, and I think that the oversight from Congress, including the GAO, is very important in supporting what we do. These charts, these numbers definitely get the attention of the leadership, and without that level, at the four-star level, we really cannot get these things done, because in the Navy Department, for example, the commands are run by three-stars and it takes a four-star over the top to remind them that there is a larger enterprise than their command.

And something that Mr. Tillotson said and others have said, the best way to get the attention of the leadership is to tie it to the warfighter, and these numbers do that because they see now how these numbers are competing against other things. But also, when they see the benefit of these programs, that it is not just the business side but it actually does lead to benefit for the warfighter, it gets their attention very fast, and I think they see that now in a way that they did not before. There is tremendous cost to all the departments and DOD as a whole, a whole level of oversight that I had not seen before.

And finally, I just echo Mr. Hale and say for those of us who are political appointees, we are very sensitive to how little time we really have to impact things, and so we look at these 2017 goals and say, "What can we really get done?" Where can we advance the ball for the next team, or what can we do to give escape velocity to something we are working on.

Senator CARPER. Thanks very much. Those are good points. Ms. McGrath.

Ms. MCGRATH. So I only have two that I would like to mention in closing, and one was mentioned by General Durbin, which is the information technology acquisition reform efforts. He mentioned a task force. Secretary Lynn has asked that I lead a task force within the Department focused on how do we deliver information tech-

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nology capabilities faster than we currently do. And a lot of it goes to the requirements, conversations we have in terms of scoping the systems or capabilities to the right level, setting delivery timelines that are shorter, they are months not years, so months mean more like 18 months as opposed to 5 years so that we are actually delivering capability in a much more incremental fashion, closer to what the industry does today. So we will be providing our recommendations, some of which may require legislative changes, we are not sure just yet, but look forward to working with the Congress on enabling that capability.

And the second is, frankly, thanks for the Chief Management Officer legislation. I think what you have heard today is not just today, it is what we do every day, and I think both—I think everyone has mentioned both the collaborative nature and the—through the interoperability that we have achieved within the Department. I think that structure is key, bringing the enterprise focus at the component level but also at the departmental level with the Deputy Secretary, the Under Secretaries of the military departments, and their deputies. So it has been critical, and for that I thank you.

Senator CARPER. You are welcome. Mr. Hale.

Mr. HALE. Mr. Chairman, we have talked about some of the technical things we need. Perhaps the most important other ingredient is, continuity of commitment. This has to survive at least one administration, maybe a couple, and it is a real challenge because the people in my job and others change and their knowledge and commitment to these kinds of issues is different. I would offer two thoughts about what we are trying to do, and one that you can do that would help.

The one, we are trying—we just finished a round of briefings with the Under Secretaries and the Vice Chiefs and the DCMOs. My Deputy Chief Financial Officer is right behind me, Mark Easton, who has done a lot of the work——

Senator CARPER. Mark Easton, would you raise your hand?

Mr. HALE. Say again?

Senator CARPER. Mark—OK. I asked him to raise his hand.

Mr. HALE. Right here. I really appreciate what he has done.

Senator CARPER. I notice that as you speak, his lips move. I do not know—— [Laughter.]

Mr. HALE. He is probably saying, what are you saying?

Senator CARPER. You guys are pretty good at this.

Mr. HALE. We try. We have asked the services to put some commitment to the interim goals that we have specified into the SES performance evaluations, or for the right people so that I hope we will begin to institutionalize some of this process in a way that will survive an administration or two, the amount of time that I think it will take to complete it.

We are trying to do that and take other steps. It is not my habit to ask for hearings, but I would agree with Asif Khan that periodic hearings by the Congress are action-forcing events for the Department. They focus our attention and they are a good idea. I think it is something that—it is part of Congress's job is an important way to establish that continuity of commitment.

Senator CARPER. Thank you. Dr. Coburn said during the beginning of his comments, he said, this is not a "beat them up" sort of

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hearing. We do not do hearings of that nature. We want to put people on the spot sometimes. We want to commend people and folks that are doing an above-average job. We want to find out what we can do better to enable good things to happen, in this case, in the Department of Defense. We believe we have an oversight responsibility. That is part of our job and we are trying to meet that part of it.

Mr. Khan, do you want to offer a comment or two as we close?

Mr. KHAN. Yes. Thank you, Mr. Chairman. I just want to comment that the plan for the most part, the how and the why has been defined. Now the "doing it" is very important. That is the implementation part.

The other point I wanted to emphasis is that key to DOD's financial management improvement effort is its ability to develop a sustainable processes, and not just for compliance to get the number for the financial statement. It is to have the information which is provided to management on a continuous basis, which is useful, reliable, and timely. It is critical.

In that respect, if I may just respond very quickly to Mr. Hale's comments about historical cost evaluation, we agree with his position that it is something which may not be cost effective. The standard does allow for estimation. However, we feel that on a go-forward basis, capturing cost information is very important for DOD because that is going to provide the granular level of information to determine their cost drivers so you can compare programs amongst each other to see which one is more costly and where efficiencies could be derived.

Third, the current leadership team is showing great commitment. We have said in the past that there should be a provision in the strategic plan implementation efforts for personnel turnover so there is continuity and sustainment turnover across administrations.

Senator CARPER. All right.

Mr. KHAN. Thank you.

Senator CARPER. Good. Thank you.

Well, let me close it out by again thanking each of you for joining us today. Thank you for your preparation. Thank you for especially the good work that is going on, not only by you, by the people that you lead, part of your team, and those that are part of that team.

The other thing I want to say is there is kind of this recurring theme. This Subcommittee, and I think this Committee, maybe as much as any in this Senate, feel that we have an obligation to try to create this culture of thrift that I have talked about and to try to do a good job of providing in a constructive way oversight. And it is not something that we just started doing yesterday. It is stuff we have been doing for a while and are going to continue it as long as the three of us who were here today happen to serve.

This hearing has focused, on a major challenge for the Department of Defense, and that is creating a modern and effective financial management system. Without doubt, there is good work that is taking place. You all have talked about some of it, and there are a lot of dedicated people who handle the work in the trenches and other places around the world doing very dangerous stuff. Even as we meet here today, there are people who are a lot closer to home

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who handle the finances and the economy within the Department of Defense. And I think there is a growing commitment to improving. Everything I do, I know I can do better, everything, and we have to—I think we all realize that, we understand that, and we just have to be committed to that every day.

Having said all that, this hearing has demonstrated there is a good deal more that can be done and that needs to be done, and all of us here in Congress share a responsibility to do as much as we can, as you do, to curb what we call waste and fraud and abuse. It is really this notion that we are spending all this money we do not have. We are spending all this money we do not have. It is just not sustainable. Otherwise, we will end up like Greece, and it is not what I want. I know it is not what you want. So this is just extremely important, really, I think, for our country and for the confidence that the people invest in us who send us here to work for them.

Not only will achieving the goal of becoming ready to pass an audit help the Department of Defense ensure that billions of tax dollars are spent properly, but as some of you have pointed out, it will also have the benefit of making certain that our troops have the equipment that they need and have it where they need it. So again, we thank you for being with us today and for your preparation and your responses.

We have some people on our Subcommittee who were not able to join us. I know they have an interest in these issues. And I think we have a little bit of time, do you know, Peter—2 weeks that we give our Subcommittee Members to send follow-up questions to you. If you receive those, we just ask that you respond to them promptly.

We look forward to continuing this dialogue, this conversation, and we look forward to even more progress the next time we sit in this room at these tables and have that conversation.

With that in mind, I think this—and let me say to our staffs, Democrat and Republican, thank you for the work in helping us prepare for today and for everyone on the other side of this dais, as well. Thank you.

And with that, this hearing is adjourned.

[Whereupon, at 4:28 p.m., the Subcommittee was adjourned.]

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APPENDIX

STATEMENT OF SENATOR JOHN MCCAIN, 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 29, 2010

Senator Carper, thank you for holding this hearing today. As you know, for some time now, I have called on the Department of Defense to achieve audit-ready financial statements. In my view, the ability to truly understand how the Department executes financial responsibility and programming would ensure that taxpayer dollars are not being wasted, stolen or otherwise abused.

In fiscal year 2010 alone, DoD received $694 billion in appropriations. To track it, DoD relies upon thousands of different business systems, which produce financial data and reports. Unfortunately, many of the financial reports and underlying data are not reliable, because of incompatible and antiquated financial systems, weak internal controls, poor accounting processes, and a lack of management accountability.

For the last two decades, Congress has pushed for financial management reform throughout the federal government. In Section 1003 of the National Defense Authorization Act for Fiscal Year 2010, Congress required that DoD develop a plan to achieve a full, unqualified audit by September 30, 2017, and submit semiannual reports to Congress on the Department's progress toward that objective. Through that law, for the first time, DoD was legislatively required to provide Congress with a Financial Improvement and Audit Readiness (FIAR) Plan.

In pursuing compliance with the provision, DoD has been encouraged to find greater discipline in how it develops and acquires its financial systems. Over the last few years, and after a sizeable investment of taxpayer money, the piecemeal, inconsistent

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approach that DOD took toward business systems modernization had resulted in little measurable progress. That had to change and, to some extent, it has.

Responsibility for fixing this begins at the top. Senior executive leadership at DoD and the Services is key to driving this enterprise forward successfully. While I recognize the efforts of the dedicated professionals about to testify, I am still concerned about the extent of coordination and executive-level buy-in throughout the upper chain of command at both DoD and the Service Components.

During previous nomination hearings before the Senate Armed Services Committee, key senior officials responsible for business operations have in the past promised that financial improvements are a priority, progress will be made, and deadlines will be met. Yet, here we are today, discussing these same issues, under a cloud of doubt that the 2017 deadline can still be met.

Nevertheless, we cannot lose sight of the overall objective here. Efforts to ensure that the DOD is auditable must occur in tandem with improvements to the Department's overall business and financial management. These goals work towards the same objective – to improve how DOD does business and ensuring it does so in a way that is transparent and accountable.

Now, I realize that the global effort required to get DoD audit-ready is a Herculean task. That's why the development of incremental milestones towards full audit-readiness is so important. It will provide DoD (and Congress) a means to measure performance-to-plan, essential for maintaining accountability throughout this process. Language in the report accompanying the Committee-passed National Defense Authorization Act for Fiscal Year 2011, describes what the Senate Armed Services Committee expects to see in the next semiannual FIAR Plan, due on November 15, 2010. This includes the military departments' milestones, as well as details on the functional activities necessary for DoD to achieve true audit-readiness, in particular, asset valuation.

With that in mind, I thank the witnesses for their attendance today.

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FOR IMMEDIATE RELEASE

TOM CARPER

UNITED STATES SENATOR · DELAWARE

FOR RELEASE: Sept. 29, 2010
CONTACT: Emily Spain (202) 224-2441

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

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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

Opening Statement of Senator Thomas R. Carper, Chairman

Today we will hear from our panel of witnesses about financial accountability at the Department of Defense. One specific question is whether the Department of Defense is on track to pass a financial audit and, overall, we will learn about the importance of improving the Department's financial management and accountability.

The witnesses who've joined us today will tell an important story: keeping our nation's military affordable and effective demands that we track the millions of transactions made each year and ensure that hundreds of billions of dollars in expenditures are properly accounted for.

If modern and effective accounting systems are not in place, then we will have a system that can foster waste and fraud. Unfortunately, we see too many examples of waste and fraud within military programs and operations every year.

Also, with a robust and modern accounting system, the Pentagon, the Administration and Congress can make informed decisions about our nation's security needs.

Secretary Robert Gates recently proposed a series of cost saving moves at DOD. I think the Secretary recognizes that the way we buy and manage our weapons systems, the way we equip, feed and pay our troops and the maintenance of hundreds of military facilities across the world needs to become more modern and business-like.

However, DOD's financial system is not where it needs to be. Most notably, DOD is one of the last federal agencies still unable to pass a financial audit. Private businesses in America, and their shareholders and top managers, understand the importance of passing an audit, but the Pentagon has failed to do so. The Pentagon's financial management systems are simply not good enough to even try.

Congress has established a requirement that DOD become audit ready by 2017. This is a critical goal, and considering the amount of time and money that's gone into this effort, it's

one that should have been met years ago. Not only will an audit help the Department of Defense ensure that billions of tax dollars are being spent properly, but it will also help make certain that our troops have the equipment they need when and where they need it.

Unfortunately, according to the Government Accountability Office, the Department of Defense cannot even say whether the audit readiness goal of 2017 will be met.

At the end of the day, making sure the Department of Defense's financial books are in order isn't just about being a good steward of taxpayers' money – although that is a top priority for me – it's about ensuring that our brave service men and women have the equipment and supplies that they need and that we're paying for.

Further, the GAO will testify that that audit readiness goal faces a major and costly problem.

The Department of Defense and the military services are modernizing their financial systems, including their related computerized business systems, to become audit ready. This is an appropriate and important set of initiatives to ensure that DOD has the same modern accounting tools now common in almost every major business. These upgrades, such as buying and implementing new accounting software, go by the arcane term: Enterprise Resource Planning.

The GAO will describe today that, overall, the financial system upgrades are years behind schedule and at least $6.9 billion over budget.

That's right, the program to upgrade our military financial systems, so that we can track our dollars and ensure we spend money effectively, are themselves behind schedule and over budget.

The point of these new accounting and financial management systems is to better manage programs and money, yet they themselves are over budget.

As a recovering Governor, I understand the unique challenges that come along with running a major institution like the Department of Defense.

However, I am also a former State Treasurer, so I know the importance of keeping our financial house in order. As a U.S. Senator and a taxpayer, I also understand the importance of ensuring that our federal dollars are well spent, especially during a time of record budget deficits.

Of course, no program is perfect. But Congress must ensure that the more than $700 billion we spend through the Pentagon is spent effectively and efficiently.

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Statement of

The Honorable Robert F. Hale
Under Secretary of Defense (Comptroller)

and

The Honorable Elizabeth A. McGrath
Deputy Chief Management Officer
Department of Defense

before the

Senate Committee on
Homeland Security & Governmental Affairs

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

September 29, 2010

Embargoed until released
by Senate Committee on Homeland Security & Governmental Affairs

Chairman Carper, Senator McCain, Members of the Subcommittee, thank you for the opportunity to testify today on financial management improvement efforts at the Department of Defense (DoD). We also want to thank Members of Congress for their support of our men and women in the military. We cannot meet the nation's security needs without your assistance.

One of the key reasons for seeking improved financial management information is to satisfy our duty as stewards of the resources entrusted to us by citizens. You represent those taxpayers, and your oversight and interest in this topic furthers our ability to achieve our shared goals.

CFO and DCMO: Partnership for Improvement

We believe there are significant strengths of Defense financial management. Most importantly, Defense financial managers are successfully providing DoD's warfighters with the resources and financial services necessary to meet our national security objectives. We are doing this in Afghanistan and Iraq and around the world. DoD also has effective financial processes in many key areas. For example, our payment processes produce timely and accurate payments in a very high percentage of cases. Interest payments have been dramatically reduced in recent years, and our summary reconciliation rates with Treasury are very high. As we work to improve DoD financial management, we must be careful not to achieve those improvements at the expense of these successes.

We also understand that there are enterprise-wide weaknesses in DoD financial management that demand an enterprise-wide business response. The lack of auditable financial statements is an indication of those weaknesses.

We have put in place an organization and an effective governance model to address these enterprise-wide issues. The Deputy Secretary of Defense -- in his role as DoD's Chief Management Officer (CMO) -- is responsible for Department-wide business operations and management issues and is supported by the Deputy Chief Management Officer (DCMO). The Under Secretary of Defense (Comptroller) has responsibility for financial management policy and operations of the DoD for the Secretary and Deputy Secretary. The Comptroller has a lead role in efforts to improve financial information and achieve audit readiness, but we believe that the Comptroller community cannot improve financial management on its own. Rather, we believe the Department will achieve its financial management goals only through an active partnership between the Comptroller and the DCMO - a partnership that draws support from across the enterprise in acquisition, logistics, and other business areas, as well as the business communities that reside in the Military Departments. This partnership is building the future business processes and systems environment of DoD, with audit readiness and management information in mind.

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Why Financial Audit Problems Persist

Why hasn't DoD been able to produce financial statements that will withstand external audits?

To pass an audit, auditors require that an organization have a business environment – including systems and processes – that record the financial results of business events (such as contract signing) in a consistent and reliable manner. Our current business environment does not always meet that standard. Many of our systems are old and handle or exchange information in ways that do not readily support current audit standards. They were designed decades ago to meet budgetary rather than proprietary accounting standards and tend to be non-standard and without good financial controls. In these cases, the consistent application of required internal controls becomes critical. Many of the legacy systems also do not record data at the transaction level, even though that capability greatly facilitates an audit.

DoD's enormous size and geographical dispersion substantially complicate the challenges associated with meeting audit standards. We obligate an average of $2 billion to $3 billion every business day and handle hundreds of thousands of payment transactions. These financial transactions take place in thousands of locations worldwide, including in war zones. Because of our size and mission requirements, it is not feasible to deploy an army of accountants to manually reconcile our books.

There has been some progress toward improving financial information and audit readiness in several entities. For example, the Army Corps of Engineers has fully auditable financial statements and is maintaining them. Several Defense Agencies maintain auditable statements including the Defense Finance and Accounting Service and the Defense Contract Audit Agency. Several large trust funds managed by DoD are also auditable. But it is also clear that the most daunting challenges remain ahead, particularly the challenge of moving the military services toward auditability.

Our Current Approach—Improve the Quality of the Information We Use Every Day

Given these daunting challenges, we decided that we needed to revise our approach to improving financial information and achieving audit readiness in order to afford DoD a better chance of overcoming the biggest obstacles.

Shortly after the new Defense team took office, we began consultations regarding a new approach with senior leaders in the Comptroller and DCMO organizations and in the Military Departments and Defense Agencies. We also discussed the revised strategy with the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and some staff members in the Congress. In August of last year a memorandum was issued outlining the new approach.

This approach focuses on improving the quality, accuracy, and reliability of the financial and asset information that we use every day to manage the Department. Specifically, we are

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focusing on two types of information -- budgetary information and existence and completeness of assets.

Budgetary information is critical to leadership at all levels—program managers, program executive officers, base commanders, Service Chiefs, Service Secretaries, and the Secretary of Defense —as they make operational and resource allocation decisions. Our new focus on improving budgetary information will lead to audit readiness for our Statements of Budgetary Resources.

We also need to know the numbers and location of our critical mission assets in order to be able to operate effectively. The financial audit elements of "existence and completeness" translate directly into knowing "what we have" and "where it is," so we can use the equipment in combat and ensure that our acquisition community is buying only what DoD needs.

The FY 2010 National Defense Authorization Act accommodates this approach to financial improvement and audit readiness. We appreciate the support of the Congress for our new approach.

System Improvements Are Critical to Success

To achieve and sustain auditable financial statements, even using this new and focused approach, we must improve our financial systems.

To create a 21st century business environment capable of supporting audit readiness, the Department is working to implement Enterprise Resource Planning (ERP) systems and, at the same time, to modernize many legacy systems. Our goal is to deliver a streamlined systems environment comprised of IT systems 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.

We are focusing on three key areas: First, our current approach to acquiring and implementing IT systems can be improved. The Deputy Secretary has made clear that one of his highest management priorities is improving the acquisition, development, and fielding of IT systems. He has established an IT Acquisition Reform Task Force to lead this effort.

Second, we want to define a target systems architecture that is modeled on the premise of end-to-end business processes and uses the capability inherent in our new ERP systems to the maximum extent practicable. This will minimize the number of required data exchanges, reducing the potential for error. It will also reduce the development of unnecessary redundant capability.

Third, we will 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

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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 and guarantee auditable statements. Achieving auditability requires that we apply a consistent level of process controls that cross organizations and functional areas. 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 the data quality and maintain a compliant audit trail within the end-to-end business process. This process must be controlled from the transaction level, through general ledger postings, accurate trial balances, and reliable period closeouts. Only by completing these steps can we prepare financial statements that an auditor can review and verify. Many elements of our current business environment must be changed to allow us to meet financial audit standards. In the midst of two wars and numerous military operations, it will be a major challenge to implement our new approach.

Implementation Is the Challenge

We know from long experience in government that implementing any new approach is much more than half the problem. So immediately after establishing this approach, we began taking steps to implement it:

- First, we placed a priority on the effort. Financial improvement and audit readiness must be an agency-wide priority that has the support of senior leaders. This initiative is now one of DoD's top-ten business priorities, a key component of the Department's Strategic Management Plan, and was identified as one of the Department's High Priority Performance Goals with progress measurements described in the President's FY 2011 Budget's Analytic Perspectives volume.

- Second, we created a governance structure. We have a governance board co-chaired by the Chief Financial Officer (CFO) and DCMO that meets quarterly and includes the DCMOs from the Military Departments. The Chief Management Officer of the DoD and the Military Department CMOs have received personal briefings. The Department's Deputy Chief Financial Officer also conducts weekly meetings with the heads of financial operations in the Military Departments, and these meetings regularly discuss issues related to financial improvement and audit readiness.

- Third, we obtained resources. Nothing is harder in DoD than acquiring resources for business process improvements, because these dollars compete -- as they should -- with direct warfighter needs. But the Department has ensured that increased resources are devoted to high-priority financial improvement efforts at home, as well as improving financial controls over business operations in Afghanistan.

In order to demonstrate progress and to build confidence among stakeholders, our plan includes interim goals that can be achieved by FY 2012. There will be a DoD-wide examination

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and validation of our funds control and distribution process (known in audit terms as "appropriations received"). Periodic validation of appropriations received will demonstrate to Congress that we are controlling our funds carefully and in ways that ensure we comply with the laws you enact. A clean opinion on the Marine Corps Statement of Budgetary Resources is a key interim goal. While challenging and difficult, we will learn much from this initiative, and we applaud the Marine Corps for this trail-blazing effort. We have also asked the Military Departments to identify areas that can be independently validated by FY 2012, including audit readiness for funds balance with Treasury (our "checkbook") and a comprehensive review of organizations operating with our new ERPs. We've also asked that progress on these plans be part of performance evaluations, reinforcing both its priority and accountability for results.

We continue to build more detail into our plans and to push for execution of the existing plans. The FY 2010 National Defense Authorization Act (NDAA) requires that the CFO provide a semi-annual report on financial improvement and audit readiness in May and November. We are presently drafting the November 2010 report, which will provide considerably more detail than the first report last May. We will meet both the required deadline for this report and its associated detail. Further, the CMO's statutory reports -- such as the Strategic Management Plan that addresses business operations and the Enterprise Transition Plan that captures information on systems investments and related progress -- will continue to be synchronized with financial improvement reporting.

The FY 2010 NDAA not only requires reports; it requires that DoD have fully auditable financial statements by 2017. Under current audit rules and in view of the timelines for reaching our target business systems environment, meeting that date would likely require the expenditure of large sums of DoD dollars to acquire and improve information – especially valuation information – that is rarely useful to DoD managers. We have concerns that the cost of recording, reporting, and auditing this historical information far exceeds any benefits it may provide.

DoD agrees with the need to establish a framework that provides improved cost and management information that will support better management of our assets and also support audits of the information. We are working with OMB, Treasury, and GAO to see if there are more cost-effective ways to reach full auditability, to include considering an interim shift to a cash basis of accounting and evaluating the capabilities inherent in ERP systems to capture the cost of new acquisitions. Draft language in the Senate authorization bill would require DoD to perform a business case analysis to weigh the costs and benefits of auditing asset historical values and determine the most cost-effective approach to resolve this issue. We will take into account these discussions with OMB, Treasury, and GAO in responding to this Congressional request.

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Our Commitment

We recognize the challenges associated with improving financial information and achieving audit readiness in the Department of Defense. But we have a new, focused strategy to take on these challenges, and we have formed a partnership between the CFO and DCMO communities to help us implement that strategy.

In closing, we want the Subcommittee to know that we are all personally committed to this effort as part of our overall commitment to providing the financial resources and business operations necessary to meet our national security objectives.

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STATEMENT OF

MR. ERIC FANNING
DEPUTY UNDER SECRETARY OF THE NAVY/
DEPUTY CHIEF MANAGEMENT OFFICER

BEFORE THE

UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENT AFFAIRS

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

IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

SEPTEMBER 29, 2010

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BY THE SENATE COMMITTEE ON
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AND GOVERNMENT AFFAIRS

Chairman Carper, Senator McCain, distinguished members of the Subcommittee, I would like to thank you for this opportunity to discuss the Department of the Navy's efforts to improve its financial management processes and related business systems. Let me just say at the outset that our plan for improvements in financial management are integrated into the Department of Defense's (DoD) Financial Improvement and Audit Readiness Plan, and we fully support DoD's audit readiness strategy and goals.

The Department of the Navy's Financial Improvement Program, our blueprint for future changes, has made steady progress toward its primary goal of establishing robust internal controls over business processes impacting financial reporting. A key enabler in achieving this goal is the continued implementation of Navy Enterprise Resource Planning (Navy ERP), which brings standardized business processes and robust internal controls.

The ultimate measure of success for our audit readiness efforts is improved financial information for our business managers and leaders. Audit preparations are rigorous, requiring tighter controls over our processes and systems. Achieving auditability will be a by-product of a continuous journey toward financial improvement, a quest which will mark significant enhancements in the Department's business processes and systems along the way. These enhancements will yield efficiencies, such as reduced rework of errant transactions and tighter accountability of assets, improving our stewardship of taxpayer funds. In addition, financial information will be increasingly timely, accurate, and reliable, aiding decision makers as they direct our resources to the warfighter.

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As a first step toward auditable financial statements in the Department of the Navy, the Marine Corps has achieved audit readiness on its Statement of Budgetary Resources (SBR). An audit is currently underway, conducted by a private firm. From the audit, our Department and the entire Department of Defense have accrued a number of instructive lessons. As a result, Department of the Navy has refined the content of its overall SBR audit readiness plan, which is scheduled for completion in December 2012.

What have we learned from the Marine Corps's audit? First, we must routinely demonstrate sound financial management capabilities such as reconciling cash balances with Treasury and being able to trace financial transactions from their origin through to the financial statements. In addition, we must establish an effective reporting infrastructure which will allow us to test constantly whether samples of transactions are being executed properly. These essential capabilities, when paired with our overall goal of implementing a strengthened internal controls environment, will make our navigation toward audit readiness more certain. In addition, these capabilities must be exercised repeatedly before asserting audit readiness.

There are other formidable challenges the Marine Corps has wrestled with. First, organizations external to the Marine Corps provide them with data and services essential to accurate financial reporting. Whether it's accounting services or timely contract close-outs, the Marines are largely dependent upon other entities to provide accurate and complete data and support; levels of cooperation must be intensified. Second, assembling immense quantities of financial data and presenting them in an organized manner to satisfy audit standards has proved to be a prodigious task, requiring intricate staging. Finally, standardizing business processes, one of the Marine Corps's priorities in preparing for their audit, reduces the complexity of an entity's internal

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controls environment and also lessens inefficiencies. These "audit lessons learned" experienced so far by the Marine Corps will be magnified as the entire Department of the Navy and other large defense organizations contend with them.

As I noted earlier, Navy ERP has been a key element of our audit readiness strategy. In addition to improved internal controls, it will bring other benefits, including standardization of business procedures across the universe of users; reduced costs from legacy systems retirement; and efficiencies from streamlining and increased electronic workflow. Implementations continue on-time and on-schedule. By October 2012, Navy ERP will have over 70,000 users and will manage fifty percent of Navy's obligational authority, about $71 billion.

While this re-systemization will aid our audit preparations, our plan of course is to also achieve audit readiness while parts of our organization still operate legacy systems and processes. Key internal control objectives are the same regardless of the business and financial environment. And, while internal controls may be more robust in Navy ERP, commands which have not yet implemented it are also pursuing improved controls over their processes and systems.

Two major, over-arching challenges to success are common to both our Financial Improvement Program's progress and the continued successful implementation of Navy ERP. The twin hurdles are gaining top-to-bottom organizational acceptance of the changes these programs bring, and continuing the Department's commitment to adequately fund both initiatives. To date, the Department of the Navy's leadership has fully supported both programs, and we're moving forward with our strategy and objectives.

I'd like to conclude by thanking this subcommittee and Congress for taking an interest in our efforts at audit readiness and business systems modernization. Your interest and support will help greatly as we cross the hurdles of business transformation.

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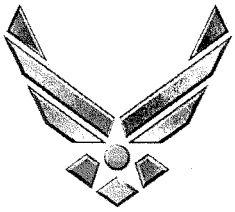
United States Air Force



Presentation

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

Improving Financial Accountability at the Department of Defense

Witness Statement of Mr. David Tillotson III, Deputy Chief Management Officer, Office of the Under Secretary of the Air Force

September 29, 2010

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BY THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

Mr. Chairman, members of the committee, thank you for the opportunity to appear today. Your continuing oversight of federal financial management is invaluable in helping the Air Force transform our business operations to increase transparency and more effectively and efficiently manage the resources entrusted to us.

Before going further I would like to speak briefly about how the Air Force views financial accountability. Similar to how air superiority is one of many mission goals in a commander's campaign plan, financial accountability is one of several business goals in the Air Force's campaign to transform business operations in order to deliver the maximum combat capability to the nation for every dollar invested. Just as we employ a family of systems to achieve air superiority, we will also employ a family of business systems to achieve financial accountability. Let me assure you the Air Force is fully engaged in this effort.

Audit readiness depends on transparency and fidelity of a wide range of enterprise processes. The Air Force designed its Financial Improvement Plan (FIP) with participation from across the Air Force, not just financial managers. To emphasize the importance of audit readiness, Air Force leadership will assign additional performance responsibilities to senior executives working on logistics and installations issues who oversee portions of the Financial Improvement Plan for example.

The benefits of implementing our Financial Improvement Plan include providing our Nation's leaders accurate financial information to make decisions on how to best use

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the capabilities of the United States Air Force. Additionally, we need to give the American people confidence their hard earned tax dollars are being spent properly.

Developing and Deploying Enterprise Resource Planning (ERP) Systems

The Air Force currently is deploying early versions of the Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS). These Enterprise Resource Planning (ERP) systems, along with the Air Force Integrated Pay and Personnel System (AFIPPS) and NextGen IT system serve as the foundation for achieving and sustaining unqualified audit opinions in the Air Force. The Air Force cannot fully implement the Financial Improvement Plan without the complete deployment of these ERPs.

Every ERP will have safeguards in place that ensure consistent financial data across systems, following the DoD Standard Financial Information Structure. The ERPs provide the business rules and capability to validate general ledger account balances back to individual source documents, enhancing internal controls and auditability. Ultimately, our goal is to have repeatable and auditable practices that maintain the integrity of our ERPs.

DEAMS will be the Air Force core financial system of record. It is a commercial application complying with the United States Standard General Ledger and the Federal Financial Management Improvement Act requirements and is a certified federal system under the Financial Systems Integration Office. We initially tested DEAMS for

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commitment accounting at Scott AFB, beginning in 2007. In May of this year, we replaced legacy accounting systems at Scott and are now conducting our full financial operations in DEAMS. Through September 1, over 700 AMC, TRANSCOM, and DFAS users have processed over 12,000 vendor payments totaling more than $1.35 billion, as well as 7,600 Air National Guard and Air Force Reserve travel vouchers. It is worthwhile to emphasize a point here – this limited, one base pilot project has more users and has handled more dollars in a few months than some entire federal agencies do in a whole year. As we continue to develop and deploy DEAMS, we are working with internal audit teams, the Air Force Audit Agency, and OSD to ensure the system complies with all rules and regulations and ultimately can deliver a clean audit.

ECSS is also a critical element for achieving the AF goal of a clean audit opinion. In addition to modernizing and replacing many of our older logistics system, ECSS will serve as the system of record for Air Force Working Capital Fund statements and as a feeder for certain data to DEAMS. AF-IPPS will replace both the Military Personnel Data System (MILPDS) and the Defense Joint Military Pay Systems (DJMS), providing a single, integrated personnel and pay record for military members. This will ensure the personnel and pay processes are synchronized, minimizes data entry, and eliminates interfaces and reconciliations between these two systems. NexGen IT replaces legacy Civil Engineering (CE) business systems and enables CE transformation to include asset management, space utilization, and standardized business processes across the Air Force.

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Together, these systems will allow commanders to make informed decisions to *fly, fight, and win … in air, space, and cyberspace.*

Using Lessons Learned and Moving Forward

The Air Force cannot do this alone. We are actively engaging with our service counterparts and OSD at all levels – from Under Secretary Hale and Deputy Chief Management Officer McGrath to a DFAS accountant or a financial analyst in the Army and Navy. Our interactions share methodologies, approaches, and results, leveraging best practices. For example, our approach towards military equipment existence and completeness testing was adopted by the Army in their review of fixed wing aircraft. Similarly, we have adopted the Navy's approach to assertion of Civilian Payroll, fixing a highly visible trouble area.

In 2006, the Air Force asserted its Fund Balance with Treasury (FBWT). A subsequent audit discovered that reconciliations cannot happen at summary level. The Air Force immediately developed a detailed FBWT plan of action that will allow us to assert in for December 2010. Our review in this area highlighted the need for reconciliation between interfacing systems, a key component of our ERPs. The Air Force has targeted several areas in alignment with Mr. Hale's priorities that can pay immediate dividends. We are also on schedule to assert audit readiness of our Budget Authority process by the end of this fiscal year.

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Closing

The Air Force has set itself on a planned and deliberate path to improve its financial accountability and achieve audit readiness. I can assure you our finance community is not flying solo in this endeavor. As both the Air Force's Deputy Chief Management Officer and the Director, Business Transformation, I have a singular focus on improving the effectiveness and efficiency of Air Force operations. While audit readiness is an important goal in and of itself, the beneficial effects it will have on other Air Force priorities such as modernizing our air and space inventory make it a force multiplier.

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STATEMENT BY

LIEUTENANT GENERAL ROBERT E. DURBIN
ACTING DEPUTY CHIEF MANAGEMENT OFFICER
OF THE UNITED STATES ARMY

BEFORE THE

UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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

ON

IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

SECOND SESSION, 111TH CONGRESS

SEPTEMBER 29, 2010

NOT FOR PUBLICATION
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COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

Chairman Carper, Ranking Member McCain, and members of the committee, thank you for inviting us here to testify before you today. Your interest and assistance allows the Army to move forward with these important stewardship and accountability measures. These measures will ultimately improve our ability to achieve the mission – defending the country at home and abroad. The support Congress provides is critical to your Army's success.

I am honored to sit shoulder-to-shoulder with Mr. Hale, Ms. McGrath, and my partners from the other services. I welcome the opportunity to address your questions. Your perspectives will provide valuable input to how we lead and manage the Army.

On July 22, 2010, Dr. Joseph Westphal, the Under Secretary of the Army and the Army's first Chief Management Officer, testified before the House Armed Services Committee. I am here today to assure you that we are on track to meet the goals set for us by Congress.

On March 1, 2010, the Army submitted our Report to Congress on the implementation of the business transformation requirements outlined in Section 908 of the Duncan Hunter National Defense Authorization Act (NDAA) for Fiscal Year 2009. In addition, we are currently staffing and will submit the Army's Business Transformation Plan (BTP) to Congress in October.

As you are aware, Secretary of Defense Robert M. Gates recently directed a series of Department of Defense (DoD) efficiency initiatives designed to reduce duplication, overhead, excess, and instill a culture of savings and restraint. The Secretary of the Army has committed the entire Army to participate in this effort and meet the Secretary of Defense's goals. The CMO has the lead to ensure the Army works in a coordinated and collaborative manner to identify viable efficiencies and reinvest those savings against the Army's most urgent future needs. Central to our longer-term efforts are the establishment of an Integrated Management System, improving financial auditability and readiness and managing our information technology investment strategy. This will ensure our information technology architecture supports our processes effectively and enables us to meet our auditability requirements.

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INTEGRATED MANAGEMENT SYSTEM

The 2008 NDAA established the position of the Chief Management Officer (CMO) and directed that the Under Secretary of the Army serve as the primary manager of business operations within the Army. The 2009 NDAA further defined that role and directed the Army to achieve an Integrated Management System. Simply stated, the Integrated Management System is the convergence of Army strategy, policy, process and culture that enables senior leadership to effectively and efficiently achieve our common goal: Readiness at Best Value.

A goal of business transformation is the achievement of an Integrated Management System that is performance-based and outcome-focused. An Integrated Management System will help leaders make better resource-informed decisions – "Readiness at Best Value" vice "Readiness at Any Cost." Currently, the Army management structure is composed of various management systems tailored to specific areas (logistics, finance, human resources, etc.). Though effective in their respective areas, today's complex and rapidly changing environment requires a holistic view of the Army. To achieve an Integrated Management System, the Army must align with Department of Defense and make a concerted effort to integrate business operations across the Army's various functional areas. This means arriving at a common set of outcomes for the entire Army to work toward, identifying and aligning measureable objectives, establishing performance metrics, measuring and monitoring performance, establishing feedback mechanisms, and adjusting processes as needed based on lessons learned. Our efforts to create an Integrated Management System will be outlined in the Army's Business Transformation Plan that we will deliver to Congress next month.

Army business transformation aims to align our generating force and business operations to support an agile and versatile operating force. To ensure business transformation becomes an integral part of how we plan, prepare and execute, we have embedded it into our central management tool, the Army Campaign Plan (ACP). The Army Campaign Plan provides a mechanism to transform both the Operating and Generating Forces while enabling the Army of the 21st Century.

In addition to improving our internal processes, the Army is working hard to coordinate vertically with the Department of Defense and horizontally with the other services. The Army recognizes the importance of aligning with the Department of Defense's Core Business Missions, the

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Strategic Management Plan, the 2010 Performance Budget, the Financial Improvement and Audit Readiness Plan, and the Department of Defense Business Enterprise Architecture. This alignment is achieved through frequent and periodic senior leader reviews and working closely with the Department of Defense's Deputy Chief Management Officer and Comptroller on a daily basis.

The Army also collaborates with the other Services to ensure that we develop consistent business system architectures and identify efficiencies across the Department. All of the Chief Management Officers and Deputy Chief Management Officers within the Department of Defense meet frequently to coordinate our priorities. For example, the Defense Business Systems Management Committee (DBSMC) meets regularly to certify Information Technology investments across the Department of Defense and address strategic business issues, ranging from security cooperation efforts to financial improvement and audit readiness.

STRENGTHENING FINANCIAL MANAGEMENT IS A HIGH PRIORITY MISSION

The Army's financial and business systems successfully provide our commanders with information about the resources and information they need to accomplish their mission. While these systems provide meaningful information to commanders, they were not designed to meet audit standards, nor were they designed to support a single, integrated enterprise. The Army's existing financial and business systems, referred to as legacy systems, do not comply with today's auditability needs. For example, the Army does not have a transaction-driven standard general ledger and our business systems lack uniformly applied internal controls. Additionally, the Army does not document business events in a manner consistent with audit standards. These weaknesses, and others, preclude a successful audit of the Army's financial statements and prevent achievement of the Comptroller's objective to improve the financial and asset information.

Correcting these problems is a high priority mission for the Army. Under the leadership of the Army's Chief Management Officer (CMO), the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)) and the Office of Business Transformation (OBT), with other major Army stakeholders, are charged with strengthening financial management – a major objective in the Army Campaign Plan. Under the ASA(FM&C)'s direction, we are focused on improving budgetary information and establishing existence and completeness of mission

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critical assets with the objective of publishing an audit ready Statement of Budgetary Resources.

While the Army Campaign Plan provides the strategic blueprint, the Financial Improvement Plan (FIP) documents the challenges associated with achieving a favorable audit. It also identifies the detailed actions necessary to correct the weaknesses, provides a schedule for implementing the corrective actions, and identifies the organizations responsible for implementing the corrective actions. We are encouraged by the Army Corps of Engineers and their ability to achieve and sustain fully-auditable financial statements.

Of course, to achieve and sustain auditable financial statements, the Army must improve its financial systems. A key element of the Army FIP is replacing legacy business systems that support logistics, personnel, acquisition, and financial processes, with Enterprise Resource Planning (ERP) systems. Modernizing the Army's business system information technology infrastructure will enable the Army to leverage business process improvements, strengthen management controls, and manage business operations in a more efficient, integrated manner. These modernization efforts are vital to audit readiness. The Army has established an Enterprise Resource Planning Task Force to refine the Army's current Enterprise Resource Planning Strategy with the goal of achieving the best-possible Enterprise Resource Planning end state, given existing conditions and available resources. Achieving enduring financial systems that support our requirement for auditability is critical to that strategy.

In the past, the Army's business system information technology and financial improvement efforts have not been enterprise focused. To correct this problem, the Army CMO established the Business Systems Information Technology – Executive Steering Group (BSIT-ESG). BSIT-ESG is chaired by the CMO and provides enterprise-level governance for Army information technology systems to ensure accountability and progress. The Business Systems Information Technology – Executive Steering Group advises the Chief Management Officer on Army-wide requirements to synchronize, integrate, prioritize, and resource business information technology systems, with a focus on the Enterprise Resource Planning systems. Although a relatively new senior level governance board within the Army, the Business Systems Information Technology – Executive Steering Group has established itself as a key force in guiding business system modernization and improvement efforts. The Business Systems Information Technology –

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Executive Steering Group will manage the Army's information technology investment to ensure our Information Technology architecture supports our requirement for auditability.

Focusing Resources to Achieve Financial Improvements

The Army's Financial Improvement Plan is aligned with the Department's priorities, requirements of the fiscal year 2010 NDAA and contains detailed actions and milestones to ensure these priorities are met. Our Financial Improvement Plan provides the roadmap and resources to assert audit readiness of the general fund statement of budgetary resources and establish existence and completeness of mission critical assets by fiscal year 2015 in compliance with the Comptroller's direction. The Financial Improvement Plan also provides a framework for full auditability of all financial statements in 2017. Achieving this objective is challenging due to cost and requirements to establish historic asset valuation on the balance sheet. The Assistant Secretary of the Army-Financial Management and Comptroller is responsible for executing the Financial Improvement Plan under direction of the Chief Management Officer and the Department's Comptroller.

Progress in achieving Financial Improvement Plan objectives is encouraging. We will assert audit readiness for all general fund appropriations received on September 30, 2010. We will establish existence and completeness of all Army aviation assets by March 31, 2011.

CONCLUSION

In conclusion, Army senior leaders are aware of challenges associated with developing an integrated management system, improving financial information and achieving audit readiness throughout the enterprise. We are making a concerted effort to infuse a sense of cost-consciousness and financial responsibility into our leadership culture. We are providing additional training and resources in the ranks so that leaders are better prepared to meet their financial improvement and audit readiness requirements. We are committed to see this effort through. Again, I thank you for your support for our Soldiers, Civilians and their Families worldwide.

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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 Government Affairs, U.S. Senate

For Release on Delivery
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DEPARTMENT OF DEFENSE

Financial Management Improvement and Audit Readiness Efforts Continue to Evolve

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

GAO
Accountability * Integrity * Reliability

GAO-10-1059T

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Highlights

Highlights of GAO-10-1059T, 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.

Why GAO Did This Study

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving its pervasive and long-standing financial management and related business operations and systems problems. DOD is required by various statutes to (1) improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and (2) produce audited financial statements.

DOD has initiated numerous efforts over the years to improve the department's financial management operations and ultimately achieve unqualified (clean) opinions on the reliability of reported financial information.

The Subcommittee has asked GAO to provide its perspective on DOD's current efforts to address its financial management weaknesses and achieve auditability, including the status of its Enterprise Resource Planning (ERP) system implementations.

GAO's testimony is based on its prior work related to DOD's financial improvement and audit readiness strategy and related activities, including its ERP implementation efforts.

View GAO-10-1059T or key components. For more information, contact Asif A. Khan at (202) 512-9095 or khana@gao.gov.

September 29, 2010

DEPARTMENT OF DEFENSE

Financial Management Improvement and Audit Readiness Efforts Continue To Evolve

What GAO Found

DOD has initiated numerous efforts over the years to address its financial management weaknesses and achieve audit readiness. In 2005, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan to define the department's strategy and methodology for improving financial management operations and controls, and reporting its progress. In 2009, DOD Comptroller directed that the department's FIAR efforts be focused on improving processes and controls supporting information most often used to manage operations, while continuing to work toward achieving financial statement auditability. To support these objectives, DOD established two priority focus areas: budget information and information pertaining to mission-critical assets. In 2010, DOD revised its FIAR strategy, governance framework, and methodology to support the DOD Comptroller's direction and priorities and to comply with fiscal year 2010 defense authorizing legislation, which incorporated GAO recommendations intended to improve the FIAR Plan as a strategic plan.

Based on what GAO has seen to date, DOD's revised FIAR Plan strategy and methodology reflects a reasonable approach. Moreover, GAO supports prioritizing focus areas for improvement and is hopeful that a consistent focus provided through shared FIAR priorities will increase incremental progress toward improved financial management operations. However, developing sound plans and methodology, and getting leaders and organizations in place is only a start. DOD needs to define specific roles and responsibilities for the Chief Management Officers (CMO)—including when and how the CMOs are expected to become involved in problem resolution and in ensuring cross-functional area commitment to financial improvement activities.

A key element of the FIAR strategy is successful implementation of the ERPs. According to DOD, as of December 2009, it had invested approximately $5.8 billion to develop and implement these ERPs and will invest additional billions before these efforts are complete. However, as GAO has previously reported inadequate requirements management, systems testing, ineffective oversight over business system investments, and other challenges have hindered the department's efforts to implement these systems on schedule and within cost.

Whether DOD's FIAR strategy will ultimately lead to improved financial management capabilities and audit readiness depends on DOD leadership and oversight to help achieve successful implementation. Sustained effort and commitment at the department and component levels will be needed to address weaknesses and produce financial management information that is timely, reliable, and useful for managers throughout DOD. GAO will continue to monitor DOD's progress and provide feedback on the status of DOD's financial management improvement efforts.

United States Government Accountability Office

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Mr. Chairman 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 improve its financial management operations and achieve audit readiness. At the outset, I would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve.

DOD is one of the largest and most complex organizations in the world. In fiscal year 2009, DOD reported that it had over $947 billion in disbursements, $1.8 trillion in assets, and approximately 3.2 million military and civilian personnel—including active and reserve components.[1] DOD operations span a wide range of defense organizations, including the military departments and their respective major commands and functional activities, large defense agencies and field activities, and various combatant commands that are responsible for military operations for specific geographic regions or theaters of operation. To execute its operations, the department performs interrelated and interdependent business functions, including financial management, acquisition and contract management, logistics management, and human resource management. According to DOD officials, the department relies on about 2,080 business systems,[2] including accounting, acquisition, logistics, and personnel systems, to support its business functions.

The department's sheer size and complexity contribute to the many challenges DOD faces in resolving its pervasive, complex, and long-standing financial management and related business operations and systems problems. Numerous initiatives and efforts have been undertaken by DOD and its components to improve the department's financial management operations and achieve favorable (clean) audit opinions on the reliability of reported financial information. To date, DOD has not

[1]The reported amounts are not audited. In November 2009, the DOD Inspector General reported that because of long-standing internal control weaknesses, DOD's annual financial statements, which included these reported amounts, were not accurate and reliable.

[2]DOD excludes from its business systems those designated as national security systems under section 2222 (j) of Title 10, United States Code. National security systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

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implemented effective financial management capabilities or achieved financial statement auditability.[3]

Today, I will describe the department's current strategy to address its financial management weaknesses and achieve audit readiness and provide GAO's perspective on DOD's efforts and progress. In addition, I will outline the status of the department's efforts to implement its Enterprise Resource Planning (ERP) systems,[4] which represent a critical element of the department's financial improvement and audit readiness (FIAR) strategy.

My statement today is based on our prior work related to the department's FIAR Plan and related financial management improvement activities, including our assessment of the department's ability to manage and control operations and support costs associated with its weapon systems,[5] and our ongoing oversight of selected DOD financial statement audits and ERP implementation efforts. Our work was conducted in accordance with generally accepted auditing standards and our previously published

[3]DOD's auditor 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) Environment Liabilities, (10) Statement of Net Cost, (11) Intragovernmental Eliminations, (12) Other Accounting Entries, and (13) Reconciliation of Net Cost of Operations to Budget.

[4]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.

[5]GAO, *Financial Management: Achieving Financial Statement Auditability in the Department of Defense*, GAO-09-373 (Washington, D.C.: May 6, 2009), *Department of Defense: Additional Actions Needed to Improve Financial Management of Military Equipment*, GAO-10-695 (Washington, D.C. July 26, 2010), *Defense Management: DOD Needs Better Information to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems*, GAO-10-717 (Washington, D.C.: July 20, 2010), *Business Systems Modernization: Scope and Content of DOD's Congressional Report and Executive Oversight of Investments Need to Improve*, GAO-10-663 (Washington, D.C.: May 24, 2010), *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010), *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008), *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008), and *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July27, 2007).

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reports contain additional details on the scope and methodology for those reviews. 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

DOD is one of the largest federal agencies with its budget representing over half of the entire federal government's discretionary spending.[6] For fiscal year 2010, Congress appropriated over $694 billion for DOD. This included $530 billion in regular appropriations for base needs and about $164 billion in regular and supplemental appropriations for contingency operations in Iraq, Afghanistan, and other locations. As of June 2010, DOD had received about $1 trillion since 2001 to support contingency operations. The department is currently facing near-term and long-term internal fiscal pressures as it attempts to balance competing demands to support ongoing operations, rebuild readiness following extended military operations, and manage increasing personnel and health care costs and significant cost growth in its weapons systems programs.

For more than a decade, DOD has dominated GAO's list of federal programs and operations at high-risk of being vulnerable to fraud, waste, abuse, and mismanagement.[7] In fact, all the DOD programs on GAO's High-Risk List relate to business operations, including systems and processes related to management of contracts, finances, the supply chain, and support infrastructure,[8] as well as weapon systems acquisition. Long-

[6]Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs.

[7]DOD bears responsibility, in whole or in part, for 15 of the 30 federal programs or activities that GAO has identified as being at high risk of waste, fraud, abuse, and mismanagement. The eight specific DOD high-risk areas are (1) approach to business transformation; (2) business systems modernization; (3) contract management; (4) financial management; (5) personnel security clearance program; (6) supply chain management; (7) support infrastructure management; and (8) 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.

[8]Support infrastructure includes categories, such as force installation, central logistics, the defense health program, and central training.

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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 in business areas, such as major weapons system acquisition and support and logistics; and (3) left the department vulnerable to fraud, waste, and abuse. Detailed examples of these effects are presented in appendix I.

DOD is required by various statutes[9] to improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and to produce audited financial statements. Collectively these statues required DOD to do the following

- Establish a leadership and governance framework and process, including a financial management improvement plan or strategy (over time the department's strategy evolved into the FIAR Plan, which ultimately became a subordinate plan to the department's Strategic Management Plan)[10] for addressing its financial management weaknesses and report to Congress and others semi-annually on its progress.
- Concentrate the department's efforts and resources on improving the department's financial management information.
- Systematically tie actions to improve processes and controls with business system modernization efforts described in the business enterprise architecture[11] and enterprise transition plan required by 10 U.S.C. § 2222.

[9]These statutes include the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Federal Financial Management Improvement Act of 1996, and various annual authorization and appropriations act provisions.

[10]DOD's Strategic Management Plan is intended to provide an executive overview of the department's overall strategic planning and management framework, and establishes DOD's priorities for business operations and improvement efforts.

[11]An enterprise architecture is a modernization blueprint of an organization or a functional or mission area, which together with an enterprise transition plan, provides a road map for moving between the current state of operations to the intended state.

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- Limit the resources the department spend each year to develop, compile, report, and audit unreliable financial statements.[12]

- Submit an annual report[13] to defense committees, the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), GAO, and the DOD Inspector General (DOD IG) concluding on whether DOD policies, procedures, and systems support financial statement reliability, and the expected reliability of each DOD financial statement.

- Certify to the DOD IG whether a component or DOD financial statement for a specific fiscal year is reliable. Following DOD's assertion that a financial statement is reliable, DOD may expend resources to develop, compile, report, and audit the statement and the statements of subsequent fiscal years.

Because of the complexity and magnitude of the challenges facing the department in improving its business operations, GAO has long advocated the need for a senior management official to provide strong and sustained leadership.[14] Recognizing that executive-level attention and a clear strategy were needed to put DOD on a sustainable path toward successfully transforming its business operations, including financial management, the National Defense Authorization Act (NDAA) for fiscal year 2008 designated the Deputy Secretary of Defense as the department's Chief Management Officer (CMO), created a Deputy CMO position, and designated the undersecretaries of each military department as CMOs for their respective departments.[15] The act also required the Secretary of Defense, acting through the CMO, to develop a strategic management plan

[12]The limitation regarding the authority to obligate or expend funds does not apply to activities directed at assessing the adequacy of internal controls and remediating any inadequacy identified pursuant to such an assessment.

[13]DOD refers to this annual report as *The Report to Congress on the Reliability of Department of Defense Financial Statements.*

[14]GAO, *Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation*, GAO-09-272R (Washington, D.C.: Jan. 9, 2009), *Defense Business Transformation: Sustaining Progress Requires Continuity of Leadership and an Integrated Approach*, GAO-08-462T (Washington, D.C.: Feb. 7, 2008), and *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072 (Washington, D.C.: Sept. 5, 2007).

[15]Pub. L. No. 110-181, §904, 122 Stat. 3, 273 (Jan 28, 2008).

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that among other things would provide a detailed description of performance goals and measures for improving and evaluating the overall efficiency and effectiveness of the department's business operations and actions underway to improve operations.

To further draw the department's attention to the need to improve its strategy for addressing financial management weaknesses and achieve audit readiness the NDAA for Fiscal Year 2010[16] made the FIAR Plan a statutory mandate, requiring the FIAR Plan to include, among other things

- specific actions to be taken and costs associated with (a) correcting the financial management deficiencies that impair DOD's ability to prepare timely, reliable, and complete financial management information; and (b) ensuring that DOD's financial statements are validated as ready for audit by no later than September 30, 2017, and
- actions taken to correct and link financial management deficiencies with process and control improvements and business system modernization efforts described in the business enterprise architecture and enterprise transition plan required by 10 U.S.C. § 2222.

Consistent with the priorities announced by the DOD Comptroller in August 2009, the act also focused the department's improvement efforts on first ensuring the reliability of the department's budgetary information and property accountability records for mission-critical assets.[17] In addition, the act directed DOD to report to congressional defense committees no later than May 15 and November 15 each year on the status of its FIAR Plan implementation. Furthermore, the act required that the first FIAR Plan issued following enactment of this legislation (1) include a mechanism to conduct audits of the military intelligence programs and agencies and submit the audited financial statements to Congress in a classified manner and (2) identify actions taken or to be taken by the department to address the issues identified in our May 2009 report[18] on DOD's efforts to achieve financial statement auditability.

[16]National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1003, 123 Stat. 2190, 2439 (Oct. 28, 2009).

[17]According to the DOD Comptroller's August 2009 memorandum, mission-critical assets include military and general equipment, real property, inventory, and operating materials and supplies.

[18]GAO-09-373.

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DOD's Strategy for Improving Its Financial Management Operations and Achieving Audit Readiness Continues to Evolve

Over the years, the department has initiated several broad-based reform efforts, including the 1998 Biennial Strategic Plan for the Improvement of Financial Management within the Department of Defense and the 2003 Financial Improvement Initiative, intended to fundamentally transform its financial management operations and achieve clean financial statement audit opinions. In 2005, DOD's Comptroller established the DOD FIAR Directorate to develop, manage, and implement a strategic approach for addressing the department's financial management weaknesses and achieving auditability and to integrate those efforts with other improvement activities, such as the department's business system modernization efforts. The first FIAR Plan was issued in December 2005. DOD's FIAR Plan defines DOD's strategy and methodology for improving financial management and controls, and summarizes and reports the results of the department's improvement activities and progress toward achieving financial statement auditability. Further, the FIAR Plan has focused on achieving three goals: (1) implement sustained improvements in business processes and controls to address internal control weaknesses, (2) develop and implement financial management systems that support effective financial management, and (3) achieve and sustain financial statement audit readiness.

To date, the department's improvement efforts have not resulted in the fundamental transformation of DOD's financial management operations necessary to resolve the department's long-standing financial management weaknesses; [19] however, some progress has been made and the department's strategy has continued to evolve. While none of the military services have obtained unqualified (clean) audit opinions on their financial statements, some DOD organizations, such as the Army Corps of Engineers, Defense Finance Accounting Service, the Defense Contract Audit Agency, and the DOD IG, have achieved this goal. Moreover, some DOD components that have not yet received clean audit opinions, such as the Defense Information Service Agency (DISA), are beginning to reap the benefits of strengthened controls and processes gained through ongoing efforts to improve their financial management operations and reporting capabilities. For example, according to DISA's Comptroller, the agency was able to resolve over $270 million in Treasury mismatches through

[19]Department of Defense Inspector General, *Summary of DOD Office of the Inspector General Audits of Financial Management*, D-2010-002 (Arlington, Va: Oct. 19, 2009) and *Independent Auditor's Report on the DOD Agency-Wide FY 2009 and FY 2008 Basic Financial Statements*, D-2010-016 (Arlington, Va: Nov. 12, 2009).

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reconciliations of over $12 billion in disbursement and collection activities. In addition, DISA's efforts to improve processes and controls over its accounts receivable and payable accounts have resulted in improvements in its ability to (1) substantiate the validity of DISA's customer billings and collect funds due to DISA, and (2) identify areas where funds could be deobligated and put to better use. Moreover, DISA management has gained increased assurance over its reported cash availability balance, thereby improving mission-critical decision making.

Since its inception, the FIAR Plan has followed an incremental approach to structure its process for examining operations, diagnosing problems, planning corrective actions, and preparing for audit. Moreover, the FIAR Plan has continued to evolve and mature as a strategic plan. Initially, DOD components independently established their own financial management improvement priorities and methodologies and were responsible for implementing the corrective actions they determined were needed to address weaknesses and achieve financial statement auditability. However, as we reported in May 2009, it was difficult to link corrective actions or accomplishments reported by the FIAR Plan to FIAR goals and measure progress.[20] In addition, we reported that as the department's strategic plan and management tool for guiding and reporting on incremental progress toward achieving these goals, the FIAR Plan could be improved in several areas. Specifically, we found the following:

- Clear guidance was needed in developing and implementing improvement efforts.
- A baseline of the department's and/or key component's current financial management weaknesses and capabilities was needed to effectively measure and report on incremental progress.
- Linkage between FIAR Plan goals and corrective actions and reported accomplishments was needed.
- Clear results-oriented metrics for measuring and reporting incremental progress were needed.
- Accountability should be clearly defined and resources budgeted and consumed should be identified.

[20]GAO-09-373.

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We made several recommendations in our May 2009 report to increase the FIAR Plan's effectiveness as a strategic and management tool for guiding, monitoring, and reporting on financial management improvement efforts and increasing the likelihood of meeting the department's goal of financial statement auditability, which were incorporated into the NDAA for fiscal year 2010. In its May 2010 FIAR Status Report and Guidance, the department identified steps taken to address our recommendations to strengthen its FIAR Plan strategy and chances of sustained financial management improvements and audit readiness. For example, DOD has established shared priorities and methodology, including guidance to develop component financial improvement plans, and an improved governance framework.

In August 2009, DOD's Comptroller directed that the department focus on improving processes and controls supporting information that is most often used to manage the department, while continuing to work toward achieving financial improvements aimed at achieving unqualified audit opinions on the department's financial statements. As a result, in 2010 DOD revised its FIAR strategy, governance framework, and methodology to support these objectives and focus financial management improvement efforts primarily on achieving two interim departmentwide priorities—first, strengthening processes, controls, and systems that produce budgetary information and support the department's Statements of Budgetary Resources;[21] and second, improving the accuracy and reliability of management information pertaining to the department's mission-critical assets, including military equipment, real property, and general equipment, and validating improvement through existence and completeness testing. In addition, the DOD Comptroller directed DOD components to use a standard financial improvement plan template to support and emphasize achievement of the two FIAR priorities.

The department intends to progress toward achieving financial statement auditability in five waves (or phases) of concerted improvement activities within groups of end-to-end business processes.[22] According to DOD's May

[21]The Statement of Budgetary Resources (SBR) provides information about how budgetary resources were made available as well as their status at the end of the period. Information on the SBR such as budgetary resources, obligations incurred, and outlays should be reconcilable to the related actual balances reported in the Budget of the United States Government.

[22]DOD has identified seven key end-to-end business processes: acquire to retire, hire to retire, procure to pay, order to cash, plan to stock, environmental liabilities, and budget to report.

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2010, FIAR Plan Status Report, the lack of resources dedicated to financial improvement activities at DOD components has been a serious impediment to progress, except in the Navy and the Defense Logistics Agency (DLA). As a result, the components are at different levels of completing the waves. For example, the Air Force has already received a positive validation by the DOD IG on the Air Force Appropriations Received account (wave 1) and the Navy is currently undergoing a similar review of its account. Army and DLA, are expected to complete wave 1 and be ready for validation by the end of fiscal year 2010. However, DOD is only beginning wave 1 work at other defense agencies to ensure that transactions affecting their appropriations received accounts are properly recorded and reported. The first three waves focus on achieving the DOD Comptroller's interim budgetary and asset accountability priorities, while the remaining two waves are intended to complete actions needed to achieve full financial statement auditability. However, the department has not yet fully defined its strategy for completing waves 4 and 5. The focus and scope of each wave include the following:

Wave 1—Appropriations Received Audit focuses efforts on assessing and strengthening, as necessary, internal controls and business systems involved in appropriations receipt and distribution process, including funding appropriated by Congress for the current fiscal year and related apportionment/reapportionment activity by OMB, as well as allotment and sub-allotment activity within the department.[23]

Wave 2—Statement of Budgetary Resources (SBR) Audit focuses efforts on assessing and strengthening, as necessary, the internal controls, processes, and business systems supporting the budgetary-related data (e.g., status of funds received, obligated, and expended) used for management decision making and reporting, including the SBR. In addition to fund balance with Treasury reporting and reconciliation, significant end-to-end business processes in this wave include procure-to-pay, hire-to-retire, order-to-cash, and budget-to-report.

[23]The Antideficiency Act generally requires that all appropriations to DOD be apportioned by the President, who has delegated this authority to the Office of Management and Budget (OMB), and that all appropriations, apportionments, and re-apportionments be controlled by DOD through an OMB approved system of funds control under which DOD makes allotments or further subdivisions of apportionments, such as sub-allotments. See 31 U.S.C. § § 1513, 1514.

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Wave 3—Mission-Critical Assets Existence and Completeness Audit focuses efforts on assessing and strengthening, as necessary, internal controls and business systems involved in ensuring that all assets (including military equipment, general equipment, real property, inventory, and operating materials and supplies) are recorded in the department's accountable property systems of record exist, all of the reporting entities' assets are recorded in those systems of record, reporting entities have the right (ownership) to report these assets, and the assets are consistently categorized, summarized, and reported.

Wave 4—Full Audit Except for Legacy Asset Valuation focuses efforts on assessing and strengthening, as necessary, internal controls, processes, and business systems involved in the proprietary side of budgetary transactions covered by the Statement of Budgetary Resources effort of wave 2, including accounts receivable, revenue, accounts payable, expenses, environmental liabilities, and other liabilities. This wave also includes efforts to support valuation and reporting of new asset acquisitions.

Wave 5—Full Financial Statement Audit focuses efforts on assessing and strengthening, as necessary, processes, internal controls, and business systems involved in supporting the valuations reported for legacy assets once efforts to ensure control over the valuation of new assets acquired and the existence and completeness of all mission assets are deemed effective on a go-forward basis. Given the lack of documentation to support the values of the department's legacy assets, federal accounting standards allow for the use of alternative methods to provide reasonable estimates for the cost of these assets.

According to DOD, critical to the success of each wave and the department's efforts to ultimately achieve full financial statement auditability will be departmentwide implementation of the FIAR methodology as outlined in DOD's FIAR Guidance document.[24] Issued in May 2010, the FIAR Guidance document, which DOD intends to update annually, defines in a single document the department's FIAR goals, strategy, and methodology (formerly referred to as business rules) for becoming audit ready. The FIAR methodology prescribes the process components should follow in executing efforts to assess processes,

[24]DOD, Fiscal Year 2010 *Financial Improvement and Audit Readiness (FIAR) Guidance* (May 15, 2010).

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controls, and systems; identify and correct weaknesses; assess, validate, and sustain corrective actions; and achieve full auditability. Key changes introduced in 2010 to the FIAR methodology include an emphasis on internal controls[25] and supporting documentation. Utilization of standard financial improvement plans and methodology should also aid both DOD and its components in assessing current financial management capabilities in order to establish baselines against which to measure, sustain, and report progress. More specifically, the standard financial improvement plan and FIAR Guidance outline key control objectives and capabilities that components must successfully achieve to complete each wave (or phase) of the FIAR strategy for achieving audit readiness. For example, to successfully complete wave 2 (SBR audit) one of the capabilities that each component must be able to demonstrate is that it is capable of performing Fund Balance with Treasury reconciliations at the transaction level.

The Success of DOD's Current Strategy Is Dependent Upon Effective Implementation

Based on what we've seen of the revised FIAR Plan strategy and methodology to date, we believe the current strategy reflects a reasonable approach. We are hopeful that a consistent focus provided through the shared priorities of the FIAR strategy will increase the department's ability to show incremental progress toward achieving auditability in the near term, if the strategy is implemented properly. In the long term, while improved budgetary and asset accountability information is an important step in demonstrating incremental progress, it will not be sufficient to achieve full financial statement auditability. Additional work will be required to ensure that transactions are recorded and reported in accordance with generally accepted accounting principles. At this time, it is not possible to predict when DOD's efforts to achieve audit readiness will be successful. The department continues to face significant challenges in providing and sustaining the leadership and oversight needed to ensure that improvement efforts, including ERP implementation efforts, result in the sustained improvements in process, control, and system capabilities necessary to transform financial management operations. We will continue to monitor DOD's progress in addressing its financial management weaknesses and transforming its business operations. As part of this effort, we plan to assess implementation of DOD's FIAR strategy and

[25]Internal control is synonymous with management control and covers all aspects of an agency's operations (programmatic, financial, and compliance). Internal control comprises the plans, methods, and procedures used to meet mission goals and objectives and, in doing so, support performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

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guidance, as part of our review of the military departments' financial improvement plans.

GAO supports DOD's current approach of prioritizing efforts, focusing first on information management views as most important in supporting its operations, to demonstrate incremental progress to addressing weaknesses and achieving audit readiness. There are advantages to this approach, including building commitment and support throughout the department and the potential to obtain preliminary assessments on the effectiveness of current processes and controls and identify potential issues that may adversely affect subsequent waves. For example, testing expenditures in wave 2 will also touch on property accountability issues, as DOD makes significant expenditures for property. Identifying and resolving potential issues related to expenditures for property in wave 2 will assist the department as it enters subsequent waves dealing with its ability to reliably and completely identify, aggregate, and account for the cost of the assets it acquires through various acquisition and construction programs.

We also support efforts to first address weaknesses in the department's ability to timely, reliably, and completely record the cost of assets as they are acquired over efforts to value legacy assets. Prior efforts to achieve auditability of DOD's mission assets failed, in large part, because these efforts were focused primarily on deriving values for financial statement reporting and not on assessing and addressing the underlying weaknesses that impaired the department's ability to reliably identify, aggregate, and account for current transactions affecting these assets. GAO is willing to work with the department to revisit the question of how DOD reports assets in its financial statements to address unique aspects of military assets not currently reflected in traditional financial reporting models.

Developing sound plans and a methodology and getting leaders and organizations in place is only a start. Consistent with our previous reports regarding the department's CMO positions, including the CMO, Deputy CMO and military department CMOs,[26] and our May 2009 recommendations to improve DOD's FIAR Plan as a strategic and management tool for addressing financial management weaknesses and achieving and sustaining audit readiness,[27] DOD needs to define specific

[26]GAO-09-272R, GAO-08-462T, and GAO-07-1072.

[27]GAO-09-373.

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roles and responsibilities—including when and how the CMO and military department CMOs and other leaders are expected to become involved in problem resolution or efforts to ensure cross-functional area commitment and support to financial management improvement efforts; effectively execute its plans; gauge actual progress against goals; strengthen accountability; and make adjustments as needed. In response to our report, DOD expanded its FIAR governance framework to include the CMOs. While expansion of the FIAR governance framework to include the CMOs is also encouraging, the specific roles and responsibilities of these important leaders have not yet been fully defined. As acknowledged by DOD officials, sustained and active involvement of the CMOs and other senior leaders is critical in enabling a process by which DOD can more timely identify and address cross-functional issues and ensure that other business functions, such as acquisition and logistics, fully acknowledge and are held accountable for their roles and responsibilities in achieving the department's financial management improvement goals and audit readiness.

Sustained and active leadership and effective oversight and monitoring at both the department and component levels are critical to ensuring accountability for progress and targeting resources in a manner that results in sustained improvements in the reliability of data for use in supporting and reporting on operations. As part of GAO's prior work pertaining to DOD's key ERP implementation efforts and the FIAR Plan, we have seen a lack of focus on developing and using interim performance metrics to measure progress and the impact of actions taken. For example, our review of DOD's ERP implementation efforts, which we plan to report on in October 2010, found that DOD has not yet defined success for ERP implementation in the context of business operations and in a way that is measurable. In May 2009 we reported[28] that the FIAR Plan does not use clear results-oriented metrics to measure and report corrective actions and accomplishments in a manner that clearly demonstrates how they contribute individually or collectively to addressing a defined weakness, providing a specific capability, or achieving a FIAR goal. To its credit, DOD has taken action to begin defining results-oriented FIAR metrics it intends to use to provide visibility of component-level progress in assessment and testing and remediation activities, including progress in identifying and addressing supporting documentation issues. We have not

[28]GAO-09-373.

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yet had an opportunity to assess implementation of these metrics or their usefulness in monitoring and redirecting actions.

In the past, DOD has had many initiatives and plans that failed due to a lack of sustained leadership focus and effective oversight and monitoring. Without sustained leadership focus and effective oversight and monitoring, DOD's current efforts to achieve audit readiness by a defined date are at risk of following the path of the department's prior efforts and fall short of obtaining sustained substantial improvements in DOD's financial management operations and capabilities or achieving validation through independent audits.

Effective Implementation of Business Systems Is Essential to Improving and Sustaining DOD Financial Management and Related Business Operations

DOD officials have said that successful implementation of ERPs is key to resolving the long-standing weaknesses in the department's business operations in areas such as business transformation, financial management, and supply chain management,[29] and improving the department's capability to provide DOD management and Congress with accurate and reliable information on the results of DOD's operations. For example in 2010, we reported[30] that the Army Budget Office lacked an adequate funds control process to provide it with ongoing assurance that obligations and expenditures do not exceed funds available in the Military Personnel, Army (MPA) appropriation. These weaknesses resulted in a shortfall of $200 million in 2008. Army Budget Office personnel explained that they rely on estimated obligations, rather than actual data from program managers, to record the initial obligation or adjust the estimated obligation due to inadequate financial management systems.

[29]These areas were designated as high risk in 2005, 1995, and 1990, respectively.

[30]GAO, *Department of the Army—The Fiscal Year 2008 Military Personnel, Army Appropriation and the Antideficiency Act, B-318724 (Washington, D.C.: June 22, 2010).*

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DOD has identified 10 ERPs,[31] 1 of which has been fully implemented,[32] as essential to its efforts to transform its business operations. Appendix II contains a description of each of the remaining 9 ERPs currently being implemented within the department. According to DOD, as of December 2009, it had invested approximately $5.8 billion to develop and implement these ERPs and will invest additional billions before the remaining 9 ERPs are fully implemented. The department has noted that the successful implementation of these 10 ERPs will replace over 500 legacy systems that reportedly cost hundreds of millions of dollars to operate annually.

However, our prior reviews of several ERPs have found that the department has not effectively employed acquisition management controls or delivered the promised capabilities on time and within budget.[33] More specifically, significant leadership and oversight challenges, as illustrated by the Logistics Modernization Program (LMP) example discussed appendix I, have hindered the department's efforts to implement these systems on schedule, within cost, and with the intended capabilities. Based upon the information provided by the program management offices (PMOs), six of the ERPs have experienced schedule slippages, as shown in table 1, based on comparing the estimated date that each program was

[31]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 DLA—Business System Modernization (BSM). According to DOD, BSM was fully implemented in July 2007.

[32]According to DOD, BSM was fully implemented at DLA in July 2007.

[33]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010); *DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed*, GAO-09-841 (Washington, D.C.: Sept. 15, 2009); *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008); *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008); *DOD Business Systems Modernization: Key Marine Corps System Acquisition Needs to Be Better Justified, Defined, and Managed*, GAO-08-822 (Washington, D.C.: July 28, 2008); and *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July 27, 2007).

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originally scheduled to achieve full deployment[34] to the full deployment date as of December 2009. For the remaining three ERPs, the full deployment date has either remained unchanged or has not been established. The GFEBS PMO noted that the acquisition program baseline approved in November 2008, established a full deployment date in fiscal year 2011 and that date remains unchanged. Additionally, according to the GCSS-Army PMO a full deployment date has not been established for this effort. The PMO noted that a full deployment date will not be established for the program until a full deployment decision has been approved by the department. A specific timeframe has not been established for when the decision will be made. Further, in the case of DAI, the original full deployment date was scheduled for fiscal year 2012, but the PMO is in the process of reevaluating the date and a new date has not yet been established.

[34]Full deployment means with respect to a major automated information system program, the fielding of an increment of the program in accordance with the terms of a full deployment decision—the final decision made by the MDA authorizing an increment of the program to deploy software for operational use. Pub. L. No. 111-84, October 28, 2009, the National Defense Authorization Act for Fiscal Year 2010 directed that the terminology be changed from full operational capability to full deployment.

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Table 1: Reported Full Deployment Schedule Slippage for Each ERP as of December 31, 2009

Component/system name	Originally scheduled fiscal year for full deployment	Actual or latest estimated fiscal year for full deployment	Schedule slippage
Army			
General Fund Enterprise Business System (GFEBS)	2011	2011	None
Global Combat Support System-Army (GCSS-Army)	[a]	[a]	Not known
Logistics Modernization Program (LMP)	2005	2011	6 years
Navy			
Navy ERP	2011	2013	2 years
Global Combat Support System-Marine Corps (GCSS-MC)	2010	2013	3 years[b]
Air Force			
Defense Enterprise Accounting and Management System (DEAMS)	2014	2017	3 years
Expeditionary Combat Support System (ECSS)	2012	2016	4 years
DOD			
Service Specific Integrated Personnel and Pay Systems	2006	Army—2014 Navy—2017 Air Force—2018	12 years[c]
Defense Agencies Initiative (DAI)	2012	[d]	Not known

Source: DOD program management offices.

[a]The program management office (PMO) has not yet determined the full deployment date, although the program was initiated in December 2003.

[b]The PMO stated that the estimated full deployment date is only for phase 1. The full deployment date for the entire program has not yet been determined.

[c]Originally this ERP was referred to as the Defense Integrated Military Human Resources System (DIMHRS) and was intended to provide a joint, integrated, standardized personnel/pay system for all military personnel departmentwide. The original full deployment date represents the estimated date for DIMHRS. As previously discussed, each military service is now responsible for developing its own integrated personnel and pay system.

[d]As of December 2009, the DAI PMO had not determined the revised full deployment date..

Prior work by GAO and the U.S. Army Test and Evaluation Command found that delays in implementing the ERPs have occurred, in part, due to inadequate requirements management and system testing, and data quality

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issues.[36] These delays have contributed not only to increased implementation costs in at least five of the nine ERPS, as shown in table 2, they have also resulted in DOD having to fund the operation and maintenance of the legacy systems longer than anticipated, thereby reducing funds that could be used for other DOD priorities.

[36]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010); *DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed*, GAO-09-841 (Washington, D.C.: Sept. 15, 2009); *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008); *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008); *DOD Business Systems Modernization: Key Marine Corps System Acquisition Needs to Be Better Justified, Defined, and Managed*, GAO-08-822 (Washington, D.C.: July 28, 2008); *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July 27, 2007) and U.S. Army Test and Evaluation Command, *Operational Test Agency Evaluation Report for the General Fund Enterprise Business System* (Alexandria, Va: Dec. 16, 2009).

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Table 2: Reported Original and Current Life-Cycle Cost Estimate for Each ERP as of December 31, 2009 (dollars in millions)

Component/system name	Original life cycle cost estimate [36]	Current life cycle cost estimate	Reported cost increase
Army			
GFEBS	$1,354	$1,337	$(17)
GCSS-Army	$3,900	$3,900	0
LMP	$2,630	$2,630 [a]	0
Navy			
Navy ERP	$1,870	$2,400	$530
GCSS-MC	$ 126	$ 934	$808b
Air Force			
DEAMS	$1,100	$2,048	$948
ECSS	$3,000	$5,200	$2,200c
DOD			
Service Specific Integrated Personnel and Pay Systems	$577d	Armyd Navy—$1.3 Air Force—$1.7	At least $2,423
DAI	$209	e	Not applicable

Source: DOD program management offices.

[a]At the time LMP was designated as a major automated information systems (MAIS) program in December 2007, it was required to comply with the DOD guidance for MAIS programs. This guidance requires, among other things, that a MAIS program have a completed and approved acquisition program baseline—the baseline description of the program, including the life-cycle cost estimate—prior to Milestone B approval. The $2.6 billion is the only life cycle cost estimate that has been developed for the program.

[b]The current life-cycle cost estimate for GCSS-MC is for phase one. The remaining two phases will have separate baselines.

[c]Originally, ECSS was to be implemented in three phases, but now, it will be implemented in four phases.

[d]The original life-cycle cost estimate represents the estimate for DIMHRS. While the Navy and Air Force have estimated their respective life-cycle cost estimate, the Army is in the process of completing its life-cycle cost estimate.

[e]As of December 2009, the life-cycle cost estimate for DAI had not been finalized. According to the PMO, the life cycle cost estimate is expected to be approved at Milestone B in fiscal year 2011.

[36]A life-cycle cost estimate provides an accounting of all resources and associated cost elements required to develop, produce, deploy, and sustain a particular program. The life-cycle cost estimate encompasses all past, present, and future costs for every aspect of the program, regardless of funding source.

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Effective and sustained leadership and oversight of the department's ERP implementations is needed to ensure that these important initiatives are implemented on schedule, within budget, and result in the integrated capabilities needed to transform the department's financial management and related business operations.

Closing Comments

In closing, I am encouraged by continuing congressional oversight of DOD's financial management improvement efforts and the commitment DOD's leaders have expressed to improving the department's financial management and achieving financial statement audit readiness.

For instance, we have seen positive short-term progress on the part of DOD in moving forward. In its May 2010 FIAR status report, DOD reported actions it had taken in response to the 2010 NDAA and our prior recommendations to enhance effectiveness of the FIAR Plan as a strategic plan and management tool for guiding, monitoring, and reporting on the department's efforts to resolve its financial management weaknesses and achieve audit readiness. The department has expanded the FIAR governance body to include the Chief Management Officer, issued guidance to aid DOD components in their efforts to address their financial management weaknesses and achieve audit readiness, and standardized component financial improvement plans to facilitate oversight and monitoring, as well as sharing lessons learned. In addition, DOD has revised its FIAR strategy to focus its financial management improvement efforts on departmentwide priorities, first on budgetary information and preparing the department's Statements of Budgetary Resources for audit and second on accountability over the department's mission-critical assets as a way of improving information used by DOD leaders to manage operations and to more effectively demonstrate incremental progress toward achieving audit readiness.

Whether promising signs, such as shared priorities and approaches, develop into sustained progress will ultimately depend on DOD leadership and oversight to help achieve successful implementation. The expanded FIAR governance framework, including the CMOs, is a start; but their specific roles and responsibilities toward the department's financial management improvement efforts still need to be defined. Importantly, sustained and effective leadership, oversight, and accountability at the department and component levels will be needed in order to help ensure that DOD's current efforts to achieve auditability by a defined date don't follow the path of the department's prior efforts and fall short of obtaining sustained substantial improvement.

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The revised FIAR strategy is still in the early stages of implementation, and DOD has a long way and many long-standing challenges to overcome, particularly in regard to active and sustained leadership and oversight, before its military components and the department are fully auditable, and financial management is no longer considered high risk. However, the department is heading in the right direction. Some of the most difficult challenges ahead lie in effectively implementing the department's strategy, including successful implementation of ERP systems and integration of financial management improvement efforts with other DOD initiatives. We will be issuing a report on DOD's business system modernization efforts in October 2010 that discusses in greater detail the cost, schedule, and other issues that have hindered the success of important efforts.

GAO will continue to monitor progress of the department's financial management improvement efforts and provide feedback on the status of DOD's financial management improvement efforts. We currently have work in progress to assess implementation of the department's FIAR strategy through ongoing or recently initiated engagements related to (1) the U.S. Marine Corps' (USMC) efforts to achieve an audit opinion on its Statement of Budgetary Resources, which regardless of its success should provide lessons learned that can be shared with other components, (2) the military departments' implementation of the FIAR strategy and guidance, and (3) the department's efforts to develop and implement ERPs. In addition, we will continue our oversight and monitoring of DOD's financial statement audits, including the Army Corps of Engineers and DOD consolidated financial statements.

Mr. Chairman and Ranking Member McCain, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have at this time.

For further information regarding this testimony, please contact Asif A. Khan, (202) 512-9095 or khana@gao.gov. Key contributors to this testimony include J. Christopher Martin, Senior-Level Technologist; Evelyn Logue, Assistant Director; Darby Smith, Assistant Director; Paul Foderaro, Assistant Director; Gayle Fischer, Assistant Director; F. Abe Dymond, Assistant General Counsel; Beatrice Alff; Maxine Hattery; Crystal Lazcano; and Omar Torres.

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Appendix I: Impact of Financial Management and Related Weaknesses on DOD Operations

Despite years of improvement efforts since 2002, DOD has annually reported to Congress that the department is unable to provide reasonable assurance that the information reported in its financial statements is reliable due to long-standing weaknesses in its financial management and related business processes, controls, and systems.[1] Importantly, these weaknesses not only affect the reliability of the department's financial reports, as illustrated in the following examples, they also adversely affect the department's ability to assess resource requirements; control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent fraud waste, abuse, and mismanagement; and address pressing management issues, as the following examples illustrate,

- The Army Budget Office lacks an adequate funds control process to provide it with ongoing assurance that obligations and expenditures do not exceed funds available in the Military Personnel, Army (MPA) appropriation.[2] In June 2010, we reviewed Army obligation and expenditure reports pertaining to Army's fiscal year 2008 MPA appropriation and confirmed[3] that the Army had violated the Antideficiency Act,[4] as evidenced by the Army's need to transfer $200 million from the Army working capital fund to cover the shortfall.[5] This shortfall stemmed, in part, from a lack of reliable financial information on enlistment and reenlistment contracts, which provide specified bonuses to service members. Army Budget personnel explained that they rely on

[1]The National Defense Authorization Act for Fiscal Year 2002, Pub. L. 107-107, §1008, 115 Stat. 1204 (Dec. 28, 2001) requires DOD to report annually on the reliability of its financial statements, including the financial statements of each of its components that are required to prepare financial statements.

[2]An obligation is a definite commitment that creates a legal liability of the government for the payment of appropriated funds for goods and services ordered and received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Obligations include, for example, the awarding of contracts and grants.

[3]GAO, *Department of the Army—The Fiscal Year 2008 Military Personnel, Army Appropriation and the Antideficiency Act*, B-318724 (Washington, D.C.: June 22, 2010).

[4]31 U.S.C. §§ 1341-42, 1349-51, 1511-19. The Antideficiency Act prohibits any DOD officer or employee from incurring obligations or making expenditures in excess or in advance of appropriations or apportionments.

[5]In September 2006, the DOD IG reported a similar factual situation to the one addressed in GAO's report when it evaluated the Army's use of its fiscal year 2005 MPA appropriation. See Department of Defense, Office of the Inspector General, *Selected Controls Over the Military Personnel, Army Appropriation*, D-2006-112 (Arlington Va.: Sept. 22, 2006).

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estimated obligations, rather than actual data from program managers, to record the initial obligation or adjust the estimated obligation due to inadequate financial management systems. Without adequate processes, controls, and systems to establish and maintain effective funds control, the Army's ability to prevent, identify, and report potential Antideficiency Act violations is impaired.

- While DOD has invested over a trillion of dollars to acquire weapon systems, also referred to as military equipment,[6] the department continues to lack the processes and system capabilities to reliably identify, aggregate and report the full cost of its investment in these assets. We reported this as an issue to the Air Force over 20 years ago.[7] In July 2010, we reported[8] that although DOD and the military departments have efforts underway to begin addressing these financial management weaknesses, DOD officials acknowledged that additional actions were needed that will require the support of other business areas beyond the financial community, before they will be fully addressed. Without timely, reliable, and useful financial information on the full cost[9] associated with acquiring assets, both DOD management and Congress lack key information needed for use in effective decision making, such as determining how to allocate resources to programs or evaluating program performance to help strengthen oversight and accountability.

- The department's ability to identify, aggregate, and use financial management information to develop plans for managing and controlling operating and support costs for major weapons systems is limited. DOD spends billions of dollars each year to sustain its weapon systems. These operating and support (O&S) costs can account for a significant portion of

[6] Military equipment are weapons systems that can be used directly by the Armed Forces to carry out battlefield missions.

[7] GAO, *Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources*, GAO/AFMD 90-23 (Washington, D.C.: Feb. 23, 1990).

[8] GAO, *Department of Defense: Additional Actions Needed to Improve Financial Management of Military Equipment*, GAO-10-695 (Washington, D.C. July 26, 2010).

[9] Full cost is the sum of direct and indirect costs. Direct costs are costs that can be specifically identified with an output, including salaries and benefits for employees working directly on the output, materials, supplies, and costs with facilities and equipment used exclusively to produce the output. Indirect costs are costs that are not specifically identifiable with any output and may include costs for general administration, research and technical support, and operations and maintenance for buildings and equipment. See Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (Washington, D.C.: July 31, 1995).

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a weapon's system's total life-cycle costs and include costs for, among other things, repair parts, maintenance, and contract services. However, in July 2010 we reported that the department lacked key information needed to effectively manage and reduce O&S costs for most of the weapon systems we reviewed—including life-cycle O&S cost estimates and consistent and complete historical data on actual O&S costs.[10] Specifically, we found that the military departments lacked (1) life-cycle O&S cost estimates developed at the production milestone for five of the seven aviation systems we reviewed and (2) complete data on actual O&S costs.[11] Without historical life-cycle O&S cost estimates and complete data on actual O&S costs, DOD officials lack important data for analyzing the rate of O&S cost growth for major weapon systems, identifying cost drivers, and developing plans for managing and controlling these costs.

- The department and military services continue to have difficultly effectively deploying business systems, on time, within budget, and with the functionality intended to significantly transform business operations. For example, in April 2010, we reported that the management processes the Army established prior to the second deployment of its Logistics Modernization Program (LMP)[12] were not effective in managing and overseeing the second deployment of this system.[13] Specifically, we found that due to data quality issues, the Army was unable to ensure that the data used by LMP were of sufficient quality to enable the Corpus Christi and Letterkenny Army depots to perform their day-to-day missions after LMP became operational at these locations. For example, LMP could not automatically identify the materials needed to support repairs and ensure that parts would be available in time to carry out the repairs. Labor rates were also missing for some stages of repair, thereby precluding LMP from computing labor costs for the repair projects. As a result of these data issues, manual work-around processes had to be developed and used in

[10]GAO, *Defense Management: DOD Needs Better Information and Guidance to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems*, GAO-10-717 (Washington, D.C.: July 20, 2010).

[11]GAO reviewed the following seven major aviation systems: the Navy's F/A-18E/F; the Air Force's F-22A, B-1B, and F-15E; and the Army's AH-64D, CH-47D, and UH-60L.

[12]LMP is an Army business system that is intended to replace aging Army systems than manage inventory and depot repair operations. LMP was originally scheduled to be completed by 2005, but after the first deployment in July 2003, the Army delayed fielding because of significant problems, including data quality and testing issues.

[13]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010).

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order for the depots to accomplish their repair missions. Furthermore, the performance measures the Army used to assess implementation failed to detect that manual work-arounds rather than LMP were used to support repair missions immediately following LMP's implementation at the depots. Without adequate performance measures to evaluate how well these systems are accomplishing their desired goals, DOD decision makers including program managers do not have all the information they need to evaluate their systems investments to determine the extent to which individual programs are helping DOD achieve business transformation, including financial management, and whether additional remediation is needed.

- In addition to the DOD IG reports on internal controls and compliance with laws and regulations included in DOD and military department annual financial reports, the DOD IG has other reports highlighting a variety of internal controls weaknesses[14] in the department's financial management that affect DOD operations[15] as the following illustrate.

  - In January 2010, the DOD IG evaluated the internal controls over the USMC transactions processed through the Deployable Disbursing System (DDS)[16] and determined that USMC did not maintain adequate internal controls to ensure the reliability of the data processed.[17] Specifically, the DOD IG found that USMC disbursing personnel had not complied with the statute when authorizing vouchers for payment or segregated certifying duties from disbursing when making payments. Further, the DOD IG found that USMC personnel had circumvented internal controls restricting access to DDS information. As a result, the

[14]DOD auditors have reported material financial management weaknesses in the following areas: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Account 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) Environment Liabilities; (10) Statement of Net Cost; (11) Intragovernmental Eliminations, (12) Other Accounting Entries, and (13) Reconciliation of Net Cost of Operations to Budget.

[15]See the DOD IG's report on internal controls included in the annual Department of Defense Financial Reports.

[16]DDS is a system that automates a variety of disbursing office functions including travel, military, commercial, and miscellaneous payments; accounts payable; collection processes; and financial reporting requirements.

[17]DOD Inspector General, *Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System*, D-2010-037 (Arlington, Va: Jan. 25, 2010).

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DOD IG concluded that USMC was at risk of incurring unauthorized, duplicate, and improper payments.

- In June 2009, the DOD IG reported that the Army did not have adequate internal controls over accountability for approximately $169.6 million of government-furnished property at two Army locations reviewed.[18] Specifically, the DOD IG found that Army personnel had not ensured the proper recording of transfers of property accountability to contractors, physical inventories and reconciliation, or the identification of government property at these locations. As a result, the DOD IG concluded that the Army's property accountability databases at these two locations were misstated and these two Army locations were at risk of unauthorized use, destruction or loss of government property.

[18] DOD Inspector General, *Internal Controls Over Government Property in the Possession of Contractors at Two Army Locations*, D-2009-089 (Arlington, Va: June 18, 2009).

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Appendix II: Description of Key Enterprise Resource Planning Efforts

The department stated that implementation of the following nine ERPs are critical to transforming the department's business operations and addressing some of its long-standing weaknesses. A brief description of each ERP is presented below.

The General Fund Enterprise Business System (GFEBS) is intended to support the Army's standardized financial management and accounting practices for the Army's general fund,[1] with the exception of that related to the Army Corps of Engineers which will continue to use its existing financial system, the Corps of Engineers Financial Management System.[2] GFEBS will allow the Army to share financial, asset and accounting data across the active Army, the Army National Guard, and the Army Reserve. The Army estimates that when fully implemented, GFEBS will be used to control and account for about $140 billion in spending.

The Global Combat Support System-Army (GCSS-Army) is expected to integrate multiple logistics functions by replacing numerous legacy systems and interfaces. The system will provide tactical units with a common authoritative source for financial and related non-financial data, such as information related to maintenance and transportation of equipment. The system is also intended to provide asset visibility for accountable items. GCSS-Army will manage over $49 billion in annual spending by the active Army, National Guard, and the Army Reserve.

The Logistics Modernization Program (LMP) is intended to provide order fulfillment, demand and supply planning, procurement, asset management, material maintenance, and financial management capabilities for the Army's working capital fund. The Army has estimated that LMP will be populated with 6 million Army-managed inventory items valued at about $40 billion when it is fully implemented.

The Navy Enterprise Resource Planning System (Navy ERP) is intended to standardize the acquisition, financial, program management, maintenance, plant and wholesale supply, and workforce management capabilities at six

[1]The general fund can be defined as the fund into which receipts are deposited, except those from specific sources required by law to be deposited into other designated funds and from which appropriations are made by Congress to carry on the general and ordinary operations of the government.

[2]According to the GFEBS PMO, once the system is fully operational the Army will assess the feasibility of GFEBS becoming the system of record for the Corps of Engineers.

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Navy commands.[3] Once it is fully deployed, the Navy estimates that the system will control and account for approximately $71 billion (50 percent), of the Navy's estimated appropriated funds—after excluding the appropriated funds for the Marine Corps and military personnel and pay.

The Global Combat Support System–Marine Corps (GCSS-MC) is intended to provide the deployed warfighter enhanced capabilities in the areas of warehousing, distribution, logistical planning, depot maintenance, and improved asset visibility. According to the PMO, once the system is fully implemented, it will control and account for approximately $1.2 billion of inventory.

The Defense Enterprise Accounting and Management System (DEAMS) is intended to provide the Air Force the entire spectrum of financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipts and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund. According to Air Force officials, when DEAMS is fully operational, it is expected to maintain control and accountability for about $160 billion.

The Expeditionary Combat Support System (ECSS) is intended to provide the Air Force a single, integrated logistics system—including transportation, supply, maintenance and repair, engineering and acquisition—for both the Air Force's general and working capital funds. Additionally, ECSS is intended to provide the financial management and accounting functions for the Air Force's working capital fund operations. When fully implemented, ECSS is expected to control and account for about $36 billion of inventory.

The Service Specific Integrated Personnel and Pay Systems are intended to provide the military departments an integrated personnel and pay system.[4]

[3]The six Navy commands are the Naval Air Systems Command, the Naval Supply Systems Command, the Space and Naval Warfare Systems Command, the Naval Sea Systems Command, the Strategic Systems Program, and the Office of Naval Research and Strategic Systems Planning.

[4]The military services integrated personnel and pay systems are replacement systems for the Defense Integrated Military Human Resources System that was intended to provide a joint, integrated, standardized personnel and pay system for all military personnel.

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Defense Agencies Initiative (DAI) is intended to modernize the defense agencies' financial management processes by streamlining financial management capabilities and transforming the budget, finance, and accounting operations. When DAI is fully implemented, it is expected to have the capability to control and account for all appropriated, working capital and revolving funds at the defense agencies implementing the system.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-001
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator ~~Coburn~~ Carper
Witness: HON Hale
Question: #1

Audits

Question: You have indicated that the Department of Defense should focus on the elements of the audit most important for managing the Department, and exclude other elements that are part of traditional audits. What elements do you think should be included and which should be excluded for the Department of Defense?

Answer: The Department is fully committed to proving to citizens that we are excellent stewards of our country's resources. We owe the citizens a complete and accurate accounting of each dollar they have provided for our Nation's defense. We also have a duty to meet this goal in the most cost-effective way possible. Our approach does not exclude any elements of the financial statements, but rather defines a plan to progressively build to full auditability by focusing first on the information that provides the most value to management.

That is why we are focusing first on the information we are using to manage and then address the remaining requirements for auditable financial statements. We are focusing first on improving information and achieving audit readiness for assets records (counts and location). Our strategy will also focus first on improving the business systems and processes that support our Statement of Budgetary Resources (SBR). The full funding lifecycle is captured in the SBR; from appropriation to obligation to receipt of goods or services to disbursement. We feel that improving these processes will also lead to success on the other statements.

In other words, once successful on the SBR, we will also have made significant progress toward auditability of the full financial statements. We can then implement a cost-effective approach that uses this foundation to pursue full financial statement auditability.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-002
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator ~~Coburn~~ Carper
Witness: HON Hale
Question: #2

FY12 NDAA SASC Report Language on Valuating Assets

Question: The Senate Armed Services Committee included report language in the Fiscal Year 2011defense authorization bill that directs the department to examine the costs and benefit of alternative approaches to valuation of assets. When will you have a response to the language?

Answer: As reported in the November 2010 FIAR Plan Status Report, the Department has begun the business case by assessing the costs and associated benefits of reporting and auditing Balance Sheet cost information. The business case will assess the benefits of audited balance sheet information for all users: Citizens, Congress, and management. We will present the results of the business case in the May 2011 FIAR Plan Status Report, as requested in the Senate Armed Services Committee Report language.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-003
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #3

Pentagon Financial Management Improvement Efforts

Question: 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.Can you elaborate on the benefits that the Pentagon has recognized through its financial management improvement efforts?

Answer: The Department is realizing benefits from the financial management improvement efforts designed to ultimately provide more reliable information to decision makers. For example, organizations actively pursuing audit readiness efforts, such as the Marine Corps and Defense Information Systems Agency, have been able to quantify the amount of underutilized resources identified through more timely and accurate obligation and expense reporting. Indentifying these resources in the period of availability enables the entities to use them on mission needs and therefore improve mission effectiveness. Feedback from the U.S. Army Corps of Engineers, which has successfully sustained financial auditability, indicates that more disciplined business processes complement an existing customer focus that increases customer and stakeholder confidence. Improvements to business processes in order to achieve more accurate financial information also have resulted in more efficient processes by eliminating rework and rededicating those resources to value-added activity. Better quality financial information is really the key benefit. Succeeding with the audit itself will be an important by-product, but one which provides a critical benefit in the form of public trust and confidence in our stewardship of resources.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-004
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #4

Pentagon Financial Management Improvement Efforts

Question: What actions have you taken to champion this effort and get other functional areas in the military to recognize the benefits of the financial improvement and audit readiness effort?

Answer: Improving financial management in the Department of Defense continues to be a priority of mine. I recognize that the Department will not succeed in this area without the active cooperation and partnership of all functional communities. To increase buy-in and participation in this effort, I have taken three actions:

- Strategy. My strategy to focus on budgetary and asset record information has produced Department-wide buy-in because it focuses on information used to manage the Department. Further, this strategy provides assurance that the information management uses daily can pass audit scrutiny. Prior audit efforts focused on information that was important to Balance Sheets, such as the historical cost of equipment, but the information was not used by managers looking to meet future threats, so the effort was not deemed important by those managers.

- Resources. The Services' financial improvement efforts compete with mission requirements. In the past, these financial improvement goals were not funded to the levels needed to make meaningful progress in the Army and Air Force. I pushed for the Services to commit the appropriate level of resources to this effort in the prior and current budget cycles. In these times where we are pushing for budget efficiency, this has sent a clear message as to the importance of this effort.

- Leadership and Governance. I, along with the DCMO, chair the FIAR Governance Board to set strategic vision and hold leaders accountable to meeting objectives. The Board meets quarterly and includes the Services' DCMOs to help ensure cross-functional support and participation. I also personally met with the Service Under Secretaries and Vice Chiefs of Staff to enlist their support and active participation in achieving this important goal.

These actions are having a positive impact. The Department has responded quickly to focus efforts on the strategic priorities and continued financial improvement toward achieving unqualified opinions on DoD financial statements, demonstrating the commitment of our civilian and military leaders across the Department.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-005
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #5

Enterprise Resource Planning (ERP) System

Question: In the hearing it was stated that ERPs are integral to enabling the Department to achieve its audit readiness objectives. Specifically, what measures are you taking during the implementation of the ERPs to ensure audit readiness objectives are met?

Answer: ERPs are integral to achieving our audit readiness objectives. However, they represent a necessary, but not sufficient, element. Said another way, they must be implemented as a part of a broader business environment to support sustainable and cost-effective audit readiness for the Military Departments and the larger DoD enterprise.

There are measures currently in place as part of acquisition oversight and implementation planning that support audit readiness. These measures are in the form of testing that confirms compliance with current financial standards and capabilities. This testing is conducted independently with documentation of the testing retained for future reference. There are further reviews conducted to ensure standards included in the Business Enterprise Architecture have been followed. This process is administered by the Business Transformation Agency (BTA) as part of the Investment Review process. These measures have been generally effective but we are planning two additional measures to strengthen assurance.

First, working with the BTA, my office is developing a methodology to conduct post-implementation testing to ensure that ERP systems are being used to meet functional requirements (which incorporate Government-wide requirements), such as being consistent with the U.S. Standard General Ledger at the transaction level. This validates the system configuration and the business rules that control the accurate posting of transactions.

Second, we are piloting several initiatives to validate the business environment to include the use of ERPs. The Army is conducting assessments of business environments where it has implemented the General Fund Enterprise Business System ERP system. This assessment will look at the system as well as controls surrounding the system as a way to validate that overall audit readiness objectives are, in fact, achieved. A similar initiative is underway within the Navy where a major system acquisition program is supported by the Navy ERP. Lessons learned from each of these will be applied to our pre-implementation testing.

Finally, I have also tasked my staff to develop operational metrics that will help determine the effectiveness of the ERP implementations in addressing known audit challenges and in supporting audit readiness objectives. These metrics will be developed in coordination with the Services and Defense Agencies.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-006
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #6

Enterprise Resource Planning (ERP) System

Question: Who from outside of the military services is independently verifying that the service's ERP systems are in compliance with federal accounting standards?

Answer: As discussed in my response to Question #5, independent testing is conducted by various organizations during pre-implementation events. Typically, Military Department audit services perform this kind of testing. Once implemented, we have found that changes in the system configuration and data conversion efforts may compromise the systems' compliance status. For that reason, I am partnering with the DCMO and we are using Business Transformation Agency resources (or the resources of its successor organizations) to develop an ongoing monitoring process to evaluate compliance of systems that are in production. I will have an additional opportunities to re-confirm compliance during independent audit readiness validations that were discussed in Question #5.

In addition, the DoD Office of Inspector General (OIG) has cognizance for conducting audits and recently made reviews of DoD ERP systems an area of emphasis. This audit cognizance encompasses audits and reviews conducted for the purpose of determining compliance with laws, regulations and Policy. For example, the DoD IG recently conducted a review of the Army's Logistics Modernization Program. The DoD IG is also currently conducting a review of the Army's General Fund Enterprise Business System ERP implementation and has additional reviews planned or underway. All of the government audit organization reviews are performed in accordance with Government Auditing Standards.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-007
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #7

Enterprise Resource Planning (ERP) System

Question: The Department of Defense is relying heavily on contractors to assist in the implementation of ERPs. What specific measures are you taking to ensure that the contractors are aware of, and fully support, the audit readiness objective of the ERP systems?

Answer: Most contractors supporting ERP programs are engaged to address the technical aspects of configuration and implementation of these systems. As the functional proponent for financial systems and audit readiness, I am using the Financial Improvement and Audit Readiness (FIAR) initiative to increase the level of awareness within these programs and throughout DoD. We are working with contractors supporting FIAR efforts to ensure that they bring the right experience and skill sets to meet DoD needs. This includes their efforts in working with ERP program offices and contractors supporting individual ERP program offices.

We have begun to conduct evaluations at the component level to assess our progress on improving our audit readiness. In these assessments, we review the audit readiness of end-to-end business process processes which are directly supported by the ERPs. For example, as noted above, the Army recently conducted an assessment of its business environment to help inform the Army whether the business environment will foster a successful implementation of the ERP systems. When issues are identified (e.g., need for process changes, etc.) this information is documented and communicated to management and system implementation teams. The teams then take the appropriate action to address such issues. The program offices will be engaged in these reviews of how their systems are being employed and appropriate changes in systems configuration or operation will be made as necessary. Similar activities will be conducted in all Services.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-008
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #8

Enterprise Resource Planning (ERP) System

Question: Do the contracts awarded to these contractors include specific requirements regarding the implementation of appropriate financial controls and "audit ready" processes as part of the ERP implementation?

Answer: I cannot comment on specific contract specifications but I am confident that systems requirements and expectations that define the need for contractor support do call for compliance with current federal financial statutory and policy mandates. That said, the detailed execution of well controlled business processes using these large complex ERPs is an area that requires continued focus and improvement. We typically try to incorporate industry standards, best practices, and any relevant and applicable Government-wide requirements into our contracts and Statements of Work to be performed. Our reliance on contractors emphasizes technical competency in the specific work efforts that will be performed and include provisions to comply with authoritative guidance such as OMB Policy (Circulars and Bulletins) that lay out specific requirements (e.g., Circular A-127 "Financial Managements Systems) that must be satisfied. We supplement Government-wide requirements with our own these technical requirements (e.g. ability to maintain audit trails, detailed reporting capabilities, etc.) directly support our audit readiness objectives.

We also have an investment review process in place that incorporates a validation that the ERPs comply with the DoD Business Enterprise Architecture (BEA). Our BEA incorporates mandatory system requirements contained in the OMB and the Department of Treasury guidance and DoD internal requirements. These stringent requirements must be satisfied for all ERP implementations in excess of the investment review threshold of $1 million, regardless of whether the system integrator is a contractor or government personnel. As mentioned in responses to earlier questions, my staff is working with the DCMO team to develop processes for monitoring ongoing systems compliance. Results of these reviews will be provided to systems program offices to further increase program office understanding and awareness.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-009
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #9

Enterprise Resource Planning (ERP) System

Question: Previous GAO and DoD IG reports have pointed to a lack of standardized financial processes as a contributing factor to the Department's audit challenges. In fact, this was one of the reasons why the Department established the Business Transformation Agency (BTA) several years ago. To what degree are the current ERP systems supporting the standardization of financial processes within each military service, and across the Department?

Answer: Each ERP system within the Department is required to comply with Federal Financial Management System Requirements, Federal Accounting Standards, Standard Financial Information Structure (SFIS), and United States Standard General Ledger standards, as defined in the DoD Business Enterprise Architecture (BEA), developed and maintained by the BTA. Further, the BEA incorporates the DoD SFIS, which is a comprehensive data structure that supports data standardization relative to various functional requirements such as budgeting, financial accounting, cost/performance, and external reporting needs across the Department. The BEA also incorporates, by reference to the DoD Financial Management Regulation (FMR), standardization of activities, processes, data, information exchanges, business rules, system functions, system data exchanges, terms and linkages to laws, regulations, and policies. The intent of these requirements is to not only standardize financial data and processes, but also lower the cost of implementation and maintenance of the system going forward. Each military Service that manages the ERPs has included a validation process within its FIAR plan for the overall business environments that include the ERP. Our success in using ERP implementation to achieve an increased level of standardization will be reflected in the results of these validations.

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Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #10

Enterprise Resource Planning (ERP) System

Question: Does the Navy ERP system use standardized financial processes across commands, or is the system being further customized to support the individual needs of each command?

Answer: The Navy ERP system supports standard business processes, as implemented by the Navy commands, and this is certainly one of the desired outcomes. The Navy is working to improve the end-to-end business process documentation to ensure the processes are implemented in a standard manner. Limited customization was done to support unique business processes such as Ship Construction Contracting at the Naval Sea Systems Command. FIAR validation of Navy end-to-end processes supported by the Navy ERP will provide valuable feedback as to how the Navy ERP is being used to support both unique business needs as well as increased standardization.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-011
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #11

Anticipated Progress on DoD Financial Improvement and Audit Readiness

Question: What measurable progress will be made in the next 12 months with regards to financial improvement and audit readiness?

Answer: The Department is committed to the requirement to achieve auditability by FY 2017. Leadership has established interim measureable goals to help ensure success in this long-term effort and has governance processes in place to hold Components accountable to meeting these goals.

By the end of calendar year 2011, some of the most significant goals to be reached include the following:

- Independent validation of Appropriations Received audit readiness assertions will be completed for all three Military Services and the Defense Logistics Agency.
- Army will have asserted and validated the Statement of Budgetary Resources processes of entities initially using its planned financial ERP—the **General Fund Enterprise Business System** (GFEBS).
- Navy will have validated audit readiness assertion for end-to-end processes for civilian pay and temporary duty travel and will be in the process of validating assertions of the budget execution of one Major Defense Acquisition Program (MDAP) that is supplemented by Navy ERP.
- Air Force will have demonstrated the capability to reconcile Fund Balance with Treasury and had the audit readiness of several mission critical asset elements (existence and completeness) independently validated.
- DLA will also have asserted capability to reconcile Fund Balance with Treasury.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-012
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Hale
Question: #12

Assessment of DLA Enterprise Resource Planning (ERP) System

Question: The Defense Logistics Agency (DLA) has fully deployed their Enterprise Resource Planning (ERP) system. Are they currently ready for audit? Why not?

Answer: DLA has made great strides toward full implementation of its ERP; however, the ERP is not yet fully implemented and it is not yet ready for audit for several reasons. DLA still must deploy additional ERP elements, implement corrective actions, and develop more complete documentation to achieve audit readiness.

DLA has not fully deployed its ERP solution to all its business activities. DLA's energy business (primarily fuels), an area that accounted for approximately 37 percent of DLA's working capital fund revenue and obligations in FY 2010, is not yet included. Once the Energy Convergence Program moves DLA's energy business into the ERP in FY 2014, DLA will reside on a single ERP system.

Additionally, DLA has been analyzing the non-energy business and financial operations that have been integrated into its ERP. Ten business cycles were identified, and DLA is working to ensure that the process and control environments are compliant and sufficient to withstand a financial statement audit. As of FY 2010, DLA had identified 578 key controls and has developed corrective action plans for controls that were not working effectively.

DLA also relies upon key Service Providers to assert audit readiness, including the Defense Finance and Accounting Service (DFAS) and the Defense Information Systems Agency (DISA). DLA is closely partnering with DFAS to assess the business processes, controls and documentation for activities supporting DLA business cycles. DFAS has identified the various systems that support the DLA processes and will be testing the audit readiness of those systems in the coming months. Likewise, DISA is responsible for the processes and controls within its computing centers, which house key DLA systems.

Finally, recent reviews performed by DLA have identified documentation of system functionality as a key audit readiness gap. Because DLA relies heavily upon system controls, it must have adequate documentation to identify each system's role in the overall business process as well as the specific controls that each system supports. DLA is currently working to ensure the ERP processes and procedures– including change management, maintenance of data integrity, feeder system interfaces, and system functionality – are adequately documented and ready for audit.

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Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #26

Implementation of Enterprise Resource Planning (ERP) Systems

Question: What specific changes has Mr. Lynn, in his role as the Chief Management Officer of the Department of Defense, made in regard to the implementation of these ERP systems?

Answer: Several changes have been made to improve implementation of our Enterprise Resource Planning (ERP) systems. Specifically, we are:

1. Strengthening acquisition oversight of ERPs to include direct and persistent engagement of the Chief Management Officers (CMO)

2. Greater emphasis on Business Process Re-Engineering (BPR)

3. Developing and extending an End-To-End (E2E) framework to create a clearer and more robust picture of our business

4. Leading the Department's efforts to reform the acquisition process for Information Technology (IT)

Within the acquisition process we have taken concrete steps to strengthen oversight. For example, I was appointed as the Milestone Decision Authority for most of our business Major Automated Information Systems (MAIS). Equally important, I chair the Combined Investment Review Board for Acquisition (CIRB-A), which is our acquisition governance body focused exclusively on ERPs and other MAIS business systems. The CIRB-A brings together functional experts, legal counsel, the testing and cost communities and the Military Department CMOs to provide more effective management. As chair of the CIRB-A, my priority is to hold people and organizations responsible for program performance. Equally important, as an integrator of DoD business operations, I use the CIRB-A to balance requirements of functional customers with the rigor of the acquisition process and corporate perspective of the Military Department CMOs. The CIRB-A is also synchronizing the Department's acquisition oversight and Investment Review Board process by tying a program's funding to events in the acquisition lifecycle to force results and accountability.

Secondly, we are putting greater emphasis on BPR. While BPR is not new to the Department, through implementation of the requirements in Section 1072 of the Fiscal Year 2010 National Defense Authorization Act, DoD is focused on improving processes prior to system development or implementation. Use of better performance measures ensures we are realizing intended benefits and generation of better requirements to improve our chance of success.

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Third, we are using an E2E framework captured in the Business Enterprise Architecture to examine our business as an integrated enterprise as opposed to focusing exclusively on system or organizational performance. It is critical that the Department not pursue conflicting or competing priorities within multiple organizations that, in the end, sub-optimize the Department's overall business. The E2E framework and implementation detail, which is under development, is designed to provide a holistic picture of our business. For example, within the procure-to-pay E2E business flow there are both ERP and legacy systems operating today. Some legacy systems perform functions that could be performed with ERPs. The E2E view will show where there is overlap or gaps so the Department can better manage its investments and improve performance.

Finally, the CMO is the chair and I am the Executive Lead of the IT acquisition reform task force created to reform how the Department acquires IT. The task force is charged with implementing concepts outlined in the Department's approach for reforming IT released to Congress on December 9, 2010. The Department's approach is also closely aligned with the 25 point implementation plan to reform federal IT management released by the federal Chief Information Officer on December 9, 2010.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-027
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #27

Defense Integrated Military Human Resources System (DIMHRS)

Question: After many years of effort and nearly a billion dollars invested, the Department of Defense halted its effort to implement a departmentwide integrated personnel and pay system known as the Defense Integrated Military Human Resources System (DIMHRS). In its place, the military services have been directed to implement their own integrated military personnel and pay systems. Who is responsible for the failure of DIMHRS?

Answer: Multiple factors contributed to the Department's decision to terminate the DIMHRS program; the Department's attempt to field the world's largest integrated Human Resources and Payroll system within one of the world's most complex organizations. As a Commercial-off-the-Shelf Enterprise Resource Planning solution, DIMHRS attempted to dictate a single set of integrated processes and procedures for managing personnel and pay to all military personnel within DoD. Some aspects of personnel and pay management are alike within DoD but there are other aspects (i.e., promotions, strength management, training, etc) unique to each Military Department and their active, reserve and guard components, which are difficult to change with a single integrated personnel and pay solution. The DIMHRS business case showed implementation and change management risks outweighed benefits, therefore the Department decided to terminate the DIMHRS program and selected a distributed acquisition approach to better manage risk.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-028
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #28

Defense Integrated Military Human Resources System (DIMHRS)

Question: Please explain why the past effort to implement a standardized military personnel and pay system failed, the lessons learned from this endeavor, and what makes the chances of success in standardizing human resources better at the military service level.

Answer: DIMHRS lessons learned were the same challenges observed in all Commercial-off-the-Shelf implementations of such large size and complexity. The three principal challenges were inadequate change management, poor Business Process Reengineering and insufficient governance.

The decentralized implementation approach will leverage the DIMHRS core, which is defined by the Military Departments as common data and process elements required to achieve timely and accurate military pay. This approach will allow each Military Department to directly manage implementation and change management risks identified in the DIMHRS business case. Further, each Military Department now has an opportunity to drive BPR within their Component.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-029
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #29

Monitoring and Oversight of Military Personnel and Pay Systems

Question: What monitoring and oversight bodies or processes are in place now that were not present before that would provide Congress with the confidence that the military services efforts to standardize their personnel and pay systems will not fail as the previous effort?

Answer: Several governance changes have been made since the Department terminated the Defense Integrated Military Human Resources System (DIMHRS) program. First, the Department created the DIMHRS Transition Council to direct an orderly transition of the DIMHRS program from the Business Transformation Agency to the Military Departments. This transition was completed in 2010. Next, each Military Department created Flag Officer and senior executive oversight bodies to govern Service-level implementation and address risks identified in the DIMHRS business case. Finally, the Department created the Combined Investment Review Board for Acquisition (CIRB-A), which I chair, to provide focused oversight of Enterprise Resource Planning implementations to include follow-on DIMHRS efforts. The CIRB-A brings together functional experts, legal counsel, the testing community and Military Department CMOs to provide more effective management. As chair of the CIRB-A, my priority is to hold people and organizations responsible for program performance. Equally important, as an integrator of DoD business operations, I use the CIRB-A to balance requirements of functional customers with the rigor of the acquisition process and corporate perspective of the Military Department CMOs.

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Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #30

Enterprise Resource Planning (ERP) Systems

Question: To what extent are the governance structures put in place to perform oversight of the ERP systems "self-certifying" when it comes to identification and remediation of problems? How does Mr. Lynn in his role as the Chief Management Officer, find out about problems with ERP systems? Do the military services identify all problems or does your staff independently examine the systems?

Answer: ERP and business system governance is not self certifying. However, oversight bodies do rely on information provided by the program and other stakeholders to make decisions. Each of our ERP investments qualifies as a Major Automated Information System, triggering specific oversight functions. For example, the Cost Assessment and Program Evaluation Office performs an Independent Cost Estimate to validate the cost benefit of a program and the Office of the Director, Operational Testing and Evaluation conducts independent testing of the program. Programs also undergo independent Enterprise Risk Assessment Methodology (ERAM) reviews prior to significant program milestones. ERAM reviews assess risk across seven dimensions: scope, people, strategy, technology, contracting, process and external factors. Assessments are performed by matrixed teams of functional and technical experts from across the Department. Results of reviews and assessments are reported to the Combined Investment Review Board for Acquisition which I chair. Programmatic concerns are also addressed to the Chief Management Officer (CMO) as part of the day-to-day dialog between the CMO and myself and, as necessary, to the Defense Business Systems Management Committee, which is the most senior level governance forum for DoD business operations.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-031
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #31

Financial Improvement and Audit Readiness (FIAR) Plan

Question: While the DOD Chief Financial Officer has overall responsibility for the development and implementation of the Financial Improvement and Audit Readiness (FIAR) plan, one of the issues that GAO noted in its May 2009 report was that the roles and responsibilities of the department Chief Management Officer were not clearly defined within the FIAR plan.From your perspective as the Deputy Chief Management Officer for the department what is your role and responsibilities in the development, oversight, and implementation of the FIAR plan?

Answer: As Deputy Chief Management Officer (DCMO), I co-chair the FIAR Governance Board with the Under Secretary of Defense (Comptroller). In this role, I work to synchronize efforts of the cross-functional business community in support of the Department's financial management efforts. More specifically, I work across the Department to ensure our underlying business processes and information technology investments support the goal of achieving a clean audit opinion and our audit readiness strategy. The Military Department DCMOs are also key members of the FIAR Governance Board and play a similar role within their respective organizations and in execution of their Department's Financial Improvement Plan.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-032
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #32

Enterprise Resource Planning (ERP) Systems

Question: One of the inherent benefits of implementing commercial off the shelf systems is the opportunity to take advantage of future upgrades provided by the commercial vendors. How are you preparing to handle future software release upgrades to ensure seamless transitions to the next version? To what degree are the Department's ERP systems being customized and configured, and will such customizations create difficulty in implementing future vendor releases?

Answer: Prior to creation of the Business Enterprise Architecture, development of a single DoD Enterprise Transition Plan and standup of Chief Management Office (CMO)/Business Transformation Office functions, many of our ERP systems were independent efforts with very little attempt at coordination or sharing of program intellectual capital.

The decentralized approach had the following impacts: first, rollout schedules, release strategies and upgrade planning for our ERP programs have clearly been independent evolutions by programs, managed by each Component or Agency. For example, Navy ERP, an SAP implementation, is on an earlier version of SAP software than Army's multiple SAP implementations and the Defense Logistics Agency's ERP programs. However, each of our major Oracle ERP programs are on the same version of Oracle. Second, many of our major ERP programs developed requirements and interface strategies at a time when ERP integrated business functionality tying logistics and finance together was not well understood by decision makers. In other words, existence of ERPs occurred as a bottom up answer to solving material weaknesses within the Department, and when ERPs were initially developed - many of the policies requiring interfaces with legacy single function systems were in place and enforced. This led the Department to implement ERPs optimized for functions but not optimized overall or optimized for the Enterprise as a whole. Unquestionably, this will impact the ability and cost of upgrading to the vendor's next version of software.

However, the Department has efforts underway to learn from and correct some of our past errors, and with the Committee's help and direction, major improvements lie ahead. We are more fully embracing the edict to use the Commercial-off-the-Shelf functionality in software. A major effort underway in the Department is in the procurement area. We have multiple implementations and pilot programs where we are using contracting functionality inherent within our ERP software. We are also piloting use of the internal capability of software to receive and record goods and services and post invoices instead of using external systems and then copying information over to the software. This has the potential to eliminate many of the most complex interfaces which cause reconciliation issues with financial data. The Department will do more of this in other areas of ERPs as we go forward. We are proactively reviewing our ERP strategies

within our Components to correct this lack of optimization through streamlining the number of rollouts and reusing configuration and customization products used at different implementation sites. We are also assessing our current approach to managing licenses at an Enterprise level to remove inefficiencies in overbuying and underutilizing. We are maturing and evolving CMO organizations and Business Transformation Offices within the Services to carry out guidance already received in previous National Defense Authorizations Acts so we can have an empowered voice linking traditionally stove-piped communities.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-033
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Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #33

Anticipated Progress on DoD Financial Improvement and Audit Readiness

Question: What measurable progress will be made in the next 12 months with regards to financial improvement and audit readiness?

Answer: The Department is committed to the requirement to achieve auditability by Fiscal Year 2017. Leadership has established interim measureable goals to help ensure success in this long-term effort and has governance processes in place to hold Components accountable to meeting these goals.

By the end of calendar year 2011, some of the most significant goals to be reached include the following:

- Independent validation of Appropriations Received audit readiness assertions will be completed for all three Military Services and the Defense Logistics Agency (DLA).
- Army will have asserted and validated the Statement of Budgetary Resources processes of entities initially using its planned financial Enterprise Resource Planning system — the General Fund Enterprise Business System.
- Navy will have validated audit readiness assertion for end-to-end processes for civilian pay and temporary duty travel and will be in the process of validating assertions of the budget execution of one Major Defense Acquisition Program that is supplemented by Navy ERP.
- Air Force will have demonstrated the capability to reconcile Fund Balance with Treasury and had the audit readiness of several mission critical asset elements (existence and completeness) independently validated.

DLA will also have asserted capability to reconcile Fund Balance with Treasury.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-034
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #34

Business Process Reengineering (BPR)

Question: In your testimony you acknowledged the increased need for business process reengineering (BPR) and reduction of interfaces as not only essential elements of success for these ERP system implementations, but also noted that these activities are now required by statute, specifically Section 1072 of the Fiscal Year 2010 National Defense Authorization Act).It is now nearly one year since that law has been in effect. Please provide the committee with the specific BPR changes that have occurred in each of the Department's ERP programs since the law went into effect.

Answer: BPR is not new to the Department of Defense. It has been a required element of Clinger-Cohen Act compliance since 1996. However, as I stated in my testimony, Section 1072 of the National Defense Authorization Act for Fiscal Year 2010 reemphasized the importance of BPR and integrated it with our acquisition and investment management processes. Since Section 1072 went into effect, the Department issued guidance, developed training and began conducting reviews of programs' BPR efforts as they come through the Investment Review Boards for certification. These reviews consider a number of key tenets the Department believes are integral parts of proper BPR and include:

- Outlining a clear and reasonable problem statement
- Demonstrating alignment between the investment and broader Departmental, Component and/or Service goals
- Completing analysis of the "as-is" environment in sufficient detail to illuminate the problem statement and justify need for a particular materiel investment
- Considering and implementing changes across the full spectrum of operations or Doctrine, Organization, Training, Materiel, Leadership and Education, Personnel and Facilities in addition to developing a materiel solution
- Completing analysis of the "to-be" environment in sufficient detail to be translated into clear requirements linked to the selected materiel solution's capabilities. This analysis must illustrate the investment's underlying business processes are as streamlined and efficient as possible and unique requirements and interfaces have been minimized to the greatest extent possible
- Identifying appropriate outcome-based business performance measures consistent with, and linked to, intended benefits of investment

- Designing a reasonable implementation/change management approach
- Detailing actual results

Different elements of BPR occur at each stage of a program's lifecycle. Many of the key tenets described above most appropriately occur early and upfront in a program's lifecycle – in many cases, even prior to the decision that a materiel solution is necessary. Clearly, many of our ERP programs are further along in their lifecycles. For these programs, we are emphasizing making changes where appropriate, such as development of better performance measures, improving interface strategies or creating better implementation/change management plans. We are also emphasizing key tenets of BPR as programs encounter critical changes and re-scope to more manageable increments.

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Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #35

Interfaces Eliminated by ERP Programs

Question: Please provide the committee with the specific interfaces that have been eliminated in these ERP programs since the law went into effect.

Answer: The Department is addressing the issue of interfaces in a number of ways, including through our BPR reviews in compliance with Section 1072 of the National Defense Authorization Act for Fiscal Year 2010. However, fundamentally, ensuring the number of interfaces is minimized to the maximum extent practical for a particular system requires a more holistic consideration of how the Department conducts business than can be determined through review of an individual program's BPR efforts. So, while the Department continues to take Section 1072 extremely seriously and ensures BPR is conducted on the underlying processes supported by each of our systems, we are also utilizing the concept of End-to-End (E2E) processes to look at whether we are organizing our business and making information technology investments in a way that best optimizes our operations to achieve the outcomes we are seeking.

Business Enterprise Architecture (BEA) 7.0, released in March 2010, introduced the concept of E2E processes serving as the foundation for a shared understanding of the target architecture, which represents a combination of systems, standards, business rules and measures needed to deliver capability in the most efficient manner. This means fewer system hand-offs, little to no system redundancy and minimal functionality gaps between business systems. In BEA 7.0, 15 E2E processes were defined at a high level, with the expectation that processes would be further refined in the future. These E2E processes are:

- Acquire-to-Retire
- Budget-to-Report
- Concept-to-Product
- Cost Management
- Deployment-to-Redeployment/ Retrograde
- Environmental Liabilities
- Hire-to-Retire
- Market-to-Prospect
- Order-to-Cash
- Plan-to-Stock – Inventory Management
- Procure-to-Pay
- Proposal-to-Reward
- Prospect-to-Order
- Service Request-to-Resolution
- Service-to-Satisfaction

Today, we are extending this concept and running pilot efforts with select ERPs – Defense Agencies Initiative, General Fund Enterprise Business System and Defense Enterprise Accounting and Management System – to determine if we can more effectively handle our business by eliminating the need for ERPs to interface with certain standard DoD systems, which are required by policy but have redundant functionality.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-036
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON McGrath
Question: #36

Interfaces Eliminated for all Business System Investments

Question: Since the law applies to business system modernization across the Department (not just the ERP programs), please provide the committee with the number and description of each of the interfaces that have been eliminated for all business system investments that have been certified by the Defense Business System Management Committee since the law has been in effect.

Answer: The Department is addressing the issue of interfaces in a number of ways, including through our Business Process Reengineering (BPR) reviews in compliance with Section 1072 of the National Defense Authorization Act for Fiscal Year 2010. However, fundamentally, ensuring the number of interfaces is minimized to the maximum extent practical for a particular system requires a more holistic consideration of how the Department conducts business than can be determined through review of an individual program's BPR efforts. So, while the Department continues to take Section 1072 extremely seriously and ensures BPR is conducted on the underlying processes supported by each of our systems, we are also utilizing the concept of End-to-End (E2E) processes to look at whether we are organizing our business and making information technology investments in a way that best optimizes our operations to achieve the outcomes we are seeking.

In some cases, much of an E2E process can be handled within an ERP investment, such as Procure-to-Pay, and in other cases a number of different systems are required to carry out an E2E process, such as the Hire-to-Retire process. Using the concept of E2E processes and taking into consideration core ERP investments the Department is making, the remaining portfolio comes into focus. Identification of which non-ERP systems are part of the target environment becomes easier and we can ensure only necessary interfaces are built.

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Committee: SHSGACFEDMGMTGOVT
Member: Senator Carper
Witness: HON McGrath
Question: #44

Enterprise Resource Planning Efforts Implementation

Question: I understand that the department and the military services are investing billions of dollars in the implementation of enterprise resource planning efforts - which includes upgrading its financial and accounting systems - in order to help transform its business operations and financial management. Given the importance of these systems, can the department achieve the 2017 audit readiness date if the modernization of these systems within the military departments continues to see major schedule slippages? What monitoring and oversight bodies and/or oversight processes are in place now, that were not present before, that would provide Congress with the confidence that the military services efforts will not see in the future the same sort of major schedule slippages and cost overruns that GAO has reported?

Answer: The Department is utilizing a three-pronged strategy to address the root causes preventing an unqualified financial audit opinion. These include leadership accountability, standardization and improvement of processes to ensure an adequate control environment and Information Technology. Efforts are underway to simultaneously improve all of these areas, but there is consensus within the Department that improved business systems are necessary to achieve and sustain a clean audit opinion for DoD. We believe this because most of our legacy systems do not effectively capture financial transactions or record business events in compliant general ledgers at the transaction level. While some success may be achieved in certain organizations without new or modernized systems and controls, modernizing our core accounting and business systems enables transaction-level accounting necessary for compliant financial reporting.

Our strategy to achieve a more modern systems environment includes significant investments in Enterprise Resource Planning (ERP) systems. Although we recognize that improvements in financial management processes can be made outside ERPs, schedule slippages in implementation of ERPs would certainly impact the Department's ability to achieve success by 2017. Improved controls implemented within and along with ERP systems will allow the Department will have to depend less on expensive manual reconciliations and other efforts to achieve audit readiness.

To address this risk the Department is using the Financial Improvement and Audit Readiness (FIAR) Governance Board, which I co-chair with the Under Secretary of Defense (Comptroller), to ensure our financial ERPs are fully integrated with our overarching audit strategy. Additionally, the Deputy Secretary and I have taken a number of actions to improve implementation of our ERP systems. First, strengthened our acquisition and investment oversight processes. By creating a new governance body, the Combined Investment Review Board for Acquisition (CIRB-A), to serve as the Overarching Integrated Product Team (OIPT) for our

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business Major Automated Information Systems (MAIS). The CIRB-A brings together functional experts, legal counsel, the testing community and the Chief Management Officers (CMOs) from each of the Military Departments to provide more effective management. Using the CIRB-A, we have brought our acquisition and investment decision-making processes more closely together for these programs. We are tying certification of a program's funding to events in the program's lifecycle. This results in shorter certification periods, more frequent oversight and funding decisions more closely attuned to actual program performance.

Also, introduction of the Military Department CMOs and DCMOs has been an important improvement in governance and oversight of these programs. They are providing significant day-to-day oversight of these programs and are ensuring that within their Military Departments, the various functional stakeholders are working closely together to change necessary business processes and successfully implement ERP systems.

Second, we are putting additional emphasis on Business Process Reengineering (BPR). While BPR is not new to the Department, through implementation of requirements in Section 1072 of the National Defense Authorization Act for Fiscal Year 2010, DoD is focused on improving processes prior to system development or implementation. Use of better performance measures ensures we are realizing intended benefits and generation of better requirements improves our chances of success.

Third, we are using an end-to-end framework to examine our Enterprise business operations and investments. It is critical the Department not pursue conflicting or competing priorities within multiple organizations that, in the end, sub-optimize the overall business process. The Department is utilizing 15 end-to-end business flows documented in the Business Enterprise Architecture to create a clearer picture of the desired target environment and enable better assessment of system investments and capabilities.

Finally, I am the executive lead for the Deputy Secretary's effort to improve the acquisition process for information technology. Over the next months, the Department will work to outline a series of IT acquisition paths that apply high levels of institutional due diligence where it is needed and strip away excess oversight requirements where they are not needed in order to accelerate delivery of business capabilities.

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Member: Senator Carper
Witness: HON McGrath
Question: #45

Army Enterprise Resource Planning (ERP) Efforts

Question: After many years of effort and several hundreds of millions of dollars invested, the department halted its effort to implement a department-wide integrated personnel and pay system. In its place, each of the military services has been directed to implement their own integrated military personnel and pay systems. Why did the past effort to implement a standardized military personnel and pay system fail, what are the lessons learned from this endeavor, and what makes the chances of success any better at the military service level?

Answer: Multiple factors contributed to the Department's decision to terminate the Defense Integrated Military Human Resources System (DIMHRS) program as the single integrated military personnel and pay solution. As a Commercial-off-the-Shelf (COTS) Enterprise Resource Planning (ERP) solution, DIMHRS attempted to dictate a single set of integrated processes and procedures for managing personnel and pay to all military personnel within DoD. Some aspects of personnel and pay management are alike within DoD but there are other aspects (i.e., promotions, strength management, training, etc) unique to each Military Department and their active, reserve and guard components, which are difficult to change with a single integrated personnel and pay solution.

The DIMHRS business case showed that implementation and change management risks outweighed benefits therefore the Department decided to terminate the DIMHRS program and selected a distributed acquisition approach to better manage risks. This distributed approach will leverage the DIMHRS core, which is defined by the Military Departments as common data and process elements required to achieve timely and accurate military pay. This approach will allow each Military Department to directly manage implementation and change management risks identified in the DIMHRS business case. Further, each Military Department now has an opportunity to drive Business Process Reengineering (BPR) within their Component.

DIMHRS lessons learned reflect challenges observed in most if not all large scale COTS implementations. Principally, a lack of engaged senior level governance, inadequate change management and poor BPR.

Several governance changes have been made since the decision was made to terminate DIMHRS. First, in accordance with the National Defense Authorization Act for Fiscal Year 2010, the Department created the DIMHRS Transition Council to direct an orderly transition of the DIMHRS program from the Business Transformation Agency to the respective Military Departments. This transition was completed in 2010. Next, each Military Department created Flag Officer and senior executive oversight bodies to govern Service level implementations and address risks identified in the DIMHRS business case. Finally, the Department created the

Combined Investment Review Board for Acquisition (CIRB-A), which I chair, to provide focused oversight on ERP implementations to include the follow-on DIMHRS efforts. The CIRB-A brings together functional experts, legal counsel, the testing community, and the Military Department Chief Management Officers (CMOs) to provide more effective management. As chair of the CIRB-A my priority is to hold people and organizations responsible for program performance. Equally important as an integrator of DoD business operations, I use the CIRB-A to balance requirements of functional customers with the rigor of the acquisition process and corporate perspective of the Military Department CMOs throughout the Department. The CIRB-A is also synchronized with the Department's Investment Review Board process. We are also tying certification of a program's funding to events in the acquisition lifecycle to force results and accountability.

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Member: Senator Coburn
Witness: HON Fanning
Question: #20

Enterprise Resource Planning (ERP) System and GAO-10-695

Question: Earlier this year the GAO published a report (GAO-10-695) that said that the military services were unable to identify, aggregate, and capture the cost of acquiring major defense acquisition program weapon systems (MDAPs).Since the Navy ERP has already been implemented to perform acquisition functions, why is it unable to now capture the full cost of acquiring military equipment? When will it be able to do so?

Answer: There is not currently a funded plan that would enable Navy ERP to capture the full cost of acquiring military equipment. We are exploring the costs and benefits as well as the practicality of expanding the Navy ERP to enable it to more fully capture the full cost of systems and processes. Navy ERP's current funded scope does not include implementation to the approximately 14 commands outside of NAVAIR, NAVSEA, SPAWAR, NAVSUP, ONR and SSP. Navy is working on options to balance deployment schedule with cost for this expanded implementation and is working with stakeholders to develop a business case for this expanded scope. Full cost capture for military equipment would be possible if this business case shows a favorable return on investment and all Navy commands implement Navy ERP.

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Member: Senator Coburn
Witness: HON Fanning
Question: #21

Involvement in the Enterprise Resource Planning (ERP) System

Question: How and when do you get involved with financial management and Enterprise Resource Planning efforts?

Answer: As the Department of the Navy (DON) lead for business transformation, I engage in financial management and Enterprise Resource Planning (ERP) system planning efforts on several fronts. As a member of the Navy ERP Senior Investment Board, I review and approve all capability changes to the Navy ERP system program of record. In addition, I review and approve all financial management and DON ERP systems to ensure that they comply with the business process re-engineering and enterprise architecture provisions of the FY2010 National Defense Authorization Act prior to submission to the Investment Review Board and Defense Business Management Committee for certification. Finally, when I believe that there is a Defense Business System that requires additional oversight, I charter an enterprise risk assessment or raise it as an issue for the Chief Management Officer via the Business Transformation Council.

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Member: Senator Coburn
Witness: HON Fanning
Question: #22

Enterprise Resource Planning (ERP) System

Question: Who from outside of the Navy is independently verifying that the service's ERP systems are in compliance with federal accounting standards?

Answer: Booz Allen was selected by the OASN (FM&C)/FMO to perform independent third-party assessments as directed by the USD(C) memorandum of August 21, 2001. The assessments were completed for each Navy ERP release (Release 1.0 - Financial and Acquisition and Release 1.1 - Wholesale and Retail Supply). The core of the Booz Allen testing methodology is "A Guide to Federal Requirements for Financial Management Systems" (the Blue Book), comprised of sixteen chapters containing over 3,000 requirements. The Blue Book is an extensive compilation of requirements applicable to DoD financial management systems (finance, accounting and feeder systems). The Blue Book contains requirements promulgated by the Office of Management and Budget (OMB), the General Accounting Office (GAO), the Treasury Department, the JFMIP/FSIO, Federal Accounting Standards Advisory Board (FASAB), and the Department of Defense. Used as a major tool in the Financial and Feeder Systems Compliance Process, the Blue Book's compilation of Federal financial management systems requirements supports standardization of DoD financial management and accounting operations, and assures compliance with Federal financial laws and regulations. During the testing process, Navy ERP was required to demonstrate the system's capabilities to address each requirement through transactions within the ERP system. These demonstrations were documented using screen shots. Each set of screen shots and other relevant documentation were assigned a document number and cross referenced to the appropriate requirement. Booz Allen documented each step and tested for audit and management review purposes.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-023
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Fanning
Question: #23

Enterprise Resource Planning (ERP) System

Question: The Navy is relying heavily on contractors to assist in the implementation of ERPs. What specific measures are you taking to ensure that the contractors are aware of, and fully support, the audit readiness objective of the ERP systems?

Answer: The Government is the Lead Systems Integrator for Navy ERP. While contractors provide products and services directly supporting the audit readiness objective of Navy ERP, the Systems Integrator is responsible for ensuring that the ultimate solution meets the audit readiness objective. The products and services needed for compliance and audit readiness are defined and described in the statement of work or task description in the contracting vehicle awarded for those requirements and/or reflected in the system specifications captured in the "blueprinting", business process documentation, and the technical data package.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-024
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Fanning
Question: #24

Enterprise Resource Planning (ERP) System

Question: Do the contracts awarded to these contractors include specific requirements regarding the implementation of appropriate financial controls and "audit ready" processes as part of the ERP implementation?

Answer: The Government is the Lead Systems Integrator for Navy ERP. While contractors provide products and services directly supporting the audit readiness objective of Navy ERP, the Systems Integrator is responsible for ensuring that the ultimate solution meets the audit readiness objective. The products and services needed for compliance and audit readiness are defined and described in the statement of work or task description in the contracting vehicle awarded for those requirements and/or reflected in the system specifications captured in the "blueprinting", business process documentation, and the technical data package.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-025
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Fanning
Question: #25

Anticipated Progress on Navy Financial Improvement and Audit Readiness

Question: In addition to the audit of the Marine Corps Statement of Budgetary Resources, what measurable progress will be made in the next 12 months with regards to financial improvement and audit readiness of the Navy?

Answer: : The Department of the Navy's (DON) Financial Improvement Program is focusing on Department-wide objectives set for the Military Departments by the Under Secretary of Defense (Comptroller), through his Financial Improvement and Audit Readiness team. These objectives are (1) achieving audit readiness on DON's Statement of Budgetary Resources (SBR), including the Marine Corps portion of the DON SBR already under audit, and (2) asserting Existence and Completeness on major military assets.

For the SBR, DON asserted audit ability in two business areas in FY2010. These included Civilian Pay and Transportation of People (using the Defense Travel System). The two areas combined comprised seven percent of DON's SBR dollar total. For FY2011, DON has scheduled several other business segments for assertion, including Contract and Vendor Pay, Reimbursable Work Orders, and MILSTRIP Orders (requisitions). These business areas combined comprise an additional estimated 65 percent of the DON SBR dollar total.

In FY2010, DON also asserted Existence and Completeness (E&C) for four categories of DON Military Equipment: Ships, Aircraft, Trident Intercontinental Ballistic Missiles, and Satellites. These estimated book value of these assets ($180 billion) totals to approximately 94 percent of the estimated value of all DON Military Equipment. In addition, DON asserted Existence and Completeness for ordnance, accounting for another $31 billion in assets. For FY2011, DON plans to assert E&C for Uninstalled Aircraft Engines (est. $6 billion) and Boats and Craft (est. $2 billion). We are also assessing other asset categories as candidates for assertion this fiscal year.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-013
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #13

Expeditionary Combat Support System (ECSS)

Question: According to GAO the Expeditionary Combat Support System (ECSS) did not achieve a full deployment decision within five years of funds being first obligated.Why did this occur? Who is responsible for the implementation of ECSS?

Answer: 10 U.S.C. Ch 144A as amended by the FY2010 National Defense Authorization Act (NDAA) requires Major Automated Information System (MAIS) programs to achieve a Full Deployment Decision (FDD) within five years after funds were first obligated for the program. Funds first obligated for Increment 1 of the ECSS program, per definition, occurred on 31 Aug 05 when the Milestone Decision Authority (MDA) approved Milestone A. However, the ECSS program did not begin development until 5 Mar 07 due to the filing of bid protests with GAO. These protests were eventually resolved in the Government's favor. The Milestone Decision Authority (MDA) approved a program restructure in December 2009 in order to create incremental delivery of the capability and reduce programmatic risk. As of 31 Aug 10, Increment 1 FDD had not been achieved. The Critical Change Report is currently in-work and expected to complete in early 2011.

Q2: Who is responsible for the implementation of ECSS?

Answer: The Milestone Decision Authority (MDA) for the ECSS program is Dr. Carter (USD/AT&L). The Air Force Service Acquisition Executive (SAE) is Mr. David Van Buren, and the Program Executive Officer (PEO) responsible for cost, schedule, and performance execution is Brig Gen Ken Moran. The functional customer responsible for requirements is AF/A4/7, Lt General Loren Reno.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-014
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #14

Defense Enterprise Accounting Management Systems (DEAMS) and USAF Audit Deadline

Question: The Air Force is not scheduled to achieve audit readiness of its Statement of Budgetary resources until the fourth quarter of 2016. Also, it appears that the Air Force is highly dependent on its Defense Enterprise Accounting Management Systems (DEAMS) to accomplish this goal.Will the Air Force make its audit deadline if DEAMS suffers delays?

Answer: Delay of DEAMS beyond 2016 would impact the improvement plan and programmed path to achieve audit readiness by the deadline. Air Force audit readiness is dependent upon several systems including both DEAMS and ECSS. The Air Force will continue to analyze these Enterprise Resource Planning Systems and other feeder systems to ensure they have the necessary internal controls to support audit readiness.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-015
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #15

USAF Auditing

Question: How will the Air Force achieve full auditability in 2017 if it is only planning on achieving one part of auditability (statement of budgetary resources) in 2016?

Answer: The Air Force has prioritized its audit readiness efforts in accordance with OUSD Comptroller guidance issued in August 2009. Although these efforts focus on budgetary information (Statement of Budgetary Resources) they also result in simultaneous entries to the proprietary statements. For example, the entries to record appropriations, obligations and expenditures also result in entries to the proprietary accounts such as Fund Balance with Treasury, Accounts Payable, Expenses, and Net Position. The Air Force audit readiness plan envisions validating the posting of all accounts resulting for a financial transaction.

In addition, the Air Force is achieving measurable progress on its Balance Sheet and recently asserted audit readiness on Military Equipment which represents approximately 29 percent of the total Air Force assets.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-016
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #16

Enterprise Resource Planning (ERP) System

Question: Who from outside of the Air Force is independently verifying that the service's ERP systems are in compliance with federal accounting standards?

Answer: The Air Force ERP is Oracle Federal Financials Release 11i. This ERP was certified by the Financial Systems Integration Office (FSIO) as a federally compliant system. Prior to its dissolution in March 2010, the FSIO was an organization within the General Services Administration.

The Air Force Functional Management Office (FMO) has retained Kearney & Co and Ernst and Young, both public accounting firms with federal expertise, to assist the FMO identifying and managing configuration changes and ensuring continued compliance with federal accounting standards. The Air Force identified approximately 15,000 requirements and ran over 1,100 test scripts testing these requirements prior to deploying DEAMS at Scott AFB.

The Air Force has approximately 1,000 users on DEAMS and will support an independent evaluation of the system's compliance in FY2012.

The ECSS program blueprinting and configuration process was designed with a end goal of independent verification of accounting standards. Specifically, the Air Force Audit Agency is an embedded team member providing independent assessments of AF's requirements and configurations as they relate to federal accounting and internal control standards. In addition, the ECSS program collaborates with the Business Transformation Agency making sure that the configuration meets the requirements needed to standardize under Standard Financial Information Structure (SFIS). Lastly, we have worked with the AF's Financial Improvement Audit Readiness (FIAR) experts to understand how our configuration and deployment strategy aligns to the audit readiness waves within the FIAR plan. We use this information to provide the AF Financial Management community a better understanding of the underlying support ECSS will provide as the AF asserts to various line items within the Financial Statements.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-017
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #17

Enterprise Resource Planning (ERP) System

Question: The Air Force is relying heavily on contractors to assist in the implementation of ERPs. What specific measures are you taking to ensure that the contractors are aware of, and fully support, the audit readiness objective of the ERP systems?

Answer: DEAMS: The AF includes Audit Readiness in the Statement of Objectives in the Request for Proposals for contractor system integration support. The contractor's proposed approach towards audit readiness is an evaluation criterion.

ECSS: The AF includes several key financial, architecture, data, and internal controls standards in the Request for Proposals for contractor system integration support, which are important in preparing ECSS for audit readiness. The contractor's proposed approach towards audit readiness is an evaluation criterion.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-018
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #18

Enterprise Resource Planning (ERP) System

Question: Do the contracts awarded to these contractors include specific requirements regarding the implementation of appropriate financial controls and "audit ready" processes as part of the ERP implementation?

Answer: DEAMS: Answer: Yes. The Performance Work Statement for the DEAMS Technology Demonstration at Scott AFB specifically referenced a goal of achieving an unqualified audit opinion and developing, deploying, and maintaining an ERP complying with the Joint Financial Improvement Program requirements and CFO Act.

Additionally, the Air Force has contracted for Advisory and Assistance Services (A&AS). The A&AS contract objectives include: Providing financial management support to validate the complete integration of Standard Financial Information Systems (SFIS) accounting data into the COTS solution to assess internal controls and to improve accounting operations; assisting the Functional Management Office (FMO) and the Program Management Office (PMO) with ensuring that the DEAMS Solution complies with, and remains compliant with, relevant law, regulation and policy; and assisting in the implementation of internal controls, including manual and automated controls that support Generally Accepted Accounting Principles, GAO Yellowbook and CFO Act accounting policies and procedures.

ECSS: Answer: Yes. The ECSS Performance Work Statement (PWS) contains provisions to monitor, track, and report compliance to standards, and identify potential gaps between ECSS capabilities and compliance to Policy and Standards. The PWS also includes provisions for supporting additional Air Force CFO compliance testing between the fielded piloting cutover and the beginning of IOT&E phase. The ECSS Requirements Traceability Matrix (RTM) on the Software Integrator contract contains the Standard Financial Information Structure (SFIS), GAO Bluebook, Circular A-123, and other key internal control guidance/requirements. The Software Integrator solution is tested against these requirements during solution development, Functional Integration Testing (FIT) and System Integration Testing (SIT).

CHARRTS No.: SHSGACFEDMGMTGOVT-01-019
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: HON Tillotson, III
Question: #19

Anticipated Progress on USAF Financial Improvement and Audit Readiness

Question: What measurable progress will be made in the next 12 months with regards to financial improvement and audit readiness of the Air Force?

Answer: The Air Force will continue progressing towards audit readiness, focusing on the Statement of Budgetary Resources (SBR) and on the existence and completeness of mission critical assets. The Air Force asserted audit readiness on Budget Authority on 30 September 2010. This package included all relevant management assertions for Appropriations Received, Rescissions, and Non-expenditure transfers.

The Air Force asserted audit readiness on the Fund Balance with Treasury (FBwT) reconciliation on 20 December 2010. The Air Force deployed the Columbus Cash Accountability Systems – Air Force (CCAS-AF) in April 2010 along with enhanced controls and reviews to support our FBwT reconciliation efforts. Since April, the Air Force has analyzed over 6.4 million transactions and reconciled 99.24 percent of these transactions. The system and process exceeds the goal of 98 percent and represents a significant step forward in audit readiness. In addition to asserting audit readiness, the Air Force will resolve its Material Weakness for FBwT reconciliation.

With respect to E&C, four assertion packages are being prepared at this time. The packages are; Military Equipment (ME), Operations, Maintenance Supplies (OM&S) for ICBM missile motors, OM&S spare engines, and OM&S cruise missiles and drones. Two packages will be submitted by 31 December 2010 (ME and ICBM missile motors); the remaining two will be submitted by 30 June 2011. Combined these items represent approximately $103B, or 33 percent of total assets on the Air Force Balance Sheet.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-037
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #37

Army Logistics Modernization Program (LMP)

Question: The Army's Logistics Modernization Program (LMP) has been in development since December 1999 and the third and final deployment of the system is schedule for October 2010. GAO has issued several reports on the problems encountered by the Army in its effort to implement this system. Please explain why the full implementation of the system has slipped by 6 years.

Answer: The full implementation of the Army's Logistics Modernization Program (LMP) was delayed from 2005 to 2010 due to a number of issues associated with LMP's pilot (first) deployment to the Communications-Electronics Command (CECOM) and Tobyhanna Army Depot (TYAD) in July 2003. These issues required a considerable period of post-deployment stabilization, a self-imposed strategic-pause, an Office of Secretary of Defense (OSD) level approval of LMP's "Way Ahead" strategy, and receipt of approved "Way Ahead" funding which occurred in the spring of 2007. Combined, these events lasted from July 2003 through receipt of the associated, approved "Way Ahead" funding in April 2007.

The LMP's Way Ahead was reviewed with officials at the Department of Army (DA) and OSD level and clearly defined the program's future deployment strategy, contract approach, cost, and schedule for the remaining deployments which was consistent with the defined DA Logistics Information Technology Strategy and the long term vision of the Single Army Logistics Enterprise (SALE).

Upon receipt of the "Way Ahead" approved FY07 funding in April 2007, the second deployment to the Aviation and Missile Command (AMCOM), Corpus Christi Army Depot (CCAD), and Letterkenny Army Depot (LEAD) was executed in May 2009, and third deployment to Tank Automotive & Armaments Command (TACOM), Joint Munitions & Lethality Command (JM+L) and the Army Sustainment Command and their associated industrial sites was executed October 2010. In parallel with the second and third deployment efforts, the LMP also completed a successful SAP upgrade in October 2009.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-038
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #38

Army Logistics Modernization Program (LMP)

Question: According to GAO, at the first and second LMP deployment locations (Corpus Christi and Letterkenny Army Depot), the Army was not able to use the LMP system as intended. In order to continue the mission of these locations and minimize the impact on the warfighter, the LMP system was bypassed until it could operate as intended.Is LMP now being used as intended, and without the aid of legacy systems it was supposed to replace, at Corpus Christi and Letterkenny Army Depot?

Answer: LMP is now being used as intended. All instances of the legacy systems (Commodity Command Standard System and Standard Depot System) that LMP was intended to replace were completely shut down after LMP went live at the Army Materiel Command (AMC) sites, and there was never any reliance on legacy system post go-live for the sites to perform their intended mission.

As an Enterprise Resource Planning system with the complexity and scope of LMP, the occurrence of a work around is not an uncommon practice as processes are re-engineered and additional requirements are incorporated into the solution. The Army is also continuing to improve the LMP system while simultaneously investing in other enablers such as the Manufacturing Execution System and increasing Automated Information Technology (AIT) to improve depot operations and efficiencies. There will also be the need for continued change management in terms of informing the work force of how processes have changed from the legacy system to LMP so they understand how best to utilize the capabilities LMP provides rather than reverting to a manual process. AMC is leading a formal LMP Maturation Program designed to improve individual and collective skills, aide business transformation, define tracking metrics, and to ensure continued improvement of its business practices.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-039
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #39

Army Enterprise Resource Planning (ERP) Efforts

Question: The Army is investing in three enterprise resource planning (ERP) efforts: the General Fund Enterprise Business System (GFEBS), the Global Combat Support System (GCSS-Army), and the Logistics Modernization Program (LMP). Why does the Army need three separate ERPs with a total life cycle cost of $7.8 billion?

Answer: The Army has substantial investments in our program-of-record ERP systems which are about to provide significant returns, and we reaffirm their value. The three separate ERPs were originally designed to replace legacy systems supporting Title 10 functional areas. Each of the three ERPs performs distinctly different applications: LMP is used to support industrial base operations; GFEBS, enterprise financial management and real property management; and GCSS-Army supports logistics operations in the tactical Army.

As the interdependencies of the ERPs became apparent, the Army began merging them to better support enterprise end-to-end processes. In addition to technical considerations, the Army is adopting: enterprise governance, an end-to-end process focus and enterprise portfolio management. The enterprise approach which the Army is developing and implementing ensures that these systems' contributions to managing the Army enterprise will be realized, and they will be effectively managed for the full enterprise through a portfolio perspective.

The Army has recently reviewed its ERP strategy and determined that it is in Army's best interest to continue with multiple ERPs - this strategy will be presented to DoD Investment Review Board and the Milestone Decision Authority.

CHARRTS No.: SHSGACFEDMGMTGOVT-01-040
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #40

Army Enterprise Resource Planning (ERP) Efforts

Question: Who from outside of the Army is independently verifying that the service's ERP systems are in compliance with federal accounting standards?

Answer: The Army will use Independent Public Accountants under the supervision of the US Army Audit Agency to conduct audit readiness examinations during fiscal years 2011, 2012, 2013 and 2014. These examinations will include audits of the ERP system implementations to ensure they comply with federal audit standards. The audit examinations performed by the public accountants augment audit work performed by the Department of Defense Inspector General, the Government Accountability Office, the Army Audit Agency and the Army Test and Evaluation Command.
In addition, the Assistant Secretary of the Army (Financial Management and Comptroller) uses the US Army Audit Agency to perform verifications of the ERP systems to ensure their development meets federal accounting standards. The Army Audit Agency performs these audits independent of the ERP programs with audit results, findings, and recommendations reported directly to the Assistant Secretary of the Army (Financial Management and Comptroller).

CHARRTS No.: SHSGACFEDMGMTGOVT-01-041
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #41

Army Enterprise Resource Planning (ERP) Efforts

Question: The Army is relying heavily on contractors to assist in the implementation of ERPs. What specific measures are you taking to ensure that the contractors are aware of, and fully support, the audit readiness objective of the ERP systems?

Answer: The Army has awarded contracts specifically to address audit readiness and the ERP systems. The Army is using a combination of contractor and government personnel to conduct discovery, evaluation, and corrective work of internal controls, business processes, and information technology systems in the ERP operational environment. The objective is to test controls and processes to ensure they comply with audit standards, assess test results, and initiate corrective actions where test results identify controls and/or processes that do not comply with audit standards. The Army will also engage Independent Public Accounts (IPA) to perform independent audit examinations of these processes and controls to ensure they are operating effectively and meet established audit standards. The public accountants will perform audit examinations, identify non-compliant controls and processes, and advise the Army of necessary corrective actions. The discovery, evaluation, corrective action and audit examination work is conducted independent of the ERP implementations. This will ensure the ERPs, associated business processes and controls, and supporting information technology systems are collectively capable of providing an auditable outcome.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-042
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #42

Army Enterprise Resource Planning (ERP) Efforts

Question: Do the contracts awarded to these contractors include specific requirements regarding the implementation of appropriate financial controls and "audit ready" processes as part of the ERP implementation?

Answer: Yes. The contracts awarded to the System Integrators for the Global Combat Support System- Army (GCSS-Army), the General Funds Enterprise Business System (GFEBS), and the Logistics Modernization Program (LMP) have provisions included within the contract that require deliverables be compliant with the Federal Financial Management Improvement Act (FFMIA).

Accordingly, the Program Management Office (PMO) staff monitors the contractor's progress to ensure ongoing compliance with required standards. The efforts of the dedicated PMO auditor and other SAP experts are specifically tasked to focus on making all delivered processes ready for audit and ongoing compliance testing.

This approach is supported by the use and integration of specific tools to track, test, and document compliance activities and reporting. In addition, specific "best practices" processes have been put in place to ensure ongoing compliance with architectural changes and data maintenance issues, regardless of their point of origin (e.g. internal to GCSS-Army or other relevant programs, such as LMP, GFEBS, etc.).

Oversight from the Army Audit Agency (AAA), General Accounting Office (GAO), and Department of Defense Inspector General (DODIG) also help ensure the systems are in compliance with mandatory requirements.

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CHARRTS No.: SHSGACFEDMGMTGOVT-01-043
Hearing Date: September 29, 2010
Committee: SHSGACFEDMGMTGOVT
Member: Senator Coburn
Witness: MG Durbin
Question: #43

Anticipated Progress on Army Financial Improvement and Audit Readiness

Question: What measurable progress will be made in the next 12 months with regards to financial improvement and audit readiness of the Army?

Answer: The Army has several milestones scheduled for completion in fiscal 2011 that will demonstrate significant progress towards audit readiness. These important audit readiness milestones cover a broad spectrum of the Army's business, including the Army's budget distribution, execution, monitoring, and reporting processes; and the existence and completeness of several 'mission critical' equipment categories.

In the first quarter of fiscal year 2011 the Army asserted audit readiness for Appropriations Received. The Office Secretary of Defense-Comptroller, and Department of Defense Inspector General are validating the Army's audit readiness assertion. An Independent Public Accountant will audit the Army's Appropriations Received upon completion of this validation effort.

In the 2nd Quarter, fiscal year 2011, the Army will assert the existence and completeness of several Army aviation programs, representing 2,048 aviation assets accounting for 11 percent of the Army's total fiscal year 2009 Military Equipment balance.

In the 3rd Quarter, fiscal year 2011, the Army will begin an audit examination by Independent Public Accountants of the budget distribution and execution processes at three Army Installations, including three Army Commands and the Defense Finance and Accounting Service. The audit examination will cover business processes, internal controls, and other information technology systems supporting the General Fund Enterprise Business System. These installations represent the first deployments of the General Fund Enterprise Business System (GFEBS), which is the ERP for the Army General Fund and is critical to the Army's audit readiness plans.

In the 3rd Quarter, fiscal year 2011, the Army will complete implementation of the Standard Financial Information Structure (SFIS) in the Logistics Modernization Program (LMP) ERP system. Implementation of this standard structure will enable the LMP ERP system to comply with the Department's general ledger coding standards.

Finally, by the 4th Quarter, fiscal year 2011, the Army will assert the audit readiness of several Environmental Liabilities programs. Environmental Liabilities, while not included in the priorities established by the Office Secretary of Defense- Comptroller, represent the largest liability for the Army General Fund and the third largest amount on the Army General Fund balance sheet.
The Army will continue progress towards several milestones indentified in our Financial Improvement Plan (FIP) scheduled for completion in fiscal year 2012. Of significance are milestones associated with the Fund Balance with Treasury.

ENTERPRISE RESOURCE PLANNING SYSTEMS SCHEDULE SLIPPAGE

Component/System	Original Target	Current Target	Schedule Slippage
Army			
General Fund Enterprise Business System	2011	2011	None
Global Combat Support System-Army			Not Known
Logistics Modernization Program	2005	2011	6 years
Navy			
Navy ERP	2011	2013	2 years
Global Combat Support System-Marine Corps	2010	2013	3 years
Air Force			
Defense Enterprise Accounting and Management System	2014	2017	3 years
Expeditionary Combat Support System	2012	2016	4 years
DOD			
Service Specific Integrated Personnel and Pay Systems	2006	Army 2014 Navy 2017 Air Force 2018	12 years
Defense Agencies Initiative	2012		Not Known

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ENTERPRISE RESOURCE PLANNING SYSTEMS COST OVERRUNS (in $millions)

Component/System	Original Cost Estimate	Current Cost Estimate	Cost Overrun
Army			
General Fund Enterprise Business System	1,354	1,337	(17)
Global Combat Support System-Army	3,900	3,900	0
Logistics Modernization Program	2,630	2,630	0
Navy			
Navy ERP	1,870	2,400	530
Global Combat Support System-Marine Corps	126	934	808
Air Force			
Defense Enterprise Accounting and Management System	1,100	2,048	948
Expeditionary Combat Support System	3,000	5,200	2,200
DOD			
Service Specific Integrated Personnel and Pay Systems	577	Army ? Navy 1,300 AF 1,700	At least 2,423
Defense Agencies Initiative	209	No estimate	?
Total			6.9 billion

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