AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

[H.A.S.C. No. 112–64]

ORGANIZATIONAL CHALLENGES IN ACHIEVING SOUND FINANCIAL MANAGEMENT AND AUDIT READINESS

HEARING

BEFORE THE

PANEL ON DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

HEARING HELD
SEPTEMBER 15, 2011

U.S. GOVERNMENT PRINTING OFFICE

68–465 WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office,
http://bookstore.gpo.gov. For more information, contact the GPO Customer Contact Center,
U.S. Government Printing Office. Phone 202–512–1800, or 866–512–1800 (toll-free). E-mail, gpo@custhelp.com.

PANEL ON DEFENSE FINANCIAL MANAGEMENT
AND AUDITABILITY REFORM

K. MICHAEL CONAWAY, Texas, *Chairman*

SCOTT RIGELL, Virginia
STEVEN PALAZZO, Mississippi
TODD YOUNG, Indiana

ROBERT ANDREWS, New Jersey
JOE COURTNEY, Connecticut
TIM RYAN, Ohio

PAUL FODERARO, *Professional Staff Member*
WILLIAM JOHNSON, *Professional Staff Member*
LAUREN HAUHN, *Research Assistant*

CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

2011

Page

HEARING:

Thursday, September 15, 2011, Organizational Challenges in Achieving Sound Financial Management and Audit Readiness 1

APPENDIX:

Thursday, September 15, 2011 19

THURSDAY, SEPTEMBER 15, 2011

ORGANIZATIONAL CHALLENGES IN ACHIEVING SOUND FINANCIAL MANAGEMENT AND AUDIT READINESS

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Andrews, Hon. Robert, a Representative from New Jersey, Ranking Member, Panel on Defense Financial Management and Auditability Reform 2

Conaway, Hon. K. Michael, a Representative from Texas, Chairman, Panel on Defense Financial Management and Auditability Reform 1

WITNESSES

Architzel, VADM David, USN, Commander, Naval Air Systems Command 4

Fedder, Maj. Gen. Judith A., USAF, Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, U.S. Air Force 5

Smith, Martha, Director, Defense Finance and Accounting Services (DFAS) Cleveland 6

Stevenson, LTG Mitchell H., USA, Deputy Chief of Staff, Logistics, G–4, U.S. Army 3

APPENDIX

PREPARED STATEMENTS:

Architzel, VADM David 33
Conaway, Hon. K. Michael 23
Fedder, Maj. Gen. Judith A. 39
Smith, Martha 47
Stevenson, LTG Mitchell H. 25

DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted.]

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

[There were no Questions submitted during the hearing.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING:

Mr. Conaway 59

ORGANIZATIONAL CHALLENGES IN ACHIEVING SOUND FINANCIAL MANAGEMENT AND AUDIT READINESS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
PANEL ON DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM,
Washington, DC, Thursday, September 15, 2011.

The committee met, pursuant to call, at 8:00 a.m. in Room 2212, Rayburn House Office Building, Hon. K. Michael Conaway (chairman of the panel) presiding.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE FROM TEXAS, CHAIRMAN, PANEL ON DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM

Mr. CONAWAY. Good morning. Thanks everybody for being here at our hearing this morning for the defense management and auditability reform panel. I would like to welcome today the folks who are going to testify on the organizational challenges in achieving sound financial management and audit readiness.

In our first couple of hearings, we received testimony about the DOD [Department of Defense] level and at the military department level on the challenges faced in attaining audit readiness by 2017. One of the primary challenges relates to DOD's large and complex organizational structure. DOD operations include a wide range of defense organizations, including military departments and their respective major commands and functional activities, large defense agencies and field activities.

Today we will hear from representatives from a military systems command, logistics community and the defense agency providing finance and accounting services to DOD components. These organizations play a key role in DOD's ability to improve its financial management and achieve audit readiness.

Although you normally would not associate the acquisition, sustainment, logistics communities with financial management, military commands and these functional communities generate and maintain financial activity that flows into DOD's financial statements. For example, logistics systems used to provide tactical units with information on maintenance and transportation of equipment are the same systems used to provide asset information for reporting and financial statements. Without proper controls within these functional communities, DOD will not be able to achieve auditability.

The Defense Finance and Accounting Service provides financial accounting services to the DOD components. In fiscal year 2010,

DFAS [Defense Finance and Accounting Service] processed 169 million pay transactions, paid 11.4 million commercial invoices and disbursed $578.0 billion. Since their activities are so integral to the financial activity reported in the DOD's component financial statements, challenges faced at DFAS must be addressed in order for DOD to progress towards auditability.

During these times of resource constraints and budget cuts, it is imperative that the Department of Defense have reliable, useful and timely information for decision making. Therefore, it is critical that all DOD organizations within and outside of the financial management community work together to achieve effective fiscal management.

I would like to thank our witnesses for taking the time out of their schedules to be with us this morning. First up this morning will be Lieutenant General Mitchell Stevenson from Deputy Chief of Staff, Logistics, G–4, United States Army; Vice Admiral David Architzel, Commander, Naval Air Systems Command; Major General Judith Fedder, Department of Logistics, Deputy Chief of Staff, Logistics, Installations and Mission Support, U.S. Air Force; and Ms. Martha Smith, Director of Defense Finance Accounting Services, Cleveland.

I will now turn to my colleague to sub Joe Courtney for an opening statement, if he chooses.

[The prepared statement of Mr. Conaway can be found in the Appendix on page 23.]

Mr. COURTNEY. The Admiral appreciates that moniker. Thank you, Mr. Chairman. And again, just to save time for the record, Mr. Andrews prepared an opening—well, there it is. The man is here. I will yield to the gentleman from New Jersey, Mr. Andrews.

STATEMENT OF HON. ROBERT ANDREWS, A REPRESENTATIVE FROM NEW JERSEY, RANKING MEMBER, PANEL ON DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM

Mr. ANDREWS. I thank my friend from Connecticut for his brilliant statement and apologize to the chairman for being late. We appreciate the witnesses being here this morning.

I am looking forward to this morning's hearing because I think it takes us another level down—I don't mean that in a judgmental sense—another level of specificity in our mission. The chairman began the hearings at the DOD level. We talked about the department-wide effort to reach the auditability goal in time. We then went to the service level last week and heard about the plans of the services, and I think we have assembled before us this morning ladies and gentlemen who will execute the service plans because they are dealing with the actual stuff. You know, how much rolling stock we still have left in Iraq and Afghanistan, as the General and I spoke about the other day, that you can't have good auditable financial statements if you don't have a good control and data information system. And I think we are talking to some individuals this morning who do that very well.

So, Chairman, thank you for this next step in our process. I look forward to the hearing. Thank you, Joe.

Mr. CONAWAY. Rob, thank you. General Stevenson, you are up. Thank you.

STATEMENT OF LTG MITCHELL H. STEVENSON, USA, DEPUTY CHIEF OF STAFF, LOGISTICS, G–4, U.S. ARMY

General STEVENSON. Chairman Conaway, Ranking Member Andrews, rather than read my opening statement, I would ask that it just be admitted to the record.

Mr. CONAWAY. Without objection.

General STEVENSON. And then I will quickly summarize just a couple of the key points within it.

As the senior logistics staff officer in the Army, I can assure you that we logisticians fully understand the importance of auditability and, in fact, are working closely with our teammates in the financial management community to help the Army get there. Two key areas that we are working on are property accountability and modernizing our entire logistics automation enterprise from foxhole to factory.

First in the area of property accountability. As you can imagine, maintaining detailed property accountability like we do in peacetime is difficult at best while fighting two wars. So last July our Army Chief of Staff launched a property accountability campaign to help focus the entire Army on ensuring that we operate within a culture of stewardship and supply discipline. I would be happy to elaborate on the details of that during the Q&A.

As I am sure you appreciate, accountability requires senior leader participation at every level. So we use the Army's inspection and audit agencies to ensure compliance. We have assigned senior chief warrant officers to logistics staffs to provide oversight to both commanders and unit supply personnel, and we have caused there to be a significant increase in command supply discipline inspections Army-wide. We are getting after it.

Second, in the area of logistics automation, we are in the process of implementing the Global Combat Support System–Army based on a proven commercial product, in fact the business market's leading software in integrated maintenance, supply and financial accounting. Logistics transactions such as the acquisition of capital property, the performance of maintenance, the receipt, storage and issue of supplies will be linked to their financial consequences at the transaction level. This will be a first for the Army, and it will be key to establishing auditable business processes. We have the system fully deployed in the 11th Armored Cavalry Regiment in Fort Irwin in California. Next month we will test it at Fort Bliss in Texas. And starting next summer, we will begin fielding Army-wide active, National Guard and Reserve, a total of 160,000 users.

GCSS–Army [Global Combat Support System–Army] will help make auditability a reality for the Army and we project it will save us a considerable amount of money in the outyears. Related to GCSS–Army, we also now have fully fielded something called the Logistics Modernization Program, which is the logistics system we use at the national level in our depots and arsenals and ammunition plants. It is based on the same leading commercial software as GCSS–Army, enabling an easy exchange of information between the two systems without costly interfaces. It is now fully deployed

throughout the Army Materiel Command to 25,000 users and is helping us more accurately capture data associated with the $24 billion inventory and two million in daily transactions that are performed at that level of the Army. LMP [Logistics Modernization Program] will enable the entire business area at the national level to also be auditable.

Together, these systems, along with the General Fund Enterprise Business System and a continued commitment to improving property accountability will enable the Army to better trace logistics operations costs and provide transparency. We will have more confidence in our data and will be able to make more informed decisions, thereby reducing waste and saving the taxpayer money.

We are pretty excited about it, and I look forward to your questions.

[The prepared statement of General Stevenson can be found in the Appendix on page 25.]

Mr. CONAWAY. Thanks. David.

STATEMENT OF VADM DAVID ARCHITZEL, USN, COMMANDER, NAVAL AIR SYSTEMS COMMAND

Admiral ARCHITZEL. Congressman Conaway, Congressman Andrews, members of the panel, good morning. Thank you for the opportunity to discuss the Naval Air Systems Command's efforts in achieving and sustaining audit readiness. Mr. Chairman, I appreciate turning this ship into the wind right on time and going to the launch at 0800. That is impressive, sir. I appreciate that.

As a Commander of Naval Air Command of about 37,000 people all told and about $45 billion per year in TOA [Total Obligation Authority] and approaching about 289 over the FYDP [Future Years Defense Program], I am personally committed to the Navy's financial improvement initiatives. Achieving and sustaining audit readiness by standardizing financial processes to provide accurate and auditable information that supports program execution decisions is one of my top priorities. NAVAIR's [Naval Air Systems Command] financial improvement program and business process standardization efforts are being led by accounting and financial management experts with the strong support from functional experts across my command in multiple business process areas, to include acquisition, contracts, logistics, human resources, corporate ops.

To support the Department of Defense efforts at achieving auditable financial statements, NAVAIR is performing an assessment of the E–2D Advanced Hawkeye Program. The goal of NAVAIR's E–2D MDAP [Major Defense Acquisition Program] project is to demonstrate financial stewardship of funds allotted for a major acquisition program and assess the audit readiness of the Navy Enterprise Resource Planning, or ERP, environment related to business processes. We are on track for completion of our assessment at the end of September this month.

The NAVAIR team is taking lessons learned from the E–2D MDAP effort and developing an audit readiness strategy to deploy across the command over some 110 other MDAP programs. This strategy will stress the importance of internal controls, compliance with regulations, maintaining an audit trail and other concepts

that will contribute to NAVAIR's ability to achieve and sustain audit readiness. NAVAIR is leveraging Navy ERP to strengthen internal controls, enhance standardization, and improve the quality of information available to our decisionmakers.

Having implemented an ERP pilot, which was entitled Sigma back in 2002, NAVAIR is a second generation ERP user and has significant experience with Navy ERP and relies on the system for all of our business operations, including project planning, funds execution, funds validation and support of procurement and contracting, training and awards processing, time and attendance, accounting and external financial reporting. The implementation of Navy ERP has provided increased fidelity of our financial data, providing our program managers timely insight into program execution and the ability to track dollars committed, obligated and expended and give program managers and field teams increased visibility in the interdependencies of program costs, schedules, resources and risks.

NAVAIR supports the Navy, DOD and congressional direction to improve the quality of financial information and business processes necessary to achieve clean financial audits by 2017. I am and, more importantly, my entire command is committed to achieving these initiatives and believe that the resources invested will produce a significant return on investment to the warfighter and the American taxpayer.

I look forward to your questions, sir.

[The prepared statement of Admiral Architzel can be found in the Appendix on page 33.]

Mr. CONAWAY. Thanks, David. Judy.

STATEMENT OF MAJ. GEN. JUDITH A. FEDDER, USAF, DIRECTOR OF LOGISTICS, DEPUTY CHIEF OF STAFF FOR LOGISTICS, INSTALLATIONS AND MISSION SUPPORT, U.S. AIR FORCE

General FEDDER. Mr. Chairman, Mr. Andrews, distinguished members of the panel, thank you for the opportunity to appear before you today to discuss several issues that are important to your United States Air Force sound financial management, audit readiness and responsible stewardship of taxpayer dollars.

The Air Force logistics community is fully engaged in supporting and achieving financial improvement and audit readiness compliance by 2017. Our plan to meet that timeline involves evaluation, discovery and mediation of the many facets that affect audit readiness. We are making progress on that plan by ensuring established inventory controls and equipment accountability processes produce the maximum combat capability from each taxpayer dollar and equip our warfighters with the critical assets required to support operational demands. We are also implementing corrective actions where necessary to ensure assets are recorded in the appropriate accountable system of record, valued at the correct amount and that assertions for existence and completeness are timely and accurate.

The value of audit readiness is more than financial. It is fundamental to what we do every day across the Air Force logistics enterprise that enables us to responsibly procure, store and issue in-

ventory and equipment that contributes to our mission. We are reinforcing that message with operational units at every level to ensure that all airmen are doing what it takes to achieve a clean audit.

Mr. Chairman, Mr. Andrews and distinguished members of the panel, it is an honor to be here today. Thank you for your interest and engagement on this important effort as we work towards audit readiness in 2017, and thank you for your continued strong support of our airmen and their families.

I submitted a written statement for the record, and I look forward to the question-and-answer period.

[The prepared statement of General Fedder can be found in the Appendix on page 39.]

Mr. CONAWAY. Thanks, Judy. Martha.

STATEMENT OF MARTHA SMITH, DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICES (DFAS) CLEVELAND

Ms. SMITH. Chairman Conaway, distinguished panel members, I am pleased to be here to discuss the financial services DFAS provides the Department of Defense and the complexity involved in providing those services. I will discuss our efforts to get DFAS as a service provider to the DOD to an audit-ready state by fiscal year 2017, as well as discuss how we are helping our customers meet their assertion goals. I am providing detailed information on this issue in a statement for the record.

DFAS provides centralized payroll and commercial payment and financial reporting services for the military and its civilians. We also provide the summary level financial reports Congress uses to monitor the financial health of the military services. To illustrate the complexity of our work, all financial reporting begins with a single transaction. It can be as simple as a DOD civilian inputting their time and attendance or as complicated as defense officials drafting a multi-million dollar contract for a major weapons system.

Each of our 169 million pay transactions for fiscal year 2010 had an associated line of accounting. Consolidated into 1,129 active DOD appropriations, each transaction must be reflected in over 255 million general ledger accounts.

Just as an example of the complexity, the current Black Hawk Helicopter Program consists of three contracts. Funding is distributed among several services and foreign military sales. Since the original contract award, there have been almost 1,700 contract modifications and we have made approximately 22,000 payments for nearly $7.8 billion. Since fiscal year 2009 alone, DFAS has received approximately 211 monthly invoices for disbursements averaging $188.0 million per month.

Nearly all DOD transactions make their way to one of our many systems, some owned by the services but used by the DFAS employees. Employees create or monitor the transactions, validate authenticity and accuracy, consolidate the transactions into reports and validate the accuracy of those reports. We project DFAS will disburse approximately $668.0 billion in fiscal year 2011. Additionally, each month we reconcile approximately $100.0 billion worth

of transactions, $85.0 billion in disbursements and $15.0 billion in collections.

Our legacy systems are originally designed to provide local level management reports and summary level information used to prepare financial statements. Over the years, much of the transaction processing a statement preparation shifted from the services to DFAS. It is a challenging effort. And added to the mix are the new ERPs, Enterprise Resource Planning systems, used by the local level commands, produce financial information for the programs. The ERPs provide a level of discipline and standardization that is extremely beneficial to DOD's audit efforts and internal controls. However, a massive amount of data is still fed into the ERPs from the legacy environment since the ERPs do not process all types of transactions such as military pay and civilian pay.

Visibility and traceability of transactions is integral to any audit. So we are working hard to ensure our processes are audit ready. DFAS efforts to standardize and strengthen internal controls began 20 years ago. Since 1991, we have reduced our footprint from 300 to just 10 sites and standardized our day-to-day activities in improving and eliminating systems. By consolidating field level accounting and finance functions into our financial reporting entities, we have a better opportunity to standardize processes and data and to fix problems at the source.

DFAS's most valuable asset is our people, and we have made investments to strengthen our workforce. Today, 85 percent of our accountants have degrees. Since 2007, we have seen an 88 percent increase in the number of certified public accountants and certified management accountants and a 322 percent increase in project management professionals and their certifications.

To support customers' audit efforts, we have mapped processes, implemented control points, tested internal controls and mitigated risk for many key processes. We use the overarching principles from the DOD Financial Improvement and Audit Readiness Plan to ensure audit readiness is focused on day-to-day activities, that a proactive approach is used for correcting deficiencies and our improvement initiatives are sustainable.

Our goal is to be prepared when the customers assert on specific parts of the financial statements. We also must be prepared for examinations of the services we provide customers that contribute to their assertion schedules. We have established audit readiness teams to provide realtime support during pre-assertion preparation during the audit and post audit.

We have partnered successfully with the Marine Corps and identified improvement initiatives which we can replicate for the other services, And we are establishing a senior steering committee to proactively implement lessons learned from all audit findings. DFAS is walking in concert with our customers, expediting improvement initiatives, addressing systems challenges, and moving toward audit readiness and the goals established by DOD and Congress.

The support of our senior most leaders, involvement of every employee in the process, and the continued collaboration with our customers are all key to our success.

Chairman Conaway and distinguished members, thank you for your time today, and I look forward to your questions.

[The prepared statement of Ms. Smith can be found in the Appendix on page 47.]

Mr. CONAWAY. Well, I thank the witnesses. This may be a record, four witnesses doing their statements in less than 20 minutes. Thank you very much. We will endeavor to stay on the 5-minute clock as well. And with just four of us, we may get to go more than just one round. I appreciate everybody being here, and thank you very much for having it.

The top layer of folks have talked about putting in place performance evaluation measures for people who are responsible for making this happen and then holding them accountable to those standards. Can you give us a quick couple of sentences about each of your four organizations and how you are making sure that—the wonderful things you said, Martha, are spot on, but unless you track it, unless you hold folks accountable, it is not going to happen. So could you talk to us about how the uniform as well as the civilian personnel, how you make sure they have got the right incentives in place and that we measure those—progress?

General STEVENSON. Sir, I think you sort of alluded to it. The Secretary of the Army has directed that starting in fiscal year 2012 and forward, all senior leaders involved in both logistics, finance and those things necessary to get us auditable will have a requirement to have in their appraisals the measures of their performance in toward meeting that goal. They will be rated on how well they supported the goals. I think that will be enormously motivating.

Mr. CONAWAY. Okay. David.

Admiral ARCHITZEL. Mr. Chairman. It is very similar on the Navy side. Today if I was to look at my senior executives who has a performance evaluation that goes into maintaining audit readiness or these kind of things, today I would say it is probably my comptroller. But starting in fiscal year 2012, anyone that is involved in generating a financial transaction is going to have accountability within their senior executive performance appraisals. That will get down to deputy PO [petty officer] levels who are clearly responsible for generating transactions or into the many people that go within that as well.

On the admiral, sort of the flag side of the house, I would tell you that our Vice Chief has been very clear with the series of—directing memos about we will take this serious across our flag community to make sure that it is also brought home on the military side. So it is reflected in our evaluations and fitness reports as we go forward there as well, sir.

General FEDDER. Mr. Chairman, the Under Secretary of the Air Force and the Vice Chief of the Air Force sent a note out to all of the major command commanders, those operational commands, the four-stars that really have the airmen that are touching the systems and directed that both from a functional side that the performance plans of our senior civilians include specific performance measures associated with financial improvement audit readiness. And those measures—their performance will be measured in that regard.

On the command side where we have airmen that are out there that are effecting the inventory precision and doing things that are also going to contribute to audit readiness, they have also emphasized to major commanders—major command commanders that it is important for commanders at all levels to understand the importance of achieving these. And the measures overall that we expect to see to the effectiveness of this very heavy senior leadership involved in this will be the continued success that we have when we assert existence and completeness, for instance, as we continue down with our FIAR [Financial Improvement and Audit Readiness] execution plan.

Ms. SMITH. Most all of the components associated with becoming audit ready are an integral part of our overarching strategic plan, and we have pushed our plan down into our performance appraisals for all of our employees, all the way down to the lowest levels, trying to inculcate that culture of audit readiness into what we do on a day-to-day basis.

Mr. CONAWAY. Rob and I will look forward this time next year to visiting with a variety of folks just to see how well that has worked and if deadlines were missed and those kinds of things if we are able to make that happen.

Rob, 5 minutes.

Mr. ANDREWS. Thank you, Mr. Chairman. Thank you to each of the witnesses for a very thorough and good job.

Ms. Smith, I really concur with your comment about personnel being the key to making these audits available. When, God willing, the economy turns back up and accountants can go into the private sector, what kind of inducements do we have to retain the talent that we have at your agency in the public sector? What are the incentives and advantages to do that?

Ms. SMITH. Well, I think the security that we provide the employees has been extraordinarily beneficial and we have seen a lot of employees recently coming in from outside industry looking to the government for a good secure type of job. The incentives that we use, we have a very comprehensive award program that we have across DFAS in terms of even down at the lowest level on passing awards between employees. But we strive to again keep the audit readiness at the top of our strategic goals. And so therefore, we are looking for all types of innovation and incentives to ensure that we——

Mr. ANDREWS. You certainly made impressive gains in the preparation and quality of the workforce. We certainly want to protect that investment.

General Fedder, I am impressed by the degree of intensity the Air Force has given to corrective action. It looks like at the highest levels, there is weekly, as I understand it, reviews of what is going on. Can you tell us an example of a couple of corrective actions that you have had to follow up on and what you have done to follow up on them?

General FEDDER. Yes, sir. Mr. Andrews, when we proceeded to assert spare engines, for instance, as one of our operating materials and supplies, we did identify that there were some gaps in our policies associated with inventories and how we report the spare engines through this process. And so we went back and had to iden-

tify a clarification and changed a policy in the reporting process of those spare engines.

Mr. ANDREWS. Does that mean it was possible that we reported more spare engines than we really had or we missed them? What does it mean at the practical level?

General FEDDER. In this case, we identified that about 30 percent of the units were not properly reporting the inventory of spare engines and there wasn't the catch in the system that we would have expected to identify that there was——

Mr. ANDREWS. This is a perfect example of why we have this panel. And I commend the chairman and ranking member for creating it. It is possible that if you didn't fix that problem, it is possible that we would have made a financial decision to purchase more engines or more parts when we actually had them. So you buy something you don't need. The opposite is true, by the way, that we might erroneously believe we have spares and we don't and not have the readiness that we should. So keep up the good work.

Admiral, I know that there was an ERP pilot in the Navy in 2002. I wonder what the most important lessons learned were from that pilot and how you have applied them to this broader effort that you are engaged in now.

Admiral ARCHITZEL. Thank you for the question, sir. In 2002, one of the pilots—there were several pilots in the Navy. NAVAIR had one of them and it was called Sigma. It was a first generation ERP system. In that ERP system, it allowed us to get financial visibility across all of our programs. So you had the ability to take our data input from PBUSE [Property Book Unit Supply Enhanced] or our budget inputs and it would come down to line item disbursement through appropriations and right down into accounts. So program managers had the visibility without having to manually enter that data and continue then to verify and do a lot of manual rework. And that creates errors. Any time you have variation in process, that is not a good thing.

Mr. ANDREWS. So you are able to reduce those errors by——

Admiral ARCHITZEL. Absolutely. Yes, sir. And over the time, approximately 260 man-years in terms of what I would say would be in our experience with ERP, we eliminated in Sigma, which was the first generation ERP, about 55 legacy programs. And since we have incorporated to Navy ERP, it has been about four.

Mr. ANDREWS. What was the reference to 260 man-years?

Admiral ARCHITZEL. Man-years. Reduction in man work to do the kinds of things I am talking about, about tracking dollars, about validating and verifying——

Mr. ANDREWS. In other words, one person working for 260 years would have had to do these tasks and now you have eliminated that?

Admiral ARCHITZEL. Yes, sir.

Mr. ANDREWS. We should try that around here, Mike.

I am going to ask for a second round if we have a chance because I did have a question for General Stevenson, but I am going to yield back at this point. If we could do a second round, I would appreciate that. Thank you.

Mr. CONAWAY. Steve, 5 minutes.

Mr. PALAZZO. Good morning. Thank you all for being here to continue our conversation on such a very important issue. I think from a lack of attention in the past there is a reason why we are here again today and be here probably next year. But really, I am excited about the improvement that we have made in addressing these issues. Last week I was kind of more focused on, you know, the sharing of information between the DOD services and the agencies.

And, Ms. Smith, you mentioned taking the lessons learned, having an after-action review and then sharing them with our partners across the DOD industries and other logistics in air and DFAS. Can you all just share—I am kind of wanting to know, one, is what has been some of the major obstacles or hurdles to achieving audit readiness, as well as, you know, maybe just some success stories? I think you all mentioned some of them, it has been answered. And also just your lessons learned. And how are you going about sharing your information with the other branches and other services.

Ms. SMITH. I can start. We learned a great deal from our efforts that we have done with the Marine Corps audit. One of the areas that we were focusing on is how do you reconcile all of this data. We receive data from the legacy systems. We will be receiving data from the ERPs, et cetera. So how do you give the visibility of that data to the auditors? Through the Marine Corps audit, we realized we had to give visibility of that data all the way from the beginning of the transaction all the way through to the financial reports. So we have created reconciliations across the board for all of the services and we are working on systems that will help us do that and be able to show the auditors that this transaction can flow all the way from the financial statements back to the source. And we can retrieve that source documentation for them. Those are some of the big ones.

But we have a steering committee that we are setting up that goes across the board on lessons learned so we can as a DFAS entity, we can help all the services with that.

General FEDDER. Sir, as we have progressed with our plan to achieve audit readiness, some of the things that we have seen as a success story is the value of data cleanup within our systems. And frankly, we learned this from some of our fellow service efforts that are a little bit farther along in the Air Force in some cases. But we have seen that in order to be able to use legacy systems, for instance, those systems that we have now that are not under an ERP, the value and necessity of making sure that the information that we put into our logistics systems for things like inventory management and accountability have got to be very exacting and that before we can really achieve a clean audit in a lot of those systems we need to go back and ensure the accuracy of that data. That is one of the things that we continue to work on as we adapt our legacy systems and we mediate those systems to make sure that we can achieve the audit. Some of the obstacles that we have identified so far are specifically within those systems.

As has been mentioned by one of my panel peers, the use of the systems that are not under an ERP tend to be very personnel intensive because of the fact that our systems don't talk to each other. We have inventory accountability systems that are not nec-

essarily linked all the way in an end-to-end business process. And that requires a lot more manual labor to make sure that we can provide that exactness associated with an audit.

Admiral ARCHITZEL. Congressman Palazzo, thank you for the question. As you look at the value of what we have for this effort in terms of what it is, I would say one thing for me as a commander, it is a team sport. And I think we have to—I have been trying—I am driving that home throughout the command because we won't succeed if it is just a comptroller viewed activity. And it is not. So if you look at every process that we have that generates a financial transaction, there are people that are in contracts, that are in engineering, that are in testing that contribute to that efficacy of that process.

So what we are doing is taking every one of these areas where we generate a financial transaction and end-to-end processing, look at the business processes that go with it, look at the controls that are in place to control that process, find out where we are not in control and then do something about it.

There are examples of that I would give in civilian pay where we had things—we were recording our civilian pay and we knew what was going on, but we actually found what we didn't have was the actual ability to ensure that how do we reconcile that within, say, if there is not accounted for civilian pay. It was done differently in different areas of my organization, different competencies. We have standardized that now. And by doing that, we have a standardized business process which is key to it. So our financial improvement process is important. It feeds into the overall ability to say we are ready financial, audit readiness. But above everything else, command involvement and command participation throughout the process.

Mr. PALAZZO. Thank you.

Mr. CONAWAY. Joe, 5 minutes.

Mr. COURTNEY. Thanks, Mike. General, your testimony was really impressive in terms of actually, you know, just coming out and saying that you anticipate $8 billion in savings with this new system starting in 2017, you know, which sort of takes this thing out of just the—sort of the theoretical and into real numbers, which obviously is important to everybody in this committee who has been going through these hearings on the challenges facing the Pentagon coming up.

Can you talk a little bit about, you know, what—where does that come from? Is that, you know, waste, fraud and abuse? Is that, you know, other ways that you can feel comfortable projecting that savings?

General STEVENSON. Sure. It comes from a number of different locations, but probably the one that is I think the easiest to understand is we will not have to do so much reconciling between separate instances. Today the architecture—and I was going to, sir, answer your question if it had gotten to me—that our biggest problem has been our architecture. We have got stovepipe systems at each of our echelons that have to then pass the data at end-of-day processes. And if the communications somehow get interrupted in part of that—and if you can imagine doing that in Afghanistan or Iraq—then maybe there is pieces of that data you are missing, you are

losing or it posts after—because data is important to be posted in a time sequence manner. And so you end up having to have lots of people at each of the echelons and in the financial community trying to match the receipts, the issues, the cancellations, the change—did it get charged against the ledger, did it not get charged against the ledger. All of that is going to go away in our ERP system because it will all be a Web-based system operating off of a single database and so that there is no need to reconcile anything. And all of that I think is going to go away and that will be a huge part of what we save.

Mr. COURTNEY. I mean, that sounds like actually a fairly modest, you know, prediction on your part because you are not sort of getting into other ways that you may pick up, you know, duplication or waste or whatever, I mean. So I guess we have got nowhere to go but up from that $8 billion figure assuming you have got a really high functioning system. Is that a safe statement to make?

General STEVENSON. I think so. And of course there is costs associated with implementing the system. So what we have tried to do is figure out through a business case what is the net savings to the Army. We think our payback starts in 2019, that we will have paid for what we have done in just that short period of time.

Mr. COURTNEY. Admiral, you have been nodding your head. I don't know if you want to chime in.

Admiral ARCHITZEL. I couldn't agree more with the—the ERP for us within 1–0—it is really acquisition financial management. When you get to 1–1, that is our single supply system. So when we get into that—by having that across the Navy, if you will, in our SYSCOMs [System Commands] and into the NAVSUP [Naval Supply Systems Command], we then have visibility on all of our supply pieces and parts, which is the first time you can actually see end to end. You want to see an F–18 all the way down from when it is on the flight line to the parts that are supported and needed and where those parts are and where they exist, and that would reduce sparing, it would reduce warehousing. That is where you will get significant savings from ERP, above and beyond that which you get—and I mentioned before—the business end of doing accounting and reconciliation which is on the 1–0 piece. So I think it is a tremendous one in there.

I do have some concerns and that would be, you know, in terms of it is not a simple thing to do to take the inventory today and map them into ERP. It is a very time consuming effort to go forward. We are in a phased approach to do that, And I know we will get there. But it is not a given that it will be a simple bill, but it is well worth the effort in doing that.

Mr. COURTNEY. And in terms of, you know, trying to get the resources there to get that transition done—I mean, Admiral Roughead has talked about, you know, the fact that with—again some of the cost savings and efficiencies that the Navy needs to find, that a lot of personnel are going to be sort of being moved closer to the waterfront and out of sort of, you know, offices. Is that going to kind of create a challenge in terms of that? Or is that something that you think the Navy can handle, assuming again people are being deployed a little bit more in frontline positions?

Admiral ARCHITZEL. Well, personally I think we need to move people closer to the flight line. That is where the activity is. That is where our support is to the warfighters, at the tip of the spear if you will. So I am an advocate for things—in our FRCs [Fleet Readiness Centers], for example, about moving those assets closer to the flight line, about being able to have them spread to where our fleets concentration areas are. So I think that is a proponent of it.

There is an inherent problem in how we did contracting before in some areas when you get into supply systems. If I was to look at a previous contract, you would see there would be a line item that would say spares. And it would have, who knows, 800 spare items that would be listed, but they would be listed—and that was just one line item in there that says spares under an equipment line item number. Within that and made an appendices to that would be handwritten inventories that goes with those spares. To go forward in the ERP, what we need to do under improving the system would be to break those out into individual line items that come right down—and you can call out then. And then from the day you award that contract, you can track that spare from contract award—DFAS can track it, we can track it, supply systems can track them all the way through. And that is what will eventually lead to the ability to do the things like valuation and configuration management and accreditation.

Mr. COURTNEY. Thank you.

Mr. CONAWAY. We will do a second round if everybody has questions.

Human nature is such that you are comfortable with doing things the way you have done it in the past. And you have all talked about legacy systems. And there is a tension because all of this change you are doing is—you don't get to take a year off from everything else you are doing in order to make this happen, you have got to continue to provide whatever data you have been providing at the exact same time. But you don't get to double your workforce to do this. You just have to—everybody has to do it. So there is—I have observed in the past—a tendency to hang on to stuff longer than you needed to.

We have talked to the other folks about this as well. How best do you track the demise of legacy systems and all of the associated costs that go with just maintaining those and the extra work that is associated with that? How do you track—do you have a plan that says at the end of the day we are going to have all of these legacy systems that are going to be gone so that you know and from our oversight standpoint that we will know that you are down to just those systems that are needed and necessary to make this thing work and we are not clinging to something because it is just an old comfortable pair of shoes that work?

Martha, do you want to start?

Ms. SMITH. Sure. Within the DFAS walls, we have eliminated a lot of systems over the years. And we are seeing the benefits of the ERP. And believe me, we would like to see the legacy go away as fast as possible. However, we have been dealing with the legacy for a long period of time. So in terms of the data flows, we have got that pretty well nailed down and then we are, you know, adding

the ERP stuff to it. But within the DFAS systems, we have eliminated a lot of systems. We have tracked that. And we are pretty comfortable with the new systems that we have in place now. So I think we are moving along in the right direction in that area.

General FEDDER. Mr. Chairman, frankly I don't think that there is any tendency in the Air Force logistics community to want to hang on to those legacy systems when we have the opportunity to transition to something like an ERP, specifically for the Air Force, the expeditionary combat support system. We have seen in the pilot of ECSS [expeditionary combat support system], although that hasn't yielded as much information as perhaps the other service ERPs have yielded so far, but we have seen the value in being able to better provide that total asset visibility.

So for the airman at the unit level who is responsible for receipt, proper storage and accountability of spare parts, for instance, that airman can easily see through the ERP system and the way that system is going to provide connectivity with all our systems. They can see the value of the workload that is reduced associated with that in delivering a better product to the warfighter.

Admiral ARCHITZEL. Mr. Chairman, it is a great question and it is not an easy one. Let me just try and say that on the outset, certainly legacy systems—I think personally we need to look at legacy systems in a way that some legacy systems are not all bad. We need to understand what they are and not just make this blanket statement that all legacy systems are bad. Let me explain.

When I talked about Sigma, we came on ERP in Navy, NAVAIR, we had about 55 systems retired. And those were principally in financial management areas we could do that. Since we have been on ERP, one of those systems we retired actually is Sigma. So there has been four. The Navy is on track—I believe the number is 196 retired legacy systems with about 14 done to date. But when you look at what it is—I would say that in the area of NAVSUP, for example, they retired legacy systems that were based on FORTRAN [IBM Mathematical Formula Translating System] and those kind of things. They needed to be retired. There are going to be tremendous savings. But I look at today—your point is a good one. I have to operate today and provide direct support to the fleet out there, to the Hornets that are on station, the 60 "Romeos" [MH–60 Seahawk helicopters] that are out there and know what is their configuration, what is their ECPs [engineering change proposals], what do they need, know what their health and management systems are. I have vehicles today to do that. They could be supplanted or taken over into an ERP system. We need to carefully evaluate what the costs are to do that and what the true benefit is of that. So there is a place when we do this in a metered fashion, not just to say blanketly we are going to get rid of every system.

Mr. CONAWAY. But you have got a plan to track that?

Admiral ARCHITZEL. Yes, sir. Absolutely.

General STEVENSON. Sir, I have been appointed the logistics domain owner for all logistics systems in the Army. We started out with over 800 different systems, some small, some large. And my goal is to reduce them down to our ERPs. And as of the last—I do a quarterly review. As of last review, I think we are down to about

160. I also control the dollars that sustain those systems. So it will be very easy, I think, to enforce discipline in getting rid of them.

Mr. CONAWAY. Thanks. Rob.

Mr. ANDREWS. Thank you, Mr. Chairman. General Stevenson, thank you for your testimony. I also wanted to explore, as Mr. Courtney did, the genesis of this $8 billion savings estimate. Could you walk us through how you derived that projection?

General STEVENSON. Yes, sir. It comes from a number of components. One is inventory reduction. We think that there is about $2.0 billion worth of inventory reduction we can get to by having visibility over what we have got, being able to move it around and not have individual entities buying their own.

Mr. ANDREWS. Let us not have more than we need?

General STEVENSON. Exactly. There is reorder costs that go on because they are not sure whether what they have got on order is coming to them because they don't have visibility of where it is. It is kind of the Amazon.com capability that we lack today in the Army.

Mr. ANDREWS. If this works with teenage girls, let me know because we can try it at our house, too.

General STEVENSON. It is an area of concern. And I just last week had a large meeting with—the RAND Corporation is doing some work for us on excess—excess orders we are generating. And a lot of it comes from lack of confidence. I talked about the component associated with reconciling records at various levels. And it is a combination of all of those things and some others that I can't recall off the top of my head that contribute towards this business case that says by 2019 you will have paid for.

Mr. ANDREWS. Is the $8 billion over what period of time?

General STEVENSON. Through the life of the system, through 10 years.

Mr. ANDREWS. So roughly 10 fiscal years. Let me ask sort of a very basic question to each of you from the Services.

General, if I wanted to know how many radio parts existed for a certain airplane today and I needed to find one, how quickly could your group find that part and know how many that you had? Say we needed that answer ASAP. How quickly could you get the answer?

General FEDDER. Sir, within an hour we could go to the standard base supply system, which is our current retail level supply inventory, and identify by stock number where those radio parts——

Mr. ANDREWS. And you have a high degree of confidence that would be right?

General FEDDER. Yes, sir.

Mr. ANDREWS. Good.

General FEDDER. Yes, sir.

Mr. ANDREWS. Admiral, what if I wanted to know how many cases of water we have on Navy ships at this moment, could we know that?

Admiral ARCHITZEL. I would go to the supply system to get that answer. But in terms of what I would tell you—within our aviation and logistics environment, our automated logistics environment, today in the Naval Supply program—within the naval enterprise, we are very able to extract what equipment we have and what

ECPs are on—sorry—what do we have to have, what the inventory—what parts and pieces we have and need.

Mr. ANDREWS. Could you get that answer for us pretty quickly?

Admiral ARCHITZEL. Yes, sir.

Mr. ANDREWS. High degree of confidence again?

Admiral ARCHITZEL. I do. Absolutely.

Mr. ANDREWS. And, General, you and I talked the other day a little bit about this. But if we wanted to know how many of those clamshells we have in Iraq and the degree of disrepair or repair they are in, how quickly could you get that answer?

General STEVENSON. Sir, the number, easy. In a matter of a quick inquiry. The condition, I would have to go ask. And that just takes time because——

Mr. ANDREWS. So we don't have a database that exists necessarily about the condition of the assets at all times?

General STEVENSON. Not when it is in the hands of the user. And that is part of our problem. I mentioned the architecture of our current systems.

Admiral ARCHITZEL. There is another aspect, if I could, sir. It is the value of that system, too. So that is part of what we have to have for audit readiness. And I think that is a concern we are all going to have to come back with. We can do that, but it will be very manual intensive.

Mr. ANDREWS. I really appreciate you saying that, Admiral, because one thing we have learned from our panels of witnesses is that there is a real difference here between the quantity of the number of things you have and the value of them. And the value process is a subjective process, as well as an objective one, which means that producing financial statements for the military is a *sui generis* project. I don't think it is quite like producing financial statements for a retail store or a homebuilder because, A, you don't really know the market value of goods because some don't have a market value. And, B, you don't know their utility because they are in far-flung places around the world and what not. So we do appreciate the complexity of the problem.

I think this has been an excellent panel doing excellent work, and I appreciate each of you. Thank you.

Mr. CONAWAY. Let me ask one other question. I want to make sure our witnesses get their money's worth for the preparation that was done. Thank you for whatever it is you guys did to come here today and put that together. Leadership is key at every single level. Are we far enough along in this process that when your replacements show up and somebody moves into those slots, that the forward momentum is such that it is going to happen or what is it that you are looking for to make sure this process does get completed when there is a change of leadership? General Mitchell, you mentioned the other day you have got enough skin in the game that you own some of this, you really want to make it happen. So how do each of your organizations make sure that new leadership has the same understanding of how important this is and that we don't lose any ground just because we changed the top person?

General STEVENSON. Sir, I think in our case we have got the design work done and that is really the key, because all we have got to do now is implement what we have designed, and I think we

have irreversible momentum toward that end state. Now, it could get interrupted by a lack of resources and certainly we are counting on being able to continue to make the investments we need to make. It is fully funded in our program. But, you know as well as I do that could get interrupted in any year. But absent that, I think we are on a path toward irreversible momentum to get it done.

Admiral ARCHITZEL. Sir, I think it is fundamental to everything we do in the military when you look at command structures and how we do things. Measure my performance, not where I am in NAVAIR today. Come back in a year and tell me how NAVAIR is doing and I will tell you how I did in command. So it is a reflection of what we instill and what we pass through. This is a team effort. It is not one carried by one individual by any means. I don't have the background or the knowledge to do this alone. So we rely on everyone. I am absolutely confident that it will be enduring.

General FEDDER. Mr. Chairman, in the logistics environment at the execution level, the continued ability for an airman to make sure that inventory is right, that they store it right, that they stock it right, all of those are again fundamental parts of what we do in logistics. But to capture the momentum that we have going towards ensuring audit readiness, we have included in the Inspector General system a special interest item to reconcile what we are doing at unit level that is going to drive us to audit readiness. We have captured it in our logistics assessment systems, performance measures for civil service members, as we talked about a little bit earlier, things like policy.

But I would say in addition to all of those measures, the continued DOD leadership focus on this and certainly the interests and involvement of Congress and your panel here to make sure that we continue down this path will make a big difference.

Ms. SMITH. I think it goes back to making sure that the culture of the entire organization is focused on the priorities and the strategy, and I think we have done that pretty well in the DFAS world. We haven't finished pushing it all the way down to our lower level individuals, but our trainees and our accountants that are coming in the door, the first thing that they are trained on is how do we get our processes to be better and how do we focus on fixing the issues with the systems, and so on and so forth.

We have tried to change our culture from fixing the problems at the top to fixing the problems at the source, all the way down into the organization. So that is how we are trying to keep it flowing.

Mr. CONAWAY. Rob, do you have anything else?

Mr. ANDREWS. No. Thank you again. I would like to thank the witnesses for an excellent presentation.

Mr. CONAWAY. I give the witnesses an opportunity to say whatever it is that you wanted to say that we didn't ask or you didn't get it in your opening statement. Anything that anybody wants to add for the record?

Again, thank you very much for being here and the meeting is adjourned. Thank you.

[Whereupon, at 8:55 a.m., the panel was adjourned.]

A P P E N D I X

SEPTEMBER 15, 2011

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 15, 2011

Opening Statement of Congressman Mike Conaway, Chairman, Defense Financial Management and Auditability Reform Panel

Hearing on

Organizational Challenges in Achieving Sound Financial Management and Audit Readiness

September 15, 2011

I'd like to welcome everyone to today's hearing on Organizational Challenges in Achieving Sound Financial Management and Audit Readiness. In our first couple of hearings, we received testimony at both the DOD level and at the Military Department level on the challenges faced in achieving audit readiness by 2017. One of the primary challenges relates to DOD's large and complex organizational structure. DOD operations include a wide range of defense organizations, including military departments, their respective major commands and functional activities, large defense agencies, and field activities.

Today we will hear from representatives from a military systems command, the logistics community, and the defense agency providing finance and accounting services to the DOD components. These organizations play a key role in DOD's ability to improve its financial management and achieve audit readiness.

Although, you would not normally associate the acquisition, sustainment, and the logistics community with financial management, military commands and these functional communities generate and maintain financial activity that flows into DOD's financial statements. For example, the logistics systems used to provide tactical units with information on maintenance and transportation of equipment are the same systems used to provide asset information for reporting in financial statements. Without proper controls within these functional communities, DOD will not be able to achieve auditability.

The Defense Finance and Accounting Service (DFAS) provides finance and accounting services to the DOD components. In fiscal year 2010, DFAS processed 169 million pay transactions, paid 11.4 million commercial invoices, and made $578 billion in disbursements. Since their activities are so integral to the financial activity reported in the DOD components' financial statements, challenges faced at DFAS must be addressed in order for DOD to progress towards auditability.

During these times of resources constraints and budget cuts, it is imperative that DOD have reliable, useful, and timely information for decision making. Therefore, it is critical that all DOD organizations within and outside of the financial management community work together to achieve effective financial management.

I would like to thank our witnesses for taking time out of their schedules to be with us this morning. We have with us today:

Lieutenant General Mitchell H. Stevenson
Deputy Chief of Staff, Logistics, G-4
United States Army

Vice Admiral David Architzel
Commander, Naval Air Systems Command

Major General Judith A. Fedder
Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support
U.S. Air Force

Ms. Martha Smith
Director, Defense Finance and Accounting Services (DFAS) Cleveland

Let me now turn to Rob Andrews for any remarks he may have at this point.

RECORD VERSION

STATEMENT BY

LIEUTENANT GENERAL MITCHELL H. STEVENSON

DEPUTY CHIEF OF STAFF, G-4

UNITED STATES ARMY

BEFORE THE

COMMITTEE ON ARMED SERVICES

DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM PANEL

UNITED STATES HOUSE OF REPRESENTATIVES

FIRST SESSION, 112TH CONGRESS

ON ORGANIZATIONAL CHALLENGES IN ACHIEVING SOUND FINANCIAL MAMAGEMENT AND AUDIT READINESS

SEPTEMBER 15, 2011

NOT FOR PUBLICATION

UNTIL RELEASED BY THE

COMMITTEE ON ARMED SERVICES

Chairman Conaway, Ranking Member Andrews and members of the panel, thank you for the inviting me to appear before the panel. I appreciate the opportunity to discuss the importance of auditability and accountability as part of U.S. Army logistics operations. At the outset, let me state that we appreciate your continuous support of Soldiers, Civilians and their Families. As the current Army Deputy Chief of Staff, G-4, I am responsible for the policies and budget requests related to sustaining, preparing, resetting, and transforming the Army in support of full spectrum operations. In the FY 2012 President's Budget, the Army requested $5.7 billion for; engineering and sustainment support to fielded weapons systems; global transportation of supplies, demilitarization, storage and safety of chemical and conventional ammunition stockpiles, support to automation in support of the logistics business infrastructure to sustain the Army, funding for Army Prepositioned Stocks and Depot Maintenance.

Importance of Auditability:

I applaud this panel's efforts to examine the financial management systems of the Department of Defense and possible ways to improve its financial management and audit readiness effort. While we still have a lot of work to do in order to meet our goal by 2017, as an Army logistician, I am encouraged by the progress we have made to date. Specifically, we have laid some of the ground work for a successful audit of logistics processes through our work to improve accountability over all the Army's capital equipment; this effort is instrumental in demonstrating both existence and completeness of the equipment accounts recorded in our financial and logistics data bases.

We are also nearly ready to implement the Global Combat Support System-Army (GCSS-Army), an SAP Enterprise Resource Planning (ERP) program, which links logistics transactions, such as the acquisition of capital property, the performance of maintenance work orders and the receipt, storage

and issue of supplies, to their financial consequences at the transaction level. This is a first for our Army and, I believe, a key cornerstone in establishing auditable and repeatable business processes.

My staff is working closely with the Assistant Secretary of the Army (Financial Management and Comptroller)'s staff to ensure our logistics and asset management processes, including GCSS-Army and other systems, adhere to appropriate federal accounting and systems regulations to support financial statement audits. By implementing a compliant logistics system that integrates seamlessly with the financial system, in addition to confirming our policies and processes meet audit standards, our logisticians only have to focus on executing their work according to established policy to directly support the Army's auditability efforts. Together, these efforts both support the Army's plan to achieve audit readiness, and they help the Army to be better stewards of hard earned taxpayers' dollars.

Army Campaign on Property Accountability

Property Accountability is the foundation of good stewardship and a top priority of the Army's leadership. Accurate property accountability enables the Army to make prudent use of its resources.

Under an execution order signed by the Chief of Staff of the Army, the Army launched a Property Accountability Campaign on July 9, 2010. This is an enduring campaign to inculcate a culture of stewardship and supply discipline after ten long years at war.

It is, of course, quite a challenge to maintain property accountability of Army-owned equipment for an expeditionary Army in an era of persistent conflict. Accountability requires senior leader participation and oversight at every command level, uses the Army inspection and audit agencies to ensure

compliance, and requires recurring command progress reports. From the beginning of the campaign through the third quarter of FY 2011, the Army has brought considerable amount of equipment to record, most of which is being redistributed to fill Army shortages, thus negating the need to purchase more equipment for these shortfalls.

The Campaign also mandates all Army Commands, Army Service Component Commands and Direct Supporting Units establish programs that emphasize care and oversight for property recovery, redistribution, inspections and training initiatives – reinforcing Army internal control processes already codified in policy. We have ensured that property accountability is taught at all officer advanced courses in order to reinforce a culture of responsible property management early in an officer's career. Through the efforts of the Campaign, the Army authorized and assigned senior Chief Warrant Officers to division and corps logistics staffs. These experienced Warrant Officers provide oversight, training and mentorship to both commanders and unit supply personnel. This action reinforced emphasis on mentoring and training junior leaders in property accountability and supply discipline. The U.S. Training and Doctrine Command continues to review the Officer and Non-commissioned Officer Education System to ensure that junior leaders are trained on the basics of responsible property accountability. Army units report an increase in property accountability Training/Mentoring Events, and there has been significant increase in command supply discipline inspections conducted across the Army.

In summary, our campaign to improve our property accountability knowledge, processes, systems, and data, directly supports the Army's efforts to meet the Congressional and the Under Secretary of Defense (Comptroller)-directed interim milestone of demonstrating existence and completeness of mission critical assets, and the ultimate goal of auditable financial statements by FY 2017.

Current Logistics Systems:

While the Army has made progress in tightening up property accountability, it remains challenged by the fact that our legacy Standard Army Management Information Systems (STAMIS) for logistics are stand-alone, functional stovepipes that are not financially audible and do not take advantage of current, commercially designed business Information Technology capabilities. Our current tactical logistics systems are made up of over 40,000 separate instances of legacy custom coded software and databases that are expensive to maintain and do not give us the accurate common operating picture or real time asset visibility.

Two Major Logistics Enterprise Resource Planning (ERP) Programs

The Army is replacing our current logistics systems with two major logisitics ERPs are the Logistics Modernization Program (LMP) and the Global Combat Support System-Army (GCSS-Army), both of which are SAP-based.

LMP is the Army's Wholesale (National) logistics system now deployed throughout the Army Materiel Command, and at the Army's depots and arsenals, to over 25,000 users. LMP is a logistics system but it is also the financial system of record for Army Working Capital Funds. This program, which has been fully fielded since October 2010, replaced multiple instances of two 1960 and 1970 vintage information technology systems. LMP supports the Army Materiel Command and Defense Finance and Accounting Services by providing improved data and reports to Item Managers and Depot and Arsenal Commanders. LMP is helping the Army to more accurately capture the data associated with a $22 billion inventory and $2 million in daily transactions.

The Global Combat Support System-Army (GCSS-Army) is a web-based business system which supports tactical level logistics. Once fully fielded, GCSS-Army will provide users real time data and will replace several tactical level STAMIS: Standard Army Retail Supply System (SARSS); Standard Army Ammunition System (SAAS); Standard Army Maintenance System-Enhanced (SAMS–E); Unit Level Logistics System-Aviation (ULLS–A); and Property Book Unit Supply Enhanced (PBUSE). GCSS-Army is currently fully deployed at the 11th Armored Cavalry Regiment (National Training Center) at Fort Irwin, California, and the Army is pleased that this program recently achieved Milestone C on August 9, 2011, providing approval to conduct Initial Operational Test and Evaluation (IOTE) at Fort Bliss, Texas in October. The program continues to maintain cost and schedule within the established Acquisition Program Baseline. After a successful IOTE, the Army will begin fielding GCSS-Army in the summer of 2012 to all tactical and installation sites -- Active, National Guard and Reserve -- a total of 160,000 users and 40,000 instances. GCSS-Army is a good business decision; the enterprise view it provides is estimated to generate over $8 billion in net savings between 2017 and 2027, and it will provide increased accountability of Army assets, link logistics processes to financial outcomes, and provide better information for business decisions -- and it is essential to meeting our auditability goals.

To ensure we meet our auditability goals, the ASA(FM&C) is providing the resources, guidance, and assessments to ensure GCSS-Army complies with federal financial systems requirements, integrates seamlessly with the General Fund Enterprise Business System (also SAP-based), and ultimately supports our audit readiness milestones, including the General Fund Statement of Budgetary Resources assertion in FY 2015, and all financial statements in FY 2017.

Together, LMP and GCSS-Army make up what we call our "Single Army Logistics Enterprise (SALE)," which will address the challenges of legacy logistics systems by providing an integrated,

accessible view of logistics data. The SALE is a solution that will provide Commanders with immediate logistics readiness status and timely, accurate, integrated and near real time information. The SALE will also help the Army to achieve financial auditability by integrating financial data as part of end-to-end logistics business processes using LMP and GCSS-Army as the logistics and financial systems of record. With these systems, Army will finally be able to accurately and immediately track logistics operations costs and provide transparency of logistics operations. Army leaders will have more confidence in their data, and that will help them to make more informed decisions, thereby reducing waste and thus saving the taxpayer money.

Closing:

Chairman Conaway, Ranking Member Andrews, and other Members of the panel, thank you again for the opportunity to testify today. The Army is working hard to address its challenges of property accountability and to achieve financial auditability. Our Property Accountability Campaign has yielded positive results, but the Army must maintain its commitment to these efforts and successfully implement GCSS-Army . Through these efforts, the Army will achieve increased accountability of its assets and financial transparency of logistics processes. I look forward to your questions.

###

LTG Mitchell H. Stevenson

Deputy Chief of Staff, Logistics, G4
HQ USA

Lieutenant General Mitchell H. Stevenson was born in Linz, Austria, the son of a career Army NCO. He was commissioned a Regular Army Ordnance Officer from the ROTC program at West Virginia University in May 1974. After being detailed Infantry initially, he was made an Ordnance officer in March 1976.

His previous commands include Heavy Maintenance Company, 701st Maintenance Battalion, Fort Riley, KS; Forward Support Maintenance Company, 122d Maintenance Battalion, Germany; 724th Main Support Battalion, Fort Stewart, GA; Division Support Command, 3d Infantry Division, Germany; Commanding General, U.S. Army Ordnance Center and Schools, Aberdeen Proving Ground, MD; Commanding General, U.S. Army Combined Arms Support Command, Fort Lee, VA.

LTG Stevenson's other assignments include Executive Officer to the Commanding General, U.S. Army Tank-Automotive Command, MI; Support Operations Officer, 703d Support Battalion, Germany; Division Materiel Management Officer, 3d Infantry Division, Germany; Executive Officer to the Deputy Chief of Staff for Logistics, Washington D.C.; Director, Plans and Operations, Office of the Deputy Chief of Staff for Logistics, Washington D.C. and Deputy Chief of Staff for Logistics and Operations, U.S. Army Materiel Command, Fort Belvoir, VA.

He is a graduate of the Infantry Officer Basic Course, Ordnance Officer Advanced Course, U.S. Army Command and General Staff College, and the U.S. Army War College. General Stevenson holds a Master of Science degree in Logistics Management, Florida Institute of Technology and a Bachelor's degree in Psychology, West Virginia University. His awards and decorations include the Distinguished Service Medal with Oak Leaf Cluster, Legion of Merit with four Oak Leaf Clusters, Bronze Star Medal, Meritorious Service Medal with three Oak Leaf Clusters, Army Commendation Medal, Army Achievement Medal, Kuwait Liberation Medal and Southwest Asia Service Medal with three stars. He has also been awarded the Expert Infantryman's Badge.

NOT FOR PUBLICATION UNTIL
RELEASE BY THE
HOUSE ARMED SERVICES COMMITTEE

Statement of

Vice Admiral David Architzel
Commander, Naval Air Systems Command

before the

House Armed Services Committee

Panel on
Defense Financial Management and
Auditability Reform Panel

September 15, 2011

NOT FOR PUBLICATION UNTIL
RELEASE BY THE
HOUSE ARMED SERVICES COMMITTEE

Congressman Conaway, Congressman Andrews, members of the Panel, thank you for the opportunity to discuss the Naval Air Systems Command's (NAVAIR's) efforts at achieving and sustaining audit readiness.

NAVAIR's mission is to provide full life-cycle support of naval aviation aircraft, weapons and systems operated by Sailors and Marines. This support includes research, design, development, and systems engineering; acquisition; test and evaluation; training facilities and equipment; repair and modification; and in-service engineering and logistics support. This mission is delivered by a total workforce of approximately 37,000 military, civilian and contractor personnel located at eight locations across the continental United States and one site overseas.

As the NAVAIR Commander, I am personally committed to the financial improvement initiatives endorsed by the Assistant Secretary of the Navy (Financial Management and Comptroller), Ms. Commons. Achieving and sustaining audit readiness by standardizing financial processes to provide accurate and auditable information that supports program execution decisions is one of my top priorities, and is outlined in my 2010 Commander's Guidance to all NAVAIR employees. NAVAIR supports the Navy's audit readiness initiatives by documenting business processes, assessing internal control risk, conducting tests on the business processes that produce financial transactions, implementing corrective actions to mitigate any weaknesses, and conducting sustainment testing to ensure those corrective actions remain in place. NAVAIR's Financial Improvement Program and Business Process Standardization efforts are being led by accounting and financial management experts, with

support from functional experts across the Command in multiple business process areas, including acquisition, contracting, logistics, and human resources.

The focus of my Financial Improvement Program is to document, standardize, and test the business processes that feed into the Statement of Budgetary Resources report. NAVAIR's Financial Improvement Program supports Navy, Department of Defense (DoD) and Congressional direction to improve the quality of this financial information and associated business processes necessary to produce auditable financial statements for the information most often used to manage the Department: Budget Authority, Obligations, and Outlays.

The focus of our Business Process Standardization efforts is to reduce variability in all processes that have a financial impact by breaking each end-to-end process into segments. Right now, the team is working on Civilian Labor, Travel, Funds Receipt & Distribution, and Reimbursable Work Order processes. As we progress in our efforts, the team will focus on Contract Pay, Transportation of Things, and other business processes. Standardized business processes will produce accurate and decision-quality financial information, enabling leaders to make timely, effective and efficient resourcing decisions in an environment of increased demands and declining budgets.

To support the Department of Defense efforts at achieving auditable financial statements, the Under Secretary of Defense (Comptroller), Mr. Hale, required each of the Military Services to perform an assessment of one Major Defense Acquisition Program (MDAP). Navy chose the E-2D Advanced Hawkeye Program for this effort. The goal of NAVAIR's E-2D MDAP Project is to demonstrate financial stewardship of funds allotted for a major acquisition program and

assess the audit readiness of the Navy Enterprise Resource Planning (ERP) environment and related business processes. The assessment is scheduled for September 30, 2011.

NAVAIR's approach to this E-2D MDAP assessment aligns with our general Financial Improvement Program strategy, and includes reconciliation of financial accounting transactions and fund balances. It also includes an evaluation of business processes and internal controls, as well as implementation of any corrective actions required to address identified weaknesses. The NAVAIR team is taking lessons learned from the E-2D MDAP effort, and developing an audit readiness strategy to deploy across the Command. This strategy will stress the importance of internal controls, compliance with regulations, maintaining an audit trail, and other concepts that will contribute to NAVAIR's ability to achieve and sustain audit readiness.

NAVAIR is also leveraging Navy ERP to strengthen internal controls, enhance standardization and improve the quality of information available to decision makers. Navy ERP is NAVAIR's General Fund and Naval Air Warfare Center financial system of record and fundamental to our business operations. Having implemented an ERP pilot in 2002, NAVAIR has significant experience with Navy ERP and relies on the system for business operations including project planning, funds execution, funds validation in support of procurement and contracting, training and awards processing, time and attendance, accounting and external financial reporting. The implementation of Navy ERP has provided increased fidelity of our financial data, providing program managers timely insight into program execution and the ability to track dollars committed, obligated or expended; and gives program managers and field teams increased visibility into the interdependencies of program costs, schedules, resources and risks. The assessment and review of the E-2D program has validated this increased fidelity in that we

have been able to trace all the financial transactions related to the effort from beginning to end. We are also leveraging Navy ERP functionality for Asset Management and Inventory Management for greater financial compliance and accountability of our assets.

These examples demonstrate that our effort to achieve auditability is not solely a financial management initiative. Implementing a system of standardized processes and strong internal controls requires input and involvement across multiple functional areas including corporate operations, human resources, logistics, contracting, and budgeting.

Again, NAVAIR's efforts support Navy, DOD, and Congressional direction to improve the quality of financial information and business processes necessary to achieving a clean financial audit by 2017. These efforts enable our leaders to make timely, effective resourcing decisions in an environment of increased demands and restrained resources. I am committed to these initiatives, and believe the resources invested will produce a significant return on investment to the Warfighter and the American Taxpayer.

United States Navy
Biography

Vice Admiral David Architzel
Commander, Naval Air Systems Command

Vice Admiral Architzel currently serves as commander, Naval Air Systems Command, headquartered in Patuxent River, Md. He assumed his duties in May 2010, after serving as the principal military deputy to the assistant secretary of the Navy (Research, Development, and Acquisition).

Previous flag assignments included program executive officer for Aircraft Carriers; commander of Operational Test and Evaluation Force, Norfolk; commander, Navy Region Mid-Atlantic; commander, Naval Safety Center, Norfolk; commander, Iceland Defense Force; and commander, Fleet Air Keflavik.

At sea, Architzel served as the executive officer, USS *Dwight D. Eisenhower* (CVN 69) and Pre-Commissioning Unit *John C. Stennis* (CVN 74). He served as the commanding officer, USS *Guam* (LPH 9); flagship for commander Amphibious Squadron (CPR) 2; and the sixth commanding officer of USS *Theodore Roosevelt* (CVN 71).

A career naval aviator, Architzel has accumulated more than 5,000 flight hours, 4,300 of those hours in the S-3, and the remainder in some 30 other aircraft types in his role as a test pilot at NAS Patuxent River. He served in Sea Control Squadron (VS) 30, deploying aboard USS *Forrestal* (CV 59), and as maintenance officer in VS-28, deploying aboard USS *Independence* (CV 62). He later returned to VS-30 as the executive officer and subsequently as commanding officer.

Architzel was born in Ogdensburg, N.Y., and raised in Merrick, Long Island. He earned a Bachelor of Science degree in mathematics at the U.S. Naval Academy in June 1973 and also holds a Master of Science degree in aeronautical systems from the University of West Florida. He enjoys major league baseball, model trains and is a really average golfer.

His decorations include two Navy Distinguished Service Medals, the Defense Superior Service Medal, four Legions of Merit, three Meritorious Service Medals, the Navy Achievement Medal and various service related awards and campaign ribbons. He was also awarded the Spanish Naval Cross of Merit from His Majesty, King Juan Carlos of Spain, the Navy League's John Paul Jones Leadership Award for 1998, and the Commander's Cross with Star of the Icelandic Order of the Falcon presented by the president of Iceland.

Updated: 1 September 2010

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE DEFENSE FINANCIAL MANAGEMENT AND AUDITABILITY REFORM PANEL

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: "THE ORGANIZATIONAL CHALLENGES IN ACHIEVING SOUND FINANCIAL MANAGEMENT AND AUDIT READINESS"

STATEMENT OF: MAJOR GENERAL JUDITH FEDDER
DIRECTOR OF LOGISTICS,
DEPUTY CHIEF OF STAFF, LOGISTICS,
INSTALLATIONS & MISSION SUPPORT,
UNITED STATES AIR FORCE

September 15, 2011

NOT FOR PUBLICATION UNTIL RELEASED
BY THE HOUSE ARMED SERVICES COMMITTEE

INTRODUCTION

Chairman Conaway, Ranking Member Andrews and distinguished members of the Panel, thank you for the opportunity to discuss your Air Force's efforts to manage mission critical assets. As a Logistician, I recognize that auditable financials and inventory controls are critical tools in helping the Air Force produce the maximum combat capability from each taxpayer dollar. Let me assure you that the Air Force logistics community understands and is fully engaged in supporting and achieving Financial Improvement and Audit Readiness (FIAR) compliance by 2017.

In May 2011, the Under Secretary of the Air Force, Ms. Erin Conaton, and the Air Force Vice Chief of Staff, General Philip Breedlove, wrote to the leadership at our Air Force Major Commands emphasizing the importance of audit readiness. In logistics, we are following up with a similar letter to the responsible logistics managers requesting detailed processes and plans to improve material weaknesses and inventory accountability to achieve audit readiness.

BACKGROUND

The logistics community is responsible for reporting on the existence and completeness of inventory and equipment. Functional logistics responsibilities include inventories, associated reconciliations, and updating legacy IT system accountable records. When we do these things timely and accurately, we maintain our accountability over Air Force equipment and ensure warfighter readiness levels are fully optimized with the best available tools for the mission. These logistics actions support the financial accountability required for audit readiness. Over the past several years, the Air Force has recognized several material weaknesses in our internal controls for equipment and inventory. To correct these weaknesses, the Air Force is implementing the Department of Defense (DoD) FIAR guidance through a detailed plan which includes discovery of problem areas, a set of milestones and interim deliverables, and assignment

of corrective actions to accountable parties. Our audit readiness is imperative to protect not only taxpayers' dollars, but to ensure we account for critical assets required to support warfighters and operational demands. This is more than a financial requirement; it is a functional logistics support requirement and we are reinforcing that message to our operational units.

WHERE WE ARE TODAY

The Air Force has been in the forefront, working closely with the Office of the Secretary of Defense Acquisition, Technology and Logistics to develop a risk-based methodology for establishing property accountability that can be used not only by the Air Force, but across the Department. We are proactively developing and executing corrective action plans which include: 1) capturing data required to establish an auditable baseline, 2) identifying policy and process changes and improvements required to ensure accountability, 3) testing to ensure internal control reviews, and 4) performing asset inventories and reconciliations. Each material weakness corrective action plan is monitored weekly by senior leadership at the Air Staff to ensure corrective actions are on track and/or in place. The visibility of each logistics material weakness and detailed action plan in the Air Force are routinely reviewed at the highest levels of leadership. Due to the strong leadership commitment and the changes we have made in the last year, we asserted audit readiness for the existence and completeness of Military Equipment in December 2010. This includes satellites, aircraft, remotely piloted vehicles, aircraft pods, and Intercontinental Ballistic Missiles (ICBMs). Military Equipment represents approximately one third of our total assets with a net book value of $103 billion.

In addition, the Air Force has made progress in its audit readiness assertions in mission critical assets. During the recent June 2011 Air Force Audit Agency inventory assessment, the logistics community successfully asserted audit readiness for the existence and completeness of aerial targets and drones. This represents approximately $485 million dollars in assets. As we

continue sampling and testing other mission critical areas, there will be clean up and exceptions identified, but this is a major accomplishment.

One of our biggest challenges is ensuring the logistics and acquisition functional communities understand their role in ensuring financial audit readiness. We are diligently working to make the connection between the inventories of Air Force assets and financial statements. Toward that end, we are engaged in the process by working with our financial counterparts to develop a briefing to be presented throughout the Air Force Enterprise Logistics Governance structure, starting with our major command Logistics Readiness and Maintenance Executive Boards during the September-October 2011 timeframe. We will then brief the two- and three-star level Logistics Working Group, Logistics Board, and Logistics Council. As stressed in the memo from Under Secretary Conaton and General Breedlove, these briefings further emphasize the commander's responsibility to follow policy and procedures to ensure logistics systems and processes can support a clean financial audit. Under Secretary Conaton and General Breedlove also directed commanders at all Air Force major commands to include audit readiness objectives in the performance plans of senior executives. These objectives are already in key senior executive performance plans in the financial, acquisition, and logistics communities at the Air Staff.

We are also ensuring enhanced actions are incorporated into our Logistics Compliance Assessment Program and Maintenance and Logistics Readiness Squadron Quality Assurance Program checklists. These measures will further provide Air Force logistics leadership with appropriate insight into major command policy compliance and we can take action where necessary. In addition, we are working with the Air Force Inspector General to establish "Special Interest Item" inspections to monitor compliance from the Inspector General

perspective. While these efforts will contribute to the overall audit readiness effort, they will also emphasize that audit readiness is a Total Force and all encompassing effort.

Another challenge is having audit compliant systems to achieve standard processes, internal controls, and an audit trail. Without these systems in place, ongoing and future inspections will not provide the necessary information required for an audit. For several years, we have deferred enhancements to our legacy systems while we developed more robust Enterprise Resource Planning Systems (ERPs) solutions, such as the Expeditionary Combat Support System (ECSS). ECSS is structured in a way to enable audit readiness through robust system controls and process efficiencies, as well as provide enterprise level visibility to Air Force assets. Despite some developmental and fielding delays, ECSS has deployed initial capabilities at Hanscom Air Force Base, MA, and will provide much needed modernization of our core property management systems which are key to achieving FIAR compliance objectives. In addition to providing the required inventory visibility and control, ECSS also modernizes portions of the Air Force General and Working Capital Fund systems. The Air Force plan to achieve mandated 2017 audit readiness relies on implementing a mix of ERP and legacy system remediation to achieve FIAR compliance.

CONCLUSION

The Air Force is fully committed and has set itself on a planned and deliberate path to improve its financial accountability and achieve audit readiness. Again, I can assure you that the logistics community is fully engaged and supporting this effort. We have teamed with the acquisition and financial communities to produce new policy, where required, and to ensure compliance with current policies. We continue to move forward with our audit readiness corrective action plans, ensuring assets are recorded in the appropriate accountable system of record, valued at the correct amount, and that assertions for existence and completeness are

accurate. We will continue to spread the word and keep the focus on each and every Air Force unit doing what it takes to achieve a clean audit. Thank you for the Panel's interest and focus on this important effort and for your continued involvement and support as we work towards audit readiness by 2017.

BIOGRAPHY

UNITED STATES AIR FORCE

MAJOR GENERAL JUDITH A. FEDDER

Maj. Gen. Judith A. Fedder is Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, Headquarters U.S. Air Force, Washington, D.C. She is responsible for organizing, training, and equipping more than 180,000 technicians and managers maintaining the Air Force global engagement aerospace weapons system inventory. She provides strategic direction for materiel and equipment management, fuels, vehicle management and operations, distribution, personal property, and passenger traffic management. The directorate develops logistics readiness, maintenance and munitions policy, ensuring the readiness of the single largest element of manpower supporting Air Force combat forces worldwide.

General Fedder is a 1980 distinguished graduate of the ROTC program at Michigan State University. A career maintainer, she has served as officer in charge of numerous aircraft maintenance units and as Chief of Logistics Management at the Combined Joint Task Force Headquarters for operations Proven Force and Provide Comfort at Incirlik Air Base, Turkey. Her commands include the 46th Component Repair Squadron and 46th Equipment Maintenance Squadron at Eglin Air Force Base, Fla.; 31st Logistics Group at Aviano AB, Italy; 65th Air Base Wing at Lajes Field, Portugal, where she also served as the Sub-Unified Commander of U.S. Forces Azores; and the 76th Maintenance Wing at Tinker AFB, Okla. She has served as Deputy Director in the Office of Legislative Liaison, Secretary of the Air Force; as executive officer to the Air Force Chief of Staff; and most recently as the Director of Logistics for Air Combat Command.

EDUCATION

1980 Bachelor of Science degree in dietetics, Michigan State University, East Lansing
1984 Master of Systems Management degree, Florida Institute of Technology, Melbourne
1984 Squadron Officer School, Maxwell AFB, Ala.
1992 Distinguished graduate, Air Command and Staff College, Maxwell AFB, Ala.
1996 Air War College, Maxwell AFB, Ala.
2003 National Security Management Course, Maxwell School, Syracuse University, N.Y.
2009 National Security Studies Program, Elliott School, George Washington University, Washington, D.C.

ASSIGNMENTS

1. November 1980 - April 1981, student, Aircraft Maintenance Officer Course, Chanute AFB, Ill.
2. April 1981 - May 1984, officer in charge, Maintenance Branch, 1st Equipment Maintenance Squadron; assistance officer in charge, 94th Aircraft Maintenance Unit; and officer in charge, 71st Aircraft Maintenance Unit, 1st Aircraft Generation Squadron, Langley AFB, Va.
3. May 1984 - July 1984, student, Squadron Officer School, Maxwell AFB, Ala.
4. July 1984 - November 1986, officer in charge, 58th Aircraft Maintenance Unit, and officer in charge, William Tell Maintenance, 33rd Aircraft Generation Squadron, Eglin AFB, Fla.
5. November 1986 - June 1991, Chief F-15 and F-5 Section, assistant executive officer and Weapon Systems

MAJOR GENERAL JUDITH A. FEDDER

Program Manager, Deputy Chief of Staff for Logistics, Headquarters U.S. Air Forces in Europe, Ramstein Air Base, Germany
6. July 1991 - June 1992, student, Air Command and Staff College, Maxwell AFB, Ala.
7. June 1992 - July 1995, maintenance supervisor, 46th Equipment Maintenance Squadron; Commander, 46th Component Repair Squadron; and Commander, 46th Equipment Maintenance Squadron, Eglin AFB, Fla.

8. July 1995 - June 1996, student, Air War College, Maxwell AFB, Ala.
9. June 1996 - May 1999, Chief of Manpower and Maintenance Policy, Deputy Chief of Staff for Installations and Logistics, and special assistant for Depot, Readiness and Logistics Programs, Office of Legislative Liaison, Secretary of the Air Force, Washington, D.C.
10. May 1999 - May 2001, Commander, 31st Logistics Group, Aviano AB, Italy
11. August 2001 - May 2003, Commander, 65th Air Base Wing, and Commander, U.S. Forces Azores, Lajes Field, Portugal
12. May 2003 - September 2005, executive officer to the Chief of Staff, Headquarters U.S. Air Force, Washington, D.C.
13. September 2005 - July 2006, Deputy Director of Legislative Liaison, Office of the Secretary of the Air Force, Washington, D.C.
14. July 2006 - January 2009, Commander, 76th Maintenance Wing, Oklahoma City ALC, Tinker AFB, Okla.
15. January 2009 - October 2010, Director of Logistics, Headquarters Air Combat Command, Langley AFB, Va.
16. November 2010 - present, Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, Headquarters U.S. Air Force, Washington, D.C.

SUMMARY OF JOINT ASSIGNMENTS
August 2001 - May 2003, Commander, U.S. Forces Azores, and Commander, 65th Air Base Wing, Lajes Field, Portugal, as a colonel

MAJOR AWARDS AND DECORATIONS
Defense Superior Service Medal
Legion of Merit with oak leaf cluster
Meritorious Service Medal with four oak leaf clusters
Joint Service Commendation Medal with oak leaf cluster
Air Force Commendation Medal
Air Force Achievement Medal

EFFECTIVE DATES OF PROMOTION
Second Lieutenant Nov. 20, 1980
First Lieutenant Nov. 20, 1982
Captain Nov. 20, 1984
Major Oct. 1, 1991
Lieutenant Colonel Feb. 1, 1995
Colonel May 1, 1999
Brigadier General April 10, 2006
Major General July 17, 2009

(Current as of November 2010)

NOT FOR PUBLICATION UNTIL

RELEASE BY THE

HOUSE ARMED SERVICES COMMITTEE

Statement of

Ms. Martha Smith

Director, Defense Finance and Accounting Service – Cleveland

before the

House Armed Services Committee

Panel on

Defense Financial Management and Auditability Reform

September 15, 2011

NOT FOR PUBLICATION UNTIL

RELEASE BY THE

HOUSE ARMED SERVICES COMMITTEE

Chairman Conaway and distinguished Members of the panel, my name is Martha Smith. I am the Director of the Defense Finance and Accounting Service (DFAS) Cleveland Center. Thank you for the opportunity to testify to you this morning.

I am here today to discuss the services DFAS provides for our military, the complexity involved in providing these centralized financial services and the ways we have garnered efficiencies for the Department of Defense (DoD). I will also discuss our efforts to get DFAS, as a service provider to the DoD, to an audit ready state by fiscal year 2017. Along those lines, I will also talk about our challenges, our progress and some of the lessons we have learned in supporting the Marine Corps during their recent audit.

In terms of our mission, DFAS provides payroll, commercial and travel payments, and financial reporting services for the military and its civilians. We also provide the summary-level financial reports that Congress uses to monitor the financial health of the Military Services. Through the years, DFAS has made major progress toward streamlining the preparation of these financial reports, but we still face challenges.

To prepare these reports, the Department has to work with hundreds of disparate systems that are not always efficiently interfaced with one another. And to complicate the process, we have a very short period of time to prepare the financial statements each month and ensure the summary total dollar values are correct for DoD appropriations. I would like to explain the complexity by detailing some sample processes from the beginning, through the compilation of the financial statements.

All financial reporting begins with a single transaction. That transaction may be produced in one of many ways. Some examples include: a Service member or DoD civilian employee recording their time and attendance on a sheet of paper (and entering it into one of

many time and attendance systems); a storekeeper buying supplies for a ship; a secretary buying supplies for the office; a traveler creating travel orders; a group of lawyers and contracting officials drafting up a multi-million dollar contract for a major weapons system; or a base Commanding Officer renting a facility, paying for utilities and buying uniforms.

In fiscal year 2010, we processed 169 million pay transactions with associated lines of accounting for the more than 6 million people we pay and the 156,000 contractors who support the Department each year. These lines of accounting are consolidated into the 1,129 active DoD appropriations, and each one of those transactions must be reflected in over 255 million general ledger accounts on the official accounting reports prepared by DFAS.

To illustrate some of the complexity of our processes, the current Black Hawk Helicopter program consists of three contracts, one for the production of new units and two for upgrades to existing helicopters. The program's funding is spread among the Army, Navy, Air Force and Foreign Military Sales (FMS). The program's total obligations currently exceed 10 billion dollars. Since the original contract award in 2000, we have made approximately 22,000 payments for nearly 7.8 billion dollars, and there have been almost 1,700 contract modifications.

Since fiscal year 2009 alone, DFAS has received approximately 211 invoices each month for disbursements that average about 188 million dollars. There are also 151 active delivery orders pending. We expect Black Hawk purchases to continue, and the current production contract to run through December 2012. As with most major weapons systems, we anticipate more modifications, and other contracts will most likely be awarded.

Like the Black Hawk disbursements, nearly all DoD transactions make their way to the 111 systems used by DFAS, many owned by the Services, but used by DFAS employees at our 10 sites. DFAS employees create or monitor the transactions in automated systems, validate

authenticity and accuracy, consolidate the transactions into reports, and validate the accuracy of those reports. Once originating transactions, such as time and attendance records or procurement transactions reach the DFAS doors, DFAS employees compute civilian pay for approximately 1.2 million federal government employees, military pay for about 2.3 million Service Members, and retired and annuitant pay for about 2.5 million retirees. We also pay 156,000 vendors and are responsible for reporting all of these transactions to Treasury. We have numerous transactions processed for us outside of DoD, such as State Department, General Services Administration, and others. DFAS is responsible for compiling those transactions into the DoD financial statements, as well.

In addition, we reconcile approximately 100 billion dollars worth of transactions, approximately 85 billion dollars in disbursements and 15 billion dollars in collections each month. We project DFAS will disburse approximately 668 billion dollars in fiscal year 2011. We consolidate all of this accounting information into monthly budget execution financial reports that are due to the Office of the Secretary of Defense on the 10th of each month.

The Services originally designed and operated the legacy systems we use to provide local-level management reports and summary-level information via trial balances to higher-level systems to departmental-reporting systems that prepared the financial statements. Over the years, some of the local processes were capitalized by DFAS, and the financial statement preparation shifted from the Military Services to DFAS. Added to that mix are new Enterprise Resource Planning (ERP) systems used by local-level commands to produce financial information related to their individual programs. The ERP systems provide a level of discipline and standardization to the local procurement process that is extremely beneficial to DOD's audit efforts. However, a massive amount of data is still fed into those ERP systems from the legacy

environment. This data equates to entitlements or dollars owed to individuals and contractors, dollars that are disbursed from other legacy systems, such as military pay, civilian pay and large multi-Service procurement efforts (such as the Mechanization of Contract Administration Services or MOCAS system).

DFAS either processes or has disbursing and Treasury reporting responsibility for most of the DoD entitlement transactions. Although we take this entitlement and disbursing responsibility very seriously, through our own audit efforts and those underway for the Marine Corps, we have learned that visibility and traceability of these entitlement transactions are an integral part of any audit. We are working to make sure our processes and these transactions are audit-ready by partnering with our customers to be able to trace transactions from the beginning of the process to our financial statements. Overall, we are working to make our processes and those of our customers audit ready by improving our transaction-level visibility and strengthening our internal controls.

DFAS efforts to standardize and strengthen internal controls began when we were created 20 years ago, with over 300 DFAS sites, 28,000 people and 300 systems that had previously been owned by the Military Services.

In 1991, we began strengthening our internal controls at those 300 field sites and then quickly decreased the number of sites to a manageable number and began to standardize day-to-day activities and improve or eliminate systems. We further reduced our footprint with the Base Realignment and Closure Act of 2005. We have consolidated many of those "field-level" accounting and finance functions with our financial reporting entities, so we can have a better opportunity to fix problems at the source.

At DFAS, our most valuable asset is our people, and we could not attempt to help our customers with their audit efforts without them. Over the last two decades, we've made investments to strengthen our workforce. We have implemented programs to attract and retain a professional workforce. We have seen a 15 percent increase in employees with college degrees since 2001; in fact, 85 percent of our accountants have degrees. We have seen an 88 percent increase in the number of Certified Public Accountants and Certified Management Accountants and a 322 percent increase in Project Management Professional certifications since 2007. DFAS is committed to providing our employees with the skills and abilities needed to not only perform the mission, but also to help our customers attain auditability. We have quite a bit of expertise in this area. DFAS has maintained an unqualified audit opinion for the past 11 years.

To support our customers in their audit efforts, we have mapped processes, implemented control points, tested internal controls and mitigated risks for many of the key processes impacting the financial statements. These efforts are still in process and in coordination with our customer's assertion schedules. We see the end product, resulting from the original transaction; we understand the implications to the accounting statements; and we are the source of information to improve the financial enterprise.

We use the overarching principles from the DoD Financial Improvement and Audit Readiness (FIAR) plan to ensure audit readiness is focused on:

- day-to-day activities, not a point-in-time event. We are working to institutionalize in our operations the processes, controls and behaviors to ensure that our day-to-day activities—processing payments, posting accounting transactions, etc.—will withstand auditor scrutiny.
- a proactive approach for correcting deficiencies before auditors perform audits. Our self-identified deficiency reporting process provides all employees the means to identify a deficiency and for management to create or execute action plans to correct those deficiencies. By doing so, we strive to reach the point where we identify and correct deficiencies internally before we undergo an audit. This also supports our efforts to institutionalize audit readiness in day-to-day activities.

- sustainable process improvements. We are focused on identifying root causes of problems and deficiencies and improving the processes, controls, etc. to prevent recurrence.

In addition to FIAR principles, DFAS has two primary goals to help the Department achieve audit readiness: first, to be prepared when customers assert on specific parts of their financial statements and second, to be prepared for examinations of the services we provide for our customers in conjunction with their assertion schedules.

First, we have established audit-readiness teams at each of our sites to support our customers as they prepare for assertions, audits and post audit. This customer-centric approach provides real-time support during pre-assertion preparation, support during an audit and will provide post-audit support. The team also assesses lessons learned and implements improvements.

Also, as part of our audit readiness efforts, we are establishing a Senior-level Steering Committee (SSC) to proactively implement process and control improvements in response to all lessons learned so we can reduce or eliminate the recurrence of the same findings in future audits. The SSC provides oversight and governance of project teams established to implement lessons learned enterprise-wide. Three project teams were established in fiscal year 2011 to address lessons learned by focusing on accounting adjustments, reconciliations and document retention. The objective is to limit our risk of encountering the same audit findings in future audits by:

- Establishing a structured "Audit Lessons Learned" framework to share lessons.
- Developing corrective action plans to ensure that root causes are addressed across DFAS.
- Monitoring corrective action plans to ensure timely implementation.

We are paying close attention to data integrity and system interface controls; updating process maps and narratives; identifying key controls and risks; and focusing on a strong

communication plan with the Services. Overall, for all of our customers, we are focusing on each interface involved in the transactions' journey through the myriad of systems involved in the entire process. We have implemented tools to provide auditors visibility of complete documentation in support of each transaction processed by DFAS. Our goal is to provide that documentation within 48 hours, and we are improving electronic document retrieval mechanisms to support this effort.

We continue to identify the reasons for discrepancies at the summary level, by tracking the transactions back to the source and either correcting the systems and their interfaces or helping to train our customers on the appropriate process. We have made progress in this area, but we have much to do and are coordinating our efforts in conjunction with the Services' assertion criteria and timelines. As an example, we have created an integrated plan with the Navy, listing our necessary steps to achieve auditability, such as appropriate reconciliations, systems enhancements, transaction testing and improvement initiatives.

In support of our second DFAS goal, DFAS is preparing to undergo examinations of our centralized processes, such as civilian pay, used by all Military Services. This single audit of services will provide customers and auditors a level of assurance that our processes, systems and controls are operating as intended across the Department and other federal agencies. The single audit approach is also cost effective because it eliminates the need for multiple audits of the same process. Recently, DFAS completed an assertion on a portion of our Civilian Pay processes and the Defense Civilian Payroll System and is contracting for an audit of the assertion in fiscal year 2012.

DFAS is walking in concert with our customers, expediting improvement initiatives, addressing systems challenges and moving toward audit readiness and the goals established by

DoD and Congress. We are making progress, managing responsibly and successfully moving toward financial auditability. Our financial management workforce is well-trained to ensure compliance with financial laws, regulations and processes. The support of our senior-most leaders, involvement of every employee in the process and the continued collaboration with our customers are all keys to our success.

Chairman Conaway and distinguished Members: Thank you for your time today. I look forward to your questions.

Martha Smith, Director, DFAS Cleveland

Martha Smith is the Director of the Defense Finance and Accounting Service (DFAS) Cleveland. In this capacity, she is responsible for the delivery of DFAS Cleveland services and leads the efforts of more than 2,600 accounting and finance personnel for the Department of Defense. She also oversees the activities of the DFAS Japan network site.

DFAS Cleveland personnel pay the operational expenses for the U.S. Navy and Marine Corps. The site provides pay support to 4 million people, including active duty, reserve and civilian employees of the Navy, Marine Corps, Department of Energy, Health and Human Services and the Broadcast Board of Governors, as well as military retirees and annuitants from all four Service branches. DFAS Cleveland processes over 70 percent of all DFAS disbursements totaling approximately $28 billion a month.

In February 2010, Ms. Smith led the transition of DFAS Retired and Annuitant Pay to an in-sourced function after more than eight years of outsourcing to a private-sector company. The new organization maintained production and met all payment schedules, delivering timely and accurate payments to nearly 2.7 million military retiree and annuitant customers. Ms. Smith currently oversees preparation for the Marine Corps audit, which is the first-ever financial audit of a Department of Defense Service-related entity.

Ms. Smith has 28 years of federal government experience. She was the deputy director of Commercial Pay Services at DFAS Columbus, Ohio, from February 2003 until her current appointment in January 2006.

Previously, she served as the director of Contract Pay Services with the Commercial Pay Business Line at DFAS Columbus; as the director of Air Force Working Capital Fund Reporting at DFAS Denver; and as the director of General Fund Accounting Services at DFAS Charleston, S.C. Prior to that, she was the deputy director for Plans and Management at DFAS Cleveland.

Ms. Smith began her professional career as a Defense Department civilian employee at the Naval Construction Battalion Center, Port Hueneme, Calif. as a systems accountant.

She is a member of the American Society of Military Comptrollers and a past Chairperson of the Cleveland Federal Executive Board.

A native of Easton, Calif., Ms. Smith earned a Bachelor of Science degree in accounting from California State University, Fresno. She is currently participating in the Masters in Business Administration program at Capella University.

Ms. Smith was inducted into the Senior Executive Service on February 5, 2003.

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

SEPTEMBER 15, 2011

QUESTIONS SUBMITTED BY MR. CONAWAY

Mr. CONAWAY. Your testimony stated the Army will achieve $8 billion in savings through the fielding of the Global Combat Systems Support–Army (GCSS–A) program. Please explain when and how you will realize these savings.

General STEVENSON. Eight billion dollars is the value of the estimated net benefits from implementing GCSS–Army. Net benefits are the difference between total benefits and the cost of developing, implementing and sustaining GCSS–Army between now and 2027. Net benefits include inventory reductions, reparables tracking, costs of reorder (acquisition costs), legacy systems operation and upgrades and productivity enhancements. Benefits slowly begin to be accrued in 2013, with a rapid increase beginning in 2017 (when legacy systems are shut down) and break even in 2019.

Mr. CONAWAY. In his testimony, Lieutenant General Mitchell Stevenson indicated the U.S. Army expects to generate $8 billion in net savings between 2017 and 2027 with the implementation of the Global Combat Support System–Army (GCSS–Army). He noted that the savings come from a number of different locations, such as reductions in inventory, re-order costs, and excess orders and increased efficiencies (e.g. eliminating the need to perform reconciliations between stovepipe systems). This situation is not unique to the U.S. Army. What financial benefits/costs savings does your Service expect to generate as a result of implementing ERPs? Please explain what additional tangible benefits you expect to see as a result of using ERPs.

Admiral ARCHITZEL. The Navy has conducted extensive analysis of realized and expected benefits due to the implementation of Navy Enterprise Resource Planning (N–ERP). Our analysis has resulted in quantifiable inventory reduction and legacy system retirement metrics. In addition to metrics that can currently be quantified with a high degree of confidence, the Navy also expects to realize tangible benefits from N–ERP in terms of enabling and sustaining cost effective audit readiness through improved financial controls by FY 2017.

Inventory Savings across the FYDP (FY12–17) equal $276M. Savings have been documented in PBIS as a Navy Working Capital Fund reduction. Inventory Cost Avoidance Post FYDP (FY18–23), defined as costs that would have been incurred, but will be avoided as a result of Navy ERP, equal $456M. (See attachment 1 on page 60.)

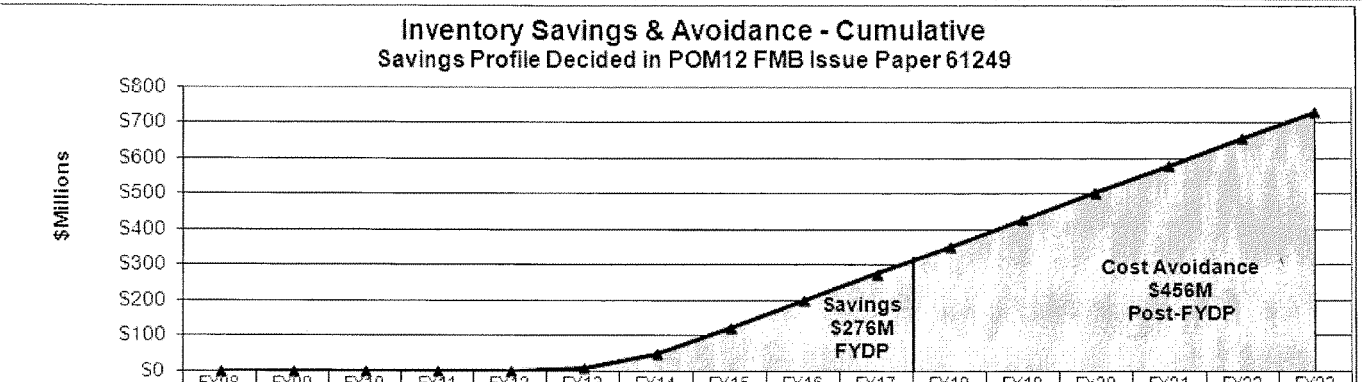
Legacy System Retirement Savings across the FYDP (FY12–17) equal $350M. Savings have been documented in PBIS as a Navy Working Capital Fund Reduction. Legacy System Retirement Cost Avoidance across the FYDP (FY12–17), defined as costs that would have been incurred, but will be avoided as a result of Navy ERP, equal $436M. Legacy System Retirement Cost Avoidance Post FYDP (FY18–23), defined as costs that would have been incurred, but will be avoided as a result of Navy ERP, equal $618M. (See attachment 2 on page 61.)

Total Savings from Inventory Reduction and Legacy System Retirement: $626M Total Cost Avoidance from Inventory Reduction and Legacy System Retirement: $1,510M Total Savings & Cost Avoidance: $2,136M

NAVSUP

NAVAL INVENTORY CONTROL POINT

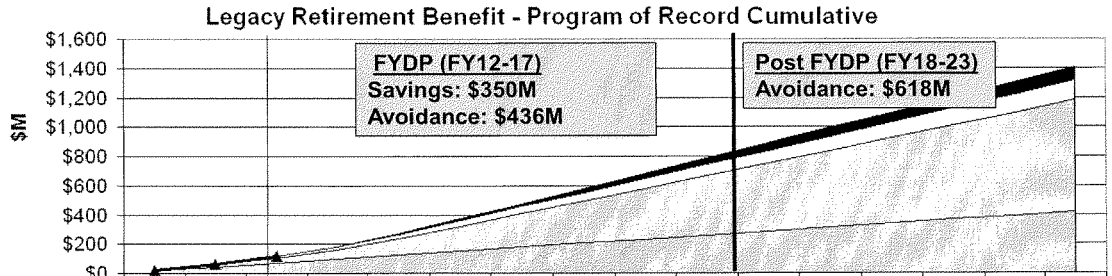
NAVSUP Inventory Savings



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
NAVSUP	$0	$0	$0	$0	$0	$10	$48	$124	$200	$276	$352	$428	$504	$580	$656	$732
Realized to Date	$0	$0	$0	$0	$0	$10	$48	$124	$200	$276	$352	$428	$504	$580	$656	$732

Cost Savings/ Avoidance - Cum	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
NAVSUP	$0	$0	$0	$0	$0	$10	$48	$124	$200	$276	$352	$428	$504	$580	$656	$732
Realized to Date	$0	$0	$0	$0	$0	$10	$48	$124	$200	$276	$352	$428	$504	$580	$656	$732

Metric 14.2
Legacy System Retirement Benefit



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
SSP	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
ONR	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NAVSEA	$0.0	$0.2	$0.4	$0.7	$7.7	$13.0	$20.4	$28.0	$35.7	$43.3	$51.0	$58.6	$66.3	$74.0	$81.6	$89.3
SPAWAR	$0.0	$0.6	$8.1	$17.9	$27.6	$37.3	$47.1	$56.8	$66.5	$76.3	$86.0	$95.8	$105.5	$115.2	$125.0	$134.7
NAVSUP	$0.0	$16.4	$35.7	$64.5	$112.2	$171.2	$230.2	$289.3	$348.3	$407.3	$466.3	$525.4	$584.4	$643.4	$702.5	$761.5
NAVAIR	$18.5	$45.2	$71.9	$98.6	$125.2	$151.9	$178.6	$205.3	$232.0	$258.7	$285.4	$312.1	$338.7	$365.4	$392.1	$418.8
Realized to Date	$18.5	$62.3	$116.1													

Cost Avoidance - Annual	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
NAVAIR	$18.5	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$26.7	$418.8
NAVSEA	$0.0	$0.2	$0.2	$0.3	$7.0	$5.3	$7.3	$7.6	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$89.3
NAVSUP	$0.0	$16.4	$19.4	$28.8	$47.7	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$59.0	$761.5
SPAWAR	$0.0	$0.6	$7.5	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$9.7	$134.7
ONR																	
SSP																	
TOTAL	$18.5	$43.8	$53.7	$65.5	$91.1	$100.8	$102.6	$103.1	$103.1	$103.1	$103.1	$103.1	$103.1	$103.1	$103.1	$103.1	$1,404.3

Navy ERP Benefits WG, 18 Oct 10 NESIB

Mr. CONAWAY. In his testimony, Lieutenant General Mitchell Stevenson indicated the U.S. Army expects to generate $8 billion in net savings between 2017 and 2027 with the implementation of the Global Combat Support System–Army (GCSS–Army). He noted that the savings come from a number of different locations, such as reductions in inventory, re-order costs, and excess orders and increased efficiencies (e.g. eliminating the need to perform reconciliations between stovepipe systems). This situation is not unique to the U.S. Army. What financial benefits/costs savings does your Service expect to generate as a result of implementing ERPs? Please explain what additional tangible benefits you expect to see as a result of using ERPs.

General FEDDER. We expect to realize approximately $2.84B in net savings from our ERP investments over the period from 2017–2027. Like the Army, savings will come from a number of business elements. Savings come from eliminating thousands of system interface requirements and hundreds of system modernization efforts. The Air Force will reduce or eliminate contract support requirements, maintenance costs, and upgrades for hundreds of core legacy systems that are technically obsolete, not well integrated, lack necessary internal controls, are costly to operate, and drive manual rework and reconciliation. By reducing the amount of time Airmen spend on administrative processes, more time will be available to devote on tasks directly supporting the warfighter.

The AF has three ERPs that are part of our target environment. These are the Defense Enterprise Accounting and Management Systems (DEAMS), the Expeditionary Combat Support System (ECSS), and the Air Force Integrated Personnel and Pay System (AF–IPPS). DEAMS provides the Air Force with a transaction-based general ledger, which is the foundation for auditable financial statements and replaces nine legacy systems. This capability enables accurate and timely financial statements, accurate budget forecasting, and enhances our ability to reduce unliquidated obligations and accounts receivable by $1.67B from 2017–2021. ECSS will streamline the supply chain management process in the Air Force and is scheduled to replace 240 legacy core logistics and financial systems and 564 interfaces with an estimated 10-year net benefit of $0.67B. ECSS savings estimates have been revised downwards as a result of current program performance, and may increase with successful program implementation. AF–IPPS will serve over 500,000 military members via a single, seamless personnel and pay solution for the Air Force's Active Duty, Reserve, and Guard components. AF–IPPS will retire 20 legacy information technology platforms, and save more than $0.5B in system operation costs during the lifecycle. AF–IPPS will reduce today's 85,000 annual pay cases by 75% and improve payroll timeliness from 93% to 97%.

Mr. CONAWAY. As the agency that provides financing and accounting services to the Department of Defense, the Department's transfers to ERPs has a direct impact on DFAS and its ability to do its job.

a) What challenges are DFAS experiencing as a direct result of the Department's transitions to ERPs?

b) What is DFAS doing to address these challenges?

c) On the other hand, what benefits/costs savings has DFAS seen and expect to see as a result of the ERPs being implemented by the military services?

Ms. SMITH. a) DFAS is working diligently with the Military Services and Defense Agencies to implement the Enterprise Resource Planning (ERP) systems. Full software maturity is an evolutionary process and the ERP "out-of-the-box functionality" in many cases does not include the full operational capability of the legacy systems being replaced. Legacy systems matured over decades to reach full operational capacity. Similarly, incremental product enhancements are needed within the ERP environment to reach full capability. As one of many users of the ERP systems, DFAS is operating within risk tradeoff decisions that the ERP functional sponsors and Programs Managers (PM) must make regarding cost, schedule, and performance. When performance risk is accepted for cost and schedule priorities, operational users experience ERP implementations that do not effectively meet mission needs or are easily integrated into current operational business practices. ERP systems can also inadvertently reinforce the organizational status quo, rather than contribute to significant organizational change when implemented due to cost, schedule, and scope constraints. Finally, regardless of the amount of planning, testing, and Business Process Reengineering (BPR), challenges are not always realized and correctable until the system is in production. Coupled with the risk tradeoffs are the challenges of both complexity and size of the DOD. The DOD involves complex functions to execute its mission, creating a vast scope to deliver full operational capability. DFAS challenges arise when not all mission essential capabilities of the legacy systems are included by the ERP at implementation, thereby requiring the sustainment of legacy

systems concurrently with ERPs. Another contributing factor is that FM requirements are only one of the ERP capabilities and priorities being implemented. There are many sets of requirements competing for priority: Human Resources, Acquisition, Real Property, Logistics, Personnel & Readiness, and FM. When FM requirements are not met, system capability gaps exist. To address these gaps, DFAS utilizes manual workarounds or other interim processes pending the identification, prioritization, and implementation of the needed FM requirements.

b) To tackle these challenges, DFAS continues to create better ways to conduct business and improve the efficiency and effectiveness of ERPs. DFAS is identifying essential information required for the successful integration of the ERP systems into the DFAS mission during and post-implementation of ERP systems. For each system implementation, DFAS is coordinating, collaborating, and integrating with the ERP Program offices to identify, and prioritize functions and processes to increase the efficiency of the ERPs. DFAS advocates end-to-end testing (E2E) methodology to ensure system interoperability, verifying the overall process is integrated and flows correctly throughout the systems. In ERP post-implementation environments, Joint Solutions Teams (JSTs) are established to create and manage a centrally maintained database of DFAS ERP post-implementation issues and lessons learned, with a goal to develop shared solutions to common problems. The intent is to also define and articulate DFAS' priorities for future system development and to concentrate on resolving issues that will provide the largest return for DFAS and its customers. Common DFAS issues identified across an application (e.g., SAP, ORACLE, etc.) can also be elevated directly to ERP software vendors to elicit a vendor-based solution, such as the current 3 percent income tax withholding mandate. In addition, there are also post-implementation opportunities to optimize the ERP systems to both maximize inherent system capabilities and facilitate process improvements. DFAS is focusing on ERP optimization to perform BPR, implement incremental product enhancements to the ERP systems, and leverage additional features within the applications to enable business transformation. This effort goes hand in hand with the culture of process improvement embedded within DFAS. ERP systems are very complicated software packages that support entire organizational activities, and DFAS is working in collaboration with our customers to address these system challenges and move forward.

c) To date, the benefits that DFAS has seen include increased and strengthened internal controls, improved business practices, and increased reliability of financial data. The ERPs have standardized and streamlined our business processes, provided a single source for financial management information, and increased transparency and accuracy of transaction level data allowing for more timely and better decision making. Through these implementations, DFAS, in partnership with our customers, has made progress towards changing our systems, processes, and workforce to move us closer to improving financial management practices across DOD and achieving audit readiness. As ERPs continue to be fielded, we expect to achieve the benefits of integrating business applications and functions to provide consistent, single source data which can be traced and validated from the beginning of the transaction entry to the financial statements. Other benefits include more efficient and streamlined business processes, increased compliance with the Federal Financial Management Improvement Act (FFMIA including uniform use of the United States Standard General Ledger (USSGL), and implementation of Standard Financial Information Structure (SFIS) a common business language to support information and data requirements for budgeting, financial accounting, cost/performance management, and external reporting across the DOD enterprise. ERPs provide more efficient data collection capabilities and an infrastructure to support more timely responses to auditor's data requests, and standardized financial reporting across DOD, thereby reducing the cost of auditability. In the future years, we expect to realize cost savings from legacy system retirements. DFAS, in conjunction with our customers, will continue to embrace the challenges and opportunities that exist with implementing new systems and maximize the benefits derived in order to reach the goal of financial improvement and auditability.

○