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S. HRG. 112–658

FINANCIAL MANAGEMENT AND BUSINESS TRANSFORMATION AT THE DEPARTMENT OF DEFENSE

HEARING

BEFORE THE

SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

APRIL 18, 2012

Printed for the use of the Committee on Armed Services

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

U.S. GOVERNMENT PRINTING OFFICE

77–485 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
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FINANCIAL MANAGEMENT AND BUSINESS TRANSFORMATION AT THE DEPARTMENT OF DEFENSE

WEDNESDAY, APRIL 18, 2012

U.S. SENATE,
SUBCOMMITTEE ON READINESS AND
MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:35 p.m. in room SD–G50, Dirksen Senate Office Building, Senator Claire McCaskill (chairman of the subcommittee) presiding.

Committee members present: Senators McCaskill, Manchin, and Ayotte.

Majority staff members present: Peter K. Levine, general counsel; and Jason W. Maroney, counsel.

Minority staff members present: Pablo E. Carrillo, minority general counsel; Lucian L. Niemeyer, professional staff member; and Bryan D. Parker, minority investigative counsel.

Staff assistants present: Jennifer R. Knowles, Kathleen A. Kulenkampff, and Mariah K. McNamara.

Committee members' assistants present: Stephen Hedger, assistant to Senator McCaskill; Mara Boggs, assistant to Senator Manchin; and Brad Bowman, assistant to Senator Ayotte.

OPENING STATEMENT OF SENATOR CLAIRE MCCASKILL, CHAIRMAN

Senator MCCASKILL. The Senate Armed Services Committee Subcommittee on Readiness and Management Support will begin this hearing.

This is a hearing that we do on an annual basis. Some have likened it to going to the dentist and having your teeth drilled. As I said to the staff as I walked in, this is the kind of hearing that people who love wonky should really gravitate towards, because this is a subject matter that clearly is complicated, and difficult, and in some ways tedious, but it is obviously going to take a great deal of tenacity, which I know our military is capable of, in terms of getting this right. This is our annual effort to look at the financial management and business transformation at the Department of Defense (DOD).

We are pleased to be joined by the Comptroller today—and I appreciate that—the DOD Deputy Chief Management Officer (CMO), and the CMOs and Chief Financial Officers (CFO) of all three mili-

tary departments—I think we have one missing because of an injury, but we understand that—and the Director of Financial Management and Assurance at the Government Accountability Office (GAO).

This witness list makes for a long witness table. In fact, we had to change rooms to accommodate all of you. However, with both the CMOs and the CFOs present, we have the full range of senior officials responsible for DOD financial management and business transformation before us at one time. This would not have been possible as recently as 5 years ago because DOD was unable to tell us who the responsible officials were.

I am particularly pleased by the presence of the Service Under Secretaries today, which reflects both their personal commitment to the issues of financial management and business transformation, and the positive impact that our legislation establishing them as the CMOs of their departments has already begun to show.

Welcome to all of you and thank you for your participation in this important hearing.

Last October, the Secretary of Defense announced that he had directed DOD to accelerate its schedule to achieve audit readiness for its Statement of Budgetary Resources (SBR), moving the deadline from fiscal year 2017 to fiscal year 2014. Secretary Panetta stated that "we owe it to the taxpayers to be transparent and accountable for how we spend their dollars" and acknowledged that this will require DOD to change the way it does business. I could not agree with him more.

It will not be easy for DOD to meet the 2014 deadline. Even as the military departments have accelerated milestones for future years in an effort to meet the new requirement, DOD's most recent update on its Financial Improvement and Audit Readiness (FIAR) plan indicates that it has fallen behind on a number of milestones that were supposed to be achieved this year.

In the past, DOD has relied heavily on the fielding of Enterprise Resource Programs (ERP) to achieve auditability. This approach has always been problematic both because of DOD's dismal track record in fielding new business systems, and because new business systems alone will never solve the financial management problems without accompanying changes to business processes, internal controls, and culture.

The 2014 deadline makes it difficult, if not impossible, for DOD to continue to rely on ERPs to solve its management problems. Senior Air Force officials have already acknowledged that they will not be able to rely on ERPs to meet the 2014 deadline since the three Air Force ERPs are not scheduled to be fully deployed until 2016 and 2017. The Army and Navy plan to field their core financial ERPs in 2012 and 2013—but other critical Army and Navy systems, including the Integrated Pay and Personnel System (IPPS)-Army, Global Combat Support System (GCSS)-Army, IPPS-Navy, and GCSS-Marine Corps—are not scheduled to be fully deployed until 2017 or do not yet even have deployment dates established.

DOD's inability to rely on ERPs as a cure-all for its financial management problems could result in lasting improvements if DOD seizes this opportunity to refocus its attention on needed changes to underlying business processes and internal controls. If DOD con-

ducts end-to-end analyses of its business processes, identifies needed internal controls, and makes the cultural and process changes required to implement those controls, it should be able to make real progress towards sound financial management even before the fielding of new ERPs.

If, on the other hand, it relies on one-time fixes and manual work-arounds in an effort to meet the 2014 deadline, it could spend significant amounts of money without addressing the underlying financial management problems. Even worse, if DOD pushes for audit reviews before its systems and processes are ready, it could spend huge sums to hire an army of auditors without moving any closer to a long-term solution.

I hope we will hear a commitment from our witnesses today to focus on needed changes to DOD's business systems and culture and to avoid a short-term fix that could delay rather than expedite the real objective of developing timely, accurate data on which sound management decisions can be based.

If we fail to address this issue, DOD will remain at risk of sending the wrong paychecks to soldiers in the field, wasting taxpayers' money on improper payments and overdue bills, being unable to account for billions of dollars in funding, and making critical management decisions on the basis of unsupportable financial information. Sound business processes and good data are critical to our efforts to provide efficient management, save money, and ensure accountability at DOD. We simply have to do better.

I now will turn it over to Senator Ayotte for a statement, if she would like to make any opening remarks.

STATEMENT OF SENATOR KELLY AYOTTE

Senator AYOTTE. Thank you very much, Madam Chair.

I want to welcome our witnesses for being here today and thank them for their hard work.

This is our annual hearing on the defense financial management and business transformation in as many years, and I commend you. I want to commend the chairman for continuing to make better financial stewardship at DOD a significant and major priority for this important subcommittee.

Today's hearing drives at the heart of the fiscal crisis we face as a Nation: how the Federal Government spends taxpayers' dollars. We must closely scrutinize spending at every Federal agency, including DOD, to identify and eliminate waste and duplication. However, as I have said in the past, we must ensure that budget cuts at DOD do not undercut our warfighters or endanger our readiness for future contingencies. To distinguish between necessary budget cuts and cuts that would harm our troops and damage military readiness, we must have reliable financial data and effective business processes and systems. Every wasted dollar is a dollar we deprive our warfighters of as they seek to protect and defend our country.

A recent finding by GAO illustrates how important it is to reform financial management at DOD and how DOD does business. According to the GAO report released just last month, the total acquisition costs of DOD's 96 largest weapons procurement programs grew by over $74 billion, or 5 percent, just over last year's

amounts. In the midst of our Nation's fiscal crisis and tightening defense budgets, we can—and must—do better.

One specific area of financial management that should be reformed relates to the proliferation of requests to transfer funds among defense accounts. I appreciate that DOD needs the budgetary flexibility to respond to emergent, higher-priority needs for our warfighters engaged in hostilities. But we have been seeing a migration of funds for new, unauthorized programs not tied to the war and a frenzy in the last 30 days of the fiscal year to spend taxpayers' funds before they expire, regardless of the urgency of the requirements that the money is being spent on. Neither of these trends are conducive to a healthy, transparent financial management system and must be addressed in an era of declining defense budgets.

To his credit, shortly after taking office, Secretary Panetta elevated financial management at DOD to make it a priority. Secretary Panetta directed DOD to cut in half the time it would take to achieve audit readiness of a key financial statement, the SBR. I fully support this goal which would achieve an audit-ready SBR by 2014.

In fact, I introduced legislation last year that would have required by statute that DOD meet this goal. That is how important I think it is. My proposal passed the Senate Armed Services Committee and the Senate unanimously but was, unfortunately, not included in the final conference report. I hope we can revisit this important priority this year in the National Defense Authorization Act (NDAA), and I certainly plan to bring this forward.

From our witnesses, I would like to hear their assessments of whether each of the Services is on track to meet the 2014 goal. I am particularly interested in getting an update on the Air Force's progress on this because we know that the Air Force has had some difficulty on this particular aspect of meeting the audit readiness goal of 2014 for the SBR.

I am also interested in hearing about DOD's efforts to ensure that steps being taken now to achieve auditability will be repeatable in future years. Spending billions of dollars for a one-time effort to achieve auditability that cannot be used in the future makes absolutely no sense. We want to be able to use this information year-to-year and make it valuable for you. Such a short-sighted approach would waste billions of dollars and not solve DOD's longer-term financial issues.

While much work remains to achieve the ultimate goal of full audit readiness for 2017, DOD has achieved some encouraging progress, and I want to commend you for that. Notably, some of DOD components, including the Army Corps of Engineers, have received clean audit opinions. By contrast, the Marine Corps received a qualified audit opinion of its SBR from the DOD Inspector General (IG). It is imperative that those DOD components work toward clean opinions like the Marine Corps. We would like to see, of course, across the Services, that we leverage the lessons learned from other organizations within DOD that have succeeded to make sure that every branch succeeds.

In testimony before Congress over the last few months, the DOD IG has maintained that three problem areas must be resolved be-

fore DOD will be able to meet its audit readiness goals in 2014 and in 2017. They include: the quality of DOD's financial management data, weaknesses within its internal controls, and implementation of its ERPs. I agree with the DOD IG's overall observation and would certainly like our witnesses to address each of these areas.

One area I would like to focus on is the DOD's procurement of ERP systems, automated systems that, as the chair has described, perform a variety of important business-related functions crucial to meeting the goal of audit readiness. Both GAO and the DOD IG have repeatedly reported that these new systems, some of which cost billions of dollars to develop and deploy, lack elements that are critical to producing auditable financial statements such as a standard set of accounts that match the United States standard general ledger. This requires manual work-arounds which increases the risk of human error and further degrades the quality of DOD's financial management data.

DOD must successfully reengineer its inefficient business processes and implement these ERPs in a way that allows it to realize their intended benefits. Otherwise, it will do little else than line the pockets of the contractors hired to integrate these ERPs into DOD and will not reach our goal of achieving audit readiness.

With a $1.3 trillion deficit this year, we cannot accept the status quo with respect to DOD or anywhere in our Federal Government. With at least $487 billion and up to a trillion in defense reductions being looked at by this committee and by Congress and perhaps implemented over the next decade, we cannot afford to do without the reliable financial management data needed to help us distinguish between defense budget cuts that are necessary and those that may endanger our national security.

Madam Chair, clearly there is much to discuss today, and so I thank you so much for convening this hearing. Again, I want to thank the witnesses for being here.

Senator MCCASKILL. Senator Manchin, would you like to make a comment?

Senator MANCHIN. I am ready for the witnesses.

Senator MCCASKILL. Great. Let me go through the list of witnesses and then I will defer to each of you to decide who wants to testify on behalf of each Service. I certainly would want to start with Robert F. Hale, the Under Secretary of Defense, Comptroller. But we have here today from the Air Force, Mr. David Tillotson III, who is the Deputy CMO of the Air Force, and the Honorable Jamie M. Morin who is Assistant Secretary of the Air Force of Financial Management and Comptroller. We have from the Army, the Honorable Mary Sally Matiella, Assistant Secretary of the Army, along with the Honorable Joseph W. Westphal, the CMO for the Army. We have Elizabeth A. McGrath who is the Deputy CMO at DOD. From the Navy, we have the Honorable Robert O. Work, the CMO of the Navy, along with the Honorable Gladys J. Commons, the Assistant Secretary of the Navy. From GAO, all by himself, we have Mr. Asif A. Khan, the Director of Financial Management and Assurance for GAO.

I thank you all for being here, and I will defer to you, Secretary Hale, to begin this process and then to defer to your colleagues in

whatever order you think is appropriate for us to move through the various branches for their testimony.

STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Mr. HALE. Chairman McCaskill, Senator Ayotte, Senator Manchin, members of the subcommittee, let me thank you for the opportunity to talk about improvements in defense financial management, in particular audit readiness. Let me say at the outset this issue is important to me. If that makes me a wonk, well then, so be it. It is something we need to do. I know that and I think everybody at this table agrees.

Ms. McGrath and I have submitted a joint statement and we will now summarize it jointly for you.

It has been 8 months since our last status report. In that time, we have continued efforts across DOD. The job is not done, I think GAO's report makes that clear. But I believe we are on the right track. I think we are making progress and at a faster rate, and I am reasonably confident that we will meet our goals.

This audit effort is important for two reasons. First, we need a clean audit to ensure that managers have accurate financial information to make these important decisions. But second—and I think the most important thing—we need to reassure the public and Congress that we are good stewards of the public funds.

Today we can account for funds appropriated to us but not to an auditable standard. To reach that goal, more than 2 years ago, we put in place a new focused strategy. The strategy concentrates first on the information that defense managers most use to manage budgetary information and accounts and determine location of assets. That strategy has been endorsed by GAO. It is supported, I believe, at all levels of DOD.

We also have in place a governance structure and you have before you today many of the senior leaders who provide that governance. Despite lean budget times, we have put aside adequate funds to meet audit needs throughout our 5-year budget planning period. Now we need to execute. We have to carry out that strategy, and I think it is happening.

Let me highlight a few of our accomplishments over the last year. I will focus on DOD-wide accomplishments because I want to leave to my Service colleagues the many activities that they have undertaken.

The key event in the last year was clearly Secretary Panetta's personal endorsement of the audit effort. At that time, he accelerated to 2014 our goal for the SBR for general funds. His endorsement has been a game-changer. It has opened doors I never expected to be opened, and we need to find ways to leverage that endorsement in every way we can. I brief him periodically at his staff meetings, and although a lot of things, from Syria to North Korea are on his mind, he always focuses when I bring up this topic.

As more field level managers become involved, we are moving to tell them what needs to be accomplished. The Services have already done a lot. They are in the process of sending out now a checklist to all our commanders that lists the basic actions that they need to take.

We are also developing a course-based certification program for defense financial management professionals. One of the goals of that is to improve audit training. Since our program was last announced, we have made a fair amount of progress. We will have pilots out this year, large-scale implementation next year. We are grateful to Congress for providing the legislative authority that we needed in the NDAA for Fiscal Year 2012.

We have also introduced a specific training program in audit readiness and more than 1,000 DOD personnel took that program last year.

We are working to ensure that the defense agencies have effective programs leading to auditability of their SBRs. These agencies account for almost 20 percent of our budget. We will never be audit-ready without them, and so we need to bring them along with the military departments.

We have also worked to ensure that the agencies that provide needed services are pursuing audit efforts. The Defense Finance and Accounting Service (DFAS) is particularly important, but the list of key service providers includes the Defense Logistics Agency, the Defense Contract Management Agency (DCMA), the Defense Contract Audit Agency (DCAA), and others.

We are partnering with other key functional areas. Here is one case where Secretary Panetta's endorsement has helped a lot to get other senior personnel involved. Our human resources personnel, for example, are working to help us solve audit issues in their areas, including some of those highlighted by GAO in their recent audit of Army military personnel.

The efforts are bearing fruit. You mentioned some audits that we have already achieved. The Army Corps of Engineers, DFAS, the Defense Commissary Agency (DeCA), the DCAA, all have audit opinions. The Defense Information Systems Agency recently achieved a clean opinion on $6.6 billion of their working capital funds. The TRICARE Management Activity received an unqualified opinion on last year's statements.

There have also been many key Service-specific initiatives, and I want to leave them to my colleagues.

To achieve and sustain financial management improvement, we have to change our business practices. We are with you there and we are doing it. But we need better financial systems as well, especially to sustain this effort at a reasonable price.

So let me now ask Beth McGrath, the DOD's Deputy CMO, to complete our joint oral statement by describing our system efforts.

STATEMENT OF HON. ELIZABETH A. MCGRATH, DEPUTY CHIEF MANAGEMENT OFFICER, DEPARTMENT OF DEFENSE

Ms. MCGRATH. Thank you.

Like Mr. Hale, I appreciate your personal engagement in, and oversight of, these important issues.

Like the private sector, DOD is focused on smarter, leaner, knowledge-based management and optimization of both processes and technology. Our efforts to improve financial management and achieve auditability are part of this broader effort to improve our business operations and deliver maximum value to the warfighter and the taxpayers.

Since we last testified before this panel in July of last year, we have taken a number of steps to improve our overarching business environment. Our strategic management plan reflects business initiatives, including audits, each with specific goals, metrics, and milestones so that progress may be tracked. To enable the successful execution of these initiatives, we have developed a map which highlights interdependencies among them.

Additionally, we continue to evolve the business enterprise architecture by further defining across functional and end processes, adding additional standards that enable interoperability, and improve usability.

With regard to systems, we acknowledge that there have been and continue to be challenges with many of our business system implementations. However, to improve business operations, we must transition away from labor-intensive, paper-based, siloed processes to more streamlined technology-enabled approaches.

In that regard, I wish to highlight a number of ongoing efforts.

Our streamlined approach to acquisition of business information technology continues to be implemented across DOD. We are implementing and have implemented better and more performance-based measures that monitor system development and implementation progress.

We continue to emphasize business process reengineering for every business system that is seen before the Defense Business Systems Management Committee. We have greater connectivity to the overarching information technology (IT) infrastructure that enables the most efficient and secure execution of DOD's IT missions.

We have also employed tighter controls on spending, that both limit the government's liability on poor-performing programs and also enable IT rationalization through portfolio-based analysis. To that end, we appreciate the inclusion of section 901 of the 2012 NDAA, enabling integrated governance for our entire portfolio of business systems for a single investment review board.

In summary, DOD continues to pursue and adopt a mission-focused, outcome-driven business management culture of continuous change and improvement.

We look forward to your questions.

[The joint prepared statement of Mr. Hale and Ms. McGrath follows:]

JOINT PREPARED STATEMENT BY HON. ROBERT F. HALE AND HON. ELIZABETH A. MCGRATH

Chairman McCaskill, Senator Ayotte, and members of the subcommittee, thank you for the opportunity to provide you with an update on our efforts for improving financial operations at the Department of Defense (DOD).

It has been approximately 8 months since our last status report to this subcommittee. In that time, we have continued to solidify plans and to make progress in financial management across the entire Defense organization. The job is not yet done, and there are still major challenges that we face, as highlighted in recent Government Accountability Office (GAO) reports, but we are confident that we are on the right track.

There are two critical reasons for striving to make DOD as efficient and effective as possible. One is to ensure that America's service men and women have everything they need to defend the United States and its interests around the world. The other reason is to satisfy our duty as stewards of the resources entrusted to us by the taxpayers.

Today, DOD is able to account for the funds that are appropriated for its use by Congress, but—unlike most other government agencies—we cannot yet account for those funds to an auditable standard. The explanation has much to do with the unique size and mission of DOD and its elements. Moreover, until fairly recently, there has been neither sustained attention nor a DOD-wide plan that could be implemented. Today we have both and are moving forward, as you should expect. As the people's elected representatives, you are entitled to know that DOD strives to meet the same exacting standards for financial management as other major government organizations.

SETTING THE FOUNDATION

Achieving this important objective at DOD is no routine task. It requires an enterprise-wide response and an effective strategy. Initially, DOD's approach varied by Military Service and often concentrated on improving the kind of information that is helpful in managing a private sector company—that is, the "book value" of assets. In fact, this sort of information is of very limited value in meeting the daily informational needs of DOD managers. As a result, in August 2009, we revised our audit strategy to focus on the financial information that is actually needed by Defense managers. It puts priority on: (1) improving the quality, accuracy, and reliability of budgetary information; and (2) confirming the numbers and locations of assets.

This change has been endorsed by the Government Accountability Office, among others, and it has led to improved buy-in at all levels in the Department. Managers at DOD now see that audit readiness has day-to-day implications for their work. To ensure the adoption of a consistent approach to auditability, we have issued clear guidance indicating how to assess and improve processes and controls and how to maintain needed documentation.

As appreciation for the value of auditability has spread throughout our organization, there is recognition that it requires an investment in resources. Despite leaner budgets, the Department now plans to sustain the required level of resources each year over the next 5 years to improve business operations—providing the appropriate levels of training, tools and support—that will allow us to achieve and sustain auditable financial statements.

In addition, we have a governance structure in place that is keeping the attention of senior leaders focused on business and financial management improvement. We recognize that our governance process needs to focus more on specific progress and must hold individuals accountable for that progress. Each of the Defense components is committed to specific outcomes for their respective plans, and we are requiring the same of service providers who support auditability. Those goals will be used to hold executives accountable at all levels. We will continue to use outside auditors to verify progress. Leveraging this senior leadership commitment will strengthen our current governance process and ensure both accountability and long-term continuity.

MAJOR ACCOMPLISHMENTS DURING THE PAST YEAR

Secretary Panetta's direct engagement on this issue has been one of the most significant developments of the past year. In October, he issued a directive stating that the achievement of auditable financial statements "is a priority for me and will be an 'all hands' effort across the Department." Even more important, he has made it clear that the current lack of auditable statements is unacceptable.

Last fall—in his first appearance before the House Armed Services Committee—Secretary Panetta also directed the Department to accelerate the time needed to achieve audit readiness for the Statement of Budgetary Resources for general funds so that "by 2014 we will have the ability to conduct a full-budget audit." He added, "I've directed the DOD Comptroller to revise the current plan within 60 days to meet these new goals and still achieve the requirement of overall audit readiness by 2017."

This leadership commitment from the highest level of DOD is setting the tone and accelerating audit readiness of the Statement of Budgetary Resources. Plans to significantly accelerate our efforts have been developed and are underway. Auditability is now a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability within DOD.

Following the Secretary's lead, the Service Secretaries and Chiefs of Staff of the Military Services have committed themselves to specific near-term goals in support of their plans for achieving auditable financial statements. Their commitment is mirrored in major commands.

For example, General Gary North, Commander of Pacific Air Forces (PACAF), said it well in a memorandum to his command in March. He wrote, "The Air Force's

ability to undergo and obtain a clean audit opinion of our financial statements is a direct reflection of how well we manage the entire Air Force." He added, "PACAF/Financial Management will take the lead and develop Audit Readiness Working Groups within PACAF with the objective of developing internal and management control programs to assist the base level functional areas achieve audit readiness."

In September, the Commander of Naval Air Systems included a similar message among his Commander's Intents. Key actions include the need to "standardize financial processes in accordance with the Navy's Financial Improvement Program to provide accurate and auditable information that supports program execution decisions."

Secretary Panetta and Deputy Secretary Carter have reviewed these and similar commitments across DOD and are holding senior leaders accountable—both civilian and military—for progress against those plans. In addition, Senior Executives in every area now have audit goals in their individual performance plans and annual evaluations, and we are working to include these goals in General and Flag Officer performance plans as well. This helps to ensure that everyone under their leadership will understand that better control over financial resources has a significant effect on mission success and that everyone has a role to play in this process.

We are working very hard to fulfill the Secretary's pledge. We are reasonably confident that we can meet his expectations and yours.

PROVIDING NEW TOOLS AND TRAINING TO THE FIELD

The Military Departments and Defense Agencies have the lead in reaching auditability, and they are all taking action to make that happen. Their senior representatives are with us today, and we won't repeat their individual messages.

We are also taking proactive steps DOD-wide. For example, we are providing our commanders with an Audit Readiness Checklist which is providing Defense managers with a tool akin to the operational readiness checklists employed by military commanders. It provides leaders with a definitive list of questions to help ensure that their organizations have the records needed for sound resource decisions and to make certain that the Department has the records to succeed in coming audits. The checklist provides commanders with the basic actions an organization should take to determine whether they are audit-ready and to identify areas for improvement, if needed.

The checklist also helps commanders to assess the efficiency of their organizations and to validate how well each function performs. For example, current evidence shows widespread weakness in providing support for our cost information. We understand that unless we can prove the soundness of our financial decisions, funding could be at risk. The checklist provides actions a Defense organization can use to prove that its financial information is accurate. With each command giving the management of money the same attention it gives to other important assets, the Department can achieve Secretary Panetta's audit readiness goal. Our current culture already values operational or mission readiness. We need a similar view of our business readiness—one that highlights efficiency and resource stewardship—in every field organization.

Another important DOD-wide development is the progress we have made in instituting a course-based certification program for Defense financial management professionals. We announced our plans last year, having in mind a certification program similar to the one in the Defense acquisition community. Since our announcement, we have developed a framework for the program and carried out the many steps necessary to bring it to reality. We intend to introduce pilot versions of the program for several components this year, with large-scale implementation beginning next year.

We have support for the program across the Department, and Congress has indicated its support by providing the necessary legal authority in the National Defense Authorization Act for Fiscal Year 2012. We thank you for this sign of approval and encouragement.

We also have made significant progress in training both financial managers and nonfinancial managers on the importance of audit readiness. We are reinforcing these lessons through a partnership with private sector auditors who are experienced in financial audits. We are using examination engagements that are an integral part of our audit readiness methodology to familiarize DOD personnel with the requirements for audits. These examinations are essentially small-scale or "mock" audits of single business processes. The audit firms performing these engagements employ the same procedures used in an actual audit, but on a smaller scope and scale. These exercises provide our employees with experience that is otherwise difficult to gain.

In addition, the DOD Financial Improvement and Audit Readiness (FIAR) Directorate has developed a series of professional development training courses designed to enhance Department-wide knowledge and understanding of goals and priorities, as well as instructions to become audit-ready and to reinforce the Department's internal control over financial reporting requirements. In fiscal year 2011, nearly 1,000 DOD personnel received this training. Additional professional development courses have been added since, including "FIAR 100" which focuses on training DOD senior leaders, enabling them to understand the impact of operations on financial management and audit readiness, as well as to identify initiatives they can undertake to assist the Department with its auditability objectives.

MAKING PROGRESS

All of these efforts have contributed to sustaining positive audit opinions as well as breaking new ground since we last spoke with this committee:

- The Defense Information Systems Agency (DISA) achieved a clean opinion on their $6.6 billion working capital fund operations for fiscal year 2011, and they are moving forward with an audit of their fiscal year 2012 general fund business.
- Contract Resource Management of the Tricare Management Activity received an unqualified opinion on its fiscal year 2011 financial statements.
- The Medicare-Eligible Retiree Health Care Fund received a qualified opinion on its fiscal year 2011 financial statement.
- In November 2011, an examination of five business processes at the initial General Fund Enterprise Business Systems (GFEBS) Wave 1 sites rendered a qualified opinion, establishing a benchmark for expanding the Army's audit readiness program.
- In November 2011, a commercial audit examination validated that the Air Force could successfully balance their Treasury funds at the transaction level.
- In January 2012, an examination validated Navy's existence and completeness audit readiness assertion for ships and submarines, Trident missiles, and satellites.

The U.S. Marine Corps will be the first Military Service to receive an audit opinion on a financial statement, which will be a significant step not only for the marines, but for the entire Department. While the Marine Corps will not receive an opinion on the fiscal year 2011 Statement of Budgetary Resources, the significant progress made to date has led the Department of the Navy and DOD Inspector General to agree to move quickly to an audit of the fiscal year 2012 budget statement.

The full list of DOD entities that have received opinions and other significant accomplishments will be published in our semi-annual FIAR Plan Status Report. In fiscal year 2011, for example, independent auditors issued clean opinions for Defense organizations totaling $110 billion in budgetary resources, an amount equivalent to the budgets of nearly half of the non-Defense agencies across government. But there is much more to be done.

BUSINESS TRANSFORMATION AND FINANCIAL MANAGEMENT

In addition to our important financial management advancements, over the past year the Department has taken a number of steps to improve its overarching business environment, from releasing enhanced strategic guidance for its business operations, to furthering the establishment of a performance culture through performance management and improvement practices, to delivering tangible, improved business outcomes into the hands of our warfighters in areas such as energy efficiency, maintenance cycle time, and in-theater business intelligence.

The Department continues to improve key enablers of its business operations, including financial management and auditability, the Business Enterprise Architecture (BEA) and defense business systems environment. The Armed Services Committees have been extremely helpful in providing the Department with tools to improve these areas. We appreciate this opportunity to update you on our progress.

GOVERNANCE OF BUSINESS SYSTEMS INVESTMENTS

One significant development in the management of the Department's defense business systems environment is the change to the investment management process that Congress passed as section 901 of the National Defense Authorization Act (NDAA) for Fiscal Year 2012. In response to section 901, we are creating a single Investment Review Board (IRB) and investment management process to review and certify the planning, design, acquisition, development, deployment, operation, main-

tenance, modernization, and project cost benefits of all defense business systems that have total costs greater than $1 million across the current Future Year Defense Program, including legacy systems. This is in contrast to our current process that includes multiple, functionally-oriented IRBs that review only development or modernization investments over $1 million. While we were pleased with the Department's fiscal year 2011 progress in eliminating 120 legacy systems, we anticipate that the changes introduced by section 901 will help to further accelerate the transition away from our legacy environment. Effective governance of our defense business systems environment is crucial to our overarching business improvement initiatives. Because of this critical link, we can ensure there is strong integration between our broader business governance and our investment management process.

Implementation of section 901 is underway and is being conducted in phases, so that we may provide for an orderly transition from our current governance process to the new one. To accomplish the legislative mandate, the Department created an Investment Review Framework that requires components to create organizational execution plans for their portfolio of investments that are aligned to functional strategies approved by the IRB. The investment review process will employ a structured methodology for classifying and assessing business investments via multiple views, including:

- An organizational view that promotes visibility across business mission areas for DOD components.
- A functional view that seeks to eliminate redundancy and enhance interoperability.
- An end-to-end view that enables visibility from a process perspective across the Department's business enterprise.

We look forward to updating you further on the implementation of this important legislation.

BUSINESS ENTERPRISE ARCHITECTURE

The BEA, guided by the Department's strategic priorities, is an integrated information architecture that provides guidance for the Department's business operations and helps guide and constrain our investments in business systems. The BEA defines the Department's target business environment, including the necessary data standards, business rules, processes, and performance metrics that will allow our systems to be interoperable. Beginning with BEA 1.0 in 2003, the Department has released improved versions of the BEA. The Department released BEA 9.0 on March 16, 2012.

BEA 9.0 continues to refine end-to-end process definitions and associated details for processes that support audit goals. Using this framework of end-to-end business processes, rather than an organizationally or functionally stove-piped approach, ensures we think about our business in a holistic way, recognizing the connections and dependencies each individual business area has on the others. This end-to-end approach will also help to minimize the number of required data exchanges and system-to-system interfaces, reducing the potential for error and increasing process standardization, which is essential to a clean audit.

BEA 9.0 also improves the usability of the architecture, consistent with industry leading practices. BEA 9.0 applies open (vice proprietary) standards and protocols to architecture development and common business process modeling notations. This will make it easier for the Department to ensure compliance with the BEA and interoperability between its systems, continuing the thrust toward enabling auditability. To implement these new approaches, DOD components have been directed to use these specified standards, and the end-to-end process framework, in the development of subordinate enterprise and solution architectures that are federated or asserting compliance with the BEA. Implementation and adoption is ongoing throughout the Department.

BUSINESS CAPABILITY LIFECYCLE AND ACQUISITION OF DEFENSE BUSINESS SYSTEMS

Another significant development in management of the Department's defense business systems environment has been adoption of a new acquisition model for defense business systems, the Business Capability Lifecycle (BCL). BCL provides a comprehensive process that aligns requirements, investment, and acquisition processes for defense business systems under an integrated governance framework and focuses on incremental delivery of capability, within 18 to 24 months of program initiation. The BCL approach is tailored to accommodate the unique characteristics of IT acquisition. It also ensures that we deliver new capabilities to Department users more quickly, including capabilities instrumental to our audit efforts. BCL's incre-

mental approach also maintains better control over cost, schedule, and performance requirements.

The Under Secretary of Defense (Acquisition, Technology, and Logistics) issued BCL policy on June 23, 2011 and the Defense Enterprise Accounting and Management System (DEAMS) was the first program to achieve an acquisition decision under BCL policy. Through the use of BCL, DEAMS has integrated traditionally stove-piped processes and enabled tight integration between the functional sponsor and the program office.

BCL is being incorporated into the next update of the DOD 5000.02 acquisition instruction and the Defense Acquisition Guidebook. We continue to conduct targeted outreach with Program Managers, Functional Sponsors, and Program Executive Officers on the BCL policy, and are working with the Defense Acquisition University to embed BCL into appropriate curriculum. Finally, we are in the process of transitioning several major IT programs to BCL.

BUSINESS PROCESS REENGINEERING

A fourth important development in management of our defense business systems environment has been the introduction of new Business Process Reengineering (BPR) requirements into the Department's IRB process. Section 1072 of the NDAA for Fiscal Year 2010 stipulated that investments may not be certified to obligate funds through the Department's IRB process without having reengineered their business processes and reduced unique requirements and system interfaces. Conducting appropriate BPR throughout a defense business system's acquisition or modernization lifecycle is critical to improving requirements definition and stabilization for our acquisition programs and the overall performance of our defense business systems. By applying BPR early and upfront in a program's lifecycle, we can ensure the program has clearly identified and defined the business problem the solution is intended to solve, and that the solution appropriately applies changes to people, process and organization, in addition to a materiel technology solution.

The Department implemented this requirement through an assessment process tied to the Department's IRB governance framework. As the DCMO and Military Department CMOs conducted BPR reviews, they incorporated lessons learned into revised and improved implementation guidance. During fiscal year 2011, assessments were completed for all 160 IRB certification actions. Going forward, BPR will be required in the Department's new IRB process.

BUSINESS SYSTEMS IMPLEMENTATION

As discussed above, the Department has continued to mature Business Transformation related processes, architectural framework, and governance that support our transition to a more modern and disciplined business environment. This transition is driven by a number of activities to include the implementation of selected Military Service or Agency Enterprise Resource Planning Systems (ERPs), modernizing legacy systems when supported by a business case and aggressively sun-setting legacy systems that are not aligned with our business objectives. The implementation of these new systems is a key enabler for executing important process and control changes as well.

Today, DOD is implementing multiple ERPs across the Military Departments and Defense Agencies to serve as the business backbone of their operations. Each of these implementations is at a different stage of its lifecycle and most have experienced challenges as they have moved from design to implementation. Broadly, we continue to improve our oversight of these programs in a number of ways, including putting in place more rigorous performance measures that broaden the discussion from standard acquisition measures to key technical and business measures. This has led to a closer link between the information technology programs and the business outcomes that they are helping to enable. Additionally, we are applying lessons learned across all of the programs in the portfolio and incorporating recent GAO and DOD Inspector General (IG) findings, which have highlighted deficiencies in compliance, shortcomings in change management or training and difficulties in management of data quality and interfaces that have created inefficiencies and labor intensive rework. We acknowledge that there have been and continue to be issues and, as GAO has noted, DOD governance has taken appropriate action to limit the pace of deployment. We are committed to working through every significant deficiency in order to realize the long term value of these investments.

In several cases there have been issues associated with ERP compliance with basic requirements (or standards) such as the U.S. Standard General Ledger (USSGL) and the DOD Standard Financial Information Structure (SFIS). Each instance of non-compliance is investigated and addressed. But many situations result

from the evolution of standards and the time it takes for those standards to work their way into use. In short, they are matters of timing. We understand that these basics are the key to both reporting accuracy and interoperability and are working to develop processes to ensure that changes are better communicated and controlled. Some SFIS and USSGL compliance deficiencies have been identified, many have already been corrected, and plans are in place to correct outstanding instances of noncompliance. Despite these challenges, the more disciplined transaction processing capability will, over time, result in improved data quality and integrity compared to our existing legacy processes. That is an important element of context often lacking in discussion of problems associated with implementing our ERPs.

There is also a perception that the way DOD has implemented ERPs creates duplication or overlapping capabilities. These investments are reviewed with a goal of avoiding and eliminating redundancy. With the implementation of Section 2222 of the NDAA 2012, we expect to achieve an even more robust business IT portfolio management process. We believe our current ERP implementations provide opportunities to replace redundant legacy systems and represent an appropriate mix of capabilities at the operational level where specific business operations or missions are supported.

The Department has made notable progress over the past 2 years. A few noteworthy examples follow:

- The Marine Corps' Global Combat Support System (GCSS–MC) is supporting USMC budgetary auditability while also delivering tangible operational value including:
  - "Time to First Supply Status," a primary measure for logistics responsiveness, has been reduced from over 36 hours to an average of 10 hours.
  - "Order Shipment Times" for GCSS–MC users has been reduced by 26 percent.
  - "Maintenance Repair Cycle Time" has been reduced by 43 percent in the last 2 months from a baseline of 40 days.
  - During Operation Tomodachi, the 2011 earthquake and tsunami humanitarian assistance and disaster relief efforts in and around Japan, the GCSS–MC system provided critical real-time in transit visibility for high priority parts.
- The Air Force's Defense Enterprise Accounting and Management System (DEAMS) is currently fielded at Scott Air Force Base and the Defense Finance and Accounting Service Limestone, Maine and is delivering tangible business value:
  - Reduced late interest payments within the U.S. Transportation Command from approximately $161.00 per $1 million to approximately $7.00 per $1 million.
- The Defense Logistics Agency's (DLA) EProcurement program provides key capabilities in a single integrated procurement process solution in support of sustainment logistics. EProcurement recently exceeded all key performance parameters during performance stress tests, including:
  - System was designed to process 8,500 solicitations per day and exceeded the threshold by more than 90 percent during development testing.
  - System was also designed to evaluate 23,000 proposals per day and during development testing exceeded the threshold by 100 percent.

DOD's modernized systems environment, including each of the Department's ERPs provides the opportunity for improved effectiveness and efficiency of budgeting and financial accounting operations by providing users with standardized financial and business processes, a single authoritative data source, and real-time posting to external sources. In the past, we had to rely on manually-generated summary information; we now have much more access to transaction-level data that will help support future audits and provide leaders with information for better business decisions. These programs and their organizational sponsors are committed to realizing this significant potential.

While the effective implementation of ERPs will not achieve auditability by itself, it will help to provide the modern business environment we need to meet and sustain the statutory requirement for audit readiness.

CONCLUSION

Madame Chairman, we are making significant progress. While we are mindful of the work that remains, we are reasonably confident that we will achieve our audit goals. As we look ahead, we appreciate the support we have received here in Con-

gress. Your constructive criticism and continuing oversight are helping to sustain our progress.

We also welcome your help with what has been a major problem for financial management at DOD. We refer to the budgetary uncertainty that we have encountered in the recent past, including no fewer than four threats of government shutdown last year, which generated time-consuming and unproductive planning efforts. Now the shadow of possible sequestration is falling across our path. Dealing with these uncertainties drains valuable time and leadership attention from important initiatives, including our commitment to audit readiness. Congress could help a great deal by returning to a more orderly budget process.

Thank you again for your interest in this vital subject. We welcome your questions.

Mr. HALE. If it is all right with you, Chairwoman McCaskill, we will go Army, Navy, Air Force, one statement per department, and then I assume GAO. Does that work?

Senator MCCASKILL. That works very well. Thank you.

STATEMENT OF HON. JOSEPH W. WESTPHAL, CHIEF MANAGEMENT OFFICER OF THE ARMY; ACCOMPANIED BY HON. MARY SALLY MATIELLA, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. WESTPHAL. Good afternoon, Madam Chair, Ranking Member Ayotte, members of the subcommittee. It is good to be with you today and thank you for having this hearing.

Dr. Matiella, our Assistant Secretary for Financial Management, and I have a joint statement together. We have presented it for the record, and I will make a few summary statements from it.

The first thing I want to tell you is that your Army leadership is really engaged. I believe we have a sound plan to achieve an auditable SBR by the end of fiscal year 2014, and full financial statement audit readiness by the end of fiscal year 2017.

Through DOD's FIAR efforts, the Army is connected to the larger audit readiness community, sharing lessons learned and best practices. Consistent with DOD's strategy, the Army developed a financial improvement plan with specific measurable actions and interim milestones. Our plan enables the Army to assess progress, overcome obstacles, and incorporate recommendations from both independent auditors and GAO. We continue to subject it to close scrutiny. Since July 2011, we have received two positive audit results by independent public accounting firms. These are incremental but important steps towards auditability. Dr. Matiella and I are confident that the Army is on track and will achieve our goals.

In support of these efforts, the Army continues to work with DOD's Deputy CMO, Ms. McGrath, to improve our investment control process. Published in October 2010, the Army's business systems architecture and transition plan provides a framework and a road map for enabling audit readiness, optimizing business operations, and steering our business systems investments. Using this framework, the Army will transition our legacy systems and prioritize our business systems investments within a single integrated architecture.

Over a year ago, the Army chartered the Business Systems Information Technology Executive Steering Group, a governance forum that I personally chair, to review business policy and serve as a key component of the Army's investment review process. Comprised of

senior Army leaders, including Dr. Matiella, this group shaped the business systems information technology strategy that was approved by the Secretary of the Army in February 2011. The combination of a clearly defined strategy and effective investment controls ensure that the Army makes sound investments in our business systems.

More recently, the Army conducted our first five business domain portfolio reviews covering over 700 business systems. The reviews are not only serving to solidify the Army's business systems architecture, but also helping to establish a targeted environment centered on our ERPs. As the process matures, the portfolio reviews will provide a great opportunity to identify improvements to our business processes, streamline our business systems, and establish a culture of continuous improvement.

In conclusion, Dr. Matiella and I assure you that the Army is on track to meet our auditability goals, to improve management of our business systems investments, and establish a solid foundation for business transformation across the Army.

On behalf of the Army, we do want to thank you, the members of this committee, for the continued interest in this very important matter and the unwavering support that you do give to our soldiers and families, as you so stated.

[The joint prepared statement of Mr. Westphal and Dr. Matiella follows:]

JOINT PREPARED STATEMENT BY HON. JOSEPH W. WESTPHAL AND HON. MARY SALLY MATIELLA

Madam Chairman McCaskill, Ranking Member Ayotte, and distinguished members of this subcommittee, thank you for the opportunity to appear before you today to discuss the Army's financial management and business transformation efforts.

It is my privilege to be here along with the Under Secretary of Defense (Comptroller) and Chief Financial Officer, the Honorable Robert Hale; the Department's Deputy Chief Management Officer, the Honorable Elizabeth McGrath; my colleagues from the Navy and Air Force, and the Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)), the Honorable Mary Sally Matiella. I can assure you that our organizations all work in close collaboration, capturing valuable lessons learned, and sharing best business practices. I'd like to thank them for their continued support.

The topics of today's hearing are as important to us as they are to this subcommittee. Be assured, your Army leadership, our soldiers, and our civilians understand the fiscal challenges confronting our country. We are unified in our effort to make lasting improvements that will enable us to operate more effectively and efficiently within limited resources. As President Obama stated "we must put our fiscal house in order and renew our long-term economic strength." My colleagues and I are all committed to being part of the solution.

FINANCIAL AUDITABILITY

Due to persistent and focused work across the entire Army, we have a sound, resourced plan and the appropriate leadership engagement to achieve Secretary Panetta's directive to assert auditable Statement of Budgetary Resources (SBR) by the end of fiscal year 2014 and assert full financial statement audit readiness by the end of fiscal year 2017. Appropriate guidance and direction from Congress, the Secretary of Defense, and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) have enabled the Army to develop a focused Financial Improvement Plan (FIP), begin demonstrating our audit readiness and build upon our early achievements.

Through the DOD's Financial Improvement and Audit Readiness (FIAR) efforts, the Army is connected to the larger Department of Defense (DOD) audit readiness community, sharing lessons learned and best practices. OUSD(C) has formulated a comprehensive strategy with a critical path that allows the Army to focus on improving the information most useful to decisionmakers, while moving DOD closer to

the ultimate goal of achieving and sustaining auditability. The FIAR guidance defines a series of standardized phases that must be followed to achieve audit readiness. The methodology focuses on the identification and implementation of key control objectives and supporting documents. OUSD(C) conducts quarterly updates with the Services to maintain the focus on auditability and efficiency progress.

To achieve the FIAR objectives, the Army has allocated the necessary resources and developed an infrastructure to perform financial improvement activities. This infrastructure is responsible for defining and executing the Army's Financial Improvement Plan; it includes specific, measurable actions and interim milestones necessary to remedy known audit readiness impediments. The Army uses these interim milestones to assess progress and incorporate recommendations from independent auditors, the Government Accountability Office (GAO), the DOD Office of the Inspector General, and the Army Audit Agency. We are specifically addressing the six auditability challenges identified by GAO:

(1) Sustaining continuous leadership through the Secretary of Defense directive, active engagement and directive memoranda from the Secretary of the Army, Chief of Staff of the Army, Under Secretary of the Army, ASA(FM&C), and the Army Audit Readiness Strategy;
(2) Building a competent workforce through the Command and Installation Audit Readiness Guide, Army Knowledge Online Audit Readiness Site, audit readiness training, Annual Financial Improvement Workshop, and FIP Report quarterly newsletter;
(3) Developing a well-defined architecture that has been vetted through our Business Systems governance process and incorporates the 15 End-to-End processes found in the Office of the Secretary of Defense (OSD) Business Enterprise Architecture (BEA);
(4) Conducting Enterprise Resource Planning (ERP) system auditability assessments and keeping the Office of Business Transformation and Program Executive Officer-Enterprise Information Systems actively engaged;
(5) Providing accountability and oversight through: Senior Executive Service performance plan requirements; Army governance, including quarterly In-Process Reviews, Audit Committee meetings, and Internal Review Workgroups; and participation in OSD(C) governance boards; and
(6) Establishing internal controls through installation-level process and control assessments, corrective action implementation, business process and controls training, leveraging Internal Review to assess controls and corrective actions, instilling discipline, and compliance with current policies.

The Army has subjected the FIP to strenuous scrutiny to hold ourselves accountable and identify potential deficiencies. Over the past 2 years, since the initial 2010 GAO review of GFEBS, the Army has remediated the findings, which resulted in DOD's decision to authorize full deployment for GFEBS in June 2011, to include, greatly improved training; and adding the identified chart of accounts and Standard Financial Information Structure (SFIS) compliance. The Army is vigorously pursuing excellence in reaching the fiscal year 2014 and fiscal year 2017 auditability goals as reflected in recent successes.

The U.S. Army Corps of Engineers is the Army's first and DOD's largest entity to receive an unqualified audit opinion on their financial statements and has subsequently sustained clean audit opinions. In the General Fund Enterprise Business System (GFEBS) environment since July 2011, we have received positive audit results by independent public accounting firms. The first of 3 planned examinations involved a review of over 2,500 supporting documents resulting in the independent auditors issuing an unqualified opinion on appropriations received and a qualified opinion on five business processes at three sites. A second examination is scheduled for this summer at nine GFEBS sites and DFAS. The third examination will be conducted next fiscal year and will include all Army GFEBS sites. These examinations are important incremental steps toward auditability. We will continue to progress and are committed to sharing our lessons learned with DOD and our sister Services as we proceed. We remain confident that the Army is on track to achieve both the fiscal year 2014 SBR and the fiscal year 2017 full audit readiness goals. We appreciate your continued support.

BUSINESS TRANSFORMATION

In October 2010, the Army published its first Business Systems Architecture & Transition Plan (BSA&TP). The BSA&TP provides the framework and roadmap for enabling audit readiness, optimizing business operations, and steering our business system investments. It integrates Enterprise Resource Planning (ERP) solutions, the Army's functional architecture, and the DOD Business Enterprise Architecture

(BEA). Using this framework, the Army will transition over 700 legacy systems and prioritize new business system investments within a single, integrated architecture.

Four ERPs form the backbone for our business systems enterprise architecture and are critical to our financial auditability goals. They are: the General Fund Enterprise Business System (GFEBS); the Global Combat Support System-Army (GCSS-Army); the Logistics Management Program (LMP); and the Integrated Personnel and Pay System-Army (IPPS-Army). Collectively they will manage the material balance of the current and future general funds for the Army. GFEBS unifies financial reporting and management across the Army and serves as the centerpiece for financial auditability efforts and will be fully deployed in fiscal year 2012. Presently, GFEBS is being used by about 45,000 of approximate 50,000 eventual users, is 94 percent SFIS compliant and on track to be fully SFIS compliant by the end of this fiscal year. It has a track record of being 99.9 percent available, and at the beginning of this fiscal year, the Army had already processed over 20 million financial transactions using GFEBS with zero dollars in Anti-Deficiency Act violations. To date GFEBS has distributed nearly $80 billion in funds and obligated approximately $60 billion. The system also provides cost and asset functionality not available in legacy systems.

LMP Increment 1 (production baseline) is fully deployed to 25,000 users at 50 sites across the Army's Materiel Command and contains the financial ledger for the Army Working Capital Fund. Throughout the remainder of fiscal year 2012 the ASA(FM&C) is overseeing final enhancements to bring it within compliance with audit standards. Following direction from the DOD Deputy Chief Management Officer, in December 2011, LMP was converted from a service contract to an acquisition Program of Record to provide additional oversight for future changes to this critical enabler of national level logistics.

GCSS–A has completed Initial Operational Testing at both Fort Irwin, CA, and Fort Bliss, TX. The Army is evaluating the results of testing and making necessary adjustments to the system. We anticipate receiving a full deployment decision within the next 6 months which will ensure GCSS–A is available to support equipment accountability and serviceability for our financial auditability goals in the future.

Lastly, in February 2012 the Army awarded a contract for the first increment of IPPS-Army, an integrated database which consolidates personnel information across the Active Duty, U.S. Army Reserves and Army National Guard. Subsequent increments of IPPS-Army will streamline personnel processes and integrate personnel pay for over 1 million uniformed personnel across the Army. In fiscal year 2011,the Federal Chief Information Officer completed a top-to-bottom review of the IPPS-Army program resulting in a revised acquisition strategy which minimizes risk to the government. While these changes extended the lifecycle of development, the military pay integration will be fielded in time to support our fiscal year 2017 full auditability goals.

The Army continues to work with the DOD Deputy Chief Management Officer to define a revised investment control process as outlined in section 901 of the National Defense Authorization Act for Fiscal Year 2012. Over a year ago, the Army chartered the Business Systems Information Technology Executive Steering Group (BSIT–ESG), chaired by the Under Secretary of the Army. In addition, the Army established the 2-Star and 3-Star BSIT Working Groups to provide additional levels of collaboration on cross-functional issues. Comprised of senior Army business leaders, these forums review business policy and serve as a key component in reviewing and integrating the Army's investment review process. The same leaders shaped the BSIT Strategy approved by the Secretary of the Army in February 2011. The combination of a clearly defined strategy and effective investment controls will ensure the Army makes the appropriate investment in our ERPs and other business systems.

The Chief Management Officer in collaboration with the Vice Chief of Staff conducted portfolio reviews of our five primary business functions: financial management; acquisition; logistics; human resource management; and installations, energy and environment. These reviews included scrutiny of our business systems and business architecture.

Collectively the Army has over 700 legacy business systems aligned with these functions. The reviews were used to reinforce accountability and emphasize a cost consciousness environment among Army leaders that heretofore have been absorbed by fighting the war for 10 years. The reviews will further solidify the Army's business systems architecture and establish the target environment centered around our four ERP systems and have facilitated retiring approximately 180 legacy business systems incapable of meeting our enterprise management and audit readiness objectives. This target environment will guide the investment strategy for the future and ensure that systems are synchronized, functionally optimized, and prioritized in

support of our key business processes. In addition, the portfolio reviews identified new opportunities to improve our business processes, consolidate our business systems, and establish a foundation for continuous improvement.

Our business architecture establishes the framework for mapping and improving the Army's end-to-end (E2E) business processes. Process mapping provides a better understanding of how work gets done and identifies cross-domain dependencies. It enables the Army to pinpoint reengineering efforts, improve process efficiency, and invest wisely in business systems. Initially, the Army is focusing on 5 of the 15 E2E processes: Procure-to-Pay, Acquire-to-Retire, Hire-to-Retire, Deploy-to-Redeploy/Retrograde, and Environmental Liabilities. These five processes capture most of the Army's Title 10 mission and thus provide the greatest opportunity for improvement.

CLOSING STATEMENT

On behalf of the Army, thank you for your continued interest in this very important matter and for your unwavering support in all you do for our soldiers and their families. While the Army continues to support the ongoing war in Afghanistan, we are shaping our force structure and developing resourcing strategies to meet the new defense strategy. Fielding ERPs across the entire Army, we are able to leverage leadership at many levels to achieve our fiscal year 2014 and fiscal year 2017 auditability goals.

Through an adaptive approach, thousands of military and civilian professionals are fielding these systems, achieving front line progress, and establishing a solid foundation for continuing business transformation across the Army. With the support of this committee, the Office of Management and Budget, OSD, and Army leaders throughout the force, I am confident that the Army is on a positive path to meet our goals. Thank you.

STATEMENT OF HON. ROBERT O. WORK, CHIEF MANAGEMENT OFFICER OF THE NAVY; ACCOMPANIED BY HON. GLADYS J. COMMONS, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. WORK. Madam Chairman, Ranking Member Ayotte, thank you for this opportunity to discuss the Department of the Navy's progress towards achieving financial auditability and business process reform and the important role that the Navy ERP will play in these efforts.

I, like my colleagues, have submitted a joint statement with Ms. Commons for the record, and I would just like to make a couple of key points before answering your questions.

Ms. Commons and I, as well as the Secretary of the Navy, the Commandant of the Marine Corps, and the Chief of Naval Operations (CNO), are all committed to DOD's plan to achieve audit readiness. At every chance I get, I personally stress the importance of this goal with our leaders, managers, and employees at every single opportunity, and I believe the Secretary, the Commandant, and the CNO do as well. As Secretary Hale has said, setting a clear tone from the top and engaging the entire Navy in audit readiness is very essential.

We have developed a very detailed, Navy-wide plan. We are now working with each of our major commands and our service providers to ensure that they understand their specific role in achieving this very important goal. Based on some very important foundational work by our predecessors, the tone from the top, and this plan, particularly the trailblazing efforts of the Marine Corps, I believe the Navy is very well-positioned to achieve Secretary Panetta's goal of an audit-ready SBR by fiscal year 2014, as well as being fully audit-ready by 2017.

Our major IT systems, we think, are well-aligned with this effort. All three of our major current efforts are on strong footing. The

Navy ERP is on schedule to complete its program of record in fiscal year 2013. We have 66,000 users now worldwide. We will have 71,000 by the end of fiscal year 2013. That will manage about 47 percent of our total obligational authority. 27 systems have been retired to date as a result of this deployment. We are on schedule to reduce another 55 systems this fiscal year, for a total of 82, and we expect a total of 96 systems to be shut down by fiscal year 2016.

Additionally, we have a comprehensive effort to standardize execution of business processes among our Navy ERP users. Reducing the process variations, as you mentioned in your statement, ma'am, when using the system along with standard operating procedures that will be followed by all, will achieve the greatest benefits across the Navy. Paring down the number of steps to complete Navy ERP transactions will make this system more efficient and easier to use, and by permitting fewer variations in the processes, we will reduce systems maintenance costs. Finally, consistent, streamlined procedures will require less future work in sustaining our control environment, which is very important.

We are in the process of developing data standards across the enterprise that will allow us to aggregate information from all of our ERP systems with those systems that we decide to maintain.

The Marine Corps GCSS is deployed. It will eliminate four major legacy systems by the end of fiscal year 2013. In fact, I am very pleased to report that since 2008, we have reduced more than 1,400 systems and applications and we have shut down 400 networks.

The Navy's Future Personnel and Pay Solution (FPPS) has been refocused. I ordered an assessment of this effort in late 2010, and as a result of this assessment, we have determined that instead of initiating a large-scale business systems acquisition, we will instead focus on process improvement and leveraging this investment with the existing Navy Standard Integrated Personnel System. The Navy reached this conclusion after an exhaustive review of its policies, practices, and processes, and I believe this is a case of business process engineering done right. Instead of building the system to automate how we used to do business or do business today, the functional community is first rethinking what it wants to do in the future, and only then will we look to IT solutions to support the new and improved way of service delivery. We think this approach has reduced the original estimated cost by at least $167 million and eliminated at least $157 million in additional cost growth from fiscal year 2010 through 2017.

I think this example points to one of the keys to both auditability and the successful launch of IT systems. As you mentioned, ma'am, reengineering of our business processes is the key. Our business process reform approach is now mature to the point where we address the full spectrum of business operations by focusing on three things: strategic management, understanding the costs of doing business, and managing the organization toward achieving better and more measurable results.

Our methodology requires baselining and mapping business processes, allowing the business owners to identify and prioritize their problems and then exploiting opportunities for improvement.

A second key is data standardization, and a third is having good internal controls.

We are focused on all three of these things. Auditable financial statements will be the outcome of these efforts.

So the Navy, I believe, has an aggressive, forward-leaning plan to take control of how we do business, to standardize data, and ultimately achieve financial audit readiness, a plan which has yielded initial successes. We have had two favorable opinions on appropriations received and on the existence and completeness of our submarine, ship, missile, and satellite inventories. We have not received formal word, but we have been told that our aircraft inventories are also ready. So we continue to make progress, and I am relatively confident that we will meet all of the deadlines.

I would like to echo Under Secretary Westphal's appreciation for this subcommittee's focus on this effort, and we look forward to continuing to work with you and your staff. I am very much looking forward to any questions you might have.

[The joint prepared statement of Mr. Work and Ms. Commons follows:]

JOINT PREPARED STATEMENT BY HON. ROBERT O. WORK AND HON. GLADYS J. COMMONS

Chairman McCaskill, Senator Ayotte, thank you for this opportunity to discuss the Department of the Navy's (DON) progress toward achieving financial auditability, business process reform and the important role Navy Enterprise Resource Planning (ERP) will play in these efforts. To maximize the use of our human and fiscal resources; prevent fraud, waste and abuse; and provide the warfighter the best capabilities to achieve the Nation's security strategy, it is essential that the financial data we rely on for decisionmaking is accurate and reliable. I am committed to the Department's aggressive plan to achieve audit readiness and stress the importance of this goal with our leaders, managers, and employees at every opportunity. Setting a clear "tone from the top" and engaging the entire Department in audit readiness is essential for success in this complex undertaking.

To achieve audit readiness, we have focused our efforts on improving our business processes end-to-end; modifying our systems to meet Federal Information System Controls Audit Manual standards; and strengthening internal controls surrounding those business processes and systems. Our business process reform approach has matured into addressing the full spectrum of business operations: focusing on strategic management, understanding the costs of doing business, and managing the organization towards achieving better and more measurable results. Our methodology requires baselining and mapping business processes, allowing the business owners to identify and prioritize problems, and then exploiting opportunities for improvement. Auditable financial statements will be the outcome of our business transformation efforts.

We have developed a detailed Department-wide plan and worked with each major command and our service providers to ensure they understand their role in our success. Based

on our comprehensive plan and our ongoing efforts, we are well-positioned to achieve Secretary of Defense Panetta's goal of an audit ready Statement of Budgetary Resources (SBR) by the end of fiscal year 2014, as well as reaching the fiscal year 2017 date established by the National Defense Authorization Act for Fiscal Year 2010 for full auditability.

The Department is making steady progress on its financial auditability plan. The audit of the Marine Corps' SBR continues. Our goal was to achieve a favorable audit opinion on the fiscal year 2011 SBR audit. We extended the audit 3 months because an opinion appeared to be within our grasp, but the need for additional test sampling, plus time limitations, forced the conclusion of this second-year effort without an opinion. However, noting the significant progress made, both the DON and the Department of Defense Inspector General agreed, that we should now move quickly into an audit of the Marine Corps' fiscal year 2012 SBR.

The Marine Corps' experience has been valuable to the rest of DON and to the other military departments as we all seek to achieve SBR audit readiness. The Marine Corps has developed essential financial management capabilities for the first time, such as reconciling cash with the Treasury's balance; and they constructed a robust, effective audit response infrastructure, enabling the rapid collection and

transmission of large volumes of business process documentation to auditors for analysis.

Additionally, the Marine Corps is executing an aggressive corrective action plan for business process and system deficiencies identified during its audit readiness preparations and during the annual audits. This sustained progress in improving Marine Corps business operations, set in motion by the pursuit of auditability, has produced instructive lessons for DON and the other Services.

The Department of the Navy has achieved other notable audit readiness accomplishments. In late summer 2011, we achieved a favorable audit opinion on the Department's Appropriations Received process. Validation by an independent accounting firm confirms that the process and systems we use to allocate the resources provided by Congress are auditable. In January 2012, the Department of Defense Inspector General completed an examination and verified that the processes and systems we use to establish Existence and Completeness of ships, submarines, Trident missiles, and satellites inventories are audit ready. A similar examination of DON's aircraft inventory management is currently ongoing.

A second examination is also underway, focusing on the E–2D Hawkeye aircraft acquisition program. This examination will determine whether the business processes and systems used to manage this major acquisition program meet audit standards. This examination has added importance because the E2–D program is executed within Navy ERP; the results will reflect the effectiveness of the controls in the Navy's "target" financial system.

Though the Department is making steady progress toward financial auditability, much remains to be done. Completing our ambitious SBR audit readiness schedule requires a number of business process assertions this fiscal year and next. We also need to assess the effectiveness of our major business systems' controls. Following the Marine Corps' example, the entire Department needs to fully develop the same fundamental financial management capabilities required for an audit, including detailed cash reconciliation; and, an effective audit response infrastructure needs to be in place. These complex efforts will test the Department's acumen, as well as the skills of our major service provider, the Defense Finance and Accounting Service.

Navy ERP, which accounts for over half of the Navy's obligational authority, is an essential component of auditability. The Navy's planned implementation of ERP at six major commands, which began in fiscal year 2008, will conclude next fiscal year. Concurrently, we are focusing on two other major objectives: assessing Navy ERP's present ability to meet financial audit standards prescribed for a business system; and making improvements in its utility. A methodical effort is underway to standardize the execution of business processes within Navy ERP across our diverse user population.

This year, an independent assessment will be conducted, determining if Navy ERP's internal controls comply with the Government Accountability Office's financial systems audit standards. Completing this survey, and quickly pursuing any follow-up remediation required, will be important steps toward Departmental audit readiness. We are optimistic that the assessment will demonstrate that Navy ERP has effective controls overall. Our E2–D audit readiness assertion, mentioned earlier, showed positive results in the Navy ERP environment.

Additionally, our comprehensive effort to standardize execution of business processes among Navy ERP users is fully underway. Reducing process variations when using the system, along with establishing standard operating procedures to be followed by all, will yield benefits. Paring down the number of steps to complete Navy ERP transactions will make the system more efficient and easier to use. Permitting fewer variations in ERP business processes will reduce system maintenance costs. Finally, consistent, streamlined procedures will require less future work in sustaining Navy ERP's control environment.

In conclusion, DON has an aggressive, forward-leaning plan to achieve financial audit readiness—a plan which has yielded initial successes, but one which will require much more hard work and creativity throughout the entire Department to complete. Thank you for your continued support, and I would be pleased to answer your questions at the appropriate time.

STATEMENT OF HON. JAMIE M. MORIN, ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER; ACCOMPANIED BY DAVID TILLOTSON III, DEPUTY CHIEF MANAGEMENT OFFICER OF THE AIR FORCE

Dr. MORIN. Madam Chair, thank you again for the opportunity to join my colleagues from across DOD and our valued partner

from GAO, Mr. Khan, for today's hearing to discuss DOD and your Air Force's efforts to achieve audit readiness.

As you mentioned, unfortunately, our Under Secretary and CMO, Ms. Conaton, is recovering from an injury today. So you have me and her Deputy CMO, Mr. Dave Tillotson, here and we will seek to provide a short statement and then answer any questions that you have.

Since the Air Force leadership testified to this subcommittee back in July of last year about audit readiness, we have made continued progress towards that goal—particularly since the Secretary laid out his accelerated deadline of 2014. We remain very strongly committed to achieving that accelerated goal for the SBR, as well as the broader legislative requirements for a clean audit by 2017. We are leaning forward aggressively on this.

The goals are challenging for an organization as large and diverse and geographically distributed as the Air Force, so we do continue to assess, as I have testified before, that there is moderate risk in meeting that deadline, primarily due to systems challenges. As was stated earlier, our effort now focuses on achieving audit readiness within our legacy systems which is an effort that we are working aggressively on but remains an uncertain piece of our effort.

We are working to mitigate that risk very directly through, first of all, strong engagement of Air Force leadership at all levels, as well as highly focused investments of additional human and financial resources towards this effort. We have made great progress over the last year.

Speaking of leadership engagement, Secretary Panetta's directive to accelerate to 2014 has been both a blessing and a challenge for the Air Force. The core challenge is, of course, that the accelerated deadline means that we cannot rely on all of those ERPs that we had depended upon in our previous plan. That is a real challenge. Waiting for those multiple critical systems to be deployed and fully used is no longer going to work, so we have a shift in strategy, that is clear.

But the blessing is that the Secretary's engagement, coupled with the consistent and strong guidance—from this committee and other committees—in law, and in hearing after hearing over the last couple of years, have really helped to build a degree of consensus on the importance of this effort and a degree of leadership commitment that is showing real dividends. Audit readiness has become a regular agenda item for the four-star leadership of the Air Force, involving both civilian and military leaders in a way that I think could not have been anticipated or imagined without the leadership from this committee and the Secretary.

I think this top-level leadership is driving increased involvement from military commanders at all levels down to the field. There is still work to be done in that regard, but it is catching on quite aggressively. It also enables our very strong focus on personal accountability, and that is something that is playing out in financial incentives for our civilian senior executives, where the performance plans for about 140 civilian senior executives are directly tied to delivery on audit readiness goals. It is playing out in military evaluations as well, albeit to a somewhat lesser extent.

It also contributes to the very strong support we have received in the DOD internal resource allocation process for some of the key areas where we needed investments. I think of those investments, and we as an Air Force leadership think of those investments, in terms of three components: people, processes to include internal controls, and systems. So all three are working together.

We are certainly encouraged with some of the interim successes we have had in meeting the accelerated deadline, particularly the fact that we received two clean opinions in the last year, on our Fund Balance with Treasury (FBWT) reconciliation and on our funds distribution process down to our major command level. We also, like some of the other Services, have an examination currently underway looking at our military equipment. The DOD IG is performing that right now, and indications so far are quite good. That is our aircraft, our intercontinental ballistic missiles, our satellites, et cetera.

But we clearly still have a very aggressive schedule ahead of us, and it will touch those people, processes, and systems pieces.

Our most immediate challenge right in front of us is people. We need to continue to hire, whether through government civilian hiring or through contractor hiring, people with the requisite skills, government personnel and contractors with the knowledge and experience in accounting, auditing, and financial reporting that will help us get across the finish line here. This is a challenge because, again, the scale of DOD makes finding enough people with enough skills a challenge.

But we also need to continue to invest in the people, and that is why we strongly endorse Under Secretary Hale's leadership on this financial management workforce certification initiative. We think that is critical.

Our process redesign and internal control efforts and those improvement efforts have become certainly all the more important with the accelerated deadline, and we have been working them aggressively. But I wanted to shift to just a very brief discussion of our ERP system investments because that is, obviously, a key focus of this subcommittee.

Financial systems modernization is clearly a key enabler for both achieving and sustaining full audit readiness by 2017 in a cost-effective manner to avoid that army of auditors that you discussed in your opening statement, ma'am.

The Air Force recognizes, though, there are major challenges involved in fielding ERP systems in a big organization like ours, and we have taken and will take appropriate action to address concerns identified through best practice reviews and audits both from internal and external sources. We very much appreciate the active support we are getting from the Office of the Secretary of Defense (OSD), from the Air Force Audit Agency, from the DOD IG, and of course, from GAO.

In the case of the Defense Enterprise Accounting and Management System (DEAMS), our core financial system for the general fund and transportation and working capital fund, we have learned some very key lessons from the other ERP deployments, and that have led us to focus on things like end-of-year financial activities and focus on user training and education and especially on user ex-

perience issues associated with system stability. We are measuring our success against those goals on a weekly basis. DEAMS has now been deployed at Scott Air Force Base and we have gone through 2 years worth of budget closeout in that system. We received milestone B authority for that system back in January and we are about to kick off an operational assessment with the Air Force operational evaluation team looking at the actual implementation of the system. We will take any lessons that come out of that and we will expect to deploy the system at five other bases over the next fiscal year.

As the subcommittee is aware, another major Air Force ERP, our Expeditionary Combat Support System (ECSS), has not fared as well. The program is currently going through a major restructuring effort. We are now approaching 7 years since funds were first expended for this system, which was designed to restructure our logistics processes and field a massive ERP. The total cost on the system is now over $1 billion. I am personally appalled at the limited capabilities that program has produced relative to that amount of investment. The rest of the senior Air Force leadership feels that way as well. That is why we are restructuring, looking for an alternative path. The restructuring effort is ongoing right now, but the subcommittee and Congress should expect to see a way forward identified in the next month or so. We owe you a clear and concise description of a much better way forward for our logistics modernization and financial improvement.

Let me just conclude by saying that while we certainly do see moderate risk in that 2014 deadline, we are leaning aggressively to achieve it and we are strongly committed to that 2014 SBR audit goal, as well as the ultimate goal of full accountability by 2017. This is a key part of the Air Force's effort to squeeze the maximum amount of combat capability out of each taxpayer dollar that this Congress and this Nation entrusts to us. We take it seriously and we will continue to do so.

Thank you again for your engagement and support.

[The joint prepared statement of Ms. Conaton and Dr. Morin follows:]

JOINT PREPARED STATEMENT BY HON. ERIN C. CONATON AND HON. JAMIE M. MORIN

Madame Chairman and Senator Ayotte, thank you for the opportunity to join our colleagues from across the Department of Defense to discuss your Air Force's efforts towards achieving audit readiness. Since the Air Force leadership last testified to this subcommittee on audit readiness last July, the Air Force has continued to make progress towards our audit goals and remains committed to achieving Secretary Panetta's goal for audit readiness on the General Fund Statement of Budgetary Resources in 2014 as well as to meeting the legislative requirements for a clean audit by 2017. These goals are challenging for an organization as large and diverse as the Air Force and so we continue to assess that there is moderate risk that we will miss the deadline due primarily to system challenges. However, the strong engagement of Air Force leadership as well as the additional human and financial resources dedicated to the effort in recent years will help achieve a clean audit, and we are making real progress.

Audit readiness is an important goal. Our efforts are part of the broader work underway in the Department to address the national fiscal challenges that pose a serious threat to our national security. They are a key component of our ongoing work to give the American taxpayer confidence that we are getting the maximum value out of each dollar entrusted to the Air Force.

Secretary Panetta's directive accelerating the audit readiness date to 2014 has been both a blessing and a challenge. The blessing is that it has raised the visibility

of audit readiness to the point where it has been a regular agenda item for our 4-star leadership and created an environment where success is achievable within the tenure of many of these current leaders. To implement Secretary Panetta's directive, the Air Force developed a detailed audit acceleration plan for each assessable unit. These plans include specific milestones and deliverables and are reviewed on a regular cycle in sessions held weekly by the Deputy Chief Management Officer, financial leaders, and the senior leadership responsible for the particular assessable unit. Our assertion teams also include members of the Office of the Secretary of Defense (OSD) (Comptroller) staff in order to provide us with valuable, real-time feedback on our effort and to minimize the need for additional testing or rework.

The core challenge for the Air Force is that the accelerated deadline will require us to achieve and sustain audit readiness while multiple critical systems are still under development or being deployed. Our previous strategy had these systems as a pacing item. We will not have a final judgment on whether our legacy financial systems can be improved sufficiently to support an overall Air Force audit until the auditors can examine those systems in the field. Our emerging confidence in our ability to achieve this challenging deadline is partially due to the increased engagement of commanders at every level in the effort, along with demonstrated progress over the last 2 years and strong support in the Department of Defense (DOD) resource allocation process for targeted investments in improvements to the three critical components for an auditable enterprise: people, processes, and system.

CURRENT PROGRESS

Since the subcommittee's last hearing, the Air Force has made substantial progress on key Financial Improvement and Audit Readiness plan deliverables. Last August, we received a clean opinion from KPMG LLP on our Budget Authority assertion recording the receipt of funds down to our Major Commands. In the process of preparing the assertion, Air Force financial managers identified and implemented several corrective actions, most notably a standard document numbering systems for loading budget authority into our financial execution system, allowing us to assert audit readiness for the entire process.

Another key accomplishment occurred last October when we received a clean opinion from PriceWaterhouseCoopers (PWC) on our Fund Balance with Treasury Reconciliation process. Our reconciliation with the Treasury Department for our "checkbook" consists of over one million transactions and is conducted on a monthly basis. The Air Force and the Defense Finance and Accounting Service (DFAS) are sustaining this process, reconciling 99.85 percent of our transactions at the detail level, exceeding the Office of Management and Budget standard.

In January, the Department of Defense (DOD) Inspector General (IG) began an examination of our existence and completeness assertion for our military equipment (e.g., aircraft, ICBMs, and satellites), as well as for cruise missiles and aerial targets. We anticipate receiving their opinion by the end of May. These assets have a combined net book value of approximately $90 billion. Although cruise missiles and aerial targets/drones are separately reported as Operating Materials and Supplies rather than military equipment, we saw an opportunity to accelerate our overall progress and save resources by asking DOD IG to include these items in their examination. We will continue to look for additional opportunities to accelerate progress on future assertions in a cost effective manner.

We also recently submitted assertions of audit readiness for the existence and completeness of our uninstalled spare engines and missile motors. These have a combined net book value of approximately $11 billion and include over 6,400 individual end items managed at over 160 different sites. Properly reporting these items in our financial statements is challenging. Items are tracked in different systems and classified differently depending on their installation status. It is common for an item to transition from one system to another and alternatively be reported differently in successive statements. Getting sufficient confidence about these areas for Air Force management to assert our readiness for audit required more time than we originally projected and demanded changes in training of our people, in our business processes, and our systems, but we now believe the required corrective actions are properly implemented or well underway.

INVESTING IN PEOPLE

We are encouraged with our interim success in meeting the accelerated deadline, but we still have a very aggressive schedule ahead of us. Our most immediate challenge is on the people side: finding, hiring, and deploying government personnel and contractors with the needed knowledge and experience in accounting, auditing and financial reporting for the Federal Government. The compressed schedule also re-

duces the time we have to document processes, conduct testing, implement corrective actions, and verify those corrective actions are operating as intended. Additionally, many of our major milestones such as assertions on military pay, civilian pay, and contracting have been moved up by 2 or more years, making the need for experienced individuals even more urgent. Finally, compounding this challenge is the fact that the other Services and Defense Agencies will likely be seeking out these same individuals. We are addressing this challenge by reaching out to the accounting industry and soliciting an experienced but cost effective partner to support our core team of government financial managers and functional experts.

To broaden the audit readiness effort across the enterprise, and building on an effort the Air Force pioneered last year, this year we required all Air Force civilian senior executives to include an audit readiness goal in their annual performance plans. While the weighting and level of detail in these goals vary based on individuals' duties, each plan is reviewed by the Deputy Assistant Secretary for Financial Operations to confirm the goals are appropriate and contribute to audit readiness in a meaningful way. Since pay and performance evaluations are linked directly to accomplishment of these plans, we have high expectations. For example, many of our logisticians have goals supporting our existence and completeness assertions, while acquisition executives have goals requiring them to ensure data in our contracting and accounting systems is properly reconciled.

Since achievement of audit readiness will require further professionalization of the financial management workforce, the Air Force strongly supports the Defense Department's efforts on a financial management workforce certification program. This program will standardize educational and experience requirements for financial management positions. Even ahead of this effort, the Air Force's financial management workforce is a well-educated one. Over 60 percent of Air Force financial managers hold a degree of some sort. Additionally, our primary audit readiness workforce of almost 80 includes 12 CPAs, 15 Certified Defense Financial Managers, and 8 Certified Government Financial Managers.

STRENGTHENING AND STANDARDIZING BUSINESS PROCESSES

In addition to mobilizing our people and investing in their skills, improvements in our business processes are key to meeting the accelerated deadline of 2014. While some audit challenges require systems enhancements, others can be overcome with enhanced policies. For example, our two most recent assertions for existence and completeness of critical assets relied primarily upon policy changes clarifying the need for periodic inventories and delineating responsibility for managing assets as they transition among Air Force and contractor facilities.

To achieve compliance with improved and standardized processes, we are aggressively communicating with airmen across the Air Force from our major command commanders down to the lowest level about the meaning of audit readiness and the actions they can take to assist in achieving audit readiness. We recently provided our wing commanders with a checklist to help them understand the steps they can take to ensure their financial house is in order.

We continue to collaborate with our sister services to adopt best practices as we work towards audit readiness. For example, we leveraged the Navy's audit of supporting documentation and controls as a way to expose airmen to our audit activities and ensure process compliance at base level. Since February, the Air Force Audit Agency has begun examinations of selected financial transactions at wing level with seven wings participating. This effort helps to identify good and bad practices as well as process improvements that will be required when financial auditors begin their engagements. It also helps educate our wing commanders on audit readiness.

The Air Force has sought validation of our progress by independent accounting organizations including the Government Accountability Office (GAO), the DOD IG, and public accounting firms. They provide valuable insight into the adequacy of the existing systems, recommend enhancements to support audit readiness and provide objective recommendations on the assertion process. For example, last summer GAO identified weaknesses in the type of testing performed to support the aircraft in our Military Equipment assertion. Specifically, they raised a concern that the sampling was limited to a few bases along the east coast—what auditors call judgmental sampling.

For our recent assertions on spare engines and missile motors, we applied more rigorous statistical analysis allowing us to quantify potential errors across the population of items. In the case of our missile motors, we found that business practices, like timely updating of inventory systems, were very good at the locations where the vast majority of our motors were stored, but were less consistent at places that

might have just one or two motors for training purposes. Statistical analysis has not only enhanced the credibility of our results but in the case of our review of the Space-Based Infrared Satellite Network program allowed us to test 148 randomly selected transactions in order to evaluate the accuracy of a total population of over 12,000 transactions.

BUSINESS TRANSFORMATION AND ENTERPRISE RESOURCE PLANNING SYSTEMS

Air Force business transformation is anchored in architecture and associated business process re-engineering. The continued development of the business enterprise architecture allows the Air Force to identify gaps and redundancies that will focus critical resources in the proper areas. Consistent with this focus, in the fiscal year 2013 budget submission the Air Force established an initiative to target $1.1 billion in savings by reviewing Air Force information technology applications to identify and eliminate duplicate/redundant business and operational system capabilities. In addition, we are minimizing configuration of commercial off-the-shelf software to handle unique requirements and interfaces, thus reducing life cycle costs. Consistent with recent statute, the Air Force is adjusting its current business system certification review process. The revision will expand business system certification reviews from an average of 40 systems per year over the past 5 years to more than 200 systems that will need to be certified for fiscal year 2013. Finally, the Air Force is using architecture and business process re-engineering to evaluate and document the control processes required to support audit readiness, providing the necessary glue between user actions and controls contained within financial systems.

Enterprise Resource Planning Systems (ERPs) are a key enabler to achieving full audit readiness by 2017 in a cost effective manner, but they are not the only step on the path to audit readiness. The implementation of ERPs supports achieving Air Force-wide standard practices and instills process controls necessary to improve financial management discipline. Where ERP development schedules will not support the audit readiness timelines, the Air Force will use a combination of modified legacy systems and supporting business process controls. Specific process and information system gaps (whether satisfied by ERPs or legacy system remediation) will be guided by Air Force Business Enterprise Architectures.

The Air Force's three key ERPs for audit readiness are: Defense Enterprise Accounting and Management System (DEAMS), Expeditionary Combat Support System (ECSS), and Air Force Integrated Personnel and Pay System (Air Force-IPPS). DEAMS and ECSS are programs that have been underway for several years, and Air Force-IPPS is the Air Force program that will satisfy Air Force Total Force military personnel management.

The Defense Enterprise Accounting and Management System is jointly sponsored by the Air Force, U.S. Transportation Command (TRANSCOM), and the Defense Finance and Accounting Service. The program will provide accurate, reliable, and timely financial information using standardized business rules and processes that comply with existing laws, regulations, and policies. When fully operational, DEAMS is expected to maintain control and accountability of about $160 billion in Air Force general funds and the Transportation Working Capital Fund. DEAMS will eventually replace or subsume nine legacy systems as it becomes fully operational and will provide the Air Force with financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipt and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund.

The Defense Enterprise Accounting and Management System has been used at Scott Air Force Base and DFAS Limestone since 2010, and has been successfully used to process over $11.5 billion in transactions during fiscal years 2010 and 2011. Moving forward, our current program plan calls for completion of maturation of the current operational baseline by April 2012, followed by an operational assessment and then deployment of that capability to five additional Air Force bases by June 2013. We expect to complete development and deployment of DEAMS across TRANSCOM by the end of fiscal year 2014 and across the operational Air Force, Air Force Materiel Command (AFMC) and Air Force Space Command by the end of fiscal year 2016. DEAMS will not only be critical to sustaining audit readiness, but also have real cost benefit. The Air Force expects that DEAMS will support a more than $300 million annual savings once it is fully deployed by providing real-time visibility into costs and allowing timely reallocation of dollars while reducing unliquidated obligations and accounts receivable. The program successfully achieved a Milestone B decision in January 2012, and the program is now aligned with the streamlined acquisition policies for Business/IT system put forward by the DOD.

The Expeditionary Combat Support System is intended to provide the Air Force with a single, integrated logistics system, including transportation, supply, maintenance and repair, engineering and acquisition, for both the working capital and general funds. It will streamline the supply chain management process in the Air Force. Unfortunately, program performance on ECSS has continued to be poor. As a result, the Air Force raised concerns to the DOD Milestone Decision Authority and the Department is now engaged in strategic reassessment of the overall program. The reassessment will maintain focus on addressing both audit readiness and achievement of genuine logistics return on investment. A joint OSD–Air Force team recommended restructuring ECSS to focus on four critical logistics capabilities. The Air Force is currently drafting a Critical Change Report based on these recommendations to formally notify Congress of the restructure plan and expects delivery of that report by May 2012.

The Air Force recognizes the major challenges involved in ERP efforts. In working with OSD and GAO, the Air Force has taken appropriate action to address concerns identified through internal and external reviews of both programs. In the case of DEAMS, we focused on end of year activities and user stability issues, measuring our progress against those efforts weekly. Our efforts resulted in achieving Milestone B authority in January 2012. We are actively working network latency issues and the program is on track to deliver a much needed capability. ECSS has not fared as well; the Air Force is restructuring the program in accordance with the OSD-led assessment and entered the Critical Change Report process February 2012 with an estimated delivery of the report 60 days later.

The Air Force Integrated Personnel and Pay System (Air Force-IPPS) will integrate 105 Personnel and Pay processes, including the core personnel actions that drive payroll management, for the more than 500,000 Active Duty, Reserve, and Guard members of the Air Force. Air Force-IPPS will directly enable synchronization of data, improve personnel asset visibility for combatant commanders, reduce payroll errors, and streamline clean audit compliance. It was initiated in fiscal year 2009 and is planned for full operational capability by October 2016. Air Force-IPPS is expected to replace 22 legacy information technology platforms reducing current annual system total cost of ownership from $110 million to $65 million. Air Force-IPPS will replace the Air Force's pay operations currently conducted on the Defense Joint Military Pay System and will reduce today's 85,000 annual pay cases requiring manual processing by 75 percent and improve payroll timeliness from 93 percent to 97 percent. The Air Force is currently planning to release the Request for Proposal May 2012.

We are building on internal Air Force and independent audits by advancing our major IT efforts to deliver capabilities in more manageable steps. This is done within our broader efforts to adjust our IT modernization and sustainment spending reviews and certifications. As we review and certify our IT systems to comply with section 2222 of title 10, audit readiness is a key evaluation factor for both modernization and sustainment of financial and financial feeder systems.

We recognize the challenges in front of us. We have put into action people, process, and system changes to achieve audit readiness and improve management discipline in our financial business processes. We have developed and achieved key interim milestones and continue to develop business systems acquisition and engineering strategies in accordance with relevant laws. While we certainly see moderate risk and many challenges ahead, we are strongly committed to achieving the 2014 Statement of Budgetary Resources audit goal and the ultimate goal of full auditability by 2017. We appreciate this subcommittee's interest and advice in our audit readiness efforts and look forward to continuing to work with you in achieving auditable financial statements for the U.S. Air Force.

Senator MCCASKILL. Mr. Khan?

STATEMENT OF ASIF A. KHAN, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KHAN. Good afternoon, Chairman McCaskill. I am here today to discuss the status of financial management improvements and business transformation in DOD.

At the outset, I would like to thank the subcommittee for holding this hearing and acknowledge the importance of focusing attention on actions needed to meet difficult challenges.

Effective financial management and reporting are important for DOD decisionmakers and their accountability for their stewardship of Federal funds. Financial management is integral to other DOD business operations such as acquisition, logistics, and supply chain management, that provide crucial support to the DOD mission and it depends on business information systems to store, compile, process, and report reliable and auditable data.

In my testimony today, I will provide GAO's perspectives on the financial management weaknesses that impede DOD's progress towards auditability and efforts to resolve them and the difficulties DOD is experiencing in implementing business information systems to support its financial improvement. My testimony is based on our work at DOD.

DOD's FIAR plan, the plan's semiannual updates, and the FIAR guidance, establish a strategy, track progress, and provide instructions for DOD military and other components' achievement of auditability. Interim milestones mark components' progress towards the ability to produce a full set of auditable financial statements. Congress has mandated DOD audit readiness by fiscal year 2017, and Defense Secretary Panetta has now accelerated to fiscal year 2014 a major milestone towards that objective, an auditable SBR.

DOD leaders have shown commitment to improving DOD's financial management, and its components are taking action in response to our recommendations. Yet, much remains to be done. We have found problems that continue to impede progress, including deficiencies in processes and controls, missed interim milestones, and premature assertions of audit readiness.

In 2011, we reported on the difficulties of DOD components in producing an auditable SBR. For example, two assessable units we selected for review, the Navy and the Air Force, did not fully follow the FIAR guidance and the work did not support their conclusions of audit readiness. In our review of the Army's military payroll processes, staff was not able to locate documentation needed to support payments to Active Duty military personnel. We found deficiencies in the Navy's attempt to reconcile its fund balance with those in the Treasury records, a key step in preparing the SBR. The Marine Corps has not been able to receive an opinion on its SBR due to a lack of supporting documentation. The Marine Corps has made progress in remediating many of the weaknesses identified in the fiscal year 2010 audit, and audit efforts continue on the SBR for fiscal year 2012.

Regarding business transformation, DOD has said that it considers a successful implementation of its ERPs critical to transforming its business operations, addressing longstanding weaknesses, and ensuring that DOD meets its auditability goals. We have reported that several ERPs have cost overruns and time slippages. In 2011, we reported that assessment of Army and Air Force accounting systems found operational problems, gaps in capabilities that required manual work-arounds, and training that was not focused on system operations. As a result, financial services staff had difficulty using these systems to perform daily operations. Our own assessment of these systems had similar results.

GAO also reported in 2011 on weaknesses in DOD enterprise architecture and business processes that affect DOD's auditability. While DOD and the military departments largely follow DOD's business process reengineering guidance to assess business system investments, they have not yet performed the key step of validating assessment results. DOD has taken corrective actions in response to our recommendations, and we have work underway to evaluate its continuing efforts.

In closing, we are encouraged by the sustained commitment of the DOD leadership. Duty components now have the responsibility to implement the FIAR plan and respond to our recommendations and to implement our recommendations and those of the IG. That must be followed through with actions in full accordance with the FIAR guidance, and business systems following the best practice and sustained progress over the long-term will be needed for full auditability. To support the subcommittee's oversight, GAO will continue monitoring and reporting on DOD's financial management improvement efforts.

Madam Chairman, this concludes my prepared statement. I will be pleased to answer any questions that you or others may have. Thank you.

[The prepared statement of Mr. Khan follows:]

PREPARED STATEMENT BY ASIF A. KHAN

Chairman McCaskill, Ranking Member Ayotte, members of the subcommittee:

It is a pleasure to be here today to discuss the status of the Department of Defense's (DOD) efforts to improve its financial management and related business operations and to achieve audit readiness. DOD has been required to prepare department-wide financial statements and have them audited since 1997 but through 2011 has not been able to meet this requirement.[1] On October 13, 2011, the Secretary of Defense directed the department to achieve audit readiness for the Statement of Budgetary Resources (SBR) for General Fund[2] activities by the end of fiscal year 2014[3] as an interim milestone toward meeting the mandate in the National Defense Authorization Act (NDAA) for Fiscal Year 2010 to achieve full audit readiness for DOD's complete set of financial statements by the end of 2017.[4] Given the Federal Government's fiscal challenges, it is more important than ever that Congress, the administration, and Federal managers have reliable, useful, and timely financial and performance information, particularly for the government's largest department.

Today, I will discuss DOD's progress toward: (1) achieving the goals of an auditable SBR by fiscal year 2014 and a complete set of auditable financial statements by fiscal year 2017, including the development of interim milestones for both audit readiness goals, (2) acquiring and implementing new enterprise resource programs and other critical financial management systems, (3) reengineering business processes and instituting needed controls, and (4) implementing a comprehensive business enterprise architecture and transition plan, and improved investment control processes. My statement today is primarily based on our prior work related to the department's efforts to achieve audit readiness, implement modernized business systems and a business enterprise architecture, and reengineer its business processes. In addition, we are providing information on DOD's updated plans for achieving auditability presented at a February 2012 briefing. Specifically, we are pre-

[1] The Chief Financial Officers Act of 1990, Pub. L. No. 101.576, title III, § 303, 104 Stat. 2838, 2849 (Nov. 15, 1990), initially required annual audited financial statements of certain DOD components and activities, but the Government Management Reform Act of 1994, Pub. L. No. 103–356, § 405, 108 Stat. 3410, 3415 (Oct. 13, 1994), expanded the annual requirement to department-wide financial statements beginning with fiscal year 1996, which at the time had to be prepared no later than March 1, 1997. See 31 U.S.C. § 3515.

[2] An agency's general fund accounts are those accounts in the U.S. Treasury holding all Federal money not allocated by law to any other fund account. GAO, High-Risk Series: An Update, GA0–11–278 (Washington, DC: Feb. 16, 2011).

[3] DOD, Secretary of Defense Memorandum, "Improving Financial Information and Achieving Audit Readiness," October 13, 2011.

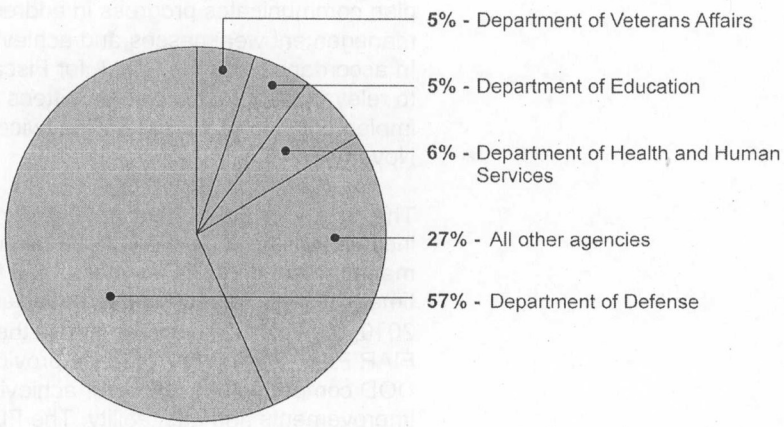
[4] Pub. L. No. 111–84, § 1003(a), (b), 123 Stat. 2190, 2439–40 (Oct. 28, 2009).

senting a comparison of key milestones in the February 2012 DOD briefing[5] that outlined its plans to accelerate the timeframe to achieve SBR auditability with DOD's May 2011 Financial Improvement and Audit Readiness (FIAR) plan. We also conducted interviews with DOD officials about the February 2012 briefing. We did not independently verify information contained in the February 2012 briefing with DOD or any of its components or agencies. Our work on which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Additional information on our scope and methodology is available in previously issued products.

BACKGROUND

According to the fiscal year 2013 President's budget, DOD accounts for about 57 percent of the discretionary Federal budget authority. (See figure 1.)

Figure 1: Comparison of DOD's Fiscal Year Budget Authority with That of Other Federal Agencies



Source: GAO analysis of FY 2013, Historical Tables, *Budget of the United States Government*.

For fiscal year 2011, of the 24 agencies covered by the Chief Financial Officers Act of 1990 (CFO Act), DOD was the only agency to receive a disclaimer of opinion on all of its financial statements.[6] The DOD Inspector General (IG) reported that:

- the department's fiscal year 2011 financial statements would not substantially conform to generally accepted accounting principles;
- DOD's financial management and feeder systems were unable to adequately support material amounts on the financial statements; and
- longstanding material internal control weaknesses identified in prior audits continued to exist, including material weaknesses in areas such as financial management systems, Fund Balance with Treasury, Accounts Receivable, and General Property, Plant, and Equipment.

In 2005, the DOD Comptroller first prepared the Financial Improvement and Audit Readiness (FIAR) Plan for improving the department's business processes. The FIAR Plan is DOD's strategic plan and management tool for guiding, moni-

[5] Office of the Secretary of Defense (Comptroller), Accelerated FIAR Plan, presented to the staff of the House Committee on Oversight and Government Reform, February 14, 2012.

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

toring, and reporting on the department's financial manage111ent improvement efforts. As such, the plan communicates progress in addressing the department's financial management weaknesses arid achieving financial statement auditability. In accordance with the NDAA for Fiscal Year 2010, DOD provides reports to relevant congressional committees on the status of DOD's implementation of the FIAR Plan twice a year—no later than May 15 and November 15.[7]

The NDAA for Fiscal Year 2010 also mandated that the FIAR Plan include the specific actions to be taken to correct the financial management deficiencies that impair the department's ability to prepare timely, reliable, and complete financial management information.[8] In May 2010, the DOD Comptroller issued the FIAR Guidance to implement the FIAR Plan. The FIAR Guidance provides a standardized methodology for DOD components to follow for achieving financial management improvements and auditability. The FIAR Guidance requires DOD components to identify and prioritize their business processes into assessable units,[9] and then prepare a Financial Improvement Plan (FIP) for each assessable unit in accordance with the FIAR Guidance. Many of the procedures required by the FIAR Guidance are consistent with selected procedures for conducting a financial audit, such as testing internal controls and information system controls. In September 2010, we reported that the department needed to focus on implementing its FIAR Plan and that the key to successful implementation would be the efforts of the DOD military components and the quality of their individual FIPs.[10]

A FIP serves as a framework of steps and documentation requirements for both planning and implementing the FiAR Guidance. For example, civilian and military pay are two assessable units for which DOD components such as the Army, Navy, and Air Force are expected to develop and implement FIPs in accordance with the FIAR Guidance. The steps required for these plans include assessing processes, controls, and systems; identifying and correcting weaknesses; assessing, validating, and sustaining corrective actions; and ultimately achieving audit readiness. After a component's management determines that an assessable unit is ready for audit, both the DOD Comptroller and the DOD Inspector General (IG) review the related FIP documentation to determine if they agree with management's conclusion of audit readiness.

DOD intends to progress toward achieving financial statement auditability by executing the FIAR Guidance methodology for groups of assessable units across four waves. Under the FIAR Plan, successful execution of the FIAR Guidance methodology for groups of assessable units across these waves is intended to result in the audit readiness of various components' financial statements through fiscal year 2017. The first two waves of the FIAR Plan focus on achieving the DOD Comptroller's interim budgetary priorities, which DOD believes should lead to an auditable SBR. The third wave focuses on accountability for DOD's mission-critical assets, and the fourth wave focuses on the remaining assessable units constituting DOD's complete set of financial statements.

As mentioned earlier, the Secretary of Defense directed the department to achieve audit readiness for the SBR for General Fund activities by the end of fiscal year 2014. The NDAA for Fiscal Year 2012 reinforced this directive by requiring that the next FIAR Plan Status Report—to be issued in May 2012—include a plan, with interim objectives and milestones for each military department and the defense agencies, to support the goal of SBR audit readiness by 2014.[11] The NDAA for Fiscal Year 2012 also requires the plan to include process and control improvements and business systems modernization efforts necessary for the department to consistently prepare timely, reliable, and complete financial management information.

The SBR is the only financial statement predominantly derived from an entity's budgetary accounts in accordance with budgetary accounting rules, which are incorporated into generally accepted accounting principles (GAAP) for the Federal Government. The SBR is designed to provide information on authorized budgeted spending authority reported in the budget of the U.S. Government (President's budget), including budgetary resources, availability of budgetary resources, and how obligated resources have been used.

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[7] Pub. L. No. 111–84, sec. 1003(b).

[8] Pub. L. No. 111–84, sec. 1003(a)(2).

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

[10] 10GAO, Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve. GA0–10–1059T (Washington, DC: Sept. 29, 2010).

[11] Pub. L. No. 112–81, § 1003, 125 Stat. 1298, 1555 (Dec. 31, 2011).

Overview of DOD's Accounting and Business Operations

In November 1990, DOD created the Defense Finance and Accounting Service (DFAS) as its accounting agency to consolidate, standardize, and integrate finance and accounting requirements, functions, procedures, operations, and systems.[12] The military services continue to perform certain finance and accounting activities at each military installation. These activities vary by military service depending on what the services retained and the number of personnel they transferred to DFAS. As DOD's accounting agency, DFAS is critical to DOD auditability as it records transactions in the accounting records, prepares thousands of reports used by managers throughout DOD and by Congress, and prepares DOD-wide and service-specific financial statements. The military services play a vital role in that they authorize most of DOD's expenditures and are the source of most of the financial information that DFAS uses to make payroll and contractor payments. The military services also have responsibility for most of DOD's assets and the related information needed by DFAS to prepare annual financial statements required under the CFO Act.

To support its operations, DOD performs an assortment of interrelated and interdependent business functions, such as logistics, procurement, health care, and financial management. As we have previously reported, the DOD systems environment that supports these business functions has been overly complex, decentralized, and error prone, characterized by: (1) little standardization across the department; (2) multiple systems performing the same tasks and storing the same data; and (3) the need for data to be entered manually into multiple systems. For fiscal year 2012, the department requested about $17.3 billion to operate, maintain, and modernize its business systems. DOD has reported that it relies on 2,258 business systems, including 335 financial management systems, 709 human resource management systems, 645 logistics systems, 243 real property and installation systems, and 281 weapon acquisition management systems.

Importance of Business Enterprise Architecture and Reengineering Business Processes

For decades, DOD has been challenged in modernizing its timeworn business systems. Since 1995, GAO has designated DOD's business systems modernization program as high risk. In June 2011, we reported that the modernization program had spent hundreds of millions of dollars on an enterprise architecture and investment management structures that had limited value.[13] As our research on public and private sector organizations has shown, two essential ingredients to a successful systems modernization program are an effective institutional approach to managing information technology (IT) investments and a well defined enterprise architecture.[14] For its business systems modernization, DOD is developing and using a federated business enterprise architecture, which is a coherent family of parent and subsidiary architectures, to help modernize its nonintegrated and duplicative business operations and the systems that support them.

Section 1072 of the NDAA for Fiscal Year 2010 requires that programs submitted for approval under DOD's business system investment approach be assessed to determine whether or not appropriate business-process reengineering efforts have been undertaken. The act further states that these efforts should ensure that the business process to be supported by the defense business system modernization will be as streamlined and efficient as practicable and the need to tailor commercial off-the-shelf systems to meet unique requirements or incorporate unique interfaces has been eliminated or reduced to the maximum extent practicable.[15]

CHALLENGES IN ACHIEVING AUDIT READINESS

GAO's recent work highlights the types of challenges facing DOD as it strives to attain audit readiness and reengineer its business processes and systems. DOD leadership has committed DOD to the goal of auditable financial statement and has developed FIAR Guidance to provide specific instructions for DOD components to follow for achieving auditability incrementally. The department and its components also established interim milestones for achieving audit readiness for various parts (or assessable units) of the financial statements. These efforts are an important step forward. The urgency in addressing these challenges has been increased by the recent efforts to accelerate audit readiness time frames, in particular attaining audit readiness for the department's SBR by fiscal year 2014. Our September 2011 report

[12] DOD Directive 5118.5, "Defense Finance and Accounting Service" (Nov. 26, 1990).

[13] GAO, Department of Defense: Further Actions Needed to Institutionalize Key Business System Modernization Management Controls, GA0–11–684 (Washington, DC: June 29, 2011).

[14] GA0–11–684.

[15] Pub. L. No.111–84, § 1072 (amending 10 U.S.C. 2222).

highlights the types of challenges DOD may continue to face as it strives to attain audit readiness, including instances in which DOD components prematurely asserted audit readiness and missed interim milestones.[16] Also, DOD's efforts over the past couple of years to achieve audit readiness for some significant SBR assessable units have not been successful. However, these experiences can serve to provide lessons for DOD and its components to consider in addressing the department's auditability challenges.

DOD Component Compliance with FIAR Guidance Is Crucial to Ensuring Audit Readiness

DOD's ability to achieve department-wide audit readiness is highly dependent on its military components' ability to effectively develop and implement FIPs in compliance with DOD's FIAR Guidance. However, in our September 2011 report, we identified several instances in which the components did not prepare FIPs that fully complied with the FIAR Guidance, resulting in premature assertions of audit readiness.

Specifically, as we reported in September 2011, the FIAR Guidance provides a reasonable methodology for the DOD components to follow in developing and implementing their FIPs.[17] It details the roles and responsibilities of the DOD components, and prescribes a standard, systematic approach that components should follow to assess processes, controls, and systems, and identify and correct weaknesses in order to achieve auditability. When DOD components determine that sufficient financial improvement effort have been completed for an assessable unit in accordance with the FIAR Guidance and that the assessable unit is ready for audit, the FIP documentation is used to support the conclusion of audit readiness. Thus, complying with the FIAR Guidance can provide a consistent, systematic means for DOD components to achieve and verify audit readiness incrementally.

We found that when DOD components did not prepare FIPs that fully complied with the FIAR Guidance, they made assertions of audit readiness prematurely and did not achieve interim milestones.[18] While the components initially appeared to meet some milestones by asserting audit readiness in a timely manner, reviews of supporting documentation for the FIPs of two assessable units and full audits of the Marine Corps' SBR revealed that the milestones had not been met because the assessable units were not actually ready for audit. For example, the Navy asserted audit readiness for its civilian pay in March 2010 and the Air Force asserted audit readiness for its military equipment in December 2010. However, we reported that neither component had adequately developed and implemented their FIPs for these assessable units in accordance with the FIAR Guidance and were therefore not ready for audit. The Marine Corps first asserted financial audit readiness for its General Fund SBR on September 15, 2008. The DOD IG reviewed the Marine Corps' assertion package and on April 10, 2009, reported that the assertion of audit readiness was not accurate, and that its documentation supporting the assertion was not complete. GAO has made prior recommendations to address these issues. DOD has generally agreed with these recommendations and is taking corrective actions in response.

Reported DOD Progress toward Audit Readiness for the Statement of Budgetary Resources

The Secretary of Defense's direction to achieve audit readiness for the SBR by the end of 2014 necessitated that DOD's components revise some of their plans and put more focus on short-term efforts to develop accurate data for the SBR in order to achieve this new accelerated goal.[19] In August 2011, DOD's military components achieved one milestone toward SBR auditability when they all received validation by an independent public accounting firm that their Appropriations Receipt and Distribution—a section of the SBR—was ready for audit. In addition, the November 2011 FIAR Plan Status Report indicated that the Air Force, achieved audit readiness for its Fund Balance with Treasury (FBWT).

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[16] GAO, DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Effort, GA0–11–851 (Washington, DC: September 13, 2011).

[17] GA0–11–851.

[18] GA0–11–851.

[19] In addition to requiring audit readiness of the SBR, the Secretary's memo also directed the DOD Comptroller to increase emphasis on accountability for assets; execute a full review of the department's financial controls over the next 2 years and establish interim goals for assessing progress; ensure mandatory training for audit and other key financial efforts, and establish a pilot certification program for financial managers; appropriately resource efforts to meet these goals; and meet the legal requirement for full financial statement audit readiness by 2017.

Further, in a February 2012 briefing on its accelerated plans, DOD indicated that 7 of 24 material general fund Defense Agencies and Other Defense Organizations are either already sustaining SBR audits or are ready to have their SBRs audited.[20] These accomplishments represent important positive steps. Nevertheless, achieving audit readiness for the military components' full SBRs is likely to poses significant challenges based on the longstanding financial management weaknesses and audit issues affecting key SBR assessable units. Our recent reports highlight some of the difficulties that the components have experienced recently related to achieving an auditable SBR, including:

- the Army's inability to locate and provide supporting documentation for its military pay;[21]
- the Navy's and Marine Corps' inability to reconcile their Fund Balance with Treasury accounts;[22] and
- the Marine Corps' inability to provide sufficient documentation to auditors of its SBR.[23]

To achieve SBR audit readiness by 2014, DOD and its components need accelerated, yet feasible, well-developed plans for identifying and correcting weaknesses in the myriad processes involved in producing the data needed for the SBR. While DOD has developed an accelerated FIAR Plan to provide an overall view of the department's approach for meeting the 2014 goal, most of the work must be carried out at the component level.

Army's Inability to Accurately Account for Military Pay

The Army's active duty military payroll, reported at $46.1 billion for fiscal year 2010, made up about 20 percent of its reported net outlays for that year. As such, it is significant to both Army and DOD efforts to achieving auditability for the SBR. For years, we and others have reported continuing deficiencies in the Army's military payroll processes and controls.[24] Moreover, other military components such as the Air Force and Navy share some of these same military payroll deficiencies.

In March 2012, we reported that the Army could not readily identify a complete population of its payroll accounts for fiscal year 2010.[25] DOD's FIAR Guidance states that identifying the population of transactions is a key task essential to achieving audit readiness. However, the Army and DFAS-Indianapolis (DFAS–IN), which is responsible for accounting, disbursing, and reporting for the Army's military personnel costs, did not have an effective, repeatable process for identifying the population of active-duty payroll records. For example, it took 3 months and repeated attempts before DFAS–IN could provide a population of servicemembers who received active duty Army military pay in fiscal year 2010. Further, because the Army does not have an integrated military personnel and payroll system, it was necessary to compare the payroll file to active Army personnel records. However, DOD's central repository for information on DOD-affiliated personnel did not have an effective process for comparing military pay account files with military personnel files to identify a valid population of military payroll transactions.

In addition, the Army and DFAS–IN were unable to provide documentation to support the validity and accuracy of a sample of fiscal year 2010 payroll transactions we selected for review. For example, DFAS–IN had difficulty retrieving and providing usable Leave and Earnings Statement files and the Army was unable to locate or provide supporting personnel documents for a statistical sample of fiscal

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[20] According to the February 2012 accelerated plan, the seven defense agencies and Other Defense Organizations that are already sustaining SBR audits are the Defense Finance and Accounting Service(DFAS), Defense Contract Audit Agency (DCAA), TRICARE Management Activity-Contract Resource Management, Defense Commissary Agency, Medicare Eligible Retiree Healthcare Fund, Military Retirement Fund, and the DOD Office of the Inspector General.

[21] GAO, DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay, GA0–12–501T (Washington, DC: March 22, 2012).

[22] GAO, DOD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury, GA0–12–132 (Washington, DC: Dec. 20, 2011).

[23] GAO, DOD Financial Management: Marine Corps Statement of Budgetary Resources Audit Results and Lessons Learned, GA0–11–830 (Washington, DC: Sept. 15, 2011).

[24] DOD Inspector General, Active Duty Military Personnel Accounts Were Generally Valid and Secure, but DOD May have Made Improper Payments, D–2011–093 (Arlington, VA: July 27, 2011); GAO, Military Pay: The Defense Finance and Accounting Service-Indianapolis Could Improve Control Activities over Its Processing of Active Duty Army Military Personnel Federal Payroll Taxes, GA0–09–557R (Washington, DC: June 18, 2009); Military Pay: Hundreds of Battle-Injured GWOT Soldiers Have Struggled to Resolve Military Debts, GA0–06–494 (Washington, DC: Apr. 27, 2006}; Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems, GA0–04–89 (Washington, DC: Nov. 13, 2003}.

[25] GAO, DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay, GA0–12–406 (Washington, DC: Mar. 22, 2012).

year 2010 Army military pay accounts. At the end of September 2011, 6 months after we had provided them with our sample of 250 items, the Army and DFAS–IN were able to provide complete documentation for only 2 of the sample items and provided only partial documentation for another 3 items; they were unable to provide any documentation for the remaining 245 sample items.

At the time of our report, the Army had several military pay audit readiness efforts planned or under way. Timely and effective implementation of these efforts could help reduce the risk of DOD not achieving the SBR audit readiness goal of 2014. However, most of these actions are in the early planning stages. Moreover, these initiatives, while important, do not address: (1) establishing effective processes and systems for identifying a valid population of military payroll records; (2) ensuring Leave and Earnings Statement files and supporting personnel documents are readily available for verifying the accuracy of payroll records; (3) ensuring key personnel and other pay-related documents that support military payroll transactions are centrally located, retained in servicemember Official Military Personnel Files, or otherwise readily accessible; and (4) requiring the Army's Human Resources Command to periodically review and confirm that servicemembers' Official Military Personnel File records are consistent and complete to support annual financial audit requirements. GAO has made prior recommendations to address these issues. DOD has agreed with these recommendations and is taking corrective actions in response.

Navy's and Marine Corps' Inability to Reconcile Fund Balance with Treasury

A successful audit of the SBR is dependent on the ability to reconcile an agency's Fund Balance with Treasury (FBWT) with the Treasury records. FBWT is an account that reflects an agency's available budget spending authority by tracking its collections and disbursements. Reconciling a FBWT account with Treasury records is a process similar in concept to reconciling a check book with a bank statement. In December 2011, we reported that neither the Navy nor the Marine Corps had implemented effective processes for reconciling their FBWT.[26]

The Navy and the Marine Corps rely on the DFAS location in Cleveland (DFAS–CL) to perform their FBWT reconciliations. We found numerous deficiencies in DFAS processes that impair the Navy's and the Marine Corps's ability to effectively reconcile their FBWT with Treasury records, including the following:

- There are significant data reliability issues with the Defense Cash Accountability System (DCAS), which records daily collections and disbursements activity. The Navy and Marine Corps rely on DCAS to reconcile their FBWT to Treasury records.
- DFAS–CL did not maintain adequate documentation for the sample items we tested to enable an independent evaluation of its efforts to research and resolve differences.
- DFAS–CL recorded unsupported entries (plugs) to force the Navy and Marine Corps appropriation balances to agree with those reported by Treasury instead of investigating and resolving differences between these two services' appropriation balances and those maintained by Treasury.

Navy, Marine Corps, and DFAS–CL officials acknowledged that existing FBWT policies and procedures were inadequate. Navy and DFAS–CL officials stated that the base realignment and closure changes from 2006 through 2008 resulted in loss of experienced DFAS–CL personnel and that remaining staff have not received the needed training. In response to our recommendations, the Navy is developing a plan of action and milestones intended to address the Navy's audit readiness weaknesses, including FBWT required reconciliations.

Difficulty in Auditing the Marine Corps' Statement of Budgetary Resources

The Marine Corps received disclaimers of opinion from its auditors on its fiscal year 2010 and 2011 SBRs because it could not provide supporting documentation in a timely manner, and support for transactions was missing or incomplete. Further, the Marine Corps had not resolved significant accounting and information technology (IT) system weaknesses identified in the fiscal year 2010 SBR audit effort.

The auditors also reported that the Marine Corps did not have adequate processes and controls, including systems controls, for accounting and reporting on the use of budgetary resources. Further, the Marine Corps could not provide evidence that reconciliations for key accounts (such as FBWT) and processes were being performed on a monthly basis. The auditors also identified ineffective controls in key IT systems used by the Marine Corps to process financial data. During fiscal year 2011,

[26] GA0–12–132.

however, the Marine Corps was able to demonstrate progress toward auditability. For example, its auditors confirmed that as of October 2011, the Marine Corps had fully implemented 50 out of 139 fiscal year 2010 audit recommendations.

The results of the audit for fiscal year 2010 provided valuable lessons on preparing for a first-time financial statement audit. In our September 2011 report, we identified five fundamental lessons that are critical to success.[27] Specifically, the Marine Corps' experience demonstrated that prior to asserting financial statement audit readiness, DOD components must: (1) confirm completeness of populations of transactions and address any abnormal transactions and balances; (2) test beginning balances; (3) perform key reconciliations; (4) provide timely and complete response to audit documentation requests; and (5) verify that key IT systems are compliant with the Federal Financial Management Improvement Act of 1996[28] and are auditable. GAO has made prior recommendations to address these issues. DOD has generally agreed with these recommendations and is taking corrective actions in response.

These issues are addressed in GAO's Standards for Internal Control in the Federal Government[29] and DOD's FIAR Guidance. During our audit, Navy, Army, and Air Force FIP officials stated that they were aware of the Marine Corps lessons and were planning to, or had, incorporated them to varying degrees into their audit readiness plans.

Accelerated Plans for SBR Are in Progress

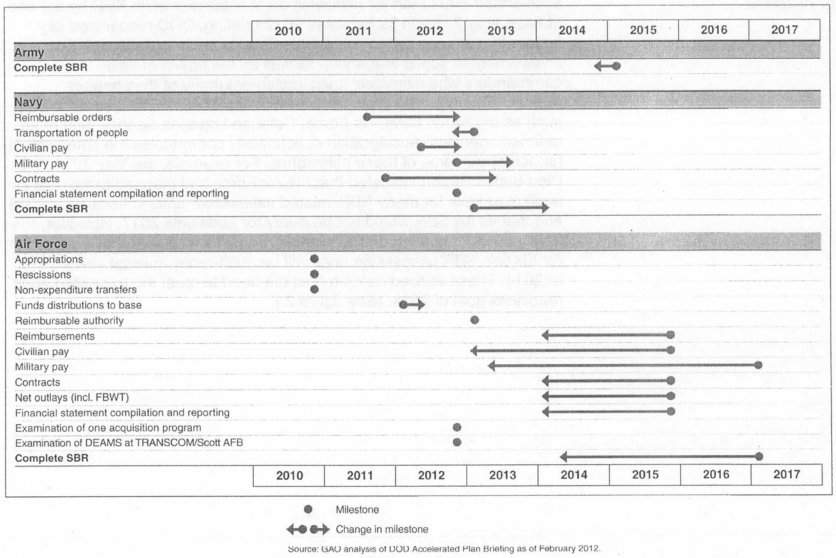
In its November 2011 FIAR Plan, DOD provided an overall view of it accelerated FIAR Plan for achieving audit readiness of its SBR by the end of fiscal year 2014. In its February 2012 briefing, DOD recognized key factors that are needed to achieve auditability such as the consistent involvement of senior leadership as well as the buy-in of field commanders who ultimately must implement many of the changes needed. The plan also provided interim milestones for DOD components such as the Army, Navy, Air Force, Defense Logistics Agency, and other defense agencies. Acceleration substantially compresses the time allotted for achieving some of these milestones. For example, the May 2011 FIAR Plan Status Report indicated that the Air Force had planned to validate its audit readiness for many SBR-related assessable units in fiscal year 2016 and that its full SBR would not be ready for audit until2017. However, the February 2012 briefing on the accelerated plans indicated that most of the Air Force's SBR assessable units will be audit-ready in fiscal years 2013 or 2014. These revised dates reflect the need to meet the expedited audit readiness goal of 2014. (See figure 2.)

[27] GA0–11–830.

[28] CFO Act agencies' financial management systems are required by the Federal Financial Management Improvement Act of 1996 (FFMIA) to comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level, Pub. L. No. 104–208, div. A, title VIII, § 803, 110 Stat. 3009, 3009–390 (Sept. 30, 1996).

[29] GAO, Standards for Internal Control in the Federal Government (Supersedes AIMD–98–21.3.1), AIMD–00–21.3.1, (Washington, DC: November 1999).

Figure 2: Changes in SBR Interim Milestones



Source: GAO analysis of DOD Accelerated Plan Briefing as of February 2012.

As discussed earlier, the key to audit readiness is for DOD components to effectively develop and implement FIPs for SBR assessable units, and to meet interim milestones as they work toward the 2014 goal. According to Navy officials, the Navy plans to prepare a FIP for each of several assessable units that make up the SBR. For example, for its SBR, Navy officials told us they have identified assessable units for appropriations received, and for various types of expenditures for which funds are first obligated and then disbursed, such as military pay, civilian pay, contracts, and transportation of people. The Air Force will prepare FIPs for assessable units similar to those of the Navy. Army officials told us they are taking a different approach from the Navy. They said that instead of developing FIPs for discrete assessable units constituting the SBR, they are preparing only one FIP for one audit readiness date for the Army's entire SBR, an approach similar to that of the Marine Corps.

EFFECTIVE IMPLEMENTATION OF BUSINESS SYSTEMS IS CRITICAL

For years, DOD has been developing and implementing enterprise resource planning (ERP) systems, which are intended to be the backbone to improved financial management.[30] DOD considers the successful implementation of these ERP systems critical to transforming its business operations and addressing longstanding weaknesses in areas such as financial and supply-chain management and business systems modernization. DOD officials have also stated that these systems are critical to ensuring the department meets its mandated September 30, 2017, goal to have auditable department wide financial statements. However, as we recently reported, six of these ERP systems are not scheduled to be fully deployed until either fiscal year 2017 or the end of fiscal year 2016.[31]

The DOD IG reported that the Navy developed and approved deployment of the Navy ERP System without ensuring that the system complied with DOD's Standard Financial Information Structure (SFIS) and the U.S. Government Standard General

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

[31] DOD Inspector General, Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and. U.S. Government Standard General Ledger, DOD IG–2012–051 (Arlington, VA: Feb. 13, 2012).

Ledger.[32] The DOD IG further stated that as a result, the Navy ERP System, which is expected to manage 54 percent of the Navy's obligation authority when fully deployed, might not produce accurate and reliable financial information.

Two ERP systems—the Army's General Fund Enterprise Business System (GFEBS) and the Air Force's Defense Enterprise Accounting and Management System (DEAMS)—are general ledger systems intended to support a wide range of financial management and accounting functions. However, DFAS users of these systems told us that they were having difficulties using the systems to perform their daily operations. Problems identified by DFAS users included interoperability deficiencies between legacy systems and the new ERP systems, lack of query and ad hoc reporting capabilities, and reduced visibility for tracing transactions to resolve accounting differences. For example:

- Approximately two-thirds of invoice and receipt data must be manually entered into GFEBS from the invoicing and receiving system due to interface problems. Army officials explained that the primary cause of the problem was that the interface specification that GFEBS is required by DOD to use did not provide the same level of functionality as the interface specification used by the legacy systems. At the time of our review, Army officials stated that they are working with DOD to resolve the problem, but no time frame for resolution had been established.
- DEAMS did not provide the capability—which existed in the legacy systems—to produce ad hoc query reports that could be used to perform data analysis needed for day-to-day operations. DFAS officials noted that when DEAMS did produce requested reports, the accuracy of those reports was questionable. According to DFAS officials, they are currently working with DEAMS financial management to design the type of reports that DFAS needs.

While we were told that as of February 2012, the Army and Air Force had corrective actions under way to address identified deficiencies, specific timelines had not been developed so that progress could be monitored.[33]

In February 2012, we reported that independent assessments of four ERPs—the Army's GFEBS and Global Combat Support System (GCSS-Army), and the Air Force's DEAMS and Expeditionary Combat Support System (ECSS)—identified operational problems, such as deficiencies in data accuracy, inability to generate auditable financial reports, the need for manual workarounds, and training.[34] DOD oversight authority limited the deployment of GFEBS and DEAMS on the basis of the results of the independent assessments. However, in June 2011, DOD authorized continued deployment of GFEBS and delegated further GFEBS deployment decisions to the Under Secretary of the Army.

In addition to functional issues, we found that training was inadequate. According to DFAS personnel as of February 2012, the training they received for GFEBS and DEAMS did not fully meet their needs. DFAS personnel informed us that the training focused on an overview of GFEBS and DEAMS and how the systems were supposed to operate. While this was benefiCial in identifying how GFEBS and DEAMS were different from the existing legacy systems, the training focused too much on concepts rather than the skills needed for DFAS users to perform their day-to-day operations. GAO has made prior recommendations to address these issues. DOD has generally agreed with these recommendations and is taking corrective actions in response.

CHALLENGES IN DEVELOPING AND IMPLEMENTING DOD'S BUSINESS ENTERPRISE ARCHITECTURE AND INVESTMENT CONTROL PROCESSES

Improving the department's business environment through efforts such as DOD's business enterprise architecture and improved business systems management is an important part of helping DOD achieve auditability. In June 2011, we reported that DOD had continued to make progress in implementing a comprehensive business enterprise architecture, transition plan, and improved investment control processes.[35] However, we also reported that long standing challenges had yet to be ad-

[32] DOD Inspector General, Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and U.S. Government Standard General Ledger, DOD IG–2012–051 (Arlington, VA: Feb. 13, 2012).

[33] GAO, DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals, GA0–12–134 (Washington, DC: Feb. 28, 2012).

[34] GA0–12–134.

[35] GA0–11–684.

dressed. Specifically, we reported that while DOD continued to release updates to its corporate enterprise architecture, the architecture had yet to be augmented by a coherent family of related subsidiary architectures.[36] For example, we reported that while each of the military departments had developed aspects of a business architecture and transition plan, none of them had fully developed a well defined business enterprise architecture and transition plan to guide and constrain business transformation initiatives.[37]

We also reported in June 2011 that DOD continued to improve its business system investment management processes, but that much remained to be accomplished to align these processes with investment management practices associated with individual projects and with portfolios of projects.[38] With regard to individual projects, DOD and the military departments all had documented policies and procedures for identifying and collecting information about IT projects and systems to support their business system investment management processes. However, neither DOD nor the military departments had fully documented policies and procedures for selecting a new investment, reselecting ongoing investments, integrating funding with investment selection, or management oversight of IT projects and systems. With regard to portfolios of projects, DOD and the Departments of the Air Force and Navy had assigned responsibility for managing the development and modification of IT portfolio selection criteria. However, neither DOD nor the military departments had fully documented policies and procedures for creating and modifying IT portfolio selection criteria; analyzing, selecting, and maintaining their investment portfolios; reviewing, evaluating, and improving the performance of their portfolios; or conducting post implementation reviews. In addition, while DOD largely followed its certification and oversight processes, we reported that key steps were not performed. For example, as part of the certification process, DOD assessed investment alignment with the business enterprise architecture, but did not validate the results of this assessment, thus increasing the risk that decisions regarding certification would be based on inaccurate and unreliable information.

Since 2001, we have made recommendations to improve DOD's business architecture, enterprise transition plan, and business system investment management.[39] DOD has generally agreed with these recommendations and is taking corrective actions in response. It is essential that DOD implement our recommendations aimed at addressing these longstanding challenges, as doing so is critical to the department's ability to establish the full range of institutional management controls needed for its financial management as well as its overall business systems modernization high-risk program. We have ongoing work to evaluate the department's efforts to comply with the NDAA for Fiscal Year 2012, as amended, including updating our evaluations of DOD's comprehensive business enterprise architecture and transition plan and improved investment control processes.

DOD HAS BEGUN PERFORMING BUSINESS-PROCESS REENGINEERING ASSESSMENTS

Section 1072 of the NDAA for Fiscal Year 2010 requires that new DOD programs be assessed to determine whether or not appropriate business-process reengineering efforts have been undertaken. The act further states that these efforts should ensure that: (1) the business process to be supported by the defense business system

[36] DOD's business enterprise architecture approach calls for a federated approach, in which the architecture consists of a family of coherent but distinct member architectures that conform to an overarching corporate or parent architecture.

[37] GA0–11–684.

[38] These best practices are identified in GAO IT investment management guidance. See GAO, Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity, GA0–04–394G (Washington, DC: Mar. 2004).

[39] See, for example, GAO, Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations, GA0–01–525 (Washington, DC: May 17, 2001); DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed, GA0–03–458 (Washington, DC: Feb. 28, 2003); Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed, GA0–06–658 (Washington, DC: May 15, 2006); Business Systems Modernization: Strategy for Evolving DOD's Business Enterprise Architecture Offers a Conceptual Approach, but Execution Details Are Needed, GA0–07–451 (Washington, DC: Apr. 16, 2007); Business Systems Modernization: DOD Needs to Fully Define Policies and Procedures for Institutionally Managing Investments, GA0–07–538 (Washington, DC: May 11, 2007); DOD Business Systems Modernization: Progress in Establishing Corporate Management Controls Needs to Be Replicated Within Military Departments, GA0–08–705 (Washington, DC: May 15, 2008); DOD Business Systems Modernization: Recent Slowdown in Institutionalizing Key Management Controls Needs to Be Addressed, GA0–09–586 (Washington, DC: May 18, 2009); Organizational Transformation: Military Departments Can Improve Their Enterprise Architecture Programs, GA0–11–902 (Washington, DC, Sept 26, 2011).

modernization will be as streamlined and efficient as practicable; and (2) the need to tailor commercial off-the-shelf systems to meet unique requirements or incorporate unique interfaces has been eliminated or reduced to the maximum extent practicable.[40] In June 2011, we reported that, for those investments we reviewed, DOD and the military departments used DOD's Business Process Reengineering Guidance (dated April 2011) to assess whether the investments complied with the business-process reengineering requirement.[41] Consistent with the guidance, DOD and the military departments completed questionnaires to help them identify and develop approaches to streamlining and improving existing business processes. Once these assessments had been completed, the appropriate authorities asserted that business-process reengineering assessments had been performed.

We also reported in June 2011 that while DOD and the military departments largely followed DOD's guidance, they did not perform the key step of validating the results of these reengineering assessments to ensure that they, among other things, accurately assessed process weaknesses and identified opportunities to streamline and improve affected processes. The reason DOD did not follow key aspects of the certification process-primarily not validating assessment results-was attributed in part to unclear roles and responsibilities. According to military department officials responsible for the investments we reviewed, validation activities did not occur because DOD policy and guidance did not explicitly require them to be performed. In addition, there was no guidance that specified how assessments should be validated. According to DOD officials, the oversight and designated approval authorities did not validate the DOD level assessments and assertions because DOD policy and guidance had not yet been revised to require these authorities to do so. We have work underway to evaluate DOD's efforts to improve its business system investment process, including its efforts to address the act's business process reengineering requirement. GAO has made prior recommendations to address these issues. DOD has agreed with these recommendations and is taking corrective actions in response.

CONCLUDING OBSERVATIONS

In closing, DOD has demonstrated leadership and sustained commitment since the first issuance of its FIAR Plan in 2005 and through improvements and responsiveness to our recommendations since then. DOD has made progress through the FIAR Guidance, with the development of a methodology for implementing the FIAR strategy. Full compliance with the guidance can provide a consistent, systematic process to help DOD components achieve and verify audit readiness. Without full compliance, as we have seen in our work, components may assert audit readiness while process deficiencies prevent validation, require corrective actions, and delay an audit for another fiscal year.

Automated information systems are essential for modern accounting and recordkeeping. DOD is developing its ERP systems as the backbone of its financial management improvement and they are critical for transforming its business operations. To be fully successful, implementation of ERP systems should be consistent with an effective corporate enterprise architecture and the development of streamlined business processes. DOD officials have stated that these systems are critical to ensuring that the department meets its mandated September 30, 2017, goal to have auditable department-wide financial statements. However, implementation has been delayed by deficiencies in performance and the need for remedial corrective actions. DOD components will evaluate cost-effective modifications to legacy systems and implement any necessary changes. According to DOD officials, for the ERP systems that will not be fully deployed prior to the audit readiness goals, the DOD components will need to identify effective workaround processes or modifications to legacy systems that will enable audit readiness.

DOD faces considerable implementation challenges and has much work to do if it is to meet the goals of an auditable SBR by fiscal year 2014 and a complete set of auditable financial statements by fiscal year 2017. It is critical that DOD continue to build on its current initiatives. Oversight and monitoring will also play a key role in making sure that DOD's plans are implemented as intended and that lessons learned are identified and effectively disseminated and addressed. Absent continued momentum and necessary future investments, the current initiatives may falter, similar to previous well-intended, but ultimately failed, efforts.

We will continue to monitor the progress and provide feedback on the status of DOD's financial management improvement efforts. We currently have work in progress to assess: (1) the FIAR Plan's risk management process for identifying, as-

[40] Pub. L. No.111–84, § 1072.
[41] GA0–11–684.

sessing, and addressing risks that may impede DOD's ability to achieve the 2017 financial audit readiness goal; (2) DOD's funds control in relation to the reliability of its financial statements; (3) the schedule and cost of Army's GCSS; (4) components' efforts to prepare for SBR and full financial statement audits; and (5) DOD's actions in response to our recommendations. As a final point, I want to emphasize the value of sustained congressional interest in the department's financial management improvement efforts, as demonstrated by this subcommittee's leadership.

Chairman McCaskill, Ranking Member Ayotte, and members of the subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO CONTACTS AND STAFF ACKNOWLEDGMENTS

If you or your staff have any questions about this testimony please contact me at (202) 512–9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. GAO staff who made key contributions to this testimony include Valerie Melvin, Director; Cindy Brown Barnes, Assistant Director; Mark Bird, Assistant Director; Kristi Karls; Michael Holland, Chris Yfantis, and Maxine Hattery.

Senator MCCASKILL. Thank you, Mr. Khan.

I think that Secretary Panetta's directive for 2014 is one of those good news/bad news things. I think it is good news because it really gets everyone leaning forward in a way that perhaps they had not been. The bad news is I am worried about this manual work-around.

I would like all of you to address this, and you can decide whether or not it is the CMO or whether it is the Assistant Secretaries that do this. I need a yes or no about whether or not you are envisioning a manual work-around for a one-time fix to get to the 2014, and can you make any representations today on the record that you will avoid a manual work-around, that you would be more willing to say we cannot do it than do a manual work-around that is very expensive and does not solve any long-term problem? We will start with the Air Force and work our way down the table.

Dr. MORIN. Senator McCaskill, I can assure you there will be some manual workarounds required, but we will not do a large-scale, army of auditors, fully manual approach. We will rely on our existing financial systems, admittedly some of which date back to the Vietnam war, but we will rely on a series of systems that have differing degrees of controls in them. In some cases, we will have to do manual reconciliations between those systems because they do not interface. That will be labor-intensive, but it is not thousands of people type labor-intensive. We will try to strike a careful balance in assessing internal controls and finding out where we can rely on them. In some cases, there will be a level of manual work-around, but it will not be an enterprise-scale manual work-around which is, I think, what you are talking about here.

Senator MCCASKILL. I will probably circle back once I get everybody's answer because I think we need to try to get our arms around this in terms of what costs are going to be.

Ms. MATIELLA. It did create some manual workarounds for us. Basically we have to do more cleanup in the legacy system. It was cleanup that we had not planned on doing, that we did not feel like we needed to do because it, the program, was basically going to cancel. It is not going to cancel with the due date that is now 2014. So we have to do the cleanup now, but that is a one-time fix. So once you get that cleanup done, those beginning balances correct, those opening balances correct, they are correct forever. It is a one-

time fix. It is a manual work-around. It will not create continuing work for us. So it is something that we are planning for and that we have budgeted for, and we believe that is doable by 2014 and will not be something that will set us back going into 2017 at all.

Ms. COMMONS. For the Department of the Navy, we feel that the manual work-arounds will be at a minimum. First of all, our ERP is well-deployed. We only have two more commands that we are going to deploy, and we will have completed our program of record. What we are finding in our ERP is that the internal controls built into the system are, in fact, working. We tested some transactions in the system and we know that the controls around the system are fairly good.

Also, for our legacy systems, we have always built our transactions down at the transaction level. So we know we have some systems issues to work there, but we feel that we are working those issues and that we are moving forward in the right direction.

For our reconciliations, especially with FBWT, we are working with the DFAS to automate that process. It is a manual process at this point, but we think that we are making good progress and that we will be there within the timeframe for the auditable SBR, as well as 2017.

So we really believe that we are looking at our business processes end-to-end and that we are trying to make improvements in those processes for the long-term, not just to achieve an audit-ready SBR, but long-term improvement.

Senator MCCASKILL. Secretary Hale?

Mr. HALE. If I could summarize, I would say that there will be some manual work-arounds. We see them as temporary. The General Fund Enterprise Business System (GFEBS), the Army system, for example. We have had some problems. We are doing some manual work-arounds. The Army is engaged, along with DFAS, in fixing the business process problems that led to those, and I expect that we will be back on track without manual work-arounds, I hope fairly quickly. As Dr. Morin said, there will be some issues the Air Force's DEAMS, because they will not have it in place, but they will get DEAMS at some point.

So I think yes for some, but I expect them to be temporary, and I would echo what was said here. We are not going to hire an army of auditors to do this manually. That is not sustainable and it is not our plan.

Senator MCCASKILL. Do you think before 2014, Secretary Hale, that you are going to be able to put a figure on what the manual work-arounds for a 2014 deadline are going to cost over and above what we would be expending had the deadline not been moved?

Mr. HALE. We could try. I am reluctant to commit to that because it probably would not be as easy as it may sound.

Senator MCCASKILL. No, I do not think it sounds easy. I think it sounds really hard.

Mr. HALE. I think it would be difficult.

Senator MCCASKILL. But the problem is if you do not do that analysis upfront, then you really are not making a sound management decision as to whether or not it is worth it to move up the date.

Mr. HALE. But I would argue strongly we need the pressure that is generated by the 2014 deadline. We need to pressurize, it is like turning an aircraft carrier. We have to be hard right or hard left. We have to get this organization moving, and I think this shorter deadline has done it. So if it drives us to some modest manual workarounds, so be it. I think we will get to the end game more quickly and save money sooner.

I will think about whether or not we can quantify that, but I believe there are some qualitative benefits to the earlier goal that are significant.

Senator MCCASKILL. I am not trying to pick a fight here about this. I really just genuinely want to have some sense of this. I think I am legitimately entitled to some skepticism because of the amount of monies that have been expended in this effort and the billions of dollars that clearly have not turned out to be wise investments in terms of what they have produced to date.

What I do not want to have happen is—when you say a modest investment, "modest" needs context because I think most Americans would think that what you might consider modest might be a heck of a lot of scratch in order to meet this earlier deadline.

I am glad that Secretary Panetta has done this overall. I think it is very positive because I do think it is going to help really push everyone as hard as they can possibly be pushed to get some of these problems resolved. But I want to make sure that we are not in the process being shortsighted. Frankly, it reminds me a little bit of Base Realignment and Closure (BRAC). Sometimes we have extremely high upfront costs for benefits that sometimes are exaggerated way down the line further than when everyone had been told they were. So I want to make sure we are not having one of those upfront expenditures that does not, in the long run, show that it is worth the investment.

Mr. HALE. If I get to compare my cost to BRAC, I am in good shape.

Senator MCCASKILL. Then it would be modest. You are safe with "modest" if you compare it to BRAC.

Mr. HALE. We spent $35 billion on the last BRAC round. We are not going to be in that ball park.

We will try to think about that problem systematically and get back to you.

Senator MCCASKILL. I have a number of other questions, but I will defer to my colleague, Senator Manchin, because I know he has some questions he wants to ask. I will come back for more after.

Senator MANCHIN. Thank you, Madam Chairman. I appreciate it so much and all of your service. I appreciate your all being here. I want to apologize for running back and forth to committee meetings, but that is sometimes how it happens here.

Secretary Hale, if I may, I am sure you are scrutinizing contracting very closely since it accounts for about 55 percent of the DOD budget in 2011, and there are so many examples of fraud, waste, and abuse.

I recently met with the National Guardsmen who say that a contractor knowingly exposed them to sodium dichromate in Iraq during the cleanup of the Qarmat Ali water treatment plant, which I

think you all know about. There is even a recent DOD report that faults this contractor for not protecting the nearly 1,000 soldiers who guarded the site, and West Virginia had a number of those soldiers. The report states that the contractor recognition of, and response to, the health hazard represented by sodium dichromate contamination, once identified at the Qarmat Ali facility, was delayed. The delay occurred because the contractor, KBR, did not fully comply with the occupational safety and health standards required by the contract. As a result, a great number of servicemembers and DOD civilian employees were exposed to sodium dichromate and for longer periods.

This was a $28 billion contract to restore this plant and the surrounding oil fields. There is ongoing litigation, so I am not going to go into all the details, but soldiers have died. Many more have lasting illnesses because of the exposure. I talked to one of the widows yesterday.

The most troubling part of this contract is the indemnity clause which I could absolutely not believe at all that this Government would enter into a $28 billion contract with an indemnity clause that lets the contractor totally off the hook. Even if the contractor knowingly does something wrong like expose soldiers to a known carcinogen, it means that the taxpayers will foot the blatant contractor abuse.

So my question is simply this, sir. Do we have any contracts like this in Afghanistan?

Mr. HALE. Senator Manchin, I am not familiar enough to answer that question. It is a good one. I can tell you that we have the well-being of our soldiers, sailors, airmen, and marines fully in mind. But I am going to need to answer for the record or get somebody who is more of an expert on this to come talk to you.

Senator MANCHIN. The bottom line. It took so long for this contract to be revealed to what was going on and why such a blatant protection of a contractor that was charging $28 billion and held totally harmless—totally harmless—by this Government. It is just hard to explain to these widows. I have so many people involved and exposed on this. I would like to see and know if we have some contracts that we might have out there that have these types of indemnity clauses or hold harmless.

To Mr. Khan, if I may. Your testimony is important because DOD accounts for 57 percent of discretionary spending, more than all of the agencies combined. The fiscal future of our Nation, I do not think I need to tell you, depends on us getting this right.

I said throughout all of these posture hearings I am concerned that we are cutting 100,000 servicemembers by 2017, but no one can tell me how many contractors we are cutting. I cannot even get an accurate figure on how many we have. We have more contractors in Afghanistan and Iraq than we do American troops. I am told that we have approximately 150,000 contractors compared to about 90,000 men and women in uniform. It makes common sense to me as an American, which I think we all love our military and we are so appreciative of what they do, that given the choice between the soldier and an overpaid contractor performing the same mission, that I would choose the soldier.

Let me tell you when I was down visiting our troops in Afghanistan, I had soldiers coming to me from my State of West Virginia, and I would say, "are you signing back up?" They said, "no, no. I am going to work for that person. I can get so much more money." I said, "if that job was not available, would you stay in the Service? Probably so." Something is wrong, sir, desperately wrong. I just cannot even believe it.

I would like to know from you, sir, just offer your perspective on the overdependence on contractors at DOD.

Mr. KHAN. That is an area really I am not an expert or specialist in. I can respond to that for the record. But I share your concerns on the overdependence on the contractors.

[The information referred to follows:]

The Department of Defense (DOD) has relied extensively on contractors to provide needed services, including those in support of operations in Iraq and Afghanistan. Over the past 15 years, we have made numerous recommendations intended to improve DOD's management and oversight of contractors in deployed locations. For example, in 2008, we recommended that DOD determine the appropriate balance of contractors and military personnel as it shapes the force for the future.[1] As part of this effort, DOD would need to comprehensively examine the support it will require contractors to provide in future operations and the core capabilities the department believes it should not be relying on contractors to perform. Given the longstanding and recurring nature of the issues identified, in June 2010 we called for a cultural change that emphasized an awareness of contractor support throughout the department.[2]

While there are benefits to using contractors to perform services for the government, our work has shown that reliance on contractors to support core missions can place the government at risk of becoming overly reliant on contractors to perform functions deemed inherently governmental or those that are closely associated with inherently governmental functions. Our work has identified the need for DOD to obtain better data on its contracted services to enable it to make more strategic workforce decisions and ensure that it maintains appropriate control of government operations.

DOD has taken steps to gain better insights into the number of contractors and the functions they perform, but its efforts have had mixed success to date. Examples of our recent findings in this area include the following:

- As we reported in April 2012, DOD has made incremental improvements to its processes for compiling and reviewing statutorily required inventories of contracted services, but DOD acknowledged a number of factors that limited the utility, accuracy, and completeness of the inventory data.[3] The department does not expect to fully collect required data on contractor manpower as part of the inventory until fiscal year 2016. Further, we found that during the military departments' review of the fiscal year 2009 inventories, the Army and Air Force identified 1,935 and 91 instances, respectively, of contractors performing inherently governmental functions. In 8 of the 12 Army and Air Force cases we reviewed, contractors continued to perform functions identified by the military departments as inherently governmental. We found no evidence that the Navy commands we contacted had conducted the required reviews of the inventories to determine, among other matters, whether contractors were performing inherently governmental functions.
- In 2008, DOD designated the Synchronized Predeployment and Operational Tracker (SPOT) as its system for tracking specific information on certain contracts and associated personnel in Iraq and Afghanistan. While recent efforts have been made to improve SPOT's tracking of contractor personnel, in reports issued annually since 2008, including most recently in

[1] GAO, Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations, GAO–08–436T (Washington, DC: Jan. 24, 2008).

[2] GAO, Warfighter Support: Cultural Change Needed to Improve How DOD Plans for and Manages Operational Contract Support, GAO–10–829T (Washington, DC: June 29, 2010).

[3] GAO, Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services, GAO–12–357 (Washington, DC: Apr. 6, 2012).

September 2012, we reported DOD lacked reliable data and systems to report on its contracts and contractor personnel in Iraq and Afghanistan.[4]

• As we reported in September 2012, DOD's 2010–2018 workforce plan did not include an assessment of the appropriate mix of military, civilian, and contractor personnel or an assessment of the capabilities of each of these workforces.[5] DOD is directed by statute to use this plan, among other things, to make determinations on the most appropriate and cost-efficient mix of military, civilian, and contractor personnel to perform the department's mission.[6] Therefore, without an assessment of the appropriate workforce mix and capabilities, DOD is not well positioned to make determinations on its current and future use of contractors.

Senator MANCHIN. Let me give some ratios to all of you and see if it makes sense to any of you.

World War I, we had 1 contractor for every 24 soldiers.
World War II, we had 1 contractor for every 7 soldiers.
Vietnam, 1 contractor for every 5 soldiers.
The Balkans and Iraq, it was 1-to-1.

Currently in Afghanistan, we have more than a 1-to-1 ratio.

I do not know how the growing reliance that DOD has—how you choose to deploy your resources. I do not know how you would do that in an effective and efficient manner.

Mr. HALE. Senator Manchin, what we need to do is think about the criteria for jobs. There are some jobs that ought to be done by contractors, and I fear that sometimes we demonize our contractor workforce in a way that is not helpful. We could not fight effectively without them. But there are certainly jobs that need to be done by Federal civilians and by military personnel. I will not say we have that right or perfect, but we are certainly looking at it. I can tell you, for example, that our contractor dollars from 2012 to 2013 go down in similar levels to our civilian workforce and our military workforce. So you are seeing some downturn in contractors.

But I would caution against just blanket statements that we do not want contractors. There are jobs they should do, temporary jobs, jobs with special skills. Auditing is a good example. We do not have the skills in DOD to do audits well. They know how to do it better in the private sector. That is temporary work, at least we hope so. We need to hire people temporarily to do that and we are. So I would urge you to avoid blanket pronouncements, but I accept the fact that we need to look at the mix.

Senator MANCHIN. Let me ask you a direct question then, sir. Can you get me an answer on the difference of pay between the front-line service person that is doing exactly the same job as the soldier in uniform?

Mr. HALE. First, I do not think any contractor is doing exactly the same job as a front-line soldier.

Senator MANCHIN. When a soldier tells me with his own mouth and he says I am going to go do exactly what I am doing now, whether he is protecting, whether he——

Mr. HALE. I will ask for help from——

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[4] GAO, Iraq and Afghanistan: Agencies Are Taking Steps to Improve Data on Contracting but Need to Standardize Reporting, GAO–12–977R (Washington, DC, Sept. 12, 2012).

[5] GAO, Human Capital: DOD Needs Complete Assessments to Improve Future Civilian Strategic Workforce Plans, GAO–12–1014 (Washington, DC, Sept. 27, 2012).

[6] Pub. L. No. 112–81, § 936 (2011) (codified at 10 U.S.C. § 2330a).

Senator MANCHIN. I just want an answer. I cannot get an answer from anybody.

Mr. HALE. I do not think they are doing exactly the same thing.

Senator MANCHIN. I beg to differ with you, sir. They are. If you will just go to the front lines and talk to the soldiers.

Mr. WESTPHAL. Senator, we have done an analysis and a review of the number of contractors, and we are doing this very complex analysis, which is what you are getting at here, of what is a uniquely governmental function that we need to have either a soldier or a civilian employed by the Government do the job or a contractor. In that report, we have been able to identify the number of full-time equivalents that we are contracting for the generating force and what we have for the operating force. So we have some fidelity. It is not precise on the number of contractors both in what we call the generating force, which is all the support elements to our operating force, and our operating force. Then what is the equivalence in dollars.

To do that analysis, we have gone and looked at exactly what you just asked, which is what are the benefits and pay and all of the things that accrue to a civilian or to a soldier and what does the same thing mean for a contractor, and we are finishing up that report.

I know, Senator McCaskill, Madam Chair, you had a hearing on the subject of contracting. So I know there is a great deal of interest on this, and we are trying to get those answers.

Senator MANCHIN. Can I get a comparison on the pay? All I am asking for is a comparison on the pay. Even if you do not think they do the exact same job, as close to a job as the two would do, if I could get that.

Can you tell me how many contractors you are cutting? If you are proposing to cut 100,000 men and women in uniform by 2017, can you tell me how many contractors you are prepared to cut?

Mr. WESTPHAL. We will get you that.

[The information referred to follows:]

This year for the first time the Army will be able to consciously make tradeoffs between military personnel, civilians, and contractors in a strategic way. This will replace the current process of just managing contracted services in the year of execution.

In order to gain more fidelity on the value of contractors, the Army is using the Contractor Manpower Reporting Application (CMRA) to provide cost and manpower data. By utilizing the CMRA and its Panel for Documenting Contractors process in support of its budget submission, the Army will be able to project future year contractor numbers. This newly-established process for making projections will enable the Army, for the first time, to start to consciously make tradeoffs between military, civilians, and contractors in a strategic way, rather than simply continuing the current process of just managing contracted services in the year of execution. We are not there yet, but expect to move in this direction as the Department of Defense implements CMRA on an enterprise basis.

In the near-term, by implementing the CMRA, the Army has an accurate count of the number of contractor used in fiscal year 2011. This fiscal year 2011 data will provide the baseline for the Army's future year contractor projections and will inform future year budget estimates. This will result in more accurate future year contractor estimates, beginning with forecasting the number of contractors for fiscal years 2012 to 2014.

These numbers although more accurate are still just estimates, because unless specifically authorized by statute, most contracted services are performance-based and not personnel-services-based. Therefore, these contracted services are not managed or controlled based on manpower but through funding constraints applied in the year of execution.

As the military and the civilian forces downsizes, the Army anticipates making comparable reductions in numbers of contractor personnel. The reduced funding levels projected for the Army through 2017 will require deliberate and sustained planning and analysis to ensure that the Army's military, civilian, and contractor workforce is properly balanced, adequate, and affordable.

Additionally, you have asked for a cost comparison of contractor costs and military and civilian personnel costs. The CMRA data is what will allow the Army to make more accurate contractor cost comparisons with civilian and military personnel cost.

When comparing costs of military, civilian, and contractor labor, it is imperative to compare the fully-burdened costs to Department of Defense and the Federal Government, as opposed to base pay alone. As detailed in the Office of the Secretary of Defense's Directive Type Memorandum 09–007, dated January 29, 2010, a full cost comparison of total compensation, benefits, training, retirement, and other cost considerations must be utilized when making workforce mix decisions.

The fully-burdened costs of soldiers and civilians vary greatly because of factors like location, skill level, and years of service. The fully-burdened cost of an Active Army officer can range from $119,000 to $331,000 and the fully-burdened cost of an Active Army enlisted can range from $78,000 to $181,000. The fully-burdened cost of a General Service (GS) civilian can range from $33,000 to $202,000. For example, the average fully-burdened cost of an Active Army captain, pay grade O–3, is $166,000, while the average fully-burdened cost of a rank equivalent civilian, a GS–11, is $103,000. Contractor costs are even more variable and sensitive to factors such as location, type of service performed (e.g. Medical, Transportation, IT, etc.), skill level, availabilities due to different shifts, contractor leave policies, and overhead. To further complicate the comparison no direct military/civilian to contractor rank equivalency exists. The fully-burdened average unit cost of a Contractor ranges from $36,000 to $437,000. Therefore, any direct comparisons of military/civilian to contractor workforce cost should be addressed on a case-by-case basis.

Senator MANCHIN. Thank you, sir.

Senator MCCASKILL. Thank you.

Senator Ayotte.

Senator AYOTTE. Thank you very much, Madam Chair.

I wanted to ask all of you, we have seen with the General Services Administration (GSA) the rightful public outrage and outrage from this Congress about the misuse of taxpayers' funds, inappropriate use of taxpayers' funds for mind readers and all kinds of things that is just completely unacceptable. Please tell me how we can assure that each of your departments has proper oversight and controls in place to make sure that that type of misuse of taxpayers' funds never happens within DOD, please.

Ms. MCGRATH. I will start. With regard to specifically the conferences, I can tell you that in the November timeframe, we completed a thorough review across DOD to ensure we had proper controls and policies in place for conferences, and each of the heads of components reviewed and attested to the Deputy Secretary that those were in place.

Following what I will call the GSA incident, we have gone back out to all of our heads of components in the military and actually across DOD to once again, look and to assure that they have proper controls in place to make sure we have not missed anything. We asked for a review of all conferences that have occurred in the last 2 years, and that is to be reported back to the Deputy Secretary on May 11. So we absolutely take this very seriously. Each of the components can attest to their specific actions and activities, if you like, but I can say that we are absolutely ensuring that we have proper controls in place so that things like that do not happen.

Mr. WESTPHAL. If I could, the Secretary of the Army issued a directive over a year ago on this matter which is to look at all of the conferences done by the Department of the Army, the costs, and to

have a process by which conferences are approved. That was partly due to cost-cutting requirements that we had, but partly also to ensure that we were not doing anything excessive. So I think we can provide you that policy, that directive. I believe the Navy and the Air Force have adopted something similar.

Senator AYOTTE. We would be very interested in receiving that. I think it is important. We have to be able to account to taxpayers. When I think about some of the reductions that you are asked to make, it would be completely unacceptable to find out that our taxpayers' dollars were somehow going to conferences that were wasteful or somehow did not address core training important opportunities that are needed for our military. So, yes, I appreciate that you are looking at this, and we would love to see a copy of that.

Mr. TILLOTSON. From the Department of the Air Force point of view, we have implemented similar policies. I think Ms. McGrath and Secretary Westphal have captured the thought. The Secretary issued guidance out to the field about a year ago. We have followed up since that time several times, and it has been reiterated, I can assure you, to all command levels as recently as last week to make sure that we are following diligently the policies we have already put on place, as well as collecting the information over the last 2 years to support Ms. McGrath's review.

Mr. WORK. The Department of the Navy has a very similar thing, ma'am. What we have is a tiering system in which commanders at lower levels can, for example, approve conferences for maybe $100,000, but anything of great expense has to come all the way to either the Assistant Commandant of the Marine Corps or the Vice CNO, or in the case of the secretariat, to the Administrative Assistant who works for the Secretary. So like all of the other Services, there is a tiered system in which we monitor very closely, and we have flags. For example, if it goes to an area that might be considered a nice place to go, like Las Vegas, the first thing we always ask is why are you going to Vegas? If they cannot prove that that is the cheapest opportunity for taxpayers, then we deny it.

Senator AYOTTE. I appreciate that and we certainly would like to see your policies and appreciate that this is something you have already put a focus on prior to this incident that was really a complete debacle.

[The information referred to follows:]

Mr. WESTPHAL. See attached memo.

SECRETARY OF THE ARMY
WASHINGTON

14 OCT 2011

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Army Directive 2011-20 (Department of the Army Conferences)

1. It is imperative that the Department of the Army exercise strict fiscal responsibility in planning and executing our programs and activities, including conferences. Changing the "business as usual" mindset as it relates to conferences is the right thing to do and is even more imperative in the current environment of declining resources. Simply put, we must implement more cost-effective and efficient methods to train, plan, collaborate and disseminate information. Experience has shown that conferences are an expensive means of accomplishing these goals. When it is determined that only a conference will suffice to accomplish official business, I will hold you accountable for ensuring that all conference-related events comply with law, regulation and policy and for exercising strict fiscal discipline in organizing and administering the conference.

2. The policy at enclosure 1 is effective immediately. It establishes conference approval authorities and applicability, defines key terms, clarifies processes, further emphasizes the need to instill fiscal restraint throughout the Army and designates the Administrative Assistant to the Secretary of the Army as the proponent for conference policy. Applicable references, a template for conference requests, computation examples and the format for semiannual reporting are at enclosures 2 through 5, respectively.

3. In seeking to sponsor a conference, you will review and adhere strictly to all applicable law, regulation and policy, including the provisions of this directive. I charge each of you to consider how you can contribute to cost savings and the elimination of waste in conference planning. I expect you to disapprove conference requests that do not comply with this directive, and I have similarly instructed my Administrative Assistant for conferences submitted to her for approval.

4. This directive supersedes Army Directive 2011-05 (Department of the Army Conferences, Symposia, Seminars and Meetings), dated 20 April 2011, and rescinds DA Memo 1-17 (HQDA Conferences, Symposia, Seminars and Meetings), dated 15 November 2006.

5. Any questions regarding the enclosed policy and associated documents should be directed to the Office of the Administrative Assistant.

John M. McHugh

Encls

SUBJECT: Army Directive 2011-20 (Department of the Army Conferences)

DISTRIBUTION:
Principal Officials of Headquarters, Department of the Army
Commander
- U.S. Army Forces Command
- U.S. Army Training and Doctrine Command
- U.S. Army Materiel Command
- U.S. Army Europe
- U.S. Army Central
- U.S. Army North
- U.S. Army South
- U.S. Army Pacific
- U.S. Army Africa
- U.S Army Special Operations Command
- Military Surface Deployment and Distribution Command
- U.S. Army Space and Missile Defense Command/Army Forces Strategic Command
- Eighth U.S. Army
- U.S. Army Network Enterprise Technology Command/9th Signal Command (Army)
- U.S. Army Medical Command
- U.S. Army Intelligence and Security Command
- U.S. Army Criminal Investigation Command
- U.S. Army Corps of Engineers
- U.S. Army Military District of Washington
- U.S. Army Test and Evaluation Command
- U.S. Army Installation Management Command

Superintendent, United States Military Academy
Director, U.S. Army Acquisition Support Center

CF:
Commander, U.S. Army Accessions Command
Executive Director, Army National Cemeteries Program
Commander, U.S. Army Cyber Command
Director, Army National Guard
Director, Office of Business Transformation

ARMY CONFERENCE POLICY

1. Definitions. As defined by the Joint Federal Travel Regulations (JFTR)/Joint Travel Regulations (JTR), "conference" is a meeting, retreat, seminar, symposium or event that involves attendee travel. It also includes training activities that are defined as a "conference" under the provisions of 5 CFR § 410.404. Events included in this definition normally require registration, an agenda, and scheduled speakers or discussion. The definition does not include:

- events necessary to carry out the statutory command and staff oversight functions of the Department of the Army (DA), including investigations, inspections, audits or site visits;
- Service-endorsed training that has been approved through the Army Deputy Chief of Staff, G-3/5/7; and
- regularly scheduled courses of instruction conducted at a Government or commercial training facility (for example, courses scheduled via the Army Training Requirements and Resources System); however, this exclusion does not apply to courses held in a non-training commercial facility, such as a hotel or conference center.

For questions about whether an event is excluded, contact your Staff Judge Advocate or the Office of the Administrative Assistant. Requests for exceptions to policy should be submitted to the Office of the Administrative Assistant and must be fully justified.

2. Applicability. This policy applies to the Active Army, the U.S. Army Reserve, the Army National Guard of the United States[1] and those organizations for which the Secretary of the Army is the designated Department of Defense (DoD) Executive Agent and for which the Army funds their activities. This policy does not apply to conferences sponsored by a Combatant Command or subordinate unified command headquarters for which the Secretary of the Army has been designated the Combatant Command Support Agent.

3. General Responsibilities. Personnel will comply with law, regulation and policy applicable to conference planning, including the provisions for conference planning in the JFTR/JTR, specifically Appendix R (Conferences); DoD 5000.7-R (Joint Ethics Regulation (JER)); and all other pertinent regulations. Army personnel will familiarize themselves with these regulations and other travel policy guidelines before starting to plan a conference. Legal advisors in the Army are expected to assist their clients by providing thorough, accurate and consistent legal reviews. Further, all personnel are expected to strictly apply sound fiscal principles throughout the conference planning and administration processes.

[1] Except when the planned conference will use State funds only, all participants will serve only in a State status, and the conference will be planned and conducted on State time and address only State topics of interest.

4. Procedures for Conference Requests

a. These conference request and approval procedures apply to all conferences sponsored or funded by any Army command, organization or activity, without regard to the approval authority of the conference. Approval authorities are defined in paragraph 8.

b. All conference requests will be signed by a general officer or member of the Senior Executive Service and staffed through the chain of command to the appropriate Conference Approval Authority defined in paragraph 8. The Army officials signing and coordinating on the conference request submitted to the Conference Approval Authority are attesting to the accuracy of the statements in the request, including the cost-benefit analysis and cost estimates.

c. The sponsoring Army command, organization or activity will submit a complete and fully coordinated conference request through the appropriate command structure no later than 90 days before the start date of the conference. If the proponent expects to acquire contractor support and/or facilities contracts, the conference request must be approved before contract award. Each Army command, organization or activity may put in place additional timelines to meet their specific milestones for approval or acquisition requirements.

d. The template at enclosure 3 must be used for all conference requests. Failure to provide detailed information or explanations will result in disapproval of the request. Of particular note, requests shall provide:

(1) A breakdown of attendees, including the rationale and criteria applied to scope the attendee population and the justification for the number of attendees.

(2) Cost information in accordance with Assistant Secretary of the Army (Financial Management and Comptroller) guidance, dated 17 May 2011 (available at http://armypubs.army.mil/epubs/asa_fmc_collection_1.html). Specific cost elements are in the template.

(3) A detailed and credible cost-benefit analysis, which includes an explanation of other options considered (video teleconference, train-the-trainer and so on), as well as information on site selection. Conference requests must include a certifying statement that the travel is essential and the objectives of the conference cannot be satisfactorily accomplished less expensively by correspondence, Web-based communications, teleconferencing or other appropriate means. Additionally, the JFTR/JTR require all individual travelers to justify all travel with a statement on their DD Form 1610 (Request and Authorization for TDY Travel of DOD Personnel) or in the Defense Travel System (DTS) that the "Objective cannot be satisfactorily accomplished less expensively by correspondence, teleconferencing, Web-based communications or other appropriate means."

(4) A substantive agenda spanning the proposed conference from start to end; listing all planned speakers, programs, ceremonies and other activities; and specifying any after-hour events or activities. The agenda should provide planned or proposed locations for each event. Agendas that merely annotate "breakout sessions" are insufficient. If breakout sessions are planned, the agenda should explain the purpose and objectives of each breakout session.

(5) A conference security assessment that contains:

(a) A force protection assessment, including threat and vulnerability assessments for the conference facility site and any specific security requirements for the conference facility. For conferences held inside the National Capital Region (NCR), the Security and Safety Division (SSD-AT/FP), Office of the Administrative Assistant can assist with the assessment. For conferences outside the NCR, the local installation security or provost marshal office may provide technical expertise. Conferences held on Government or military installations may have different requirements than those in commercial facilities, so check applicable security regulations.

(b) A statement indicating whether foreign government representatives will attend the conference and, if so, a statement that the conference sponsor has coordinated the screening of foreign national attendees with the Deputy Chief of Staff, G-2 and will comply with all procedures set forth in AR 380–10 (Foreign Disclosure and Contacts with Foreign Representatives). Coordination with the Deputy Chief of Staff, G-2 typically requires 120 days leadtime before the conference date.

(c) A statement indicating whether the conference will involve classified information and, if so, the name and location of the secure U.S. military installation, other U.S. Government installation or cleared U.S. contractor facility where the conference will be held. Follow the procedures in AR 380–5 (Department of the Army Information Security Program) and coordinate directly with the Deputy Chief of Staff, G-2 if additional guidance is needed.

(6) A legal review that addresses all fiscal, ethics, contracting and travel issues, including a comprehensive assessment of whether the conference complies with applicable regulations and DA policy. This review should provide sufficient legal advice to the approving official to make an informed decision on approval. Any legal objections must be mitigated before submission of the conference request.

5. Selection of Conference Site

a. The first choice for conference locations must always be military installations or other Government facilities. Organizations will maximize the use of Government-owned or Government-provided conference facilities. Military installations and Government-owned facilities may not be ruled out as a conference venue solely because the facility is not available on the exact dates the sponsor desires to hold the conference; efforts must be made to adjust the conference scheduling to fit the availability of military or

Government facilities, when possible. If scheduling cannot be adjusted, a detailed explanation must be provided in the conference request. Additionally, military or Government facilities may not be ruled out simply because they do not offer the same refreshments, food options or lodging availability as commercial facilities. Further, while planning the conference, the size of the conference should take into account the capacity of Government facilities; efforts should be made to contain the size of conferences to the capacity of military or Government facilities nearest the majority of local attendees.

b. Commercial facilities will be used only when they can be proven more economical, or when military or other Government facilities are unavailable when needed. If no military or Government-provided facility can meet conference requirements, the JFTR/JTR require that a minimum of 3 geographic sites be evaluated and considered for conferences with more than 30 attendees in a temporary duty (TDY) status before the selection of any 1 site for the conference, unless an overriding operational reason can be shown for holding the conference in a specific city.

c. Factors to be considered when determining a geographic location to conduct a conference include, but are not limited to:

(1) per diem expenses;

(2) travel costs, including local travel and ground transportation;

(3) distance to the majority of attendees (if one area has a significant concentration of attendees, that location generally will be the most cost-effective option); and

(4) consideration of lower off-season rates or peak seasons.

d. Once a particular city is chosen as the site of the conference, a minimum of three facilities in that city will be considered to ensure full and open competition. Factors that should be considered when determining the venue to conduct a conference include, but are not limited to:

(1) participation in the Lodging Success Program (for more information, visit https://www.defensetravel.dod.mil/Docs/Fact_Sheet_Lodging.pdf);

(2) inclusion on the national list of approved accommodations maintained by the Federal Emergency Management Agency (the Hotel-Motel National Master List is available at http://www.usfa.fema.gov/applications/hotel/);

(3) willingness to exempt taxes for lodging;

(4) distance to the nearest major airport and free shuttle availability;

(5) cost of the venue (if commercial space is to be rented); and

(6) availability of rooms at the established per diem rate.

f. Each Army command, organization or activity will document, maintain and make available to The Inspector General or other interested parties a record of the conference site selection process, including the costs of each alternative site and venue considered.

g. All applicable local policies on site selection must be followed. For conferences to be held in the NCR, conference sponsors must coordinate through the Real Estate and Facilities Directorate, Office of the Administrative Assistant and obtain approval from the Director, Space Policy and Acquisition Division, Defense Facilities Directorate, Washington Headquarters Services to contract for short-term conference space inside the NCR.

h. In addition to cost considerations, the selection of the conference site must be sensitive to public perception. The conference sponsor should avoid the appearance that public funds are being expended in a careless, wasteful or unnecessarily extravagant manner. No venue, however, may be categorically prohibited from selection solely because of its reputation, location or amenities.

i. If a conference is justified as training and conducted on a recurring basis, the sponsoring command should seek to incorporate it into the institutional training domain, which includes Army centers and schools.

6. Cost, Contracting and Ethical Considerations. When a conference is determined to be necessary, the sponsoring command, organization or activity will adhere to strict fiscal controls and minimize costs. Accordingly, the conference sponsor must ensure the following:

a. The length of the conference is strictly determined by mission requirements. Socials, golf tournaments, military balls or other ancillary activities will not be held during regularly scheduled duty hours or used as a basis to extend personnel in a TDY status. Award ceremonies held during a conference often may be considered official business, but in no case should an award ceremony extend the period for which a conference attendee will be in a TDY status. For example, an award ceremony will not be held in the evening if it would result in the extension of a conference attendee in TDY status for an extra day or delay the attendee's return to his/her permanent duty station.

b. Conference attendees are limited to the minimum number necessary to accomplish the objectives of the conference. Accordingly, the sponsor must establish clear criteria for attendance and strictly limit the number of attendees.

c. Appropriated funds may not be used to purchase conference mementos to distribute to attendees.

d. In most cases, honorariums and fees for speakers are limited to $2,000 a speaker. Refer to DoD 7000.14-R (DoD Financial Management Regulation), Volume 10, chapter 12, paragraph 1208 (Payments of Fees for Guest Speakers, Lecturers, and Panelists) for specific guidance on speaker fees.

e. As a general rule, appropriated or nonappropriated funds are not authorized for refreshments. While serving light refreshments to conference attendees might be common business practice in private industry, and the JFTR/JTR authorizes light refreshments under very rare circumstances, Army policy is that appropriated or nonappropriated funds are not authorized to pay for light refreshments at Army-hosted conferences. Attendees may purchase refreshments at personal expense, which will not be reimbursable to the traveler by the Government. In some extenuating circumstances, a commercial facility may provide refreshments when such costs are both non-segregable from the cost of the facility rental (the cost of the rental is a fixed fee, which includes refreshments at no additional cost to the Government) and nonnegotiable (the facility will not negotiate to reduce the cost of the facility to the Government); however, this situation is rare. Non-segregable and nonnegotiable refreshments must be specifically addressed in the written legal review submitted with the conference request. Further, by signing the conference request, the signing official is attesting to the fact that the refreshments are truly non-segregable and nonnegotiable.

f. Lodging and meals will not be authorized or provided at government expense to local attendees (those not in TDY status). This restriction does not authorize selecting a location outside the local commuting area solely to provide Government-furnished lodging and meals.

(1) If meals are provided for personnel in a TDY status, the command or organization sponsoring the conference must identify the cost of each meal, whether included in a registration fee or contracted for separately; ensure that the appropriate proportional meal rate (PMR) is used; and issue a notice to all attendees to ensure that they correctly annotate travel vouchers. The cost of meals the Government provides must not exceed the per diem for that location. If a PMR is authorized, the cost of meals the Government provides plus the PMR must not exceed the per diem for that location. Examples are in enclosure 4.

(2) Special consideration should be taken when attendees include both local attendees and those in TDY status. Meal breaks should be given to allow both local attendees and travelers the opportunity to purchase meals, or local attendees may be offered the opportunity to personally purchase nonreimbursable meals being provided to travelers.

g. The JFTR/JTR specify the criteria under which an actual expense allowance (AEA) may be authorized. The competitive site selection process based on the JFTR/JTR should prevent the need for AEA except in very rare cases. If AEA is

authorized, it should be uniform (if possible) among personnel traveling at Government expense when they travel together or to the same location where AEA has been authorized. AEA should not be used to provide upgraded rooms or suites based solely on rank or grade. AEA is prescribed only on an individual trip basis and only after consideration of the existing facts of each case. Blanket authority prescribing an AEA for all travel to an area is prohibited, and AEA shall not be authorized as part of a "blanket" travel order.

h. Conference planners should request the tax exemption of lodging for Federal employees and/or servicemembers during the conference selection process. Contracting officers can often negotiate the tax exemption into commercial contracts. Any approval to hold a conference with a commercial lodging establishment that refuses to accept Federal employee and/or servicemember tax exemption must break out the cost of lodging-related taxes for the total number of attendees and include that amount in its cost calculation to achieve either the best value or lowest cost for the conference.

i. Contracts. The following provisions and guidelines apply:

(1) All conference-related contracts must be signed by a warranted contracting officer or, when authorized, a Government purchase cardholder. When authorized and if the cost of the conference space is within the limits of the cardholder's purchasing authority, the Government purchase card may be used to rent conference space. Requirements will not be split to reduce costs to within the limits of the cardholder's authority. Personnel cannot make any commitment until a written agreement is signed by a warranted contracting officer or, when authorized, by a Government purchase cardholder. Support contractors are not authorized to enter into contracts on behalf of the Government for conference arrangements.

(2) An agreement signed by anyone other than a warranted contracting officer or, when authorized, a Government purchase cardholder, is an unauthorized commitment. A Government employee who lacks authority to bind the Government could be held personally liable if he/she signs an agreement for conference facilities or for other conference support. Additionally, Government employees are prohibited from directing or recommending that a support contractor take any action that purports to bind the Government in any way.

(3) A Government employee will not commit the Government to the use of any facility, sign any agreement or otherwise obligate the Government for conference facilities or support before approval of the conference by the conference approval authority. Personnel may visit facilities, discuss space needs, collect pricing and develop cost estimates, tentatively reserve space (only if at no cost and without any liability to the Government) or request other conference-related information. No contract or task order related to conference requirements will be awarded and no funds will be obligated for a conference until that conference has been approved by the Conference Approval Authority. This prohibition includes charges to be made using the Government purchase card.

(4) After the Conference Approval Authority approves the conference, the conference sponsor will forward documentation of the approval to the servicing resource manager and contract procurement activity. The conference sponsor must forward to the contract procurement activity a funding document indicating the availability of funds and a contract statement of work setting forth conference-related contract requirements. With a view to securing the best value, the conference sponsor must secure approval of the conference and forward funding and requirements documents in enough time to allow for competitive procurement of conference support and/or facility contracts. All contracts related to holding a conference (for example, facility contracts and conference support contracts) must be fully funded with the authorized Government appropriation before contract award. Recurring conferences must be included in the command, organization or activity budget. Conference planners must ensure that all conference funding complies with 31 U.S.C. §1341, 31 U.S.C. § 3302 and DoD 7000.14–R.

7. Command Responsibilities

a. Appoint a conference manager, at the command or organization level (for example, Army command), who will be the primary point of contact for conferences, oversee the administrative and technical details of conferences and process conference requests requiring DA approval. The name and contact information of this individual must be provided to the Office of the Administrative Assistant and updated annually or as it changes.

b. On a semiannual basis, report to the Office of the Administrative Assistant conferences held during the reporting period. The first report is due no later than 15 May 2012 and will cover the period 1 October 2011 through 31 March 2012. The second report will be due no later than 15 November 2012 and will cover the period 1 April though 30 September 2012. Reports will be due by 15 May and 15 November each year thereafter. If a date falls on a weekend or holiday, the next normal workday is the due date. The format for reports is at enclosure 5.

c. Afteraction Reports. To accurately produce the semiannual report, the conference sponsor must forward an afteraction report to the appropriate Conference Approval Authority. Afteraction reports should be submitted 30 days after the completion of the conference and should include, at a minimum, the data elements needed to complete the report at enclosure 5.

8. Approval Authorities

a. The Administrative Assistant to the Secretary of the Army is the approval authority for all Army conferences that meet either of the following criteria:

(1) total conference costs (as detailed in enclosure 3) are greater than or equal to $500,000; or

(2) the conference is held in conjunction with a non-Federal entity (NFE) with the following exceptions:

(a) conferences held in conjunction with representatives from foreign governments or international organizations are excluded, unless they meet the threshold in paragraph 8a(1); and

(b) conferences in which an NFE is competitively awarded a contract to support a conference sponsored or funded by an Army command, organization or activity are excluded unless they meet the threshold in paragraph 8a(1).

b. For conferences with total conference costs less than $500,000 and that are not held in conjunction with an NFE, as defined in paragraph 8a, the approval authority is commanders of Army commands, Army service component commands and direct reporting units for conferences sponsored or funded by their respective commands, organizations or activities. The Administrative Assistant is designated as Conference Approval Authority for conferences sponsored or funded by Headquarters, Department of the Army (HQDA) organizations and activities (including the U.S. Army Acquisition Support Center).

c. The officials designated as Conference Approval Authorities in paragraph 8b may delegate their authority as follows:

(1) When conference costs are greater than or equal to $100,000 but less than $500,000, conference approval authority may be delegated in writing to the commander's principal deputy, provided that the principal deputy is a general officer or member of the Senior Executive Service, without the authority to redelegate. The Administrative Assistant may delegate this approval authority in writing to Principal Officials of HQDA, with the authority to further delegate to Deputy Principal Officials. For the National Guard, the Chief, National Guard Bureau may delegate to the Director, Army National Guard, who may delegate to the Deputy Director, Army National Guard, without the authority to further delegate.

(2) When conference costs are greater than or equal to $25,000 but less than $100,000, conference approval authority may be delegated in writing to the first general officer or member of the Senior Executive Service in the chain of command or supervision over the sponsoring command, organization or activity, without the power to further delegate. For HQDA, the Administrative Assistant may allow delegation of this approval authority in writing no lower than Deputy Principal Officials of HQDA, without the power to further delegate.

(3) When conference costs are less than $25,000, conference approval may be delegated in writing as determined by the Conference Approval Authorities designated in paragraph 8b.

d. No delegation of conference approval authority will take effect until a written copy of the delegation is provided to the Administrative Assistant for archiving. Notwithstanding any further delegation, the Conference Approval Authorities designated in paragraph 8b remain accountable for the acts and decisions of their delegates.

e. The designated Conference Approval Authorities may supplement this regulation and establish command and local forms. A copy of any such supplement or forms shall be provided to the Administrative Assistant before implementation.

9. Non-Federal Entities

a. Statutory Authority. Certain conferences and events sponsored by NFEs have statutory authority that authorizes specified DA support to these conferences and events. This policy does not apply to these conferences and events; see the JER and DoD Instruction 5410.19 (Public Affairs Community Relations Policy Implementation). For example, 10 U.S.C. § 2558 authorizes logistical and administrative support to certain national military associations for their annual national convention or conference. This support is limited to the following organizations and only for their annual national meeting, conference or convention:

(1) Adjutants General Association of the United States,

(2) Association of the United States Army,

(3) Enlisted Association of the National Guard of the United States,

(4) National Guard Association of the United States,

(5) Non-Commissioned Officers Association of the United States of America, and

(6) Reserve Officers Association of the United States.

b. Cosponsorship. On occasion, an Army command or organization may cosponsor an event with an NFE. The Army is a cosponsor of an event when that command or organization is one of the organizations that develops the substantive aspects of the event or provides substantial logistical support for the event. All cosponsorship agreements must be reviewed by the sponsor's ethics advisor and forwarded to the Army General Counsel or his delegatee for approval in accordance with the JER. Further, in accordance with paragraph 8a(2), the Administrative Assistant to the Secretary of the Army is the sole approver of cosponsored conferences with NFEs.

(1) DA personnel may not endorse the NFE cosponsor(s) or its activities.

(2) DA personnel may not show preferential treatment to similarly situated NFEs that have a demonstrable interest in the subject matter of the conference.

(3) There must be no appearance that the NFE cosponsor's role in or support of the conference will improperly influence DA personnel in other official matters the NFE may have an interest in.

(4) The conference cannot be developed as a profit-making endeavor for the NFE cosponsor(s), including any vendor exhibition.

(5) When an Army command, organization or activity cosponsors a conference and the cosponsor incurs costs, the cosponsor is permitted to collect registration fees from non-Federal attendees to cover its costs. Cosponsors who collect fees from Army attendees or comingle fees collected from non-Federal and Army attendees will comply with the provisions implementing 10 U.S.C. § 2262. If a graduated conference fee structure is used, no group will bear an unreasonable burden of the costs.

d. Army Conferences Held in Conjunction With NFE Events. Generally, the competition requirements of the JFTR/JTR as executed via the geographic and venue/facility selection criteria make it difficult to plan for concurrent or sequential but separate Army and NFE conferences. Those rare circumstances where this is permissible and practical require HQDA approval just as a cosponsorship would. Additionally:

(1) Army and NFE events will be separate and distinct events and will not be comingled. All Army activities, including awards ceremonies, outbriefings or in-progress reviews, will be held as part of the Army conference and will not be scheduled so that Army personnel must attend events hosted by an NFE. For example, Army conference activities will not bookend an NFE event.

(2) The Army conference will not be scheduled with a view to accommodating or benefitting the NFE. DA personnel will not endorse conferences sponsored by an NFE nor will DA personnel participate in NFE fundraising events, unless authorized under the JER or other applicable ethics standards.

(3) Holding an Army conference at the same location as an NFE event does not relieve the Army conference sponsor of the requirement to comply with applicable law, regulation and policy, including the provisions of this policy.

(4) NFEs may not provide services, facilities or support to an Army conference unless such support has been acquired through normal acquisition procedures or the event is a cosponsored event.

(5) DA logistical support, in the nature of DA personnel serving as speakers or panelists at conferences or other events sponsored by an NFE, will be kept to a minimum and must comply with the JER, chapter 3, section 2 (Official Participation in

Non-Federal Entities). DA will support events where only a limited number of DoD participants will appear on the same program. In such cases, the event must provide the best way to disseminate Army information, although speakers and panelists must take care to safeguard and prevent the dissemination of Army procurement, technological, classified and non-public information. NFE conferences or events at which the majority of speakers are Army officials or other Army personnel are considered cosponsored conferences and must be approved in accordance with paragraph 8a(2).

10 Other Considerations

a. Conference Fees. Title 10 U.S.C. § 2262 allows DA to collect fees in advance of a conference, either directly or by using a contractor, from individuals and commercial participants attending DA-sponsored conferences. Such fees may only be used to offset reasonable and allowable costs because fiscal limitations on the expenditure of appropriated funds for conference expenses apply to the use of collected fees.

(1) DA conference sponsors who use contractors, including those under no-cost contracts, to collect fees are permitted to structure such contracts to allow the contractors to offset from the fees collected the actual costs the contractor incurred (including its fee) to provide conference-related services. Contractor costs must be allowable costs authorized by the JFTR/JTR and other applicable regulations.

(2) Fees that exceed the costs of putting on the conference must be deposited in the U.S. Treasury as miscellaneous receipts. Excess fees may not be retained or used for any other purpose.

(3) In accordance with DoD 7000.14-R, Volume 12, chapter 32, all organizations are required to report the collection of conference fees. Conference sponsors should, therefore, contact their resource managers for further instructions.

b. Spouse Travel. As a general rule, spouses may not accompany DA military or civilian personnel on official business at Government expense. In addition, blanket requests for Government-funded spouse travel generally are not sufficient or acceptable. Commands must be able to demonstrate the requirement and benefit for each proposed spouse attendee. Policy for spouse travel is in DA Directive 2007-01 (Policy for Travel by Department of the Army Officials), 25 Jan 07.

c. Individuals Not Employed by the Government Participating in a DA-Sponsored Conference. When a DA conference sponsor determines that it is in the best interest of the Government to request an individual who is not employed by the Government, only intermittently employed by the Government as a consultant or expert in accordance with 5 U.S.C. § 5703, or serving without pay to lecture, instruct or give a demonstration or presentation, the individual may be reimbursed travel and travel-related expenses. In such cases, however, an invitational travel authorization must be issued in accordance with the JFTR/JTR, and travel must be arranged through a (Government contracted)

commercial travel office/travel management center. An invitational travel authorization is not authorized for an individual merely to attend a conference sponsored by DA or an NFE. Support contractors may not make travel arrangements for such individuals, unless arrangements are made through an authorized commercial travel office/travel management center in accordance with the JFTR/JTR. Support contactors may not pay the travel expenses of such individuals and then be reimbursed these costs.

d Contractor Travel. Government contractor travel costs are governed by the rules in the Federal Acquisition Regulations. For these reasons, a contractor is not eligible for an invitational travel authorization in the execution of a contract.

e. Official Representation Funds. Any official representation funds requested to purchase meals or refreshments for authorized guests, such as congressional delegations or foreign dignitaries, must be approved under separate memorandum in accordance with AR 37-47 (Representation Funds of the Secretary of the Army).

11. The provisions of this policy are effective immediately. The HQDA proponent for this policy is the Administrative Assistant to the Secretary of the Army.

REFERENCES

1. Joint Federal Travel Regulations, Volume 1.
   http://www.defensetravel.dod.mil/Docs/perdiem/JFTR(Ch1-10).pdf and
   http://www.defensetravel.dod.mil/Docs/perdiem/Appendices.pdf

2. Joint Travel Regulations, Volume 2.
   http://www.defensetravel.dod.mil/Docs/perdiem/JTR(Ch1-7).pdf

3. DoD 5000.7-R (Joint Ethics Regulation (JER)), 23 Mar 06.
   http://www.dod.gov/dodgc/defense_ethics/ethics_regulation/jer1-6.doc

4. DoD 7000.14-R (Department of Defense Financial Management Regulation); Volume 12 (Special Accounts, Funds and Programs); chapter 32 (Collection and Retention of Conference Fees From Non-Federal Sources), July 2009.
   http://comptroller.defense.gov/fmr/12/12_32.pdf

5. DoD Instruction 5410.19 (Public Affairs Community Relations Policy Implementation), 13 Nov 01.
   http://www.dtic.mil/whs/directives/corres/pdf/541019p.pdf

6. AR 37-47 (Representation Funds of the Secretary of the Army), 12 Mar 04.
   http://armypubs.army.mil/epubs/pdf/R37_47.PDF

7. AR 380-05 (Department of the Army Information Security Program), 29 Sep 00.
   http://www.apd.army.mil/pdffiles/r380_5.pdf

8. AR 380-10 (Foreign Disclosure and Contacts with Foreign Representatives), 22 Jun 05.
   http://www.apd.army.mil/pdffiles/r380_10.pdf

9. Army Directive 2007-01 (Policy for Travel by Department of the Army Officials), 25 Jan 07.
   http://www.apd.army.mil/pdffiles/ad2007_01.pdf

10. Memorandum, Secretary of Defense, 27 Dec 10, subject: Consideration of Costs in DoD Decision-Making
    https://dap.dau.mil/policy/Lists/Policy%20Documents/Attachments/3257/OSD14152-10.pdf

11. Memorandum, SAFM, 17 May 11, subject: Guidance for Consideration of Costs in Army Decision-Making.
    http://armypubs.army.mil/epubs/asa_fmc_collection_1.html)

12. 5 U.S.C. § 5703 (Per diem, travel, and transportation expenses; experts and consultants; individuals serving without pay).
http://www.law.cornell.edu/uscode/search/display.html?terms=5703&url=/uscode/html/uscode05/usc_sec_05_00005703----000-.html

13. 5 C.F.R. § 410.404 (Determining if a conference is a training activity).
http://cpol.army.mil/library/permiss/78.html

14. 10 U.S.C. § 2262 (Department of Defense conferences: collection of fees to cover Department of Defense costs).
http://www.law.cornell.edu/uscode/html/uscode10/usc_sec_10_00002262----000-.html

15. 10 U.S.C. § 2558 (National military associations: assistance at national conventions).
http://www4.law.cornell.edu/uscode/html/uscode10/usc_sec_10_00001588---000-.html

16. 31 U.S.C. §1341 (Limitations on expending and obligation amounts)
http://www.law.cornell.edu/uscode/usc_sec_31_00001341----000-.html

17. 31 U.S.C. § 3302 (Custodians of money)
http://www.law.cornell.edu/uscode/html/uscode31/usc_sec_31_00003302----000-.html

18. DoD Preferred Commercial Lodging Programs.
https://www.defensetravel.dod.mil/Docs/Fact_Sheet_Lodging.pdf

19. Hotel-Motel National Master List.
http://www.usfa.fema.gov/applications/hotel/

YOUR OFFICIAL LETTERHEAD

(office symbol) (date signed)

MEMORANDUM THRU (if applicable)

FOR (Approval Authority in accordance with Army Directive 2011-10)

SUBJECT: Request Approval to (Sponsor or Cosponsor) the (insert name of event), (dates)

1. Event. (Insert name of sponsoring proponent) requests approval to conduct the (insert name of conference), (insert dates of conference), at (insert the location of the conference).

2. Purpose and Justification. Explain why the conference is being held; include any applicable regulations or directives. If the conference is being cosponsored, include a full explanation of what is being provided and exchanged. If the conference is in conjunction with a non-Federal entity, additional requirements apply (refer to Army Directive 2011-20, paragraph 9).

3. Cost-Benefit Analysis. Explain the benefits of holding the conference. Explain why lower cost alternatives such as teleconferencing, video conferencing or Web conferencing were not feasible and include any cost savings features from previous conferences. For any conference requiring travel, include a certifying statement that the objectives of the conference cannot be satisfactorily accomplished less expensively by correspondence, teleconferencing, Web-based communications or other appropriate means.

4. Analysis for Location Selection. Military installations or Government-owned or leased space must be considered first. Clearly demonstrate efforts to first secure military or Government space. For conferences with 30 or more attendees, state the three geographic locations surveyed and provide the rationale for the selected location. (For example, you should demonstrate where the majority of your attendees are traveling from and why the geographic location is most cost-effective.) Then clearly identify the three venues considered, including costs and any other factors used in the selection. If using commercial space within the National Capital Region (NCR), you must request approval from Washington Headquarters Services, Defense Facility Directorate, Space Policy and Acquisition Division and include the division's approval as an enclosure to the conference request.

5. Attendees. Provide information on your expected attendees (for example, all general officers in the medical profession on the East Coast). Include what measures have

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been taken to discipline attendance to ensure the minimum number of attendees. Then, complete the following chart for your expected attendance.

Number of military attendees	
Number of DA civilian attendees	
Number of contractor attendees	
Number of all other attendees (describe status and role in conference—statutory volunteers, etc.)	
Number of foreign government attendees	
GRAND TOTAL	
Of the attendees:	
Number of local attendees (i.e., those not on TDY orders – usually traveling from within the local commuting area)	
Number of Army-funded attendees (either centrally or command-funded).	
Number of spouses traveling at Government expense (additional approval required)	

6. Security. Provide contact information for the security office handling this conference. State the classification of the conference and certify that the procedures outlined in AR 380-5 (Department of the Army Information Security Program) have been followed, if applicable. If any personnel from a foreign government are attending or if any classified information will be discussed, certify that coordination has been done with the Office of the Deputy Chief of Staff, G-2 (DAMI). You must enclose a conference security assessment, including threat and vulnerability assessments for the conference facility site and any specific security requirements for the conference facility, with your conference request. If the facility has not been selected at the time of the request, include as much information as is known.

7. Funding and Contracts. Clearly explain how the conference is funded. Explain who is paying for all costs associated with the event and what funding source they are using (e.g., regular Operation and Maintenance, Army; official representation funds (ORF); registration or exhibit fees; or any other Government agency funds). Include funding from both the conference proponent and attendees' organizations. For example, state

whether attendees' organizations are funding travel and reimbursable registration fees. (A full explanation of registration fees should be included in paragraph 10.) If applicable, state the amount of ORF being requested and the date the ORF packet was submitted or will be submitted in accordance with AR 37-47 (Representation Funds of the Secretary of the Army). If the contract vehicle is known, include details. Enclose with your request any vendor proposal documents that will be relevant to decisionmaking.

8. Meals and Incidental Expenses. State whether any meals will be provided at Government expense in lieu of per diem. State the cost of each meal (including gratuity and applicable taxes) per person. (For example, each day attendees will be provided breakfast, lunch and dinner at the following costs: B = $#/person, L = $#/person, D = $#/person *OR* conference attendees will be provided lunch each day at $#/person). If a Government-furnished meal is provided, the proportional meal rate (PMR) applies to military personnel and DA civilians for each day meals are furnished. Further, you must demonstrate that the cost of the Government-furnished meals plus the PMR does not exceed the per diem for the locale. If meal breaks are worked into the agenda and attendees will purchase all meals with their provided per diem or optional nonreimbursable registration fee, please indicate "No Government-furnished meals." In the "Estimated Cost" table in paragraph 12, you will need to show the calculations of meals and incidental expenses (M&IE) and Government-furnished meals to make sure attendees are given the proper M&IE rate. Travelers are authorized 75 percent of M&IE on their departure and return dates (that is, travel days).

9. Refreshments. Refreshments are a personal expense and will not be provided at Government expense. Conference planners may offer attendees the opportunity to purchase refreshments as a personal expense not reimbursable by the Government. On rare occasions refreshments are both non-segregable (not identifiable as a separate charge in the facility costs) and non-negotiable (that is, the facility will not reduce the cost of the venue if refreshments are refused). However, this situation is rare, and by signing the conference request, the submitting official is attesting to the fact that the refreshments are non-segregable and nonnegotiable.. Any refreshments provided must be specifically addressed in the written legal review submitted with the conference request.

10. Fees. State whether a conference registration fee or exhibitor (vendor) fee will be collected; state the amount of the fee being collected for each person or vendor, and list all expenses and costs covered by the fee. Collection of fees must be conducted as permitted by applicable law, regulation and policy. Any conference or exhibit fee must be explicitly addressed in the written legal review submitted with the conference

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request. Please ensure that you refer to the policy document for additional requirements governing fees.

11. Honorariums or Speaker Fees. State whether or not honorariums or speaker fees will be paid and the cost paid for each speaker. In general, fees are limited to $2,000 a person, but refer to your command policy and/or DOD 7000.14-R, Volume 10, chapter 12, paragraph 1208 (Payments of Fees for Guest Speakers, Lecturers, and Panelists) for more information.

12. Estimated Costs. State the estimated costs for all expenses listed in the table and show all calculations; examples of appropriate remarks and calculations are provided. Costs should include any Army funds to be expended, whether by the conference proponent or attendees' commands or organizations.

Expense	Estimated Cost	Any Applicable Remarks
Lodging costs for attendees		(Hotel rate) x (# nights) x (# of attendees on TDY) = $___. Use the per diem lodging rate to show whether the lodging is within per diem. If the # of nights per attendee varies (e.g., support staff arrives early), show the calculations.
M&IE costs for attendees		FIRST & LAST DAY OF TRAVEL: (M&IE rate) x 75% x (2 travel days) x (# of attendees on TDY) = $___ CONFERENCE DAYS (w/ no Government-furnished meals): (M&IE rate) x (# full conference days) x (# of attendees on TDY) = $___. CONFERENCE DAYS (with Government-furnished meals): (PMR) x (# days with Government-furnished meals) x (# of attendees on TDY = $___. NOTE: PMR is used for any days the Government provides one or two meals; if it provides three meals, only incidentals are allowable. See the PMR Computation Table at enclosure 4 for more information on PMR and allowable per diem.

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Expense	Estimated Cost	Any Applicable Remarks
Government-furnished meals		List each meal separately. (Cost per meal) x (# of attendees authorized Government-furnished meal) = $____ NOTE: Local attendees (those not in TDY status) are not authorized to be provided meals at government expense. The amount of PMR plus the cost of the Government-furnished meal(s) may not exceed per diem.
Travel costs for attendees		(Average price of plane ticket) x (# of attendees) and/or POV reimbursement or other travel methods.
Meeting space rental costs		Include all costs associated with facility rental space per proposals. If the facility is in the NCR, include the statement "WHS approval has been included with this request."
Audiovisual costs		Include any audiovisual cost estimates (screens, microphones, etc.)
Fees for guest speakers, lecturers, or panelists		Include cost for each speaker, travel costs, or any other costs associated with speakers. Include approval of honorarium if $2,000 limitation is exceeded.
Printing or reproduction costs		Reproduction costs for handouts.
Standard supplies		Name tags, pens, paper, folders
Security costs		If applicable, as recommended by the appropriate security office.
Other specific costs such as van rental, telephone fees, computer fees		For example, van needed to transport supplies to venue.
Contracted facilitator or coordination cost		Include the contract or requisition # if known. Include description of what it covers and estimated costs.

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Expense	Estimated Cost	Any Applicable Remarks
Personnel and associated costs		Provide estimated military/DA civilian personnel costs associated with coordinating, preparing and executing conference. Include any lodging or transportation required to plan and execute the conference (i.e., site visits). Do NOT include the personnel costs (salaries and benefits) of those attending the conference, other than support staff. For assistance with personnel rates and calculations, refer to https://www.cape.osd.mil/costguidance/).
GRAND TOTAL	$	

13. Point of Contact. (Provide organization contact information: name, phone number, email address.)

(reviewing official signature block)\

NOTE: The following items must accompany this request:
1. Conference agenda
2. Legal review
3. WHS approval (for those using commercial space in the NCR)
4. Security review
5. Vendor proposals (if any)

COMPUTATION EXAMPLES OF PROPORTIONAL MEAL RATE (PMR)

The total amount paid by the Government for meals cannot exceed the locality meal rate. Therefore a conference sponsor must make sure the total amount to be expended for Government-provided meals and reimbursed as PMR is within the locality meal rate. This cost limitation makes it very difficult for a conference planner to provide Government-furnished meals, especially at a commercial establishment, and remain within the locality meal rate. Computations are done on a daily basis.

Example: A conference sponsor is planning to hold a conference at a location where the CONUS rate for meals and incidental expenses (M&IE) is $46. The $46 consists of $41 for meals and $5 for incidental expenses. The conference sponsor wants to provide breakfast on the 2 full days of temporary duty (TDY) and a dinner on the second day of TDY. The cost of breakfast for each person for each day is $7. The cost of dinner for each person is $36.

Part I: Find the PMR

The tool at http://www.defensetravel.dod.mil/site/perdiemCalc.cfm provides the necessary information to find the applicable meals rate and PMR. The chart is applicable to this example. Note "Local Meals" is the full per diem rate and "Prop Meals" is the PMR.

LOCATION (1)	County and/or Other Defined Location (2)	Seasons (Beg-End)	Max Lodging	Local Meals	Prop. Meals	Incidentals	Maximum Per Diem	Effective Date
STANDARD CONUS RATE	STANDARD CONUS RATE	01/01-12/31	77	41	26	5	123	10/01/2010

Part II: Determine How Much the Conference Sponsor May Spend for Meals

Once the PMR is identified, the conference sponsor must determine whether the cost for meals plus the PMR exceeds the meal rate. If the cost for meals plus the PMR exceeds the meal rate, the conference sponsor is unable to contract for meals at the proposed costs. In the example, the meal rate is $41.

For the first day of TDY, the conference sponsor wants to provide breakfast at a cost of $7 a person:

Step 1	Find the PMR	$26
Step 2	Find the local meal rate	$41
Step 3	Add the cost of breakfast to the PMR	$7 + $26 = $33
Step 4	Because the cost of breakfast and the PMR (step 3) is less than the local meal rate (step 2), the conference sponsor may contract for breakfast at this cost.	

For the second day of TDY, the conference sponsor wants to provide each attendee breakfast at a cost of $7 and also dinner at a cost of $36:

Step 1	Find the PMR	$26
Step 2	Find the local meal rate	$41
Step 3	Add the cost of breakfast and the dinner to the PMR	$7 + $36 + $26= $79
Step 4	Because the cost of the breakfast, dinner and the PMR (step 3) exceeds the local meal rate (step 2), the conference sponsor may not contract for dinner at a cost of $36.	

Army Conference Semiannual Report
(name of command, org, or activity)
(Dates covered by report)

Command	Organization or Activity	Event Name	Location	Held on Gov't or Military Site?	Actual Attendees	# of Local Attendees	Actual Cost	Event Start Date (include travel day)	Event End Date (include travel day)	Description of Event	Gov-funded Spouse Travel?	In Conjunction w/ NFE?	POC (name & phone number)
HQDA	G-1	DA Army Conference (Example)	Pentagon	Yes	90	85	$45,000	1-Jul-11	2-Jul-11	EXAMPLE: Provide a description of the conference and its purpose.	No	No	Angela Ritz, 703-545-0325

THE UNDER SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

June 12, 2012

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Updated Guidance and Data Call on Conferences

References: (a) OSD memo "Implementation of May 11, 2012, Office of Management and Budget Memorandum, 'Promoting Efficient Spending to Support Agency Operations'" of June 3, 2012
(b) OMB memo M-12-12 of May 11, 2012
(c) ALNAV 072/11
(d) DON/AA memo of January 31, 2012 (NOTAL)

Reference (a) provides initial guidance for implementing those portions of reference (b) that concern conference planning and accountability.

The conference approval authorities identified in paragraphs 3A(1) and 3B of reference (c) are rescinded. Until further guidance is published, conferences estimated to cost over $500,000 must be approved by the Deputy Secretary of Defense (DEPSECDEF), and conferences costing between $100,000 and $500,000 must be approved by the Office of the Secretary of Defense Deputy Chief Management Officer (OSD DCMO). Department of the Navy (DON)-sponsored conferences costing less than $100,000 in DON funds will continue to be approved per paragraphs 3A(2) and 3C of reference (c) and reference (d), subject to the temporary restrictions described below.

Reference (a) directs a review of all upcoming conferences that the DON is hosting or sponsoring, or that DON employees will be attending, where expenses to the Department of Defense (DoD) are likely to exceed $100,000. To accomplish this task, provide the following information to the Department of the Navy/Assistant for Administration (DON/AA) by July 5, 2012.

1. Complete attachment (1) for all upcoming conferences (as conferences are defined in paragraph 6 of reference (c)) that are being hosted or sponsored by the DON where expenses to DoD are likely to exceed $100,000.

- This includes conferences planned but not yet approved, and conferences that are approved but have not been held.

- Conference expenses include attendee registration fees, attendee travel costs, attendee per diem costs, and all other costs associated with planning and hosting the conference.

- Attendees include both Navy and Marine Corps personnel, as well as DON civilian employees.

2. Using attachment (2), list all conferences that DON employees in your immediate and subordinate organizations plan to attend. Include those being hosted by the DON, another government agency (Department of the Army, General Services Administration, etc.), or a non-Federal entity. Addressees must aggregate the estimated travel and per diem costs by conference.

A cover memo must accompany attachments (1) and (2) stating that the included conferences significantly advance the DON's mission, and that expenses and activities associated with these conferences comply with all applicable travel, conference, and acquisition regulations. A sample cover memo is at attachment (3).

I will forward the results of the review to OSD DCMO. Planning for all conferences may continue, but until this review is completed and transmitted to DCMO, the following rules apply:

- Conferences for which funds have been obligated, e.g., approved travel authorizations, signed contracts, signed no-cost contracts, will be executed as approved.

- Conferences for which no funds have been obligated, even if approved prior to June 3, 2012, are on hold but planning should continue.

- If total DON expenses will exceed $100,000 for any conference hosted or attended by DON employees, travel authorizations will be suspended pending notification to OSD DCMO.

- Any conference not approved before June 3, 2012 and estimated to cost between $100,000 and $500,000 must be submitted through the chain of command for approval by OSD DCMO.

- Any conference not approved before June 3, 2012 and estimated to cost over $500,000 must be submitted through the chain of command for approval by DEPSECDEF.

Semi-annual reports are required. Complete the semi-annual report, attachment (4) for conferences held by addressees or their subordinates. The first report covers the

SUBJECT: Updated Guidance and Data Call on Conferences

period September 21, 2011 through March 31, 2012, and is due to the DON/AA on July 30, 2012. The second report, covering the period April 1, 2012 through September 30, 2012, is due November 1, 2012.

The shortest path to reestablishing reasonable DON approval authorities is to rapidly provide accurate data. I am confident in your full cooperation in this effort.

Questions may be addressed to Joy Douglas, joy.douglas@navy.mil, (703) 692-6684 or Sharon Williams, sharon.williams@navy.mil, (703) 693-0991.

Robert O. Work

Attachments:
1. Brief Sheet for a Conference Hosted
2. List of Conferences to be Attended
3. Sample Memo
4. Semi-Annual Report

Distribution:
ASNs
GC
DNS
DMCS
DON/AA

Brief Sheet for a Conference Hosted or Sponsored by DON Where Expenses are Likely to Exceed $100,000 DON-Wide

Item	Description				Notes/Comments
1 **Submitting Organization**					
2 **Conference Title**					
3 **Geographic Location**	City			State	
4 **Dates (start / end)**					
5 **Purpose of Conference**					
6 **Frequency of Conference**					
7 **Duration of Conference**	Days, including travel days:				
8 **Facility** (include whether facility is a military installation, government building, hotel, etc.)					
9 Is an NFE involved? If yes, specify in "Notes/Comments" column.					
10 **Planned Number of Attendees** by the categories indicated	Federal Government			Non-Federal Government	
	DON	DoD (excl. DON)	Other		
11 **Lodging** (Indicate if gov't provided lodging, or if it was within per diem.)					
12 **Rental Cars** (Identify requirements, justify the need, discuss carpooling and other options)					
13 **Agenda** (Are there evening events? Do pre- or post-conference social events require attendees to extend TDY?)					
14 **Meals** (Within per diem rates? Are any meals being furnished during the conference? If so, have attendees been notified to annotate travel orders?)					
15 **Conference Fees** (Is there a conference fee? If so, what is covered by the fee? Have you coordinated with your Budget Submitting Office(BSO)/DC, P&R regarding conference fee collection?)					
16 **DON Cost Analysis**	**Cost Item**			**Estimated Cost (dollars)**	
	Total Travel				
	Total Per Diem				
	Conference Fees				
	Facility Rental				
	Contractor Support				
	Planning Costs (salaries, travel, etc.)				
	Other (specify; add lines as necessary)				
	Total DON Costs (excl. attendee salaries)				
17 **Efforts to reduce costs** (Identify efforts taken to reduce costs)					
18 **Conference Point of Contact Information**	Rank/Name		Phone		e-mail address

Attachment (1)

List of Conferences to be attended
by any DON employee (military or civilian)

Submitting Organization	Official Name of the Conference	Geographic Location		Dates of Conference		Host [1]	Estimated number of DON employees attending [2]	Estimated travel & per diem costs (total)	Notes
		City	State	Start	End				
DON/AA	*American Society of Military Comptrollers Annual Conference*	*Kansas City*	*MO*	*11-Sep-12*	*12-Sep-12*	*American Society of Military Comptrollers*	*3*	*$3,100*	*Example only*

[1] Includes DON, other DoD, other Federal agencies, & Nno-Federal Entities - anything anyone is attending.
[2] Include military and civilian.
Note: Conferences on this list will not have a corresponding "Conference Approval Brief Sheet" if the submitting organization is not the sponsor.

Attachment (2)

LETTERHEAD

DATE

MEMORANDUM FOR DEPARTMENT OF THE NAVY/ASSISTANT FOR ADMINISTRATION

SUBJECT: Updated Guidance and Data Call on Conferences

Reference: (a) UNSECNAV memo of June X, 2012

Attachments (1) and (2) are forwarded in response to reference (a).

I certify that the conferences reflected in the attachments significantly advance the Department of the Navy's mission, and that the expenses and activities associated with these conferences comply with all applicable travel, conference, and acquisition regulations.

JOHN DOE

Attachments:
1. Brief Sheet for a Conference Hosted
2. List of Conferences to be Attended

Semi-Annual Report on DON Hosted or Co-Sponsored Conferences
Period: 21 Sep 2011 - 31 Mar 2012

Submitting Organization:

Conference Title	Dates		Geographic Location		Held on Gov't or Military Facility?	Actual Cost to DON	Number of Attendees by Category				Description of Event	Point of Contact		In Compliance with ethics	Notes
	Start	End	City	State			Federal Government			Non-Federal Government		Name	Phone		
							DON	DoD (excl. DON)	Other						
Small Business/ Minority & Women Business Expo 2012	27-Mar-12	28-Mar-12	Harrisburg	PA	No	$7,110	18	0	0	430	To provide a forum to educate, guide, and assist businesses in working with local, state, and federal government.	CAPT Alli See	703-693-0991	Yes	Sample only

Attachment (4)

Mr. MORIN. See attached memo (28 Oct. 2011 Air Force POlicy Memorandum—Conferences).

SECRETARY OF THE AIR FORCE
WASHINGTON

MEMORANDUM FOR MAJCOMs/FOAs/DRUs
DISTRIBUTION C

SUBJECT: AIR FORCE POLICY MEMORANDUM – CONFERENCES

This is an Air Force Policy Memorandum immediately implementing updated Air Force policies regarding the processing and approval of requests from Air Force organizations to hold conferences. Compliance with this Memorandum is mandatory. It applies to all conferences sponsored, co-sponsored or funded, in whole or in part, by Air Force offices or organizations, including Air Force Reserve and Air National Guard organizations, when appropriated funds are used. To the extent its direction is inconsistent with other Air Force publications, the information herein prevails, in accordance with AFI 33-360, *Publications and Forms Management*.

The Air Force remains committed to the efficient stewardship of public funds when it comes to planning and executing conferences. All Air Force-sponsored or funded conferences must be necessary for mission accomplishment, must be the product of sound and comprehensive cost analysis and must stand up to scrutiny, particularly with respect to our fiscal responsibilities. We must avoid both actual and perceived careless, wasteful or extravagant expenditures. To this end, attached is a re-statement of the Air Force's policy and guidance on conference planning and approval. The Administrative Assistant to the Secretary of the Air Force (SAF/AA) is designated as the Air Force point of contact for conference-related policy.

Ensure all records created as a result of processes described in this Memorandum are maintained in accordance with AF Manual (AFMAN) 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule (RDS) located at https://afrims.amc.af.mil/.

The policy and guidance in this Memorandum becomes void after 180 days have elapsed from the date of this Memorandum, or upon release of an Air Force publication incorporating the policy and guidance, whichever is earlier.

Michael B. Donley

Michael B. Donley

Attachment:
Air Force Policy on Conferences

AIR FORCE POLICY ON CONFERENCES

Conferences continue to draw great interest and scrutiny. In our continuing effort to ensure appropriate fiscal responsibility for planning and conducting conferences hosted or funded by Air Force organizations, the following is provided as an update of Air Force policy in this area. When it is determined that only a conference will suffice to accomplish official business, conference planners and senior leadership must ensure that conferences are planned and conducted in accordance with this policy.

GENERAL POLICIES:

1. Appendix R of the Joint Travel Regulations/Joint Federal Travel Regulations (JTR/JFTR) provides Department of Defense (DoD) policy and perspectives regarding conferences, particularly regarding conference planning. Appendix R includes a reminder that "the public interest requires that Uniformed Services and DoD agencies exercise strict fiscal responsibility when selecting conference sites" ... so as to "minimize conference costs." It also provides that when DoD personnel attend conferences sponsored by others, representation should be kept to a minimum "consistent with serving the public's interest." Conference planners must familiarize themselves with applicable DoD and Air Force regulations and travel policy guidelines before starting to plan a conference. Conference planners and approval authorities should also refer to Appendix R for the factors to be considered in planning and approving conferences that will be supported in whole or in part with Air Force funds.

2. Conference defined. The JTR/JFTR broadly defines a "*conference*" as a "meeting, retreat, seminar, symposium or event that involves travel."
    - This definition includes events that are training activities under 5 Code of Federal Regulations 410.404, but not "regularly scheduled courses of instruction conducted at a Government or commercial training facility."
    - In recognition of the fact that a number of gatherings necessary to carry out official business might otherwise fall under the broad JTR/JFTR definition, "*conference*" has been interpreted not to include assemblies or gatherings convened to address business matters internal to the Air Force (or other topics with little relevance outside the Air Force) and those primarily involving day-to-day Government operations. This exception further includes events required to carry out the Air Force's statutory and regulatory functions, such as inspections, audits, investigations, site visits, negotiations and litigation. Examples of the types of internal deliberative-type decision-making events not considered to be "*conferences*" are Air Force Corporate Process activities, personnel boards (e.g., promotion), and developmental teams.
    - Events that may otherwise fall outside the definition of a "*conference*" may fall within this policy and guidance, depending on the facts, if they take on indicia or characteristics of a "*conference*." These include registration, a published substantive agenda, scheduled speakers or discussion panels, participation of non-Air Force personnel, etc. Organizers and approval authorities should carefully examine the factors and considerations set out herein and seek advice from their local legal advisor as appropriate. Any doubt regarding the application of these policies and

guidance will be resolved in favor of seeking approval, at least through the preliminary approval process outlined herein.

3. Consideration of alternatives. All offices considering a conference as a means of training, planning or disseminating information will first consider the alternatives available, whether teleconference, videoconference, e-mail or correspondence or other means.

4. Preference for use of Government-owned/Government-provided facilities. When a conference is the only viable option, the first choice for a location must be a venue controlled by the Federal government, preferably one in the local area of the largest group of anticipated attendees. This "local first" approach will help minimize conference-related spending. Therefore, unless fully justified, all Air Force-sponsored or funded conferences must take advantage of on-base or other Government-owned/provided facilities. All Air Force-sponsored or funded conferences that involve classified information must be held in a suitable on-base or Government-owned/provided facility. Conference planners will consider alternate dates and locations in an effort to take advantage of the cost savings on-base facilities may provide. Commercial facilities should be used only when they are clearly shown to be more economical or when military or other Government facilities are unavailable when needed.

5. Minimization of number of attendees and support staff. Conference planners and approval authorities are responsible for ensuring that only the minimum number of attendees and support staff needed to accomplish mission requirements will participate in Air Force-funded or hosted conferences.

6. Minimization of conference-related expenses. As responsible stewards of taxpayer dollars, Air Force personnel must seek opportunities to combat inefficient or wasteful spending – and to improve Government performance and management. Conference planners and approval authorities are expected to take a proactive approach in examining the utility and frequency of conferences and to optimize opportunities to reduce conference-related expenses.

7. Exceptions to policy. Requests for exceptions to policy will be submitted via command channels to the office of the Administrative Assistant to the Secretary (SAF/AA).

APPROVAL AUTHORITIES:

1. Significant events. Authority to approve conferences involving any of the following (regardless of event location) must be processed through SAF/AA for approval by the Secretary of the Air Force (SECAF) or the Under Secretary of the Air Force (USECAF):
    - Those involving the expenditure of $500,000 or more in funds for conference-related costs, regardless of the source of the funds;
    - Those involving co-sponsorship with a non-Federal entity or other Government agency (regardless of the level of expenditures); and
    - Those involving spouse travel (regardless of the level of expenditures).

2. Other off-base conferences. The levels of approval authority currently enumerated in paragraph 10.2.5 of AFI 65-601, Volume 1 are hereby modified.
    - For conferences held off Air Force installations (whether at another Government facility or a commercial venue) with total anticipated conference costs less than $500,000, (and not otherwise meeting the criteria of Paragraph 1 above), the approval authority is established at the following levels. Unless otherwise indicated, this authority may not be further re-delegated.
        - For the Secretariat: SAF/AA;
        - For the Air Staff and other National Capital Region (NCR) organizations: requests will be processed through the Assistant Vice Chief of Staff (AF/CVA) and the Vice Chief of Staff (AF/CV) for approval by SAF/AA;
        - For the MAJCOMS and subordinate organizations: the MAJCOM vice commanders (CV). This authority may be delegated by the MAJCOM/CV to Numbered Air Force commanders for wing-level events only;
        - For Field Operating Agencies: the HQ USAF two-letter office having oversight of the activity;
        - For the USAF Academy: the Superintendent; and
        - For AFOTEC: the Commander.

3. Other on-base conferences. Requests to hold conferences on Air Force installations (and not otherwise meeting the criteria of Paragraph 1 above) will be routed through the installation commander for coordination before being sent to the appropriate approval authority. The authorities listed in Paragraph 2 above also act as the approval authorities for conferences being hosted or sponsored on Air Force installations.

<u>CONFERENCE REQUESTS</u>:

1. Except where preliminary approval is given, no funds may be obligated or otherwise committed for conference facilities or other conference-related expenses before approval authority review and action is obtained.
    - Approval of a prior year conference does not suffice as approval in subsequent years. Due to changes in costs, focus, needs, and availability of resources, each event must be evaluated on its own merits.
    - Where retention of a commercial conference planner/coordinator is contemplated, preliminary approval (as outlined below) will be obtained from the appropriate approval authority before such services are engaged.
    - Final review and approval must be sought no later than 60 days prior to the planned event. Failure to submit a timely request for final approval may result in denial.
    - All conference–related contracts must be signed by a warranted contracting officer or, when authorized, a government purchase card holder.

2. Conference requests must be signed by a general officer (GO) or member of the senior executive service (SES) as an affirmation of compliance with DoD and Air Force policy prior to routing the request through command channels for review and approval.

3. Conference request packages (preliminary and final) will include the information essential for an approval authority to make an informed decision. See Appendix R of the JTR/JFTR as a reference.

4. Preliminary approval requests. Requests for preliminary approval of a conference are not required in all cases. A preliminary approval request will be submitted as early as possible whenever conference planners anticipate that long-range plans or financial commitments will be needed and/or they lack sufficient information for the final approval process. Preliminary approval is conditional (limitations on expenditures approved should be addressed in the preliminary approval document) and must be followed up with a timely final approval package. Preliminary approval packages will be appropriately staffed and include:
    - A discussion of the mission purpose or focus of the event;
    - The anticipated date(s) of the event;
    - A discussion of the alternatives to a conference that have been considered and why each was found not to be acceptable from a mission purpose perspective;
    - A discussion of the anticipated or desired location of the conference, including "local first" considerations as, discussed above, and steps taken or to be taken to adjust dates or locations to secure an on-base or Government-owned/provided facility;
    - A draft agenda outlining anticipated speakers, presentations and other activities;
    - A list of anticipated invitees/attendees;
    - An estimate of costs. To the extent possible with available information, the tool at https://www.cape.osd.mil/costguidance/ will be used to complete an analysis and the results included with the request;
    - A discussion of how this event was conducted in prior years (if previously held) and what savings are anticipated; and
    - Any other pertinent information.

5. Final approval requests. Final conference approval requests are required in all cases. At a minimum, conference request packages submitted for final approval will be appropriately staffed and include:
    - (For all events) A discussion of the mission purpose or focus of the event;
    - (For all events) The anticipated date(s) of the event;
    - (For all events) A discussion of the alternatives to a conference that have been considered and why each was found not to be acceptable from a mission purpose perspective;
    - (For proposed off-base events) A discussion of the efforts made to secure an on-base or Government-owned/provided facility, including possible adjustment of dates and locations, and an explanation of why those alternatives do not meet mission requirements;
    - (For proposed off-base events) A discussion of the geographic sites considered (at least 3). Among the factors to be considered/discussed are the "local first" considerations as discussed above, per diem expenses, travel costs, proximity to a majority of attendees, and consideration of lower off-season rates or peak seasons;
    - (For proposed off-base events) A discussion of the alternatives available at the desired geographic site (at least 3). Among the factors to be considered/discussed are inclusion on the FEMA list of approved accommodations, willingness to exempt

taxes for lodging, distance to nearest airport and availability of free shuttle service (in lieu of rental cars, taxis or Government vehicles), cost of the venue if commercial space is to be rented, and availability of rooms at the established per diem rate.

- (For all events) A proposed agenda with sufficient detail regarding speakers, topics, break-out sessions (location and purpose), and social events. Conference-related activities should not inappropriately extend the temporary duty (TDY) status of attendees or otherwise delay their return to duty;
- (For all events) A itemization of the proposed attendees and support staff requirements along with a discussion of efforts taken to minimize attendees and support staff;
- (For all events) A breakout of the anticipated costs for attendees (estimated travel, transportation and lodging), to include an indication of how many attendees will participate in a TDY status and how many local area personnel will participate;
- (For all events) A breakout of anticipated support costs, including efforts to reduce audiovisual equipment rental and other support costs;
- An estimate of the total costs of the conference;
- A cost-benefit analysis completed pursuant to the Secretary of Defense's memorandum, dated 27 December 2010, "Consideration of Costs in DoD Decision-Making." The tool at https://www.cape.osd.mil/costguidance/ will be used to complete this analysis and the results included with the request;
- (For all events) A discussion/comparison of the anticipated costs with the costs for this event in prior years;
- (For all events) A security assessment that addresses threat and vulnerability assessments for the proposed conference facility site and any specific security requirements for the conference facility or as a result of anticipated attendees or other participants;
- (For all co-sponsored events) A copy of the approval of the proposed co-sponsoring organization (IAW the Joint Ethics Regulation) and a copy of the draft memorandum of agreement between the proposed co-sponsors which explains the roles and contributions of all parties; and
- Any other appropriate factors or information.

MEALS AND LODGING: Air Force policy regarding meals or light refreshments at conferences will be promulgated in a pending change to AFI 65-601, Volume 1. Lodging and meals will not be authorized or provided at Government expense to local area attendees except as provided in AFI 65-601, Volume 1, and with the prior concurrence of the approval authority. If meals are provided to personnel in a temporary duty status, the command or organization sponsoring the event must ensure that the appropriate proportional meal rate is used. The cost of meals provided by the Air Force must not exceed the per diem rate for the conference location. All attendees will be advised to ensure that they correctly annotate travel vouchers.

REPORTING: Semi-annual reports of conference approvals will be forwarded (through command channels) to SAF/AA by approval authorities every six months by 10 January (for the prior July through December) and by 10 July (for the prior January through June). SAF/AA will prescribe the form and content required for such reports.

AUDITING: The SECAF or USECAF will ensure that an audit of conference processing and reporting is initiated six months after the promulgation of this policy, and thereafter at their discretion.

Attachments:
Template – Conference Request (Preliminary Approval)
Template – Conference Request (Final Approval)

CONFERENCE REQUEST – PRELIMINARY APPROVAL

[Use additional pages as necessary – reference paragraph number/title being continued]

1. **REQUESTING COMMAND/ORGANIZATION:**

2. **CO-SPONSORING ENTITY:**

3. **CONFERENCE TITLE:**

4. **PROPOSED DATES:**

5. **CONFERENCE MISSION PURPOSE / JUSTIFICATION** (be specific, cite tangible benefits):

6. **WHAT ALTERNATIVES TO A CONFERENCE WERE CONSIDERED AND WHY WAS EACH FOUND NOT ACCEPTABLE FROM A MISSION PERSPECTIVE?**

7. **PROPOSED LOCATION** (CITY/STATE – if known):

8. **PROPOSED VENUE (COMMERCIAL) (GOVERNMENT)** (If known be as specific as possible):

9. **HOW HAS THE "LOCAL FIRST" POLICY ON GOVERNMENT TRAVEL AND CONFERENCE-RELATED SPENDING BEEN CONSIDERED/IMPLEMENTED?**

10. **IF PROPOSED VENUE IS NOT A GOVERNMENT OWNED OR PROVIDED LOCATION, WHAT STEPS HAVE BEEN OR WILL BE TAKEN TO SECURE SUCH A LOCATION? IF NONE AVAILABLE, WHY?**

11. **PROPOSED PARTICIPANTS** (Indicate range of grades of participants and initial estimate of numbers):
    - **MILITARY ATTENDEES:**
        - **GENERAL OFFICERS:**
    - **DOD CIVILIAN ATTENDEES:**
        - **POLITICAL APPOINTEES:**
        - **SES:**
    - **DOD CONTRACTOR ATTENDEES:**
    - **NON-DOD ATTENDEES:**
    - **OTHER INVITEES:**

12. **WILL REQUEST INCLUDE SPOUSE TRAVEL FUNDED AT GOVERNMENT EXPENSE?** (If yes, indicate number of spouses to attend and provide justification for their attendance.)

13. **WILL CONFERENCE BE HELD IN CONJUNCTION WITH OR BE CO-SPONSORED BY A NON-FEDERAL ENTITY OR OTHER GOVERNMENT ORGANIZATION?** (If yes, provide available details on proposed co-sponsorship arrangement)

14. **WHAT IS THE PROPOSED/DRAFT AGENDA** (Be as specific as possible):

15. **ESTIMATED TOTAL COST** (Initial estimate):
    - **Travel:**
    - **Lodging:**
    - **MI&E:**
    - **Other Costs** (Function space, audiovisual, facilitator)**:**

16. **RESULTS OF INITIAL COST-BENEFIT ASSESSMENT** (Use tool at: https://www.cape.osd.mil/costguidance/):

17. **IF THIS EVENT HAS BEEN HELD IN PRIOR YEARS, WHEN WAS IT LAST HELD, WHAT WERE TOTAL COSTS AND HOW WILL THE PROPOSED EVENT DIFFER? WHAT STEPS HAVE BEEN TAKEN TO ENSURE ECONOMIES/COST SAVINGS OR COST REDUCTIONS?**

18. **WILL A CONFERENCE PLANNER OR COORDINATOR OR SIMILAR COMMERCIAL SOURCE OF SUPORT BE ENGAGED?** (Describe expected duties and projected costs)

19. **OTHER PERTINENT INFORMATION:**

20. **CONFERENCE POC:**

REQUEST MUST BE SIGNED BY A GENERAL OFFICER OR SES

CONFERENCE REQUEST – FINAL APPROVAL

[Use additional pages as necessary – reference paragraph number /title being continued]

1. **REQUESTING COMMAND/ORGANIZATION:**

2. **CO-SPONSORING ENTITY:**

3. **CONFERENCE TITLE:**

4. **PROPOSED DATES:**

5. **CONFERENCE MISSION PURPOSE / JUSTIFICATION** (be specific, cite tangible benefits):

6. **WHAT ALTERNATIVES TO A CONFERENCE WERE CONSIDERED AND WHY WAS EACH FOUND NOT ACCEPTABLE FROM A MISSION PERSPECTIVE?**

7. **PROPOSED LOCATION** (CITY/STATE):

8. **WHY IS PROPOSED LOCATION PREFERRED?** (What alternatives were considered? What factors were considered?) :

9. **PROPOSED VENUE (COMMERCIAL) (GOVERNMENT)** (Be as specific as possible):

10. **HOW HAS THE "LOCAL FIRST" POLICY ON GOVERNMENT TRAVEL AND CONFERENCE-RELATED SPENDING BEEN CONSIDERED/IMPLEMENTED?**

11. **IF PROPOSED VENUE IS NOT A GOVERNMENT OWNED OR PROVIDED LOCATION, WHAT STEPS WERE TAKEN TO SECURE SUCH A LOCATION? IF NONE ARE AVAILABLE, WHY?**

12. **WHY IS PROPOSED VENUE PREFERRED?** (What alternatives were considered? What factors were considered?):

13. **WHAT HAS BEEN DONE TO IDENTIFY AND ASSESS POTENTIAL SECURITY OR FORCE PROTECTION CONCERNS?**
    - **WHAT ACTIONS WILL BE TAKEN TO ADDRESS THESE CONCERNS?**

14. **PROPOSED PARTICIPANTS** (Indicate range of grades of participants and numbers expected/invited):
    - **MILITARY ATTENDEES:**
        - **GENERAL OFFICERS:**
    - **DOD CIVILIAN ATTENDEES:**
        - **POLITICAL APPOINTEES:**
        - **SES:**
    - **DOD CONTRACTOR ATTENDEES:**
    - **NON-DOD ATTENDEES:**
    - **OTHER INVITEES:**

15. **HOW LARGE A SUPPORT STAFF (AIR FORCE AND CONTRACTOR) WILL BE INVOLVED? HOW MUCH HAS BEEN SPENT OF PRELIMINARY PLANNING?**

16. **WHAT STEPS HAVE BEEN TAKEN TO MINIMIZE THE NUMBER OF ATTENDEES, INVITEES AND SUPPORT STAFF?**

17. **HOW MANY ATTENDEES AND/OR SUPPORT STAFF WILL BE IN A TEMPORARY DUTY STATUS AND HOW MANY WILL BE FROM THE LOCAL AREA?**

18. **IS SPOUSE TRAVEL FUNDED AT GOVERNMENT EXPENSE BEING REQUESTED?**
    - **ARE SEPARATE SPOUSE SESSIONS PLANNED?** (Provide agenda)
    - **NUMBER OF SPOUSES TO ATTEND:**
    - **JUSTIFICATION FOR SPOUSE TRAVEL/PARTICIPATION:**

19. **WILL CONFERENCE BE HELD IN CONJUNCTION WITH OR BE CO-SPONSORED BY A NON-FEDERAL ENTITY OR OTHER GOVERNMENT ORGANIZATION?**
    - **HAS CO-SPONSORING ORGANIZATION BEEN APPROPRIATELY CERTIFIED?** (If yes, attach copy)

- **PROVIDE DETAILS OF PROPOSED CO-SPONSORSHIP ARRANGEMENT OR AGREEMENT** (Delineate expected contributions/responsibilities of parties)

20. **WILL FUNDING FOR A PORTION OF THE CONFERENCE BE PROVIDED BY AN OUTSIDE SOURCE?** (If yes, describe source and uses of these funds)

21. **WHAT IS THE AGENDA** (Attach a copy with as much specificity as possible, include "break-out sessions," social events, collateral activities):
    - **WHAT ARE THE PROPOSED TRAVEL DATES FOR ATTENDEES?**
    - **WILL THE AGENDA INCLUDE ANY CLASSIFIED INFORMATION?** (If so, what steps will be taken to safeguard the information?)

22. **HAS A CONFERENCE PLANNER OR COORDINATOR OR SIMILAR COMMERCIAL SOURCE OF SUPORT BEEN ENGAGED?** (Describe expected duties and projected costs)

23. **ANTICIPATED TOTAL COSTS:**
    - **Attendee Travel:**
    - **Support Staff Travel:**
    - **Speaker Travel:**
    - **Attendee Local Area Transportation:**
    - **Support Staff Local Area Transportation:**
    - **Speaker Local Area Transportation:**
    - **Attendee Lodging**
    - **Support Staff Lodging:**
    - **Speaker Lodging:**
    - **Attendee MI&E**
    - **Support Staff MI&E**
    - **Speaker MI&E:**
    - **Speaker Honoraria:**
    - **Venue Rental/Charge:**
    - **Audiovisual and IT Charges:**
    - **Facilitator Costs:**
    - **Other Costs:**

24. WILL A REGISTRATION FEE BE COLLECTED? (From whom, how much and for what purposes?)

25. HOW WILL MEALS AND SNACKS BE HANDLED – IN TERMS OF FUNDING?

26. WHAT ARE THE RESULTS OF A COST-BENEFIT ASSESSMENT (Use tool at: https://www.cape.osd.mil/costguidance/)?

27. WHAT STEPS HAVE BEEN TAKEN TO MINIMIZE CONFERENCE-RELATED EXPENSES?

28. IF THIS EVENT HAS BEEN HELD IN PRIOR YEARS,

- **WHEN WAS IT LAST HELD?**
- **WHAT WERE TOTAL COSTS?**
- **HOW WILL THE PROPOSED EVENT DIFFER?**
- **WHAT STEPS HAVE BEEN TAKEN TO ENSURE ECONOMIES/COST SAVINGS OR COST REDUCTIONS OVER PRIOR YEARS?**

29. OTHER PERTINENT INFORMATION:

30. CONFERENCE POC:

REQUEST MUST BE SIGNED BY A GENERAL OFFICER OR SES

Senator AYOTTE. Let me just ask you, Secretary Hale. Government-wide Federal agencies have reported an estimated $115 billion in improper payments in fiscal year 2011, and in turn, we have only recovered, as I understand it, a little over $1 billion of those over $120 billion. Now, that is over across all Federal agencies.

So I would ask Secretary Hale and also Mr. Khan, how much did DOD pay in improper payments over the last fiscal year, and how much of that amount has been recovered? What are we doing to make sure that we are clamping down on overpayments and also recovering money that has been overpaid?

Mr. HALE. We have an aggressive program. I will start with the end. We have an aggressive program, we believe, to look for improper payments. I will give you some examples, and it varies by the category of payment.

For commercial payments, we use a system called the Business Activity Monitoring (BAM) system. It is a set of business rules that looks for payments that look suspicious, and then kicks them out. If they have the same number and the same date or a similar date

and amount, it will kick them out for human review. The BAM system has, we think, been quite effective.

TRICARE, which is our medical system that pays providers, has built into all their contracts what amounts to a recovering auditing procedure where they look after the money has been paid for whether there have been overpayments.

We are developing, in connection with the legislation Congress passed a couple of years ago, a post-payment sampling procedure for all of our payment categories so that we will statistically go back and verify that we have reasonable levels.

I believe it is around $1 billion of improper payments. That is $1 billion too much, but it is a tiny portion of our budget. We do have a recovery procedure. Many of those improper payments are personnel, and we tend to get those back very quickly. We have the best set of auditors in the world for personnel, which is all the people that receive the money, and they tend to look very carefully at their paychecks and tell us if there is a problem. Many of them will tell us if it is too high. They will all tell us if it is too low, I think. We are usually able to quickly correct those problems.

I think we have a good program, but it is one that needs continued attention because we are aware that in this day and age we need to have as few as possible, preferably zero, improper payments.

So let me get you more specific numbers on the exact amount and the recovery.

[The information referred to follows:]

Fiscal Year 2011:	Total Department-wide improper payments:	$1139.5 million
	Department-wide error rate:	0.18 percent
	Total underpayments*:	$456.4 million
	Total overpayments:	$683.1 million
	Total recoveries:	$368.6 million
	Recovery rate (1 year)	54 percent (fiscal year 2011 only)
	Recovery rate (cumulative)	93 percent (fiscal years 2004–2011)

*Underpayments are not subject to recovery.

In response to your question on what the Department of Defense (DOD) is doing to prevent improper payments, we use a computer software tool (called Business Activity Monitoring) that utilizes algorithmic logic to identify potential duplicate and overpayments in time for a technician to review and stop disbursement if the transaction is identified as potentially improper. We also analyze the root causes of our payment errors to see if technicians need additional training, or if a system edit could help prevent future errors. DOD also conducts regular outreach meetings with vendors and contractors to explain the importance of accurate invoicing and to encourage single invoice submissions where possible, rather than multiple submissions. For example, if a vendor submits an invoice through regular mail and then also submits it electronically, it is possible this could result in a duplicate payment.

DOD also has an aggressive debt management program to recover improper payments. One area that is proving especially successful is where a debt in one part of DOD (let's say the Army) can be offset against a payment pending in another part of DOD (for example, the Navy). We call this our Centralized Offset Program. We have also partnered with Treasury by transferring outstanding debts at day 120 instead of day 180 which is the legal threshold. By doing this earlier transfer, there is a better chance for recovery because Treasury has access to collection tools not available to other Federal agencies that enhance the collection of debt.

Senator AYOTTE. I appreciate that.

Mr. Khan, I do not know if you had anything to add to that.

Mr. KHAN. I am not going to dispute the numbers that Secretary Hale has just mentioned. It is just that going back to fiscal year 2010, we had concerns about DOD not including all classes of

transactions which were captured in the methodology for calculating improper payments. We understand this year—the class of transaction I am referring to is commercial pay—that that is included in the methodology for calculating improper payments. We do have work underway to look at—essentially it is done on a sampling basis as to how robust the methodology this year is to come up with the improper payments numbers. Again, we are also going to look at recovery auditing as part of that body of work. So we will have more information forthcoming later on this year.

Senator AYOTTE. Thank you.

I just wanted to ask one final question with the chair's permission.

We have this problem with the end-of-the-fiscal-year spendathon. How do we solve this? How do we get to the point where there is not this position and what are we doing about it, this idea that at the end of the fiscal year, program managers and everyone involved have to try to find ways to obligate money so that they are getting to the end of the fiscal year and we do it on things that we do not need because of this concern that if you do not do it, you come before us and say, well, they did not obligate all their money last year, they did not need it all, so we can give them less.

So help us with this because, I think, it is not only a problem in DOD, I think it is a problem across the Federal Government. But I know that it is a problem in DOD because I have spoken to people at the highest levels about it and I have spoken to people at the lowest levels about how this happens.

Mr. HALE. I share your concern. There are some rules in place that Congress has put in place that we can only obligate so much of our operating dollars in the last 2 months, and we do adhere to that. But it is still a lot of money, and I do not think it solves it all.

I will tell you something called the Budget Control Act is probably one of the better ways to do this. There is just going to be a lot less free money, and we will be looking for ways to reprogram—and I would like to address that in a moment, if I might—funds to meet what are probably more than $3 billion of unbudgeted fuel bills, some very substantial increases above budgeted levels for operating tempo in Afghanistan. I think it will soak up a lot of the dollars.

But I hear your concern. In a private business, if you have found a way to save money at the end of the year and still meet customer needs, you would probably get a bonus.

Senator AYOTTE. You would get a bonus.

Mr. HALE. We, unfortunately, do not do that, and there is some of what you said, that we do judge, to some extent, by the amount of obligations.

So I will not sit here and tell you it is not a problem. I think that tighter times will help correct it, and there are some rules in place that try to discourage it.

Do any of my colleagues want to add to that?

Mr. WESTPHAL. I totally agree.

The other issue that we get, as we work through Continuing Resolutions and the lack of a budget, we are also in many cases underexecuting on parts of our budget. That creates a different kind of

culture within the enterprise about how dollars are allocated. So we need a tighter process all the way around. We need a better sense of our budget obligations where Congress can be helpful and we need a better sense ourselves to manage through that.

I think we are getting the mechanisms. I do not know if you can talk about this. In the Army we have some mechanisms to address this end of the year.

Ms. MATIELLA. We do a very aggressive major review. For example, we are doing that right now. We are looking at obligation rates. We are making sure that folks are on track according to their plan because everybody has a plan, an expenditure plan, out there. So if we see that they are not spending according to plan, then we ask them why and they have to come back and give the reasons. Then at that point, we evaluate whether they are even capable of spending the money. If not, there are other areas where there is a need. So the mid-year review process looks at that and tries to push back on people spending according to plan, and if they are not able to, what is it that is out there that is unfunded that needs to be addressed.

Dr. MORIN. Ma'am, if I could add on behalf of the Air Force. We are working on a number of lines in order to address this challenge. As Mr. Hale said, some of them are getting addressed naturally by the more scarce dollars, and the fact that the Air Force is looking at a more than $1.4 billion fuel price shortfall will mean that we are tapping all of our other operational accounts looking for the sources to pay for that. So that will reduce available funds for all activities whether end-of-year spending or otherwise.

But I would also say that we are looking at some of the key areas of challenge. End-of-year spending typically migrates to things like information technology and support contracting. For information technology, as part of our broad enterprise-level efficiency initiatives, we have moved to more strategic sourcing and enterprise-level buys of that technology, which will make it harder for local operations to identify and buy ahead of need, if you will, for information technology because they have available resources. It will bring those monies back to headquarters for prioritization.

Similarly, service support contracts are being very carefully tracked as part of our efficiency effort. We are projecting a 30 percent decline in service support contract funding for 2013 compared to 2010, and we are enforcing those restrictions. So again, the ability to migrate dollars into that at the end of year is constrained.

But I think most importantly, what we are doing is working to change a culture of spend-it-all. You particularly see this with our acquisition programs where our progress reviews that the financial and acquisition personnel conduct out in the field with the program managers and program financial officers are focusing on right-sizing and right-timing resources. It may be that a program needs more resources in 2012 and fewer resources in 2013 because a particular piece is available earlier. It may be the opposite. We work to realign those resources, take money that is made available and apply it to higher priority warfighter needs. We have an open discussion with those program managers where they are incentivized to find savings to address the substantial list of execution-year

challenges that emerge in the context of running an enterprise of the scale of the defense establishment.

Senator AYOTTE. I thank you all. I want to thank the chair for her patience.

Also, I would suggest if it is not already a criteria, that performance evaluations be part of the measure, how much money did you return to the taxpayers. Thank you.

Senator MCCASKILL. It reminds me of that episode of The Office where Steve Carell found out that he had $4,300 left and he had to spend it by the end of the day or he was going to lose it in next year's budget, and they had to decide whether to buy a new copier or new office chairs. Near the end of the day, the CFO in the office explained to him that he could get 15 percent of it in a bonus if he did not spend it at all. You can imagine what he decided to try to do.

Unfortunately, we do not have that at DOD, and we waste a lot of money because of it.

Mr. HALE. I wonder if I might say a word about reprogramming?

This is an area that is very important to DOD. We depend on this, and we work hard to be transparent and to have discipline in this process. I am well aware that concerns have been raised in Congress and by a number of members about it.

But I did want to put it in context for you. Last year in 2011, we did policy reprograms. Congress allows a certain amount of mechanical transactions between funds, which are just that; they are mechanical. Our policy-related ones were about $18 billion. That is a huge sum of money, but it is less than 3 percent of our budget. We put budgets together a full 2 years in advance before we complete executing them. 97 percent 2 years in advance does not sound that bad to me. We need that flexibility.

I understand we also need to do better at things like new starts and to minimize them—and I am working to do fewer September reprogrammings. The last one just did not work out for a variety of reasons. But I would appeal to you to not judge the whole process harshly. We need it to meet the needs of the warfighters and to make effective use of taxpayers' dollars.

Senator AYOTTE. I appreciate that and I understand that. I think where we become concerned, is when it is leading us in directions that we did not authorize or we said as a policy matter as a group, we do not want you to go in this direction. That is where we become concerned or starting something new. So I think those are the areas where we become particularly concerned. I am not saying that you do not need flexibility. So I appreciate that very much.

Senator MCCASKILL. I am going to try to get to some of the nitty-gritty on some of the things we have talked about today now. I do think we do need context. While I understand this conference in Las Vegas is deplorable and embarrassing and horrible for taxpayers, if you look in context, the reason it has become such a big deal is it is so easy for everyone to understand. It is so easy for everyone to visualize it. Therefore, it is very easy to communicate it, and it is the kind of thing around here that allows everyone to do righteous indignation and photo ops because it is bad and it is easy for people to understand.

Now, this stuff is not. It is the opposite. It is very difficult to understand. I have really worked at it to try to understand it.

But just to give context so people understand, we have a defense integrated military human resource system that we spent 12 years on and more than $1 billion in an effort to modernize the military payroll and personnel systems. Of course, we had to cancel it 2 years ago. Now, if you look at that, that makes that money spent on that conference in Las Vegas look like couch change.

If I look at all the 11 ERP programs, we now cumulatively are $6 billion over budget and 31 years behind schedule. Now, that is a problem. I know you are all working on it and I sense how focused you are and I do think improvements have been made. So I am not here to say that we are not doing better because I think we are. But I do think that if everyone out there understood the magnitude of the issues that we face in terms of financial accountability in DOD, maybe they would be more focused on this than on the clowns and the mind readers in Las Vegas.

Let me talk a little bit about the inability to account for funds in Afghanistan. I have been worried about the accuracy of distribution of our money to the payroll of the Afghanistan National Army (ANA). I know that the IG identified almost $50 million worth of errors in the ANA payroll advances. They concluded this was possible because DOD did not have written procedures or perform adequate reviews and they relied on summary and not detailed data when distributing the quarterly advances.

After all the problems we had in Iraq and after all the reports of the Special Inspector General for Iraq Reconstruction there, how is it possible that we still have this level of failure in terms of written procedures or review as it relates to the expenditures of funds in Afghanistan?

Mr. HALE. I am not familiar with this, I am embarrassed to say. I will get familiar with it. I am going to ask if any of my colleagues are aware.

Ms. MATIELLA. I am not familiar with the issue. However, I can propose that anytime there is a problem, it is because the systems, like you said, are not there to do the work that they need to do. As you well know, in the Department of the Army, our legacy systems just cannot do that kind of work. That is why we are rolling out a new system, a system that will have much more discipline, that is much more integrated than the ones we have now.

Senator MCCASKILL. Is the ANA payroll coming through the Army or is it coming through OSD?

Mr. HALE. I think it would be through the Army, and we do pay them. This is American money. I believe it is done through the Army.

Senator MCCASKILL. I understand. There is a lot of the subject covered here. If you will get back to me on this particular problem because I want to make sure that we are doing better on that.

Mr. HALE. We will.

[The information referred to follows:]

Since the Department of Defense (DOD) Inspector General (IG) investigation was completed in December 2011, the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM–A/CSTC–A) has redesigned the Afghanistan National Army (ANA) payroll distribution process, implemented internal control procedures, and developed detailed standard operating procedures. The

payroll advances described in the DOD IG report have been replaced with the current Direct Contributions process whereby ANA budget managers are provided a financial commitment ceiling from NTM–A/CSTC–A, and Financial Management Oversight offices at NTM–A/CSTC–A provide oversight and control. Furthermore, NTM–A/CSTC–A has put into practice four initiatives that have improved internal controls and mitigated fraud within the ANA payroll process: integration of financial advisors who work on-site in close cooperation with the ANA Corps Finance Officers; implementation of a monthly pay verification process; implementation of a centralized pay system; and improved banking operations.

The ANA payroll funding is provided by the Office of the Secretary of Defense (OSD) to Army who releases the funding to NTM–A/CSTC–A. During the commitment letter process between NTM–A/CSTC–A and the Afghans, OSD is notified of the total payroll fiscal ceiling for Direct Contribution to the ANA. The commitment letter requires ANA budget managers to specifically identify which items require funding by Afghan budget code (e.g., salaries and food, incentives) instead of an overall bottom line amount. Any deviation at the fund code level requires written approval and an amendment to the distribution authorization. When funds are required by the Afghans, a funding request from the Afghanistan Ministry of Finance is processed through the Defense Finance and Accounting Service and wired to the Ministry of Finance into the ANA corporate account.

Senator MCCASKILL. I noticed that Mr. Work said that the Navy will be shutting down more than 100 legacy systems over the next few years. Do the other branches have numbers for me on how many legacy systems and what the plans are that you are going to be shutting down? Air Force or Army, do you have any numbers for me on legacy systems?

Ms. MATIELLA. Overall, we are going to shut down 700 legacy systems as we implement the different ERPs that we have. So to date, for example, with GFEBS we have shut down 80 systems so far. But in the long run, our goal is to shut down 700 systems.

Senator MCCASKILL. Okay, and the Air Force?

Mr. TILLOTSON. For the two ERPs, DEAMS and ECSS, the target was nine systems, as I recall, for DEAMS and about 240 systems for ECSS. The ECSS shutdown, obviously, has been delayed. So those plans, which should have been executing over the next several years are now put out. As we deploy DEAMS, over the next 2 years, we will get a partial shutdown for each base that we go to. We will not get the full shutdown until DEAMS goes to full operational capacity, which is about in 2016 or thereabouts.

We are looking, however, at our broader range of business systems, and I will get back to you with the kinds of numbers we are looking at there. Those are unrelated ERPs. This is part of the broader business system review that we have been conducting all along but we have put renewed emphasis on as a result of the 2012 language that directs us to go back and look at business expenditures of $1 million or more over the Future Years Defense Program.

[The information referred to follows:]

Yes. Separate from the 2 Enterprise Resource Planning systems previously described the Air Force plans to shut down 65 legacy systems over the next 3 years.

Senator MCCASKILL. Are there any legacy systems that you want to speak to at OSD?

Ms. MCGRATH. I can add that we just submitted our annual report on business operations, and we do articulate a termination or shutdown of 120 systems across the board. I think it is important to note that regarding systems and instantiations of systems, there is sometimes an art in the way we count. The 120 that we report

back to you this year comes from our DOD IT repository. What we are counting includes multiple instantiations of systems. Not to make this more complicated, but there are many different versions of systems that are out there. So when you are hearing really big numbers, all that is very good news, but the way we count from a departmental level, we would count those multiple instantiations as one, even though there may be more than one out there in existence.

Senator MCCASKILL. What you are referring to is you would have one system with a lot of modifications that had occurred over time, and so you are counting each modification as a separate system as opposed to that entire enterprise.

Ms. MCGRATH. Or if we have a system that is deployed in the Navy and it is the same one that is deployed in the Army, we would count those as two instantiations of the same system. They both have the same name.

So, I would just caution: This has been a long dialogue with regard to how we count systems and what those definitions are. Again, it is all very good news in terms of shutting down and rationalizing the legacy environment. When we report on an annual basis to you, we are very specific about the authoritative data source that we use.

I can say unequivocally we have terminated 120 systems that were in the DOD inventory last year, in addition to some of what the military departments are articulating in terms of various instantiations. It is all good news, and I do not mean to complicate it, but it is important to understand where the numbers come from.

Senator MCCASKILL. Yes, Secretary Westphal?

Mr. WESTPHAL. Madam Chair, if I could. The Army went through a series of portfolio reviews on each of our enterprise systems. I just held a meeting on each one of them to have a report on how many of the legacy systems we are in fact—as we integrate these enterprise systems, we are eliminating.

I have asked our staff to get together with those two great folks that you have behind you there, Mr. Levine and Mr. Carrillo, to report to them about the results of the portfolio reviews. I do not know if they have received that report yet. But I wanted the committee—because I think the three Under Secretaries have been in great partnership with your staff over the course of the last year and a half meeting on a regular basis and sending our folks to report on these activities to get some feedback, but also to keep you and the membership involved.

So on these portfolio reviews, I think at least the Army will be able to give you a pretty good assessment of where we are in terms of those legacy systems and what progress we intend to make this year as we integrate across all these different portfolios.

Senator MCCASKILL. Okay.

You mentioned GFEBS, let me go down that road.

According to the DOD IG, GFEBS does not have effective internal controls and, as a result, does not contain accurate and complete general ledger information as required by applicable law.

At about the same time, GAO reported that approximately two-thirds of the invoice and receipt data must be manually entered into the Army's GFEBS system from the invoicing and receiving

system due to interface problems, and the system's limitations significantly affect users' abilities to perform their daily task. As a result, Army installations were certifying year-end data with caveats and notes relating to inaccurate, incomplete, and missing data.

This system, this General Fund Enterprise Business System, was initiated more than 7 years ago and is scheduled to be effectively deployed this summer—fully deployed. How soon do you think you can address these problems, and do you agree with both the findings of GAO and the DOD IG as it relates to these problems?

Ms. MATIELLA. Some of this work was done almost 2 years ago, and since then, GFEBS has gone through a lot of reviews and a lot of fixing. Like you said, at this point we are almost fully deployed. We have 45,000 users on the system. We project to have about 55,000 users in the end. We have closed out several years. We got a clean opinion on appropriations received. After exam 1, which examined three different installations and how they used GFEBS, we got a qualified opinion on that. We are getting ready to roll out exam 2. So we are doing a lot of self-checking, and through that self-checking, we are improving GFEBS.

At the time that they did the audit, we were not as compliant as we are now. Right now we are 95 percent compliant with Standard Financial Information System (SFIS) requirements which DOD requires and that the Army Audit Agency (AAA) checks for us. So we have made a lot of improvements in GFEBS since that time.

However, we still have problems and we continue working on those problems. The Army has been very aggressive, but it is a system that shows—I have talked with different CFOs throughout Government about this software. It is systems, applications, and products (SAP) software. I have talked with them about whether—for example, SAP is used by the Department of Agriculture who has a clean opinion and got a clean opinion with this software. So I have talked to them about how they rolled it out, how they were using it, and they are all believers in the fact that this is good software. So it is just a matter of us learning how to use it, making sure that we are improving the way we use it, so that we are interfacing into it correctly. We do have interface problems, but we are getting data that drops out of it. That itself has also improved. Our reject rate is much lower than it used to be. We are tracking it. We send weekly reports to the CMO and to Secretary Hale about how we are improving those reject rates. So we are holding ourselves very accountable for improving it. So we see a bright future for GFEBS.

Senator MCCASKILL. Mr. Khan, do you have any comment on Secretary Matiella's comments?

Mr. KHAN. The GFEBS problem highlights an issue which is a bigger issue, the issue of the manual work-around that we highlighted in our report. That is because of the information the ERPs are going to be receiving from the feeder systems, the older systems, which are going to have to continue operating because there are so many of them. This is an issue which other ERPs also will be facing because the system operational entries of the feeder system and then that has to really get communicated into ERPs. If that is not done correctly, then there would be a need for manual work-arounds.

Ms. MCGRATH. Ma'am, I would just agree with what Asif just articulated in terms of the challenges, in terms of passing the data from the legacy environment into the ERP. We do not have standard data across the enterprise, and so it becomes evident in the implementations. That is why we are working from an end-to-end perspective, because if we do not, then we will never fix the ECSS. We have to take that broader perspective to your point earlier about the business process reengineering. It requires us to bring forward all of the legacy practices and change them so that when we are implementing these ERPs, we have a holistic approach to the data and the systems and the training aspects that have been identified.

Senator MCCASKILL. Stepping back from this, do you think we have made—if you look at what has been a common problem in all of these struggles, it has been data standardization and it has been the specs on interface. So if 5 years ago, on a scale of 1 to 10, we were a 1 on data standardization and interface specs, are we at a 5 now? Can we measure our progress? Because really that is what has caused a lot of these overruns and the date sliding and a lot of the money that has been wasted. Am I correct? Those two issues?

Mr. WESTPHAL. You are, Madam Chair. I will give you one example of what I think you are trying to show here. If you take the Army's personnel system and its financial systems, they were two separate systems that did not interface. So consequently when an auditor says how do I know Colonel Westphal is really married? Colonel Westphal has been in the Army for 30 years. Somebody goes back and looks and cannot find a marriage certificate because 30 years ago there was a different way of doing that and the personnel system was not interfacing with the financial system. So this enterprise system, IPPS-Army, will integrate those two systems, and it will be one individual who will enter data. So you will not have different stovepipes entering separate data that is not going to give that auditor the things he needs.

The GAO was right. That documentation was not there, and therefore it could not verify that we were making the right payments at the right time at the right place. We hope to fix that.

Unfortunately, IPPS-Army is not going to be fully deployable until 2017. So we have a lot of work to do between now and then to get those records in place, first of all, to come up within the Army and figure out what are the rules about what documents are going to be acceptable. A marriage certificate may be acceptable in one place but somebody else might say that is difficult to get. They come in different forms and shapes from each State. So we have to have some way to line up those requirements across the board, and that is what we are working on.

Senator MCCASKILL. Mr. Khan, what would your reaction be to overall where are we on data standardization and interface specs?

Mr. KHAN. Data standardization is very critical, especially given the accelerated date of 2014 and the plans of the Services to use the legacy systems longer than expected without data standardization. It is not really going to be feasible how the information from the legacy systems or the feeder system is going to get input into ERPs or how they will be able to produce financial statements.

Going back to your original question, where we are compared to 5 years ago, the SFIS initiative—that was the initiative to standardize the data within DOD. That really has gone through fits and starts and really has not reached the degree of maturity it should have to this point in time. So it still needs a fair amount of work to get to where it needs to be.

Senator MCCASKILL. Maybe I need to talk to Secretary Panetta and say we need a deadline for data standardization. We will get to some significant manual work-arounds on that.

Even before Secretary Panetta established the 2014 goal, the Navy plan called for achieving an audit-ready SBR by the end of the third quarter of 2013. The most recent update we received indicates that that Navy schedule is slipping. For example, the Navy had planned to begin audit for its reimbursable orders in the second quarter of 2012, but now it has skipped to the first quarter of fiscal year 2013. You had planned to begin audit of its requisitioning orders in the second quarter of 2012, but that has slipped to the second quarter of 2013. You had planned to begin audit of its contracts in the second quarter of 2012. That has slipped to the third quarter of 2013, and planned to do an audit of its FBWT in the fourth quarter of fiscal year 2012, but the goal has now slipped to the fourth quarter of 2013.

What is the postponement of these milestones about, and how is it going to impact your 2014 deadline?

Ms. COMMONS. Madam Chairman, we still believe that we will meet the 2013 date that we established. We believe that by the end of fiscal year 2013, that we will have an audit-ready SBR.

What we are finding in our discovery, as we go through these processes, we are finding that we need to take more corrective actions than originally planned. We want to go through a very deliberate process.

We are not rushing this just to meet a deadline. We want to ensure that when we make changes to our business processes, that these are long-term improvements. That is one reason that we are focused on our business processes end-to-end, not just looking at financial pieces, but we are going from the beginning of the process to the very end to ensure that when we make changes to the process, that it will result in an audit-ready statement. So much of the delay is that in discovery, we have found that we need to make more corrective actions.

With regard to reimbursable work orders, we realize that it is a government-wide problem. It is not simply a problem that DOD can solve by itself because we get reimbursable work orders from across the Federal Government. We need to have a methodology for accounting for that, and I believe we are all working to figure out exactly what to do in that process so that we can do the necessary eliminations.

So basically we understand that we are moving some of the dates out but primarily because the corrective actions will take some time. We also need to have time to test those corrective actions to make sure that the things that we have put in place actually work. So we want to have a very deliberate process to be able to have an audit-ready SBR.

Senator MCCASKILL. Mr. Khan, let me ask you about one of your findings—I think it was just last month—about the difficulty the Army is going to have meeting the 2014 date because of deficiencies with payroll processes and controls.

One of the findings was that the Army did not have an effective, repeatable process for identifying the population of Active Duty payroll records. This is a big deal because it is $46 billion. It is a lot of money. Could you comment on whether or not you think that the Army has established a viable approach to addressing this particular finding in your audit?

Mr. KHAN. At the point in time we had done our field work, they were in the process of addressing that issue, but we were not able to validate whether or not they had come up with a repeatable process. We had highlighted in that report many of the processes and systems that are used by the Army are also used by the Air Force and the Navy. So we just wanted to highlight that. That is an issue that both the other two Services should also really keep in mind when they are coming up to their SBR timeline.

Senator MCCASKILL. Do you think you have made some improvements in that area? Do you think you have something that will pass the standard in terms of an effective, repeatable process?

Mr. WESTPHAL. We think we are on our way to get there, but boy, we are working very hard right now to get that documentation and get it ready for 2014. So we are working very hard on it and we will keep you apprised of that as well.

Senator MCCASKILL. In 2010, the Marine Corps asserted that its SBR was ready for audit but was unable to get the clean audit. GAO reviewed the audit findings and concluded the failure was attributable in part to the fact that the Marine Corps did not have adequate process and system controls and controls for accounting and reporting on the use of budgetary resources. The Marine Corps developed an action plan and milestones in response to that finding and sought a new audit for fiscal year 2011 SBR. However, GAO found that many of the Marine Corps' actions did not address the specific auditor recommendations and other actions were not adequate to correct the underlying problems.

Some of this is just underlying internal control problems, which if you do not get that fixed, you cannot dress it up. You have to start with the internal controls or you are never going to get that clean opinion that you are all working so hard to get.

So talk to me about that. I would like both Mr. Khan and Secretary Commons to address, why would you push for another audit if you had not addressed the internal control issue? Was it a miscommunication or a lack of understanding about what was going to be necessary? Or did you think you had solved the problem and were disappointed to find that you had not?

Ms. COMMONS. The Marine Corps has, in fact, addressed many of the issues that were identified in the findings and recommendations. Many of those were systems issues which will take time to correct. So we felt it important to continue the audit because of the lessons that we are learning from the Marine Corps.

We agree with you that internal controls are key. We have to address the internal controls across DOD, not just in the Marine Corps but across the entire DOD, and the Marine Corps has taken

action to do that. In fact, the DOD IG recommended that we continue the audit because the Marine Corps had made significant progress. So we believe that we are solving those issues that we can do in the short-term. There are some long-term issues we are going to have to continue to work on.

Mr. HALE. Can I add a thought there, Madam Chairman?

Senator MCCASKILL. Sure.

Mr. HALE. I believe that we would have been better off to jump in the pool and get a private auditor to look at what we have done. Often we have done this for small parts. The Marine Corps was an exception where we did it for the entire SBR. But we just found they know a lot more about what we need to do frankly, and we did not know what we did not know. So I think it has been very helpful to have that audit. We have learned a great deal, and I have encouraged the other Services and they are doing it. Whenever they think they are reasonably close—I realize we cannot just do this whimsically, but when they are reasonably close, let us go get somebody in here and pass the test or not pass the test, and if we do not, they will usually tell you why.

Senator MCCASKILL. They better. That is part of their job. Right, Mr. Khan?

Mr. HALE. They should, as you know from your career better than I do.

So I think this strategy of going to audit when we think we are reasonably close is a good one. It is not cheap, but it is not cheap to not get there either. So I endorse it strongly, and we are going to pursue it.

Senator MCCASKILL. Do you have Yellow Book experience, which you all know, I assume, Yellow Book is the Bible of government auditing? Do you have people internally that are familiar with Yellow Book standards and auditing processes? How much of this are we outsourcing? Frankly, I think going through a trial run audit is a great idea. It is a great learning process, but if we are buying one from a full-blown private accounting firm, as complicated as your enterprises are, I do not want to think about what your bills are. In fact, do not tell me because then I will be off on a tangent——

Mr. HALE. So I will not tell you.

Senator MCCASKILL—about contracting for personal services that are beyond the pale.

So why can we not get either through DCAA or—one time I tried to count how many auditors were in DOD between IG, DCAA, DCMA, GAO, everybody who worked at DOD, and I think I got to 30,000 when I stopped counting. Now, a lot of them are not doing audit functions. A lot of them are doing different kinds of functions, but they are within organizations that would be considered audit-like.

So could we not get a team of trained government auditors within DOD to be a roving squad to put people through their paces on audit work and come up with findings and would be illustrative to these different branches as to where they are in the process that maybe would not be as expensive as hiring a full-blown audit from the outside?

Mr. HALE. First, we are trying to develop more skills. I wish we had more. We have some. We have some good people, and I will ask my colleagues to comment on this.

As far as using the internal audit agencies, it will violate the independence rules. GAO will not allow that.

Senator MCCASKILL. Not GAO. What if we got a special hit squad from DCAA and——

Mr. HALE. First, DCAA is a pricing audit agency. They do not do financial statement audits. They are auditors.

Senator MCCASKILL. Yes, but a lot of them are Yellow Book.

Mr. HALE. I have them pretty busy doing other things right now.

Senator MCCASKILL. I can go find you a bunch—I can go out to State auditors offices——

Mr. HALE. You could do that.

Senator MCCASKILL—and find you a team of government-trained auditors that you could get a lot less expensively than $500 an hour.

Mr. HALE. I think we would get into independence problems there too if they really worked for me or for any of the unders.

Senator MCCASKILL. Yes, but you are not trying to do this to get a clean opinion. You are doing it for training.

Mr. HALE. Let me ask the Services to comment on their remediation efforts and the extent they have people.

Dr. MORIN. Ma'am, if I may.

Senator MCCASKILL. Yes.

Dr. MORIN. Ma'am, we have been trying to do this within the limits of audit independence and have had some reasonable success. The Air Force Audit Agency has provided a team of about 25 of their auditors that are focusing for us on just targeted areas of internal control investigation that directly support our audit readiness effort. They are not telling me, go in and do this to pass an audit, in quite those terms, and they are not themselves auditing in that sense, but they are doing very targeted investigations of key controls that are driven by our audit readiness plan. Then we will, of course, have another, a separate auditor, come in and do an eventual examination.

Senator MCCASKILL. Of course. Obviously, I am not suggesting that we would ever hire anyone to do audits internally. That would not work. But having the expertise inside that can help with guideposts. I get that you wanted to try again because you had made progress and you wanted to see how much progress you had made. I think that is all good. But the basics of internal controls I think a lot of government auditors could have helped with that would have not needed a whole——

Ms. MATIELLA. I believe that certifications are very important. They show a skill set. For example, the certification of being a Certified Public Accountant (CPA) is an important skill set to have when you are trying to become auditable or create financial statements that are auditable. I am a CPA. My audit director is a CPA. It is a very valuable skill to go out and hire. It does make a difference in terms of knowing what is required by the Yellow Book.

We also use our AAA to a large extent to check us, to be independent but also to check us to make sure that we are doing the right thing.

Senator MCCASKILL. I think that is great.

Mr. WORK. Ma'am, we are doing something very similar. We have about 30 members of the Naval Audit Service that go out. They did surprise audits. The first thing they looked at was internal controls. We identified a major issue there. Then we started to populate that around all of the different budget submitting offices.

Then the second thing that we go in and look at is, do they have the right documentation. These are lessons learned from the Marine Corps audit.

So we will continually step up what they will look at.

But I think, going back to what Mr. Hale said, saying we will get to a SBR by 2014, put a search light or a flashlight on all of the different internal processes we have, and that has, quite frankly, illuminated a lot of problems that we did not know existed. So as Ms. Commons said, this is a very deliberate process and the more help we get from—the Marine Corps audit was very important for all of us because it really set the bar on what we have to do. So I believe that we are doing much of what you are suggesting right now.

Senator MCCASKILL. Good.

Dr. MORIN. Senator, can I add one more point on that topic, if I may?

Senator MCCASKILL. Sure.

Dr. MORIN. One of the things that we did not probably anticipate, when we hired these independent public accounting firms to do examinations and do limited scope looks at our assertions, is in some cases they have come and told us we were going further than we needed to in preparation for this assertion. I had independent public accounting firms on two of the assertions I have done where they identified areas where our plans, they felt, went beyond the standards that were required. Now, other areas they said, even though they gave us favorable opinions, there are other areas for improvement. But in certain cases they said, you are moving towards doing a full financial system certification for a particular system, and that is not a system of record and you probably do not need to go to the expense of doing that. So there is return in having these outside eyes on the problem that goes beyond just working through the process. Sometimes that external commercial audit perspective tells us we are making the problem harder than it had to be.

Senator MCCASKILL. I am sure all the outside audit firms that are watching this hearing, glued to whatever place, are very grateful to you right now because I summarily dismissed how expensive they were, I think you were pointing out that there can be value added is important.

I only have two more questions and then we will submit some more to you for the record. I will note that Senator Manchin had more contractor-related questions that we will submit. I will not go into them now, but I think they are important. Obviously, I think all of you know how engaged I am in the contracting issue. But he wants to know about the costs of benefits to veterans versus the overseas contractors, and I will make sure that those get in the record for his answer on that.

Let's talk about DEAMS for a minute at the Air Force. In February, GAO reported that the interfaces on DEAMS and the legacy systems at the Air Force were inoperable and required reports either that are not being produced or that are inaccurate or incomplete. The interface problem with the Standard Procurement System (SPS) became so serious that that interface was turned off and the data was manually entered into DEAMS. In an April 2011 survey, 48 percent of the DEAMS users said their workload has increased as a result of DEAMS and only 10 percent felt that their work was more accurate. Clearly that is not a good outcome for this system since we have spent 8 years and $330 million on it.

What is your response to these problems that have been so recently pointed out? I would like Mr. Khan to also speak to that.

Dr. MORIN. Yes, ma'am. Now, it is important to note the GAO study was just published a couple of months ago, but it was a result of field work that occurred predominantly in the last calendar year, some of it early in that year. So there has been significant progress since then.

Let me begin with the interface issue. You referred to the SPS interface, and it is a portion of that interface which does not work. We are successfully importing data from the standard procurement interface, which is one of our main basic contracting systems, for new contracts. Modifications of existing contracts are the part that do not come through. So 95 percent of the new contracts come through fine. For the modified contracts, the majority need to be handled manually. That is among the 245 areas that were identified for improvement in the course of moving towards stabilization of the system ahead of the operational assessment that I referred to in testimony earlier. There are some inherent limitations in working with an old system like SPS, and that is a system that has been looked at for replacement for some time and has been frozen and in place for a while, which is a problem. We believe that with the bulk of the new contracts coming in successfully and with some process improvements, we can get to an acceptable level of performance there.

On the workload piece, if staff were promised that DEAMS would yield a lightening in their workload, that was not a good promise to make. ERPs in general are not workload savers and they should not be sold that way in comparison to the legacy systems which we have in a lot of the DOD which are quite easy to use. They are quite easy to use in some cases because they do not have appropriate internal controls. So doing the work properly sometimes takes more effort. Directly linking obligations to specific contracts and tying that through to a receiving report requires work.

So I do not want to overpromise here. There are areas where we can improve workload. Again, we had laid in 245 specific discrepancies we were seeking to resolve as we worked through to stabilization of DEAMS. We have addressed all but about 40 of those. The remaining 40 we anticipate being closed out by the second week of May, so within a month. That will be when we move into the operational assessment of that system at Scott Air Force Base. We take the workload piece seriously, but we do not anticipate fielding a system that is going to make everyone's life much easier because we are fielding a rigorous system.

Senator MCCASKILL. I really understand the point you are making because I think one of the reasons we got into this mess is everybody wanted to hold onto legacy systems. So every time they were asked, it was, oh, no, this is horrible. It is just way too much work. So there was this cultural predisposition towards holding onto legacy systems which frankly has caused a lot of the interface problems and a lot of the time slippage and a lot of the budget overruns and so forth.

Would you agree with the description that Secretary Morin made, Mr. Khan, that they are getting there?

Mr. KHAN. We would have to go back and evaluate that.

Part of the issue is also related to what I mentioned earlier about data standardization. That was the problem, why SPS was not communicating properly with DEAMS. That is an issue.

The other one goes to some of the features which the users of DEAMS had in the legacy systems are not in the newer system.

So it is like Dr. Morin is saying, it is managing the expectations that in some of the cases workload is not going to lighten up for the users. But this is also linked up with the business process reengineering effort which is a part of the NDAA. If that is followed through, the expectation is that the processes are going to be much more streamlined than they were in the legacy environment. So ideally that is going to lighten the workload.

Senator MCCASKILL. Finally, the auditability of Army classified programs. Earlier this year, the Army was asked to reprogram funds for a variant of the GFEBS that will be able to handle its classified programs. Without this new system, the Army said it would not be able to achieve full auditability of its SBR by the 2014 deadline set by Secretary Panetta. The reprogramming request was recently withdrawn largely because it did not meet Senator McCain's criteria for approval of a new start reprogramming request.

I would like you to state for the record what the impact of a withdrawal of the GFEBS Sensitive Activities reprogramming request on the Army's ability to meet the deadline is, and what steps, if any, would you like Congress to take in the 2013 authorization and appropriations legislation to address this issue?

Mr. WESTPHAL. Madam Chair, as I understand it, if we are able to get the resources in fiscal year 2013, we will be able to fix this issue. We have asked for the reprogramming, and Senator McCain, as you pointed out, has asked us to put our report together on that and we are producing that.

Senator MCCASKILL. Okay. If you would let us know and make sure that we get what you need in the authorization, as it relates to that, I think it is very important that the classified programs have that auditability, and I do not want to leave them behind. So let us know on that.

As usual, you all are working very hard at a very difficult problem. I get very frustrated with the amount of money that has been spent and the amount of time it has taken. But please do not lose sight that I do understand that it is incredibly complicated what you are trying to do. There are no businesses that have the challenges that you have in terms of enterprise-wide auditability.

I am not going to let up on this because I think it is essential that we get to that point. I will be watching. I feel like ordering my buttered popcorn and Diet Coke to watch this 2014 date because I think this is going to be very interesting to see how this turns out. I do think everybody is on point about it. I think everybody is working very hard towards the goal. I will be paying very close attention to how much money it costs us to get to this 2014 number. I will look forward to whatever assessment you think you can give us, Secretary Hale, about manual work-arounds and what the price tag on that is going to be so that I could have a conversation with both you and Secretary Panetta to make sure that we have done the cost-benefit analysis.

I think pushing everybody has a lot of benefit. I just want to make sure the costs associated with that benefit are not too high. I would appreciate any feedback we can get specifically on that in the coming weeks and months.

As usual, thank you very much for all of your service. The public has no idea how much you know and how hard you work. I do. Thank you very much. This hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR CLAIRE MCCASKILL

PROBLEMS WITH FUNDS BALANCE WITH TREASURY

1. Senator MCCASKILL. Secretary Hale, Ms. McGrath, Secretary Work, and Secretary Commons, the Department of Defense (DOD) identified the reconciliation of its Funds Balance with Treasury (FBWT) as the first and easiest step that it could take toward auditability. In November 2010, however, the DOD Inspector General (IG) issued a disclaimer of opinion on the Navy's fiscal year 2010 FBWT. The Government Accountability Office (GAO) reviewed the audit findings and concluded that although DOD has spent over 4 years and $29 million to acquire an information technology tool to reconcile FBWT, this tool won't be able to get the job done until DOD takes additional steps to fix internal controls. For example, GAO found that the Navy relies on data from the Defense Cash Accountability System (DCAS) to reconcile their FBWT to Treasury's records, however, "DOD has not tested the application controls over DCAS since its implementation to determine if the system is processing data as intended". "A list of over 650 DCAS system change requests" needs to be addressed "in order to correct DCAS data reliability and security problems or process required system updates"; and "over 200 of these system change requests are deficiencies that affect audit readiness and 20 require immediate action." Have the problems identified by the DOD IG and GAO been addressed?

Mr. HALE and Ms. MCGRATH. In its 2011 report on Navy and Marine Corps FBWT reconciliation, GAO noted that Defense Finance and Accounting Service (DFAS) has been developing a Business Activity Monitoring (BAM) tool. The tool is an essential component in successful and repeatable Department of the Navy FBWT reconciliation. This year, DFAS has loaded the Navy appropriation data for fiscal year 2010 through fiscal year 2012 and has completed monthly FBWT reconciliations for the first 4 months of fiscal year 2012. DFAS is also retaining all supporting documentation for audit purposes. Further strengthening of the BAM tool's internal controls is planned for third quarter of fiscal year 2012, along with the loading of the Navy appropriations data from fiscal year 2006 to 2009. Other improvements are also planned. DFAS expects the BAM tool to fully support the Navy FBWT reconciliation by the scheduled audit readiness date of March 2013.

These 650 System Change Requests (SCR) GAO noted related to DCAS are not solely system deficiencies related to cash accountability reporting, but a combination of audit-related weaknesses, user enhancements, and other changes to systems functionality requested by both technical and functional experts. DOD has developed a two-step improvement plan to address the system change requests. First, DOD is currently migrating the systems platform that DCAS operates in, moving it to a web-based, Common Access Card enabled environment. This migration will complete approximately 100 of the SCRs. Second, the DCAS governance board, comprised of executive level personnel, will review and reprioritize all remaining SCRs after the

systems migration. This board will be held accountable for ensuring that the scarce resources allotted to DCAS are used wisely with emphasis on ensuring auditability of the cash accountability reporting.

Mr. WORK and Ms. COMMONS. The Navy does rely on the data from the DCAS to reconcile the FBWT to Treasury's records. DCAS is managed and maintained by the Defense Logistics Agency (DLA). DLA is addressing the concerns noted by GAO, with plans to move DCAS to a more secure web environment, and with a planned November 2012 deployment of multiple systems change requests to enable Navy-Marine Corps SBR audit readiness.

In their 2011 report on Navy and Marine Corps FBWT reconciliation, GAO also noted that the DFAS has been developing a BAM tool. This information technology tool is essential to successful and repeatable Navy FBWT reconciliation. This year, DFAS has loaded Navy data for fiscal year 2010 through fiscal year 2012 appropriations and has completed monthly FBWT reconciliations for the first 4 months of fiscal year 2012. DFAS expects to be current with the monthly reconciliations from October 2011 going forward by the end of May 2012. For audit purposes, DFAS is also retaining all documentation supporting the monthly reconciliations. Further strengthening of the BAM tool's internal controls is planned for third quarter of fiscal year 2012. DFAS expects the BAM tool to fully support the Navy FBWT reconciliation by the scheduled audit readiness date of March 2013.

2. Senator MCCASKILL. Secretary Hale, Ms. McGrath, Secretary Work, and Secretary Commons, why is it that the DCAS problem does not appear to have adversely affected other DOD entities that submitted their FBWT for audit?

Mr. HALE. The current 2014 directive for auditability will require all entities to reconcile FBWT, regardless of system in use. Only a few entities to include the Navy currently use DCAS for U.S. Treasury expenditure reporting and FBWT reconciliation. DOD is working closely with the U.S. Treasury in conjunction with the Government Wide Accounting reporting modernization effort to ensure all of our systems that affect the FBWT reconciliation are properly aligned and auditable.

Ms. MCGRATH. The DCAS capabilities affect other entities and the solutions being implemented will improve the processes for all impacted entities.

Mr. WORK and Ms. COMMONS. The Navy is the only DOD organization using DCAS for cash accountability and Treasury reporting.

3. Senator MCCASKILL. Secretary Hale, Ms. McGrath, Secretary Work, and Secretary Commons, is the Navy now in a position to receive a clean audit opinion on its FBWT?

Mr. HALE and Ms. MCGRATH. Navy has established a plan to assert audit readiness for FBWT by March 31, 2013. We are monitoring Navy's progress against their plan.

Mr. WORK and Ms. COMMONS. The Navy's FBWT audit readiness assertion date is planned for March 31, 2013. The Navy is not yet audit ready. The Navy is collaborating with the DFAS to execute its detailed plan to achieve audit readiness in this area. The Navy has financial managers on-site at DFAS Cleveland working closely with DFAS managers to keep the detailed FBWT auditability plan on schedule.

QUESTIONS SUBMITTED BY SENATOR JOSEPH MANCHIN III

OVERSIGHT OF CONTRACTING

4. Senator MANCHIN. Secretary Hale, we must look closely at the business practices of contracting since contracted spending accounted for over half of the DOD budget in fiscal year 2011. In your response to my question regarding the ratio of contractors to uniformed personnel, and the jobs performed by contractors in overseas operations, you stated, "I don't think any contractor is doing exactly the same job as a frontline soldier."

However, I maintain that contractors are performing many jobs that our servicemembers have been trained to do, and at a higher cost. From what I understand, contractors eat at the same dining facilities, see the same doctors, and are resupplied by the same convoys that support our troops. There are also long-term costs associated with contractors, especially in cases like Qarmat Ali where the taxpayers may foot the bill because of the indemnity clause that relieves the contractor of responsibilities even under willful misconduct conditions.

As you may know, the Corps of Engineers contracts for security in both Afghanistan and Iraq. According to a 2011 Special Inspector General for Iraq Reconstruc-

tion report, in May 2004 the Army awarded a services contract to the Aegis Corporation for security management services, protective services, and antiterrorism support and analyses in Iraq. The contract was for a 1-year base period—June 1, 2004 through May 31, 2005—and two 1-year options—June 1, 2005 through May 31, 2007. The two 1-year options were exercised, and the second option year was extended for 6 months to November 30, 2007. As of April 7, 2011, obligations totaled $447.5 million, and Aegis had received $445.5 million.

Similar jobs go well beyond security and frontline soldier missions. For example, according to a 2009 CBS report, Kellogg, Brown, and Root (KBR) was found to charge $100 per load of laundry. Yet, we have Quartermaster Corps soldiers trained to operate shower and laundry equipment. Further, the Laundry Advance System, which is a mobile laundry trailer, is capable of supporting large military units.

With that in mind, below is a sampling of jobs being performed by contractors doing the same job as a military servicemember in Afghanistan. Please provide a comparison in salaries of the following positions:

Contracted Position Military Position
FLUOR Security Manager (Afghanistan)—U.S. Marine MOS 0311
SABRE International Security Manager—U.S. Army 11B30
Dyncorp Detainee Expert—U.S. Army 31E20
Armor Group Security (Afghanistan)—Army 11B10/Marine 0311
Aegis Security Escort Team Leader—Army 11B20/Marine 0311
Aegis Personal Security Detail Leader—Army 11B20/Marine 0311
Aegis Kennel Master—U.S. Army MOS 31K30
Aegis EOD Dog Handler—U.S. Army MOS 31K10
Triple Canopy Security Guard (Afghanistan)—U.S. Army 11B/Marine 0311
KBR Laundry Facility Attendant—U.S. Army MOS 57E10
KBR Laundry Facility Supervisor—U.S. Army MOS 57E30
KBR Food Service Specialist—U.S. Army MOS 92G10
KBR Food Service Specialist Supervisor—U.S. Army MOS 92G

Mr. HALE. The 2012 Defense Strategic Guidance[1] indicates DOD is maintaining a ready and capable force even as it reduces the size of the military. We are focused on sustaining the military's warfighting capabilities. This strategy entails leveraging non-military personnel for the support activities associated with combat, including the types of support services listed in your question as well as reconstruction activity, which is non-military in nature. The use of contractors in these support activities has been a feature in every war or contingency operation in our history. As the 2010 Quadrennial Defense Review (QDR)[2] acknowledged, contractors are part of the total force, providing an adaptable mix of unique skill sets, local knowledge, and flexibility that a strictly military force cannot cultivate or resource for all scenarios. This is true even for contractor-provided security.[3] More broadly, contractors provide a range of supplies, services, and critical logistics support in many capability areas, while reducing military footprint and increasing the availability and readiness of resources.

We are in the process of assembling the requested data, but caution that a direct comparison between the contracted cost for an individual and the salary of a military position poses challenges. For example, a soldier's annual salary does not reflect the life-cycle costs to recruit, train, retain, and retire the individual; and a contractor's annual salary does not capture the fact that this work-for-hire resource comes pre-recruited and pre-trained and can be flexibly engaged and released. In 2009, the Chairman of the Joint Chiefs of Staff commissioned a task force to assess DOD's reliance on contracted support in contingency operations and provide recommendations to improve our ability to plan for and execute operational contract support. As a result, the Chairman, with great support from the Secretary of Defense, has directed a number of efforts to institutionalize this capability. These ongoing efforts include, but are not limited to, improvement to strategic planning guidance, doctrine, education, and resources. GAO is currently evaluating DOD's efforts in this area under job number 351692.

DOD agrees that it must continuously look closely at the business practices of contracting, particularly in support of frontline soldiers. We have been working with Senator McCaskill, who chairs this subcommittee, and others on improving wartime

[1] Available at http://www.defense.gov/news/Defense—Strategic—Guidance.pdf
[2] Available at http://www.defense.gov/qdr/
[3] These security providers provide self defense against criminal violence, not deliberate destructive action against armed forces or armed actors. In many cases, using soldiers to protect non-military personnel or reconstruction activities could turn civilian development into a military target.

contracting efforts. In recent years, we supported the 2008 to 2011 Wartime Commission that Senators McCaskill and Webb established, providing the Commission with personnel, data, interviews, and insights. The Commission issued three major reports containing many recommendations. We maintain a scorecard to manage DOD progress against all the Commission's recommendations. We currently are working with GAO, which is engaged under job number 121042 in evaluating DOD's progress against the Commission's recommendations. We are also working with Senator McCaskill's Senate Homeland Security and Governmental Affairs Committee Contracting Oversight Subcommittee staff on the language of her proposed Comprehensive Contingency Contracting Reform Act of 2012 (S. 2139). The provisions are far-reaching and include coverage related to topics raised in your question: contracting for security and base operations support services, which are obtained through omnibus contracts, like the Logistics Civil Augmentation Program.

5. Senator MANCHIN. Secretary Hale, as a follow-up to your testimony regarding the mix of contractors to military personnel, according to the public website for the Defense Contract Audit Agency (DCAA), the agency that provides standardized contract audit services for DOD, as well as accounting and financial advisory services regarding contracts and subcontracts, there resides an inherent skillset within DOD for oversight of contracts. There are 4,172 auditors within DOD, and a total staff of nearly 5,000 in DCAA. Nearly all of these employees have college degrees (4,399), advanced degrees (1,424), or are Certified Public Accountants (1,216). Beyond the organic audit functions performed within DOD, could you further provide the number and type of contractors that DOD intends to employ to perform an audit?

Mr. HALE. While contract audits are an inherently governmental function, financial statement auditing is not. Financial statement audits are different than contract audits, and require a different skillset. Our estimate of the number and type of contractors that DOD intends to employ to perform financial statement audits is contract sensitive. However, significant financial statement audits that have been performed, such as the U.S. Army Corps of Engineers and the U.S. Marine Corps audits, have involved approximately 100 auditors.

6. Senator MANCHIN. Secretary Hale, how long do you anticipate hiring these contractors to perform audit functions?

Mr. HALE. Since financial statement audits are not an inherently governmental function and they require specialized skills and experience, we believe it is most efficient and effective to use contractors to perform this function indefinitely. It should be noted that this is a common practice across government, and that independent public accountants' work is frequently subject to review by government auditors such as the DOD IG and GAO.

7. Senator MANCHIN. Secretary Hale, in your testimony you stated, "our contractor dollars from 2012 to 2013 go down in similar levels to our civilian workforce and our military workforce. So, you are seeing some downturn in contractors." Can you provide me the details behind your statement, to include the details on the number of contractors in 2012 and 2013?

Mr. HALE. As reflected in the fiscal year 2013 President's budget request, overall contract services funding decreases by $3.9 billion (3 percent) from fiscal year 2012 level of $136 billion to the fiscal year 2013 level of $132 billion. The primary reason for this decrease in contractor support ($2.4 billion) is the reduction in staff support contract services, one of our targeted fiscal year 2012 efficiencies. Advisory and Assistance and Other Services decrease by 10.2 percent from the fiscal year 2012 budget, largely attributable to reductions in support to the Army, the Defense Intelligence Agency and other classified programs. These are the object classes that would contain the majority of staff-support contractor functions; however, some of the specific staff-support contracts may be reflected against other object classes. A process to measure actual progress against the Secretary's reduction goal has been implemented. Although overall contract services funding is estimated to decrease by 3 percent in fiscal year 2013, the fiscal year 2013 contractor full-time equivalent (FTE) levels are estimated to increase by 6 percent from 290,133 to 308,532—with the largest increases in the less costly skill set of equipment maintenance.

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

SEQUESTRATION

8. Senator AYOTTE. Secretary Westphal, Secretary Matiella, Secretary Work, Secretary Commons, Secretary Morin, and Mr. Tillotson, as the Chief Management Officers (CMO) and Chief Financial Officers, each of you enjoys unique visibility across the breadth of your respective Services' financial and management operations. Under current law, the defense sequestration cuts are due to be implemented in January. Including the existing $487 billion in cuts over the next 9 years, defense sequestration would result in an approximately $1 trillion reduction in defense spending over the next decade. Secretary Panetta has said the defense sequestration cuts would be catastrophic and would inflict severe damage to our national defense for generations. He compared the defense sequestration cuts to shooting ourselves in the head. From a budget and management perspective, what impact will defense sequestration have on your Service?

Mr. WESTPHAL and Ms. MATIELLA. To echo Secretary Panetta, the magnitude of these cuts would be catastrophic. Sequestration would force an immediate percentage reduction in our operation and maintenance accounts that could damage readiness, for example through reduced training, and make our ability to cover any emergent execution year requirements extremely difficult. The reductions could also affect ongoing efforts to improve our infrastructure and could desynchronize our investment and modernization strategies.

While recognizing the Nation's deficit challenges, it is imperative that any future reductions as a result of reduced discretionary spending caps to the Army's budget be based on comprehensive strategic analysis. We must ensure that we preclude hollowing the Army by maintaining balance in force structure, readiness, modernization efforts, and commitments to the All-Volunteer Force.

Mr. WORK and Ms. COMMONS. Any planning for sequestration would be a government-wide effort guided by the Office of Management and Budget (OMB). If sequestration occurs, automatic percentage cuts are required to be applied without regard to strategy, importance, or priorities, resulting in adverse impact to almost every contract and operation within DOD. Sequestration would adversely impact all components of the fiscal year 2013 budget request through contract cancellations, contract terminations, undetermined cost increases caused by inefficient contracting, and schedule delays.

Dr. MORIN and Mr. TILLOTSON. Per guidance from OMB, DOD is not planning for sequestration; however, sequestration would drive major additional reductions beyond the first phase of the Budget Control Act (BCA) reductions to the Air Force fiscal year 2013 budget request. We concur with Secretary Panetta's assessment. As Air Force leadership has testified, the proposed fiscal year 2013 budget is a balanced and complete package with no margin of error. Under sequestration, additional programs would need to be restructured, reduced and/or terminated. Our readiness and operations would be impacted, as well as all investment accounts, including our high-priority modernization efforts.

YEAR-END FUNDS TRANSFERS

9. Senator AYOTTE. Secretary Hale, as I said in my opening statement, I am concerned that the annual transfer of funds between defense accounts, especially at the end of the fiscal year, decreases accountability and increases the difficulty in achieving accurate financial statements. These requests are supposed to be for higher priority items based on unforeseen military requirements. How do you ensure that funds-transfers, including those that are below the threshold needed for congressional approval, are, in fact, being spent on higher-priority items based on unforeseen military requirements?

Mr. HALE. I believe that the current reprogramming process provides DOD with necessary flexibility while providing Congress with appropriate oversight. DOD prepares the budget 18 to 20 months prior to actual execution, the reprogramming process permits DOD to meet most emerging requirements in a timely manner while staying under the Transfer Authority limits. I have personally conveyed your concerns and those of other committees to my staff and to the senior staff in the military departments.

10. Senator AYOTTE. Secretary Hale, do you agree that the persistent transfer of funds among accounts without oversight, particularly at the end of the fiscal year, makes the prospect of an accurate financial statement that much more difficult to

obtain? If so, what are you doing to curtail these transfers and end-of-year spending sprees?

Mr. HALE. I believe that the current reprogramming process provides DOD with necessary flexibility while providing Congress with appropriate oversight. The reprogramming process provides critical support enabling DOD to respond to emerging needs and to make effective use of taypayers' dollars. The process is especially important when we are at war. I have personally conveyed your concerns and those of other committees to my staff and to the senior staff in the military departments. We will seek to minimize reprogrammings, but we need your help to create a process that continues to meet warfighters' needs.

BASE OPERATING BUDGETS

11. Senator AYOTTE. Secretary Hale, the Services historically propose annual budgets that contain an amount for base operating support that is significantly less than the known requirements. They know that they will have the flexibility to transfer funds into the account to cover bills during the year. But this practice results in a budget that does not reflect reality. How can we change this process to ensure the budget proposals reviewed by Congress are an accurate accounting of what we expect to pay?

Mr. HALE. A number of factors have challenged the Services' efforts in recent years to predict and budget for Base Operations Support (BOS) costs. Utilities costs across all commodities (i.e., electricity, fuel oil, natural gas, and coal) are rising at a faster rate than previously experienced. Soldier and family support programs related to transition assistance, suicide prevention, and sexual harassment and assault have expanded to meet the evolving needs of our warfighters and their families. The fidelity of the Services' BOS budget proposals will improve over time as cost estimating models are updated to reflect recent trends in utilities costs and the impact that the redeployment of personnel from Afghanistan will have on BOS programs and costs has been fully assessed.

12. Senator AYOTTE. Secretary Hale, if we have predictability regarding certain budget expenses, why are these accounts not completely funded in DOD's budget requests?

Mr. HALE. The Services can accurately predict the costs of certain BOS programs. These include traditional family programs such as child care and youth programs, law enforcement and force protection, fire protection, leases, long-term utilities privatization contracts, and civilian salaries. These fixed costs represent more than 80 percent of the total BOS requirements and are fully funded each year. As mentioned in the response to Question #11, there have been unfunded requirements in recent years due in part to the growth in specialized soldier and family support programs and utilities bills that are not tied to fixed rates.

MAJOR WEAPONS SYSTEMS COSTS

13. Senator AYOTTE. Secretary Hale, after the defense budget cuts of the early 1990s, we saw significant growth in the unit costs of major systems as their procurement quantities were reduced and their acquisition schedules were stretched out. We are now facing a similar scenario where—through sequestration—the BCA will significantly cut the defense budget. Has DOD looked at how the drawdown during the 1990s impacted the costs of major weapons systems?

Mr. HALE. If sequestration takes effect early next year, significant inefficiencies and impediments to prudent acquisition program management and financing will be introduced. The requirement that each program, project, and activity take a reduction will introduce serious management challenges for program managers. DOD does not have the data on the cost impact of the previous drawdown.

14. Senator AYOTTE. Secretary Hale, is DOD doing any similar analysis today as it plans its budgets for the out-years? If not, why not?

Mr. HALE. DOD prepares the annual budget request within the framework of the Planning, Programming, Budgeting, and Execution system process. The Secretary of Defense has noted that additional reductions in resources will require a revised strategy and will prepare a budget that includes the out-years.

15. Senator AYOTTE. Secretary Hale, to what extent could cost savings from these reductions be eaten up over the long-term by higher per-unit costs and termination costs?

Mr. HALE. Procuring defense articles at economic rates often yields savings, in comparison to procurement actions where vendors are unable to take advantage of economies of scale production. Likewise, terminating or cancelling procurement in advance of what was contracted, typically results in additional costs to the government, to prematurely closeout production. DOD customarily seeks to maximize its spending by buying at economic rates. However, when the funding is constrained and the resources are allocated over a wide portfolio of defense missions, maintaining efficient rates and keeping production lines open become challenging.

Once DOD has been notified by OMB as to the annual budget level, DOD will carefully examine investment strategies and alternatives to address the full spectrum of national security requirements by crafting a balanced budget plan to minimize inefficiencies as a result of lower funding levels.

BUDGET EFFICIENCIES

16. Senator AYOTTE. Secretary Hale, in January 2011, DOD announced that it had found $154 billion in efficiencies over the next 5 years and that it would be able to invest $70 billion of that saved money into more deserving accounts. Those efficiencies included scores of initiatives, including program cancellations and restructuring, consolidations in various facilities and functional areas, reductions to DOD's workforce, and cuts to the number of flag and general officers and senior executive personnel. Where in its overall plan of action and milestones is DOD in implementing these efficiency initiatives?

Mr. HALE. DOD has established governance processes and reporting mechanisms to manage implementation of the 300+ efficiency initiatives. The Services and the Office of the Secretary of Defense (OSD) are on target to successfully implement their President's budget for 2012 efficiencies. On April 23, 2012, the Services briefed the Senate Appropriations Committee and Senate Armed Services Committee staffs on their fiscal year 2012 Secretary of Defense efficiency initiatives, explaining the key focus areas in which they intended to gain efficiencies, the implementation process, and assessment of risk.

Due to enactment of the BCA of 2011, many of the reinvestments included in the fiscal year 2012 President's budget request have been offset by major force structure changes and other reductions in the fiscal year 2013 budget.

17. Senator AYOTTE. Secretary Hale, to what extent is DOD actually realizing the intended savings?

Mr. HALE. Senior leadership within DOD routinely monitor execution of these efficiencies to ensure that intended savings are realized. As of the March 19, 2012, briefing to the Deputy Secretary of Defense, the Services and OSD are on target to successfully implement their President's budget for 2012 efficiencies. In addition, the Services briefed the Senate Appropriations Committee and the Senate Armed Services Committee staffs on April 23, 2012, assuring the staffs that they are on track to meet their fiscal year 2012 efficiency targets.

18. Senator AYOTTE. Secretary Hale, without the ability to audit DOD's Statement of Budgetary Resources (SBR), how do we actually know we are saving this money?

Mr. HALE. Although the overall DOD SBR is not yet auditable, each component annually certifies its own financial reports. These individual, component-level accounting systems provide the execution information utilized in each component's efficiency governance and reporting process. In March 2012, all the Services and OSD reported on track execution of their efficiencies.

19. Senator AYOTTE. Mr. Khan, do you have any concerns that the quality of DOD's financial management data, business processes, and business systems may not be conducive to fully achieving these intended savings?

Mr. KHAN. As we have reported, DOD does not yet have accurate and reliable financial data needed to effectively carry out its management functions, including identifying and managing the costs of its operations, and reliably estimating resource needs. We have also reported that weaknesses in DOD's business processes and systems contribute to the lack of reliable financial data. In estimating reported cost savings, we would expect that DOD would have to rely to some extent on historical financial management data as well as program performance information to identify areas where potential efficiencies and related cost savings could be achieved. To track its progress in achieving these savings, we would expect that DOD would need to rely on information in its accounting systems as well. Therefore, until DOD corrects the weaknesses in its accounting and other business processes

and systems so that it is able to produce reliable financial data for its cost savings efforts, any reported cost savings will not be reliable.

20. Senator AYOTTE. Secretary Hale, of the $100 billion in savings, the plan was to let the Services use about $28 billion to cope with higher-than-expected operating expenses and $70 billion for high-priority weapons systems. To what extent have these monies been reinvested as intended?

Mr. HALE. Due to enactment of the BCA of 2011, many of the reinvestments included in the fiscal year 2012 President's budget request have been offset by major force structure changes and other reductions in the fiscal year 2013 budget.

CONTRACTOR PENSION LIABILITIES

21. Senator AYOTTE. Secretary Hale, a few months ago, Senator McCaskill and I, and subsequently Chairman Levin and Ranking Member McCain, asked GAO to look into the issue of defense contractor unfunded pension liability. Due to a change in Federal accounting rules that would accelerate the amount contractors can recover from DOD for their employee pension costs, DOD may have to pay billions of dollars more for weapons programs than originally planned. To what extent has DOD budgeted for these pension liabilities?

Mr. HALE. DOD did not budget for the increased pension costs resulting from the rule revision in the fiscal year 2013 President's budget submission.

22. Senator AYOTTE. Secretary Hale, what will DOD's approach be going forward to properly budget for these liabilities?

Mr. HALE. The Director, Defense Pricing has issued guidance stating that all contracts entered into after February 27, 2012, should properly reflect contractor pension costs calculated under the newly revised Cost Accounting Standards. We will continue to work with the Office of Defense Pricing to ensure that these costs are properly captured in future budget submissions.

23. Senator AYOTTE. Secretary Hale, how concerned are you about this issue today?

Mr. HALE. We are concerned that the recent change to the Cost Accounting Standards will result in higher pension costs to DOD in the near-term. It is unfortunate that these higher costs are coming at a time when DOD is working hard to identify ways to efficiently reduce spending. However, we recognize that this will not likely be a permanent cost increase to DOD. As contractors' pensions become fully funded, DOD's reimbursement costs should revert to historically normal levels.

24. Senator AYOTTE. Secretary Hale, according to the 10–K Securities and Exchange Commission reports that the four top defense contractors recently filed, the difference between their pension plan assets and future pension liabilities range from $2.9 billion to $13.5 billion each. At this point, what is your sense of roughly how much these liabilities could cost DOD?

Mr. HALE. These costs will be spread over all entities that do business with these companies. The amount that those liabilities could cost DOD depends on the amount of work DOD does with those contractors relative to other agencies and customers. Even under the old Federal accounting rules, DOD would have had to pay its share of those liabilities. The real cost to DOD from the new rules is the timing of cost—those liabilities will be recuperated much faster under the new rules, resulting in a cost increase in the near-term. DOD is currently working closely with our contractors to estimate DOD's cost for our next budget submission.

AIR FORCE AUDITABILITY

25. Senator AYOTTE. Secretary Morin, Mr. Tillotson, and Mr. Khan, I understand that, among all the Services, the Air Force may have the most difficulty meeting Secretary Panetta's accelerated goal of 2014, as opposed to 2017, to achieve auditability of its SBR. What are the most significant challenges facing the Air Force in this regard and how is the Air Force addressing them?

Dr. MORIN and Mr. TILLOTSON. The most significant challenge facing the Air Force is the lack of a single integrated financial management system. Financial data flows through multiple systems before it is posted to our general ledger. This creates opportunities for data to be lost or otherwise degraded. To address this problem, the Air Force began implementing an Oracle-based COTS package widely used in the Federal Government. The resulting system, Defense Enterprise Accounting and

Management System (DEAMS), is a joint effort with U.S. Transportation Command (TRANSCOM), DFAS, and the U.S. Air Force. DEAMS will not be fully deployed prior to the 2014 date. To address this shortfall, the Air Force and DFAS are evaluating additional process controls and cost-effective enhancements to legacy systems to achieve the accelerated goal. The ability to meet the 2014 goal will also require increased manpower to support additional anticipated testing of data and controls.

Mr. KHAN. As part of the May 2012 Financial Improvement and Audit Readiness (FIAR) Plan Status Report, the Air Force reports accelerating audit readiness milestones for each of its SBR assessable units and its planned strategy for meeting those milestones. However, the Air Force may face challenges similar to those for the Marine Corps' initial SBR audit experience that it must overcome if it is to meet the 2014 audit readiness date for its SBR. These challenges include the ability to produce supporting documentation for individual transactions; reconciling data between different systems such as military pay and personnel systems; ensuring that it can identify complete populations of transactions for activities such as civilian pay; and ensuring that its personnel are adequately trained to carry out key internal controls and other activities necessary for an audit. According to the Air Force, it will require additional contractor and auditing expertise to meet these accelerated milestones.

Another challenge involves the lack of effective automated information systems such as Enterprise Resource Planning (ERP) systems. In the May 2012 FIAR Plan Status Report, the Air Force reported that it will need to rely on manual controls and legacy system enhancements to meet the SBR audit readiness goal. Reliance on manual controls and legacy systems to produce financial management information for reporting results will necessitate more time-consuming, extensive testing, the collection of more supporting documentation, and the reconciliation of data maintained in the numerous legacy systems, not only in Air Force systems, but also in those under the control of the DFAS.

26. Senator AYOTTE. Secretary Morin, Mr. Tillotson, and Mr. Khan, how confident are you that the Air Force will make the 2014 goal in a way that is repeatable and that will, in fact, ensure that the Air Force has the reliable data and efficient business processes it needs to support major financial management decisionmaking?

Dr. MORIN and Mr. TILLOTSON. We are confident that the Air Force is making the necessary changes to improve business processes and enhance data reliability to support major financial management decisionmaking. We have implemented additional reconciliations and controls in our funds distribution and reimbursable authority business processes, clarified guidance related to asset accountability, and are deploying an automated time and attendance system for our civilian employees. We have a disciplined review process and anticipate identifying and implementing additional corrective actions required to meet the 2014 date. We continue to assess that there is moderate risk involved in meeting the deadline, primarily due to systems deficiencies that we are working to remedy.

Mr. KHAN. It is unclear at this time whether the Air Force can meet the 2014 audit readiness goal of enabling an effective and efficient audit and timely audit opinion. The recent experiences of the Marine Corps in its efforts to have its SBR audited demonstrate the kinds of difficulties that the Air Force might also encounter, such as the inability to provide supporting documentation for its transactions and beginning balances. Given the significant change in the deadline for the Air Force and the relatively short time to develop and implement new plans to meet the new goal of 2014 along with its existing systems' limitations, it is likely that the Air Force will rely on labor-intensive, error-prone manual workarounds and other extraordinary efforts if it is to achieve the 2014 goal. Such extraordinary, stopgap measures are unlikely to address the root causes of the Air Force's financial data deficiencies, thereby increasing the risk of not being able to repeat any success achieved in 2014.

AUDITABILITY OF ARMY PAY RECORDS

27. Senator AYOTTE. Secretary Westphal and Secretary Matiella, a few weeks ago, GAO issued a report that indicated that the Army faces significant challenges in achieving audit readiness for its military pay area of business. Basically, GAO found that, with its existing procedures and systems, the Army could not effectively identify populations of military pay records and compare military pay accounts to personnel records. According to GAO, the Army also did not have an efficient or effective process or system for providing supporting documents for Army military payroll. Identifying populations of transactions and reliably generating supporting docu-

mentation are essential to achieving audit readiness. But, as GAO concluded, without effective processes related to military pay, the Army will have difficulty meeting DOD's 2014 audit readiness goal for the SBR. What military pay audit readiness efforts is the Army pursuing that, if successfully implemented, could help increase the likelihood of meeting DOD's 2014 SBR audit readiness goal and the 2017 mandate for audit-readiness on a complete set of DOD financial statements?

Mr. WESTPHAL and Ms. MATIELLA. The Army is working with the DFAS to develop and document an effective and repeatable process for identifying the population of Active Duty military payroll accounts each fiscal year. In fact, the Army and DFAS implemented a new process in October 2011 that includes a monthly reconciliation of all detailed military personnel pay statements to the summary financial reporting records. This process improvement represents a significant accomplishment that advances the Army's military personnel pay audit readiness.

In addition, we are documenting the military personnel and payroll business processes, identifying the key pay-related substantiating documents and procedures for maintaining these documents. As part of this effort, the Army and DFAS have created a matrix that outlines the relevant substantiating documents and points of retention of those documents for each payroll entitlement. We are also documenting business processes and internal control activities associated with each detailed military payroll transaction. The business process maps and document retention criteria, which were not available during the GAO audit, will inform the financial statement auditors of how payroll entitlements are processed and how to obtain supporting documentation.

Finally, we are reviewing all policies governing the storage and retention of key personnel and payroll-related documents. Specifically, we are revising Army Regulation 600–8–104, Military Personnel Information Management/Record, to require key personnel and pay-related documents supporting military payroll transactions be centrally located and retained in the servicemember's Official Military Personnel File. These revisions will require human resource managers to periodically review and confirm that Official Military Personnel File records in master personnel record systems are consistent and complete to support financial statement audit requirements. The review will ensure policies, processes, and supporting business systems enable timely access to substantiating documentation in a cost-effective manner.

These accomplishments and ongoing efforts will enable auditable Army military pay business processes in support of the 2014 SBR audit readiness deadline and the 2017 financial statement deadlines.

28. Senator AYOTTE. Secretary Westphal and Secretary Matiella, to what extent are these efforts documented sufficiently to help ensure that they will be implemented in a timely and effective manner?

Mr. WESTPHAL and Ms. MATIELLA. These efforts are extensively documented. The Army follows the OSD–C FIAR Guidance, which requires a detailed financial improvement plan. OSD–C reviews the Army's financial improvement plan each month for compliance with the FIAR Guidance.

NAVY'S AND MARINE CORPS' FUND BALANCE WITH TREASURY

29. Senator AYOTTE. Secretary Work and Secretary Commons, in the Federal Government, an agency's FBWT account is like a corporate bank account. But instead of a cash balance, the FBWT represents unexpended spending authority in appropriations. So, the FBWT account basically reflects how much budget spending authority is available to DOD and is, for this reason, important to funds control. Because in this regard the FBWT supports the SBR, it must be ready for audit by the end of 2014 for the SBR to be auditable in compliance with the Secretary of Defense's October 2011 direction. I understand DOD's components have to reconcile their FBWT records periodically, to provide an adequate audit trail and resolve any differences. Reconciliation is vital for maintaining the accuracy and reliability of the component's FBWT records. But, late last year, GAO found numerous deficiencies in the FBWT processes at the Navy and the Marine Corps that impair their ability to perform these FBWT reconciliations. In what ways are the Navy's and Marine Corps' existing FBWT policies and procedures inadequate?

Mr. WORK and Ms. COMMONS. The December 2011 GAO report on Navy-Marine Corps FBWT reconciliation processes reported deficiencies with which the Navy concurred. Since GAO conducted its assessment, Marine Corps successfully demonstrated its FBWT reconciliation process to the public accounting firm auditing the Marine Corp's SBR. There were no findings or recommendations made. Reconciliations are performed on a monthly basis; in addition, Marine Corps and DFAS-

Cleveland have documented the process with written procedures to address and improve weaknesses in demonstrating comprehensive and repeatable FBWT reconciliations.

For the Navy, progress has also been made to address similar weaknesses noted in the GAO report. DFAS has further developed its BAM tool, which is essential to successful and repeatable Navy FBWT reconciliation. This year, DFAS has loaded the Navy data for fiscal year 2010 through fiscal year 2012 appropriations and has completed monthly FBWT reconciliations for the first 4 months of fiscal year 2012. DFAS expects to be current with monthly reconciliations at the end of May 2012. DFAS is also retaining all documentation supporting the monthly reconciliations. Further strengthening of the BAM tool's internal controls is planned by third quarter of fiscal year 2012, and DFAS expects the tool to fully support FBWT reconciliation by the scheduled audit readiness date of March 2013. These milestones are identified in joint DFAS-Navy detailed plans of actions and milestones.

The major challenge remaining in the Navy's FBWT reconciliation process is the timely resolution of reconciling items—disbursements or collections which do not precisely match obligations in the Navy's accounting systems. Root causes of reconciling items are being identified and corrected.

30. Senator AYOTTE. Secretary Work and Secretary Commons, to what extent do these deficiencies present a risk that your Services' SBRs will not be audit-ready by the 2014 deadline?

Mr. WORK and Ms. COMMONS. An effective and repeatable FBWT reconciliation process is an essential capability for SBR audit readiness. The Navy currently projects that this process will be auditable by the second quarter of fiscal year 2013. Complete SBR auditability is scheduled for fourth quarter of fiscal year 2013.

31. Senator AYOTTE. Secretary Work and Secretary Commons, how adequately do the Navy's and the Marine Corps' current plan of action and milestones address these weaknesses in their ability to achieve audit-readiness?

Mr. WORK and Ms. COMMONS. The Navy has developed a comprehensive, integrated Plan of Action and Milestones (POAM) governing audit readiness efforts for the Navy's SBR. Each POAM action item is assigned to a Navy manager or to a manager from the Navy's collaborative partners and service providers. Each organization assigned actions participated in the development of the POAM, which is updated on a recurring basis by the Navy and its partners. The Navy tracks audit readiness progress, as indicated by the Navy SBR POAM, on a continual basis. Senior leaders responsible for audit readiness meet monthly for a progress update. Accomplishments are noted, and emerging risks to success are also discussed, along with any mitigating actions which are required.

Accountability has been distributed to those organizations and managers responsible for making the changes necessary to achieve audit readiness. Flag officers have been assigned by the Vice Chief of Naval Operations to lead the auditability efforts in different segments comprising the Navy's SBR. In addition, all Navy senior executives have an audit readiness objective in their annual performance plans. These senior leaders are setting the "tone-from-the-top;" they are driving the need for change in Navy business processes and systems which will enable audit readiness.

GENERAL FUND ENTERPRISE BUSINESS SYSTEM

32. Senator AYOTTE. Secretary Westphal and Secretary Matiella, please provide an assessment of the General Fund Enterprise Business System (GFEBS).

Mr. WESTPHAL and Ms. MATIELLA. The GFEBS is already the Army's primary financial accounting and management system, and the cornerstone for producing unqualified financial statements for the Army general fund. GFEBS enables the Army to comply with numerous statutory and regulatory requirements, which include:

- 94.7 percent compliance (or 1,054 of 1,113 requirements) from the Federal Financial Management Improvement Act (FFMIA) with full compliance later this fiscal year 2012. Source: U.S. Army Audit Agency.
- 98 percent compliance with DOD's Business Enterprise Architecture.
- 92 percent compliance (212 of 232 applicable requirements) with DOD's Standard Financial Information Structure (SFIS) with full compliance planned by the end of fiscal year 2012.
- 100 percent compliance with DOD's 250 real property accountability and inventory requirements.

Following extensive operational testing, the OSD Milestone Decision Authority granted GFEBS a Full Deployment Decision in June 2011. GFEBS is operational

today with over 45,000 users at 20 commands and over 200 locations worldwide. GFEBS will add about 8,000 more users in July to complete the Army-wide implementation at 71 countries around the globe.

In the 3 years since initial operations, GFEBS grew from 1 million transactions in fiscal year 2009 to an estimated 60 million transactions in fiscal year 2012 and from $1.2 billion in obligations to over $100 billion executed in fiscal year 2012.

33. Senator AYOTTE. Secretary Westphal and Secretary Matiella, how is GFEBS helping the Army achieve its financial management goals?

Mr. WESTPHAL and Ms. MATIELLA. GFEBS is critical to the Army's financial management goals, which include producing unqualified financial statements and providing cost accounting capability for more effective use of resources.

GFEBS is providing the Army with:

- A financial accounting system that complies with statutory and regularity requirements for funds control, accounting, and auditing, to include real property and other asset data for depreciation; and provides visibility of the transactional and budget execution data in real or near real time. GFEBS provides the foundation for the Army to receive an unqualified audit opinion on its annual general fund financial statements.
- A cost accounting system that provides full cost by allocating overhead and other indirect costs to outcomes, outputs, and services; and connects operational performance data to the cost data. GFEBS enables the Army to conduct more cost-benefit and other types of cost analyses as well as transition to a cost culture.
- A management and decision support system that records financial and various other transactions in a single system, provides visibility of the transactional data in real time or near real time and provides trend, comparative, and other analytic data. GFEBS will enable more thorough, fact-based analyses for both current-year operational performance and future programs and budgeting decisionmaking.

Consistent with OSD and Army goals to strengthen financial management, GFEBS enables the Army to:

- Reduce costs, by subsuming the capabilities of over 100 systems.
- Standardize processes across all Army organizations.
- Achieve compliance with numerous requirements, including FFMIA, SFIS, and the Bureau of Economic Analysis.
- Implement a transaction-driven general ledger as well as tighter system controls in accordance with Federal Information Systems Control Audit Manual (FISCAM) requirements.

With GFEBS, the Army is poised to support both a SBR audit assertion in fiscal year 2014, as directed by the Secretary of Defense; and fully auditable financial statements, as required by Congress by 2017.

34. Senator AYOTTE. Secretary Westphal and Secretary Matiella, what is the experience from the field in using the system?

Mr. WESTPHAL and Ms. MATIELLA. The magnitude of change associated with GFEBS is unprecedented in the Army business community. Not only is GFEBS a major technology change, replacing 40-year-old financial systems, but with the GFEBS deployment the Army is dramatically changing business processes, user roles and functions, implementing a new financial language (based on SFIS), and enforcing system and processes controls that were not mandated in our previous systems.

The Army has embraced GFEBS and understands the value GFEBS provides in achieving Army and DOD objectives. Before every GFEBS go-live, each organization asserts its readiness for deployment and at each of the 10 go-lives we have received universal concurrence from all organizations in the Army and DFAS.

While there is a significant learning curve that must still be overcome by those organizations that have recently gone live, those who have been using the system are pleased with its capabilities. They experience better data visibility, faster year-end close processes, more streamlined reimbursable processes, and much greater cost management capabilities. Not a single GFEBS user or organization that has been using the system for more than a few months has ever asked to go back to their legacy systems.

35. Senator AYOTTE. Secretary Westphal and Secretary Matiella, I understand that you received a qualified audit opinion on a portion of the program. Can you explain what that means and its impact?

Mr. WESTPHAL and Ms. MATIELLA. In November 2011 an independent public accounting (IPA) firm issued a qualified opinion on five business processes associated with the SBR at the first three installations to deploy GFEBS (Forts Benning, Jackson, and Stewart). A qualified audit opinion indicates that the information presented was fairly presented with certain exceptions. A key area cited by the auditors was the lack of supporting documentation to support the samples.

The Army developed corrective actions to address all of these findings in the report. This first exam and the subsequent exams scheduled for fiscal year 2012 and fiscal year 2013 bring the Army incrementally closer to meeting the fiscal year 2014 SBR deadline and the fiscal year 2017 overall audit readiness deadline.

The good news is in examining approximately 2,500 supporting documents, the auditor found consistency of standardized business processes across all three sites, which significantly enables the Army's audit readiness efforts.

36. Senator AYOTTE. Secretary Westphal and Secretary Matiella, is the GFEBS progressing according to the Army's expectations?

Mr. WESTPHAL and Ms. MATIELLA. The progress of GFEBS development and deployment is meeting the Army's expectations. In December 2011, development of the system completed on schedule. In April 2012, 42 months after the initial pilot with one organization and 250 end-users, GFEBS had 45,000 end-users in the Army and DFAS across 20 commands and over 200 locations, and was executing billions of dollars of transactions each month.

GFEBS is on track to fully subsume 68 legacy systems and partially subsume 39 systems. GFEBS has already enabled the Army to retire 20 systems and reduce costs for data reconciliation and manual processes. Additionally, GFEBS has begun disbursing funds directly through Department of the Treasury as a pilot project, eliminating the need for a number of interfaces. GFEBS is allowing the Army to reduce its IT footprint, while streamlining and standardizing processes Army wide.

Given the significant business process change associated with GFEBS, there have been some challenges in ensuring data, processes, and system interfaces are working optimally. There have also been some issues in ensuring that users at both the Army and DFAS understand their new roles and responsibilities in this much more integrated system, which requires greater competence in accounting and cost management than was required in the past. The Army expected this would be difficult because of the size and diversity of activities that collectively provide the Nation with the finest land forces in the world. However, GFEBS also provides visibility to non-compliant business practices that were heretofore masked by our legacy systems, and allows the Army to take corrective action to redesign these processes to ensure auditability. We are pleased with our progress to date and will continue to look holistically to ensure that people, process, and technology are working in concert to overcome these challenges and achieve the return on investment intended with this system.

37. Senator AYOTTE. Secretary Westphal and Secretary Matiella, what is the justification for spinning off a portion of the existing system to support some agencies and potentially recompeting sustainment early?

Mr. WESTPHAL and Ms. MATIELLA. If "spin off" is referring to GFEBS-Sensitive Activities (GFEBS–SA), GFEBS–SA is being developed to meet the Army's validated requirement for a classified financial management capability that integrates seamlessly with GFEBS to provide secure, web-based financial execution and reporting capabilities to the Army's Classified and Sensitive activities. GFEBS–SA will interface with GFEBS to provide summary level financial data to facilitate total general ledger accountability in one system. This will enable the Army to meet the requirements of the FFMIA of 1996 and a Guide to Federal Requirements for Financial Management Systems. GFEBS sustainment contract will be competed in fiscal year 2013 (no change to previous schedule).

LEGACY SYSTEMS VERSUS ENTERPRISE RESOURCE PLANNING SYSTEM

38. Senator AYOTTE. Secretary Westphal and Secretary Matiella, what current challenges related to achieving Secretary Panetta's audit goals are due to legacy systems versus the current ERP system?

Mr. WESTPHAL and Ms. MATIELLA. Legacy systems have some impact on the Army's ability to achieve Secretary Panetta's audit goals. However, the Army is accounting for any legacy systems that may impact the financial statements in 2014 or 2017. First, the Army's aggressive and successful implementation of GFEBS, which will be fully deployed in July 2012, significantly contributes to the Army's

ability to achieve audit readiness. In addition, Global Combat Support System-Army (GCSS-Army) will have largely completed its first of two major deployments and be able to provide substantive support to the SBR assertion in 2014. Assessments have already begun to determine if further remediation to the legacy systems is necessary.

The largest legacy system impact in 2014 is military pay. However, the Army has already accounted for the Integrated Personnel and Pay System-Army (IPPS-Army) timeline, which exceeds the 2014 SBR requirements, by working to assess and correct any deficiencies in the legacy military pay processes and systems. Upon ensuring the current military pay processes and systems are auditable, Army will sustain the current environment until the transition to IPPS-Army in 2017. Army's audit readiness plan includes an assessment of ERPs to ensure that Army is aware of any system deficiencies well in advance of the targeted assertion dates.

QUESTIONS SUBMITTED BY SENATOR SAXBY CHAMBLISS

ARMY SENSITIVE ACTIVITIES PROCUREMENT

39. Senator CHAMBLISS. Secretary Westphal and Secretary Matiella, I understand that the Army is considering competing a portion of the current GFEBS program for the SA. What is the Army's plan for future SA procurement, continuing the success of the core program, and can you explain any changes in your plans for this effort since you last testified before this committee?

Mr. WESTPHAL and Ms. MATIELLA. GFEBS–SA is being developed and implemented as an individual program with cost, schedule, and performance separate from the GFEBS base program. GFEBS-Army will leverage Program Executive Office Enterprise Information Systems' (PEO EIS) competitively awarded existing contract vehicle to procure application development and system integration services. Anticipated release of the Request for Proposal (RFP) is the fourth quarter of fiscal year 2012. Since I last testified before this committee, a decision was made to not fund GFEBS-Army during the fiscal year 2012 cycle but to commence program initiation in fiscal year 2013. The Army is currently working with congressional staff on realignment of funding.

DEFENSE ENTERPRISE AND ACCOUNTING MANAGEMENT SYSTEM

40. Senator CHAMBLISS. Secretary Morin and Mr. Tillotson, has the Air Force considered speeding up the deployment of the DEAMS rather than carrying out limited deployments at select Air Force bases?

Dr. MORIN and Mr. TILLOTSON. Yes, the Air Force has considered speeding up the deployment of DEAMS. The Air Force plans to upgrade our hosting facility architecture to coincide with the upgrade of the DEAMS Oracle software. This parallel path to upgrade the application and the hosting facility is the most cost effective and expedient approach for delivering capabilities to the warfighter. We are carefully watching the deployments of the other ERPs across DOD and the Federal Government to ensure we are learning from others' efforts.

41. Senator CHAMBLISS. Secretary Morin and Mr. Tillotson, you testified that DEAMS is progressing on schedule. Can you explain how you might deploy DEAMS Air Force-wide to get it into the hands of the warfighters sooner?

Dr. MORIN and Mr. TILLOTSON. The purpose of the Technology Demonstration at Scott Air Force Base was to identify problems on a limited scale prior to Air Force-wide deployment. Training was initially conducted by DEAMS Subject Matter Experts, and the training material was developed based on Oracle Modules, instead of DEAMS end-user roles and responsibilities.

The Air Force captured lessons learned from the initial deployment and is taking action to resolve deficiencies in the training during the initial DEAMS Technology Demonstration. The Air Force is restructuring the training to align with end-user roles and responsibilities to ensure future training is a success and end-users receive sufficient training on DEAMS. Additionally, the Air Force is utilizing the Oracle User Productivity Kit (UPK) and hired professional instructors to support end-user training. The expected completion date for training restructuring is June 1, 2012. Following the updates, the DEAMS deployment team will review the material with a focus group of Air Mobility Command end-users from Scott and McConnell AFBs in early June.

QUESTIONS SUBMITTED BY SENATOR JOHN CORNYN

FINANCIAL MANAGEMENT

42. Senator CORNYN. Secretary Hale and Ms. McGrath, according to House Armed Services Committee hearings, DOD has over 48,000 civilian financial managers. That's 48,000 accountants, auditors, financial managers, budget analysts, clerks, administrators, payroll officials, and others. On top of that, it is my understanding that there are another 10,000 DOD military personnel who perform these roles. To put this into perspective, this would be enough people to operate both the ship and air crews for 10 aircraft carriers or the equivalent of 10 fully-equipped Army Brigade Combat Teams. It's more than 10 times the number of combat aviators in the Air Force. How is it that you cannot make more progress when you have 10 brigades worth of people coming to work every day to help fix it?

Mr. HALE. DOD relies on these dedicated financial management professionals to provide and manage the resources DOD uses to execute the national security mission. The number of financial managers does seem extraordinarily large on first glance.

To better understand the figures in light of DOD's enormous size (over 3 million employees), we have performed analysis comparing our financial management workforce to other Federal agencies as well as large private sector companies. The size of our workforce and the resources devoted to financial management as a percentage of resources are in line with these organizations, using them as comparable benchmarks.

I agree that we can make more progress on financial management, and recent efforts including the involvement of Secretary Panetta have already sped up that progress. In addition, as we implement more automated and integrated processes, our financial management processes will become less labor-intensive, offering opportunities for reducing these numbers. Even more importantly, those personnel remaining will have more time to devote to analysis and process improvement.

Ms. MCGRATH. DOD relies on these dedicated financial management professionals to provide and manage the resources DOD uses to execute the national security mission.

To better understand the figures in light of DOD's enormous size (over 3 million employees), our Comptroller staff has conducted an analysis comparing our financial management workforce to other Federal agencies as well as large private sector companies. The number of financial managers does seem extraordinarily large on first glance, but when described as a percentage of DOD's population, the numbers align to other Federal agencies. The size of our workforce and the resources devoted to financial management as a percentage of resources are in line with those benchmarks.

We agree that DOD can make more progress on financial management, and recent efforts including the involvement of Secretary Panetta have already accelerated our progress. In addition, as we implement more automated and integrated processes, our financial managers will have more time to devote to analysis and process improvement.

43. Senator CORNYN. Secretary Hale, you have regularly testified that congressional involvement has helped spur action with regard to improving financial management. Would you agree that Congress should pass legislation codifying Secretary Panetta's announcement that DOD would have an auditable financial statement on its SBR by 2014?

Mr. HALE. DOD is committed to achieving Secretary Panetta's goal of an auditable SBR by 2014, regardless of whether the date is codified in legislation. If Congress did pass legislation to codify the Secretary's accelerated date, we recommend the legislation specify that "the general fund SBRs of material components are validated as ready for audit by not later than September 30, 2014" for consistency with the Secretary's direction.

44. Senator CORNYN. Secretary Hale and Ms. McGrath, could you please provide a date when DOD will be removed from GAO's high risk list for fraud, waste, and abuse for financial management and business transformation?

Mr. HALE and Ms. MCGRATH. GAO has established five criteria for removal from the high-risk list that can form a roadmap for efforts to improve and ultimately address high-risk issues: (1) Demonstrated top leadership commitment; (2) Capacity, including people and other resources to resolve the risk, and establishing reporting and accountability mechanisms; (3) Corrective action plan that implements solutions to address root causes; (4) Monitoring, including establishing performance measures;

and (5) Demonstrated progress in implementing corrective actions and making appropriate adjustments to action plans based on data. GAO makes the determination to remove an area from the high-risk list once they conclude that sufficient progress has been made in addressing the issues associated with the high-risk area.

GAO noted in its February 2011 High-Risk Series Update that DOD is taking steps to resolve the issues identified by GAO as associated with the DOD Financial Management high-risk area. DOD is implementing department-wide financial management improvements that provide timely, reliable, accurate, and useful information for management operations, including financial reporting and decisionmaking. Using the established criteria, DOD believes that it is making good progress to address the issues associated with the DOD Financial Management high-risk area. For example, Secretary Panetta has demonstrated leadership commitment and support to achieving audit readiness for DOD by accelerating the date to achieve audit readiness of the SBR to the end of calendar year 2014. While GAO cited progress by DOD on the Financial Management high-risk area, it is unlikely that GAO will remove this area from the high-risk list before 2017, which is when DOD is expected to meet the legal requirements to achieve full audit readiness for all DOD financial statements.

DOD believes that it has also made significant progress in the DOD Approach to Business Transformation high-risk area. GAO cited DOD's progress in establishing management oversight and developing a strategic plan to guide business transformation efforts in its February 2011 High-Risk Series Update. The report noted that DOD's senior leadership has demonstrated its commitment to address the risks by filling key positions, issuing directives broadly defining the responsibilities of the CMO and the Deputy Chief Management Officer (DCMO), establishing governance entities, and issuing a strategic management plan with two subsequent updates. DOD believes these changes have led to a much better approach to business transformation within DOD. More recent changes codified in the National Defense Authorization Act for Fiscal Year 2012 will help DOD continue to make progress, including using portfolio reviews to improve the business system investment management review process and oversight of business systems. DOD has also centralized defense business management under the Deputy's Management Action Group, led by the Deputy Secretary of Defense. DOD is hopeful that it has demonstrated enough progress in addressing the issues associated with the DOD Approach to Business Transformation that GAO will remove this area from the 2013 high-risk list update.

GENERAL FUND ENTERPRISE BUSINESS SYSTEM

45. Senator CORNYN. Secretary Westphal and Secretary Matiella, GFEBS was developed by the Army's financial management community for the Army's financial community. However, GAO found that two-thirds of invoice and receipt data must be manually entered into GFEBS due to interface problems. The DOD IG found the Army spent $630 million on GFEBS, but that at the time it was tested it was not compliant with the U.S. Standard General Ledger (USSGL) and the Standard Financial Information System (SFIS). How do you explain this failure?

Mr. WESTPHAL and Ms. MATIELLA. As stated in the Army's response to the DOD IG audit report, the Army disagreed with the report's assertions. At the time of the audit, GFEBS was not fully configured or fully deployed and was transacting less than 2 percent of the Army's general fund total obligation authority.

The results of the GFEBS SFIS compliance review conducted in June 2011 by the DOD Office of the DCMO concluded that GFEBS is 92 percent compliant with DOD SFIS business rules with full compliance planned by the end of fiscal year 2012. In addition, DOD and the Army have established procedures to continue reviewing all ERPs for SFIS compliance going forward.

Furthermore, as of September 30, 2011, GFEBS accounted for the missing USSGL and 28 DOD reporting accounts the DOD IG identified as missing. The absence of these accounts on September 30, 2010 (the time of the DOD IG audit) did not materially impact Army's ability to provide accurate financial information in GFEBS. None of these accounts were required to support the GFEBS user base as of September 30, 2010, which only encompassed approximately 1.9 percent of the Army's general fund total obligation authority.

46. Senator CORNYN. Secretary Westphal and Secretary Matiella, how do you plan to reach auditability when the systems you are purchasing are themselves not auditable?

Mr. WESTPHAL and Ms. MATIELLA. Systems must meet numerous Federal standards, including the FFMIA, the DOD SFIS, and the GAO FISCAM, among others. However, the systems are not meant to be auditable in the sense that financial statements are auditable. The systems form the foundation for financial statement auditability.

To ensure these systems comply with additional Federal financial system standards, the Army utilizes the Army Audit Agency to audit for FFMIA compliance and the OSD DCMO for SFIS compliance.

In addition, the Army is conducting assessments to ensure GFEBS meets or exceeds Federal systems standards and can successfully meet FISCAM requirements. In 2011 the Army began a FISCAM assessment of GCSS–A that includes the same scope of work defined for GFEBS and will begin a FISCAM assessment of Logistics Modernization Program (LMP) in the fourth quarter of fiscal year 2012.

GLOBAL COMBAT SUPPORT SYSTEM-ARMY

47. Senator CORNYN. Secretary Westphal and Secretary Matiella, according to GAO, adding the requirement that the GCSS–Army be auditable added $200 million in cost and 2 years of development time for a commercial off-the-shelf (COTS) system that now won't be ready until 2017. Long-established laws, such as Clinger-Cohen and the FFFMIA, have mandated that the Army only purchase business/finance systems that provide auditable financial information. Did the Army break these laws in spending $891 million to date on GCSS-Army?

Mr. WESTPHAL and Ms. MATIELLA. No, the Army did not break these laws. The GCSS-Army system uses the commercial product SAP. The SAP product does provide auditable financial information and is used to do so in thousands of companies around the world.

The $200 million increase in cost and the 2 years of time added for deployment was to add missing units to the scope of the program. The Army was not going to be auditable because not all of the parts of the Army that needed it were going to get the system—the Directorate of Logistics (DOL) organizations were not in scope.

The scope was expanded to add the DOL organizations on posts, camps, and stations around the Army. The DOL provides repair and return maintenance, back-up supply, and in some cases, a forward capability to support limited depot level maintenance. The GCSS–Army program, as originally baselined, did not include these organizations as part of the base. The scope was expanded to incorporate these units into the GCSS–Army system.

ARMY MILITARY PAY

48. Senator CORNYN. Secretary Westphal and Secretary Matiella, GAO recently released a scathing report on Army military pay, raising all sorts of issues regarding identification of payroll accounts, validating transactions, and matching records. The report raises serious questions regarding whether the Army will be able to meet Secretary Panetta's 2014 deadline for auditability for the Army's SBR. Out of all the Army processes that should be auditable, it would seem that paying your people would be the easiest. How do you explain the problems GAO found?

Mr. WESTPHAL and Ms. MATIELLA. Our goal for Army military pay audit readiness is to ensure controls are in place to continue paying soldiers the right entitlements, in the right amounts, at the right time, and to accurately report these transactions on the financial statements. Together, the Army and DFAS are working to meet the fiscal year 2014 SBR assertion deadline. As a part of DOD audit readiness strategy, we are documenting the military pay processes and control environment, testing the key internal controls, developing and implementing corrective actions to address gaps and deficiencies, and establishing a process for recurring control testing to sustain the auditable environment.

The majority of GAO's findings are consistent with the corrective actions the Army expected GAO would find because they are the same types of obstacles the U.S. Marine Corps has faced and the Army faces in other business processes, namely insufficient supporting documentation or inefficient processes for gathering the supporting documentation. The Army is working closely with DFAS, OSD–C, and GAO to address these findings and will have all GAO recommendations implemented by June 30, 2013.

ARMY ENTERPRISE RESOURCE PLANNING

49. Senator CORNYN. Secretary Westphal and Secretary Matiella, has the Army saved money with its deployment of its ERP systems? If not yet, when will it?

Mr. WESTPHAL and Ms. MATIELLA. The Army will save money with the deployment of our four ERPs through the streamlining of business processes and retirement of legacy business systems.

As of today, only one ERP is fully deployed, the LMP, however, the GFEBS will be fully deployed later this fiscal year. The two remaining Army ERPs, the GCSS-Army and the IPPS-Army are projected to be fully deployed in fiscal year 2016 and fiscal year 2017 respectively.

Based on the standard Cost-Benefit Analysis that is approved for each acquisition program, the break-even point for our investment is slightly different for each ERP investment. For example, the break-even point for GFEBS is fiscal year 2019. Similar analysis has been completed for each investment and is reviewed and approved by the DOD Acquisition Authority for each Major Automated Information System.

In addition to the calculated savings and benefits, the four Army ERPs are critical to the Army achieving the congressionally-mandated goal of financial auditability. The benefits of being financially transparent and good stewards of public funds are not included in the Cost-Benefit Analysis but, nonetheless, an important aspect of our investment decision.

DEFENSE ENTERPRISE AND ACCOUNTING MANAGEMENT SYSTEM

50. Senator CORNYN. Secretary Morin and Mr. Tillotson, GAO found that more than half of the users of the Air Force's main financial ERP system, DEAMS, were not prepared to use the system after the training. Who conducted this training?

Dr. MORIN and Mr. TILLOTSON. The purpose of the Technology Demonstration at Scott Air Force Base was to identify problems on a limited scale prior to Air Force-wide deployment. Training was initially conducted by DEAMS Subject Matter Experts, and the training material was developed based on Oracle Modules, instead of DEAMS end-user roles and responsibilities.

The Air Force captured lessons learned from the initial deployment and is taking action to resolve deficiencies in the training during the initial DEAMS Technology Demonstration. The Air Force is restructuring the training to align with end-user roles and responsibilities to ensure future training is a success and end users receive sufficient training on DEAMS. Additionally, the Air Force is utilizing the Oracle UPK and hired professional instructors to support end-user training. The expected completion date for training restructuring is June 1, 2012. Following the updates, the DEAMS deployment team will review the material with a focus group of Air Mobility Command end-users from Scott and McConnell AFBs in early June.

51. Senator CORNYN. Secretary Morin and Mr. Tillotson, if it was a contractor, were they paid to conduct this training?

Dr. MORIN and Mr. TILLOTSON. Contractors that supported the training were paid to conduct the training in accordance with the approved statement of work.

52. Senator CORNYN. Secretary Morin and Mr. Tillotson, was any evaluation done on the effectiveness of this training?

Dr. MORIN and Mr. TILLOTSON. An evaluation was conducted on the DEAMS Technology Demonstration training. This evaluation informed the Air Force lessons learned, which led to the development of role-based training, hiring professional trainers to work with Subject Matter Experts, and utilizing the Oracle UPK Module to support DEAMS training activities.

53. Senator CORNYN. Secretary Morin and Mr. Tillotson, were contractors asked to refund any money for training that was ineffective?

Dr. MORIN and Mr. TILLOTSON. No, contractors were not asked to refund money for ineffective training. The training was conducted in accordance with the approved statement of work. Based on the evaluation of the training, the Air Force has revamped the training to meet user needs in transitioning from the legacy financial systems to DEAMS.

54. Senator CORNYN. Secretary Morin and Mr. Tillotson, has the Air Force saved money with the deployment of its ERPs? If not yet, when will it?

Dr. MORIN and Mr. TILLOTSON. The Air Force has three key ERPs: DEAMS, Air Force-IPPS, and Expeditionary Combat Support System (ECSS).

DEAMS is expected to begin generating savings 1 year after Increment 1 reaches Full Operational Capability (FOC). FOC is projected for fiscal year 2016; therefore, savings are projected to begin in fiscal year 2017. Air Force-IPPS is expected to begin generating savings in fiscal year 2018. The ECSS Critical Change Team, headed by the Program Management Office, is still refining its assessment as a result of additional efforts necessary to finalize the Critical Change Report currently planned to go to Congress in August 2012. At that time, the Air Force expects to have cost savings estimated for the restructured program. The Air Force is fundamentally reshaping the ECSS program for more timely and efficient delivery of logistics transformation that will also enable audit readiness.

55. Senator CORNYN. Secretary Morin and Mr. Tillotson, because of the Air Force's failure to modernize its financial systems and its extremely slow progress in adopting COTS technology, how much money will the Air Force have to spend on modernizing its legacy financial systems to meet the deadline set by the Secretary of Defense for a clean audit of the SBR?

Dr. MORIN and Mr. TILLOTSON. The Air Force is documenting and testing the existing systems and processes to identify what changes are required. This process is expected to continue for at least another year. Only at that time will the Air Force be able to estimate a cost based on identifying the extent of the required changes and evaluating compensating process controls.

NAVY ENTERPRISE RESOURCE PLANNING

56. Senator CORNYN. Secretary Work and Secretary Commons, the DOD IG found that the Navy was not compliant with the USSGL and the SFIS. How is it that the Navy's main financial ERP system is not compliant?

Mr. WORK and Ms. COMMONS. At this point, the Navy ERP system includes all USSGL accounts appropriate for the accounting and business requirements of the Navy. The Navy does not plan to implement all the USSGL accounts defined by the DOD chart of accounts as there are no accounting or business requirements for some accounts, and to include unnecessary accounts would be too costly and administratively burdensome. For example, Navy ERP is required to use Moving Average Cost not Latest Acquisition Cost (LAC) for inventory valuation, and therefore does not use account 1521.0900: Inventory Purchase for Resale—LAC. The Navy is currently evaluating the 110 general ledger accounts mentioned in the DOD IG audit and will work with the OSD (Comptroller) to determine the appropriateness of including any of these accounts in the Navy ERP system. Our estimated date of updating the system with any appropriate accounts is September 30, 2012.

The SFIS standards were developed and implemented in 2006, after the ERP system completed its design. SFIS business rules were introduced in 2009 along with data requirements; thus SFIS standards, rules, and data requirements continue to change and evolve. For example, the Navy is currently working to implement Version 8.0. We will continue to work within the Navy and with the OSD DCMO to ensure compliance with the SFIS standards.

57. Senator CORNYN. Secretary Work and Secretary Commons, who is responsible for the failure of Navy ERP to comply with long-established Federal laws governing the purchase of Federal financial systems?

Mr. WORK and Ms. COMMONS. Since program establishment in 2003, the Navy ERP has complied with all applicable Federal and DOD acquisition statutes and policies.

58. Senator CORNYN. Secretary Work and Secretary Commons, how can the Navy expect to obtain auditable financial statements when the ERP system it is purchasing does not comply with the law?

Mr. WORK and Ms. COMMONS. The Navy ERP system is in compliance with relevant laws and statutes. The system will enhance the Navy's ability to produce auditable financial statements through significantly improved process, internal controls, and documentation. The Navy is currently conducting an assessment of the Navy ERP system controls for compliance with the FISCAM standards using an independent public accounting firm. We expect to complete this assessment by the end of 2012.

59. Senator CORNYN. Secretary Work and Secretary Commons, has the Navy saved money with its deployment of Navy ERP? If not yet, when will it?

Mr. WORK and Ms. COMMONS. Monetary benefit resulting from the deployment of Navy ERP is captured in two primary areas:

- Legacy IT system savings of $350 million resulting from the retirement of systems and fewer system interfaces. The Navy is scheduled to have retired 74 systems by the end of fiscal year 2012, with 10 more to be retired by 2016.
- Supply inventory reductions resulting from improved inventory control and a reduction of excess inventory items. Improved inventory management is expected to result in a reduction in Navy Supply Working Capital Fund rates amounting to $276 million from fiscal year 2012 through fiscal year 2017 and expected cost avoidance of $456 million for fiscal year 2018 through fiscal year 2023.

[Whereupon, at 4:44 p.m., the subcommittee adjourned.]