

[H.A.S.C. No. 112-157]

**DEPARTMENT OF DEFENSE AUDITABILITY
CHALLENGES**

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

HEARING HELD
SEPTEMBER 14, 2012



U.S. GOVERNMENT PRINTING OFFICE

76-218

WASHINGTON : 2013

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**DEPARTMENT OF DEFENSE AUDITABILITY
CHALLENGES**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC, Friday, September 14, 2012.

The subcommittee met, pursuant to call, at 9:00 a.m., in room 2118, Rayburn House Office Building, Hon. Rob Wittman (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. ROB WITTMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Mr. WITTMAN. I will call the Oversight and Investigations Subcommittee of the House Armed Services Committee to order on today's hearing on Department of Defense Auditability Challenges. I want to welcome everybody to today's hearing. I appreciate our witnesses coming in to talk to us more about those challenges facing the Department of Defense as it works toward audit readiness in 2014 and 2017.

I would like to welcome our distinguished panelists this morning. Mr. Robert Hale, Under Secretary of Defense, Comptroller, U.S. Department of Defense; Ms. Elizabeth McGrath, Deputy Chief Management Officer, U.S. Department of Defense; the Honorable Gladys Commons, Assistant Secretary of the Navy, Financial Management and Comptroller, U.S. Department of Navy; Dr. Mary Sally Matiella, Assistant Secretary of the Army, Financial Management and Comptroller, U.S. Department of the Army; and Ms. Marilyn Thomas, Deputy Assistant Secretary for Financial Management and Comptroller, U.S. Department of the Air Force.

Thank you very much for being here with us today. Collectively you share the responsibility for managing nearly \$700 billion of net operating costs and accounting for nearly \$2 trillion in assets. These are weighty responsibilities, particularly when you consider the importance of your mission to our Nation's national security and to our warfighters.

I want to thank you for your service and for the commitment you have demonstrated on this issue. Achieving audit readiness, when considered against this backdrop, is both complex and challenging and it is clear to me that you are making tangible progress forward. This hearing is meant as a follow-up to the Defense Financial Management and Auditability Reform Panel, which was appointed by Chairman "Buck" McKeon and Ranking Member Adam Smith in July 2011 to carry out a comprehensive review of the Department's financial management system. The purpose of the re-

view was to oversee DOD's financial management system and its capacity for providing timely, reliable and useful information needed for making accurate decisionmaking and reporting.

I would like to thank Mr. Conaway, who served as chairman of the panel, and Mr. Andrews, who served as ranking member. Because of your diligent efforts and outstanding leadership, we now have a much better understanding of the issues surrounding audit readiness and the path that lies ahead.

Audit readiness is an important aspect for many reasons, but for me it is most important because of what it means for our national defense strategy. Put simply, every dollar we corral for our national defense budget matters, especially because of impending cuts and financial constraints. The budget shapes not only our discussions on force size, structure and capability, but ultimately determines whether our warfighters have the tools and equipment they need to do their jobs. This is the prism through which I view discussions about audit readiness and why I am pleased to be having this discussion today.

Before we get started with questions, I have a quick administrative matter to address. I anticipate a number of other members from other subcommittees will join us and I would like to ask for unanimous consent that they be allowed to participate.

Absent objection, it is so ordered. I will recognize these members at the appropriate times for 5 minutes after all Oversight and Investigations Subcommittee members have had an opportunity to question the witnesses.

At this point, I will turn to our acting ranking member, Mr. Critz, for any statement that he may have.

[The prepared statement of Mr. Wittman can be found in the Appendix on page 29.]

STATEMENT OF HON. MARK S. CRITZ, A REPRESENTATIVE FROM PENNSYLVANIA, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Mr. CRITZ. Thank you, Mr. Chairman. I do not have an opening statement other than to say thank you for being here, and, as we all know, accurate information is critical to making the best decisions. So I look forward to the hearing and your testimony.

Mr. WITTMAN. Very good. Thank you, Mr. Critz.

At this point we turn to our panel members for your opening statements.

Ms. Thomas, we will begin with you.

Ms. THOMAS. Thank you, Chairman Wittman.

Mr. WITTMAN. Ms. Thomas, if you will, just go ahead and pull your microphone up to you.

Secretary HALE. Mr. Chairman, if I may, if it is okay with you, I think the order we prefer is that I would start out and give an overview from the Department's standpoint and then go to the services. Will that work for you?

Mr. WITTMAN. That will be fantastic.

Secretary HALE. Ms. McGrath and I will do that jointly.

Mr. WITTMAN. Very good.

STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE; AND HON. ELIZABETH A. MCGRATH, DEPUTY CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE

Secretary HALE. Mr. Chairman, members of the committee, thank you for the opportunity to discuss financial operations at the Department of Defense and our progress in audit readiness. Ms. McGrath and I submitted a statement for the record. In the interest of time we will summarize it briefly.

Let me begin by saying that we remain fully committed to meeting our audit goals and we are reasonably confident that we will meet those goals in the timeframes that have been established by us and in some cases in the law.

So why is it important to do this, to achieve auditability? It is important first because it is the law. Auditability also matters because, as you said, Mr. Chairman, it will help us make better use of taxpayer resources. That is important especially in these times of fiscal stress and declining budgets.

But in my view the most important reason that we need to do this, to achieve auditable financial statements, is public confidence. I don't think we will ever convince the American public, I don't think we will convince the Congress that we are good stewards of their funds unless we can pass an audit test.

I should note that even though DOD's financial statements are not auditable, we still know where we are spending taxpayer dollars, and I think that is a very important point. With rare exceptions, we pay our people and our vendors on time and accurately and record the transactions properly. If that weren't the case, you would see massive problems of missed payments and mission failure, and I am pleased to report none of that is happening.

Our financial statements fail audit tests not because we don't know where the funds are being spent, but because we can't document the transactions properly and quickly and because in some cases our financial processes and internal controls are not sufficiently strong and consistent. These are problems we can and will fix.

I believe we will fix these problems and achieve auditable statements for several reasons. First, we have a workable plan that focuses on the information we most use to manage. I mean everybody is pulling in the same direction. We have a combination of short-term goals and long-term goals, a supportive governance structure, dedicated funding at \$300 to \$400 million a year throughout our planning period, and accountability that begins with Secretary Panetta, who is deeply committed to this effort.

As a result we are seeing meaningful progress: A Marine Corps that is on the verge of an auditable budget statement for current resources; a Navy that is showing auditability for a key weapons system; an Army and an Air Force that are demonstrating progress in key areas; and, for the first time, defense agencies that are now all focusing on achieving auditable financial statements. The service financial managers who are with me today will describe their services' efforts in more detail.

In all our auditability efforts across the Department and in many the other ways, state-of-the-art financial systems are critical, and

for a few words on our progress in this area I would like to turn to our Deputy Chief Management Officer, Beth McGrath.

Ms. McGRATH. Good morning. Like Mr. Hale, I appreciate your interest in this topic and also your unwavering support to our military members and their families.

Our efforts to improve financial management and achieve audit readiness are part of a broader effort to improve business operations across the Department. We continue to make steps to mature our business environment. These steps include better definition of our target environment utilizing our business and in-place architecture. We continue to push hard on business process reengineering that addresses not only at the system level, but the appropriate end-to-end process that that system resides within.

Strategic planning and performance measurements continue to increase, and finally an investment management process that addresses both IT [information technology] modernization and sustainment funding across the business enterprise. We are accomplishing this comprehensive investment management process through the legislation Congress passed in section 901 of the 2012 National Defense Authorization Act [NDAA].

The Department's implementation of this change enables an integrated governance for our entire portfolio of business systems by a single investment review board. This has been significant for us. This board reviews and certifies planning, design, acquisition, development, modernization, all aspects of a project, again how they fit into the broader business conversation, and it is for all systems and initiatives that are greater than \$1 million across the FYDP [Future Years Defense Program], which is virtually everything.

This helps us make not only better investment decisions, but it reinforces the relationship of the business environment to those specific system investments and the business outcomes that we are trying to achieve like audit readiness. It also accelerates the retirement of legacy systems. For example, in 2012 we retired 120 legacy systems—I am sorry, 2011. In 2012, the number is approaching 200, and we are projecting at least 150 for 2013.

Our modernized systems environment includes each of the departments' enterprise resource planning, ERPs [Enterprise Resources Planning], which will improve financial management and accounting operations and help with future audits. At present, each one of these systems is at a different stage of its life cycle. Many have experienced challenges, certainly from design to implementation, leading certainly to cost and schedule overruns, but we are proactively addressing each one of these challenges like data conversion, business process reengineering, stabilization of requirements, and certainly the culture challenges associated with implementing a new IT system.

We are committed to achieving and overcoming those challenges. It is important to also state that while we are experiencing challenges, we are also delivering capabilities; shorter repair cycle times, better visibility of our assets, reduced interest penalties and better scheduling of maintenance activities.

Effective implementation of our new business systems will not enable audit by itself. However it will establish a modern business environment we need to meet and sustain our goal of audit readi-

ness. We recognize the amount of work that lies ahead and are committed to its successful execution.

Secretary HALE. Systems are critical to this. Another one is committed leadership, and we definitely have that, starting with Secretary Panetta. He has issued a memo on this. He did a videotape. I update him periodically at our morning staff meetings. And despite all the other challenges he faces, he always shows interest and usually asks questions about this topic.

We have the full support of our Deputy Secretary who is, of course, the Department's Chief Management Officer. We have the support of our service Secretaries and Chiefs of Staff. They have all met on this topic. I talk to them periodically, as, of course, do the service reps you will talk to, and, I think, relevant members of our civilian SES [Senior Executive Service] leaders. In short, I think we have commitment in this Department, military and civilian, to take action.

I would be less than candid if I didn't tell you there are problems and challenges and not much time to solve them, but we are, I think, addressing those challenges. We need to continue to build the skills of our people. We have got a force-based certification program we are putting in place to do that as well as some specific audit training.

We have got to implement comprehensive and meaningful and consistent financial controls, which we don't always have, and we are taking a number of steps, including getting the service audit agencies involved to try to do that. And we have got to sustain the momentum during the upcoming changes in leadership which tend to occur regardless of what the outcome of presidential elections.

We are grateful for the support that we have gotten from the Congress, including the recommendation of the committee's Financial Improvement Panel, Mr. Conaway and Mr. Andrews and other members. Congressional attention is one effective means of ensuring that audit readiness remains a high priority.

There is another thing you can do to help. In recent years we have encountered unprecedented budgetary uncertainty, including no fewer than four shutdown drills for which we planned and a long-term continuing resolution in fiscal 2011. They have generated time-consuming and unproductive planning efforts. Sometimes I think I spend most of my time planning for things I hope don't happen. Now we face the prospect of sequestration and yet another long-term continuing resolution.

Dealing with these extraordinary actions is sapping the time we could be spending on other things, including audit readiness. The single biggest thing you could do to help me would be to return to a more orderly budget process.

We will close by reiterating our full commitment to financial management goals of the Department of Defense, including auditability. I take this seriously. I started in 1994 as the Air Force [inaudible] and I am still trying now as the DOD Comptroller. We owe it to all of you to do that, we owe it to the troops and we owe it to the American taxpayers.

Mr. Chairman, that concludes our joint opening statement and I would suggest Army, Navy, Air Force if that fits, if that is okay with you.

[The joint prepared statement of Secretary Hale and Ms. McGrath can be found in the Appendix on page 32.]

Mr. WITTMAN. Yes.

Secretary HALE. Dr. Matiella.

STATEMENT OF DR. MARY SALLY MATIELLA, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER, U.S. DEPARTMENT OF THE ARMY

Dr. MATIELLA. Good morning. Congress Wittman, members of the subcommittee, thank you for the opportunity to testify today regarding the Army's work to achieve financial statement audit readiness. I want to convey to you that Secretary McHugh, General Odierno, Under Secretary Westphal and I commit to improving financial management and becoming auditable.

The Army will assert audit readiness for its financial statements by September 2017, as required by NDAA for fiscal year 2010. The effort to increase financial accountability and achieve audit readiness go hand-in-hand with Secretary McHugh's call for a leaner, faster and more adaptable Army. A more agile Army is only possible if we have timely, accurate and reliable financial information to inform our resourcing decisions.

We recently achieved a significant milestone that simultaneously supports our audit readiness and our business transformation objectives. On July 1 of this year, the Army completed the scheduled deployment of the General Fund Enterprise Business System, GFEBS. This system is designed to comply with audit requirements. Each day more than 25,000 users are using GFEBS across 28 Army commands, component commands and direct reporting units. Of course, in an organization as large and complex as the Army, a transformation that requires a change in our day-to-day business and a fundamental shift in our culture faces significant challenges.

Both Houses of Congress and the GAO have been valuable partners in our transformation endeavors. The Army's audit readiness strategy addresses each of these six concerns: leadership engagement; accountability; internal controls; competent workforce; business architecture; and compliance.

Audit readiness is part of the Army's campaign plan and in alliance with the Secretary's top 10 priorities. Top leadership has communicated through memorandum and other means the critical nature of audit readiness across the enterprise and our intent to hold personnel accountable, military and civilian.

For example, in April, the Chief of Staff sent a message to all general officers informing them of the importance of audit readiness. Also, we have greatly increased accountability and oversight by embedding audit readiness criteria in the annual performance plans of all Army Senior Executive Service civilians. In addition, we are engaging commanders and holding them accountable for implementing effective internal controls.

Building a competent workforce requires comprehensive communications and training efforts. In 2012 alone we have trained more than 8,000 personnel across all business functions in audit readiness principles and implementing the internal controls within the Army business processes. We are using the Army learning manage-

ment system, an online system, to broaden our reach in a cost-effective manner and enabling users to assess the training content within 24 hours a day.

Finally, I established the Army Financial Management Workforce Transformation Working Group to identify the required workforce skills and staffing levels that will support our financial management transformation. We are strengthening internal controls through installation-level process and control assessments, corrective action implementation, and business process and control training.

At the end of June we reached two major milestones that demonstrate how far we have come in implementing internal controls. First, we asserted audit readiness for 9 processes at 10 different installations for the Statement of Budgetary Resources [SBR]. An independent auditor will validate the assertion through the second of three SBR exams leading up to the Secretary of Defense's 2014 SBR mandate.

The first SBR exam in 2011 resulted in a qualified audit opinion, that was at three installations, that highlighted that the standardization of business processes across locations is in place, which is a major achievement for the Army. The second SBR exam evaluates our internal control environment.

Second, in June, the Army asserted audit readiness for three missile programs, Javelin, Hellfire and TOW [Tube-launched, Optically tracked, Wire command-link guided], which represents approximately 16 percent of the operating materials and supplies. The DOD IG [Department of Defense Inspector General] will conduct exams to validate this assertion.

For the remaining two challenges we developed a well-defined business architecture which enables our ERP [Enterprise Resource Planning] system to better support Army audit readiness objectives. We are conducting internal assessments of our ERPs and material feeder systems using the GAO [Government Accountability Office] Financial Information Systems Control Audit Manual, FISCAM, which provides the guidelines an auditor will follow when conducting a financial statement audit of a Federal agency. I am confident that the Army's ERPs will fully support the Army's audit readiness schools as independent auditors have already confirmed GFEBS to be substantially compliant with FFMIA [Federal Financial Management Improvement Act] and DOD's standard financial information structure. With SFEBs, GFEBS is about 93 percent compliant.

We have achieved some significant accomplishments in the last 12 months. We received a clean opinion on appropriations received. For exam one we received a qualified opinion, and we have fully deployed GFEBS, our new accounting system. I recognize the challenges we face, but I am confident that we are executing a sound plan that will achieve the NDAA 2010 mandates. Our plan is sufficiently resourced and has the full support of the Army's top leadership and has resulted in successfully achieving several milestones to date.

I am personally committed to this effort and I look forward to working with the members of the subcommittee, GAO and the

Comptroller to ensure the continued improvement of the Army's business environment.

Thank you.

Mr. WITTMAN. Thank you.

[The prepared statement of Dr. Matiella can be found in the Appendix on page 46.]

Mr. WITTMAN. Ms. Commons.

STATEMENT OF HON. GLADYS J. COMMONS, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER, U.S. DEPARTMENT OF THE NAVY

Mrs. COMMONS. Good morning. Mr. Chairman, members of the committee, thank you for the opportunity to provide you an update on the work we are doing to achieve audit readiness. We appreciate your engagement and focus in this area.

The Department of the Navy remains fully committed to achieving audit readiness within the timeframes established by the Secretary of Defense and the Congress. We have a detailed plan and believe we are on track to accomplish the goals necessary to achieve audit readiness.

Our financial management community, business process owners, and service providers are working hand-in-hand to accomplish the tasks necessary to improve our business processes. In some cases, such as transportation of people, the business process owners at the senior executive level have taken the lead to examine the process and to ensure that the internal controls surrounding the business process are effective. They have demonstrated the functional ownership that we need by taking the initiative to implement the changes required for audit readiness, train the staff and monitor sustainment efforts.

The Marine Corps continues under audit and we are leveraging the lessons learned from their audit experience over the past 2 years. Where they have implemented processes and procedures that meet audit standards, we have incorporated them in our detailed plan for the entire Department and share them with other departments and defense agencies. This year we are focused on current year activities and I am hopeful that we will receive a positive report in the December-January timeframe.

Over the past year the Department asserted that a major defense acquisition program, the E-2D Advanced Hawkeye Program, was audit ready. In July a review by an independent public accounting firm validated that the financial transactions associated with this program were accurate and that reasonable internal controls were in place. They issued an unqualified opinion.

We have also received unqualified audit opinions on the existence and completeness of the majority of our military equipment. We have assessed our civilian personnel pay and travel processes, identified deficiencies in both the processes and the internal controls. We have remediated those deficiencies across the business enterprise, documented the process and tested to ensure that changes have been made and that they are working effectively. We are now awaiting review by an independent public accounting firm which should begin within the next several weeks.

We have examined all of our business processes and completed at least one round of testing to identify any deficiencies which would preclude audit readiness. We are in the process of making the necessary changes to remediate those deficiencies.

We are also examining the general application controls in our business systems to determine the systems changes required to meet audit standards. We will complete this fall a thorough assessment of the Navy ERP, the internal controls, using the GAO established audit standards, the Federal Information Systems Controlled Audit Manual.

I am pleased with the significant progress we have made. We have embraced audit readiness as an opportunity to improve our business processes and to correct longstanding issues that were not priorities in the past.

However, achieving audit readiness is not without challenges. First, because our systems and processes were not designed to achieve the standards demanded by a financial audit, changes are required to sustain our efforts. It will take time to implement all the necessary changes, but we are identifying and prioritizing those changes, particularly the systems changes, in an effort to eliminate intensive manual workarounds.

Second, we know that our business process internal controls need to be strengthened and enforced. We have identified the key controls required in each business process. The challenge is to make sure the controls are implemented across the Department, verify their effectiveness and ensure through testing that they remain in place.

Third, we execute our resources across many organizations and activities generating millions of transactions. We rely on thousands of people inside the Department of the Navy and outside the Department to perform segments of our business processes. These dependencies require constant nurturing, collaboration, consultation, close coordination and monitoring to make sure we all remain in sync with the requirements for audit readiness.

Fourth, we operate in a decentralized manner. Gathering the evidentiary documentation required to support the millions of financial transactions we execute and having that documentation readily available for audit review is a substantial effort. While these challenges are significant, we will have included in our detailed plan actions to address each of these challenges.

In closing, I am encouraged by our forward momentum, the progress we have made, the relationships we have forged with our business process owners and service providers, the support they are providing, and the experience and knowledge we have gained to date. Thus, I am cautiously optimistic we will meet our goal.

I will be pleased to answer any questions you might have at the appropriate time.

Mr. WITTMAN. Very good. Thanks, Ms. Commons.

[The prepared statement of Mrs. Commons can be found in the Appendix on page 52.]

Mr. WITTMAN. We will go now to Ms. Thomas.

STATEMENT OF MARILYN M. THOMAS, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND COMPTROLLER, U.S. DEPARTMENT OF THE AIR FORCE

Ms. THOMAS. Thank you, Chairman Wittman and the members of the panel, for the opportunity to testify today.

First, let me start by confirming the Air Force's continued support of Secretary Panetta's accelerated goal of achieving audit readiness of the Statement of Budgetary Resources by 2014 and for all financial statements by September 30, 2017. The Air Force is faithfully committed to maintaining the public's trust in our stewardship of taxpayer dollars and developing a culture that values efficiency and resource stewardship.

Air Force leaders have consistently emphasized the importance of an all-encompassing Air Force-wide effort which is, as Secretary Panetta puts it, an all-hands effort, to successfully reach audit readiness by established deadlines.

Due to the commitment of leadership and to the dedicated professionals across the Air Force, we have made significant progress to date. However, due to the enormity and complexity of the task before us, we view reaching the 2014 and 2017 goals as having moderate risk.

Before going into the challenges of reaching the goals, however, I want to share with this panel the progress the Air Force has made toward audit readiness goals. Over the last year we have received two independent opinions on previous assertions.

In October an independent public accounting firm issued an unqualified opinion on our fund balance with treasury reconciliation process, a process reconciling over 1.1 million transactions with an accuracy rate of 99.96 percent, exceeding the 98 percent recommended. In June, the DOD IG issued an unqualified opinion on our aerial target drones and cruise missiles valued at approximately \$86 billion, representing 41 and 14 percent of Air Force and DOD mission critical assets, respectively.

We have also completed two assertions of audit readiness for uninstalled missile motors and spare engines which together represent 6,395 end items valued at approximately \$11.5 billion. A DOD IG examination is under way for this effort and we anticipate a final report in November.

Additionally, we have submitted our \$4 billion space-based infrared radar system selected acquisition report assertion 2 months ahead of schedule and will contract with an auditing firm this month to perform an independent examination and issue an opinion.

In the process going forward we have made significant progress on end-to-end business processes and are hiring additional contractor and organic resources with financial reporting and auditing expertise to allow us to continue making headway on more assertions and reduce overall schedule risk.

Last August, for example, we earned an independent public accounting firm unqualified opinion on budget authority distribution to our major commands and are completing corrective actions on funds distribution to base, so that we can assert audit readiness on that early next fall.

We have also completed initial testing and corrective actions on reimbursable budget authority and civilian pay processes which will allow us to assert those two areas as audit ready in 2013. Later this fall we will kick off initial assertion testing for military pay and contracts. Our preliminary assessments in both areas are very encouraging.

Despite the progress we have made to date, we face many challenges, most significant of which is the need to improve our legacy information systems in order to support the 2014 SBR assertion. With over 160 different systems recording, tracking and reporting information for financial statements, the challenge is to identify, prioritize and implement cost-effective improvements to support the statement of budgetary resource assertion goal.

Our enterprise resource system, the Defense Enterprise Account Management System, otherwise known as DEAMS, which is our next generation accounting system, and is critical to full audit readiness by 2017, has had some development and deployment challenges.

Recently the Air Force Operational Test and Evaluation Center completed an operational assessment of DEAMS and highlighted some concerns with accounting accuracy and consistency, software development and testing and change management of our workforce. We have corrective actions in place to address these issues and we are doing some preliminary testing, and I can tell you that what we are hearing is very encouraging on that.

In closing, the Air Force appreciates this panel's commitment and support to the Air Force audit readiness efforts and we look forward to continuing to work with you and achieving auditable financial statements.

Again, thank you for holding this hearing and allowing me to testify today. I look forward to your questions.

Mr. WITTMAN. Thank you.

[The prepared statement of Ms. Thomas can be found in the Appendix on page 59.]

Mr. WITTMAN. Thank you, panel members. We appreciate your efforts here.

I want to welcome Mr. Cooper and ask if he might have any opening comments?

Mr. COOPER. I have no opening comments.

Mr. WITTMAN. Okay. With that, we will begin with our questions. Secretary Hale, I will begin with you and then ask the other panelists to give me their perspective.

The Senate recently passed a bill which includes a number of sanctions if a full-scale clean audit isn't achieved by September 2017, and one sanction requires essentially the moving of jurisdiction from DFAS, the Defense Finance and Accounting Service, to the Treasury.

I wanted to get your perspective on that, if you believe that you avoid that, or if you did get to that point, what your perspective would be on the transfer of that from DFAS to Treasury?

Secretary HALE. Well, I think that transfer would be a bad idea. I think the goal Senator Coburn has and his cosponsors is to I guess try to reduce the oversight role for me, because I do provide oversight over DFAS. It is going to have the opposite effect. It will

increase the workload, I believe, because I mean they are day-to-day accounting firms. We need them working in the Department of Defense.

But let me step back and comment on the Audit the Pentagon Act just briefly and more broadly. We support the goals of that act which are to get to audit readiness, you have heard us all say that, and we think we have a system of accountability. We are concerned about a number of the sanctions that are in there. You mentioned one. There are several others I can go into that are of concern to us.

It is because there is some uncertainty here whether we will make this. You know, we have over-promised and under-delivered for years, I want to be honest with you. I am reasonably confident, but I can't be absolutely sure, for two broad reasons. One, as we finish our discovery efforts, there may be problems that come up that we didn't anticipate that will take longer than we think; and, two, frankly, because of all the uncertainty in the budgetary world that you have heard me mention. I mean, if we go through sequestration it will both affect the resources and drain away an enormous amount of time.

Mr. WITTMAN. Secretary Hale, excuse me for just a moment. If you would, if you could pull the mike up a little bit closer.

Secretary HALE. Is that better?

Mr. WITTMAN. Very good. Thank you.

Secretary HALE. So bottom line, we support the goals of the Audit the Pentagon Act. We are concerned about some of the means.

Mr. WITTMAN. Thank you. I wanted also to get your perspective, the DOD IG recently published a report to talk about some of the problems with enterprise planning systems, schedule delays, cost overruns. I wanted to get your perspective on what the root causes of those might be, what the plans are to overcome those, to get things back on track. Obviously that is a critical element of long-term success in meeting the 2014 and 2017 milestones.

Secretary HALE. If I may, I would like Ms. McGrath to answer that. She has got the oversight there.

Ms. MCGRATH. Thank you. I think that the IG report highlights many different areas that are the root causes, if you will, with regard to scheduling delays. You have heard in our opening statements today some of the challenges. I mentioned in mine data conversion, the change in management challenge, the training aspects, all of which we absolutely are taking actions to ensure that, one, we understand very acutely what the root cause was and then the steps we need to take to correct those. So I think that for each program there is a slightly different scenario which is driving the schedule change, although those are consistent, in particular the data conversion and the change management aspects.

What we have really learned with the implementation of these ERP solutions is that it can't just be the accounting team with the financial management solution, it must be the entire operation understanding the role that this capability plays within their overall execution. And that, to be honest with you, has been one of the most challenging. You heard Ms. Matiella mention that in her opening, how do we use these systems and capabilities to really

execute our business? And it does require a change in what we do every day. We must move away from, frankly, the years of practices that we have had into the new environment. And there are a lot more controls in the new systems.

So although a nice new modern system sounds a lot easier than sort of a legacy system, really there are a lot more internal controls and complexities such that you have got referential data integrity and all those other things that are so very important to achieving auditability and full accounting of the money.

Mr. WITTMAN. Ms. Commons, let me ask, I know I have received some feedback from some contractors that are working with the Navy about the new accounting systems and some of the elements of timeliness in payment. Apparently there have been some delays. I think those delays have been addressed but have not been totally, I think, reduced to a satisfactory level.

Can you give me some perspective on the Navy's efforts there? I know we are putting in place obviously a new electronic system. In the transition there are always challenges there. But I think there is some concern out there from what I am hearing about the timeliness. I know previously there was a great amount of attention paid to making sure that payments got out in a timely way, but apparently with the new system there are some problems with that. So I just want to get your reflection on what you see as the challenge and what the solutions are in the future.

Mrs. COMMONS. I am not really aware of any delay in payments within the Department of the Navy. We will deploy our ERP system fully on 1 October. We will go live on 1 October. I am not aware of any delay in payments. We are making our payments on time, and we are in fact moving more toward electronic payments so that we take the hands-on out and that it becomes a more automated process.

Mr. WITTMAN. If you will take that question for the record.

Mrs. COMMONS. I will be happy to look into it for you, sir.

[The information referred to can be found in the Appendix on page 75.]

Mr. WITTMAN. Thank you. Mr. Cooper.

Mr. COOPER. I will pass to Mr. Andrews.

Mr. ANDREWS. I thank my friend for yielding and I apologize for being slightly late this morning but I am happy to be with you.

The chairman asked a question about the legislation, the Audit the Pentagon Act. And I appreciate the difference in approach that Chairman Conaway and the chairman of the subcommittee have taken on this issue because we believe that rather than pass the act, the Audit the Pentagon Act, we should act to audit the Pentagon. Introduce all the bills you want, the hard work of this is the work that you ladies and gentlemen have done and are doing, and we appreciate it. And frankly, on this committee, Mr. Conaway's laser beam-like focus on this for a number of years is really the proximate cause of this. So I wanted to get into the progress that we are making and the problems that we have found on the act of auditing the Pentagon.

The first has to do with the problem of a beginning balance. Obviously to get a clean audit letter, you need to have an accurate beginning balance. And this is a problem that you all inherited, did

not create. But obviously if we have had a history of no audits for centuries, at least decades, getting a good beginning balance is not an easy thing.

So, Mr. Hale, what steps are being taken to try to deal with this inherited problem of the beginning balance?

Secretary HALE. The problem—I am going to answer and then ask of my colleagues, perhaps Ms. Commons in particular will want to add to it. The problem is lack of our ability to document the transactions. The way we do financial management in the Department of Defense, some of these transactions in the beginning balance can go back 10 years or more. So we have, for example, 5 years to obligate money for shipbuilding and then another 5 years to actually expend the dollars, and we just don't have the records or we can't get them quickly enough. That is another problem. The auditors expect a reasonable timeliness so that they can produce their opinion in a timely manner.

And that caused problems. It caused us to decide that for this year in the Marine Corps Statement of Budgetary Resources we will focus on current resources. The plan here, frankly, would be to build up better documentation gradually as we move toward an audit effort. That will cause us to retain the documentation so that a few years from now we will have much more ready access to it and better documentation. But it will take a while before that is complete.

Mr. ANDREWS. And let me say, I think you have leaned in the right direction on this. It is very important to know where the money has been, but it is also important to know where it is. And I think by focusing on the "where it is" question before the "where it has been" question, I think you have made the right judgment. We want to get the right answers to both, but really, you know, this is not an historic review. It's meant to be a useful tool for the present and the future.

The second question I want to ask was about the problem of software that would give us access to usable data, and that is really the whole ERP issue that the Inspector General looked at as recently as 2 months ago.

Dr. Matiella, did I pronounce your name correctly? I am sorry. I want to know what lessons we have learned about GFEBS thus far. It has only been since 1 July, right?

Dr. MATIELLA. It was fully deployed on 1 July.

Mr. ANDREWS. But what did we learn in that period of time of full deployment, what is working, what isn't, what lessons should we take from that to try to make GFEBS a success?

Dr. MATIELLA. Well, it is all about change management. It is all about folks changing their practices from what isn't auditable to what is auditable. And one of the ways that you approach change management is you train and train and train. So training becomes very important.

I think one of the lessons that we learned in the very beginning of the GFEBS deployment was that we didn't train enough, and this is what you may have heard in some comments from DFAS, they need to do more training in the MILPAY [military pay] report. So certainly that was a big lesson for us, was to be very mindful

of training, help desk, online tools, providing just-in-time training, all those different things.

Mr. ANDREWS. To what extent do you think that the training provided by the vendors of the product is better or worse than the training provided in-house? I am sure there is a mix of the two. What is the quality of the training provided by the vendors of the products?

Dr. MATIELLA. It is very good. The training provided by the vendors is very good. We just need to continually reinforce it and reinforce it. And so that is where our internal staff comes in, is that when we have these super users, those are the folks who are reinforcing that good training that was given. It is just one of those—it just has to be continuous.

Mr. ANDREWS. Thank you. Mr. Chairman, I just also want to say that I have seen personally and up close that Secretary Panetta and Mr. Hale and this team have worked diligently and tirelessly on this project. I know that they are committed to overcome these obstacles and I am proud of them and commend them for it.

Mr. WITTMAN. Thank you, Mr. Andrews. We will now go to Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I walked in the room and a couple of movies occurred to me. One is the Blues Brothers where the guy said let's get the band back together, and then the one that you guys probably think about is Groundhog Day, which is over and over and over. I appreciate you being here.

Mr. ANDREWS. Let's just hope it is not the Titanic.

Mr. CONAWAY. Exactly. I stay away from some of those. I, too, want to echo Mr. Andrews' compliments to you guys. You have been very forward leaning throughout this process, particularly when Leon Panetta a year and a half ago, a year ago, I guess, said let's get this done. Unprecedented leadership from the top. And I have personally seen that percolate down through many levels of the organization. And I do hope, Mr. Hale, that we do have the momentum going such that whatever leadership changes occur, and there will be some, no matter what, as you said, that one of the things I hope we can get the Senate to focus on as well as House Members and that is that new leadership, making sure they are as committed to making this work as you and your team have demonstrated over and over and over. There is a verse in Galatians, I think, that says don't grow weary of doing good, and this could get wearisome because it is such a daunting task and has taken so long.

Ms. Commons, I watched a video yesterday, the Navy's, kind of a publicity pitch to get audit readiness done. Impressive. I hope we get more people to watch it, just go viral, but good job on that.

Ms. Thomas, one of the things that I perked up on when you were giving your testimony was you have a challenge, you and the Air Force have a challenge, and it is how do you walk that fine line between continuing to maintain legacy systems in order to get audit ready by 2014 but at the same time a longer pitch to pivot to the permanent systems that will be in place year after year after year to be able to audit it.

Can you give us some sense as to how you are going balance between being able to get ready by 2014 and your reliance on legacy

systems and not continuing to resource those things in ways where we in effect don't need long term, they are not going to be there for the long term.

Ms. THOMAS. Certainly. Thank you. Yes, up until April of this year, as you are well aware I am sure, the Air Force strategy was to be audit ready in 2017 with the full Air Force-wide implementation or deployment of DEAMS. And when we received the challenge from Secretary Panetta to accelerate the Statement of Budgetary Resources, we knew we weren't going to have DEAMS deployed Air Force-wide in order to meet that timeline. So we have gone back and we have looked at our legacy systems to determine which of those we need to do some remediation on in order to achieve the Secretary's goal of audit readiness in 2014.

We have found the systems themselves for the most part, with some small modifications, will support SBR readiness in 2014. Where we have really had to do a lot of work and we are continuing to work is on the people and the processes because the controls really in order to remediate the use of the legacy systems, the controls in many cases lie outside the systems themselves. In addition to that, there is a lot of interfaces that we have had to closely monitor, document and implement tighter process controls on.

So through a combination of those efforts and training of people, that is another, as we have learned as we have done funds distribution to base, sometimes it is an issue of just understanding what it is we are trying to do and obtain. And we have done a number of things where we have pulled funds managers in and conducted training courses, showed them this is a good audit product, this is a deficient one, and they are carrying that information back to their bases and installations and training the trainer.

So through a combination of training, process controls, some system remediation on the legacy, in addition we are continuing our forward progress on DEAMS because we really need DEAMS to achieve full audit readiness in 2017 in a way that is sustainable.

Mr. CONAWAY. Ms. McGrath or Bob, you put in place about this time last year the senior executive staff requirements that they meet certain criteria for the personnel evaluations as well as some commanders. When will those evaluations begin to happen and when will you be able to report to us, not on a person-by-person basis, but certainly where folks have exceeded expectations and/or not made progress that was set up for them and the impact of that success or failure has on their advancement and/or compensation?

Secretary HALE. Why don't I start and then I will ask if any of my other colleagues want to add.

We have performance goals in the SES plans we believe now across the Department for those members of the Senior Executive Service that are relevant, that have audit involvement. I will say it is not the primary goal. If you are a logistician then the primary goal is still logistics, but it is a part of the subsidiary goals. And the performance evaluation process is starting right now and within a few months we will have that. How much we are going to be able to say with all the privacy rules, I am not sure.

Mr. CONAWAY. I understand that.

Secretary HALE. I understand you know that. But we are watching it too and would like to tie this as closely as we can to assess-

ments and bonuses so that there is some tangible rewards for success and some stigma, if that is the right word, or some change in behavior if we are not making success.

I think we have got people's attention. I am a little less confident but beginning to believe that they know what they have got to do around the Department. So I think it is a major step forward. But I am humble about all the changes that we have got to pull off over the next couple years; hence the reasonably confident, moderate risk, you have heard various words up here. And like I said, Mr. Chairman, we have over-promised and under-delivered for a long time. I don't want to be part of that. I want to tell it as best we can and try to meet these goals.

Ms. MCGRATH. I would just add that the performance period, the rating period ends at the end of this month for the year for the Senior Executive Service and then the evaluation process starts. So as Mr. Hale indicated, it is probably a month and a half or so before that is all finalized.

Secretary HALE. If time permits, Mr. Chairman.

Mrs. COMMONS. If I may, 250 of our 303 senior executive leaders have an audit readiness objective in their performance plan. With the cooperation that I am getting, I believe that they are performing and that they will continue to perform. I think we all see the benefit of audit readiness, not just to produce a financial statement, but to improve our business processes across the board. So I am getting very good cooperation within the Department of the Navy and I think those senior executives, the fact that we have that audit readiness objective in their plan, that they are taking it seriously.

Mr. CONAWAY. Thank you.

Mr. WITTMAN. Thank you, Mr. Conaway.

Mr. CRITZ.

Mr. CRITZ. Thank you, Mr. Chairman.

Ms. McGrath, I think I misheard and I just want to clarify, you talked about the retirement of legacy systems. Did you say 200 or 2,000 in 2011?

Ms. MCGRATH. I said 120 for 2011 and approaching 200 for 2012 and about 150 in 2013.

Mr. CRITZ. I must have zoned out at that point. So these legacy systems, and I would like to ask this to the service representatives as well, part of the move to auditability was the implementation of the Enterprise Resource Plan, ERP, and I know there is delays in that, although Secretary Hale mentioned that you feel very confident that you are going to meet goals in the timeframe allotted. So I am trying to figure out, are we going to have a mix of systems and how does that play out going forward?

Ms. MCGRATH. I will certainly start and then ask the service representatives to add additional details. I think that is exactly right. There is a mix of IT solutions and capabilities that will enable the audit readiness to happen I believe in both 2014 and 2017. Some of the strategies include ERPs as the centerpiece. Of the Army, for example, it is very much an ERP-based strategy for their entire business environment. So they are using that as their lead. It is not the same in the Department of the Navy or Marine Corps, and then I think with the Air Force we have heard with their schedule

delays to date they are assessing both how they get to 2014 and then what 2017 looks like.

But at the end of the day it is a combination of the entire business capabilities, be it the new or the—I will call it the legacy, but some of the legacy is still pretty good IT capability. And the importance that you have heard is not just the system piece, it is understanding how you do what you do and the execution of your business process and how does the IT enable that to happen. So ITS [information technology services] is extremely important, but if you don't know how you do what you do, the process piece, the IT, is not nearly as important nor is it relevant. So really getting at that process piece and the data flow is extremely important and all of the military departments are focused on that as they implement whatever their IT solutions are.

Mr. CRITZ. Would your analysis be that most of the legacy systems were populated through the different branches or was it more focused at the Pentagon and in sort of the overall management of it?

Ms. MCGRATH. Definitely the former. And it wasn't even necessarily at the military department head of the department level, it was very much a bottoms-up, met a local need, I had a function I needed to perform at my base/installation and I did what I needed to do to execute my piece.

I think the difference today and I have seen in the last few years is that we really are taking an enterprise perspective and sort of lifting up, if you will, and looking across the organization, not only at the military department level but also at the DOD enterprise to say, well, what do I have and how is it helping or not? And it really achieves again the business outcomes that we want today. We are talking about audit readiness.

Mr. CRITZ. Secretary Hale, moving on, I had a question earlier and I understand that obviously we need to drive to this auditability so that it will help us plan and help us work with you in future planning. But I also have a concern of as we drive to these reports, the separation of items that have to remain at the secret and top secret level and how these reports will impact sort of the cross-pollination, I guess you could say, or will we have to be that much more cautious when it comes to making sure that the data can't be mined to determine some of that secret information.

Secretary HALE. This is a man bites dog problem. We are finally getting better systems, we are getting visibility of our data, but that is a problem, and we are actively looking at it, and I want to be careful what I say here. But we are very conscious of this problem and are actively looking for ways to solve it. It may mean that we have to have separate systems that are classified, although that will proliferate systems to some extent. There may be other approaches. I am being a little vague.

Mr. CRITZ. No, it is just a concern because obviously the more data available—

Secretary HALE. I don't want to tell people I don't want to help. But it is an issue and one we are addressing.

Mr. CRITZ. Thank you, Mr. Chairman.

Mr. WITMAN. Thank you, Mr. Critz.

Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman, and thank you all for being here today and thank you for your service to our country. Maybe I will start with Mr. Hale.

It would seem to me that every branch of service is allowed to do its own contracting in terms of computer systems and it seems to me that we have all these disparate systems. Now, I understand that you are trying to consolidate now. But are we moving to a single system when it comes to financial management?

Secretary HALE. Well, if you mean a single system throughout the Department of Defense, the answer is no. The departments have different business practices and I believe it would be a bridge too far to try to get them on one single system, and it would frighten me a bit because it would be so large and size is itself sometimes a problem in terms of implementation. We are trying to move to many fewer systems. There probably won't be just one per department, there won't be, throughout financial management. But as Ms. McGrath said, we are trying to retire a lot of these legacy systems and greatly reduce the numbers.

Beth, do you want to add to that?

Ms. MCGRATH. I would add to what Mr. Hale said, we are taking a standards-based approach, so you have heard I believe mentioned the standard financial information structure, so instead of mandating a single solution, IT solution, we are mandating the implementation of standards in each one of those solutions so that at the end of the day you can aggregate the data. And so it is sort of both a standards process base and then the implementation of standards.

Mr. COFFMAN. Where are we in that process again?

Ms. MCGRATH. With regard to the standard financial information structure, which is the main financial standard, all of the ERPs, the ones the military departments—actually all of them—have implemented what we call the SFIS, the Standard Financial Information Structure, and we did validation for each of the ERPs on their implementation. I believe Ms. Matiella mentioned 90-some percent in terms of compliance. Each one of these is I am going to say compliant with the standards. And it is not only the financial system, because the logistics and other systems feed the financial systems. So we really are doing a full audit of all of the ERP solutions in their implementation of the standard. We completed that I think in the last couple of months.

Mr. COFFMAN. Are we aware of in terms of looking at major commands, it was mentioned that some of them are auditable and obviously the majority of them probably right now are not. Is there a list in DOD of those major commands or programs that are auditable?

Secretary HALE. Yes. It is not commands. We have a couple of agencies that are auditable; Defense Finance and Accounting Service, Defense Contract Audit Agency, Defense Commissary Agency all have auditable statements. The Defense Information Services Agencies, DISA, has achieved partially auditable statements. Within the services, it is pieces so far that are auditable. The one that is furthest along is the Marine Corps, not auditable yet, but we hope close.

But as you have heard all of my colleagues say, the strategy we have taken is to try to bite off pieces of this and get independent public accountants, auditors involved, because we learn so much from them. They know how to do it. We don't. So as we bring them in, we often learn a great deal. We have certainly learned a lot from the Marine Corps and I think we have in the other audits that have been done. So pieces of each service have been done.

Do you want to add to that?

Dr. MATIELLA. I would like to add that the Corps of Engineers has been auditable for a few years now and we are using their audit approach and their audit lessons learned to guide us. So they are a huge success.

Mr. COFFMAN. Thank you, Mr. Chairman. I yield back.

Mr. WITTMAN. Thank you, Mr. Coffman.

Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman, for giving us a little further opportunity to explore this. I also want to ask about the personnel training in a bit more detail. One thing that our work together has really taught us is that we can have really well thought out software systems and we can clean up some of the other problems, but if the people are not properly trained to use the systems, it doesn't work.

What would each of you identify as our principal problem right now in the personnel training area, what is our biggest deficiency or flaw, and what do you think we need to do to fix it. What would be the number one problem you would point to?

Secretary HALE. Well, I will start, and then again this is an organize, train and equip issue, so I would ask my colleagues, those that want to, to comment.

We don't right now have a framework in the defense financial community that allows us to require training across the board. We have a lot of courses and I think our training is generally pretty good, but it is not—as I say, there is not a framework. And one of the things we can't do easily is ensure that everybody gets appropriate training, say, an audit appropriate to their needs. Everybody doesn't need to be a CPA. They can't and never will be and shouldn't be. But everybody probably should have some familiarity with the importance of this and their general role.

Mr. ANDREWS. Is that a collective bargaining issue, or why can't we have it?

Secretary HALE. Well, it is influenced by it. We started this course-based certification program. We are really copying essentially what the acquisition community did a number of years ago. You gave us legal authority to do it a couple of years back. We are actually just beginning pilot programs now. What it will do is establish a framework. We will set levels for each position, and depending on the level they will need to complete certain courses and other requirements in order to be certified at that level. And one of the things we will do is create an FM-101 course that we hope essentially everybody coming into our community will be required to take, and part of that will have an audit module. So that will move toward everybody understanding why this is important and the general requirements of audit, which for many people will be

all they need to know, and then there will be more advanced requirements for varying groups.

So we have done some special training for the financial improvement and audit readiness. We have hired a contractor, so we call it FIAR-101 training that is focused on audit.

Let me ask Marilyn, would you like to start?

Ms. THOMAS. Sure. Thank you.

Well, one specific example I can provide in an area that we have learned a considerable amount here recently is with the implementation of DEAMS. One of the things that the operational assessment pointed out was that we had some issues with change management, particularly in the area of training. And as we peeled the onion back to find out what the core issue was, we talked to the workforce that was using the system. And the key thing they provided us feedback on was you taught us how to use the software, you taught us about the software; you didn't teach us how to do our job with the new system.

So in response what we have done is we have developed training manuals for each of the respective jobs, each of the desks, and they have that training manual on their desk. Additionally, our plan going forward is we are actually going to forward deploy people who have implemented the system before on location to help the people when they receive the new software learn how to use it along with those training manuals.

So I think sometimes our challenge is we are introducing something new and we think because we have been in the development process of that and the oversight process, that the people who receive it are going to understand it the way we do.

Mr. ANDREWS. This is the cultural change that many of you mentioned in your testimony, part of it, right?

Ms. THOMAS. Yes, sir, exactly.

Mr. ANDREWS. Any other takers?

Mrs. COMMONS. I would like to comment. We have done several things to make sure that our workforce, that they are trained in audit readiness. And certainly I would like to thank the FIAR team who came over and actually did several training sessions for our nonfinancial managers to train them on what it meant to be audit ready.

Mr. ANDREWS. It does strike me that one hurdle we have got to get over, it is not just the financial and accounting people have to be audit ready, it is all operational people. If they don't understand why they are collecting these documents, it doesn't work. It is not a financial practice.

Mrs. COMMONS. Absolutely. And we have what we call regular office hours where we have people who can call in and we can have discussions about the things that we need to do in audit readiness. And I would like to say we have some very enterprising, energetic people who are working for us. What we have found is that they like to establish ways that they can get the job done quicker. However, they do not realize the impact that it is having on the overall organization when they invent their own methodology and practices.

So what we have done is we have a major effort to standardize our processes and to publish those standards so that everyone

knows what they need to do in their part of the process. It has been very beneficial. We have had lots and lots of discussions. So it is not something that is new to them. It is not something that we are pushing to them. They have been engaged in the process throughout, so they themselves had a part in determining what that standard process would be.

Mr. ANDREWS. Thank you very much. Thank you, Mr. Chairman.

Mr. WITTMAN. Thank you, Mr. Andrews.

Mr. Conaway.

Mr. CONAWAY. Just one follow-up thing that is going to be patently unfair, but that is what Members of Congress get to do.

We have got to convey to our constituents and others a sense of how far you have come versus how far you have to go. And I don't know if you want to put it on a percentage basis or what, Bob, and each of the folks, with respect to the SBR. We could go global and say 2017, but that is meaningless at this point. But with respect to the auditing the Statement of Budgetary Resources, being audit ready for that, can you give the committee and our constituents a sense, and maybe percentages that—anyway, but we got to have something to take away from this morning that says we are halfway there, we are two-thirds there, something that we can in a short 30 seconds talk to folks who just want the answer. They don't want how to build a watch, they just want to know what time it is, and that clock doesn't work up there.

Secretary HALE. Can I get away with a football analogy?

Mr. CONAWAY. Sure.

Secretary HALE. So, look, I will regret this, but I think we are in midfield, but I also think we just got Robert Griffin III and he is looking good and that we have some momentum on our side. I would invite my colleagues—we didn't practice this answer—I would invite my colleagues to question this. I think we are kind of crudely halfway there, but we have the ball and we are on the offense would be the analogy I would offer you.

Mr. CONAWAY. Can I get just each of you just down the line? Ms. Commons, what do you think down the line? What do you think for the Navy?

Mrs. COMMONS. Well, in terms of dollar value, and I will use that as the metric, I think we are probably about 30 percent there relative to the dollar value. Our big areas of contract vendor pay and military personnel pay, we are still working. Those are big areas for us. So I think we are about 30 percent there. But I am encouraged by the momentum that I am seeing in the Department of the Navy. We are working those issues constantly to make sure. I am reasonably optimistic by the end of 2013 that the Navy will be audit ready for its Statement of Budgetary Resources.

Mr. CONAWAY. Ms. Matiella.

Dr. MATIELLA. To get audit ready, we chunked it. We are going through three exams. The first exam, we have already finished it and that we got a qualified opinion on the first exam. The second exam is underway. And then the third exam starts next year. So I believe that, again, the same thing, we are about midfield in terms of getting us ready to be auditable.

I did want to say though as far as implementing our ERP, we are 80 percent there. Eighty percent of our current funds are in our

new system. The only part that is not in the new system to a large extent is sensitive activities, and that is why we are waiting for that authorization to be able to start working on sensitive activities versions.

But we are almost there in terms of fully deployed. Only sensitive activities is not done. But we are making a lot of progress in terms of looking at ourselves.

Mr. CONAWAY. Ms. Thomas.

Ms. THOMAS. The Air Force Statement of Budgetary Resources in our approach is divided into about, well, 15 units, accessible units. Of that we have completed audit assertion on five. But we have several others that are in progress, one which is very close, we expect to assert this fall. So I think midfield is probably a pretty fair assessment of where we are.

Mr. CONAWAY. All right. Anything else on that?

Secretary HALE. No.

Mr. CONAWAY. Again—

Secretary HALE. One more thing. The defense agencies, they are almost 20 percent of our budget, and, frankly, we hadn't paid as much attention to them as we should have. A few of them have auditable statements already. But under the guidance of my Deputy Chief Financial Officer back here, Mark Easton, who I might add has done many helpful things, a great deal of attention to this, we are now kind of acting as their belly button, if you will, to try to get all of them to move toward audit readiness. Many of them are a lot smaller, they are all smaller than the services for sure, and so have easier problems, but there are a lot of them. And so I think we are making progress there. We may not quite be to midfield with them, but we are getting there.

Mr. CONAWAY. Offline you will have to explain to me what being their belly button means. I am not sure I got that one. But please convey to the hundreds and hundreds of people sitting behind you and throughout this whole system that is having to do the heavy lift every single day to make this happen, our heartfelt thanks for not only what they have done to this point, but all that hard work yet to get ahead to get to that red zone and then score by getting this thing done.

I for one know how hard it is, how difficult it is, what the scope is. It is stunning once you begin to look at it. So at least for me, thank you so very much for what you have done already and I am looking forward to the success of getting this thing done. Thank you very much.

Mr. ANDREWS. Mr. Chairman, if I might, I would like to associate myself with Mr. Conaway's remarks and say the same thing. I do want to raise one objection on the record. The Washington Redskins reference I found offensive.

Secretary HALE. I stand by my remarks.

Mr. ANDREWS. As a devoted Philadelphia Eagles fan, I just want to let the record show my objection to that reference.

Mr. WITTMAN. Well, I was expecting the gentleman from Texas to maybe object to that, too.

Mr. CONAWAY. I don't have a dog in that fight.

Mr. WITTMAN. Are there any other questions for the panel members before we conclude?

Hearing none, I do have two specific questions, Secretary Hale, I would like for you to address for us, and you don't have to do it here, if you could do it for the record. One is that, and you can let me know this and provide this to the committee if this is where things are going.

The IG evaluation or the challenges pointed out there, is there a plan to have a formal response to the IG findings to go back, and, if so, it would be nice for the committee to have that so we can get that to our members.

Secondly, as you go through this process, and we all have heard from each of the branches here and yourself of the many challenges that are out there, and what we would like from each of you are any suggestions that might be appropriate in authorization language next year that would help you in achieving the path that you are on to meet your 2014 and 2017 milestones. So we would like to have specifics there, and then again with the response to the IG report for us to get a copy of that.

Secretary HALE. We will do it.

[The information referred to can be found in the Appendix on page 75.]

Mr. WITTMAN. Thank you, Mr. Hale. If there is nothing else to come before the committee for this hearing, we will adjourn.

[Whereupon, at 10:15 a.m., the subcommittee was adjourned.]

A P P E N D I X

SEPTEMBER 14, 2012

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 14, 2012

Hearing: "Department of Defense Auditability Challenges"
September 14, 2012
Chairman Wittman -- Opening Statement

Welcome to today's hearing on challenges facing the Department of Defense as it works toward audit readiness in 2014 and 2017. I'd like to welcome our distinguished panelists:

- **Mr. Robert Hale, Under Secretary of Defense, Comptroller
U.S. Department of Defense;**
- **Ms. Elizabeth McGrath
Deputy Chief Management Officer
U.S. Department of Defense;**
- **The Hon. Gladys Commons
Assistant Secretary of the Navy
Financial Management and Comptroller
U.S. Department of the Navy;**
- **Dr. Mary Sally Matiella
Assistant Secretary of the Army
Financial Management and Comptroller
U.S. Department of the Army; and**
- **Ms. Marilyn Thomas
Deputy Assistant Secretary for Financial Management and
Comptroller
U.S. Department of the Air Force.**

Thank you very much for being here today. Collectively, you share responsibility for managing nearly 700 billion dollars of net operating costs and accounting for nearly 2 trillion dollars in assets. These are weighty responsibilities, particularly when you consider the importance of your mission to our nation's national security and our warfighters. I want to thank you for your service and for the commitment you have demonstrated on this issue. Achieving audit readiness,

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when considered against this backdrop, is both complex and challenging and it's clear to me that you are making tangible progress forward.

This hearing is meant as a follow-up to the "Defense Financial Management and Auditability Reform Panel" which was appointed by Chairman "Buck" McKeon and Ranking Member Adam Smith in July 2011 to carry out a comprehensive review of the Department's financial management system. The purpose of the review was to oversee DOD's financial management system and its capacity for providing timely, reliable, and useful information needed for making accurate decision-making and reporting.

I would like to thank Mr. Conaway, who served as Chairman of the Panel, and Mr. Andrews, who served as Ranking Member. Because of your diligent efforts and outstanding leadership, we now have a much better understanding of the issues surrounding audit readiness and the path that lies ahead.

Audit readiness is important for many reasons, but for me it's most important because of what it means for our national defense strategy. Put simply, every dollar we corral for our defense budget matters, especially because of impending cuts and fiscal constraints. The budget shapes not only our discussions on force size, structure, and capability, but ultimately determines whether our warfighters have the tools and equipment they need to do their jobs. This is the prism through which I view discussions about audit readiness and why I'm pleased to be having this discussion.

Before we get started with questions, I have a quick administrative matter to address. I anticipate a number of members from other subcommittees will join us, and I'd like to ask for unanimous consent that they be allowed to participate.

Absent objection, it is so ordered. I'll recognize these members at the appropriate times for five minutes after all O&I subcommittee members have had an opportunity to question the witnesses.

Now I'll turn things over to the distinguished Ranking Member of the Subcommittee, Mr. Jim Cooper. Would you like to make a statement?

Statement of

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

and

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

before the

House Armed Services Committee

Subcommittee on
Oversight and Investigations

September 14, 2012

Embargoed until released
by the House Armed Services Committee

Mr. Chairman, Congressman Cooper, Members of the Subcommittee, thank you for the opportunity to discuss the challenges we face in achieving audit readiness at the Department of Defense (DoD). We'll focus on areas where we seek improvements in our financial processes; these areas also capture the challenges we face.

We agree that audit readiness matters. In the first place, it is a matter of law, beginning with the CFO Act of 1990 and followed by the Government Management and Reform Act of 1994 that established the specific requirement to prepare and have financial statements audited.

But also, we need to make the most of the taxpayer resources that are provided to us for purposes of national defense. That is especially important in time of fiscal stress and declining budgets. Financial accountability is also essential if we hope to maintain the public's trust in our stewardship of taxpayer dollars.

While DoD's financial statements are not auditable, I want to assure you that we are spending the dollars that you have provided us for the purpose intended. With rare exceptions, we pay our people and our contractors accurately and on time, and we regularly record obligations accurately. If we did not, we would experience serious mission problems, and you would hear about it. Neither is occurring.

Nonetheless, we currently lack the ability to consistently provide auditable documentation and to demonstrate reliable and well-controlled business processes. These capabilities are required to pass a financial audit. We know this. Part of the challenge lies with DoD's unique size and mission. Moreover, until fairly recently, there has been neither sustained attention nor a plan that is widely supported within DoD. Today we have both and are moving forward.

FIAR Plan Shows the Way Ahead

In May, we released our semi-annual Financial Improvement and Audit Readiness (FIAR) Status Report, including details on how we will meet our objectives. This was the first full status report detailing our plans for realizing Secretary Panetta's accelerated goal of achieving audit readiness for the Statement of Budgetary Resources (SBR) for General Funds by 2014, and for all financial statements by September 30, 2017.

The report reflects the fact that Army and Air Force audit readiness target dates for the SBR were moved up -- to 2014, from 2015 and 2017 respectively. The Navy's audit readiness target date remains in compliance with the Secretary's accelerated goal

and allows for implementation of efforts to capitalize on lessons learned from the Marine Corps' SBR audit experience.

For the first time the FIAR report also highlights the activities of Defense Agencies and the role played by service providers in achieving audit readiness. These include the Defense Finance and Accounting Service, which provides accounting services to the Components, and the Defense Logistics Agency, which manages many of the Department's enterprise-wide systems. The services they provide influence the auditability of the amounts reported on Component financial statements, and their audit readiness efforts are becoming more integrated in the Component efforts.

The defense agencies and other organizations are making progress. Four of our Defense organizations are under audit and receiving clean opinions already, and three more will assert audit readiness during the upcoming fiscal year. "Appropriations Received", the initial audit element for the SBR, will undergo an examination or "mock audit" beginning in a few weeks. As I will refer to later in my statement, these examinations under audit conditions provide us with invaluable experience in evaluating both our current business and our progress.

Leadership Making a Difference

In this Department-wide effort, Secretary Panetta's leadership and personal commitment to auditability have been invaluable, beginning with his directive last October to accelerate the drive to audit readiness. What's more, his involvement did not end there. The Secretary has reviewed the Department's accelerated plans with Service leaders. In May, he summarized his guidance in a videotaped message to the Department. And he directed Deputy Secretary Carter, in his role as Chief Management Officer (CMO), to conduct periodic reviews to ensure that our audit readiness goal is achieved in FY 2014.

The Deputy does this in Defense Management Action Group (DMAG) meetings, where the Military Department CMOs are present along with other military and defense leaders. At the meetings, the CMOs commit to, and are held accountable for accomplishing, specific FIAR near-term goals and milestones. The next DMAG on audit is scheduled for later this month.

We are also working to involve our civilian and military managers. In May, we joined Dr. Carter hosting an SES Town Hall meeting on audit readiness. We called on these civilian executives to pass the word that audit readiness is an all-hands effort.

On the military side, the Service Secretaries and Chiefs of Staff of the Armed Services have committed themselves to specific goals for achieving auditable financial statements. Senior leadership is deliberately reaching out to express the importance of taking action and making progress:

- General Raymond Odierno, Chief of Staff of the Army, issued an audit readiness message to all General Officers in April, stating, “I will routinely review the [FIAR] plan’s key milestones and readiness review results to ensure we remain on track. We must make every dollar count and be accountable to ourselves, the Congress, and the American people.”
- General Gary North, Commander of Pacific Air Forces (PACAF), got the word out 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.”
- Vice Admiral Dave Architzel, former Commander of the Naval Air Systems Command, included a specific reference in his “Commander’s Intent,” referring to 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.”
- General Robert Cone, Commander of the U.S. Army Training and Doctrine Command (TRADOC), put it this way in a memo to his command: “Achieving audit readiness is not optional and is the direct responsibility of every commander, leader and program manager throughout TRADOC.”

To capitalize on this leadership commitment, and to measure our progress, we have established interim goals for each FIAR objective. The FIAR Governance Board, which we jointly chair, monitors the plans of each Military Department, the Defense Agencies, and the other Defense organizations. Through this group, appropriate political appointees and senior executives serving at OSD and in the Components are held accountable for achieving FIAR goals. These goals have been incorporated in Senior Executive performance plans. Leadership is taking action and is confident that we will meet the Secretary’s accelerated goals.

DoD is Maturing its Business Environment

One of the focus areas for our leadership is efforts to improve and mature our business environment. Over the past year, the Department has taken a number of steps to improve its overarching business environment. These steps include advancements in Business Enterprise Architecture, business process reengineering, strategic planning and performance management, acquisition oversight, and investment management. Our forward progress has been greatly enabled by the tools provided to us by the Armed Services Committees, particularly in regard to the management of our defense business systems, which provide key support to our audit efforts.

Specifically, and most recently, Section 901 of the Fiscal Year 2012 National Defense Authorization Act (NDAA), will significantly advance our efforts to create a rationalized, interoperable DoD business systems environment by reviewing the planning, design, acquisition, development, deployment, operation, maintenance, 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. To do this effectively, the Department has created a single Investment Review Board (IRB) chaired by the DCMO. This single, cross-functional board provides significantly greater visibility of the IT investments planned for the Business Mission Area and will better integrate end-to-end and functional business strategies with investment decisions. This greater understanding of our business systems environment will significantly aid our audit efforts. This forum will help make better investment decisions, ask the right questions when it comes to things like duplicative systems and the number of interfaces, and reinforce the relationship of this business environment to the audit.

Additionally, with the new IRB reviewing all defense business system investments, rather than just development or modernization, it will allow us to more readily retire legacy systems that are no longer needed when we make targeted investments in IT systems. We also want to ensure that we are optimizing the capabilities inherent in the modern IT solutions, taking full advantage of the robust internal controls and data integrity. While we were pleased with the Department's FY 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.

Additionally, many of the Department's major Enterprise Resource Planning (ERP) acquisition programs have delivered important capability to DoD users, enabling

improved business outcomes. For example, the Army's Logistics Modernization Program (LMP) Increment One has retired more than 40 legacy inventory and asset systems, significantly reduced the time it takes Army maintenance planners to schedule maintenance, from 2-3 weeks to 2-3 hours, and reduced the time it takes the Army Materiel Command to complete its year end close, from 4-5 days to 8-12 hours. As an additional example, the Air Force's Defense Enterprise Accounting and Management System (DEAMS) technology demonstration currently fielded at Scott Air Force Base and Defense Finance and Accounting Service Limestone, Maine has improved financial management operations by reducing late interest payments within the U.S. Transportation Command from approximately \$161 per \$1 million to approximately \$7 per \$1 million. Finally, the Global Combat Support System – Marine Corps (GCSS-MC) Release 1.1 is now fielded to 85 percent of the Marine Corps and has generated business benefits such as: "Time to First Status" has been reduced from over 36 hours to an average of 10 hours; "Order Ship Time" has been reduced 26 percent; "Repair Cycle Time" has been reduced 43 percent; and "Logistics Response Time" has been reduced 40 percent.

DoD's modernized systems environment, including each of the Department's ERPs, provides the opportunity for improvements in financial management and 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 increased 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.

Signs of Progress Are Visible

With senior leadership clearly highlighting the priority and need, and a more capable business environment emerging, the Department of Defense has made significant progress towards auditable financial statements. Our strategy focuses the Department's efforts first on the financial information we use most to manage. As we have discussed with the House Armed Services Committee on several occasions, the priorities are budgetary information and the existence and completeness (E&C) of mission critical asset records. DoD Components are committed to meeting interim and long-term milestones, and we have seen significant accomplishments over the last year.

Perhaps our most noteworthy effort is the audit of the U.S. Marine Corps SBR. While they have yet to achieve an opinion for the statement, the audit effort continues to uncover and resolve process and systems issues that are applicable to all DoD

Components. We believe the USMC will achieve their goal of an audit opinion on FY12 budgetary activity by this December for its current resources.

Most of our SBR audit readiness efforts are focused on improving the documentation and controls within major business process cycles. Recent achievements have included the following:

- **An unqualified opinion on the audit readiness of the budgetary information for the Navy's E2-D aircraft – a major defense acquisition program.** This achievement shows that the underlying data and controls exist to a large degree in the Navy's major acquisition process.
- **Unqualified opinions on the E&C audit readiness of the vast majority of Navy and Air Force Military Equipment.** This proves that we have control over some of the most expensive and important assets in the Department.
- **Unqualified Opinion on Air Force Reconciliation of Funds Balance with Treasury.** In partnership with DFAS, Air Force becomes the second military service that has demonstrated that they can balance their checkbook, serving as a model for others.
- **Audit opinions on the controls of two key processes supported by our major internal service providers – DFAS and DISA.** Business processes in DoD always involve shared service providers who furnish common services to the Military Departments and other Components. These audits paved the way to develop the coordination of the audit effort and also demonstrate that in key areas the Department has controls in place that already support auditable financial statements.

These achievements are important in and of themselves. They demonstrate that we have moved beyond planning to actually assess and improve processes, and we have done so to such a degree that independent auditors agree on our audit readiness. The Department has commitments to build on these successes and to demonstrate substantial audit readiness progress over the coming months. Examples of audit readiness validations presently underway include:

- **10 Army sites that were among the early adopters of their General Funds Enterprise Business System.** The Army approach is to move installation-by-installation to test the audit readiness of nine business processes at the same time, providing feedback to the Army of the extent of progress on most material business processes.

- **Navy Civilian Pay and Transportation of People.** Validating these significant spending streams will prove that Navy now understands audit requirements and can focus on applying their knowledge and experience to other business areas.
- **Defense Agencies funds receipt and distribution processes.** Coming on the heels of clean audit readiness opinions for the Military Departments' funds receipt and distribution processes, this validation will prove for the first time that a business process across the entire Department is audit-ready.

We also see progress in resolving the cultural impediments to audit readiness in the Department, including the erroneous perception that audit readiness is the sole responsibility of the Comptroller community. Secretary Panetta's insistence that audit readiness is an "all hands" effort has engaged leadership at all levels and has helped to create awareness in non-financial communities.

We are seizing this golden opportunity. Efforts are underway to check that the information needed by an auditor is readily accessible at the command level, and we have stepped up our effort to get the word out through more targeted communications, including a monthly Defense Audit Readiness Newsletter. We are reaching out to commanders and managers throughout the Department to help them understand how audit readiness will help to ensure more-informed decisions on resource expenditures and requests.

Another important DoD-wide development is the progress we have made in instituting a course-based certification program for Defense financial management professionals. This program will provide a vehicle for audit training as well as other financial training. We announced our plans last year, having in mind a certification system 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 are introducing pilot versions of the program for several Components this year, with large-scale implementation planned to begin in 2013.

Challenges to Audit Readiness ... and Our Responses

Progress is visible on a variety of fronts that provides us with confidence that the challenges that still confront us can be overcome. These challenges, and our responses include:

Driving culture of audit into the organization. The sheer size of DoD exacerbates the challenge of translating changes into day-to-day routine. Using the existing “chain of command” is critical. For example, we have provided our commanders with an Audit Readiness Checklist which provides Defense managers with a tool like the operational readiness checklists employed by military commanders. It provides leaders with a definitive list of questions to help ensure that organizations have the records needed for sound resource decisions and success 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. Our culture values mission readiness. We need a similar view of business readiness—one that highlights efficiency and resource stewardship in every field organization.

Building the skills and experience of our people. We know how we do business now, but we have little experience in presenting it for financial audit. For this reason, we also have made significant progress in training both financial and non-financial managers on the requirements of audit readiness. We are reinforcing these lessons through a partnership with private sector auditors who are experienced in financial audits. As mentioned earlier, we are using examination engagements that are an integral part of our audit readiness methodology to familiarize DoD personnel with the requirements for audits. 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. Since we began this program in FY 2011, nearly 1,900 DoD personnel have received this training. Additional professional development courses have been added since, including “FIAR 100” which focuses on training DoD senior leaders 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.

Providing adequate resources. Over the next few years the Department plans to spend \$300 million to \$400 million per year on improving business operations and achieving auditable financial statements. In a time of tight budgets, this commitment is a measure of our seriousness.

Implementing modern, compliant IT systems. Today, DoD is implementing multiple business systems 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. These challenges have led to cost and schedule overruns of varying degrees and include issues such as insufficient business process reengineering being conducted early and upfront in their lifecycles, data quality/cleansing, and changing scope and requirements. While some of these programs continue to experience challenges, the Department has taken, and continues to take, steps to put itself on a path to success. Specifically, over the past two years the Department has implemented a number of important improvements, incorporating lessons learned, to its overall defense business systems acquisition process, its individual ERP system programs, and its overarching business processes. As previously discussed, these improvements are generating results and capability is being delivered to DoD users. Additionally, we believe that improvements will accelerate as the result of the recent changes to the IRB process, allowing us to more readily retire legacy systems. While the Department recognizes additional opportunities for improvement, these ERP programs remain a vital part of the Department's long-term efforts to improve its business systems environment and overall operations. This will allow us to develop a sustainable business environment that can be cost-effectively audited. That said, it is also important to recognize that the Department is planning to achieve the 2014 audit goal with a combination of both target and legacy systems.

Implementing comprehensive and meaningful controls. While critically important, improved financial systems will not by themselves eliminate our weaknesses or guarantee auditable statements. Achieving auditability also requires consistent process controls that cross organizations and functional areas. Business and financial information that is passed from system to system must be subject to adequate controls. This environment ensures that only authorized personnel are using the system and that these systems protect the data quality and maintain an acceptable audit trail within the end-to-end business process. This process must be controlled at the transaction level, all the way from the source to the general ledger postings and to accurate trial balances and reliable period closeouts. Only by completing these steps can we prepare financial statements that an auditor can review and verify without the need for audit sample sizes that are unaffordable. Many elements of our current business environment must be changed to allow us to meet these kinds of routine financial audit standards. This includes more work in improving our financial reporting controls. Sound internal controls over financial reporting are the foundation of audit success, but we have sometimes found that ours are inadequately documented and inconsistently executed.

The primary improvement we have already made in this area is to enlist more help from the Service audit agencies. They have the personnel qualified to assess internal controls and to make sound recommendations for corrective actions. Each Service has developed a strategy and is applying significant personnel resources that will focus solely on evaluating controls at the operational level. Solutions are recommended for issues identified, with follow-up to ensure rapid implementation of those solutions.

Sustained Momentum During Leadership Transition. The final challenge, one that was highlighted by your Panel on Financial Improvement, is that of maintaining momentum during periods of leadership transition. These transitions tend to occur regardless of the outcome of Presidential elections. Civilian SES leaders will help during transitions and are being held accountable through inclusion of FIAR goals in performance plans and organization strategic plans. We also have a strong governance structure that provides direction to Components and reviews status to ensure goals are being met. Congressional attention is another effective means to keep FIAR a priority despite leadership changes.

Conclusion

In sum, we are providing personnel, training, tools, and support to achieve auditable financial statements. There are significant challenges, but they are not insurmountable. We are making meaningful progress. We see substantive challenges in effecting some major changes within a very compressed timeframe.

That said, there is a lot to do, and very little time available. We plan to use this as an opportunity to encourage both concurrency in our efforts along with efficiency and focus. We must leverage what we are already doing and doing well, making those near-term adjustments in processes and controls that are both cost-effective and sustainable.

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 Congress. Your Financial Improvement Panel was an unprecedented investment that represented your genuine interest in understanding our challenges and providing meaningful recommendations. We anticipate continued Congressional oversight and will use it to help ensure that audit readiness remains a high priority.

There is one additional way that Congress can help. In recent years we have encountered unprecedented budgetary uncertainty, including no fewer than four threats of government shutdown, 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.

We close by reiterating our commitment to the financial management goals of the Department of Defense, including – and especially – auditability. We owe it to you. We owe it to the troops. And we owe it to the American taxpayers.



Robert F. Hale

**Under Secretary of Defense (Comptroller) and Chief
Financial Officer**



As Under Secretary of Defense (Comptroller), Robert F. Hale is the principal advisor to Secretary of Defense Leon E. Panetta on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget of more than \$600 billion. As Chief Financial Officer, Mr. Hale also oversees the Department's financial policy, financial management systems, and business modernization efforts.

At the time of his nomination by President Barack Obama in January 2009, Robert Hale was Executive Director of the American Society of Military Comptrollers (ASMC), the professional association of Defense financial managers. For three-and-a-half years, he led the society's certification program (the Certified Defense Financial Manager program), as well as training programs, a professional journal, and other activities, including ASMC's National Professional Development Institute, an annual conference which attracts more than 3,500 participants.



From 1994 to 2001, Mr. Hale served in the Pentagon as the Assistant Secretary of the Air Force (Financial Management and Comptroller), where he was responsible for annual budgets of more than \$70 billion, efforts to streamline Air Force financial management, and compliance with the Chief Financial Officers Act.

For the 12 years prior to his Air Force service, Mr. Hale headed the National Security Division at the Congressional Budget Office (CBO), developing quantitative analyses of major defense budget issues and testifying frequently before Congressional committees.

Earlier in his career, Mr. Hale was a senior fellow and head of the acquisition and grants management group at LMI, a consulting firm specializing in service to the Federal government. He also spent three years as an active duty officer in the U.S. Navy and served as a staff analyst and study director at the Center for Naval Analyses.

Mr. Hale graduated with honors from Stanford University with a B.S. in mathematics and statistics. He also holds a Master's degree in operations research from Stanford and an MBA from the George Washington University. He is a Certified Defense Financial Manager (CDFM), a fellow of the National Academy of Public Administration, and a past member of the Defense Business Board.



Elizabeth A. McGrath

Deputy Chief Management Officer for Department of Defense



Ms. Elizabeth (Beth) A. McGrath was sworn in as the Department's first Deputy Chief Management Officer, a Senate-confirmed and politically appointed position, on July 1, 2010. Ms. McGrath leads the Department's efforts to better synchronize, integrate and coordinate DoD business operations and serves as the Principal Staff Assistant (PSA) and advisor to the Secretary and Deputy Secretary of Defense for matters relating to management and improvement of business operations. Ms. McGrath is focused on achieving sustainable and enduring improvements and efficiency and effectiveness in the Department's business related enterprise policies, processes and systems. She also serves as the DoD Performance Improvement Officer and is responsible for formulating the legislatively mandated Departmental Strategic Management Plan.



Ms. McGrath serves as the Milestone Decision Authority for numerous business-focused Major Automated Information Systems (MAIS) and also executes the Department's primary governance body for business transformation, the Defense Business System Management Committee; establishes performance goals and measurements for the Department's business operations; implements the Department's Continuous Process Improvement efforts; and is the Vice-Chair of the Performance Accountability Council that is responsible to the President to reform the government-wide security clearance process. Her responsibilities require extensive integration and coordination across the Department as well as with many Federal agencies, such as the Office of Management and Budget, Director for National Intelligence and the Department of Veterans Affairs.

Previously, Ms. McGrath served as the Deputy Director for Systems Integration, Defense Finance and Accounting Service (DFAS) where she created a financial migration strategy that was executed with a collective budget of approximately \$1B. She managed the entire financial architecture supporting DoD-wide standard financial systems, integrating it with the Department's evolving target, enterprise architecture. Project scope included logistics, personnel, medical, acquisition and financial missions including many information technology solutions.

Prior to joining DFAS, Ms. McGrath served in a variety of program management roles culminating in Program Executive Office-level oversight responsibility. She possesses extensive knowledge of acquisition-related statutes, regulations and policies with over 20 years applied acquisition experience with Major Defense Acquisition Programs and MAIS. She served as the Business and Acquisition Manager on an international torpedo defense program with the United Kingdom and held numerous other financial, acquisition and program management positions within the Department of the Navy.

Ms. McGrath was awarded the Meritorious Executive Presidential Rank Award for Fiscal Year 2008 and the Office of the Secretary of Defense Exceptional Civilian Service Award in October 2008. She holds a bachelor's degree in Economics from George Mason University, is a graduate of the Federal Executive Institute, is certified Acquisition Level III in Program Management, Financial Management and Logistics and is a member of the DoD Acquisition Professional Community.

RECORD VERSION

STATEMENT BY

**THE HONORABLE DOCTOR MARY SALLY MATIELLA
ASSISTANT SECRETARY OF THE ARMY FOR FINANCIAL MANAGEMENT AND
COMPTROLLER**

BEFORE THE

**HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

SECOND SESSION, 112TH CONGRESS

ON DEPARTMENT OF DEFENSE AUDITABILITY CHALLENGES

SEPTEMBER 14, 2012

**NOT FOR PUBLICATION UNTIL RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE**

Congressman Wittman, Congressman Cooper, Members of the Subcommittee, thank you for the opportunity to testify today regarding the Army's work to achieve financial statement audit readiness. I want to convey to you that Secretary of the Army McHugh, the Chief of Staff General Odierno, and Undersecretary of the Army Dr. Westphal, the Army's Chief Management Officer (CMO), and I commit unequivocal support of improving financial management and meeting auditability requirements in law.

The Army will have auditable financial statements by September 30, 2017 as required by Section 1003 of the National Defense Authorization Act for Fiscal Year 2010. The efforts to increase financial accountability and achieve audit readiness go hand in hand with Secretary McHugh's call for a leaner, faster, and more adaptable Army. A more agile Army is only possible if we have timely, accurate, and reliable financial information to inform our resourcing decisions.

We began transforming our business environment several years ago and recently achieved a significant milestone that simultaneously supports our audit readiness and business transformation objectives. On July 1, 2012, the Army completed the scheduled deployments of the General Fund Enterprise Business System (GFEBS); this system is designed to comply with audit requirements. Each day more than 52,000 users are leveraging GFEBS, the Army's business and financial system, across 28 Army Commands, Component Commands, and Direct Reporting Units.

Of course, in an organization as large and complex as the Army, a transformation that requires a change in our day-to-day business and a fundamental shift in our culture faces significant challenges. Both houses of Congress and the Government Accountability Office (GAO) have been valuable partners in our transformation endeavors. In July 2011 Mr. Asif Khan outlined for the DoD Financial Management Panel, six specific challenges DoD faces in achieving audit readiness, including: 1) Sustaining continuous leadership; 2) Accountability and oversight; 3) Internal controls; 4) A competent financial management workforce; 5) A well-defined business

architecture; and 6) Compliant and Sound Financial Systems. The Army's approach audit readiness strategy addresses each of these concerns.

We are building continuous leadership through the visible support of audit readiness from the Secretary of the Army, the Chief of Staff of the Army, me, and other top Army leaders. Audit readiness is part of the Army Campaign Plan and aligns to the Secretary's "Top 10" priorities. Top leadership has communicated, through memoranda and other means, the critical nature of audit readiness across the enterprise and our intent to hold all personnel, military and civilian, accountable for conducting business in an auditable fashion. For example, in April the Chief of Staff sent a message to all general officers informing them of the importance of audit readiness, stating, "Leaders at all levels are responsible for instilling proper levels of discipline and oversight into all business processes within their command."

Sustained leadership requires accountability and oversight and we have greatly increased accountability and oversight by embedding audit readiness criteria in the annual performance plans for all Army Senior Executive Service (SES) civilians. In addition, we are engaging commanders and holding them accountable for implementing effective internal controls. These controls are inherent in their daily business; are practiced in a predictable, controlled manner; and are auditable with appropriate supporting documentation. My office conducts monthly internal controls tests across the Army's business processes to identify any deficiencies prior to audit. Finally, I chair the quarterly meetings of the Army Audit Committee, which oversees the Army's audit readiness efforts and interim independent examinations. At these meetings the Army's top leaders must report their progress in meeting audit readiness objectives.

Building a competent workforce requires comprehensive communications and training efforts. In 2012 alone we have trained more than 8,000 personnel across all business functions in audit readiness principals and implementing the internal controls within the Army's business processes. We have expanded this training online using the Army Learning Management System to broaden our reach in a cost-effective manner

while enabling users to access the training content 24 hours a day. Finally, I established the Army Financial Management Workforce Transformation working group to identify the to-be workforce skills and staffing levels that will support the Army's financial management transformation.

We are strengthening internal controls through installation-level process and control assessments, corrective action implementation, and business process and controls training. Our efforts to create an effective business control environment comply with the DoD's Financial Improvement and Audit Readiness (FIAR) criteria, and requirements established by Office of Management and Budget Circular A-123 Appendix-A. At the end of June we reached two major milestones that demonstrate how far we have come in implementing internal controls.

First, we asserted audit readiness for nine process areas at 10 different locations for the Statement of Budgetary Resources (SBR). An independent auditor will validate the assertion through the second of three SBR exams leading up to the Secretary of Defense's 2014 SBR mandate. The first SBR exam in 2011 resulted in a qualified audit opinion that highlighted the standardization of business processes across locations, which is a major achievement for the Army. The second SBR exam evaluates our internal control environment.

Second, in June the Army asserted audit readiness for three missile programs (Javelin, Hellfire, and Tube-launched, optically tracked, wire-guided (TOW)), representing approximately 16 percent of the Operating Materials & Supplies category of assets. The DoD Inspector General will conduct the exam to validate the assertion. This interim milestone supports the validation of all existence and completeness of mission critical assets by the third quarter of fiscal year 2015.

For the remaining two GAO challenges we developed a well defined business architecture which enables our ERP systems to better support Army audit readiness objectives. The Army Office of Business Transformation (OBT) oversees IT and

business system strategy and chairs regular governance board meetings of all stakeholders to ensure business system-related decisions are made in accordance with the Army's defined strategy. We are also conducting internal assessments of our ERPs and material feeder systems using the GAO Financial Information Systems Control Audit Manual (FISCAM), which provides the guidelines an auditor will follow when conducting a financial statement audit of a federal agency. The FISCAM assessments of GFEBS and the Army's Global Combat Support System (GCSS-Army) are well underway. I am confident the Army's ERPs will fully support the Army's audit readiness goals as independent auditors have already confirmed GFEBS to be substantially compliant with the Federal Financial Management Improvement Act (FFMIA) and DoD Standard Financial Information Structure (SFIS).

We have achieved some significant accomplishments in the past 12 months, but our work is far from over. I recognize the challenges we face, but I am confident we are executing a sound plan that will achieve the NDAA 2010 mandate. Our plan is sufficiently resourced, has the full support of the Army's top leadership, and has resulted in successfully achieving several milestones to date. In addition, the independent feedback we receive from the DoD Comptroller's office, GAO, DoD IG, Army Audit Agency, and independent auditors allows us to fine tune our audit readiness efforts and stay on track to meet the 2014 and 2017 deadlines. I am personally committed to this effort and look forward to working with the members of this Subcommittee, GAO, and Comptroller Hale to ensure the continued improvement of the Army's business environment.

**Assistant Secretary of the Army
(Financial Management & Comptroller)
Office of the Secretariat**



Honorable Mary Sally Matiella

Dr. Mary Sally Matiella, Assistant Secretary of the Army, Financial Management and Comptroller (ASA FM&C), advises the Secretary of the Army and Chief of Staff, on all matters related to Army financial management. She oversees the development, formulation, and implementation of policies, procedures and programs for improving the efficiency and effectiveness of overall resources in the Department of the Army. She is also responsible for the formulation and submission of the Army budget to Congress and the American people.

On November 23, 2009, President Barack H. Obama nominated Dr. Matiella as Assistant Secretary of the Army, Financial Management and Comptroller, and she was confirmed by the U.S. Senate on February 11, 2010. Prior to her appointment, Dr. Matiella served as Assistant Chief Financial Officer for Accounting for the Department of Housing and Urban Development (HUD). She was responsible for the payment of over \$40 billion in annual grants, loans and subsidies, and the consolidation and submission of quarterly and annual financial statements to the Office of Management and Budget (OMB). She ensured HUD was in full compliance with government legislation, Generally Accepted Accounting Principles (GAAP), and other governmental budget and accounting standards. Under her leadership, HUD earned "unqualified" audit opinions each fiscal year and received all "green" ratings from OMB for its accounting practices.

In December 2001, Dr. Matiella entered the Senior Executive Service (SES) and served as the Chief Financial Officer for the USDA Forest Service. She oversaw the formulation and execution of a \$4 billion annual budget, which funded the management of 200 million acres of national forest and grasslands. Under her leadership, the Forest Service received its first ever "clean" audit opinion in FY 2002 and the GAO, April 2003 report, recognized the Forest Service for "Significant Improvement in Financial Reporting."

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

STATEMENT OF

THE HONORABLE GLADYS J. COMMONS

ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)

BEFORE THE

HOUSE ARMED SERVICES COMMITTEE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

ON

DEPARTMENT OF DEFENSE AUDITABILITY CHALLENGES

14 SEPTEMBER 2012

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICE COMMITTEE

Chairman Wittman, Congressman Cooper, thank you for the opportunity to appear before you today to discuss the Department of the Navy's drive to achieve and sustain financial audit readiness -- and the challenges we face as we move forward. Our Navy-Marine Corps efforts continue to build momentum as we follow our detailed roadmap to achieve auditability in the Department of the Navy (DON). Achieving audit readiness, and subsequently maintaining it, requires a fundamental change in the way we execute our Departmental business processes.

The Department of the Navy's senior leaders are solidly committed to our audit readiness efforts. The Under Secretary of the Navy and Chief Management Officer, the Vice Chief of Naval Operations, and the Assistant Commandant of the Marine Corps have actively and repeatedly emphasized the importance of audit readiness to the entire Department. Under Secretary Robert Work stresses the mandate for audit readiness at each of his Town Hall meetings with senior executives and the inclusion of audit readiness objectives in their annual performance plans. The Vice Chief of Naval Operations, Admiral Mark Ferguson is visiting each major command, discussing their audit readiness efforts and how they are contributing to the overall success of the Departmental plan. The Assistant Commandant of the Marine Corps, General Joseph Dunford has stressed the importance of audit readiness to his general officers and senior executives and oversees the ongoing Marine Corps audit.

Financial audit readiness depends on the actions of thousands of leaders, managers and employees throughout the Department of the Navy and outside the Department. We have actively engaged the many stakeholders who play a critical role in Navy-Marine Corps business processes and systems, enlisting their immediate participation in our plan for auditability. Senior functional managers have been assigned to lead Departmental audit readiness efforts for their respective business processes. Nurturing and maintaining this cross-cultural engagement, a most

essential element of our recent successes, is also one of our biggest challenges in achieving audit readiness.

Recognizing the need to keep the cross-cultural engagement active and growing and to ensure that all our employees understand their role in audit readiness, we have launched an aggressive education, training and communication plan. These efforts include one-on-one, face to face communications on a number of fronts, and using our internet website, training seminars, video presentations, technical workshops, newsletters and town hall sessions to reach the widest cross-section of employees.

We are moving forward to meet the goals we have established. Over the past year, the Department of the Navy (DON) has received unqualified opinions on our Funds Receipt and Distribution process, our E-2D Hawkeye aircraft major acquisition program process executed through Navy Enterprise Resource Planning (ERP), and on our asset management processes for our ships, submarines, satellites, ballistic missiles, and aircraft. We have asserted audit readiness for our Civilian Pay and Transportation of People processes and expect that examinations on these business segments will start this month. The Marine Corps' audit engagement on its Statement of Budgetary Resources (SBR) continues. This audit engagement serves as a guide as we undertake broader efforts within the Department of the Navy and has yielded lessons for the DON and the rest of the Defense Department.

We continue to use our detailed plan to achieve Navy-Marine Corps SBR auditability as our guide and adjust it as necessary based on our findings and experience. Our steady progress is bringing increased confidence that the Department of the Navy will meet Secretary Panetta's goal of SBR auditability by Fiscal Year (FY) 2014.

We realize that Department of the Navy audit readiness efforts are also dependent on the assistance from our primary service providers – defense agencies which provide support to our business processes. We rely on these outside organizations to pay our bills and our people, receive and accept goods and services on our behalf, provide us consumable material, manage our major contracts, and to do our accounting, including preparing our financial statements. The Department of the Navy's audit readiness will depend directly on the audit readiness of these service providers' processes and systems. We have drawn them into our widening circle of accountability, forming alliances, obtaining their support, and incorporating their organizational efforts into our detailed plan of action.

We have learned that some business processes, while designed and used to meet specific needs of the entire Defense Department, do not comply with financial audit standards. An example is the material receipt and acceptance procedure that comes with hiring one government agency to provide goods and services to another. The process as currently practiced, does not promote a disciplined receipt and acceptance process prior to the payment for the goods and services. In this case, we are working with the Defense Comptroller's staff to ensure that governing policies are clear and lead to consistent and repeatable process execution, that is compatible with a financial auditor's expectations.

Achieving the requirements of auditability and then being able to demonstrate this readiness to an outside auditor is a new skill that we are developing. To hone this ability, we are relying on the lessons we have learned from the Marine Corps audit. In addition, we are actively engaged with the Defense Department's Financial Improvement and Audit Readiness Directorate. This close and regular collaboration has increased the collective expertise guiding our efforts and is raising the quality of our audit readiness.

Information technology (IT) systems remain a significant challenge. Our systems were not designed to account for our resources in a way compatible with financial statement requirements. Currently, we do not have documented assurance that major business systems producing our financial data have the necessary controls to ensure the data's accuracy and reliability. We have begun assessments of these information systems within our Department to identify control weaknesses and are making system changes as necessary for auditability. Concurrently, our management team is conferring with outside service providers to ensure that similar assessments (which will support Navy-Marine Corps audit readiness timelines) are underway on the (IT) systems they manage and which affect our audit readiness.

We discovered that a consistent deficiency in our audit readiness is the ability to consistently produce appropriate documentation to substantiate a transaction. In some instances, we found that auditing standards required a longer retention period than normally required by the business process. Earlier this year, the Department of the Navy issued guidance on required documentation to support auditability, complete with retention timelines. This policy will add needed discipline to our day-to-day business practices.

We also need to strengthen the internal controls surrounding our business processes and to verify that they have been tested. We have begun testing the internal controls in each of our business processes to ensure that they are effective and that they will enhance our financial auditability.

To ensure we preserve our gains as we overcome the challenges to audit readiness, we are building the audit response infrastructure needed to house, retrieve, and evaluate the large volumes of electronic audit documentation required during an audit. This scalable repository

doubles as an audit management tool, supporting assertion preparations, audit engagements, and sustainment activities. This is one of the more valuable lessons learned from the Marine Corps audit of their SBR. This capability will be indispensable as our auditability pace accelerates to encompass the entire DON.

I noted earlier that our Department is making progress in asset management, with unqualified audit opinions on the management of most of our military equipment. We are expanding our scrutiny to other assets classes. We have established a senior-level, Department of the Navy Property Council, which will oversee audit readiness policy for property throughout Department.

Over the past year, I have seen our functional managers embrace audit readiness not only to achieve auditable financial statements, but as a mechanism to correct long standing deficiencies in our business processes. We are aggressively addressing numerous challenges as we encounter them, and our efforts are increasingly effective. In closing, achieving audit readiness and subsequently maintaining it is challenging. Given our accomplishments over the past year, our growing level of knowledge, and the breadth and depth of audit readiness activities across the DON, I am cautiously, but increasingly, optimistic that we will achieve the ambitious audit readiness goals we have set for our Department. I would be happy to answer any of your questions at the appropriate time.

**Assistant Secretary of the Navy
(Financial Management and Comptroller)**

11/3/2009 - Present

The Honorable Gladys J. Commons

Mrs. Gladys J. Commons was sworn-in as the Assistant Secretary of the Navy (Financial Management and Comptroller) on Nov. 3, 2009. She started her federal service career in July 1969 with the Social Security Administration as a Claims Representative. In 1971, she joined the Comptroller staff at the Office of Naval Research as a Budget Analyst. In 1977, she was selected as Lead Budget Analyst for the Operations Program/Budget Division in the newly formed Naval Data Automation Command, Washington, D.C. In 1980, Commons became the Supervisory Budget Analyst and Branch Head of the Budget and Operations Branch at the Naval Facilities Engineering Command (NAVFAC). In 1983, she became the Budget Officer and Head of the Materiel Program and Budget Branch, Materiel Division, Installation and Logistics Department, Headquarters Marine Corps. In 1986-87 she attended the Industrial College of the Armed Forces, Fort McNair, Washington, D.C. Also in 1987, Commons became the Comptroller of the Marine Corps Research, Development and Acquisition Command – currently the Marine Corps Systems Command. She was promoted to the Senior Executive Service in August 1991.



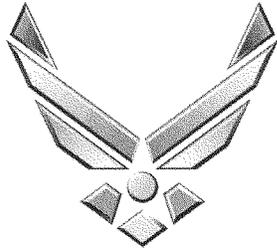
Commons served as the Principal Deputy Assistant Secretary of the Navy for Financial Management and Comptroller from February 1994 to September 2002 and served as Acting Assistant Secretary of the Navy for Financial Management and Comptroller from March to October 1998. She served as Comptroller of the Military Sealift Command from October 2002 until her retirement from federal service in March 2004.

Commons has received numerous awards during her federal service, including various Outstanding and Sustained Superior Performance Awards, the Department of the Navy Distinguished Civilian Service Award, the Department of Defense Meritorious Civilian Service Award, and the Presidential Rank Award of Meritorious Executive.

Commons graduated from Fayetteville State University with a Bachelor's degree in Education and holds a Master of Public Financial Management degree from the American University.

Updated: 10 November 2009

United States Air Force



Presentation

Before the House Armed Services
Committee, Subcommittee on Oversight
and Investigations

Department of Defense Auditability Challenges

Statement of
Ms. Marilyn M. Thomas
Principal Deputy Assistant Secretary of the
Air Force
(Financial Management and Comptroller)

September 14, 2012

Thank you for the opportunity to brief the subcommittee regarding the Air Force's progress toward transparent and auditable business processes. We have had a remarkably successful year due to the commitment of senior leadership and dedicated professionals across the Air Force, however we continue to view the 2014 and 2017 goals as having moderate risk. Before delving into the challenges, I want to assure this committee of our commitment and provide you with tangible evidence of our progress.

Over the last year we received two independent opinions on previous assertions. In October, an Independent Public Accounting (IPA) firm issued an unqualified opinion on our Fund Balance with Treasury Reconciliation process. This process reconciles over 1.1 million Air Force transactions monthly with Treasury with an accuracy rate of 99.96 percent, exceeding the 98 percent threshold recommended by the Federal Chief Financial Officers Council. In June the Department of Defense Inspector General (DoDIG) issued an unqualified opinion on our military equipment, aerial target/drones and cruise missiles valued at approximately \$86 billion and representing 41 and 14 percent of Air Force and DoD mission critical assets respectively.

So far this fiscal year we have completed two assertions of audit readiness for Uninstalled Missile Motors and Spare Engines. Together, these represent 6,395 individual items with an acquisition value of approximately \$11.5 Billion. The DoDIG began an examination of these two assertions in July and we anticipate receiving the final report in November.

In December, the Air Force submitted its plan to OSD to accelerate audit readiness on the Statement of Budgetary Resources from FY17 to FY14. Since then, we have made significant progress on several business processes and are hiring additional contractor and organic resources with expertise in federal financial reporting and auditing. This will allow us to work additional assessable units simultaneously and reduce overall schedule risk.

We submitted our assertion covering the Selected Acquisition Reports for our Space Based Infrared Radar System (SBIRS) acquisition program two months ahead of schedule. This assertion covers approximately \$4 Billion in obligations and expenditures from 2008 through 2011. We expect to award a contract to an auditing firm this month to perform an independent examination and issue an opinion on our assertion.

In addition, we are making important progress on improving several other end-to-end business processes.

Last August, the Air Force earned an unqualified opinion from an IPA on our process for receiving and distributing budget authority down to our Major Command echelon. We identified and implemented a series of corrective actions including establishing a standard document numbering system, which improves our ability to reconcile transactions between systems. This was a relatively inexpensive process control to implement; however, successful

implementation required additional training and guidance. Our initial testing results could not support an assertion. We hosted a workshop with Major Command personnel to clarify the guidance and provide training. Since then, several commands have tested and implemented the new procedures. A second round of service-wide testing showed dramatic improvement which will allow the Air Force to assert audit readiness later this month.

We also completed initial testing on the Air Force's Reimbursable Budget Authority and Civilian Pay processes and are implementing corrective actions that will allow us to assert audit readiness for them in the coming year. Our acquisition community is working with us to implement additional accounting detail allowing us to easily track reimbursable authority with the start of the new fiscal year. We are working with the Personnel Community to enhance control over the civilian pay process by implementing a standard time and attendance system across the Air Force. In addition to the two corrective actions described above, we have improved the consistency and quality of supporting documentation through regular meetings with our Major Commands and feedback from ongoing test efforts.

Finally, we will be kicking off the initial testing for our Military Pay and Contracts assertions this Fall. I am heartened by early assessments from our Air Force Audit Agency (AFAA) on our military pay process. AFAA conducted targeted quick look audits on the Military Pay processes at six locations this past Spring. They examined 771 military pay transactions and our Financial Services Offices were able to provide supporting documentation for 98 percent of these transactions within four days. We are looking to our SBIRS examination as an early indicator of the status of our contracting assertion and look forward to engaging with the auditors later this month.

Despite tremendous progress to date, we do face challenges to include the need to improve our legacy systems in order to achieve the accelerated timeline, educate our airmen on what they need to do to achieve audit readiness, and build the skills and experience required to achieve and maintain audit readiness in all of our resource management specialties.

A primary challenge facing the Air Force is adhering to the schedule for modernizing our legacy information technology systems and deploying the targeted Enterprise Resource Planning (ERP) systems. Recently, General Welsh reiterated this same concern during his confirmation hearings. Over the last two years, we have identified over 160 different systems that record, track, and report information used to support the financial statements. Many of these systems are legacy systems which have been in a "brown-out" mode while the Enterprise Resource Planning (ERPs) were developed and deployed. Our challenge over the next two years is to identify, prioritize and implement cost-effective improvements to these systems so that we can meet the accelerated audit timeline for the Statement of Budgetary Resources.

Simultaneously, we must continue to develop and deploy the Defense Enterprise Account Management System (DEAMS), our new, modernized, accounting system which will support full audit readiness in 2017. The Air Force Operational Test and Evaluation Center recently completed an Operational Assessment of DEAMS highlighting several issues in the system and our implementation. We have been working many of these issues and have completed many of the corrective actions. The assessment also confirmed problems with data conversion and user training. We revised the training guidance and have phased our deployment schedule so that we will not convert legacy data into the new environment. This should eliminate many of the data conversion issues experienced in past implementations. Educating our Airmen on audit expectations is also critical to our success. Like many other large organizations, the Air Force executes financial transactions worldwide in a decentralized manner. Our uniformed and civilian resource managers execute their responsibilities in a disciplined and efficient manner, however we have not previously been able to provide the evidence an auditor requires in order to render an opinion. For example, we are preparing documents to assert audit readiness on our processes and systems for distributing funding throughout the Air Force. These transactions largely occur at bases located around the world. In March, we tested the supporting documentation for these transactions and the results were untimely and inconsistent. We held a workshop with our Major Commands reviewing each test sample and explaining in clear direct terms why a particular sample either passed or failed. Equipped with this understanding, many of the MAJCOMs subsequently implemented ongoing testing. As described above, we have seen a dramatic improvement in overall results and will assert audit readiness on this process later this month.

My third concern involves the enduring challenge of annual audits. In order to be successful for the duration, we must grow financial reporting and audit understanding across our workforce. We are taking some of those steps with the FM Certification program; however, achieving audit readiness involves everyone in the resource environment, not just those in the FM career field.

A related concern is the compressed timeline allowed for preparing financial statements and completing the audit. Federal agencies must submit their audited financial statements by November 15, 2012, or 45 days after fiscal year end. In contrast, large publically traded corporations have 60 days to submit their audited annual report to the Securities and Exchange Commission. In 2006 when the SEC was evaluating the accelerated filing dates, numerous parties including many well-known accounting firms, claimed that the accelerated deadline will increase costs without incremental benefits. In a period of constrained budgets, I would recommend reconsidering the reporting deadline to coincide with the submission of the President's Budget. This would allow the statement preparers and the auditors to fulfill their responsibilities more thoroughly without any degradation in the timeliness of the data.

In conclusion, the Air Force is aggressively working this effort and looks forward to the continued support from this committee in our efforts to continuously improve our stewardship over the resources entrusted to us.

MARILYN M. THOMAS



BIOGRAPHY

UNITED STATES AIR FORCE

MARILYN M. THOMAS

Marilyn M. Thomas, a member of the Senior Executive Service, is the Principal Deputy Assistant Secretary for Financial Management and Comptroller, Headquarters United States Air Force, Washington, D.C. She has oversight of the budgeting, cost estimating, and financial operations of more than \$110B in resources annually in support of Air Force priorities and at the direction of the Congress, the Secretary of Defense and the Secretary of the Air Force. Additionally, she has responsibility for the development and training for the Air Force financial management community to include military and civilian members.

Mrs. Thomas, a native of Stillwater, Okla., began her career with the Air Force as a Palace Acquire intern upon graduation from Oklahoma State University. She has held progressively more responsible positions within the Air Force and the Marine Corps in the areas of budget formulation, program integration and resource management. Her experience spans several appropriations and functional areas, including cost, budget and acquisition. Mrs. Thomas assumed her current position in April 2012.



DOCUMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 14, 2012



DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

AUG 10 2012

MEMORANDUM FOR ACTING DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Comments to Final Report, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals" (Project No. D2012-D000DE-0057.000)

This memorandum responds to your request for comments on the subject audit report issued on July 13, 2012. While I concur with the intent of the report's recommendations, as explained in the attached comments, I do not agree with the final report because, in certain places, it contains incorrect statements and technical errors, fails to place ongoing efforts in their proper context, and mischaracterizes ongoing efforts across the Department to continuously improve DoD business operations in general, and, in particular, Enterprise Resource Planning (ERP) systems. These issues lead to the report painting a far bleaker picture than is appropriate and overstating the impact of its conclusions. While the Department acknowledges the significant challenges that it has faced over the years with its ERP system implementations and broader financial audit efforts, it has, and continues to take, steps to put itself on a path to success. Specifically, over the past two years the Department has implemented a number of important improvements to its overall defense business systems acquisition process, its individual ERP system programs, and its overarching business processes. I request that you amend the final report to address my specific comments and concerns including:

With regard to Finding A –

- The report inaccurately characterizes LMP cost and schedule growth. In December 2011, the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) authorized the deployed/operational baseline of LMP to enter sustainment. As part of the acquisition decision, the USD(AT&L) designated the deployed/operational baseline LMP Increment One. The USD(AT&L) also authorized a separate LMP increment, LMP Increment Two as a stand-alone acquisition program. The report combines both programs and therefore significantly overstates cost and schedule delays – exaggerating a 6.3 year delay into a 12.5 year delay. While 6.3 years is not an acceptable delay, there is a significant difference between it and the 12.5 years identified in the report. Additionally, the report should acknowledge the business improvement that LMP Increment One is currently delivering. LMP Increment One has retired more than 40 legacy inventory and asset systems, significantly reduced the time it takes Army maintenance planners to schedule maintenance, from 2-3 weeks to 2-3 hours, and reduced the time it takes the Army Materiel Command to complete its year end close, from 4-5 days to 8-12 hours.
- The report discusses in great detail the cost increases and schedule delays that have taken place in the past without discussion of the Department's remedial actions or recent successes. This leaves the report without balance and implies that the Department has not taken steps to address these problems, which is not the case. The Department



continues to mature its business transformation related processes and governance bodies to together support our transition to a more modern and disciplined business and systems environment, all in line with GAO's recommendations. The report should acknowledge DoD's efforts to improve oversight of its ERP programs, including implementing more focused oversight through Overarching Integrated Product Teams, more closely linking business and financial outcomes with the acquisition process, putting in place success criteria tied to obligation authority, sharing and implementing lessons learned and best practices across programs and components, and proactively identifying and remediating weaknesses, deficiencies, and duplication in its systems implementations. GAO has given the Department credit for many of these steps, but this IG report does not. The report should also indicate that these efforts are actively bearing fruit through increased fielding of capability into the hands of users who are realizing true business benefits.

- The report wrongly implies that ERP delays will jeopardize the Department's efforts to achieve an auditable Statement of Budgetary Resources (SBR) by 2014. Although ERPs are essential for reaching Fiscal Year (FY) 2017 financial audit goals, these systems are generally not part of DoD's FY 2014 target systems environment necessary to achieve an auditable SBR by 2014.

With regard to Finding B –

- The report does not properly take into consideration the timing of the FY 2010 National Defense Authorization Act (NDAA) Business Process Reengineering (BPR) requirement. The NDAA BPR requirement was mandated after a majority of the ERP programs had already completed design, development, and in some cases, deployment activities. It is misleading to state that the Department did not meet a legislative mandate that was put in place after the identified programs had progressed past the time when most BPR would have been conducted. For example, when the NDAA BPR requirement was passed into law, the Navy Enterprise Resource Planning System (Navy ERP) was post Milestone C and had already retired 18 legacy systems. As an additional example, the Army's General Fund Enterprise Business System (GFEBs) was also post Milestone C, had been deployed to almost 4,000 users, and had obligated over \$6.4 billion through the system. While the report is correct in stating that in some cases, adequate as-is process maps were not provided as part of the BPR Assessment process, it would have been an inefficient and wasteful use of time and resources to pursue the collection or reconstruction of these artifacts for systems that were already quite far along in their lifecycles. As is clearly stated in my April 30, 2011, *Guidance for the Implementation of Section 1072 – Business Process Reengineering*, "it is not the intent of this process to ask programs to complete work out of cycle of their acquisition approach." BPR is most effective when accomplished early and upfront in the design and development phase of a program's acquisition lifecycle. The Department was fully committed to its ERP programs when the NDAA BPR requirement was passed into law and so it focused on ensuring that the programs conducted the appropriate activities for their place within their lifecycles. Ensuring that these appropriate activities occurred is not only accomplished through the BPR Assessment process, but also through my detailed reviews of these programs in my role as Milestone Decision Authority in the acquisition process. As I indicated in my April 30, 2012 guidance, "the Department also sought to align its BPR approach with

other, existing oversight processes.” Additionally, despite these timing issues, the Department continues to make process and system changes, as appropriate and in line with BPR principles, to capitalize on lessons learned, even post-deployment.

- The report does not properly take into consideration the unique relationship between ERP systems and BPR. Fundamentally, BPR is about radically redesigning your business processes to take advantage of opportunities for efficiency in the to-be state. However, ERP programs, by their very nature are designed to handle transactions in a defined end-to-end process, enforce process and execution standardization among implementing organizations, manage consolidated business data in a single repository that allows centralized access control, and facilitate the flow of information both within an organization and with outside stakeholders. These design principles within an ERP directly enable capabilities essential to auditability, such as traceability of all transactions from source to statement, the ability to recreate a transaction, documented, repeatable processes and procedures, demonstrable compliance with laws, regulations and standards, and a control environment that is sufficient to reduce risk to an acceptable level. Essentially, ERPs are acquired with industry best-practice to-be processes embedded within them. Each of the Department’s ERP programs went through significant up-front blueprinting and gap analysis to determine what configuration or customization was necessary for the systems to work within the business environment it was to be fielded in. Therefore, again, while the report is correct in stating that in some cases, adequate to-be process maps were not provided as part of the BPR Assessment process, in many ways, the ERP system itself was the to-be process. Consequently, the Department has focused on properly capturing and enforcing the to-be financial management environment, built on a backbone of core ERP systems, in the Business Enterprise Architecture’s end-to-end processes. This, in concert with the new Investment Review Board process currently being implemented as required by the FY 2012 NDAA, will ensure the retirement of legacy systems and the reduction of interfaces and necessary customization, as required by the NDAA BPR requirement. This approach is fully consistent with the goal outlined in my April 30, 2012 guidance, “to implement a useful and tailored approach to BPR.”
- The report does not properly credit the Department for the BPR Assessment process that was put in place following the passage of the FY 2010 NDAA. Since the NDAA BPR requirement was passed, my office and the offices of the Military Department Chief Management Officers have conducted hundreds of BPR Assessment package reviews, performed significant follow-up work with programs to seek additional information, and imposed BPR conditions on a number of programs through internal Military Department processes and the Investment Review Boards. Additionally, in my role as Milestone Decision Authority for many of the ERP programs that were the subject of this report, I conducted multiple, detailed programmatic reviews. So, while the Department recognizes that it has opportunities to improve the BPR Assessment process, it is not correct to imply that we are not in compliance with Section 1072 of the FY 2010 NDAA, which does not contain a requirement for a DCMO determination memorandum.
- The report contains mistakes regarding oversight of the Defense Enterprise Accounting and Management System (DEAMS) program and does not provide proper context around its current status. First, the report mistakenly identifies DCMO as the BPR determining

official for the DEAMS program. As a program that primarily supports the Air Force, it was decided that the Air Force Chief Management Officer would be the determining official for BPR. Second, the report does not recognize efforts to realign the DEAMS program to an agile acquisition model that provides continuing opportunities for BPR and agile development. In March 2012, DEAMS was baselined as a two increment, multi release acquisition program. Increment One authorized the Air Force to stabilize and independently test the technology demonstration already fielded to Scott Air Force Base and the Defense Finance and Accounting Service operating site in Limestone, Maine. The Air Force corrected documented weaknesses using a cross functional end-to-end view of the business process supported by DEAMS and the program is currently undergoing an independent operational evaluation. This approach is aligned to best practices for ERP implementations and is an accepted methodology for BPR. DEAMS was also authorized to begin blue-printing and design activities for future releases and the Air Force was directed to seek my approval before beginning development of future DEAMS releases. In this way, an additional "gate" was established as a check and balance in the acquisition oversight process to ensure appropriate BPR has occurred. Additionally, the report should acknowledge the business improvement that DEAMS is delivering. For example, the Air Force's DEAMS technology demonstration currently fielded at Scott Air Force Base and Defense Finance and Accounting Service Limestone, Maine has improved financial management operations by reducing late interest payments within the U.S. Transportation Command from approximately \$161 per \$1 million to approximately \$7 per \$1 million.

While the Department recognizes additional opportunities for improvement, analysis has been completed and these ERP programs remain a vital part of the Department's efforts to improve its business systems environment and overall business operations. We take seriously the mandate to continually improve our business and look closely at all factors that influence successful system implementations that are a vital part of the Department's efforts to improve its business systems environment and overall business operations.

My staff is standing by to review the final report in detail with your office. My point of contact is Mr. Tom Cowley at thomas.cowley@osd.mil or (703) 692-8170.



Elizabeth A. McGrath

Attachment:
As stated

cc: PRINCIPAL ASSISTANT INSPECTOR GENERAL FOR AUDITING (DEPARTMENT
OF DEFENSE INSPECTOR GENERAL)

DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL (DoDIG)
DRAFT REPORT DATED MAY 29, 2012, PROJECT NO. D2012-D000DE-0057.000
“ENTERPRISE RESOURCE PLANNING SYSTEMS SCHEDULE DELAYS AND
REENGINEERING WEAKNESSES INCREASE RISKS TO DOD’S AUDITABILITY
GOALS”

DEPUTY CHIEF MANAGEMENT OFFICER (DCMO)
COMMENTS TO DODIG RECOMMENDATIONS

RECOMMENDATION B.1.a: “We recommend that the DoD Deputy Chief Management Officer and Chief Management Officers of the Army, Navy, and the Air Force develop procedures to independently review the business processes and verify that the information contained in business process reengineering assessment forms is accurate, complete, reliable, and supported in accordance with Office of Deputy Chief Management Officer, “Guidance for the Implementation of Section 1072 – Business Process Reengineering,” April 30, 2011.”

DCMO RESPONSE: Concur. While the final report fails to place proper context around the timing of the Fiscal Year (FY) 2010 National Defense Authorization Act (NDAA) requirement for Business Process Reengineering (BPR) and does not properly credit the Department for the BPR assessment process that was put in place following the FY 2010 NDAA, we nevertheless concur with the intent of this recommendation and believe that there is still more that can be done with regard to the proper conduct and assessment of BPR. Especially in light of recent changes to the Investment Review Board process contained in the FY 2012 NDAA, DCMO will develop additional comprehensive BPR guidance for dissemination to all of the appropriate pre-certification authorities, including the Military Department CMOs. DCMO will provide oversight of Enterprise level BPR efforts and conduct random validation assessments on Component level efforts to ensure appropriate BPR is applied across the DoD in accordance with the FY 2012 NDAA.

RECOMMENDATION B.1.b: “We recommend that the DoD Deputy Chief Management Officer and Chief Management Officers of the Army, Navy, and the Air Force develop procedures to limit funding to programs that are not demonstrating adequate business process reengineering.”

DCMO RESPONSE: Concur. DCMO is already working with all of the appropriate pre-certification authorities, including the Military Department CMOs, to use the new Investment Review Board process mandated by the FY 2012 NDAA to ensure funding is limited or not certified for investment proposals that have not demonstrated adequate BPR. The Department will continue to take a tailored and useful approach to the conduct of BPR and ensure that it does not impose unnecessary and wasteful requirements on programs for which they are not appropriate due to their place in the acquisition lifecycle.

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

SEPTEMBER 14, 2012

RESPONSES TO QUESTIONS SUBMITTED BY MR. WITTMAN

Mrs. COMMONS. I have reviewed the timeliness of payments on contracts accounted for in the Navy Enterprise Resource Planning (ERP) system. For Fiscal Year 2012 (FY12), payments on these contracts met the prompt payment standards set by the Office of the Secretary of Defense. However, this overall on-time performance does not mean that there are not challenges in meeting these standards. For example, during FY12 Navy ERP implementations, some Working Capital Fund organizations including Naval Surface Warfare Center Dahlgren experienced abnormally long lead times for issuing contracts and a delay in payments during the start-up period. This problem was remedied through additional training, was procedural, and not caused by a shortcoming in the Navy ERP system. I continue to monitor timeliness of contract payments, and I would be pleased to look into any specific instances which have come to your attention.

We continue to move forward, aggressively executing our detailed plan to improve the Department of Navy's, end-to-end contracting business process, making it more efficient, better controlled, and in compliance with financial audit standards. Our strategy applies both to our legacy business environment, as well as to our target Navy ERP system. We continue our efforts to strengthen internal controls over business processes and systems, enforcing more discipline, consistency and adherence to established standard procedures. We are also improving the flow of data passing end-to-end in an electronic commerce format resulting in reduced errors, processing times and costs. [See page 13.]

Secretary HALE. DoDIG Report on ERP Implementation—The final Department of Defense Inspector General (DoD IG) report on Department Enterprise Resource Planning (ERP) system implementations (<http://www.dodig.mil/audit/reports/fy12/DoDIG-2012-111.pdf>) includes the formal responses of the Office of the Under Secretary of Defense (Comptroller) and each Military Department. The response from Ms. McGrath, the Deputy Chief Management Officer, was provided to the IG separately and is attached.

[The information referred to can be found in the Appendix on page 67.]

In general, we do not agree that the DoD IG has accurately depicted significant facts and has mischaracterized ongoing actions to improve business operations and ERP system implementations. The Department does acknowledge challenges implementing ERP systems but the report does not acknowledge the significant capability delivered by many of the ERP systems nor does it sufficiently discuss the improvements the Department has already made to our ERP acquisition processes and controls.

While schedule delays and cost growth are almost never acceptable, the Department didn't buy these ERPs for just the audit readiness capability. These modern systems, when properly implemented, provide more operational support capability as well as better financial fidelity leading to audit success. In the past, many were convinced that the ERPs were a "silver bullet" required to achieve audit readiness. Now, we understand this is not the case.

We can no longer afford the schedule delays and cost growth, but we can only influence the future . . . not the past. We have audit goals (2014 and 2017) to achieve and we must apply the lessons of the past to make appropriate adjustments as we move forward. This applies to both FIAR planning and implementing ERP Acquisition Program Baselines.

NDAA Language to Support Audit Readiness—The Department of Defense (DoD) is fully committed to meeting the audit deadlines established in law and by the Secretary of Defense. The prioritization on improving information used to manage the department, and the clear message from Secretary Panetta that audit readiness is an important goal, have the Department making more progress than ever before. The Department feels the necessary resources, authorities, and incentives are in place to have success in this effort. No further legislation is needed.

There is one way that Congress can help. In recent years we have encountered unprecedented budgetary uncertainty, including no fewer than four threats of government shutdown, 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. [See page 24.]

