

[H.A.S.C. No. 112-60]

**DEPARTMENT OF DEFENSE  
COMPONENT AUDIT EFFORTS**

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HEARING

BEFORE THE

PANEL ON DEFENSE FINANCIAL MANAGEMENT  
AND AUDITABILITY REFORM

OF THE

COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

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HEARING HELD  
SEPTEMBER 8, 2011



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U.S. GOVERNMENT PRINTING OFFICE

68-461

WASHINGTON : 2011

PANEL ON DEFENSE FINANCIAL MANAGEMENT  
AND AUDITABILITY REFORM

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# CONTENTS

## CHRONOLOGICAL LIST OF HEARINGS

2011

	Page
HEARING:	
Thursday, September 8, 2011, Department of Defense Component Audit Efforts .....	1
APPENDIX:	
Thursday, September 8, 2011 .....	23

### THURSDAY, SEPTEMBER 8, 2011

#### DEPARTMENT OF DEFENSE COMPONENT AUDIT EFFORTS

##### STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Andrews, Hon. Robert, a Representative from New Jersey, Ranking Member, Panel on Defense Financial Management and Auditability Reform .....	2
Conaway, Hon. K. Michael, a Representative from Texas, Chairman, Panel on Defense Financial Management and Auditability Reform .....	1

##### WITNESSES

Commons, Hon. Gladys J., Assistant Secretary of the Navy, Financial Management and Comptroller, and Caral E. Spangler, Assistant Deputy Commandant, Programs and Resources Department, U.S. Marine Corps .....	5
Matiella, Hon. Mary Sally, Assistant Secretary of the Army, Financial Management and Comptroller .....	3
Miller, Wesley C., Director of Resource Management, U.S. Army Corps of Engineers .....	8
Morin, Hon. Jamie M., Assistant Secretary of the Air Force, Financial Management and Comptroller .....	6

##### APPENDIX

###### PREPARED STATEMENTS:

Commons, Hon. Gladys J. ....	38
Conaway, Hon. K. Michael .....	27
Matiella, Hon. Mary Sally .....	29
Miller, Wesley C. ....	52
Morin, Hon. Jamie M. ....	43

###### DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted.]

###### WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

Mr. Andrews .....	61
Mr. Rigell .....	61

###### QUESTIONS SUBMITTED BY MEMBERS POST HEARING:

Mr. Conaway .....	65
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**DEPARTMENT OF DEFENSE COMPONENT AUDIT  
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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
PANEL ON DEFENSE FINANCIAL MANAGEMENT AND  
AUDITABILITY REFORM,  
*Washington, DC, Thursday, September 8, 2011.*

The panel met, pursuant to call, at 8:01 a.m. in room 2212, Rayburn House Office Building, Hon. K. Michael Conaway (chairman of the panel) presiding.

Mr. CONAWAY. Good morning and thanks, everybody, for being here bright and early. I appreciate my colleagues being here; and, Rob, thanks for being here.

I would like to welcome today's panel on the efforts of the Department of Defense to generate auditable financial statements.

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

Mr. CONAWAY. At our first hearing, we received testimony on DOD's [Department of Defense] strategy—I don't think I will ever be able to say that word: "strategery." Strategy. And I don't think ex-President Bush actually ever said that—methodology to achieving audit readiness by 2017 and on the challenges it faces in achieving that goal.

Today, we will hear from various DOD components on their approach to implementing the DOD financial improvement strategy and methodology. We will delve somewhat deeper into the challenges faced at the component level and hear how the components are incorporating lessons learned from ongoing audits in their audit readiness plans.

Although there is a standard methodology that DOD components must follow to guide their audit readiness efforts, their approaches to achieving audit readiness may vary from component to component. We are interested in hearing about each component's approach to achieving financial statement auditability by 2017.

It is widely recognized that the successful implementation of the enterprise resource planning systems is key to DOD's ability to achieve audit readiness. In my examination of this issue, one thing is clear. We can't afford the cost overruns—continued cost overruns and schedule slippages that have plagued these systems to date if DOD is in fact going to be ready by 2017.

However, as our witnesses noted in testimony before this panel in late July, new IT [Information Technology] systems alone will

not guarantee auditability. The DOD must improve its business processes. Hopefully, today's hearing will shed some light on how the various components are doing in both of these regards.

Although the military departments are not yet auditable, DOD has made some progress towards this goal. For example, six smaller departmental organizations, including the Corps of Engineers, have received clean audit opinions; and the Marine Corps is undergoing an audit of its statement of budgetary resources as we speak.

The military departments must leverage the lessons learned from these efforts into their audit readiness plans. I hope our discussions here today will assist in that information exchange and bring to light some good news with respect to the Department's efforts to produce financial statements that we and the taxpayers can have confidence in.

With that, I would like to thank our witnesses for taking time out of their schedules to be with us this morning.

We have today the honorable Mary Sally Matiella—Matiella? Matiella. Paul and I were working on that, Mary Sally, and we just—Matiella, the Assistant Secretary of the Army, Financial Management and Comptroller; the Honorable Gladys Commons, Assistant Secretary of the Navy, Financial Management and Comptroller; Ms. Caral Spangler, the Assistant Deputy Commandant, Programs and Resources, U.S. Marine Corps; the Honorable Dr. Jamie Morin, Assistant Secretary of the Air Force, Financial Management and Comptroller; and Mr. Wesley Miller, Director of Resource Management, Corps of Engineers.

Now I would like to turn it to my good colleague, Rob Andrews, for any remarks that he has at this point.

[The prepared statement of Mr. Conaway can be found in the Appendix on page 27.]

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

Mr. ANDREWS. Thank you, Mr. Chairman.

Good morning, ladies and gentlemen. Good to have you all with us this morning. We appreciate your preparation, and I am sure this is a hearing where we will all be able to learn something.

Mr. Chairman, thank you for your aggressive schedule on moving our work forward. I expected nothing less, and I am happy to be a part of it.

Since the panel last met, we have made a very important decision as Congress in this country and that is that it is rather certain that, irrespective of who is in the Executive Branch or Congress, there will be very important decisions about defense spending made over the course of the next decade.

The law as we sit here this morning is that are facing either a very significant reduction because of sequestration or we are facing an agreement that in all likelihood will contain some further reductions in defense spending if there is one.

These are grave and important decisions any way you slice it. And the question here is not whether we are going to make these decisions. The question is whether we are going to make them

based on good evidence or insufficient evidence. And the country would be ill-served if we make these decisions based on insufficient evidence, and we will make them based on insufficient evidence if we don't have auditable financial statements throughout the Department.

This is not just another academic exercise where people debate the metaphysical question whether auditable statements are a good thing or a bad thing. This is for real. Because, as I say, irrespective of who is running the executive branch or Congress, they are going to be very consequential decisions that literally affect the life and death of the men and women who serve and affect the security of the country.

So I think this gives a new urgency to the task of this panel and of the ladies and gentlemen who will testify this morning to put ourselves in a position where we, as a Congress and a country, have in front of us the correct body of evidence to begin to make decisions about where our investments should be and where they shouldn't be and how they should be altered.

With that framework, I do think we have seen some real progress. Mr. Hale's testimony last time around I think laid out a very good roadmap to get to where we want to go; and this morning we begin our process of getting into the specifics, into the weeds, if you will, of how to get there, that you ladies and gentlemen of the people responsible for getting us there. And we are interested in hearing how far you have gotten and when you are going to get to where we need to go and what obstacles may stand in the way between here and there.

So thank you, Mr. Chairman, for this opportunity. I look forward to hearing from the witnesses.

Mr. CONAWAY. All right. Thank you, Rob.

I would ask unanimous consent that non-panel members, specifically Tim Griffin, be allowed to participate in today's panel. Is there objection?

Without objection, non-panel members will be recognized at the appropriate time for 5 minutes.

Mr. CONAWAY. Mary Sally, your turn.

**STATEMENT OF HON. MARY SALLY MATIELLA, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER**

Secretary MATIELLA. Chairman Conaway, Representative Andrews, members of the panel, thank you for the opportunity to testify today regarding financial management and our commitment to achieving auditable financial statements.

Secretary McHugh, the Chief of Staff of the Army General Odierno, Secretary Westphal, our Chief Management Officer, and all our senior leaders recognize the value and the importance of achieving the mandate of fiscal year 2010 National Defense Authorization Act which requires the Army to be audit ready by September 30, 2017.

The Army employs hardworking soldiers and civilians, personnel across all functional areas who are dedicated to achieving audit readiness goals. These professionals are transforming our financial and business systems to improve financial management, provide

timely, accurate, and relevant information for decision makers, and reassure American taxpayers and Congress the Army is a trustworthy steward of public funds.

I am confident that we will be audit ready by September 30, 2017. Because we have a sound and resourced financial improvement plan conforming to the Department's financial improvement and audit readiness criteria, a solid enterprise resource planning strategy guiding our businesses through development and deployment, and an effective governance oversight and structure ensuring accountability, our financial improvement plan is fully resourced, contains detailed corrective actions and milestones, identifies accountable organizations, incorporates lessons learned from the Army Corps of Engineers in the Marine Corps audit and aligns our business strategy.

The plan emphasizes early and comprehensive evaluation and testing of management controls. This ensures the controls of vital—controls vital to audit readiness are in place and operating effectively as soon as possible. We ensure that we are audit ready by September 17th.

Our improvement plan calls for annual audit examinations by an independent public accounting firm each year from fiscal year 2011 to 2014, these examinations on management and information technology system controlled and business processes in the ERP [Enterprise Resource Planning] environment. The accounting firms conducting these examinations will identify deficiencies and issue corrective actions.

These examinations will enable us to correct deficiencies early enough to meet our audit goals for an assertion of the general fund statement of budgetary resources in fiscal year 2015 and assertion of all financial statements in fiscal year 2017.

These audit exams will also condition the Army on how to support financial statement audits and ensure audit readiness strategy is sound and remains on schedule.

Each year, we are repeating a cycle of assessing, testing, identifying deficiencies, and implementing corrective actions. Additionally, each audit exam expands its scope by covering additional audit installations, processes, and systems each time we do a different wave.

The audit examination is currently in process at three installations and Army headquarters and covers several business processes executed in the ERP environment. We recently completed an examination of appropriations received, which resulted in an unqualified audit opinion from an independent auditor, thus confirming our ability to receive and account for nearly \$230 billion of appropriations.

Army senior leaders provide governance and oversight of our audit readiness efforts and hold personnel accountable for achieving specific milestones. Accordingly, audit readiness performance criteria will be included in our senior executive performance plans starting in October in fiscal year 2012.

Examination of our fiscal improvement plan and enterprise resource planning strategy, combined with senior level governance and oversight, will enable the Army to be audit ready by September, 2017. I am personally committed to meeting our national



security objectives and mandates of law requiring auditability. I look forward to continued collaboration with members of this panel, your counterparts in the Senate, GAO [Government Accountability Office], Comptroller Hale, and DCMO [Deputy Chief Management Officer] McGrath to ensure the continued improvement of the Army's business environment.

I look forward to your questions.

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

Mr. CONAWAY. Thank, Mary Sally.

Ms. Commons.

**STATEMENT OF HON. GLADYS J. COMMONS, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER, AND CARAL E. SPANGLER, ASSISTANT DEPUTY COMMANDANT, PROGRAMS AND RESOURCES DEPARTMENT, U.S. MARINE CORPS**

Secretary COMMONS. Good morning, Chairman Conaway, Congressman Andrews, members of the panel. Thank you for the opportunity to discuss the Department of the Navy's effort to achieve financial audit readiness.

Congressman Conaway, I want to personally thank you for your support and the interest that you have shown in our efforts to improve financial management.

The Department is fully committed to achieving financial auditability, and our senior leaders have provided the resources to do so. Secretary Hale has asked us to concentrate our efforts in two areas, the statement of budgetary resources and existence and completeness of high-value military equipment. Our plans reflect those priorities.

As noted, the Marine Corps is in the second year of the audit of the statement of budgetary resources. It has been challenging, but we continue to make progress, and we have learned many lessons from that audit. We have incorporated those lessons in the overall Department's financial improvement plan. We are also sharing these lessons with other departments. They include from the complex, proving the accuracy of our beginning balances for all appropriations, to the simple, maintenance of our supporting documentation and separation of duties.

We are making progress in other areas. The Department recently received an unqualified opinion on our appropriations received process examination conducted by a private audit firm. The Department of Defense Inspector General is examining the completeness and existence of high-value military equipment, for example, our ships, submarines, ballistic missiles, and satellites. That examination will be followed by an examination of the existence and completeness of our aircraft and ordnance inventory. We believe the outcome from these examinations will be positive as well.

We are working with our service providers to ensure that we all understand what must be done and who is responsible. We have reached across the aisles to assign responsibility to our own business process owners, such as our human resource and acquisition organizations. We have met with every senior executive responsible for executing our business processes; and, beginning in October,

they will have an audit readiness objective in his or her performance plan.

We are also engaging our general and flag officers through the Vice Chief of Naval Operations and the Assistant Commandant of the Marine Corps.

Achieving auditability is challenging and there is much work to do, but our financial data is accurate, and I will give you an example.

A few months ago, I received a letter from a former Navy employee who stated in his letter that he had not received full payment for a PCS [Permanent Change of Station] move that was made a number of years ago. We were able to go into our accounting system, pull out the data, show him the fact that we indeed had made full payment for his PCS move.

Now, when the auditors look at that, they would ask me, can you provide the actual PCS order? I may not have been able to provide the actual PCS order because it would—it happened a number of years ago, but I was able to go into the accounting system and pull out the data to show that he had actually been paid in full for his permanent change of station movement.

We are committed to this effort. We are making progress. Thank you for your interest and support of our efforts. I will be happy to answer any questions you might have, as appropriate.

[The prepared statement of Secretary Commons can be found in the Appendix on page 38.]

Mr. CONAWAY. Thank you.

Caral.

Ms. SPANGLER. I don't have a separate statement. Thank you.

Mr. CONAWAY. Sorry. That is right.

Jamie Morin, your turn.

**STATEMENT OF HON. JAMIE M. MORIN, ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER**

Secretary MORIN. Thank you, Mr. Chairman and Mr. Andrews and to all of the members of the panel, for the invitation and for the focus of this committee over a sustained period of time on this important agenda.

If I may, I would just like to briefly summarize written testimony and put the statement in the record.

Mr. CONAWAY. Without objection.

Secretary MORIN. Thank you.

Mr. Conaway, I think that the lesson is clear, that business as usual is the enemy of success in the audit readiness effort for the Department of Defense. Business as usual is not going to get the Department where we need to go. And the focus of the senior leadership of the Department of Defense, in response to the clear charge from this committee, from Congress, and from the American people, has helped get us out of the chain of business as usual.

The Air Force is closely aligned with the strategy that Under Secretary Hale has laid out for a focus in audit readiness on the information that managers use to manage the Department, building that positive feedback loop that comes from giving senior leaders the tools they need to do their job, refocusing our financial im-

provement and readiness plan on those elements that are most relevant to those day-to-day managerial challenges.

It was a shift of focus for the Air Force, which had put a lot of effort into valuation and other balance sheet pieces of the effort. And so we are coming from a little bit behind, but we are making up ground quickly due to really strong support from senior leaders in the Air Force, including Secretary Donley and Under Secretary Conaton, who is a good friend of this committee's, and, of course, our senior uniformed leadership.

Just a month ago, Under Secretary Conaton and Vice Chief of Staff General Breedlove jointly wrote all of the 4-star commanders of the Air Force major commands to impress on them the criticality of building audit readiness into the performance plans of their senior executives across a wide range of functional responsibilities, pushing that effort down to command level and from there to base level, so it is not just a headquarter's effort, and pushing that effort out across the numerous functional areas in the Air Force, so it is not just a financial management effort.

This leadership from our Chief Management Officer and our—one of our senior military leaders has really helped us. I am pleased that, because of that leadership, we have made some real progress over the last year or so.

Some of our wins include achieving audit readiness for our appropriations received, as the other Services have, and our funds distribution process. I think that is critical to giving the American taxpayer confidence that resources are being allocated the way they are appropriated.

We have also asserted our funds balance with Treasury reconciliation process. This is really balancing the Air Force's checkbook with the Department of Treasury. It is over a million transactions a month, and we are now reconciling it to 99.99 percent accuracy. A year ago, we couldn't reconcile it. So that is a significant step.

We have made progress on some of our military equipment and other mission-critical assets as well, asserting audit readiness for existence and completeness of our full military equipment universe, our cruise missiles, and our aerial targets, which we treat as operating materials and supplies.

Again, I think this progress directly comes from that intense commitment from our senior leadership, uniformed and civilian.

We do have a long way to go. That is clear. And the 2017 deadline in law is going to be challenging for the Air Force because of the shift in focus from the more valuation-oriented effort but also because of the IT acquisition challenges we face. We do see moderate risk, but with the high level of leadership commitment we feel like we are on track to make the deadline.

Our ability to achieve audit readiness really does depend on systems modernization. Right now, we are focused on fielding enterprise resource planning systems, a new accounting system called DEAMS [Defense Enterprise Accounting and Management System], a new logistics system called ECSS [Expeditionary Combat Support System], a new personnel system, and others. We are behind the other Services in that regard, but that has been a benefit in many respects because we have been able to learn lessons from the experiences the other Services have gone through. As a result, we have

made a heavy focus on data cleanup, we have made a heavy focus on feeder systems, we have made a heavy focus on change management for the user community, and that has been helpful. We are not rushing wide deployment of these systems into the field, but we are using them in real terms.

The DEAMS accounting system is the system of record at Scott Air Force Base, one of our large and complex bases that is handling billions of dollars of transactions. It closed out last fiscal year successfully, and we will be finishing up this fiscal year. We will assess that and move on to rolling that system out.

ERP's are not a panacea. They are not a solution to all of our problems. But the Air Force is running right now based on '70s-era bookkeeping systems that will not get us to a clean audit. They do not have the transaction-based fidelity. They do not have the U.S. standard general ledger basis that we need to get there. So IT systems modernization is inescapably part of the Air Force effort.

Again, we can't rely on business as usual to get us across the finish line here. We need clear accountability for individual executives. The Air Force has really been leading the way on that. We have got a number of senior leaders with direct financial tie in their performance plans to audit readiness this year and an even larger universe next year.

We need that real investment in systems modernization. We need a responsive effective acquisition process for those system modernization efforts. Again, you can't be stuck in business as usual of over cost, over schedule; and we need that involvement to stretch from the headquarters to the field and from the financial management community to the broader community.

We are making good progress on all of those pieces, and that is due in part to the focus of this panel and of Congress, for which I thank you.

Thank you, sir.

[The prepared statement of Secretary Morin can be found in the Appendix on page 43.]

Mr. CONAWAY. All right. Mr. Miller. Excuse me. Mr. Miller.

**STATEMENT OF WESLEY C. MILLER, DIRECTOR OF RESOURCE MANAGEMENT, U.S. ARMY CORPS OF ENGINEERS**

Mr. MILLER. Good morning, Congressman Conaway, Congressman Andrews, members of the panel.

I am Wes Miller, Director of Resource Management for the U.S. Army Corps of Engineers. Thank you for this opportunity to discuss Civil Works Financial Statement Audits.

The Corps of Engineers achieved a major milestone in fiscal year 2008 with the receipt of the first-ever unqualified opinion from a major Department of Defense activity. Last year, we received our third consecutive unqualified audit opinion and anticipate a fourth this year. Our current audit firm is KPMG, with the DOD Inspector General providing oversight.

The Corps has been working on CFO [Chief Financial Officer] compliance for over 20 years and has faced many challenges along the way. The biggest challenge in our first audit was providing documentation for over \$28 billion of property, plant, and equipment. We overcame that challenge by using alternate supporting docu-

mentation approved by the Inspector General. We also encountered many challenges processing over 14,000 samples as well as meeting the accelerated reporting timelines. The key to overcoming all challenges was building a cohesive partnership with the auditors and working with them for solutions.

From a lessons learned perspective, I would offer that the Corps of Engineers Financial Management System, which we refer to as CEFMS, is a major factor in our audit success. The Corps developed CEFMS as an enterprise financial system that encompasses travel, training, timekeeping, acquisition, asset accountability, and fully integrated with the Corps' project and asset management accountability systems. Many of the Corps' internal controls are automated within CEFMS, forcing 100-percent compliance.

For fiscal year '11 audit, we expect to process approximately 4,000 samples, which is a huge reduction from the first audit. With the reduced sample testing, we have shifted our resources to improve our internal controls program.

I recently signed our fiscal year '11 internal audits over financial reporting letter with an unqualified assurance that our controls are operating effectively. I expect that our work on improving internal controls will result in most if not all of our auditor reported material weaknesses being cleared in this fiscal year. That is our number one priority.

Thank you for inviting me here today. I look forward to any questions you may have.

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

Mr. CONAWAY. Thank you, Mr. Miller.

Thank all you panel members for coming here and the preparation time you put into making this happen. I am not sure how you got all those people here behind you, but apparently there is some interest in your squads as to what you were going to say this morning.

We will now go on the 5-minute clock with questions. I will start us off.

One of the things that—it may just be a problem I have—is that we have legacy systems out there. Mr. Morin, you mentioned in your written statement that if it looks like you are not going to make it to 2017. You are developing contingency plans to audit those systems. We will talk about that in a little bit.

But is tracking the demise of legacy systems one of the metrics that we should be looking at as we try to evaluate the progress that you are making? In other words, at this stage in the arrangement, I would expect you to be able to point to those legacy systems which will no longer be needed once you get to where you want to get to. It would seem if those continue on beyond that point that you are putting in place a system that is not sustainable. You may be able to get that one time audit or whatever, but you are putting—so is—any of the panel members want to comment on that? And that is to how you track and affect the demise of these legacy systems as they are replaced by the others.

Secretary COMMONS. Chairman Conaway, I will take that question.

In implementing our ERP at our major acquisition commands, we believe that we will be able to eliminate 96 legacy systems by the end of 2016. We know that we have already eliminated 14. We think we will do another 11 this fiscal year. So we are tracking whether or not we are able to eliminate those legacy systems.

One thing that I would like to highlight, however, is that much of the data that is contained in some of the legacy systems we need to keep. For example, shipbuilding is a 5-year appropriation, and it expends much longer, 10, 12 years in some instances. So converting all of that data to a new system is very expensive. We chose in some instances to keep that information into the legacy system until such time as those appropriations spend out. We are tracking.

Mr. CONAWAY. Okay. Air Force, Army?

Secretary MATIELLA. Our strategy right now is we roll out GFEBS [General Fund Enterprise Business System], which is our new accounting system, is we are inputting—as we roll it, put GFEBS into an installation, we only record new data into GFEBS and the old data stays in STANFINS [Standard Financial System], which is our old accounting system. But at a date certain, which would be, you know, something that you could track, the metric that you are talking about, at a date certain, by 2015, when we have fully deployed GFEBS, we are going to start working on bringing the old balances from the system, the ones that are still applicable, because many of those would have already deobligated. But the lingering balances in STANFINS, and we are going to bring them over into GFEBS.

So we are tracking. We do have a strategy where we are concentrating on new data in GFEBS, but at some point at a date certain in 2015 we are going to start moving the old data into the new system.

Right now, we are just concentrating on making sure that the new system is working, that we are training people correctly, and we will worry about moving the beginning balances after we feel like we have got a stable environment in GFEBS.

Mr. CONAWAY. Jamie, as you answer yours, one of the things in looking at the three Services, your timeline gets you right at the bucket, right at 2017. The other two Services have—or at least have plans in place to get it done sooner so that if they have slippage and it doesn't go as planned they have got a window of opportunity to make that work. Can you address the fact that the Air Force has got it right on the dime and that means no slippage?

Secretary MORIN. Yes, sir.

I think I will begin with the fact that in the dialogue between the committee—this committee and the Department of Defense, the Air Force was the pacing factor that led the Department of Defense to provide you with the schedule that got to 2017. So that it is not by happenstance that we are on the edge. We gave you the most aggressive deadline we could, given that schedule.

But it leaves us, as you said, with very little room for slippage, and we are very cognizant of that. As a result, we are pushing now what I would call a belt-and-suspenders type approach.

You have mentioned the line in my written testimony on that, that we are both pursuing our IT systems modernization through

our ERP strategy, where we are definitely planning to replace a number of systems and we are tracking them as they come out, although the fact that we are rolling out many of these systems geographically means that the actual retirement of the replaced systems will not come until we have covered the full geography of the Air Force.

But we are modernizing with the ERPs, and then we are also looking carefully at our legacy systems, the ones that can be remediated. Not all of them can. So, for those, we will be reliant on the ERPs.

But, in certain cases, relatively cost-effective investments in existing legacy systems will get us the trail that we need to have clean financial input to the underlying accounting system. So we are focused on that very closely, and we are watching those interdependencies.

One final point, which is that in the medium—in the early stages of the Air Force audit readiness effort, we perhaps bit off more than we could chew with some of those systems modernizations. Our ECSS effort, you know, was originally planned to replace I believe 240 IT systems. That was probably too much scope. And over the more than 5-year history of that program it has now been tailored and moved into smaller increments and releases of capability. Because trying to replace 240 systems at once strained the planning and execution capability of an institution of our size.

Mr. CONAWAY. Thank you.

Rob, 5 minutes.

Mr. ANDREWS. Thank you, Mr. Chairman.

Secretary MATIELLA, I understand in December of this calendar year the Army is going to match GFEBS against the GAO's sort of audit manual to see how it stacks up. Do you have any early indication as to how GFEBS is going to stack up?

Secretary MATIELLA. I believe that we are going to be very successful. We have been working very hard to make sure that GFEBS is meeting the criteria that is required, that it has all the general ledger accounts that it requires. So I believe that at this point that GFEBS is going to be successful in being able to meet the IG's [Inspector General] and all the other regulation requirements.

Mr. ANDREWS. What is the Plan B? Because it seems that so much of the Army's efforts for the audit compliance depends on GFEBS really working the way you want it to. Is there some sort of fire drill ready if there are deficiencies found in December of this year?

Secretary MATIELLA. We are just—it is resourced. We have got the resources there to fix what is broken. And so at this point, you know, we plan on fully deploying GFEBS by July of next year. We have got a lot of major commands that are fully on GFEBS at this point. So we are sticking to Plan A. And, at this point, what we see is GFEBS is working. There are no data integrity problems. We do have to, you know, maybe slice and dice the data within GFEBS into different accounts, but we believe it is going to work. So we are very hopeful of that.

Mr. ANDREWS. With the chairman's permission, I think we would like—the panel would probably like to have a report after your December review, a letter or some kind of written report to let us

know how you are doing, because I think that is a very pivotal midpoint.

[The information referred to can be found in the Appendix on page 61.]

Secretary MATIELLA. More than happy.

Mr. ANDREWS. Thank you.

Secretary Commons, I love your story about the person who wrote in and thought he was underpaid. Usually, they write to me. I am glad it was you instead.

How long did it take you—when you asked that question, how long did it take you to get the answer?

Secretary COMMONS. Actually, not very long. Within a day or two. Our systems—our accounting systems for many years have been at the transaction level detail. So we are able to go in and look at data. Our issue is pulling that data out for the auditors. But we have been at the transaction detail level for many years.

Mr. ANDREWS. That is good.

I want to ask you a more subjective question based upon your professional judgment. How would you place the probability the Navy will get to that 2017 deadline? How probable is it?

Secretary COMMONS. I am very optimistic. Our deadline that we have set for ourselves is fiscal year 2013. So I believe we will have ample time to make whatever corrections we need to make to meet the 2017 deadline. We are pushing very hard. We are not slipping our deadline. We are trying to stick to it and forcing the issues to make sure that we meet the 2017 deadline.

Mr. ANDREWS. I appreciate that.

And, Dr. Morin, you have spoken with great detail about the systems modernization challenges that the Air Force has to get to where we need to go. Are there any others in addition to systems modernization that you think are potential roadblocks to getting to the deadline?

Secretary MORIN. There is absolutely a range of other challenges. We have—it is people, it is processes, and it is systems. And they have got to work in concert.

What we have found as we have rolled out DEAMS at Scott Air Force Base is, you know, in many cases doing financial management business in an auditable solid system is harder work than doing it in a legacy system. You know, you can't just enter seven 9s in a field and have the system pass the funding document through. So we have had to do a lot of additional training, a lot of hand holding as we get our workforce up on this system. And there is education required as to the strategic importance of this.

Mr. ANDREWS. How are you handling the employee education to get your employees up to speed on what they have to do?

Secretary MORIN. We have a very deliberate and careful change management process that starts months and months in advance of turning the system on.

Mr. ANDREWS. Who does the educating? Is it a vendor? Is it in house? How do you do that?

Secretary MORIN. It is a mixed force. We have a functional management office that is made up of seasoned financial managers that provides the detailed subject matter expertise. A lot of the—a lot



of the training is done by contract support. But it is—it depends on exactly the level of training.

Mr. ANDREWS. Very quickly, Mr. Miller, I saw you had a recommendation or a thought about the 45-day window at the end of the fiscal year. Do you think there should be a longer window for that compliance? If so, what should it be?

Mr. MILLER. In the first-year audit, sir, that is very difficult to make. After that, you are working towards that 45-day window, and it is workable, and we have achieved it each of the last 3 years.

Mr. ANDREWS. What do you think it should be in the first year?

Mr. MILLER. Sir, I think that first audit, it is going to take 4 to 5 months in order to get the results from that first audit.

Mr. ANDREWS. Some of us just hope that the Corps has some money to be audited next year. A different problem. Thanks very much.

Mr. MILLER. Thank you, sir.

Mr. CONAWAY. Thanks, Rob.

Scott, 5 minutes.

Mr. RIGELL. Good morning. Thank you, Mr. Chairman; and thank you all for being here bright and early and all the staff. We really appreciate that.

I am encouraged by what I am hearing. I think there is a deep resolve to move this forward, and just as a fellow American I thank you for that. We need to use our monies wisely.

It seems like there was a common theme in your opening remarks that incorporating an assessment of the senior leadership, the executives, is starting to pay some benefit there; and I can tell you from my private sector experience that this is a good thing.

I have routinely sat down with general managers of operating components and said, we are going to go through this general ledger; and they say, well, I have never done that before. And I say, well, this is how we run this business. And I said, I am not trying to make an accountant out of you, but you need to have a working knowledge of what you have been entrusted with. And it has always been very helpful. So I encourage you to pursue that.

Now, with that in mind, you always wonder, okay, well, how are you establishing a benchline?

Let us say I am a hard-charging colonel in Afghanistan. Come back, they reward me with a base. I am a 1-star now. I walk on the base. I don't know what I have inherited with respect to accounting. So how do you establish that baseline and how do you judge his or her performance at the end of his or her time?

And I just would direct that to the general—the panel there, whoever would like to comment.

Secretary COMMONS. First, we are indeed working with our flag and general officers as well. In fact, the Commandant of the Marine Corps believes that this is so important he has invited us to come and talk to his 3-star and above general officers to explain to them exactly what is needed for financial audit readiness.

Also, the Vice Chief of Naval Operations has offered the same for his flag officers, that we come and talk to them about the importance of audit readiness.

So we believe that we do have the support of the senior leaders of the Department. We take advantage of every opportunity to talk to senior leaders. I in fact went over and talked to our senior executives within the Department of the Navy, explained to them their role in this process. And, again, we have visited or talked to every senior executive within the Department of the Navy who influences the business processes to tell them of their importance and the role that they play. Because I think that is the key, that they understand the role that they play in reaching financial audit readiness.

Mr. RIGELL. A follow-up then might be if you could provide—certainly me and maybe the panel here with copies of that performance appraisal, not of course—not specific to a person but just the generic one. I would like to see what we are asking of our senior officers and how we are going about that.

[The information referred to can be found in the Appendix on page 61.]

And, also, I think you may want to consider, since you are having real success in this area and it is helping, if we could establish a culture even earlier on. If you have got your 3-stars, that is great. But over time to develop that to where we're instilling that is at junior and mid-level officers and senior NCOs [non-commissioned officers] that this is just part of your duty. We don't want to take the warrior out of you. We don't want to do that. And I think we need to be careful about how we approach these things. But certainly being accountable for the assets entrusted to them is a good thing.

As we move along in this process—and wouldn't we all love to fast-forward the tape to 2013 or 2017 and just see how we all did—but there are measurable benchmarks along the way. I trust those are clearly defined and we'll be informed along the way.

And is there any third party—my final question, is there any third party—Mr. Morin, I will direct this to you, sir. Is there any third party that would come along and say, no, they really are not meeting that and alarm bells would go off so we could take action?

Secretary MORIN. Third-party valuation is critical, obviously, to any audit effort. We are relying on a series of third-party validators. For example, for our appropriations received assertion, we brought in an independent public accounting firm to do an examination of that. And we have received their unqualified opinion, and that is giving us confidence that we fixed the issues there.

We also use the Inspector General. We use the DOD Inspector General for a portion of our examinations, and we use the Air Force audit agency as well. All of those bodies maintain a sufficient level of independence.

But there is—we need to do a very good job of providing those interim metrics, and we have plans with literally thousands of line items of actions. Some of them—

Mr. RIGELL. Thank you. My time has expired. I just want to—out of respect for the chairman. Thank you, sir, very much.

Mr. CONAWAY. Thank you, Scott.

Mr. COURTNEY for 5 minutes.

Mr. COURTNEY. Thank you, Mr. Chairman.

Actually, I just have one quick question. Secretary Commons, you mentioned in your testimony that, right now, the Navy is going through an audit with the Inspector General. And I am just—it is really—and I apologize for sort of talking about—or spending time on an issue that most people probably know standing on their head. But I mean is that an audit that is just random or is that a regular audit or is that something that you guys just sort of suddenly get a letter in the mail, like the IRS [Internal Revenue Service]?

Secretary COMMONS. No, this is actually an examination to prove out that we say that we are ready for audit of completeness and existence of our high-value military equipment. The DOD IG is actually coming behind and verifying that the statement that I made is true, that we are ready there. So they are auditing that. They are going out. They are looking to see that the ships that are on our inventory are actually there and recorded.

Mr. COURTNEY. And how long a process is that?

Secretary COMMONS. We believe that this should take only a couple of months to complete this audit, but I don't control the IG timeframe. I just respond to them.

Mr. COURTNEY. So if this effort to hit the 2017 target with the new systems is successful, I mean, will that moot this sort of Inspector General process? Or will it just make it easier to comply with?

Secretary COMMONS. What we are actually trying to do is to get the auditor's lens on our processes as quickly as possible to confirm that the actions that we are taking, have taken are, in fact, successful. That gives us confidence to move to the next area that we need to work on. And so it is merely an examination to prove out the fact that, yes, your processes are good there, you are fully auditable in that area. When we have completed this entire process and will be ready for audit of the full statement, there will just be one audit.

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

Mr. CONAWAY. Thanks, Mr. Courtney.

Mr. Palazzo for 5 minutes.

Mr. PALAZZO. Thank you, Mr. Chairman; and I would like to thank the witnesses for being here today to continue this extremely important conversation.

In the essence of time—and I know my colleagues to the right of me have some questions and there will probably be some closing remarks, so I will try to keep this brief.

This is for everybody. Do you believe—I mean, there are certain lessons learned as we go through this process. It is a huge attempt to prepare the Services to become audit ready. And we have had to look at ERP and updating our legacy systems to more modern technology and, quite honestly, that—as a CPA [Certified Public Accountant] and a former business owner, I am still with the same tax preparation software and will probably be until they discontinue it just because I fear that change and that deliberative change management and, you know, we finally got the system tweaked, even though it is not the best.

Anyway, I am digressing. So I didn't want to do that.

Do you see that these lessons learned—CPAs have a habit of doing that. Do you see that these lessons learned are applicable to all of the Services or do you think each Service is so unique and so separate that we have to give—and I know there is probably a certain amount of individual attention. But do you think these lessons learned that, say, the Corps of Engineers will be applicable to the Army, the Navy, Marine Corps, and Air Force? So if you would just—

Secretary MATIELLA. I would like to answer that.

I believe that lessons learned are applicable across. I went through an audit with the Forest Service. We got our first clean opinion while I was CFO there. Those lessons learned are things we are struggling here. It is about change management. It is about training. It is about having the right systems. It is about knowing how to be auditable, how to communicate with the auditors.

Internal controls are important. So there is a lot of lessons learned, and Wes here will also talk about that. But this is why we are looking at the folks that are under auditability. But you can go into not only inside of DOD, outside of DOD and have the same lessons learned. Very applicable.

Mr. PALAZZO. And also are you all communicating between the Services the lessons learned and the best practices?

Mr. MILLER. Sir, I go on the road quite a bit and talk about the lessons learned from our audit. I say there are four things that were critical for us and that we learned.

First of all, there needs to be a CFO culture that you have there. You have to have competent people, one. But you also have to have individuals that expect to be checked. Individuals will do best what they know is going to be checked. So bringing in an external auditor in is very helpful as far as the audit program.

The second point as far as having that financial management system that provides the detail in the transactional fidelity that you need to have there.

The third item is the command support. The command has to be behind you 100 percent. It is just not the resource management community that enforces the audit, but it has to be the command. They have to buy into standards and enforcing those standards when they need be.

And then the final element, as far as when we conduct the audit, is that it is work conducting that audit. You have to be there with the auditors, hand in hand, understanding their particular position, getting them to understand your position and why your processes are the way that they are.

And I think those are applicable to all Services, sir.

Mr. PALAZZO. Anybody else?

Secretary MORIN. Congressmen, if I could, I think it is fair to say that DOD as a whole and each of the Services have closely looked at the success of the Army Corps of Engineers and we have used that to structure a lot of our governance process. So each of the Services has a cross-functional team chaired by the CFO that is responsible for bringing together that command support and that set of knowledge across the functions of a headquarters and an operation. So we have really looked aggressively at that.

The Marine Corps audit, obviously still a work in progress but an important piece of progress, our staffs and we individually have had a number of interactions at a detailed level going through the recommendations that came out of that. In particular these are important for me at the Air Force because of our tight timeline. We can't afford to learn lessons by making mistakes ourselves. We have to learn lessons by viewing others' successes and failures.

Mr. PALAZZO. Well, that is admirable. I appreciate the fact that you all are sharing lessons learned, best practices, and everything else. And it is also admirable that you all are taking on such a monumental task. Just a small CPA firm and the fear of new technology and changing—so it is just wonderful to see that you all are doing this and, at the end, we are going to be able to achieve audit readiness. I think that is wonderful. Thank you.

Mr. CONAWAY. The gentleman yields back.

Our rules are a little ill-defined. I will go to Mr. Griffin first since he was here on time. Five minutes.

Mr. GRIFFIN. Thank you, Mr. Chairman. I appreciate you holding this hearing. And thank you all for coming early. I really appreciate it.

I just did a whole lot of town halls over the break and/or the vacation, as it was called. I didn't get the memo on that one. But I talk about the fact that DOD has had this problem with being audit ready; and when I am discussing it, folks understand that. But they always want to know what are the consequences of that.

And we have heard a lot of talk here about the systems. I know that is what you all are focused on. But could you—could you talk a little bit in layman's terms what the negative consequences has been with DOD not being audit ready?

I know that the general narrative of some of the discussion this morning has been that we are not technically audit ready but we have the data somewhere. And that is often the case. But there are real-life, negative, wasteful consequences to not being audit ready, DOD not being audit ready. Can you all—can you all give some examples that I could use back home to explain why this is a problem for DOD? And it is not just a function of technical compliance, that there really is an impact in terms of taxpayers' dollars. Does anybody have anything to share on that?

Secretary COMMONS. I will take a stab at that.

First of all, our systems were never designed to do proprietary accounting the way that we are being asked to do it today. They were designed for budgetary accounting; and, quite frankly, we believe we do that very well. We do not have Anti Deficiency Act violations as—we have some but not as many as you find in some of the other agencies.

Our processes—our business processes were not designed from end to end. In other words, if you were in the civilian personnel business, your system was designed to support hiring, getting people on board, and making sure that they were in the system. It was not necessarily coordinated with the financial system. So what we need to do is to look at our end-to-end processes.

What the auditors do when they come in to look at our books, they will say, I see from your financial records that you are paying

an employee. What I would now like to look at is the supporting data supporting that entry in the accounting system.

The supporting data is in fact a personnel action, be it from an SF-52 or a 50. So when you go back you are going to the personnel people to say give me that supporting documentation.

Our processes have not been optimized in that way. But that is where we are going, to optimize those processes, make sure that the linkages between the various business owners is there. So that when the auditors come I can show them from end to end this is the transaction in the accounting system, this is the supporting documentation for that transaction, and they can look at our entire process. That is what we have not yet done and what we are working toward.

Mr. GRIFFIN. So you would say to my constituents that, in many cases, this is—this is more of a technical problem and is not—does not reflect on a situation where you are unable to track money. This has more to do with being able to know the ins and outs of the money being spent, money coming in, and being able to manage it better in the future. It does not reflect a situation where you just don't know where the money is; is that correct?

Secretary COMMONS. That is correct. Absolutely. I believe we know where the money is. I think what this does for us by going down to the transaction level of detail, it reinforces the fact that the summary level data that we have can be relied upon by our decisionmakers.

Mr. GRIFFIN. Got you. Thank you.

Thank you, Mr. Chair.

Mr. CONAWAY. Mr. Young for 5 minutes.

Mr. YOUNG. Thank you, Mr. Chair.

I want to thank our Assistant Secretaries, our Assistant Deputy Commandant very much for being here this morning.

I was struck by a couple of different trends that I have picked up, not just here today but in some of the previous hearings we have had. First is the collaborative cross-departmental effort to become audit ready, to achieve those clean audit opinions; and then, second, is the very different audit readiness goals that we find across departments. So I would like to briefly dig into each of those.

First, I was encouraged by the Corps of Engineers' efforts to educate everyone on what they regard as lessons learned, best practices and I wanted to see if there are any specific examples of changes that your departments have made, you know, following some of those different consultations. Specifically, if you can speak to—if anyone can speak to this integrated financial management system, is that something that can be overlaid into another department very easily? I mean, that seems like it requires quite an investment of both time and money to improve that. We have heard some talk about systems and I am sort of getting my sea legs, as we say in the Navy, with some of this material, but if you could speak to those lessons learned and changes made right now, I would appreciate that. Anyone.

Mr. MILLER. Sir, concerning the use of CEFMS as far as in other areas, that has in fact been tried. And it is a very specific system that is designed in order to do project-based accounting, so it is

very good as far as for construction. But it isn't for general fund type of accounting that the other Services would need.

Secretary MATIELLA. One of the huge lessons learned that we got from the Army Corps of Engineers is how to manage an audit. An audit itself is a lot of work. For example, I like to estimate how many samples we would get to have the support in an audit, and I am thinking it is about 150,000 samples, just a huge amount of work. So how do you manage that work so that you can come up with an opinion in that 45-day window? Of course, you start the audit way, way before the end of the fiscal year.

So there is a lot of lessons on audit governance and how you communicate with the field and how you keep track of deliverables and how you keep folks accountable for deliverables, timeframes that are involved, and also developing business rules on what is good supporting documentation. That is a huge one that you can establish with the auditors way ahead of time, is what is it they expect and what is an appropriate level of work effort and support for a sample.

So in terms of how to negotiate an audit and do it well and efficiently and on time and on cost is a huge lesson that we have learned from the Corps of Engineers.

Mr. YOUNG. Thank you.

Secretary COMMONS. I would say that certainly we learned from the Corps of Engineers that we needed an efficient process to retrieve and provide to the auditors a large balance of source documentation. When the Marine Corps went to audit they took that lesson learned to heart and they actually developed an automated process using SharePoint® server technology. So we are in fact learning from each other as we go through the audit process, and we are putting those lessons to use.

Mr. YOUNG. I have got about 1 minute 20 left, so I am going to allow one person to take a stab at this one. I am struck, though, by the fact, as I said earlier, that we have got different departments here learning from the lessons of the Corps and from others, but we have very divergent, very different audit readiness goals. To what do you attribute that?

Secretary COMMONS. Quite frankly, we are at different stages of audit readiness. As we noted, the Marine Corps is already under audit. We have done things in the Navy that we may be a little farther ahead of the other departments, so it is a matter of what stage you are in the audit readiness that really sort of dictates the plan for us.

Secretary MORIN. And, sir, if I may add, I think another key piece is that the Services and the defense agencies are in different places with regard to their IT support, so that the Navy is starting from what is fundamentally a sound accounting system that they fielded a decade or so ago. The Air Force is starting from a book-keeping system that was fielded in the early '70s. So different prerequisites have to be worked with.

Mr. CONAWAY. Well, Rob, anything else?

Mr. ANDREWS. Yes, Mr. Chairman, just briefly.

I think it was Mr. Miller who used the phrase "CFO culture." Was that your phrase? I liked that one, and I think it is a good summary of what we are trying to accomplish here on the panel

and what you ladies and gentleman are accomplishing out in your work, which we appreciate. You said that if you expect to be audited, you begin to change your behavior. Members of Congress would be wise to maybe keep that in mind, too.

Our objective on this panel is to, in effect, audit the auditors. We want to keep in touch with you, we want to hear about your progress, and as that culture filters down through the agencies I think we will find ourselves in a much better position to understand what we are doing and make informed judgments.

Mr. Chairman, I give you credit that your single-minded devotion to making this happen is the reason we are hearing about this progress today, and you have my commitment that we will continue to work with you and with the ladies and gentlemen we have heard from today to move even further down the road so we achieve that day when each of these entities has an auditable financial statement, achieves that unqualified opinion, and I think we will accomplish something of real value. Thank you.

Mr. CONAWAY. Thanks, Rob.

I also was encouraged by Jamie's comments that you don't necessarily have to make all the mistakes yourself, that you can learn from each other. Each of these audit processes will come with a report by the auditor at the end of the deal as to where you need to improve, a formal system for sharing those at some proper level with your team so that you don't in fact have to reinvent the wheel each time that something is disclosed, that you can learn from those issues.

This team on our side of the panel will be better informed this time next year. We will have a lot better sense, since we are putting this work together now, as to how much progress is being made.

Mr. Miller, you mentioned that you do what gets checked. Having performance evaluation metrics in each of the senior executive's performance plan for next year, somebody, Rob and I or somebody, is going to be interested in looking at how that worked, are there in fact consequences to doing the job that you were asked to do and charged with doing, and are there consequences for where that did not get done and a variety of reasons.

So we will be checking those kinds of things, and our side will have a better foundation of being able to evaluate how this progress is going. This is not us against you, obviously. That is not intended in any way to be there. But we have a role, and you have one as well.

This has been one of our more productive hours spent together, and I appreciate each of you coming in and reaching out to us ahead of time as well, either in August or this past week or so. So thank you for that.

If there are things that we can do to address things that are standing in your way, legal issues, other things that are there, we have an open door as to how we get that addressed.

One of the things that Rob and I will be watching is how the various agencies are resourced in your efforts. Each of you have said at this stage you believe you are properly resourced to get the job done. In this era of cutting spending, sometimes that can impact this. So we will be watching to make sure that these efforts are



resourced so that we do in fact get to a point that—and we talk about the audit, but the real issue is, day in and day out, data generation systems, management information systems, internal control systems that generate all of this and allow a once-a-year quick *Good Housekeeping*—I say “quick”—*Good Housekeeping* Seal of Approval to be laid on this deal. But it is really about the sustained information systems and flow of information that decisionmakers will need on both sides of our respective responsibilities that are there.

So, ladies and gentlemen, thank you very much for coming this morning. If there is nothing else, we will stand adjourned. Thank you.

[Whereupon, at 9:05 a.m., the panel was adjourned.]



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**A P P E N D I X**

SEPTEMBER 8, 2011

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**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

SEPTEMBER 8, 2011

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

**Hearing on**

**Department of Defense Component Audit Efforts**

**September 8, 2011**

I'd like to welcome everyone to today's panel activities on the efforts of the Department of Defense to generate auditable financial statements. In our first hearing, we received testimony on DOD's strategy and methodology to achieving audit readiness by 2017 and on the challenges it faces in achieving that goal. Today, we will hear from various DOD components on their approach to implementing the DOD financial improvement strategy and methodology, we'll delve deeper into the challenges faced at the component level, and hear how the components are incorporating lessons learned from ongoing audits into their audit readiness plans.

Although there is a standard methodology that DOD components must follow to guide their audit readiness efforts, their approach to achieving audit readiness may vary from component to component. We are interested in hearing about each of the component's approach to achieving financial statement auditability by 2017.

It is widely recognized that the successful implementation of the Enterprise Resource Planning systems is key to DOD's ability to achieve audit readiness. In my examination of this issue one thing is clear. We cannot afford the cost overruns and schedule slippages that have plagued these systems to date if DOD is going to be audit ready by 2017. However, as our witnesses noted in testimony before this panel in late July, new IT systems alone will not guarantee auditability. The DOD must also improve its business processes. Hopefully, today's hearing will shed some light on how the DOD components are doing in both of these regards.

Although, the military departments are not yet auditable, DOD has made some progress toward this goal. For example, six smaller departmental organizations, including the U.S. Army Corps of Engineers, have received clean audit opinions and the U.S. Marine Corps is undergoing an audit of its Statement of Budgetary Resources. The military departments must leverage the lessons learned from these efforts into their audit readiness plans. I hope that our discussion here today will assist in that information exchange and bring to light some good news with respect to the Department's efforts to produce financial statements that we, and the US taxpayer, can have confidence in.

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

**The Honorable Mary Sally Matiella**

Assistant Secretary of the Army (Financial Management and Comptroller)

**The Honorable Gladys J. Commons**

Assistant Secretary of the Navy (Financial Management and Comptroller)

**Ms. Carol E. Spangler**

Assistant Deputy Commandant, Programs and Resources (Resources)  
United States Marine Corps

**The Honorable Jamie M. Morin**

Assistant Secretary of the Air Force (Financial Management and Comptroller)

**Mr. Wesley C. Miller**

Director of Resource Management  
US Army Corps of Engineers

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



Statement of

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

before the

House Committee on Armed Services

Panel on Defense Financial Management  
and Auditability Reform

September 8, 2011

**Embargoed until released**  
by the House Armed Services Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our strategy is focused on building the internal structure to sustain audit readiness and realize the benefits of an improved and controlled business environment. This corporate knowledge begins with top-down leadership engagement and accountability. The Army recognizes that audit readiness requires engagement throughout the organization and the Army is holding all Senior Executive Service personnel—not just those in the financial

management community—accountable for achieving audit readiness milestones. On May 26, 2011, I established assessment criteria against which all Army Senior Executive personnel will be held accountable in fiscal year 2012 performance plans for achieving audit readiness milestones.

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

In summary, I recognize the challenges associated with improving financial information and achieving audit readiness within the Army. However, we are making great progress because of the commitment from senior Army leaders and business process owners. I am personally committed to this effort to meet our national security objectives and the mandates of the law. I look forward to working with the members of this Panel, 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  
RELEASE BY THE HOUSE  
ARMED SERVICES COMMITTEE

STATEMENT OF  
  
THE HONORABLE GLADYS J. COMMONS  
  
ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)

BEFORE THE  
  
FISCAL MANAGEMENT PANEL  
  
OF THE  
  
HOUSE ARMED SERVICE COMMITTEE

ON  
  
FINANCIAL MANAGEMENT AND RESPONSIBILITIES  
  
AT THE DEPARTMENT OF DEFENSE

08 SEPTEMBER 2011

NOT FOR PUBLICATION UNTIL  
RELEASE BY THE HOUSE  
ARMED SERVICES COMMITTEE

Chairman Conaway, Representative Andrews, members of the Panel, thank you for the opportunity to discuss the Department of the Navy's efforts to achieve financial audit readiness. Achieving financial auditability is one of my highest priorities and I am personally committed to this objective. The top leaders in the Department, Secretary Mabus, Under Secretary Work, as well as the Chief of Naval Operations, Admiral Roughead, and General Amos, the Commandant of the Marine Corps, are all also committed to our drive to auditability.

Indeed, the Department has demonstrated through performance that we are aggressively moving forward. The Marine Corps is in its second year of audit on its Statement of Budgetary Resources. Our goal is to attain an opinion later this year from the Department of Defense (DoD) Inspector General and the private firm conducting the engagement. This effort has been a significant first-time challenge for us, but the Marines have risen admirably to the test, as they always do. This audit has been invaluable because of the lessons we've learned. We have incorporated those lessons into our larger Department of the Navy financial improvement plan and are sharing them with the other Military Departments.

The Department of the Navy is currently undergoing an examination by an outside auditor of its Appropriation Received process; and the DoD Inspector General is conducting an examination on the Existence and Completeness of high-value military equipment, including ships, ballistic missiles, and satellites. We also believe that we are ready for an examination of the Existence and Completeness of our aircraft and ordnance.

In addition to supporting these ongoing audits, we continue to identify the improvements to business processes and systems needed to support an audit of the entire Department's Statement of Budgetary Resources. We know we must comply comprehensively with accounting and

auditing standards, just as all financial entities, public or private, are required to do; however, our systems and processes are not yet designed to do so. Internal controls in most areas must be strengthened. Our audit readiness team has refined its detailed plan for audit readiness, based on the extensive lessons we've learned from our Marine Corps audit and from our initial assessments of the auditability of our business processes.

One current focus is bolstering our collaboration with our service providers, particularly the Defense Finance and Accounting Service (DFAS). We know that we must develop several essential capabilities before we can undergo an audit, including reconciling our cash balance with Treasury and tracing transactions from their origination through the financial statements. Extensive cooperation with DFAS will be required for success in these areas. We have their commitment.

In addition to changing business processes, we need to improve controls in supporting business systems. Navy's Enterprise Resource Planning (ERP) system will make a significant contribution to our auditability efforts. Navy ERP will enhance these efforts because it establishes a stronger, embedded internal control framework and helps standardize business processes for a sustainably auditable environment. Implementation of Navy ERP continues apace and according to schedule.

As a final point, I'd like to reiterate our leadership's commitment to audit readiness. We continue to widen the circle of accountability. Beginning next fiscal year, every senior executive responsible for executing our business processes will have an audit readiness objective in his or her performance plan. These front-line leaders will help the Department transform its business

processes and orient its business culture toward auditability. In addition, we continue to have the commitment of our leadership to resource these efforts adequately now and into the future.

I'll be pleased to answer any of your questions at the appropriate time.

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



**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.

Statement of

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

before the

House Armed Services Committee

Defense Financial Management  
and Auditability Reform Panel

September 8, 2011

**Embargoed until released**  
by the House Armed Services Committee

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

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

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

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



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

#### Air Force Progress

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

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

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

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

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

#### Getting to An Audit Ready Environment

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

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

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

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

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

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

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

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

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

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

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

**Assistant Secretary of the Air Force  
(Financial Management and Comptroller)**



**Dr. Jamie M. Morin**

Dr. Jamie M. Morin is the Assistant Secretary of the Air Force for Financial Management and Comptroller, Washington, D.C. He serves as the Air Force's Chief Financial Officer and principal adviser to the Secretary of the Air Force on all financial matters. He is principally responsible for exercising the comptroller and financial management functions of the Air Force, which include preparation of the Air Force budget, directing cost and economic analysis programs and oversight of accounting and finance operations, systems and reporting. In this role, he oversees the financial management team responsible for providing financial management necessary for the effective and efficient use of Air Force resources, to include more than 680,000 military and civilian personnel and a budget of more than \$119 billion.

From 2003 until his current appointment, Dr. Morin was a member of the professional staff of the U.S. Senate Committee on the Budget. In this capacity, he served as the committee's lead analyst for the defense, intelligence, and foreign affairs budgets, responsible for drafting the relevant sections of the congressional budget resolution and advising the Senate on enforcement of budget rules. Additionally, he advised the Chairman of the Budget Committee on the full range of national security issues.

Earlier in his career, Dr. Morin served in the Office of the Secretary of Defense and as an economic development strategist with the firm J.E. Austin Associates, where he worked on projects for the U.S. Agency for International Development. Dr. Morin's academic research focused on U.S. national security policy, particularly the role of Congress in defense budgeting and policy making. He held in-residence fellowships at the University of Virginia's Miller Center for Public Affairs and at the Center for Strategic and Budgetary Assessments, where he conducted research for the Pentagon's Office of Net Assessment. He also served as a policy adviser on President Obama's defense transition team. He was confirmed as the 21st Assistant Secretary of the Air Force for Financial Management and Comptroller on June 19, 2009.

52

U.S. ARMY CORPS OF ENGINEERS

TESTIMONY OF

WESLEY C. MILLER  
DIRECTOR OF RESOURCE MANAGEMENT

BEFORE

COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

ON

DEPARTMENT OF DEFENSE COMPONENT AUDIT EFFORTS

SEPTEMBER 8, 2011



Mr. Chairman and Members of the Committee, thank you for the opportunity to be here today to discuss the challenges faced and lessons learned from the U.S. Army Corps of Engineers (Corps) Civil Works Financial Statement Audits. I am Wesley C. Miller, Director of Resource Management for the Corps.

**Background:**

The Corps has two major programs, Civil Works and Military Programs. The three main Civil Works missions are commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration. Other Civil Works missions include hydropower, regulatory, recreation, emergency management, environmental stewardship, water supply storage and the Formerly Utilized Sites Remedial Action Program. Military Programs primary focus is on Military Construction, which includes support to Overseas Contingency Operations, Base Realignment and Closure, and Army Transformation. The Civil Works and Military Programs Fiscal Year (FY) 2011 programs are approximately \$7.4 billion and \$26.8 billion, respectively. The Corps also performs approximately \$12.6 billion annually in reimbursable work for other Federal agencies. Roughly 35,000 personnel, primarily civilians, manage these funds for thousands of projects in a decentralized structure that includes a Washington D.C. headquarters, nine regional offices, and 45 district offices. For financial statement audit purposes, the Corps Civil Works financial statements are reported and audited separately from those of Military Programs, which are reported and audited as part of the Army General Fund.

The Corps Civil Works program achieved a major milestone in FY 2008 with the first unqualified audit opinion ever received by a major Department of Defense activity. This opinion on the Corps Civil Works financial statements validated that the statements were fairly presented and the internal controls surrounding the Corps financial processes were operating effectively. In FY 2010, the Corps Civil Works program received its third consecutive unqualified audit opinion, with a fourth anticipated in FY 2011.

**Civil Works Audit Readiness Challenges:**

The Corps has had many challenges along its journey but overcoming three major challenges were vital to success.

**1. Supporting documentation for valuation of Property, Plant and Equipment (PP&E)**

The first and largest hurdle was valuation of the Property, Plant and Equipment line on the Balance Sheet, which encompasses approximately 50 percent of total asset value at \$28.6B, and specifically the lack of historical supporting documentation. To overcome this hurdle the Corps partnered with the Department of Defense, Inspector General (DODIG) to determine the best method of valuation within the guidelines provided by the Federal Accounting Standards and Advisory Board (FASAB). In June 2004, after

partnering with the DODIG for over two years, the Corps and DODIG signed a memorandum of agreement that established the framework of supporting documentation requirements for the individual Civil Works assets within the Corps that were placed in service before October 1, 1998. The memorandum of agreement was later documented, as an example, in FASAB Technical Release 13 as an acceptable methodology to estimate historical cost of PP&E. Once the documentation requirements were met, the Corps was able to assert readiness for audit.

## **2. Auditing of beginning balances**

The second major hurdle that the Corps encountered was the first year audit requirement to audit beginning balances. In addition, during a first year audit, auditors assign a higher risk level causing an enormous amount of sample testing. During a first year financial statement audit, the audit firm is required to ensure all balances carried forward into the audited year are materially correct. To ensure all beginning balances were materially correct, the audit firm selected over 14,600 samples ranging from a one-time disbursement to support the Corps Funds Balance with Treasury, to large multi-million dollar major rehabilitation project, to a lock or dam constructed as far back as the 1920's. To manage and process over 14,600 samples being audited by over 190 auditors, a team of Corps financial experts was required full time for approximately seven months to process samples and respond to follow-up questions.

## **3. Accelerated timelines for audited financial statements**

The third major hurdle the Corps encountered was accelerating the financial statement compilation process to meet the audit reporting deadline mandated by the Office of Management and Budget (OMB) in OMB Circular A-136. OMB requires all Federal agencies to complete their financial statement reporting 45 days after the end of the fiscal year. The major issue that had to be overcome was completing the year-end sample testing to include recommended auditor adjustments in the final compilation process. This process of year-end testing and potential for auditor adjustments shortened the financial statement and footnote preparation time from weeks to days. In order to meet the 45 day requirement the Corps, in conjunction with the audit firm, built in additional review periods to allow for multiple opportunities for the audit firm to review and provide suggested changes to the statements and footnotes. By building in these review steps into the process the Corps was able to react to any adjustments identified during the audit and provide a complete package to the audit firm in time for it to finalize the audit report and meet the OMB mandatory deadline.

### **Lessons Learned:**

The Corps has learned many lessons along its journey, three of which were vital to success.

### **1. Integrated financial management system to support the financial statement audit**

The Corps of Engineers Financial Management System (CEFMS) was an important factor in achieving a successful audit. CEFMS was custom built to Corps business processes and includes "hard coded" automated controls, which are transparent to the user and ensure their compliance with key financial management controls. CEFMS was developed as an enterprise financial management system that encompasses travel, training, timekeeping, and acquisition. It is fully integrated with the Corps project and asset management accountability systems, with all financial transactions related to assets built into the system. CEFMS is a single point-of-entry system, meaning that project managers and many other Corps employees are using CEFMS on a daily basis creating purchase orders or travel documents, disposing of excess property, or receiving goods. Many of the Corps internal controls are automated, forcing user compliance. An example of automated controls is the segregation of duties. CEFMS was developed to prevent one person from performing all the critical steps regarding the procurement of goods or services (purchase request, obligation, receipt of the goods or services, and disbursement). Since the system uses an electronic signature function, this key control is easily recognized and operating effectively---lack of compliance is not an option. Auditors rely greatly on system controls to reduce audit risk and minimize sample testing, thereby reducing audit time.

### **2. Command emphasis**

Corps leadership has continuously set the tone for and realized the benefits of Chief Financial Officer's Act compliance. More specifically leadership provides great emphasis on continually improving management controls related to the financial statements. Corps leadership understands the importance of accurate financial information which is expected by our stakeholders, including our customers whose funding we execute. Early on in the audits the auditors reported that the Corps needed to improve its assessment of risk and compliance with monitoring controls. To address the issues from a leadership perspective the Executive Senior Assessment Team (ESAT) was established. The ESAT mission is to provide leadership and direction over financial audits and associated controls. The Deputy Commander of the Corps chairs the ESAT, which is comprised of all the Headquarters Senior Executive Service directors.

The ESAT's priorities include approval of the annual Corrective Action Plans for each material weakness reported in the financial statement audit. Corrective Action Plans include a description of the control, an action to improve or implement the control, and a metric to define whether the control was in place and operating. The Deputy Commanding General assigns the Corrective Action Plans to subordinate Commanders to remediate the material weaknesses. The Corps internal auditors perform monthly Corrective Action Plan reviews and report progress to the Deputy Commanding General. This type of continuous monitoring is essential for manual controls, those that

are not "hard coded" into the financial system. An example of a manual control is resource and project managers holding quarterly reviews to ensure completed assets are placed in service timely. This type of leadership emphasis assures that field Commanders make management controls a top priority.

### **3. Partnering with auditors throughout the audit process**

During the Civil Works audits, particularly during the early stages, the Corps, like every Command, had many issues to overcome. The Corps would not have been able to overcome these challenges unless it was able to partner effectively with its auditors. While the Property, Plant and Equipment Memorandum of Agreement was the best example of the Corps partnering with the auditors, the Corps and its auditors are able to work through problems on a daily basis because of the trust that exists between both organizations. The auditors are physically co-located with Corps management most of the year and become knowledgeable in Corps policies and procedures that are critical to the continued success in the Civil Works Financial Statement audits.

#### **Audit Sustainment:**

The Civil Works Financial Statement audit has gone from over 14,600 samples in FY 2008 to a very manageable 4,000 samples anticipated in FY 2011. As the audit workload decreases, the Corps continues to focus its resources on improving its own processes and related controls through new policies and procedures. The Corps has a robust internal program to continually document its processes, assess risks and test controls, in accordance with OMB Circular A-123 Appendix A (Internal Controls over Financial Reporting). The Corps anticipates its program will cure an entity wide control weakness reported by the DODIG in FY 2010. Additionally, in FY 2010, the DODIG reported three other material weaknesses in Property, Plant and Equipment, Controls over Customer Agreements and Financial Reporting, and the Corps has taken corrective actions to cure them. Based on its own testing, the Corps issued an unqualified statement of assurance in July 2011, stating the internal controls over financial reporting are operating effectively.

#### **Conclusion:**

In conclusion, the Corps is often asked to describe the benefits of a financial audit and an unqualified opinion. While it is not easily quantifiable in dollar savings, the benefits realized are a continuous emphasis and improvement on the internal control program. Given that most Civil Works projects are partially financed by non-federal public entities, auditability is critical to their confidence in the Corps financial integrity. Mr. Chairman, this concludes my statement. Thank you again for allowing me to be here today to discuss the Corps Civil Works financial audits. I would be happy to answer any questions you or other Members may have.

**U.S. Army Corps of Engineers  
Director of Resource Management**



**Mr. Wesley C. Miller**

Mr. Wesley C. Miller became the Director of Resource Management, U.S. Army Corps of Engineers, in April 2006. As Director of Resource Management, Mr. Miller is responsible for planning, developing, coordinating, advising on, and directing the activities of the U.S. Army Corps of Engineers resource management system. He also provides the Commander and program directors with the resource support and services necessary to accomplish mission requirements involving more than \$20 billion annually.

Mr. Miller served with the Army Budget Office from 1993 until his current assignment. At the Army Budget Office he served as the Executive for Budgeting to the Planning, Programming and Budgeting Committee. He served in several positions to include Chief Operating Forces Division, Chief Current Operations Division, and Deputy Director Management and Control. Immediately prior to his current assignment, he was the Director, Management and Control Directorate.

Mr. Miller was born in Lexington, Virginia. He was commissioned Second Lieutenant in the Finance Corps in 1972 upon graduation from Eastern Kentucky University with a Bachelor of Science degree in Accounting. He holds a Master of Public Administration from the University of Missouri at Kansas City. His military education includes completion of the Air Defense Officer Basic Course, Finance Officer Basic and Advanced Courses, the U.S. Army Command and General Staff College, and the Industrial College of the Armed Forces.

Mr. Miller has served in a variety of troop and staff positions. His initial assignment was a Platoon Leader for C Battery, 4th Battalion (Nike Hercules), 1st Air Defense Artillery, Aberdeen Proving Ground, Maryland. He was then transferred to 8th Finance Section, Landstuhl, Germany, where he performed a variety of finance and accounting duties. In 1979, he was transferred to the U.S. Army Finance and Accounting Center as Detachment Commander, Staff Officer and Headquarters Assistant Executive Officer.

Mr. Miller served as Deputy Finance Officer supporting the 25th Infantry Division, Schofield Barracks, Hawaii and Deputy Finance and Accounting Officer, I Corps and 9th Infantry Division, Fort Lewis, Washington. In 1988, he was assigned as Budget Officer in the Office of the Deputy Chief of Staff Resource Management, U.S. Army Personnel Command, Alexandria, Virginia. He then commanded the 176th Finance Battalion, supporting the 19th Support Command, Tacheu, Korea. On 1 January 2002, Mr. Miller retired from active duty at the rank of Colonel after more than 29 years of service. His military awards include the Meritorious Service Medal with four Oak Leaf Clusters, Army Commendation Medal, and Army Achievement Medal.



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

SEPTEMBER 8, 2011

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#### **RESPONSE TO QUESTION SUBMITTED BY MR. RIGELL**

Secretary COMMONS. Listed below are generic performance standards developed for use by Department of the Navy senior executives.

General Department of the Navy Guidance. If the Senior Executive Service (SES) member's performance has a direct influence on the accomplishment of Department of the Navy Financial Improvement and Readiness/Financial Improvement Plan (FIAR/FIP) objectives, the performance objective should be reflected in the "Contribution to Mission Accomplishment" mandatory critical element. If the SES member's performance has an indirect influence on the accomplishment of DON FIAR/FIP objectives, the performance objective should be reflected in the "Leadership/Supervision" mandatory critical element.

Generic Leadership/Supervision Mandatory Critical Element. • Achieves results pertaining to the Department of the Navy's Financial Improvement and Financial Readiness/Financial Improvement Plan goals and objectives intended to improve access to timely, relevant, and reliable financial and cost information to make informed decisions and ensure resources are optimally aligned to priority tasks focused on meeting the National Defense Authorization Act requirement to have auditable financial statements by 2017. • Establishes appropriate strategic plans, including goals and implementation activities necessary to effect business process changes targeted at achieving desired results. Ensures goals and activities are reflected in performance plans of subordinate managers and are cascaded throughout the organization. Submits quality progress reports and work products to superiors, including Departmental officials as required. Effectively manages agency resources toward the attainment of the Department of the Navy Financial Improvement and Readiness/Financial Improvement Plan goals and objectives.

Tailored Contribution to Mission Accomplishment Critical Element.

Personnel and Payroll Business Process Objective. Ensure the accuracy of DON master employee records through the processing and retention of documentation that support human resource data in the Defense Civilian Personnel Data System.

Acquisition Business Process Objective. Validate audit readiness of financial reporting processes associated with acquisition, including proper financial accounting treatment for assets, standard procurement systems and data elements, unique identification of assets, etc.

Existence and Completeness of Property Business Process Objective • Ensure controls are in place to document receipt of physical assets • Implement business transformation plans to enable audit readiness of real property acquire-to-retain business process, including conducting asset inventories and establishing a valuation process (i.e. DD1354) [See page 14.]

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#### **RESPONSE TO QUESTION SUBMITTED BY MR. ANDREWS**

Secretary MATIELLA. The Army expects to finish the internal review of GFEBS against the GAO Financial Information Systems Control Audit Manual (FISCAM) in late December 2011 and will plan to provide this panel with a summary of our results not later than January 31, 2012. [See page 12.]



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**QUESTIONS SUBMITTED BY MEMBERS POST HEARING**

SEPTEMBER 8, 2011

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## QUESTIONS SUBMITTED BY MR. CONAWAY

Mr. CONAWAY. Although the Air Force, Army, and Navy are not as far along as the USMC in achieving full financial auditability, all three Services are making progress. As a result, the Air Force, Army, and Navy should be already seeing benefits from implementing the Financial Improvement and Readiness plan. Please describe, in detail, what tangible benefits your Service has already experienced.

Secretary MATELLA. Army has accrued several tangible benefits as a result of implementing audit readiness efforts. These efforts, along with the implementation of the General Fund Enterprise Resource System (GFEBS), have standardized business processes, improved both automated and manual internal controls and provided the framework for successful audits. For example, the US Army Corps of Engineers has a three year record of achieving an unqualified audit opinion on its financial statements. The lessons learned from the Corps of Engineers, along with Army audit readiness efforts, led to an unqualified audit opinion on the Army's appropriations received, a positive first step toward achieving an overall financial statement opinion.

Another benefit we have experienced to date is the increased ownership in audit readiness from the Army's leaders and Command and Installation staff, specifically from outside the financial management community. Non-financial personnel have begun to understand and appreciate the role they play in supporting audit readiness on a daily basis, rather than requiring the financial community to shoulder the entire burden. This is a critical benefit to improving our business environment and enabling the Army to attain and sustain audit readiness.

The Army has provided resources to meet all fiscal year requirements, from FY 11 through FY 16, for audit readiness. For example, the fiscal year 2012 requirement of \$44 million has been funded. With these resources and a sound financial improvement plan, Army will build on its initial successes and achieve auditable financial statements by September 30, 2017 as required under the National Defense Authorization Act of 2010.

Mr. CONAWAY. Although the Air Force, Army, and Navy are not as far along as the USMC in achieving full financial auditability, all three Services are making progress. As a result, the Air Force, Army, and Navy should be already seeing benefits from implementing the Financial Improvement and Readiness plan. Please describe, in detail, what tangible benefits your Service has already experienced.

Secretary COMMONS. One outcome of progress in advancing the Department of the Navy's financial improvement and audit readiness initiative includes the recent receipt of an unqualified audit opinion on our funds receipt and distribution process (referred to as appropriations received process) from an independent public accounting firm this past August 2011. The tangible benefit of this unqualified opinion is independent evidence that Congress and the taxpayer can be assured that the amounts appropriated by the Congress are well controlled, accurately reported, and that we meet the intent of the Congress in allocating those resources. Sustainment of this process enables improved standardization of our business practices, enhanced transparency of our underlying management information, and better utilization of warfighter resources.

The tangible benefit of the current DoD Inspector General examination of our selected military equipment existence and completeness effort is the assurance that the warfighter knows the assets available and where they are located to accomplish the mission.

Finally, the tangible benefit from the USMC audit engagement is it provided critical insight into the DoD-wide collaboration and infrastructure required to efficiently provide the auditors extremely large amounts of transactional data and supporting documentation necessary to be successful in an audit engagement.

Mr. CONAWAY. The United States Marine Corps (USMC) is the furthest along out of the Services in achieving an unqualified opinion on a financial audit. Please describe, in detail, the tangible benefits USMC has seen as a result of the statement of budgetary resources audit.

Secretary COMMONS. The most significant tangible benefit the USMC has realized as a result of the ongoing audit of the Statement of Budgetary Resources (SBR) is

the increasing assurance that Marine Corps financial data is accurate and can be relied upon to inform decision making. The USMC and the Department of the Navy (DON) leadership are cautiously optimistic the FY2011 SBR audit engagement will yield a positive outcome.

A second sizeable and tangible benefit has been the key lessons learned from the USMC SBR audit which have been leveraged and shared within DON and across the Department of Defense. These include: USMC's recently-developed capability to fully reconcile and trace detailed transactions to the reported balances on the SBR; their repeatable capability to reconcile USMC cash balances with Treasury; strengthened controls over accruals and estimated obligations; greater rigor in validating obligations during tri-annual reviews; and increased controls over recording of appropriations shared with the Navy.

Finally, another tangible benefit is the ongoing cultural change within the USMC. The same rigor and discipline which has long been a defining characteristic of USMC operations and doctrine are evolving as standards in USMC financial management. The value of improved, auditable financial practices and greater accountability for business and financial operations is now recognized by USMC leadership and throughout the organization.

Mr. CONAWAY. The United States Marine Corps (USMC) is the furthest along out of the Services in achieving an unqualified opinion on a financial audit. Please describe, in detail, the tangible benefits USMC has seen as a result of the statement of budgetary resources audit.

Ms. SPANGLER. The lessons learned from both the Fiscal Year (FY) 2010 and 2011 Statement of Budgetary Resources (SBR) audits have generated many improvements and benefits for the Marine Corps as well as other Services and agencies within the Department of Defense (DoD).

The foundation of the audit is to support the balances represented on the financial statement by performing examinations that tie the accounting transaction to its corresponding documentation. While initially very challenging, the Marine Corps was able to fully reconcile detailed transactions to the reported balances on the SBR, and the auditors were able to test samples from a listing of transactions. To date, the Marine Corps is the only Service with this validated capability.

The Marine Corps has seen internal benefits from pursuing the audit such as improved models and controls for estimated obligations; a strengthened process to accomplish DoD mandated Tri-Annual Reviews; and general ledger corrections to support the appropriate recording and reporting of appropriations shared with the Navy. These have improved the clarity of our information and allowed leadership to base decisions with increased agility. Furthermore, we have made great strides with automation and reconciliation tools. However, the Marine Corps is acutely aware that investments will still be required to improve controls or systems to bring them in line with Generally Accepted Accounting Principles (GAAP) and audit standards.

The larger DoD community has also benefited from Marine Corps audit efforts. DoD-wide processes are being analyzed for compliance with GAAP given auditor identified concerns with advances (pre-payments) and contract financing payments. While the Marine Corps' processing of these payments was in compliance with DoD Financial Management Regulation (FMR) guidelines, efforts are underway within the Office of the Under Secretary of Defense (Comptroller) to update and/or clarify the DoD FMR so that future audits will not generate similar GAAP concerns. The issues, findings, and lessons learned, if appropriately implemented throughout the Department, will exponentially speed-up the audit posture of the DoD. The end-state will be improved recognition and transparency on how, what and when we spend and in a manner that is accurate and auditable.

The auditors tested several key information systems that are leveraged heavily across DoD. Defense Cash Accountability System (DCAS) and the Defense Departmental Reporting System (DDRS) were evaluated for internal control accuracy and the auditors' findings have generated improvements in system access policies, programming practices, and system-to-system communications. Our systems environment is being strengthened through improved monitoring of user roles and system policies, allowing for increased confidence in system reliability and data outputs. The audit has uncovered gaps in roles and responsibilities for systems that play a significant part in our financial management processes but whose ownership and control is outside of our functional purview. These DoD-wide systems are also undergoing improvements that will demonstrate sustainable Federal Financial Management Improvement Act (FFMIA) compliance as we fortify our business enterprise to streamline operations and identify efficiencies that maximize the utilization of every dollar. From improved procedures that test and track system updates to

better monitoring of system errors, the audit is generating visibility and accountability across key facets of our system enterprise. Working closely with the Defense Finance and Accounting Service (DFAS) and the former Business Transformation Agency (BTA), the Marine Corps performed a general ledger reconciliation of the unadjusted trial balance to the adjusted trial balance. This was an achievement never accomplished prior to the audit, and spurred improved financial reporting and reconciliation support that will yield benefits for all financial statement reporting entities within the DoD. In this regard, the automated DDRS Information Center (ICe) tool is being developed to assist in producing quick, accurate and reconcilable trial balances for all DoD components. The previous process for reconciling detailed transactions to the financial statement involved four separate departments, a myriad of system interface reconciliations, and the direct involvement of over 50 people. As a result of the audit, this new automation will represent a workforce savings, as these needed records will be generated swiftly and without significant manual intervention.

The Marine Corps is the first Service to undertake an audit of a major financial statement, the General Fund SBR. We volunteered for this mission because we recognized that a successful audit is critical to effectively managing the resources provided by the Congress, and would further demonstrate our faithful stewardship of the Nation's resources. Based on the findings to date we are confident that auditability will enhance our readiness posture by enabling better utilization of the funding provided by Congress, and will provide us better data upon which to base future budget development in this period of declining resources. While the audit is not yet complete, the progress we have made has made us confident that our ongoing efforts will ultimately be validated by an audit opinion and continued auditability.

Mr. CONAWAY. Although the Air Force, Army, and Navy are not as far along as the USMC in achieving full financial auditability, all three Services are making progress. As a result, the Air Force, Army, and Navy should be already seeing benefits from implementing the Financial Improvement and Readiness plan. Please describe, in detail, what tangible benefits your Service has already experienced.

Secretary MORIN. The Air Force has completed several assertions. They include: Funds Receipt; Existence and Completeness of Military Equipment, Cruise Missiles, and Aerial Targets; and Fund Balance with Treasury Reconciliation. In order to make these assertions, we have implemented multiple corrective actions which will benefit the Air Force. These actions include:

- Implementing an automated cash reconciliation tool allowing the AF to balance its checkbook and reduce unmatched disbursements from approximately \$1.3 Billion to \$800 thousand. This reduces the time required to research and resolve our unmatched disbursements; however, because numerous audit readiness tasks remain to be completed, we have not reduced manning based on these time savings.
- As part of our Funds Distribution assertion, AF developed a four system cross reconciliation providing greater transparency into our processes and ensuring the timely resolution of any discrepancies identified. We also implemented a standard document numbering process to facilitate the reconciliation process. While the savings cannot be precisely measured, the increased reliability in our data allows us to execute funds with greater confidence.

We will continue to implement appropriate controls to support audit readiness and enhance efficiency.

Mr. CONAWAY. The U.S. Army Corps of Engineers has achieved an unqualified opinion on their financial audits for the past three years. In the testimony received on September 8, 2011, Mr. Miller indicated he cannot quantify the dollar savings in doing the audits; however, there are other benefits to doing audits, such as being able to identify spare equipment and parts on hand thus reducing superfluous reordering. Please describe, in detail, the tangible benefits the U.S. Army Corps of Engineers has experienced as a result of completing their audits.

Mr. MILLER. The greatest benefit related to performing financial statement audits in the Federal government, more specifically in the U.S. Army Corps of Engineers (USACE), is a continuous emphasis on standardizing business processes that contain strong internal controls. USACE can show tangible benefits such as low Prompt Payment Act interest penalties, fewer improper contractual payments, no unmatched disbursements, and shorter processing time for travel payments. These accomplishments may not have been a direct result of the audit but rather the annual Chief Financial Auditor (CFO) audit has been a main driver in creating what I refer to as a "CFO Culture."

This “CFO Culture” is primarily built upon three main components: (1) the Corps of Engineers Financial Management System (CEFMS) and the internal controls programmed into that system, which forces strong internal controls into our business processes; (2) USACE Commanders understanding the importance of strong internal controls and being held accountable at all levels; and (3) an environment of accountability and stewardship over the resources entrusted to us by Congress and our many customers and stakeholders.

The pillar of the USACE “CFO Culture” is CEFMS—an enterprise financial management system that USACE built internally and deployed fully in fiscal year (FY) 1998. CEFMS is frequently referred to as a comprehensive “self contained” system. This means from the point the funds are loaded into CEFMS to the point they are disbursed, the detailed subsidiary and general ledger transactions are linked and are inclusive in one system. Transactions that result in payment, regardless of functional source, must originate and disburse within CEFMS. The enterprise approach prevents costly duplication and expensive interfaces and improves auditability. Project Managers and many of the other 33,000 USACE employees use CEFMS daily for functions such as creating purchase requests/obligations, certifying contract progress and payments, creating travel orders and vouchers, recording the disposal of excess property, recording the receipt of goods, recording time and attendance, and processing collections and disbursements. CEFMS provides real-time funds control throughout the entire budget life cycle (fund, commit, obligate, expense, disburse). The system updates simultaneously the detailed subsidiary records and United States Standard General Ledgers (USSGLs) for both proprietary and budgetary accounts with automated reconciliations between the subsidiary data and the general ledgers. These features provide a complete audit trail, at detailed subsidiary level, to facilitate the accelerated reporting requirements associated with financial statement audits. A fully integrated financial system allows our travelers almost instant reimbursement of travel costs, with turnaround times of one day for temporary duty travel and two days for permanent change of station travel. Many of the USACE internal controls and data edits are “hard coded” into CEFMS, forcing user compliance and providing data validation. These internal controls cover data entry, transaction processing and reporting.

Business process improvement is another benefit of the financial statement audit process. It is a critical focus embedded in the USACE internal controls and internal audit functions as part of our risk management initiatives. This provides a framework for not only identifying risks, errors and potential instances of fraud, but for addressing those risks. We can show tangible benefits such as the \$103,633 Civil Works Prompt Payment Act interest penalties in Fiscal Year 2011 (through August 31, 2011) on disbursements of over \$8.5 billion. The \$103,633 in interest penalties is a reduction of 86% from our FY 2007 figures (the year before we achieved an unqualified opinion). Another tangible benefit is the \$5.1million in improper payments for FY 2011 of which almost 100% was recovered. Finally other benefits are \$0 in both Unmatched Disbursements and Negative Unliquidated Obligations. USACE leadership has embraced CFO compliance. In FY 2008, USACE established the Executive Senior Assessment Team (ESAT). The ESAT mission is to provide leadership and direction over financial audits and associated controls. The USACE Deputy Commander chairs the ESAT, which is comprised of all the Headquarters Senior Executive Service Directors. At the field level, CFO Act compliance and strong internal controls have become a critical part of day-to-day functions and are subject to continuous monitoring through a robust internal testing program, which lowers the cost of an external audit.

The audit opinion and the associated scrutiny of our strong internal controls demonstrate to our customers that USACE’s financial data and underlying business processes meet the highest standards of generally accepted accounting practices. This type of assurance is crucial to develop trust between USACE and its customers. The audit of the USACE Civil Works Program has enhanced our ability to readily supply detailed accurate financial data that provides transparency to the American taxpayer. Our CFO culture has become engrained in every USACE business process and that culture is our greatest benefit.