

**NOT FOR PUBLICATION UNTIL  
RELEASE BY THE SENATE  
ARMED SERVICES COMMITTEE**

**STATEMENT OF**

**THE HONORABLE GLADYS J. COMMONS**

**ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)**

**BEFORE THE**

**SENATE ARMED SERVICE COMMITTEE**

**SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT**

**ON**

**FINANCIAL MANGEMENT AND BUSINESS TRANSFORMATION**

**AT THE DEPARTMENT OF DEFENSE**

**27 JULY 2011**

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Chairman McCaskill, Senator Ayotte, members of the Subcommittee, 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.