

Statement of

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before the

Senate Committee on Armed Services

Subcommittee on
Readiness and Management Support

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Madam Chairman, Senator Ayotte, Members of the Subcommittee, thank you for an opportunity to testify today regarding financial management in the United States Army, my assessment of Army's progress toward achieving auditable financial statements, the implementation of Army enterprise resource planning systems, and our ongoing efforts to improve financial management operations.

I share Mr. Hale's belief regarding the importance of audit readiness. With Secretary McHugh's support, the Army intends to achieve the milestones required by Section 1003 of the National Defense Authorization Act for Fiscal Year 2010: that is, be audit ready not later than September 30, 2017. The emphasis on audit readiness underscores the transformation in financial management across the Army enterprise. The Army employs extremely hard working individuals across all functional areas, both military and civilian, committed to supporting the Soldiers executing their mission and defending our country. However, the improvements we are implementing will require our dedicated Soldiers and civilians to execute their business differently. Our financial and business systems, processes, controls and training are all keyed to improved financial management and will result in timely, accurate and relevant information for decision makers.

Our enterprise resource planning systems are in various stages of deployment and include a new transaction-driven, compliant general ledger for our general fund, a compliant general ledger for our working capital fund, 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 will employ compliant systems operating with associated internal controls as a part of

new business processes, which creates a sustainable business environment when coupled with the ongoing training.

We are following the Department's Financial Improvement and Audit Readiness (FIAR) guidance by executing a detailed, fully resourced Financial Improvement Plan (FIP) which provides detailed corrective actions, associated milestone schedule, 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 mid-term milestones, we have established several interim milestones in our Financial Improvement Plan. For example the Army asserted audit readiness for all general fund appropriations received, covering about \$232 billion fiscal year 2010 appropriations. The Army's entire appropriations received is under audit examination by an Independent Public Accountant. The audit will determine if the Army has the appropriate controls and documentation to properly record and report appropriations received and distributed throughout all Army Commands. 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 a second audit examination currently in process by an Independent Public Accountant of multiple business activities conducted at Army Headquarters and several field sites operating the Army's financial management ERP system, the General Fund Enterprise Business System (GFEBS). This is the first of four interim audit examinations planned between now and fiscal year 2015 to ensure our management controls, business processes and documentation, as established in the objective 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, 2107.

In addition to audit examinations conducted by Independent Public Accountants, we are also mapping all 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 discovery and evaluation efforts comply with the Department's Financial Improvement and Audit Readiness criteria, and requirements established by Office of Management and Budget (OMB) 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 by the 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 as several million 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 line items, and have expanded our audit readiness work to cover all mission critical assets across the Army.

The Army Financial Improvement Plan 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 information systems with implementation of the Army's Enterprise Resource Planning 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 Financial Improvement Plan with the Army's Enterprise Resource Planning Strategy, we are able to ensure business system development and modernization is synchronized with audit readiness requirements.

Since the Army's Enterprise Resource Planning 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 (SAFE) architecture which provides all business system components and processes. The FISCAM provides the standards against which an Independent Public Accountant will conduct a financial statement audit.

As an interim milestone, we plan to complete and document our internal assessment of the General Fund Enterprise Business System against FISCAM standards by December 2011, and conduct an audit examination by an Independent Public Accountant in fiscal year 2012. The results our fiscal year 2011 internal

assessment and the fiscal year 2012 follow-up systems audit will provide assurance that the General Fund Enterprise Business System 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 the Army's Enterprise Resource Planning systems are able to support the Army's audit readiness goals.

Since February 2010, we have experienced successes and achieved milestones never accomplished previously. For example, GFEBS has been fielded to over 34,000 users worldwide and is substantially compliant with the Federal Financial Managers' Integrity Act (FFMIA). We have made several assertions in the past nine months and have Independent Public Accountants currently conducting two audits. In addition, three of our four Enterprise Resource Planning systems are in deployment providing the Army for the first time a standard, transaction driven general ledger recording and reporting capability enabling 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 and DoD leader engagement, the Department's focus and sound audit readiness guidance, and the support provided by Congress.

I am encouraged by preliminary results of the Government Accountability Office's current audit of the Department's financial improvement efforts. Results indicate the Department has a solid methodology as established by criteria of the Financial Improvement and Audit Readiness framework. We are implementing the FIAR

methodology in our Financial Improvement Plan by taking a controls-based audit readiness approach focused on establishing and sustaining audit readiness by identifying risks, mapping them to the key control objectives established by the GAO Financial Audit Manual and FIAR Guidance, and implementing effective controls throughout the business environment. In addition, we are automating as many controls as possible within the Enterprise Resource Planning systems to minimize manual controls and reduce risks that exist within business processes.

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 the first Service to take the bold step 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, Independent Public Accountant Audit Examinations, and lessons from US Army Corps of Engineers 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 Financial Improvement Plan.

In summary, I recognize the challenges associated with improving financial information and achieving audit readiness within 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 committee, your counterparts in the House of Representatives, GAO, and Comptroller Hale to ensure the continued improvement of the Army's business environment.