RECORD VERSION

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ON FINANCIAL MANAGEMENT AND BUSINESS TRANSFORMATION

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

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

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

Financial Auditability

Due to persistent and focused work across the entire Army, we have a sound, resourced plan and the appropriate leadership engagement to achieve Secretary Panetta's directive to assert auditable Statement of Budgetary Resources (SBR) by the end of Fiscal Year 2014 (FY14) and assert full financial statement audit readiness by the end of Fiscal Year 2017 (FY17). Appropriate guidance and direction from Congress, the Secretary of Defense, and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) have enabled the Army to develop a focused Financial Improvement Plan (FIP), begin demonstrating our audit readiness and build upon our early achievements.

Through the DoD's Financial Improvement and Audit Readiness (FIAR) efforts, the Army is connected to the larger Department of Defense (DoD) audit readiness community, sharing lessons learned and best practices. OUSD(C) has formulated a comprehensive strategy with a critical path that allows the Army to focus on improving the information most useful to decision makers, while moving DoD closer to the ultimate goal of achieving and sustaining auditability. The FIAR guidance defines a series of standardized phases that must be followed to achieve audit readiness. The methodology focuses on the identification and implementation of key control objectives and supporting documents. OUSD(C) conducts quarterly updates with the Services to maintain the focus on auditability and efficiency progress.

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

(1) Sustaining continuous leadership through the Secretary of Defense directive, active engagement and directive memoranda from the Secretary of the Army, Chief of Staff of the Army, Under Secretary of the Army, ASA(FM&C), and the Army Audit Readiness Strategy;

(2) Building a competent workforce through the Command and Installation Audit Readiness Guide, Army Knowledge Online Audit Readiness Site, audit readiness training, Annual Financial Improvement Workshop, and FIP Report quarterly newsletter;

(3) Developing a well-defined architecture that has been vetted through our Business Systems governance process and incorporates the 15 End-to-End processes found in the OSD Business Enterprise Architecture (BEA);

(4) Conducting Enterprise Resource Planning (ERP) system auditability assessments and keeping the Office of Business Transformation and Program Executive Officer-Enterprise Information Systems actively engaged;

(5) Providing accountability and oversight through: Senior Executive Service performance plan requirements; Army governance, including quarterly In-Process Reviews, Audit Committee meetings, and Internal Review Workgroups; and participation in OSD(C) governance boards; and

(6) Establishing internal controls through installation-level process and control assessments, corrective action implementation, business process and controls training, leveraging Internal Review to assess controls and corrective actions, instilling discipline, and compliance with current policies.

The Army has subjected the FIP to strenuous scrutiny to hold ourselves accountable and identify potential deficiencies. Over the past two years, since the initial 2010 GAO review of GFEBS, the Army has remediated the findings, which resulted in DoD's decision to authorize full deployment for GFEBS in June 2011, to include, greatly improved training; and adding the identified chart of accounts and Standard Financial Information Structure (SFIS) compliance. The Army is vigorously pursuing excellence in reaching the FY14 and FY17 auditability goals as reflected in recent successes.

The U.S. Army Corps of Engineers is the Army's first and DoD's largest entity to receive an unqualified audit opinion on their financial statements and has subsequently sustained clean audit opinions. In

the General Fund Enterprise Business System (GFEBS) environment since July 2011, we have received positive audit results by independent public accounting firms. The first of three planned examinations involved a review of over 2,500 supporting documents resulting in the independent auditors issuing an unqualified opinion on appropriations received and a qualified opinion on five business processes at three sites. A second examination is scheduled for this summer at nine GFEBS sites and DFAS. The third examination will be conducted next fiscal year and will include all Army GFEBS sites. These examinations are important incremental steps toward auditability. We will continue to progress and are committed to sharing our lessons learned with DoD and our sister Services as we proceed.   We remain confident that the Army is on track to achieve both the FY14 SBR and the FY17 full audit readiness goals. We appreciate your continued support.

Business Transformation

In October 2010, the Army published its first Business Systems Architecture & Transition Plan (BSA&TP). The BSA&TP provides the framework and roadmap for enabling audit readiness, optimizing business operations, and steering our business system investments. It integrates Enterprise Resource Planning (ERP) solutions, the Army's functional architecture, and the DoD Business Enterprise Architecture (BEA). Using this framework, the Army will transition over 700 legacy systems and prioritize new business system investments within a single, integrated architecture.

Four ERPs form the backbone for our business systems
enterprise architecture and are critical to our financial auditability
goals. They are: the General Fund Enterprise Business System
(GFEBS); the Global Combat Support System – Army (GCSS-A); the
Logistics Management Program (LMP); and the Integrated Personnel
and Pay System – Army (IPPS-A). Collectively they will manage the
material balance of the current and future general funds for the Army.
GFEBS unifies financial reporting and management across the Army
and serves as the centerpiece for financial auditability efforts and will
be fully deployed in FY12. Presently, GFEBS is being used by about
45,000 of approximate 50,000 eventual users, is 94 percent SFIS
compliant and on track to be fully SFIS compliant by the end of this
fiscal year. It has a track record of being 99.9% available, and at the
beginning of this fiscal year, the Army had already processed over 20
million financial transactions using GFEBS with zero dollars in Anti-
Deficiency Act violations. To date GFEBS has distributed nearly $80
billion in funds and obligated approximately $60 billion. The system
also provides cost and asset functionality not available in legacy
systems.

LMP Increment 1 (production baseline) is fully deployed to
25,000 users at 50 sites across the Army's Materiel Command and
contains the financial ledger for the Army Working Capital Fund.
Throughout the remainder of FY12 the ASA(FM&C) is overseeing
final enhancements to bring it within compliance with audit standards.
Following direction from the DoD Deputy Chief Management Officer,

in December 2011, LMP was converted from a service contract to an acquisition Program of Record to provide additional oversight for future changes to this critical enabler of national level logistics.

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

Lastly, in February 2012 the Army awarded a contract for the first increment of IPPS-A, an integrated database which consolidates personnel information across the Active Duty, U.S. Army Reserves and Army National Guard. Subsequent increments of IPPS-A will streamline personnel processes and integrate personnel pay for over one million uniformed personnel across the Army. In FY11,the Federal Chief Information Officer completed a top-to-bottom review of the IPPS-A program resulting in a revised acquisition strategy which minimizes risk to the government. While these changes extended the lifecycle of development, the military pay integration will be fielded in time to support our FY17 full auditability goals.

The Army continues to work with the DoD Deputy Chief Management Officer to define a revised investment control process as outlined in Section 901 of the Fiscal Year 2012 National Defense Authorization Act (NDAA).   Over a year ago, the Army chartered the Business Systems Information Technology Executive Steering Group

(BSIT-ESG), chaired by the Under Secretary of the Army. In addition, the Army established the 2-Star and 3-Star BSIT Working Groups to provide additional levels of collaboration on cross-functional issues. Comprised of senior Army business leaders, these forums review business policy and serve as a key component in reviewing and integrating the Army's investment review process. The same leaders shaped the BSIT Strategy approved by the Secretary of the Army in February 2011. The combination of a clearly defined strategy and effective investment controls will ensure the Army makes the appropriate investment in our ERPs and other business systems.

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

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

ensure that systems are synchronized, functionally optimized, and prioritized in support of our key business processes. In addition, the portfolio reviews identified new opportunities to improve our business processes, consolidate our business systems, and establish a foundation for continuous improvement.

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

Closing Statement

On behalf of the Army, thank you for your continued interest in this very important matter and for your unwavering support in all you do for our Soldiers and their Families. While the Army continues to support the ongoing war in Afghanistan, we are shaping our force structure and developing resourcing strategies to meet the new defense strategy. Fielding ERPs across the entire Army, we are able to leverage leadership at many levels to achieve our FY14 and FY17 auditability goals.

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