

Statement of

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before the

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Chairman Carper, Senator Brown, Members of the Subcommittee, 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, Chief of Staff of the Army Odierno, Under Secretary of the Army Westphal, the Army Chief Management Officer (CMO), 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 competent and 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 strengthened business and financial systems, processes, internal controls and training are all keyed to improved financial management accountability and oversight that 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 milestones 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 goals 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 goals, 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 internal 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 ERP systems 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 systems that comply with Federal systems requirements and operate 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 received an unqualified audit opinion on a major financial statement line item, and currently have an IPA auditing business processes and controls in the GFEBS environment. Three of our four ERP systems are in deployment or deployed. GFEBS, our general fund financial system, provides 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 the Army's recent 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, the Army established assessment criteria against which all 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 Subcommittee, GAO, and Comptroller Hale to ensure the continued improvement of the Army's business environment.