STATEMENT OF

THE HONORABLE GLADYS J. COMMONS

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

BEFORE THE

**SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
COMMITTEE**

**SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND
INTERNATIONAL SECURITY**

ON

FINANCIAL MANAGEMENT AND AUDIT READINESS

AT THE DEPARTMENT OF DEFENSE

15 SEPTEMBER 2011

Chairman Carper, Senator Brown, members of the Subcommittee, thank you for this opportunity to discuss the Department of the Navy's (DON) efforts to achieve financial audit readiness. Achieving auditability is one of my highest priorities; I spend much of my attention on the Department's drive to improve its business/financial management processes and controls over financial reporting. These priorities are supported by Secretary Mabus and Under Secretary Work, as well as the senior uniformed leaders, the Chief of Naval Operations and the Commandant of the Marine Corps.

Our Navy-Marine Corps team has responded to our current audit readiness goals by seeking audit engagements as early as possible in the process. In our opinion, undergoing audits and examinations forcefully emphasizes the preparations that are necessary to succeed. The Marine Corps is in the second year of audit of its Statement of Budgetary Resources (SBR). This audit has provided instant feedback on the Marine Corps' audit readiness and a number of lessons learned for those who jointly manage Marine Corps business processes end-to-end. Further, the experience has provided useful, transferrable examples for the rest of the Department of the Navy, the Army, and the Air Force.

In addition to the ongoing Marine Corps SBR audit, the Department recently received an unqualified opinion on its Appropriations Received business process examination, conducted by a private audit firm. DON is currently undergoing an audit engagement by the Department of Defense Inspector General (DoDIG), examining Existence and Completeness on DON's major military assets, including ships, ballistic missiles, and satellites. We expect the DoDIG will soon include DON aircraft and ordnance in this engagement.

What we have learned from these audits and examinations confirms elements of our DON audit readiness strategy. First, internal controls over our business processes and systems need to be strengthened, and their effectiveness must be sustained over time. As we improve controls, DON ultimately will be audit-ready in our everyday business/financial environment. Achieving this long-term goal will require the attention and support of all who provide goods and services to the warfighter. We are seeking to integrate all required actions to achieve SBR audit readiness, not only within DON, but also those tasks that must be completed by outside agencies providing support. Auditability is not just a financial management initiative; it will require the support of all business process owners.

We continue to emphasize the importance of auditability with our Departmental leaders and have solicited support for audit readiness at all levels. We have provided resources for financial improvement at the major command level, held annual conferences and frequent training sessions, and provided tool kits for controls implementation. We are seeking to standardize our business processes and to implement automated controls when possible. Next fiscal year, each Senior Executive who has responsibility for one or more DON business processes will have a performance objective related to audit readiness. In support of our efforts the Naval Audit Service will conduct "quick look" assessments of business process internal controls at selected DON organizations.

Second, in addition to strengthening DON's business processes, the Department will continue developing audit-specific capabilities within our financial environment. The Marine Corps SBR

audit has shown us that these capabilities must be in place and demonstrated at the beginning of an audit, before business processes can be assessed for auditability. These capabilities include: capturing and presenting a complete universe of financial transactions; reconciling DON cash balances with Treasury; establishing accurate beginning balances; and ensuring that financial statements are accurately compiled. We are working with our service providers, primarily with Defense Finance and Accounting Service Cleveland, to develop these capabilities. A major challenge confronting us in these efforts is ensuring our ability to trace transactions in our legacy accounting systems from origin to the financial statements.

A third element of our strategy is to build a robust audit response infrastructure which allows quick access to financial data required during an audit. This infrastructure must enable efficient transfer of large volumes of data to an auditor. The Marine Corps experience has provided useful examples in this area; they have assembled and transmitted large data sets during their SBR audit. We recognize, too, that the size of the data pulls will be much bigger for the entire DON during the Departmental SBR audit, and we must ensure that adequate resources are available to support data retrieval.

A greater challenge than transmitting data will be identifying and locating the business/financial data requested by the audit firm during its engagement. We have begun quarterly rounds of financial transaction testing, asking all major commands to retrieve supporting documentation for sample transactions generated by the commands. We know that the "muscles" used for this audit response capability must be routinely exercised so they can develop necessary strength. We are finding some gaps in data availability which will require remediation.

As a final point, I'd like to emphasize that internal controls in our business systems must be improved. Navy's Enterprise Resource Planning (ERP) will make a significant contribution in 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 on track, according to schedule.

To summarize the Department of the Navy's drive to audit readiness: we are enduring and thriving in initial financial audit engagements; we know we have some formidable challenges to achieve Departmental audit readiness; we believe we have identified most of these challenges and are tackling others as they arise; we are widening the circle of accountability for auditability within DON and among our service providers; and the Navy-Marine Corps team will aggressively move toward audit readiness as quickly as we can.

Thank you for your time, interest, and support. I'll be pleased to answer any of your questions at the appropriate time.