Statement of

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before the

Committee on Homeland Security and Governmental Affairs
Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security
United States Senate

SUBJECT: Improving Financial Accountability at the Department of Defense

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Thank you for the opportunity to brief the Subcommittee on your Air Force's efforts and progress towards financial improvement and audit readiness. We recognize that auditable financials will be useful tools helping the Air Force produce the maximum combat capability from each taxpayer dollar invested. The Air Force is implementing the DoD Financial Improvement and Audit Readiness (FIAR) guidance through a detailed Financial Improvement Plan (FIP) which includes discovery of problem areas, a set of milestones and interim deliverable, and assignment of corrective actions to accountable parties.

Air Force leadership is engaged and committed to our audit readiness efforts. This engagement extends to the highest levels –both uniformed and civilian. In May, the Under Secretary of the Air Force, Ms. Conaton, and the Air Force Vice Chief of Staff, Gen. Breedlove wrote to the leadership of all our Air Force Major Commands emphasizing the importance of audit readiness.

The memorandum highlighted a key focus in Air Force audit readiness efforts -- individual accountability. Toward that end, the Air Force has led the way requiring senior executives to include audit readiness objectives in their annual performance plans. These goals must be concrete, measurable and individually tailored to ensure accountability. Members of my team, the Air Force Deputy Chief Management Officer and a small number of other key leaders already have these goals in their performance plans. We continue to expand this effort to include executives in acquisition, logistics, and personnel.

Currently, the end date on Air Force's audit readiness schedule comes later than those of the other services. This is due in part to our timeline for fielding our Enterprise

Resource Planning (ERP) systems, which are part of the solution to several key audit readiness challenges.   Over the last two years, we have aimed to accelerate our progress by seeking additional funding in our FY12 budget request and evaluating legacy systems for audit.   Additionally, Air Force leadership placed heavy emphasis on identifying opportunities for interim progress, such as accelerating asserting Existence and Completeness for Medical Equipment and Munitions. Air Force financial managers and other responsible officials are engaging with OSD and the other services to ensure we benefit from the lessons learned by other organizations in their own audit readiness efforts.

Air Force Progress

As a result of strong leadership commitment and the changes we have made in the last year, we have made significant progress in Under Secretary Hale's prioritized audit readiness areas – Budgetary Information and Mission Critical Assets.

In September 2010, the Air Force asserted audit readiness on Appropriations received and distributed to our major commands. This assertion covers $165 billion or 94 percent of new budget authority. This assertion provides taxpayers the confidence we have control of appropriations received. KPMG, an Independent Public Accounting firm, examined our assertion and issued an unqualified audit opinion in early August.

In December 2010, we asserted audit readiness for our Fund Balance with Treasury (FBwT) Reconciliation. This is analogous to balancing the Air Force checkbook, albeit one with approximately 1.1 million transactions per month. Since April 2010, we have consistently exceeded the OSD goal of reconciling 98 percent and

in June 2011, we reconciled 99.99 percent of the dollar value. Our unmatched disbursements declined from $1.3 billion to $800 thousand since implementing our FBwT reconciliation tool and process. Our FBwT reconciliation process is currently undergoing an examination by an IPA.

We also asserted audit readiness for the existence and completeness of Military Equipment in December 2010. This includes satellites, aircraft, remotely piloted vehicles, aircraft pods, and Intercontinental Ballistic Missiles (ICBMs). With a Net Book Value of $103 billion, Military Equipment represents approximately one third of our total assets. Finally, we asserted audit readiness on the Existence and Completeness of our Cruise Missiles, Aerial Targets and Drones in June 2011. Testing will likely reveal a few areas for further cleanup, but this is a major accomplishment.

Getting to An Audit Ready Environment

Standard business rules and data structures defined in comprehensive business architecture are critical to establishing an audit ready environment. The Air Force Chief Management Officer (CMO) is responsible for ensuring comprehensive business enterprise architecture is adopted across the enterprise. The CMO's office exercises oversight of the functional communities' adoption of this architecture through biweekly meetings with representatives from all communities. This enterprise senior working group also reviews systems investments exceeding one million dollars ensuring appropriate consideration has been given to business process reengineering as an alternative to system investments.

The Air Force is committed to continuous progress toward audit readiness. For several years, we have deferred enhancements to our legacy systems while we developed more robust IT Solutions, including Enterprise Resource Planning Systems (ERPs) such as Defense Enterprise Accounting Management System (DEAMS), Expeditionary Combat Support System (ECSS), Air Force Integrated Personnel and Pay System (AF-IPPS), and NexGen IT for our real estate and facilities. These ERPs were designed to replace numerous subsidiary systems, reduce the number of interfaces and eliminate redundant data entry, while providing an environment for end-to-end business processes.   These systems serve as the foundation for our audit readiness which means that delays in deploying these ERPs will impact our ability to successfully complete an audit. We coordinated our FIAR plan to achieve audit readiness with the deployment of these ERPs.

For example, DEAMS will serve as the General Ledger for our General Fund while ECSS serves as the General Ledger for our Working Capital Fund and the Accountable Property System of Record for our Military Equipment, Operating Materials and Supplies, and Inventory.   AF-IPPS integrates our military personnel and pay processes; recording and managing an annual payroll in excess of $33 billion. NexGen IT is our target Accountable Property System of Record for Real Property handling $32 billion or ten percent of total assets. DEAMS and ECSS have already deployed initial capabilities and are operating at Scott and Hanscom AFB respectively. We are close to completing the requirements definition process for AF-IPPS, including the "clean-audit" standards - and will release an RFP to industry in the next 8 weeks for bids on a

technical solution. NexGen IT is our target Accountable Property System of Record for Real Property handling $32 billion or ten percent of total assets.

These systems clearly will have a material impact on our statements and any delays in their deployment will impact our audit readiness goals. We are working with OSD and OMB to mitigate these risks and are exploring opportunities to accelerate the acquisition process using a new approach - the Business Capability Lifecycle model rather than the lengthier process outlined in DoD Instruction 5000.

Successfully implementing a more tailored approached to acquisition that works in the fast moving IT environment is key to achieving our audit schedule. I am also concerned about the cost and capabilities of the ERPs and am looking at alternatives for deploying several smaller discrete software releases, regularly competed to incentivize contractors assisting us. We have also encountered integration challenges with the ERPs within our current information technology architecture. While we have taken major steps to get the Air Force ERP systems on track, and I've seen real progress with DEAMS in its initial deployment, there is very little flex in the implementation schedule. Therefore, I see a moderate risk in the Air Force's overall audit readiness schedule. To hedge against the risks either our acquisition process or our systems infrastructure will fall short, I have directed an exploration of interim solutions to achieve auditability by the 2017 deadline.

During fiscal year 2012 we have several important milestones to achieve. We will do an early assessment of DEAMS and ECSS to validate they are configured with the appropriate controls and data to support an audit. I fully expect to find some issues through this review which we will correct as we work towards full deployment, but that is

a normal part of the process addressing system weaknesses. Another important FY2012 milestone is our audit assertion of the Space Based Infrared System (SBIRS) program.   Because a program does not typically create stand alone financial statements that are audited, we are working with DFAS to establish the parameters of the audit, but anticipate it covering at least 90 percent of the SIBRS Procurement and R&D expenditures between FY2008 and FY2010. Our team had been working to assert Existence and Completeness for aircraft spare engines and missile motors in June 2011. However, we did not feel that the testing results were sufficient to support audit readiness and are withholding the assertions while additional corrective actions are implemented. We believe that the corrective actions will allow us to submit both assertions during the first quarter of FY2012 and begin an audit by the third quarter of FY2012.

The slippage in the assertion on space engines and missile motors underlines the importance of incremental progress and setting stretch goals. We do not expect a perfect batting average the first time through and if we built a process to deliver perfection the first time, it would not be timely. We develop the financial improvement plan and schedule primarily at Headquarters based on the best available information, but there are always unknowns due to the Air Force's decentralized operating structure. Our people conduct business at 191 bases across the world organized in 11 major commands. Many processes have evolved differently across our organization, meaning that implementing the required corrective actions sometimes takes longer than expected.

As we work to achieve the 2017 deadline, Air Force leadership is setting numerous stretch goals and setting ambitious goals means occasionally missing them. On the other hand, we have also been able to accelerate some assertions based on better than expected results. We are also striving to strike the right balance between applying resources to robust planning and testing of progress versus hands-on fixing of weaknesses. Both are important. In keeping with best practices, we will rely on DoDIG or hire an independent public accounting firm to opine on each of our assertions. It is important to note that there are three or more phases of testing enroute to a clean audit – internal Air Force review prior to assertion, external review of the assertion itself, and then the actual audit of Air Force financials.

Thank you for the Subcommittee's interest and focus on this important effort. The continued involvement of Congress, OSD, and GAO as well as the very strong commitment of today's Air Force leadership is crucial to ensuring continued progress towards an unqualified audit opinion no later than 2017.