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BY THE SENATE COMMITTEE ON
HOMELAND SECURITY
AND GOVERNMENT AFFAIRS

STATEMENT OF

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BEFORE THE

UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENT AFFAIRS

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

IMPROVING FINANCIAL ACCOUNTABILITY AT THE DEPARTMENT OF DEFENSE

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Chairman Carper, Senator McCain, distinguished members of the Subcommittee, I would like to thank you for this opportunity to discuss the Department of the Navy's efforts to improve its financial management processes and related business systems. Let me just say at the outset that our plan for improvements in financial management are integrated into the Department of Defense's (DoD) Financial Improvement and Audit Readiness Plan, and we fully support DoD's audit readiness strategy and goals.

The Department of the Navy's Financial Improvement Program, our blueprint for future changes, has made steady progress toward its primary goal of establishing robust internal controls over business processes impacting financial reporting. A key enabler in achieving this goal is the continued implementation of Navy Enterprise Resource Planning (Navy ERP), which brings standardized business processes and robust internal controls.

The ultimate measure of success for our audit readiness efforts is improved financial information for our business managers and leaders. Audit preparations are rigorous, requiring tighter controls over our processes and systems. Achieving auditability will be a by-product of a continuous journey toward financial improvement, a quest which will mark significant enhancements in the Department's business processes and systems along the way. These enhancements will yield efficiencies, such as reduced rework of errant transactions and tighter accountability of assets, improving our stewardship of taxpayer funds. In addition, financial information will be increasingly timely, accurate, and reliable, aiding decision makers as they direct our resources to the warfighter.

As a first step toward auditable financial statements in the Department of the Navy, the Marine Corps has achieved audit readiness on its Statement of Budgetary Resources (SBR). An audit is currently underway, conducted by a private firm. From the audit, our Department and the entire Department of Defense have accrued a number of instructive lessons. As a result, Department of the Navy has refined the content of its overall SBR audit readiness plan, which is scheduled for completion in December 2012.

What have we learned from the Marine Corps's audit? First, we must routinely demonstrate sound financial management capabilities such as reconciling cash balances with Treasury and being able to trace financial transactions from their origin through to the financial statements. In addition, we must establish an effective reporting infrastructure which will allow us to test constantly whether samples of transactions are being executed properly. These essential capabilities, when paired with our overall goal of implementing a strengthened internal controls environment, will make our navigation toward audit readiness more certain. In addition, these capabilities must be exercised repeatedly before asserting audit readiness.

There are other formidable challenges the Marine Corps has wrestled with. First, organizations external to the Marine Corps provide them with data and services essential to accurate financial reporting. Whether it's accounting services or timely contract close-outs, the Marines are largely dependent upon other entities to provide accurate and complete data and support; levels of cooperation must be intensified. Second, assembling immense quantities of financial data and presenting them in an organized manner to satisfy audit standards has proved to be a prodigious task, requiring intricate staging. Finally, standardizing business processes, one of the Marine Corps's priorities in preparing for their audit, reduces the complexity of an entity's internal

controls environment and also lessens inefficiencies. These “audit lessons learned” experienced so far by the Marine Corps will be magnified as the entire Department of the Navy and other large defense organizations contend with them.

As I noted earlier, Navy ERP has been a key element of our audit readiness strategy. In addition to improved internal controls, it will bring other benefits, including standardization of business procedures across the universe of users; reduced costs from legacy systems retirement; and efficiencies from streamlining and increased electronic workflow. Implementations continue on-time and on-schedule. By October 2012, Navy ERP will have over 70,000 users and will manage fifty percent of Navy’s obligational authority, about \$71 billion.

While this re-systemization will aid our audit preparations, our plan of course is to also achieve audit readiness while parts of our organization still operate legacy systems and processes. Key internal control objectives are the same regardless of the business and financial environment. And, while internal controls may be more robust in Navy ERP, commands which have not yet implemented it are also pursuing improved controls over their processes and systems.

Two major, over-arching challenges to success are common to both our Financial Improvement Program’s progress and the continued successful implementation of Navy ERP. The twin hurdles are gaining top-to-bottom organizational acceptance of the changes these programs bring, and continuing the Department’s commitment to adequately fund both initiatives. To date, the Department of the Navy’s leadership has fully supported both programs, and we’re moving forward with our strategy and objectives.

I'd like to conclude by thanking this subcommittee and Congress for taking an interest in our efforts at audit readiness and business systems modernization. Your interest and support will help greatly as we cross the hurdles of business transformation.