

STATEMENT BY

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BEFORE THE

**UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS**

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

ON

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Chairman Carper, Ranking Member McCain, and members of the committee, thank you for inviting us here to testify before you today. Your interest and assistance allows the Army to move forward with these important stewardship and accountability measures. These measures will ultimately improve our ability to achieve the mission – defending the country at home and abroad. The support Congress provides is critical to your Army's success.

I am honored to sit shoulder-to-shoulder with Mr. Hale, Ms. McGrath, and my partners from the other services. I welcome the opportunity to address your questions. Your perspectives will provide valuable input to how we lead and manage the Army.

On July 22, 2010, Dr. Joseph Westphal, the Under Secretary of the Army and the Army's first Chief Management Officer, testified before the House Armed Services Committee. I am here today to assure you that we are on track to meet the goals set for us by Congress.

On March 1, 2010, the Army submitted our Report to Congress on the implementation of the business transformation requirements outlined in Section 908 of the Duncan Hunter National Defense Authorization Act (NDAA) for Fiscal Year 2009. In addition, we are currently staffing and will submit the Army's Business Transformation Plan (BTP) to Congress in October.

As you are aware, Secretary of Defense Robert M. Gates recently directed a series of Department of Defense (DoD) efficiency initiatives designed to reduce duplication, overhead, excess, and instill a culture of savings and restraint. The Secretary of the Army has committed the entire Army to participate in this effort and meet the Secretary of Defense's goals. The CMO has the lead to ensure the Army works in a coordinated and collaborative manner to identify viable efficiencies and reinvest those savings against the Army's most urgent future needs. Central to our longer-term efforts are the establishment of an Integrated Management System, improving financial auditability and readiness and managing our information technology investment strategy. This will ensure our information technology architecture supports our processes effectively and enables us to meet our auditability requirements.

INTEGRATED MANAGEMENT SYSTEM

The 2008 NDAA established the position of the Chief Management Officer (CMO) and directed that the Under Secretary of the Army serve as the primary manager of business operations within the Army. The 2009 NDAA further defined that role and directed the Army to achieve an Integrated Management System. Simply stated, the Integrated Management System is the convergence of Army strategy, policy, process and culture that enables senior leadership to effectively and efficiently achieve our common goal: Readiness at Best Value.

A goal of business transformation is the achievement of an Integrated Management System that is performance-based and outcome-focused. An Integrated Management System will help leaders make better resource-informed decisions – “Readiness at Best Value” vice “Readiness at Any Cost.” Currently, the Army management structure is composed of various management systems tailored to specific areas (logistics, finance, human resources, etc.). Though effective in their respective areas, today’s complex and rapidly changing environment requires a holistic view of the Army. To achieve an Integrated Management System, the Army must align with Department of Defense and make a concerted effort to integrate business operations across the Army’s various functional areas. This means arriving at a common set of outcomes for the entire Army to work toward, identifying and aligning measureable objectives, establishing performance metrics, measuring and monitoring performance, establishing feedback mechanisms, and adjusting processes as needed based on lessons learned. Our efforts to create an Integrated Management System will be outlined in the Army’s Business Transformation Plan that we will deliver to Congress next month.

Army business transformation aims to align our generating force and business operations to support an agile and versatile operating force. To ensure business transformation becomes an integral part of how we plan, prepare and execute, we have embedded it into our central management tool, the Army Campaign Plan (ACP). The Army Campaign Plan provides a mechanism to transform both the Operating and Generating Forces while enabling the Army of the 21st Century.

In addition to improving our internal processes, the Army is working hard to coordinate vertically with the Department of Defense and horizontally with the other services. The Army recognizes the importance of aligning with the Department of Defense’s Core Business Missions, the

Strategic Management Plan, the 2010 Performance Budget, the Financial Improvement and Audit Readiness Plan, and the Department of Defense Business Enterprise Architecture. This alignment is achieved through frequent and periodic senior leader reviews and working closely with the Department of Defense's Deputy Chief Management Officer and Comptroller on a daily basis.

The Army also collaborates with the other Services to ensure that we develop consistent business system architectures and identify efficiencies across the Department. All of the Chief Management Officers and Deputy Chief Management Officers within the Department of Defense meet frequently to coordinate our priorities. For example, the Defense Business Systems Management Committee (DBSMC) meets regularly to certify Information Technology investments across the Department of Defense and address strategic business issues, ranging from security cooperation efforts to financial improvement and audit readiness.

STRENGTHENING FINANCIAL MANAGEMENT IS A HIGH PRIORITY MISSION

The Army's financial and business systems successfully provide our commanders with information about the resources and information they need to accomplish their mission. While these systems provide meaningful information to commanders, they were not designed to meet audit standards, nor were they designed to support a single, integrated enterprise. The Army's existing financial and business systems, referred to as legacy systems, do not comply with today's auditability needs. For example, the Army does not have a transaction-driven standard general ledger and our business systems lack uniformly applied internal controls. Additionally, the Army does not document business events in a manner consistent with audit standards. These weaknesses, and others, preclude a successful audit of the Army's financial statements and prevent achievement of the Comptroller's objective to improve the financial and asset information.

Correcting these problems is a high priority mission for the Army. Under the leadership of the Army's Chief Management Officer (CMO), the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)) and the Office of Business Transformation (OBT), with other major Army stakeholders, are charged with strengthening financial management – a major objective in the Army Campaign Plan. Under the ASA(FM&C)'s direction, we are focused on improving budgetary information and establishing existence and completeness of mission

critical assets with the objective of publishing an audit ready Statement of Budgetary Resources.

While the Army Campaign Plan provides the strategic blueprint, the Financial Improvement Plan (FIP) documents the challenges associated with achieving a favorable audit. It also identifies the detailed actions necessary to correct the weaknesses, provides a schedule for implementing the corrective actions, and identifies the organizations responsible for implementing the corrective actions. We are encouraged by the Army Corps of Engineers and their ability to achieve and sustain fully-auditable financial statements.

Of course, to achieve and sustain auditable financial statements, the Army must improve its financial systems. A key element of the Army FIP is replacing legacy business systems that support logistics, personnel, acquisition, and financial processes, with Enterprise Resource Planning (ERP) systems. Modernizing the Army's business system information technology infrastructure will enable the Army to leverage business process improvements, strengthen management controls, and manage business operations in a more efficient, integrated manner. These modernization efforts are vital to audit readiness. The Army has established an Enterprise Resource Planning Task Force to refine the Army's current Enterprise Resource Planning Strategy with the goal of achieving the best-possible Enterprise Resource Planning end state, given existing conditions and available resources. Achieving enduring financial systems that support our requirement for auditability is critical to that strategy.

In the past, the Army's business system information technology and financial improvement efforts have not been enterprise focused. To correct this problem, the Army CMO established the Business Systems Information Technology – Executive Steering Group (BSIT-ESG). BSIT-ESG is chaired by the CMO and provides enterprise-level governance for Army information technology systems to ensure accountability and progress. The Business Systems Information Technology – Executive Steering Group advises the Chief Management Officer on Army-wide requirements to synchronize, integrate, prioritize, and resource business information technology systems, with a focus on the Enterprise Resource Planning systems. Although a relatively new senior level governance board within the Army, the Business Systems Information Technology – Executive Steering Group has established itself as a key force in guiding business system modernization and improvement efforts. The Business Systems Information Technology –

Executive Steering Group will manage the Army's information technology investment to ensure our Information Technology architecture supports our requirement for auditability.

Focusing Resources to Achieve Financial Improvements

The Army's Financial Improvement Plan is aligned with the Department's priorities, requirements of the fiscal year 2010 NDAA and contains detailed actions and milestones to ensure these priorities are met. Our Financial Improvement Plan provides the roadmap and resources to assert audit readiness of the general fund statement of budgetary resources and establish existence and completeness of mission critical assets by fiscal year 2015 in compliance with the Comptroller's direction. The Financial Improvement Plan also provides a framework for full auditability of all financial statements in 2017. Achieving this objective is challenging due to cost and requirements to establish historic asset valuation on the balance sheet. The Assistant Secretary of the Army-Financial Management and Comptroller is responsible for executing the Financial Improvement Plan under direction of the Chief Management Officer and the Department's Comptroller.

Progress in achieving Financial Improvement Plan objectives is encouraging. We will assert audit readiness for all general fund appropriations received on September 30, 2010. We will establish existence and completeness of all Army aviation assets by March 31, 2011.

CONCLUSION

In conclusion, Army senior leaders are aware of challenges associated with developing an integrated management system, improving financial information and achieving audit readiness throughout the enterprise. We are making a concerted effort to infuse a sense of cost-consciousness and financial responsibility into our leadership culture. We are providing additional training and resources in the ranks so that leaders are better prepared to meet their financial improvement and audit readiness requirements. We are committed to see this effort through. Again, I thank you for your support for our Soldiers, Civilians and their Families worldwide.