

RECORD VERSION

STATEMENT BY

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**BEFORE THE
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Chairman Carper, Ranking Member Coburn, and distinguished Members of this Committee, thank you for the opportunity to appear before you today to discuss the Army's approach to implementing financial improvement, my assessment of Army's progress toward achieving auditable financial statements and the implementation of the Army's enterprise resource planning systems. In addition, I want to convey to you that Secretary of the Army McHugh, Chief of Staff of the Army Odierno, Under Secretary of the Army and the Army Chief Management Officer Carson, and I remain committed to improving the Army's financial management and meeting auditability requirements in law. We are unified in our effort to make lasting improvements for the Army and we reaffirm our commitment to asserting audit readiness by September 30, 2017, as required by Section 1003 of the National Defense Authorization Act of Fiscal Year (FY) 2010.

Despite the serious challenges the Army faces from on-going resource uncertainty, the Army's Soldiers and civilian employees remain dedicated to improving our organization's business processes. We continue to follow the Department's Financial Improvement and Audit Readiness (FIAR) Guidance that identifies major mid-term goals to achieve audit readiness of the General Fund (GF) Schedule of Budgetary Activity (SBA) and the existence and completeness (E&C) of General Property Plant and Equipment, including General Equipment and Real Property, by the end of FY 2014.

The Army's Financial Improvement Plan documents the Army's approach to achieving these mid-term milestones, including our reliance on iterative external audits and examinations to inform Army's audit readiness status and provide objective

feedback on the areas requiring additional focus. These audits and examinations simulate the process and activity of a financial statement audit for various sections of the Army's financial statements. For example, an Independent Public Accountant recently examined and delivered a report on the Army General Fund Statement of Budgetary Resources, focusing on FY 2013 transactions within the Army's Enterprise Resource Planning (ERP) business environment, including the General Fund Enterprise Business System (GFEBS), Global Combat Support System – Army (GCSS-Army) and US Army Corps of Engineers Financial Management System. This examination report identified areas for correction, some of which are material in nature. In response to the examination, the Army is implementing a plan of action and milestones to remediate examination findings prior to the FY 2015 audit of the Schedule of Budgetary Activities (SBA).

During FY 2014, the Army received a clean opinion from an independent public accounting firm for an examination of real property assets at 23 Army installations, which accounts for over 50 percent of the net book value for this asset category. This audit supports the second DoD audit readiness priority of verifying the existence and completeness (E&C) of assets. This also marks the second E&C audit the Army has executed, the first being the successful audit of three missile programs – the Javelin, Hellfire, and TOW (Tube-launched, Optically-tracked, Wire-guided) – the DoD Inspector General completed in 2012. As a result of this audit the DoD IG confirmed the E&C of these programs, which total 17 percent of the Army's missile assets, and provided a positive audit opinion. The Army recently asserted audit readiness for General

Equipment and continues to coordinate with the DoD Inspector General to move forward with the examination.

Additionally, the Army continues to implement some of the largest and most complex ERP systems in the world. In July 2012, we completed full deployment of the GFEBS, our core business and accounting support system, to more than 53,000 users at more than 200 locations worldwide. The presence of GFEBS and the users' increasing proficiency with the state-of-the-art system are enabling the Army's audit readiness progress, simultaneously modernizing and improving the Army's business processes. In conjunction with the GFEBS deployment, the Army is modernizing its supply chain processes and systems, primarily with the GCSS-A, the Army's retail supply ERP system. GCSS-A, currently supporting in excess of 3,900 users, is operational within 101 of the 286 scheduled units. Upon full deployment in calendar year 2017, GCSS-A will support nearly 160,000 users. The Logistics Modernization Program (LMP), our wholesale logistics system, functions as the Army's automated and integrated supply chain. This includes maintenance, repair and overhaul planning, in addition to execution, and financial management as the system of record for Army Working Capital Fund (AWCF). With more than 21,000 users now and 14,000 more with Increment 2 in FY 2016, LMP will continue as a world class logistics and financial ERP – effectively developed, deployed, and sustained – to help the AWCF achieve auditability by FY 2017. The iterative examinations by external auditors provide us feedback on the system's compliance and allow us to confirm, our systems meet Federal systems requirements or make improvements in order to support a successful external financial audit.

While modern, auditable systems are critical to the Army's success, we must have properly trained and qualified personnel operating the systems and executing our business in an auditable manner. To that end, we have delivered training to more than 21,000 personnel at more than 270 locations since January 2012. This training program covers multiple functional disciplines, including audit readiness fundamentals, internal controls, testing, and all of the Army general fund business processes, including contractual services, civilian pay, military pay, general equipment, and real property, among others. Our innovative training delivery program includes in-person instructor led training; web-based instructor led training via Defense Connect Online; and self-paced training through the Army Learning Management System. By providing this critical training, the Army is investing in its most critical resource – its people.

We not only train our functional personnel, but we also conduct regular internal assessments that mimic an external auditor's approach. Established in 2012, our program addresses DoD priority areas and assesses a random sample of transactions each month across all major Army Commands and organizations. By measuring our progress internally, we are able to identify areas for correction in advance of any external audits. Army senior leadership and Army Command leadership receive the results of this internal assessment program on a regular basis, which allows us to hold the various Command leaders accountable for supporting the Army's audit readiness program while enabling our eventual success.

We recognize audit readiness requires engagement throughout the organization, so we hold all Senior Executive Service personnel—not just those in the financial management community—accountable for achieving audit readiness milestones. Since

FY 2012, financial improvement metrics have been a component of each Army Senior Executive's annual performance assessment. Moreover, the Vice Chief of Staff of the Army regularly monitors progress of internal assessments and external audits through his formal meetings with Commanders to maintain the appropriate tone at the top of the organization. Commanders and Senior Leaders can monitor progress within their organizations utilizing a Commanders' audit readiness checklist mirroring areas reviewed through internal assessments and external audits. This organization-wide engagement has facilitated our progress to date and is critical to our continued success.

The current Federal fiscal environment and evolving defense requirements, both at home and abroad, present unique challenges for our organizations, to include achieving audit readiness. There are several key focus areas that will require our attention in the near term in order to ensure success. These factors include continued fielding and refinement of our ERPs, inclusion of Military Personnel Appropriations expenditure data in GFEBS and aggressively working the findings identified in our current examination of the Statement of Budgetary Resources. Even confronted with these challenges, we are better prepared to assert audit readiness under conditions outlined by the OSD FIAR guidance than we have ever been in the Army's history. We continue to demonstrate improvement across all business process areas. Our annual exams have continued to expand in size and scope, mirroring the growth and evolution in our audit readiness program. The strong commitment of senior leaders and an extremely dedicated workforce are the Army's greatest assets and enable us to achieve our goals. I sincerely look forward to continuing our work with the members of this

committee, GAO, and the DoD Comptroller to ensure the continued improvement of the Army's business environment.