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HOUSE ARMED SERVICES COMMITTEE**

**Statement of
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Commander, Naval Air Systems Command**

before the

House Armed Services Committee

**Panel on
Defense Financial Management and
Auditability Reform Panel**

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Congressman Conaway, Congressman Andrews, members of the Panel, thank you for the opportunity to discuss the Naval Air Systems Command's (NAVAIR's) efforts at achieving and sustaining audit readiness.

NAVAIR's mission is to provide full life-cycle support of naval aviation aircraft, weapons and systems operated by Sailors and Marines. This support includes research, design, development, and systems engineering; acquisition; test and evaluation; training facilities and equipment; repair and modification; and in-service engineering and logistics support. This mission is delivered by a total workforce of approximately 37,000 military, civilian and contractor personnel located at eight locations across the continental United States and one site overseas.

As the NAVAIR Commander, I am personally committed to the financial improvement initiatives endorsed by the Assistant Secretary of the Navy (Financial Management and Comptroller), Ms. Commons. Achieving and sustaining audit readiness by standardizing financial processes to provide accurate and auditable information that supports program execution decisions is one of my top priorities, and is outlined in my 2010 Commander's Guidance to all NAVAIR employees. NAVAIR supports the Navy's audit readiness initiatives by documenting business processes, assessing internal control risk, conducting tests on the business processes that produce financial transactions, implementing corrective actions to mitigate any weaknesses, and conducting sustainment testing to ensure those corrective actions remain in place. NAVAIR's Financial Improvement Program and Business Process Standardization efforts are being led by accounting and financial management experts, with

support from functional experts across the Command in multiple business process areas, including acquisition, contracting, logistics, and human resources.

The focus of my Financial Improvement Program is to document, standardize, and test the business processes that feed into the Statement of Budgetary Resources report. NAVAIR's Financial Improvement Program supports Navy, Department of Defense (DoD) and Congressional direction to improve the quality of this financial information and associated business processes necessary to produce auditable financial statements for the information most often used to manage the Department: Budget Authority, Obligations, and Outlays.

The focus of our Business Process Standardization efforts is to reduce variability in all processes that have a financial impact by breaking each end-to-end process into segments. Right now, the team is working on Civilian Labor, Travel, Funds Receipt & Distribution, and Reimbursable Work Order processes. As we progress in our efforts, the team will focus on Contract Pay, Transportation of Things, and other business processes. Standardized business processes will produce accurate and decision-quality financial information, enabling leaders to make timely, effective and efficient resourcing decisions in an environment of increased demands and declining budgets.

To support the Department of Defense efforts at achieving auditable financial statements, the Under Secretary of Defense (Comptroller), Mr. Hale, required each of the Military Services to perform an assessment of one Major Defense Acquisition Program (MDAP). Navy chose the E-2D Advanced Hawkeye Program for this effort. The goal of NAVAIR's E-2D MDAP Project is to demonstrate financial stewardship of funds allotted for a major acquisition program and

assess the audit readiness of the Navy Enterprise Resource Planning (ERP) environment and related business processes. The assessment is scheduled for September 30, 2011.

NAVAIR's approach to this E-2D MDAP assessment aligns with our general Financial Improvement Program strategy, and includes reconciliation of financial accounting transactions and fund balances. It also includes an evaluation of business processes and internal controls, as well as implementation of any corrective actions required to address identified weaknesses. The NAVAIR team is taking lessons learned from the E-2D MDAP effort, and developing an audit readiness strategy to deploy across the Command. This strategy will stress the importance of internal controls, compliance with regulations, maintaining an audit trail, and other concepts that will contribute to NAVAIR's ability to achieve and sustain audit readiness.

NAVAIR is also leveraging Navy ERP to strengthen internal controls, enhance standardization and improve the quality of information available to decision makers. Navy ERP is NAVAIR's General Fund and Naval Air Warfare Center financial system of record and fundamental to our business operations. Having implemented an ERP pilot in 2002, NAVAIR has significant experience with Navy ERP and relies on the system for business operations including project planning, funds execution, funds validation in support of procurement and contracting, training and awards processing, time and attendance, accounting and external financial reporting. The implementation of Navy ERP has provided increased fidelity of our financial data, providing program managers timely insight into program execution and the ability to track dollars committed, obligated or expended; and gives program managers and field teams increased visibility into the interdependencies of program costs, schedules, resources and risks. The assessment and review of the E-2D program has validated this increased fidelity in that we

have been able to trace all the financial transactions related to the effort from beginning to end. We are also leveraging Navy ERP functionality for Asset Management and Inventory Management for greater financial compliance and accountability of our assets.

These examples demonstrate that our effort to achieve auditability is not solely a financial management initiative. Implementing a system of standardized processes and strong internal controls requires input and involvement across multiple functional areas including corporate operations, human resources, logistics, contracting, and budgeting.

Again, NAVAIR's efforts support Navy, DOD, and Congressional direction to improve the quality of financial information and business processes necessary to achieving a clean financial audit by 2017. These efforts enable our leaders to make timely, effective resourcing decisions in an environment of increased demands and restrained resources. I am committed to these initiatives, and believe the resources invested will produce a significant return on investment to the Warfighter and the American Taxpayer.