

Statement of

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Before the

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

of the

House Armed Services Committee

Subject:

**DOD's Enterprise Resource Planning (ERP) System
Implementation Efforts**

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Members of the House Armed Services Committee, thank you for the opportunity to discuss the Department of the Navy's efforts at achieving and sustaining audit readiness. First let me say, the Navy remains committed to the statutory deadline for achieving financial auditability by 2017 and understands the importance of this milestone.

Stemming from the auditability discussion is the question about the systems working toward this end. Because of the large volume of supporting documentation required during an audit, there must be an audit infrastructure that will allow the smooth and quick transfer of immense volumes of data to the auditors. The issue however, is that Navy's accounting systems, for many years, have been at the transaction level of detail. This means Navy is able to go in and look at data but actually pulling that data out for the auditors becomes more difficult. The reality is that Navy's systems were never designed to do proprietary accounting the way we are being asked to do it today. The systems were designed for budgetary accounting, which the Navy does very well.

This disconnect is in the Navy's business processes – which were not designed from end-to-end. In other words, if you were in the civilian personnel business, your system was designed to support hiring, getting people on board, and making sure they were in the system. These actions were not necessarily coordinated with the financial system.

For example, during a typical audit, an auditor will look at financial records and determine an employee is being paid. The next question that will be asked is to see the data supporting that entry in the accounting system. The supporting data, however, is a personnel action, be it from a Standard Form (SF)-52 or a 50. To get that supporting documentation Navy would have to go to the personnel people who are, in these terms, not integrated with the accounting system.

The above example illustrates where the Navy's processes have not been optimized. The Navy recognizes these shortcomings and is working to make sure the linkages between the various business owners are in place. This will enable an auditor the ability to see and understand the transaction and the accounting system, the supporting documentation for that transaction, and the entire end-to-end process.

Currently, Naval Air Systems Command (NAVAIR) is leveraging Navy ERP to strengthen internal controls and enhance standardization to improve the quality of information available to our decision makers. The implementation of Navy ERP has provided increased fidelity of our financial data providing our program managers timely insight into program execution and the ability to track dollars committed, obligated, and expended. Navy ERP functionality is also being leveraged for Asset and Inventory Management for greater financial compliance and accountability of our assets.

Further, Navy ERP gives program managers and field teams increased visibility into the program costs, schedules, resources, and risks. Naval Air Systems Command remains committed to supporting both Navy and the DOD to improve the quality of financial information and businesses processes necessary to achieve clean financial audits by 2017. More importantly, NAVAIR believes that the resources invested will provide a significant return on investment for the warfighter and the American taxpayer.

Navy ERP provides improved financial discipline, improved accuracy (with automated entry of key data fields), and an audit trail associating users and electronic documents with transactions. Navy ERP

provides a single system for budgeting, funds availability, and execution across all major acquisition Commands. Some specific examples of capabilities that improve financial controls include:

- Dual-sided accounting (credits/debits)
- Funds availability controls ensures funds authorized are not exceeded (at the appropriation level, prevents Anti-Deficiency Act violations, and prevents overspending for reimbursable funding documents or direct cite)
- Enables validation of funds availability prior to contract obligations, invoice pre-validation, and invoice payment.
- Navy ERP provides visibility of financial information across projects and System Commands enabling improved resource decisions.

Navy ERP supports auditability through not only the improved financial controls, but also by having a single data source with common data structures, standardized processes, and improved compliance across Commands. Navy ERP provides simplified access to standardized financial data. It provides a single system interface to multiple legacy systems. In addition, the audit trail and electronic archiving provide the ability to trace the source of data and transactions.

To close with a particular example of working toward the goal of auditability, the Marine Corp is currently undergoing the second year audit of the statement of budgetary resources (SBR). It has been challenging, but the DOD, inspector general staff, and the private firm auditing the statement of budgetary resources has noted the significant progress made by the Marine Corp this year. They have already agreed that 11 of the remediation actions taken by the Marine Corps are effective, and third quarter testing will assess the effectiveness of the remaining remediation actions. They have indicated they will provide their assessment to Ms. Commons in October 2011.

Future Pay and Personnel Solution (FPPS)

In October 2010, FPPS was reset from milestone B to a pre-milestone A program. The current work is focused on deconstructing the problem statement and addressing any and all auditability issues. The overarching goal is to first understand any issues affecting financial controls and the business processes leading toward auditability. Once those issues are clear, the next steps will be to determine the appropriate remedy to enable solutions.

Below is a table depicting funding for FY10 – FY12. With this funding Navy intends to execute a series of building block activities to improve personnel processes that are currently labor intensive, untimely, and inefficient. The building blocks will add functionality, automation, and reengineer manually intense processes by integrating data, performing business process modeling and simulation, and establishing an enterprise information environment. The ultimate goals will reduce errors, provide timely data to personnel systems, reduce manpower requirements, and accomplish foundational activities towards auditable personnel and pay processes.

(TY\$M) APPN	FY10	FY11	FY12
PB12 OMN	17.8	18.1	16.6
(TY\$M) APPN	FY10	FY11	FY12

PB12 RDTE	10.4	27.4	55.1
(TY\$M) APPN	FY10	FY11	FY12
PB12 OPN	1.0	1.9	0.0
(TY\$M)APPN	FY10	FY11	FY12
Total	29.2	47.5	71.6

To date, FPPS has had numerous accomplishments illustrated below in five major categories:

- 1) Business Process Improvement
- 2) Business Process Mapping
- 3) Capability Based Assessment
- 4) Concept of Operations
- 5) Established Governance Structure

Navy ERP

Navy ERP is an integrated business management system that modernizes, streamlines, and standardizes how the Navy manages people, money, programs, equipment, and supplies. At present, there are approximately 66,000 users worldwide, managing approximately 47% of the Navy's Total Obligation Authority (TOA). By its final deployment in October 2012, Navy ERP will serve over 71,000 users and manage over 50% (which is ~\$63B) of the Navy's TOA.

Enumerated below are four high level program benefits:

- 1) The deployment of the Single Supply Solution enables projected inventory savings of \$276M through FY2017 and expected cost avoidance of \$456M for FY2018 through FY2023.
- 2) By automating previously manual processes with an integrated single data environment, Navy provides real-time visibility to manage fleet assets, resources, and inventory.
- 3) Navy ERP improves financial management, enabling auditability, compliance, and improved internal controls.
- 4) There has been a retirement of 27 systems to date, with 69 more to be retired by 2016. This has garnered a realized cost avoidance of \$116M through FY08-10 with an expected cumulative combined cost savings and avoidance of \$682M through FY2016 based on OPNAV N40 Feb 2011 data call.

There have been a number of program deployments thus far. Those completed are as follows:

- Financial & Acquisition
 - Naval Air Systems Command (NAVAIR) deployed October 2007
 - Naval Supply Systems Command (NAVSUP) deployed October 2008
 - Space & Naval Warfare Systems Command (SPAWAR) deployed October 2009
 - Naval Sea Systems Command (NAVSEA) (General Fund) deployed October 2010
- Wholesale and Retail Supply

- Phase 1 of NAVSUP Weapons System Support (WSS) Deployment began February 2010 with users active in the system March 2010 and stabilized six months later
- Phase1 Fleet Logistics Center (FLC) & Partner Sites Deployment began July 2011

The current status of program development and deployment is as follows:

- Financial & Acquisition
 - NAVSEA (Working Capital Fund) initiated October 2011 with FOT expected by December 2011.
 - ONR & SSP scheduled October 2012
- Wholesale and Retail Supply
 - Phase 2 FLC & Partner Sites Deployment November 2011
 - Phase 3 FLC & Partner Sites Deployment March 2012
 - Phase 4 FLC & Partner Sites Deployment August 2012

Navy ERP's last major milestone came on June 30, 2011 with the Full Deployment Decision (FDD). The next major milestone date is the Full Deployment (FD) decision point which is planned for August 2013. From a budgetary standpoint, the Navy total projected appropriated costs from FY10 – FY16 (in then year dollars) are shown in the below table.

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Total
Operations & Spt (\$M)	117.1	102.5	111.7	92.8	80.8	90.7	107.8	703.5
Base Spt / Info Technology								
PE0708020N, BLIBSIT								
R&D (\$M)	16.5	-	-	-	-	-	-	16.5
Navy IT Dev / Mod								
R-1#131, PE0605013N								
Procurement (\$M)	4.0	5.0	5.2	4.5	1.4	6.9	5.4	32.3
Command Spt Equipment								
P-1#135, PE0708020N								
Total (\$M)	137.6	107.5	116.9	97.3	82.2	97.5	113.2	752.3

* Costs include preliminary activities to implement Navy ERP capabilities across the full Navy enterprise, and includes only Appropriated funding.

Global Combat Support System – Marine Corps (GCSS-MC)

GCSS-MC is a portfolio of systems that supports logistics elements of command and control, joint logistics interoperability, and secure access to and visibility of logistics data. At present, there are over 7,700 users and in June of 2011 III MEF (Japan and Hawaii) were fully fielded. Due to the success of the program, the Marine Corps accelerated the fielding schedule four months to the remaining I and II MEF units, Marine Forces Reserve, and the supporting establishments with I and II MEF starting cutover September 17, 2011. On July 18, 2011, a request to increase the number of users from 10,000 to 36,000 for Increment 1, Release 1.1, was made by the ASN RD&A to the Milestone Decision Authority (MDA). The OIPT/CIRB met August 17, 2011 and recommended the MDA approve this request.

Enumerated below are three major program improvements that have been made:

- 1) “Time to First Status” reduced from over 24 hours to an average of 1.5 hours
- 2) “Order Ship Time” reduced by 29.1% - 8.77 days to 6.22 days
- 3) “Repair Cycle Time” reduced by 48.5% - 40.58 days to 20.89 days

The below table shows the timeline for the major schedule of events:

Scheduled Decision Points	Current Estimate or Actual
Milestone A	Jul 04*
Milestone B	Jun 07*
Milestone C	May 10*
FDD	Jul 12 (Threshold Date)
FD	TBD

The table below shows the cost for FY10 – FY12. Please note, FY10 and FY11 reflect actual program execution with the exception that FY11 does not include \$9.765M of OMMC OCO funds that support the preparation and planning to field GCSS-MC to units in OEF. The fielding to OEF is a DC I&L pilot effort that is not part of the program of record. The FY12 numbers reflect PB12 controls. These figures include the \$22.2M R&D upgrade to the Oracle e-Business Suite Release 12 that is currently included in the draft PB12 controls.

	FY10	FY11	FY12
RDT&E	\$60.567	\$24.983	\$36.780
PMC	\$8.021	\$27.017	\$13.897
O&M,MC	\$46.959	\$77.362	\$41.685
Total	\$115.547	\$129.632	\$92.362