

Statement of

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before the

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Chairman Conaway, Congressman Andrews, members of the panel, thank you for the opportunity to discuss the role of Enterprise Resource Planning systems (ERPs) in helping to achieve audit readiness in the Department of Defense. The importance of auditability to the Department was recently affirmed in Secretary of Defense Panetta's testimony before the full House Armed Services Committee, and his corresponding policy memorandum to the Department, on October 13, 2011. In each instance, Secretary Panetta underscored the importance of overhauling the way DoD does business in today's constrained fiscal environment. He also mandated the acceleration of certain aspects of the Department's financial improvement and audit readiness plan in order to ensure that we achieve the Congressionally mandated requirement to be audit ready by 2017 and continue to demonstrate good fiscal stewardship over taxpayer dollars. In his direction, the Secretary not only pledged his personal engagement in the achievement of this goal, but also noted that "auditability is a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability" within the Department.

While the Department has made substantial progress over the past two years to improve its business processes, financial controls, workforce, and defense business systems, we certainly recognize there is still a significant amount of work ahead of us to achieve and sustain auditable financial statements. The continued development and modernization of our business systems environment, including the implementation of ERPs, is an important component of our success. Many of our systems are old and handle or exchange information in ways that do not readily support current standards or record data at the transaction level, a capability essential to audit success. The systems were designed decades ago to meet Federal budgetary rather than commercial accounting standards and tend to be non-standard and sometimes do not include strong financial controls. As Secretary Panetta said, "While the Department's systems do tell us where we are spending taxpayer funds, we do not yet have the details and controls necessary to pass an audit."

The Secretary's mandate underscores the importance of the partnership that the Under Secretary of Defense (Comptroller) has formed with my office, the Military Department Chief Management Officers, and the Department's other functional business owners. Together, we are working to ensure that we effectively synchronize our broader business improvement efforts with the Department's audit readiness goal; this includes our business system modernization strategy.

Today, I'd like to highlight for you our efforts to implement ERPs, as well as the Department-wide business management efforts that are helping us achieve effective, agile and innovative business operations.

### **Enterprise Resource Planning Systems**

Strategically, the Department is pursuing improvements in its business systems environment by appropriately implementing ERPs, modernizing legacy systems when necessary and supported by a business case, and aggressively sun-setting legacy systems that are obsolete, redundant, or not aligned with our business objectives. For example, the fielding of Navy ERP has enabled the retirement of 27 systems to date, with 69 more planned by 2016. Our goal is to deliver a streamlined, 21st-century systems environment comprised of IT capabilities that work seamlessly together to support effective and efficient business processes and operations.

The implementation of ERPs is a central part of our business systems modernization strategy because the design principles within an ERP directly enable key elements of auditability. Among those principles, ERPs are designed to handle transactions end-to-end, enforce process and execution standardization among implementing organizations, manage consolidated business data in a single repository that allows centralized access control, and facilitate the flow of information both within an organization and with outside stakeholders. These design principles within an ERP directly enable these capabilities essential to auditability:

- Traceability of all transactions from source to statement
- The ability to recreate a transaction
- Documented, repeatable processes and procedures
- Demonstrable compliance with laws, regulations and standards
- A control environment that is sufficient to reduce risk to an acceptable level

Today, DoD is developing and implementing multiple ERPs across the Military Departments and Defense Agencies to serve as the IT backbone of their financial and supply operations. Each of these implementations is at a different stage of its lifecycle and most have experienced challenges as they have moved from design to implementation. However, the Department has made notable progress over the past two years. Examples include:

- The Marine Corps has experienced operational success with their Global Combat Support System (GCSS-MC) and recently requested approval to accelerate deployment. 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, which is a key aspect of achieving a clean audit. The program is currently deployed to 10,000 users and is demonstrating business value in several areas. For example, “Time to First Supply Status,” a primary measure for logistics responsiveness, has been reduced from over 36 hours to average of 6.2 hours at the units using GCSS-MC. Additionally, “Order Shipment Times” has been reduced by 2.9% and “Maintenance Repair Cycle Time” has been reduced by 6%.
- The Army’s General Fund Enterprise Business System (GFEBS) brings the majority of Army financial and real property management processes into a single system, integrates performance data and produces full costs. GFEBS provides real-time visibility of transactions, and produces financial accounting, cost and decision support information. It also enables end-to-end financial processes and provides a clear audit trail from the financial transaction to the originating event. GFEBS is deployed at 160 major locations, with over 38,000 users.
- The Navy Enterprise Resource Planning (Navy ERP) program achieved a final deployment decision and is currently deploying to the remaining sites within the Navy. 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. Navy ERP has enabled the retirement of 27 systems to date, with 69 more to be retired by 2016. This has garnered a realized cost avoidance of \$116M from FY08-10. The program is demonstrating business value in several areas. For example, the deployment of Navy ERP is enabling inventory reductions, real-time visibility of fleet assets, resources, and inventory, and improved financial management controls.
- Within the Air Force, Defense Enterprise Accounting and Management System (DEAMS), is successfully deployed as a pilot to 1000 users at both Scott AFB and Defense Finance and Accounting Service (DFAS) Limestone. The Air Force, in

partnership with DFAS, has successfully closed the accounting records for the last two fiscal years using DEAMS. DEAMS will manage appropriated and Transportation Working Capital Funds (TWCF) for the Air Force and provides an enterprise-level view of the financial data supporting decision-making at all levels.

Importantly, the Department recognizes that implementing ERPs is not solely an IT task, or even a financial management task. Implementing ERPs, or any new system, requires commitment from the most senior leaders within our Department, and often requires change of processes and policies to achieve successful implementation.

### **Enterprise Environment Improvements**

Despite their inherent advantages, however, ERPs cannot achieve auditability for the Department without additional improvements to our overarching business environment. To achieve these broader improvements, we have placed significant emphasis in several key areas:

- Orienting the Business Enterprise Architecture (BEA) around end-to-end processes;
- Improving the usability and implementation of the BEA; and
- Improving business systems acquisition.

First, consistent with the ERP design principle of handling a transaction end-to-end, we have oriented our BEA and oversight processes around end-to-end business processes that support audit goals, including Procure-to-Pay, Budget-to-Report, Order-to-Cash and Hire-to-Retire. The BEA, guided by strategic Departmental priorities, is an integrated information architecture that provides a blueprint for business system modernization investments and is used to help guide and constrain our investments through the Department's governance process. The BEA defines the Department's future business environment, including the necessary data standards, business rules, performance metrics, and standard system configurations that will allow our systems to be interoperable. Department-wide application of the BEA will ensure that when data is exchanged between systems, it happens securely and maintains the integrity of the data.

Using this framework of end-to-end business processes, rather than an organizationally or functionally stove-piped approach, ensures that we think about our business in a holistic way, recognizing the connections and dependencies that each individual business area has on the others. From there, we can make targeted investments in IT systems – acquiring ERP systems or

other new systems, modernizing existing systems to bring them into compliance with our standards, and retiring legacy systems whenever they are no longer needed. This last point is important as it means replacing systems that do not support commercial audit standards with those that will enable Services and Defense Agencies to meet clean audit goals. This end-to-end approach will also help minimize the number of required data exchanges and system-to-system interfaces, thus reducing the potential for error and increasing the degree of process standardization, also essential to a clean audit.

Second, we are improving the usability and implementation of the BEA across the Department, consistent with industry leading practices. This will make it easier for the Department to ensure compliance with the BEA and interoperability between its systems, thereby enabling auditability. Through the next release of the BEA, we will apply open standards and protocols to architecture development, leveraging Semantic web technologies, common business process modeling approaches, and agile development methodologies. To implement these new approaches, I recently directed the Department to use these specified standards, and the end-to-end process framework, in the development of both the BEA and all subordinate Enterprise and solution architectures federated or asserting compliance with the BEA.

Third, we have taken steps to improve our current approach to acquiring and implementing business IT systems. The Department has created an improved acquisition model for our defense business systems, called the Business Capability Lifecycle (BCL), which is in use today for a growing number of programs and is an essential pilot effort for our broader IT reform effort. BCL is a comprehensive process that aligns the requirements, investment, and acquisition processes for defense business systems under an integrated governance framework and focuses on the incremental delivery of capability, within eighteen months of program initiation. This new, incremental acquisition approach will help put capability in the hands of the Department's users more quickly, including capability instrumental to our audit efforts.

In addition to improving acquisition policy, the Department is working to improve specific acquisition outcomes of its business Major Automated Information System (MAIS) programs through more rigorous acquisition oversight and investment review. This includes creating better outcome-focused measures of success for the implementation of specific ERP

programs, thus enhancing our ability to monitor progress toward clean audit goals. The Department is also tying business outcomes to acquisition milestones and specifically requiring that individual programs, such as Army's General Fund Enterprise Business System (GFEBS) and Navy ERP, define the role that they play in their organizations' auditability efforts and end-to-end processes. For example, in the June 24, 2011 GFEBS Acquisition Decision Memorandum we explicitly required that the Army:

- Obtain the Under Secretary of Defense (Comptroller) (USD(C)) and Department of Defense Deputy Chief Management Officer (DCMO) approval of the end-to-end process and system portions of the Army plan to achieve audit readiness by September 2017 as defined in Financial Improvement and Audit Readiness (FIAR) Guidance. Specifically, the Army plan must address the GFEBS role in achieving audit readiness in the work products defined in phases 1 and 3 of the FIAR Guidance Methodology.
- Obtain USD(C) concurrence that the end-to-end business systems and processes within Army control support auditable financial statements where GFEBS has been implemented and integrated. The USD(C) will rely on the opinion of an independent public accounting firm expressed in an examination of the Army audit readiness assertion of a GFEBS entity currently planned for December 31, 2012 and will allow for remaining minor system and process enhancements scheduled for completion within 12 months.

Another objective is to ensure our business systems are compliant with the Department's Standard Financial Information Structure (SFIS) and the United States Standard General Ledger (USSGL). To achieve this objective, the Department has initiated independent assessments of every applicable system. SFIS and USSGL provide a uniform Chart of Accounts and technical guidance for the standardization of the Department's agency accounting. Importantly, SFIS allows revenues and expenses to be reported by program, as opposed to appropriation, categories. Our assessments will look at the underlying systems' SFIS configuration, USSGL posting logic, ability to interface using SFIS, and financial reporting capabilities. This will ensure compliance with all appropriate SFIS business rules. Throughout these reviews we will continue to work closely with the DoD Inspector General, the Program Offices, and the Office of

the Under Secretary of Defense (Comptroller) to correct any deficiencies that have been identified.

### **Conclusion**

Improved systems alone will neither eliminate our weaknesses nor guarantee auditable statements. Achieving auditability requires that we apply a consistent level of process controls across organizations and functional areas. The Department's senior leadership understands this and is committed to achieving our audit goal. This commitment is embodied by the panelists with me today from all of the Military Departments. We hear and are answering the Secretary's call to accelerate, and the Congress' call to meet, our audit timeline.

Mr. Chairman, this concludes my statement. I welcome your questions.