

DEPARTMENT OF THE AIR FORCE
PRESENTATION TO THE DEFENSE FINANCIAL MANAGEMENT AND
AUDITABILITY REFORM PANEL

COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: "THE ORGANIZATIONAL CHALLENGES IN ACHIEVING
SOUND FINANCIAL MANAGEMENT AND AUDIT READINESS"

STATEMENT OF: MAJOR GENERAL JUDITH FEDDER
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INTRODUCTION

Chairman Conaway, Ranking Member Andrews and distinguished members of the Panel, thank you for the opportunity to discuss your Air Force's efforts to manage mission critical assets. As a Logistician, I recognize that auditable financials and inventory controls are critical tools in helping the Air Force produce the maximum combat capability from each taxpayer dollar. Let me assure you that the Air Force logistics community understands and is fully engaged in supporting and achieving Financial Improvement and Audit Readiness (FIAR) compliance by 2017.

In May 2011, the Under Secretary of the Air Force, Ms. Erin Conaton, and the Air Force Vice Chief of Staff, General Philip Breedlove, wrote to the leadership at our Air Force Major Commands emphasizing the importance of audit readiness. In logistics, we are following up with a similar letter to the responsible logistics managers requesting detailed processes and plans to improve material weaknesses and inventory accountability to achieve audit readiness.

BACKGROUND

The logistics community is responsible for reporting on the existence and completeness of inventory and equipment. Functional logistics responsibilities include inventories, associated reconciliations, and updating legacy IT system accountable records. When we do these things timely and accurately, we maintain our accountability over Air Force equipment and ensure warfighter readiness levels are fully optimized with the best available tools for the mission. These logistics actions support the financial accountability required for audit readiness. Over the past several years, the Air Force has recognized several material weaknesses in our internal controls for equipment and inventory. To correct these weaknesses, the Air Force is implementing the Department of Defense (DoD) FIAR guidance through a detailed plan which includes discovery of problem areas, a set of milestones and interim deliverables, and assignment

of corrective actions to accountable parties. Our audit readiness is imperative to protect not only taxpayers' dollars, but to ensure we account for critical assets required to support warfighters and operational demands. This is more than a financial requirement; it is a functional logistics support requirement and we are reinforcing that message to our operational units.

WHERE WE ARE TODAY

The Air Force has been in the forefront, working closely with the Office of the Secretary of Defense Acquisition, Technology and Logistics to develop a risk-based methodology for establishing property accountability that can be used not only by the Air Force, but across the Department. We are proactively developing and executing corrective action plans which include: 1) capturing data required to establish an auditable baseline, 2) identifying policy and process changes and improvements required to ensure accountability, 3) testing to ensure internal control reviews, and 4) performing asset inventories and reconciliations. Each material weakness corrective action plan is monitored weekly by senior leadership at the Air Staff to ensure corrective actions are on track and/or in place. The visibility of each logistics material weakness and detailed action plan in the Air Force are routinely reviewed at the highest levels of leadership. Due to the strong leadership commitment and the changes we have made in the last year, we asserted audit readiness for the existence and completeness of Military Equipment in December 2010. This includes satellites, aircraft, remotely piloted vehicles, aircraft pods, and Intercontinental Ballistic Missiles (ICBMs). Military Equipment represents approximately one third of our total assets with a net book value of \$103 billion.

In addition, the Air Force has made progress in its audit readiness assertions in mission critical assets. During the recent June 2011 Air Force Audit Agency inventory assessment, the logistics community successfully asserted audit readiness for the existence and completeness of aerial targets and drones. This represents approximately \$485 million dollars in assets. As we

continue sampling and testing other mission critical areas, there will be clean up and exceptions identified, but this is a major accomplishment.

One of our biggest challenges is ensuring the logistics and acquisition functional communities understand their role in ensuring financial audit readiness. We are diligently working to make the connection between the inventories of Air Force assets and financial statements. Toward that end, we are engaged in the process by working with our financial counterparts to develop a briefing to be presented throughout the Air Force Enterprise Logistics Governance structure, starting with our major command Logistics Readiness and Maintenance Executive Boards during the September-October 2011 timeframe. We will then brief the two- and three-star level Logistics Working Group, Logistics Board, and Logistics Council. As stressed in the memo from Under Secretary Conaton and General Breedlove, these briefings further emphasize the commander's responsibility to follow policy and procedures to ensure logistics systems and processes can support a clean financial audit. Under Secretary Conaton and General Breedlove also directed commanders at all Air Force major commands to include audit readiness objectives in the performance plans of senior executives. These objectives are already in key senior executive performance plans in the financial, acquisition, and logistics communities at the Air Staff.

We are also ensuring enhanced actions are incorporated into our Logistics Compliance Assessment Program and Maintenance and Logistics Readiness Squadron Quality Assurance Program checklists. These measures will further provide Air Force logistics leadership with appropriate insight into major command policy compliance and we can take action where necessary. In addition, we are working with the Air Force Inspector General to establish "Special Interest Item" inspections to monitor compliance from the Inspector General

perspective. While these efforts will contribute to the overall audit readiness effort, they will also emphasize that audit readiness is a Total Force and all encompassing effort.

Another challenge is having audit compliant systems to achieve standard processes, internal controls, and an audit trail. Without these systems in place, ongoing and future inspections will not provide the necessary information required for an audit. For several years, we have deferred enhancements to our legacy systems while we developed more robust Enterprise Resource Planning Systems (ERPs) solutions, such as the Expeditionary Combat Support System (ECSS). ECSS is structured in a way to enable audit readiness through robust system controls and process efficiencies, as well as provide enterprise level visibility to Air Force assets. Despite some developmental and fielding delays, ECSS has deployed initial capabilities at Hanscom Air Force Base, MA, and will provide much needed modernization of our core property management systems which are key to achieving FIAR compliance objectives. In addition to providing the required inventory visibility and control, ECSS also modernizes portions of the Air Force General and Working Capital Fund systems. The Air Force plan to achieve mandated 2017 audit readiness relies on implementing a mix of ERP and legacy system remediation to achieve FIAR compliance.

CONCLUSION

The Air Force is fully committed and has set itself on a planned and deliberate path to improve its financial accountability and achieve audit readiness. Again, I can assure you that the logistics community is fully engaged and supporting this effort. We have teamed with the acquisition and financial communities to produce new policy, where required, and to ensure compliance with current policies. We continue to move forward with our audit readiness corrective action plans, ensuring assets are recorded in the appropriate accountable system of record, valued at the correct amount, and that assertions for existence and completeness are

accurate. We will continue to spread the word and keep the focus on each and every Air Force unit doing what it takes to achieve a clean audit. Thank you for the Panel's interest and focus on this important effort and for your continued involvement and support as we work towards audit readiness by 2017.