

RECORD VERSION

STATEMENT BY

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BEFORE THE

**HOUSE ARMED SERVICES COMMITTEE
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HOUSE ARMED SERVICES COMMITTEE**

Congressman Wittman, Congressman Cooper, Members of the Subcommittee, thank you for the opportunity to testify today regarding the Army's work to achieve financial statement audit readiness. I want to convey to you that Secretary of the Army McHugh, the Chief of Staff General Odierno, and Undersecretary of the Army Dr. Westphal, the Army's Chief Management Officer (CMO), and I commit unequivocal support of improving financial management and meeting auditability requirements in law.

The Army will have auditable financial statements by September 30, 2017 as required by Section 1003 of the National Defense Authorization Act for Fiscal Year 2010. The efforts to increase financial accountability and achieve audit readiness go hand in hand with Secretary McHugh's call for a leaner, faster, and more adaptable Army. A more agile Army is only possible if we have timely, accurate, and reliable financial information to inform our resourcing decisions.

We began transforming our business environment several years ago and recently achieved a significant milestone that simultaneously supports our audit readiness and business transformation objectives. On July 1, 2012, the Army completed the scheduled deployments of the General Fund Enterprise Business System (GFEBS); this system is designed to comply with audit requirements. Each day more than 52,000 users are leveraging GFEBS, the Army's business and financial system, across 28 Army Commands, Component Commands, and Direct Reporting Units.

Of course, in an organization as large and complex as the Army, a transformation that requires a change in our day-to-day business and a fundamental shift in our culture faces significant challenges. Both houses of Congress and the Government Accountability Office (GAO) have been valuable partners in our transformation endeavors. In July 2011 Mr. Asif Khan outlined for the DoD Financial Management Panel, six specific challenges DoD faces in achieving audit readiness, including: 1) Sustaining continuous leadership; 2) Accountability and oversight; 3) Internal controls; 4) A competent financial management workforce; 5) A well-defined business

architecture; and 6) Compliant and Sound Financial Systems. The Army's approach audit readiness strategy addresses each of these concerns.

We are building continuous leadership through the visible support of audit readiness from the Secretary of the Army, the Chief of Staff of the Army, me, and other top Army leaders. Audit readiness is part of the Army Campaign Plan and aligns to the Secretary's "Top 10" priorities. Top leadership has communicated, through memoranda and other means, the critical nature of audit readiness across the enterprise and our intent to hold all personnel, military and civilian, accountable for conducting business in an auditable fashion. For example, in April the Chief of Staff sent a message to all general officers informing them of the importance of audit readiness, stating, "Leaders at all levels are responsible for instilling proper levels of discipline and oversight into all business processes within their command."

Sustained leadership requires accountability and oversight and we have greatly increased accountability and oversight by embedding audit readiness criteria in the annual performance plans for all Army Senior Executive Service (SES) civilians. In addition, we are engaging commanders and holding them accountable for implementing effective internal controls. These controls are inherent in their daily business; are practiced in a predictable, controlled manner; and are auditable with appropriate supporting documentation. My office conducts monthly internal controls tests across the Army's business processes to identify any deficiencies prior to audit. Finally, I chair the quarterly meetings of the Army Audit Committee, which oversees the Army's audit readiness efforts and interim independent examinations. At these meetings the Army's top leaders must report their progress in meeting audit readiness objectives.

Building a competent workforce requires comprehensive communications and training efforts. In 2012 alone we have trained more than 8,000 personnel across all business functions in audit readiness principals and implementing the internal controls within the Army's business processes. We have expanded this training online using the Army Learning Management System to broaden our reach in a cost-effective manner

while enabling users to access the training content 24 hours a day. Finally, I established the Army Financial Management Workforce Transformation working group to identify the to-be workforce skills and staffing levels that will support the Army's financial management transformation.

We are strengthening internal controls through installation-level process and control assessments, corrective action implementation, and business process and controls training. Our efforts to create an effective business control environment comply with the DoD's Financial Improvement and Audit Readiness (FIAR) criteria, and requirements established by Office of Management and Budget Circular A-123 Appendix-A. At the end of June we reached two major milestones that demonstrate how far we have come in implementing internal controls.

First, we asserted audit readiness for nine process areas at 10 different locations for the Statement of Budgetary Resources (SBR). An independent auditor will validate the assertion through the second of three SBR exams leading up to the Secretary of Defense's 2014 SBR mandate. The first SBR exam in 2011 resulted in a qualified audit opinion that highlighted the standardization of business processes across locations, which is a major achievement for the Army. The second SBR exam evaluates our internal control environment.

Second, in June the Army asserted audit readiness for three missile programs (Javelin, Hellfire, and Tube-launched, optically tracked, wire-guided (TOW)), representing approximately 16 percent of the Operating Materials & Supplies category of assets. The DoD Inspector General will conduct the exam to validate the assertion. This interim milestone supports the validation of all existence and completeness of mission critical assets by the third quarter of fiscal year 2015.

For the remaining two GAO challenges we developed a well defined business architecture which enables our ERP systems to better support Army audit readiness objectives. The Army Office of Business Transformation (OBT) oversees IT and

business system strategy and chairs regular governance board meetings of all stakeholders to ensure business system-related decisions are made in accordance with the Army's defined strategy. We are also conducting internal assessments of our ERPs and material feeder systems using the GAO Financial Information Systems Control Audit Manual (FISCAM), which provides the guidelines an auditor will follow when conducting a financial statement audit of a federal agency. The FISCAM assessments of GFEBS and the Army's Global Combat Support System (GCSS-Army) are well underway. I am confident the Army's ERPs will fully support the Army's audit readiness goals as independent auditors have already confirmed GFEBS to be substantially compliant with the Federal Financial Management Improvement Act (FFMIA) and DoD Standard Financial Information Structure (SFIS).

We have achieved some significant accomplishments in the past 12 months, but our work is far from over. I recognize the challenges we face, but I am confident we are executing a sound plan that will achieve the NDAA 2010 mandate. Our plan is sufficiently resourced, has the full support of the Army's top leadership, and has resulted in successfully achieving several milestones to date. In addition, the independent feedback we receive from the DoD Comptroller's office, GAO, DoD IG, Army Audit Agency, and independent auditors allows us to fine tune our audit readiness efforts and stay on track to meet the 2014 and 2017 deadlines. I am personally committed to this effort and look forward to working with the members of this Subcommittee, GAO, and Comptroller Hale to ensure the continued improvement of the Army's business environment.