

**Written Testimony of JoAnn Boutelle
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Chairman Conaway, Congressman Andrews, and Members of the Panel, thank you for the opportunity to testify today concerning industry's perspective on achieving audit readiness at the Department of Defense (DOD).

I have had the unique experience over the last 26 years serving in both government and now industry to help organizations navigate their way through the most complex auditing and financial management challenges. For the past seven years, I have been at Deloitte working side by side with audit and consulting professionals, expanding my knowledge of best practices in the audit and financial management areas.

Deloitte LLP and its subsidiaries have more than 50,000 employees working from 89 U.S. cities, providing audit, tax, financial advisory and consulting services to commercial and government clients. Deloitte's Federal Practice, consisting of over 6,500 professionals, has been providing audit readiness support to the Army, Air Force, Navy and other parts of DoD.

Prior to joining Deloitte, I worked as the Deputy Chief Financial Officer (DCFO) at DoD for over two years, and prior to that at the Defense Finance & Accounting Service (DFAS). While serving as the Deputy Chief Financial Officer, I constantly challenged the lack of accountability and the need to improve financial statements, business processes, and systems. I worked to implement actions which started the Department on the path towards not only achieving audit readiness but also improving the quality and timeliness of data for the decision makers. Let me share a few examples:

- First, I initiated a requirement for the Components' Financial Managers to brief their financial statements to the DoD CFO twice a year. It turned out to be harder than I thought for the Financial Managers to explain the causes of the changes in the financial information. The Financial Managers and their staff lacked the

understanding of how business events impacted the financial statements. My team at DoD worked collaboratively with the Departments' Financial Managers to educate and train their staff to understand the complexities of the financial statements. Today the Components' Financial Managers are more knowledgeable of the business impacts on the financial statements and are involved in discussions on how to get their organizations ready for a financial statement audit.

- Another example goes to the heart of the challenge DoD leadership is facing around stove-piped systems with unique business processes. There is a lack of standard processes, standard data and effective controls in so many systems. This makes it difficult to compile meaningful data at the DoD enterprise level for Department-wide analysis. It also makes it difficult to determine if the processes and systems are operating in compliance with laws and regulations. To get one authoritative source of the business rules that should be used by the Department, I put in place the business enterprise architecture (BEA). Business rules are critical and should include needed controls, validation edits to ensure integrity of the data, hand-offs between business partners, details of process flow, and data standards. An organization as large and as complex as the DoD needs a BEA so that there is one place to go to, one master architecture, when developing a system of how to do business in and with DoD.
- Last, the Components needed a plan of the deficiencies that would prevent them from obtaining an unqualified audit opinion and associated corrective actions. These were pretty basic plans at the time and did not have all the actions required to identify all the deficiencies. The Components continue to improve on their plans as they gain more knowledge about what is required to complete a financial statement audit.

These were strategic, effective initiatives started when I was at DoD and DoD leaders have continued to improve on them. However, there are two additional areas critical for DoD to achieve an unqualified audit opinion: 1) An increased and sustained commitment from DoD leadership, and 2) a workforce with the applicable financial and technical competencies.

Leadership

A commitment from DoD leadership starting at the Secretary level is critical to achieve audit readiness by 2017. This belief comes from Deloitte's direct experience working with both commercial and government clients. Over the past decade, Deloitte has helped government agencies successfully transition from an unauditible to an auditible state. In the commercial audit space, we worked closely with companies as they strived to transform their organizations to comply with the Sarbanes Oxley Act of 2002, or reconstruct their financial statements following bankruptcy or fraud. In each of these experiences, the common thread that helped them succeed was dedicated leadership and a commitment from the top to meet tangible milestones.

While commercial organizations from the CEO and COO levels drive initiatives to fix processes and tighten controls, DoD lacked the commitment to devote the level of time and resources necessary to achieve audit readiness. Secretary Panetta's recent announcement that he is now personally involved in driving the Department to achieve audit readiness is a major signal that this is a top priority for the Department.

For the past 9 years, the Chief Financial Officer, his staff, and the financial management community across the DoD demonstrated leadership in coming together to tackle the tough aspects of fixing their business processes and systems. I commend them for their daily commitment to this effort. However, I believe the responsibility for the controls over assets and compliant reporting of accounting events is the primary responsibility of the business process owners. Business owners within the Department must come together with the financial management community to jointly correct deficiencies that are preventing DoD from becoming audit ready. The Department requires a 100% commitment from all facets of the organization, not just the financial managers. Cross functional ownership at the senior levels cannot be forced by the CFO who is a peer to many of the business leaders. This is a job for the Secretary and the Deputy Secretary and an area for tangible and measurable improvement.

Let me provide an example within DoD where a director of an agency became personally involved in achieving auditability, with results and remediation, leading to significant cost savings. The Defense Information Systems Agency (DISA) started on a journey to obtain an audit opinion on its financial statements in the 2005 timeframe. The DISA director and other DISA leadership were personally involved and actively drove the remediation efforts, resulting in significant cost savings. Deloitte assisted them and it took about three years to identify their audit weaknesses and for DISA leadership to implement corrective actions. In our opinion, the direct and ongoing involvement of DISA senior leaders was a major factor in their success. DISA has just successfully completed a FY2011 Working Capital Fund financial statement audit. In addition to getting their financial house in order, DISA also identified close to \$400M of funds they were unaware were available. This was a major success for the organization – a commitment and investment by the DISA Director and the DISA leadership team to remediate their financials, leading to more efficient and responsible organizational spend.

Deloitte saw similar challenges in recent years on the commercial side of our business where CEOs and COOs had to aggressively lead the implementation of the Sarbanes Oxley Act. Many of our commercial clients were struggling to meet the compliance and reporting demands placed on them by the Act. For many of our clients, achieving compliance with the Act's requirements involved significant transformation of their culture, business practices and systems, and internal controls. These organizations quickly learned that success required the full engagement of chief executives not only in Finance, but also in Operations, Information Systems, Human Resources, and in the business units which were in many cases highly decentralized and global. This pattern of leadership engagement is critical to the Department's ability to meet its aggressive audit readiness timelines.

I believe this Panel can help by reinforcing the need for full engagement, commitment and accountability from Defense leaders across the organization to the Department's audit readiness goals. This means that Departmental Chief Management Officers

(CMOs), Chief Information Officers (CIOs), acquisition leaders, supply and logistics leaders, human capital officers and others must better understand their role in the audit readiness process, and take ownership and accountability for the results. Without this leadership commitment, I do not believe the Department will meet its 2017 goal.

Workforce

Now, let me address the second critical area for success – the need to improve the competencies of the DoD workforce involved in processing the business transactions at the DoD. The financial management staff of the DoD are some of the most dedicated people I have had the honor of working with during my entire work career; but there are many other DoD employees who are equally dedicated in the business units processing transactions. They know their systems and processes and through their efforts, critical supplies and support are provided to the military. However, they also need to ensure the integrity and soundness of the financial data they are creating. This will most effectively be accomplished through established internal controls, compliance with policy and procedures, and more integrated processes.

There is a need to enhance financial controls within the business processes and systems to improve on the accuracy and completeness of data recorded timely into the financial systems. Removing the human element and adding more automation is the most effective and consistent way to add these needed financial controls. There are thousands of people across DoD touching transactions that create financial events. These people do not have to be trained accountants. They need to be trained supply technicians, personnel clerks, or contracting officers – or the various functional technical competencies of their job. They also need to understand their role in financial management.

So what are the skills needed by DoD personnel?

- People who are involved in the financial statement preparation should be CPAs with financial statement audit experience. Increasing the number of CPAs in DoD can be achieved by hiring people who already possess their CPA designation

and incentivizing current employees, who meet the criteria, to take the CPA exam.

- People who process transactions should be trained in accounting controls and processes related to their jobs. The Certified Defense Financial Manager certification provides a foundation of government accounting and controls.
- Leading an audit or audit readiness program requires people with experience in leading financial statement audits. The DoD lacks people with this expertise and where there are gaps, government should rely on industry to support. Getting to the first audit opinion is the most difficult step, and the need for seasoned audit professionals are needed to help DoD focus their resources most effectively.

Conclusion

Government and its industry partners share the same goal. We want to see the Department of Defense achieve an unqualified audit opinion and for them to meet their deadlines. But sometimes, there are elements that impede their ability to get the job done.

How do we overcome them? We do so by focusing on leadership, the financial management competencies needed across the workforce, and a culture of commitment to making the changes necessary to achieve auditability.

The DoD and industry must work together to meet these goals.

I want to thank the Panel for holding a series of hearings on Defense financial management and auditability reform, and for your laser focused attention on this very important issue. Thank you and I look forward to your questions.