

Statement of

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before the

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Thank you for the opportunity to discuss with this Panel the Air Force's implementation of Enterprise Resource Planning (ERP) systems and their impact on our progress towards financial improvement and audit readiness. ERPs are commercial software packages which have been developed over time to reflect reasonably standard business practices in areas common to all large organizations. Common areas addressed by ERPs include financial management, logistics and supply chain management, and human resource management. Moreover, these software packages also include process controls that lend themselves to making the business practices they support repeatable and auditable. The implementation of ERPs provides an opportunity for the Air Force to adopt these standard practices and take advantage of the controls they provide to improve financial management and achieve audit readiness. However, the Air Force recognizes that use of information technology such as ERPs does not in and of itself guarantee sound financial management and auditability. We will in all cases also need improved process controls and workforce training to assure success.

Achievement of the congressionally-mandated audit readiness date of 2017 is a major focus of the Air Force's business transformation efforts. As the Air Force Deputy Chief Management Officer, I work closely with the Chief Financial Officer to ensure audit readiness and financial accountability are key outcomes to any transformation effort. Because they are an important component to achieving audit readiness, the Air Force has implemented regular, detailed reviews of the ERP programs to identify and address any obstacles to success of those efforts. The Air Force has three ERPs that are instrumental to achieving audit readiness: Defense Enterprise Accounting and

Management System (DEAMS), Expeditionary Combat Support System (ECSS), and Air Force Integrated Personnel and Pay System (AF-IPPS). DEAMS and ECSS are programs that have been underway for several years, and AF-IPPS is the Air Force program that will accomplish the Service-level objectives of the Defense Integrated Military Human Resource System (DIMHRS).

DEAMS is jointly sponsored by the Air Force, U.S. Transportation Command (USTRANSCOM), and the Defense Finance and Accounting Services. DEAMS will provide accurate, reliable, and timely financial information using standardized business rules and processes that comply with existing laws, regulations, and policies. DEAMS will provide transportation working capital fund support to USTRANSCOM and full general ledger accounting to all Air Force bases. DEAMS provides the Air Force with a transaction-based general ledger which serves as the basis for auditable financial statements. DEAMS will replace nine legacy systems and provide the Air Force with financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipt and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund. When fully operational, DEAMS is expected to maintain control and accountability of about \$160B in Air Force general funds.

DEAMS has been used at Scott Air Force Base and DFAS Limestone since 2010, and has been successfully used to process over \$20B in transactions and to conduct end-of-year close out for both Fiscal Years 2010 and 2011. Moving forward, our current program plan calls for stabilization of the current operational baseline by April 2012, followed by deployment of that capability to 4 additional Air Force bases by

June 2013. We expect to complete development and deployment of DEAMS across TRANSCOM by August 2014, and across the operational Air Force by July 2016. DEAMS will not only be critical to managing audit accountability, but the improved financial management it brings should also have real cost benefit. The Air Force expects that DEAMS will support a \$335M annual savings past full deployment by providing real-time visibility into costs and allowing timely reallocation of dollars. This translates to an ability to reduce unliquidated obligations and accounts receivable by \$1.67B from 2017-2021. The Air Force has invested \$313.2M in DEAMS to date, and expects to invest another \$678M to bring the system to full operational status by the fourth quarter of FY2016. The Air Force is updating the Service Cost Position to align with the streamlined acquisition policies put forward by the Department of Defense and Office of Management and Budget.

ECSS will provide the Air Force with a single, integrated logistics system, including transportation, supply, maintenance and repair, engineering, and acquisition, for both the general and working capital funds. ECSS will streamline the supply chain management process in the Air Force and is scheduled to replace 240 legacy core logistics and financial systems and 564 interfaces. As reported to Congress in February 2011, when ECSS is fully developed and fielded, the estimated 10-year supply chain benefits total \$9B. The estimated 10-year supply chain and IT benefits for the first increment total \$0.67B. The restructured first increment of ECSS has been in development since 2009, with initial pilot operating capability running at Hanscom Air Force Base since 31 July 2010. Under the program reported to Congress in February 2011, the Air Force expected completion of ECSS Increment 1 by June 2013,

addressing vehicle maintenance and base supply and accountability, including support to flight line operations. Deployment of ECSS Increment 1 capability across the Air Force was scheduled to begin in October 2013, with completion of the remaining key elements of ECSS to support audit readiness by FY2017. When fully implemented, ECSS was expected to control and account for \$122B of inventory, consisting of \$49B in General Fund (GF) Operating Materiel and Supplies inventory, \$43B in GF General Equipment assets, \$28B in Working Capital Fund (WCF) Inventory, and \$2B in WCF General Equipment assets.

Unfortunately, the development and implementation of ECSS have lagged. As a result, the Air Force raised concerns to the DoD Milestone Decision Authority and the Department is now engaged in strategic reassessment of the overall program. That reassessment maintains focus on addressing both audit readiness, and achievement of genuine return on investment. The joint OSD-Air Force team will make recommendations on the way ahead for this program to the Milestone Decision Authority by December 2011, and we will make appropriate program changes immediately following that review. Alternatives under consideration include building on the current ERP software, leveraging other service/Defense Agency solutions, and/or modifying legacy capability.

AF-IPPS will integrate 105 Personnel and Pay processes, including the core personnel actions that drive payroll management, for the more than 500,000 Active Duty, Reserve, and Guard members of the Air Force. AF-IPPS will directly enable synchronization of data, improve personnel asset visibility for Combatant Commanders, reduce payroll errors, and streamline clean audit compliance.

AF-IPPS was initiated in FY2009 as a replacement for the OSD-led DIMHRS program and is planned for full operational capability by October 2016. AF-IPPS is expected to replace 20 legacy information technology platforms saving more than \$0.5B in system operation costs during the lifecycle. AF-IPPS will replace the Air Force's pay operations currently conducted on the Defense Joint Military Pay System (DJMS) and will reduce today's 85,000 annual pay cases requiring manual processing by 75% and improve payroll timeliness from 93% to 97%. The overall estimate for developing and achieving full operational capability for AF-IPPS is \$662M. The Air Force expects to have a Request for Proposal for its AF-IPPS program out by November 2011.

The Air Force anticipates approximately \$2.84B in net savings from our ERP investments over the period from 2017-2027. Savings come from eliminating thousands of system interface requirements and hundreds of system modernization efforts. The Air Force will reduce or eliminate contract support requirements, maintenance costs, and upgrades for hundreds of core legacy systems that are technically obsolete, not well integrated, lack necessary internal controls, are costly to operate, and drive manual rework and reconciliation. By reducing the amount of time Airmen spend on administrative processes, more time will be available to devote on tasks directly supporting the warfighter.

As important as ERPs are, the drive to financial improvement and audit readiness is not solely focused on new information technology. The Air Force is taking steps to address audit readiness through a combination of business process improvements and implementation of audit controls. Air Force leadership is strongly committed to achieving the audit acceleration goals set by Secretary Panetta for the

Statement of Budgetary Resources (SBR) by the end of 2014. We all agree that the taxpayer should expect and are owed auditable financials across from the Air Force, DoD, and all of federal government. Prior to Secretary Panetta's 2014 goal, Dr. Jamie Morin testified that the Air Force sees moderate risk in meeting the 2017 legal deadline based on our systems modernization timelines; achieving a 2014 SBR audit has us re-thinking parts of our approach. Dr Morin has initiated an Air Force Audit Acceleration Tiger Team review, with participation from leaders across the financial, acquisition, personnel, IT, and logistics communities, as well as representatives from OSD and DFAS, to help refine options for accelerating key components of the Air Force audit readiness effort. Our Acceleration Tiger Team review will provide input to the broader 60 day review that Secretary Hale is leading for Secretary Panetta.

In some cases, this acceleration will likely require us to temporarily rely on resource intensive "brute force" approaches until new financial systems are fully deployed and can help us achieve annual audits in a more efficient and sustainable way. Our efforts will rely on support assured from Secretary Hale on resources needed for the near term audit effort.

Thank you for this opportunity and for the Panel's continued interest and focus on this important effort. The involvement of Congress, OSD, and GAO, as well as the very strong commitment of today's Air Force leadership, is crucial to ensuring continued progress towards improved financial processes and full audit readiness by 2017.