RECORD VERSION

STATEMENT BY

Honorable Valerie Lynn Baldwin

Assistant Secretary of the Army

Financial Management and Comptroller

BEFORE THE

ARMED SERVICES COMMITTEE

SUBCOMMITTEE ON READINESS AND MANAGEMENT

UNITED STATES SENATE

ON THE STATUS OF THE FINANCIAL MANAGEMENT OF THE DEPARTMENT OF THE DEFENSE

SECOND SESSION, 108TH CONGRESS

November 17, 2004

NOT FOR PUBLICATION
UNTIL RELEASED
BY THE ARMED SERVICES COMMITTEE
UNITED STATES SENATE

Chairman Ensign, Senator Akaka, distinguished members of the committee --

Thank you very much for the opportunity to appear before you this afternoon to discuss financial management reform at the Defense Department that is specific to the Army. Before addressing this issue, on behalf of the Army and the troops fighting the Global War on Terrorism, I would like to thank you for your tremendous and unwavering support. By it, you do credit to the Congress and to our fellow Americans. Thank you.

As you know, the Army is undergoing a process to prepare for the future, which we have dubbed transformation. When most people hear this term, they think of the new modular brigades the Army is building, Stryker combat vehicles or the Future Combat System. But transformation is not limited to how the Army fights -- it is applicable to how we manage our business, too.

In conjunction with DoD's Business Management Modernization Program (BMMP), the Army is in the process of reforming its business and financial management functions. We are eliminating redundant and non-compatible systems. We are streamlining, re-engineering and standardizing business rules and procedures. We are evaluating how to manage our resources more efficiently and effectively. And we are exploring ways to provide our senior leaders timely, accurate information that empowers them to make sound warfighting decisions.

Clearly, financial management reform can be successful only if reform extends to other interrelated and interdependent business areas, including: 1) logistics, at both the wholesale and retail levels; 2) procurement; 3) healthcare; 4) personnel management and pay; and, 5) asset management.

The value of our business portfolios is huge and continues to grow in order to sustain an Army that is transforming and fighting a war. In fiscal year 2001, Army resource managers accounted for $113 billion in total direct appropriations and reimbursable orders. That figure grew to $123 billion in fiscal year 2002, $176 billion in fiscal year 2003 and $224 billion in fiscal year 2004. This is a nearly 100-percent increase in the amount of appropriations and receivables managed in just three years.

Despite this staggering growth, the Army improved its financial management performance, according to several key measures:

Measure	Fiscal 2002	Fiscal 2004
Unmatched disbursements over 120 days	$116.2 million	$1.3 million
Negative unliquidated obligations over 120 days	$7.3 million	$0.0
Unsupported accounting adjustments	$346.2 billion	$196.6 billion
Contract interest and penalty payments per $million paid	$147.00	$91.00
Canceled account liabilities funded with current funds	$34.2 million	$5.8 million
Total Antideficiency Act Cases Closed	7	14
Total Travel Card Delinquencies	$7.6 million	$2.9 million

Still, I agree that the Army has "pervasive weaknesses in internal control, processes, and fundamentally flawed business systems," as stated by the General Accountability Office (GAO)(GAO-04-910R).

The progress we have made is attributable to the manner in which we are executing our Chief Financial Officer (CFO) Strategic Plan. Likewise, we are developing a disciplined, portfolio-based governance process that will enable us to manage better information technology investments. Additionally, we are proceeding aggressively to purchase a commercial off-the-shelf (COTS) business system that will correct flaws in our business systems and associated processes. I believe that, if we continue to execute our plan in a disciplined and decisive manner, the Army will be well-positioned to achieve a clean audit opinion.

The Chief Financial Officer Strategic Plan

Everyone agrees that current DoD financial management systems do not provide decision-makers timely, reliable and accurate data. The systems have well-documented, endemic control weaknesses that prevent us from issuing reliable financial statements and obtaining favorable audit opinions. The lack of integration with other business systems and processes, and the reliance on business practices and technology developed in the 1970s, impede production of correct, timely and reliable financial information. This is why the Department of Defense and the Army must implement integrated business systems, robust management controls and standardized business processes that focus on enterprise business management.

The Army's Chief Financial Officer Strategic Plan, which synchronizes our financial improvement efforts through a single comprehensive management strategy, is the key to rectifying the situation I just described. The plan's focus is sustainable improvement, not end-of-year 'heroic' and costly efforts designed to scrub the books for audit.

Initiated in fiscal year 1998, the CFO Strategic Plan is updated ona quarterly basis. It was revised most recently in September 2004 to incorporate many of the recommendations included in the Government Accountability Office report, "Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DoD" (GAO-04-910R).

The plan identifies the steps each organizational element in the Army must take to correct all known financial and non-financial processes and systems that prevent us from achieving clean financial statements. It assigns 1,183 actionable and specific tasks to 22 functional Army

business entities and DoD activities, such as the Defense Finance and Accounting Service (DFAS). Each task has a target start and completion date, and progress is tracked quarterly. Completed tasks remain marked as "open" until independently validated by the Army Audit Agency. As recommended by GAO, I have directed the staff to revise the plan to: 1) assign specific persons to particular tasks; and, 2) estimate the cost of meeting each requirement. These changes will be complete by the end of March 2005.

As of September 30, 2004, the Army completed 249 of these 1,183 tasks, all of which were validated by the Army Audit Agency. Among other accomplishments, the Army improved accuracy of the fund balance with treasury, and investment valuations are now reported on our financial statements. We implemented the web-based Property Book Unit Supply Enhanced system. Additionally, the Army is: more accurately reporting criminal and civil fraud recoveries; correcting real property documentation deficiencies; and preparing for internal audit of other liability valuations and stewardship land.

One of our most significant achievements to date is the Army-wide implementation of the Defense Property Accountability System (DPAS). DPAS is an FFMIA-compliant, property accountability system that serves as a single source of information for all general (non-tactical) equipment. More than 8.6 million general-equipment records, with a value of nearly $20.9 billion, are housed in DPAS. We capitalized, and reported on the Army's balance sheet, more than 28,000 of these records, with a combined value of nearly $12 billion. The remaining records and associated dollar values are below the capitalization threshold and do not require balance-sheet reporting.

It also is important to note that the switch to DPAS, which was completed in 2002, allowed the Army to eliminate several property-accountability systems that were not FFMIA-compliant.

Financial Enterprise Architecture

As part of the Business Management Modernization Program (BMMP) effort, the Department of Defense is constructing a Business Enterprise Architecture (BEA). To ensure that our business processes and systems comply with the DoD BEA, the Army's financial management community has developed the Single Army Financial Enterprise (SAFE) architecture.

SAFE, which is an integral component of the CFO Strategic Plan, enables the Army to identify the business process relationships among its various business domains. The SAFE architecture provides several advantages including: 1) operational views, focusing on business rules, processes and operations; 2) systems views, covering the 'as-is' systems environment and data flows from these systems; and 3) technical views centered on technology standards. The SAFE architecture documents standard, cross-domain, financial processes and business rules that are necessary for future, business-process reengineering and COTS-software implementation efforts.

As part of SAFE development, the Army has identified more than 100 business systems that generate financial data, and the functions performed by each system. My shop, Financial Management and Comptroller (FM&C), intends to eliminate 28 of these systems by integrating their functions into the core processes of new, commercial-off-the-shelf financial software. We have marked an additional 31 systems for possible retirement and integration into the COTS software. Other

business domains (such acquisition, logistics, etc.) intend to retain 34, and eliminate 18, of their systems.

General Fund Enterprise Business System

As I've already mentioned, the Army's CFO Strategic Plan calls for a transition to JFMIP-certified, COTS financial software, which we call the General Fund Enterprise Business System (GFEBS.) The Program Executive Officer-Enterprise Information Systems (PEO-EIS) is in charge of GFEBS acquisition.

GFEBS implementation will follow the standards set in the Chief Financial Officers (CFO) Act of 1990 and in the Federal Financial Management Improvement Act (FFMIA) of 1996. The Army will ensure that GFEBS conforms to the federal, financial-management systems requirements identified by the JFMIP. Additionally, the system will comply with all applicable accounting standards, including requirements of the U.S. Government Standard General Ledger (USGSGL) at the transaction level as set by Office of Management and Budget (OMB) Circular A-127. GFEBS will comply with the Department's Business Enterprise Architecture, as well, and align with the processes and systems of all business domains.

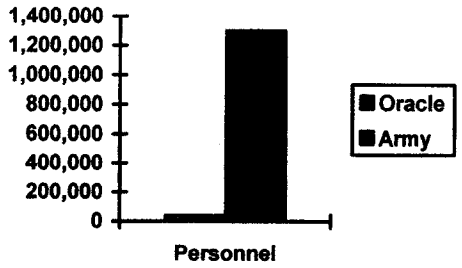
The Army plans to implement GFEBS in several phases between fiscal years 2005 and 2009. Each phase of the GFEBS acquisition is considered a separate option, which will enable the Army to discontinue the contract at the end of any particular phase. The first phase will consist of a technical demonstration of GFEBS' end-to-end, core, financial capability. During this portion of the program, the Army will confirm that GFEBS conforms to the BEA and to FFMIA requirements. Contractually established key performance parameters will be used as benchmarks and

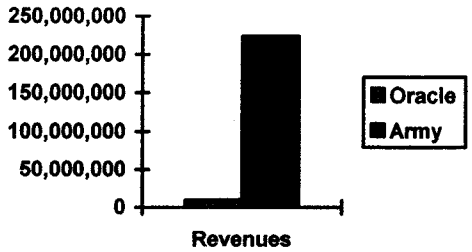
an independent evaluation of each performance parameter will ensure compliance.

Although I am optimistic that GFEBS should enable the Army to cure several accounting deficiencies that prevent us from attaining a clean financial audit, GFEBS is only as good as the information it receives from non-financial business systems and processes. Incoming data must be accurate, reliable and in compliance with the DoD enterprise architecture.

For example, the primary sources of information for valuing inventory are the Army's inventory management systems. These systems must provide GFEBS an accurate accounting and valuation of that inventory if the Army is to produce reliable and accurate financial statements. Fortunately, the financial management community is working closely and cooperatively with the Army's logistics and other business domains to ensure that their systems comply with DoD's enterprise architecture requirements and can supply the quality data GFEBS needs.

We project it will take five years to implement GFEBS and to integrate the Army's business systems. This goal is extremely ambitious. To put it in context, compare the Army to Oracle Corporation. Oracle has nearly 40,000 employees in 140 countries, a narrow business focus and revenues of just $10.1 billion in 2004. They began their integration effort in 1999. Today, five years later, Oracle is in the final stages of its transition.





In contrast, the Army employs nearly 1.3 million active, Guard, Reserve and civilian personnel, who are stationed in 120 countries. Our fiscal year 2004 revenue stream was nearly $224 billion. Unlike Oracle, the Army has multiple businesses, which include buying and selling parts and developing and procuring weapon systems. On our fiscal year 2004 balance sheet, we reported $246.7 billion total assets and $64.3 billion in total liabilities. To say that implementing GFEBS by 2009 is aggressive is an understatement of the highest magnitude. Regardless, the Army is committed to doing everything possible to achieve this goal.

In addition to creating reliable financial statements, I firmly believe that GFEBS, effectively integrated with non-financial business systems, will provide the Army's senior leaders and decision-makers quality information upon which they can base business and strategic decisions.

For example, it is vital to know how many soldiers are in a medical hold status for healthcare and manning purposes. Currently, the Army must engage in extensive data calls from multiple business systems to track this information. When GFEBS is integrated with our human-resource management systems, the Army will be able to track easily the number of Soldiers in a medical hold status and the associated cost. We will be able to obtain the needed information from a single source, in a timely manner, without extensive data calls from multiple business

systems. My challenge is to convey these benefits to the Army's leaders, and I know the committee will support me in this effort.

New Governance Procedures

Also under the umbrella of business management transformation, the Army's chief information officer is instituting a robust and disciplined governance process to help us better manage our portfolio of business information systems and investments. The CIO is positioned to establish formally a domain governance structure and a portfolio management process by January 1. The governance structure being developed mimics the domain delineations established by the Office of the Secretary of Defense and, for the first time, assigns responsibility for managing the full portfolio to the owner of that domain.

In order to institutionalize portfolio management in the financial management domain, the Army is developing a business-system baseline. This baseline will tell us what systems are in use throughout the service and it will identify the attributes of each from the functional, technical and cost perspectives. The validation and categorization of our financial management systems is ongoing, and we expect to complete this assessment by March 1, 2005.

Once the baseline is set, we plan to review all systems to determine whether they have a future in the Army. If a system is underperforming, the Army will stop investing in it and, eventually, discontinue its use altogether. Any system that fulfills a requirement, which the General Fund Enterprise Business System can cover, will be retired. Only those that GFEBS cannot replace will be retained and brought into compliance with the BEA.

The Army already has made substantial progress in this IT house-cleaning effort. In conjunction with the portfolio review process, we identified and eliminated 59 financial management systems from our inventory in FY 2004. We also terminated the Army National Guard's unique accounting system, which operated in 54 separate databases. Now, the standard finance system (STANFINS), operating in five databases at a single location, supports the Guard's accounting requirements. The Army intends to consolidate another 69 separate accounting system databases and to terminate the Installation Supply Buffer, which currently can be found in 36 separate applications.

Conclusion

I agree with the President, the Secretary of Defense, the Acting Secretary of the Army, and the Congress that financial-management transformation at DoD is not an option -- it is an imperative. Implementing sustainable, financial-management improvements that support the Army's transition to a modular expeditionary force is in our best interest, the Defense Department's best interest and the taxpayers' best interests.

One very important issue I have not discussed is the human-capital aspect of the Army's business transformation. The average civilian employee in our comptroller workforce is 49 years old and has 21 years of experience. Although more than three-quarters of our civilians have some college education, I am concerned that both the average age and the number of years logged in our old financial management framework may indicate that a significant portion of our personnel is not optimally suited to the integrated, modernized, business environment of the future. To address this concern, I have directed our career proponent to develop an education program that will teach our workforce about commercial information technology products, and how they support business operations. This program must transcend the training typically provided to

users as part of systems implementation. It must truly educate our workforce in modern information-technology techniques and processes, and position them to adapt to business modernization.

Without a doubt, the success of our transformation efforts, particularly GFEBS, is contingent upon the involvement of senior DoD and Army leaders. It is our collective responsibility to establish DoD-wide goals and objectives, and to monitor our progress in reaching them. We need to focus on effectively managing the DoD and Army information technology portfolios and on developing the Business Enterprise Architecture.

I have, however, a cautionary note. We must guard against planning for the sake of planning. Over-planning leads to inertia that ultimately results in sustaining the status quo. The Department of Defense needs to develop a transition blueprint that guides the transformation effort, provides a mechanism to track progress and enables a reasonable level of flexibility to adjust to changing conditions.

The Army is committed to managing its portion of this long-term transition effort in a disciplined manner to ensure success. I look forward to being a part of the process and I thank the committee for its support of and interest in Army financial management.