

Statement of

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Madame Chairman and Senator Ayotte, thank you for the opportunity to join our colleagues from across the Department of Defense to discuss your Air Force's efforts towards achieving audit readiness. Since the Air Force leadership last testified to this subcommittee on audit readiness last July, the Air Force has continued to make progress towards our audit goals and remains committed to achieving Secretary Panetta's goal for audit readiness on the General Fund Statement of Budgetary Resources in 2014 as well as to meeting the legislative requirements for a clean audit by 2017. These goals are challenging for an organization as large and diverse as the Air Force and so we continue to assess that there is moderate risk that we will miss the deadline due primarily to system challenges. However, the strong engagement of Air Force leadership as well as the additional human and financial resources dedicated to the effort in recent years will help achieve a clean audit, and we are making real progress.

Audit readiness is an important goal. Our efforts are part of the broader work underway in the Department to address the national fiscal challenges that pose a serious threat to our national security. They are a key component of our ongoing work to give the American taxpayer confidence that we are getting the maximum value out of each dollar entrusted to the Air Force.

Secretary Panetta's directive accelerating the audit readiness date to 2014 has been both a blessing and a challenge. The blessing is that it has raised the visibility of audit readiness to the point where it has been a regular agenda item for our 4-star leadership and created an environment where success is achievable within the tenure of many of these current leaders. To implement Secretary Panetta's directive, the Air

Force developed a detailed audit acceleration plan for each assessable unit. These plans include specific milestones and deliverables and are reviewed on a regular cycle in sessions held weekly by the Deputy Chief Management Officer, financial leaders, and the senior leadership responsible for the particular assessable unit. Our assertion teams also include members of the Office of the Secretary of Defense (Comptroller) staff in order to provide us with valuable, real-time feedback on our effort and to minimize the need for additional testing or rework.

The core challenge for the Air Force is that the accelerated deadline will require us to achieve and sustain audit readiness while multiple critical systems are still under development or being deployed. Our previous strategy had these systems as a pacing item. We will not have a final judgment on whether our legacy financial systems can be improved sufficiently to support an overall Air Force audit until the auditors can examine those systems in the field. Our emerging confidence in our ability to achieve this challenging deadline is partially due to the increased engagement of commanders at every level in the effort, along with demonstrated progress over the last two years and strong support in the Department of Defense (DoD) resource allocation process for targeted investments in improvements to the three critical components for an auditable enterprise: people, processes, and system.

Current Progress

Since the subcommittee's last hearing, the Air Force has made substantial progress on key Financial Improvement and Audit Readiness plan deliverables. Last August, we received a clean opinion from KPMG LLP on our Budget Authority assertion

recording the receipt of funds down to our Major Commands. In the process of preparing the assertion, Air Force financial managers identified and implemented several corrective actions, most notably a standard document numbering systems for loading budget authority into our financial execution system, allowing us to assert audit readiness for the entire process.

Another key accomplishment occurred last October when we received a clean opinion from PriceWaterhouseCoopers (PWC) on our Funds Balance with Treasury Reconciliation process. Our reconciliation with the Treasury Department for our “checkbook” consists of over one million transactions and is conducted on a monthly basis. The Air Force and the Defense Finance and Accounting Service (DFAS) are sustaining this process, reconciling 99.85% of our transactions at the detail level, exceeding the Office of Management and Budget standard.

In January, the Department of Defense Inspector General (DoDIG) began an examination of our existence and completeness assertion for our military equipment (e.g., aircraft, ICBMs, and satellites), as well as for cruise missiles and aerial targets. We anticipate receiving their opinion by the end of May. These assets have a combined net book value of approximately \$90 billion. Although cruise missiles and aerial targets/drones are separately reported as Operating Materials and Supplies rather than military equipment, we saw an opportunity to accelerate our overall progress and save resources by asking DoDIG to include these items in their examination. We will continue to look for additional opportunities to accelerate progress on future assertions in a cost effective manner.

We also recently submitted assertions of audit readiness for the existence and completeness of our uninstalled spare engines and missile motors. These have a combined net book value of approximately \$11 billion and include over 6,400 individual end items managed at over 160 different sites. Properly reporting these items in our financial statements is challenging. Items are tracked in different systems and classified differently depending on their installation status. It is common for an item to transition from one system to another and alternatively be reported differently in successive statements. Getting sufficient confidence about these areas for Air Force management to assert our readiness for audit required more time than we originally projected and demanded changes in training of our people, in our business processes, and our systems, but we now believe the required corrective actions are properly implemented or well underway.

Investing in People

We are encouraged with our interim success in meeting the accelerated deadline, but we still have a very aggressive schedule ahead of us. Our most immediate challenge is on the people side: finding, hiring, and deploying government personnel and contractors with the needed knowledge and experience in accounting, auditing and financial reporting for the federal government. The compressed schedule also reduces the time we have to document processes, conduct testing, implement corrective actions, and verify those corrective actions are operating as intended. Additionally, many of our major milestones such as assertions on military pay, civilian pay, and contracting have been moved up by two or more years, making the need for

experienced individuals even more urgent. Finally, compounding this challenge is the fact that the other services and Defense Agencies will likely be seeking out these same individuals. We are addressing this challenge by reaching out to the accounting industry and soliciting an experienced but cost effective partner to support our core team of government financial managers and functional experts.

To broaden the audit readiness effort across the enterprise, and building on an effort the Air Force pioneered last year, this year we required all Air Force civilian senior executives to include an audit readiness goal in their annual performance plans. While the weighting and level of detail in these goals vary based on individuals' duties, each plan is reviewed by the Deputy Assistant Secretary for Financial Operations to confirm the goals are appropriate and contribute to audit readiness in a meaningful way. Since pay and performance evaluations are linked directly to accomplishment of these plans, we have high expectations. For example, many of our logisticians have goals supporting our existence and completeness assertions, while acquisition executives have goals requiring them to ensure data in our contracting and accounting systems is properly reconciled.

Since achievement of audit readiness will require further professionalization of the financial management workforce, the Air Force strongly supports the Defense Department's efforts on a financial management workforce certification program. This program will standardize educational and experience requirements for financial management positions. Even ahead of this effort, the Air Force's financial management workforce is a well-educated one. Over sixty percent of Air Force financial managers hold a degree of some sort. Additionally, our primary audit readiness workforce of

almost 80 includes 12 CPAs, 15 Certified Defense Financial Managers, and 8 Certified Government Financial Managers.

Strengthening and Standardizing Business Processes

In addition to mobilizing our people and investing in their skills, improvements in our business processes are key to meeting the accelerated deadline of 2014. While some audit challenges require systems enhancements, others can be overcome with enhanced policies. For example, our two most recent assertions for existence and completeness of critical assets relied primarily upon policy changes clarifying the need for periodic inventories and delineating responsibility for managing assets as they transition among Air Force and contractor facilities.

To achieve compliance with improved and standardized processes, we are aggressively communicating with Airmen across the Air Force from our MAJCOM commanders down to the lowest level about the meaning of audit readiness and the actions they can take to assist in achieving audit readiness. We recently provided our wing commanders with a checklist to help them understand the steps they can take to ensure their financial house is in order.

We continue to collaborate with our sister services to adopt best practices as we work towards audit readiness. For example, we leveraged the Navy's audit of supporting documentation and controls as a way to expose Airmen to our audit activities and ensure process compliance at base level. Since February, the Air Force Audit Agency has begun examinations of selected financial transactions at wing level with seven wings participating. This effort helps to identify good and bad practices as well

as process improvements that will be required when financial auditors begin their engagements. It also helps educate our wing commanders on audit readiness.

The Air Force has sought validation of our progress by independent accounting organizations including the General Accountability Office (GAO), the Department of Defense Inspector General (DoDIG), and public accounting firms. They provide valuable insight into the adequacy of the existing systems, recommend enhancements to support audit readiness and provide objective recommendations on the assertion process. For example, last summer GAO identified weaknesses in the type of testing performed to support the aircraft in our Military Equipment assertion. Specifically, they raised a concern that the sampling was limited to a few bases along the east coast - what auditors call judgmental sampling.

For our recent assertions on spare engines and missile motors, we applied more rigorous statistical analysis allowing us to quantify potential errors across the population of items. In the case of our missile motors, we found that business practices, like timely updating of inventory systems, were very good at the locations where the vast majority of our motors were stored, but were less consistent at places that might have just one or two motors for training purposes. Statistical analysis has not only enhanced the credibility of our results but in the case of our review of the Space-Based Infrared Satellite Network (SIBRS) program allowed us to test 148 randomly selected transactions in order to evaluate the accuracy of a total population of over 12,000 transactions.

Business Transformation and Enterprise Resource Planning Systems

Air Force business transformation is anchored in architecture and associated business process re-engineering. The continued development of the business enterprise architecture allows the Air Force to identify gaps and redundancies that will focus critical resources in the proper areas. Consistent with this focus, in the FY13 budget submission the Air Force established an initiative to target \$1.1 billion in savings by reviewing Air Force information technology applications to identify and eliminate duplicate/redundant business and operational system capabilities. In addition, we are minimizing configuration of commercial off-the-shelf software to handle unique requirements and interfaces, thus reducing life cycle costs. Consistent with recent statute, the Air Force is adjusting its current business system certification review process. The revision will expand business system certification reviews from an average of 40 systems per year over the past 5 years to more than 200 systems that will need to be certified for FY13. Finally, the Air Force is using architecture and business process re-engineering to evaluate and document the control processes required to support audit readiness, providing the necessary glue between user actions and controls contained within financial systems.

Enterprise Resource Planning Systems (ERPs) are a key enabler to achieving full audit readiness by 2017 in a cost effective manner, but they are not the only step on the path to audit readiness. The implementation of ERPs supports achieving Air Force-wide standard practices and instills process controls necessary to improve financial management discipline. Where ERP development schedules will not support the audit readiness timelines, the Air Force will use a combination of modified legacy systems

and supporting business process controls. Specific process and information system gaps (whether satisfied by ERPs or legacy system remediation) will be guided by Air Force Business Enterprise Architectures.

The Air Force's three key ERPs for audit readiness are: 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 satisfy Air Force Total Force military personnel management..

The Defense Enterprise Accounting and Management System is jointly sponsored by the Air Force, U.S. Transportation Command (USTRANSCOM), and the Defense Finance and Accounting Service. The program will provide accurate, reliable, and timely financial information using standardized business rules and processes that comply with existing laws, regulations, and policies. When fully operational, DEAMS is expected to maintain control and accountability of about \$160 billion in Air Force general funds and the Transportation Working Capital Fund. DEAMS will eventually replace or subsume nine legacy systems as it becomes fully operational and will 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.

The Defense Enterprise Accounting and Management System has been used at Scott Air Force Base and DFAS Limestone since 2010, and has been successfully used to process over \$11.5 billion in transactions during Fiscal Years 2010 and

2011. Moving forward, our current program plan calls for completion of maturation of the current operational baseline by April 2012, followed by an operational assessment and then deployment of that capability to five additional Air Force bases by June 2013. We expect to complete development and deployment of DEAMS across TRANSCOM by the end of Fiscal Year 2014 and across the operational Air Force, Air Force Materiel Command (AFMC) and Air Force Space Command (AFSPC) by the end of Fiscal Year 2016. DEAMS will not only be critical to sustaining audit readiness, but also have real cost benefit. The Air Force expects that DEAMS will support a more than \$300 million annual savings once it is fully deployed by providing real-time visibility into costs and allowing timely reallocation of dollars while reducing unliquidated obligations and accounts receivable. The program successfully achieved a Milestone B decision in January 2012, and the program is now aligned with the streamlined acquisition policies for Business/IT system put forward by the DoD.

The Expeditionary Combat Support System is intended to provide the Air Force with a single, integrated logistics system, including transportation, supply, maintenance and repair, engineering and acquisition, for both the working capital and general funds. It will streamline the supply chain management process in the Air Force. Unfortunately, program performance on ECSS has continued to be poor. 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. The reassessment will maintain focus on addressing both audit readiness and achievement of genuine logistics return on investment. A joint OSD-Air Force team recommended restructuring ECSS to focus on four critical logistics capabilities. The Air Force is currently drafting a Critical

Change Report based on these recommendations to formally notify Congress of the restructure plan and expects delivery of that report by May 2012.

The Air Force recognizes the major challenges involved in ERP efforts. In working with OSD and GAO, the Air Force has taken appropriate action to address concerns identified through internal and external reviews of both programs. In the case of DEAMS, we focused on end of year activities and user stability issues, measuring our progress against those efforts weekly. Our efforts resulted in achieving Milestone B authority in January 2012. We are actively working network latency issues and the program is on track to deliver a much needed capability. ECSS has not fared as well; the Air Force is restructuring the program in accordance with the OSD-led assessment and entered the Critical Change Report process February 2012 with an estimated delivery of the report 60 days later.

The Air Force Integrated Personnel and Pay System 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. It was initiated in Fiscal Year 2009 and is planned for full operational capability by October 2016. Air Force IPPS is expected to replace 22 legacy information technology platforms reducing current annual system total cost of ownership from \$110 million to \$65 million. 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 Air Force is currently planning to release the Request for Proposal May 2012.

We are building on internal Air Force and independent audits by advancing our major IT efforts to deliver capabilities in more manageable steps. This is done within our broader efforts to adjust our IT modernization and sustainment spending reviews and certifications. As we review and certify our IT systems to comply with Section 2222 of Title 10, audit readiness is a key evaluation factor for both modernization and sustainment of financial and financial feeder systems.

We recognize the challenges in front of us. We have put into action people, process, and system changes to achieve audit readiness and improve management discipline in our financial business processes. We have developed and achieved key interim milestones and continue to develop business systems acquisition and engineering strategies in accordance with relevant laws. And while we certainly see moderate risk and many challenges ahead, we are strongly committed to achieving the 2014 Statement of Budgetary Resources audit goal and the ultimate goal of full auditability by 2017. We appreciate this subcommittee's interest and advice in our audit readiness efforts and look forward to continuing to work with you in achieving auditable financial statements for the United States Air Force.