

United States Air Force



Presentation

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Committee, Subcommittee on Oversight
and Investigations

Department of Defense Auditability Challenges

Statement of
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Thank you for the opportunity to brief the subcommittee regarding the Air Force's progress toward transparent and auditable business processes. We have had a remarkably successful year due to the commitment of senior leadership and dedicated professionals across the Air Force, however we continue to view the 2014 and 2017 goals as having moderate risk. Before delving into the challenges, I want to assure this committee of our commitment and provide you with tangible evidence of our progress.

Over the last year we received two independent opinions on previous assertions. In October, an Independent Public Accounting (IPA) firm issued an unqualified opinion on our Fund Balance with Treasury Reconciliation process. This process reconciles over 1.1 million Air Force transactions monthly with Treasury with an accuracy rate of 99.96 percent, exceeding the 98 percent threshold recommended by the Federal Chief Financial Officers Council. In June the Department of Defense Inspector General (DoDIG) issued an unqualified opinion on our military equipment, aerial target/drones and cruise missiles valued at approximately \$86 billion and representing 41 and 14 percent of Air Force and DoD mission critical assets respectively.

So far this fiscal year we have completed two assertions of audit readiness for Uninstalled Missile Motors and Spare Engines. Together, these represent 6,395 individual items with an acquisition value of approximately \$11.5 Billion. The DoDIG began an examination of these two assertions in July and we anticipate receiving the final report in November.

In December, the Air Force submitted its plan to OSD to accelerate audit readiness on the Statement of Budgetary Resources from FY17 to FY14. Since then, we have made significant progress on several business processes and are hiring additional contractor and organic resources with expertise in federal financial reporting and auditing. This will allow us to work additional assessable units simultaneously and reduce overall schedule risk.

We submitted our assertion covering the Selected Acquisition Reports for our Space Based Infrared Radar System (SBIRS) acquisition program two months ahead of schedule. This assertion covers approximately \$4 Billion in obligations and expenditures from 2008 through 2011. We expect to award a contract to an auditing firm this month to perform an independent examination and issue an opinion on our assertion.

In addition, we are making important progress on improving several other end-to-end business processes.

Last August, the Air Force earned an unqualified opinion from an IPA on our process for receiving and distributing budget authority down to our Major Command echelon. We identified and implemented a series of corrective actions including establishing a standard document numbering system, which improves our ability to reconcile transactions between systems. This was a relatively inexpensive process control to implement; however, successful

implementation required additional training and guidance. Our initial testing results could not support an assertion. We hosted a workshop with Major Command personnel to clarify the guidance and provide training. Since then, several commands have tested and implemented the new procedures. A second round of service-wide testing showed dramatic improvement which will allow the Air Force to assert audit readiness later this month.

We also completed initial testing on the Air Force's Reimbursable Budget Authority and Civilian Pay processes and are implementing corrective actions that will allow us to assert audit readiness for them in the coming year. Our acquisition community is working with us to implement additional accounting detail allowing us to easily track reimbursable authority with the start of the new fiscal year. We are working with the Personnel Community to enhance control over the civilian pay process by implementing a standard time and attendance system across the Air Force. In addition to the two corrective actions described above, we have improved the consistency and quality of supporting documentation through regular meetings with our Major Commands and feedback from ongoing test efforts.

Finally, we will be kicking off the initial testing for our Military Pay and Contracts assertions this Fall. I am heartened by early assessments from our Air Force Audit Agency (AFAA) on our military pay process. AFAA conducted targeted quick look audits on the Military Pay processes at six locations this past Spring. They examined 771 military pay transactions and our Financial Services Offices were able to provide supporting documentation for 98 percent of these transactions within four days. We are looking to our SBIRS examination as an early indicator of the status of our contracting assertion and look forward to engaging with the auditors later this month.

Despite tremendous progress to date, we do face challenges to include the need to improve our legacy systems in order to achieve the accelerated timeline, educate our airmen on what they need to do to achieve audit readiness, and build the skills and experience required to achieve and maintain audit readiness in all of our resource management specialties.

A primary challenge facing the Air Force is adhering to the schedule for modernizing our legacy information technology systems and deploying the targeted Enterprise Resource Planning (ERP) systems. Recently, General Welsh reiterated this same concern during his confirmation hearings. Over the last two years, we have identified over 160 different systems that record, track, and report information used to support the financial statements. Many of these systems are legacy systems which have been in a "brown-out" mode while the Enterprise Resource Planning (ERPs) were developed and deployed. Our challenge over the next two years is to identify, prioritize and implement cost-effective improvements to these systems so that we can meet the accelerated audit timeline for the Statement of Budgetary Resources.

Simultaneously, we must continue to develop and deploy the Defense Enterprise Account Management System (DEAMS), our new, modernized, accounting system which will support full audit readiness in 2017. The Air Force Operational Test and Evaluation Center recently completed an Operational Assessment of DEAMs highlighting several issues in the system and our implementation. We have been working many of these issues and have completed many of the corrective actions. The assessment also confirmed problems with data conversion and user training. We revised the training guidance and have phased our deployment schedule so that we will not convert legacy data into the new environment. This should eliminate many of the data conversion issues experienced in past implementations. Educating our Airmen on audit expectations is also critical to our success. Like many other large organizations, the Air Force executes financial transactions worldwide in a decentralized manner. Our uniformed and civilian resource managers execute their responsibilities in a disciplined and efficient manner, however we have not previously been able to provide the evidence an auditor requires in order to render an opinion. For example, we are preparing documents to assert audit readiness on our processes and systems for distributing funding throughout the Air Force. These transactions largely occur at bases located around the world. In March, we tested the supporting documentation for these transactions and the results were untimely and inconsistent. We held a workshop with our Major Commands reviewing each test sample and explaining in clear direct terms why a particular sample either passed or failed. Equipped with this understanding, many of the MAJCOMs subsequently implemented ongoing testing. As described above, we have seen a dramatic improvement in overall results and will assert audit readiness on this process later this month.

My third concern involves the enduring challenge of annual audits. In order to be successful for the duration, we must grow financial reporting and audit understanding across our workforce. We are taking some of those steps with the FM Certification program; however, achieving audit readiness involves everyone in the resource environment, not just those in the FM career field.

A related concern is the compressed timeline allowed for preparing financial statements and completing the audit. Federal agencies must submit their audited financial statements by November 15, 2012, or 45 days after fiscal year end. In contrast, large publically traded corporations have 60 days to submit their audited annual report to the Securities and Exchange Commission. In 2006 when the SEC was evaluating the accelerated filing dates, numerous parties including many well-known accounting firms, claimed that the accelerated deadline will increase costs without incremental benefits. In a period of constrained budgets, I would recommend reconsidering the reporting deadline to coincide with the submission of the President's Budget. This would allow the statement preparers and the auditors to fulfill their responsibilities more thoroughly without any degradation in the timeliness of the data.

In conclusion, the Air Force is aggressively working this effort and looks forward to the continued support from this committee in our efforts to continuously improve our stewardship over the resources entrusted to us.