

STATEMENT OF

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Chairman Akaka, Senator Thune, distinguished Committee members -- I would like to thank you for this opportunity to discuss Army business transformation and financial management improvements. As the Principal Deputy Assistant Secretary for Financial Management and Comptroller, I assist the Assistant Secretary of the Army and the Secretary of the Army with oversight of the Army's financial management and business transformation activities.

As the Army continues combat operations in Iraq and Afghanistan, we are also transforming business processes and improving financial management. Our financial management transformation efforts support the Department of Defense Enterprise Transition Plan and comply with the Department's enterprise-wide standards, including the Business Enterprise Architecture (BEA) and Standard Financial Information System (SFIS). Our efforts are managed through a disciplined process that is guided by our audit readiness plan.

Since the November 2006 hearing, we have achieved steady progress in transforming the Army's financial management systems and processes. The details of these improvements are enumerated in the Army's portion of the September 2007 DoD Enterprise Transition Plan (ETP). I would, however, like to take the opportunity to highlight a few of these improvements.

The Army's Logistics Modernization Program (LMP) is the strategic-level building block of the Army's transition to a single logistics enterprise. We successfully improved LMP to comply with the majority of applicable financial requirements directed by the Federal Financial Managers Improvement Act (FFMIA) as validated by the U.S. Army Audit Agency. Full FFMIA compliance permits fielding of LMP throughout the Army.

The Deployed Theater Accountability System (DTAS) is the world's first enterprise-wide Secret Internet Protocol Router Network (SIPRNet) personnel tracking system. It provides commanders with real-time data for deployed military personnel, civilians, contractors and foreign nationals in theater. In the past year we rolled out an expanded version to meet additional requirements from the current theater of operations. We also successfully completed a Joint Chiefs of Staff-sponsored pilot test of DTAS as a potential joint personnel accountability solution.

I also would like to highlight the Army's embrace of Lean Six Sigma (LSS) programs. One of our fundamental challenges is that, in spite of the Army's dramatic growth in total obligation authority over the past several years, we continue to confront a significant mismatch between our resourcing requirements and our funding levels. We have turned to LSS to help reduce these requirements while still accomplishing the mission in a timely manner. LSS is transforming Army business processes and functions so that we provide greater value and responsiveness to customers while reducing cycle time and cost. LSS also encourages a culture of continuous, measurable improvement. As one example, we recently were able to reduce the time to publish permanent orders from 19.5 days to 3.7 days. Additionally, four Army depots have been awarded the prestigious Shingo Prize for Excellence in Manufacturing in acknowledgment of their reducing process cycle time, increasing efficiency and productivity, and reducing defects through the application of Lean Six Sigma principles.

In fiscal year 2007 the Army significantly increased the volume of financial business transacted via electronic commerce. For example, we processed nearly 800,000 travel orders and payments electronically through the Defense Travel System (DTS). We submitted approximately 140,000 invoices electronically to the Defense Finance and Accounting Service (DFAS) using Wide Area Work Flow (WAWF). In addition, in partnership with the Department of Treasury and the Federal Reserve, we implemented stored value card electronic capabilities in the Iraq and Afghanistan theaters. Stored value cards employ electronic funds transfer technology, thereby eliminating a Soldier's need for check cashing and cash payments at AAFES facilities.

Improvements in all of these areas are planned for fiscal year 2008.

Progress in Developing and Implementing Business Enterprise Architecture and Transition Plan:

The Army's enterprise architecture is aligned with the Department's federated approach to business system modernization. We established business area domains in conformance with the Department's overall domain structure. Each domain is responsible for developing a business system transition plan and a systems architecture that aligns with the Department's Enterprise Transition Plan and Business Enterprise Architecture. Mature architectures have been developed for the financial management and logistics fields. We are adopting the DoD-wide human resources solution in the form of the Defense Integrated Military Human Resources System.

Under oversight of the Army's Chief Information Officer, we implemented a disciplined portfolio management process that requires each business domain to perform a complete inventory of all business systems within its purview and to register the systems in a single Army-wide portfolio. According to the Army's Chief Information Officer, the portfolio management effort enabled the Army to reduce the total system inventory by 1,500 systems from 3,200 to 1,700 systems. An additional 300 Army-wide business systems have been marked for retirement, pending the development and implementation of modern replacements.

By adopting the Department's business domain construct and federated approach to modernizing business systems; creating business system transition plans; aligning architectures with the Business Enterprise Architecture; and managing business systems investments through a disciplined portfolio management process, the Army will be able to comply with Section 332 of the Fiscal Year 2005 National Defense Authorization Act. We already have scrutinized more than 100 major business system modernization efforts and received approval from the Defense Business Systems Management Committee (DBSMC) to continue these important transformational programs.

The Deputy Under Secretary of the Army is responsible for ensuring effective execution of our enterprise architecture and modernization efforts across all business domains. This senior official also is the Army's Defense Business Systems Management Committee representative. Governance at the Deputy Under Secretary level enables the Army to implement sustainable business process improvements and to develop compliant business systems.

In this context the Army has developed and is implementing a comprehensive financial improvement and audit readiness plan to guide financial modernization activities. This integrated plan outlines 1,947 specific actions needed to improve financial accountability and reporting, and assigns responsibility for completion of these tasks to 20 organizations within the Army and DoD. We have completed 673 of these tasks with independent verification by the Army Audit Agency. The Army's financial improvement plan is a component of the DoD Financial Improvement and Audit Readiness Plan and the Enterprise Transition Plan.

The Department's Inspector General reviewed our audit readiness plan and found that the plan sufficiently captures all actions necessary to resolve problems in obtaining an audit opinion. The plan provides a foundation to improve accountability and financial reporting within the Army, and has yielded tangible, sustainable results. The Inspector General reviewed our audit plan and identified areas needing improvement. We have substantially resolved the Inspector General's concerns, and are currently awaiting their final report, which we expect will reflect favorably on the efficacy of our plan. The plan provides a foundation to improve accountability and financial reporting within the Army, and has yielded tangible, sustainable results.

For example, we anticipate, based on preliminary reports, that the Army Corps of Engineers will receive a qualified audit opinion of its fiscal year 2006 Civil Works financial statements when the Inspector General releases its opinion in March 2008. Civil Works is a large financial entity within the Army comprising \$5.9 billion in annual appropriations, \$44.5 billion in total assets and \$26.7 billion in total property, plant and equipment. The Army Corps of Engineers has the largest property, plant and equipment asset base of any agency within the Executive Branch receiving a favorable audit opinion, and is the seventh largest in terms of annual appropriations. We have corrected the conditions linked to the qualified opinion of the fiscal year 2006 financial statements, and expect to receive an unqualified opinion for fiscal year 2007.

We continue to implement corrective actions identified in our improvement plan. In November 2006 we reported to the Committee the completion of 150 of the plan's tasks during fiscal years 2005 and 2006, resulting in improved financial management across the Army. With the successful implementation of the funds control module, we finished an additional 95 tasks during fiscal year 2007, for a total of 673 tasks completed since the plan's inception. As a result of these changes, obligations for \$26 billion in annual supply transactions were delivered in real time, auditable electronic commerce processes were implemented, and accountability of general equipment and real property was improved.

The Army's financial improvement and audit readiness plan is important to ensuring compliance with USC 2222. USC 2222 prohibits the Department from obligating funds for preparing, processing or auditing financial statements until the proposed activities are consistent with the Department's financial improvement plan, and are likely to provide sustained improvements to internal controls. All 1,947 tasks contained in our financial improvement plan are designed to provide sustainable improvements when implemented. Each action is focused on correcting deficient processes and systems, and will result in long-term benefits when completed, including generation of reliable and complete financial management information.

Progress in Complying with Legislative Requirements for Obligating Funds That Support Systems Development and Modernization:

Section 332 of the fiscal year 2005 NDAA requires the approval of the Defense Business System Management Committee (DBSMC) for all obligations for business system modernization that exceed \$1 million. Additionally, modernization must align with the Department's Business Enterprise Architecture. The Army implemented a tiered accountability process to meet this requirement.

Army domain owners represent the first tier of accountability. They are responsible for developing a transition plan and domain architectures, and ensuring that all domain business systems are categorized and included in the Army-wide business systems portfolio. Each domain owner is accountable for ensuring that business system investments comply with Section 332 of the Fiscal Year 2005 National Defense Authorization Act. Specifically, each domain owner must submit investment requests to the Army's Chief Information Officer, who is the pre-certification authority for systems modernization investments and the second accountability tier, for review and approval. The Deputy Under Secretary of the Army (DUSA-BT) for Business Transformation is the third accountability tier and serves as the Army's representative to the Defense Business Systems Management Committee. The Deputy Under Secretary ensures that each modernization request is aligned with the Army's Business Mission Area, presents the Army's modernization requirements to the DBSMC for approval, and requests DBSMC authorization to incur obligations supporting modernization efforts.

This tiered approach ensures a thorough review of requirements and that appropriate approvals are obtained for our modernization efforts, thereby significantly improving business systems modernization.

Cost Culture:

The Army also is making a concerted effort to inculcate a "cost culture" throughout its leadership in order to manage costs effectively. In a cost culture, the focus is: "How do I get the most readiness, the most output, the right materiel and the right personnel for the dollars I am given?" The mantra is "accomplish the mission considering cost." That means everyone at all leadership levels actually understands, and takes into account during the decision-making process, what things are going to cost. Spending decisions are no longer made in a vacuum.

Instituting a cost culture is essential to the success of the Army. Cost culture principles apply to both the operating and generating forces. They will help us to transform more of the Army and to do so more quickly.

The Army's Strategic Leadership Development Program has been revamped to provide the Army's brigadier generals more instruction in cost management. In addition, the Army is working to promote consideration of cost throughout its operational leadership. The Installation Management Command will provide cost management instruction to garrison commanders, and recently conducted five sessions of cost management training at the Installation Management Institute.

Activities Planned During Fiscal Year 2008:

The Army has three key financial improvement activities planned for calendar year 2008. The first is to complete development and fielding of General Fund Enterprise Business System (GFEBS) Increment 2. The second is to complete all testing, fielding and organizational restructuring in support of the Defense Integrated Military Human Resource System (DIMHRS). Our third key activity is to implement a pilot program supporting electronic payments for the Commander's Emergency Response Program (CERP) in Iraq. All three efforts are fully resourced in fiscal years 2008 and 2009.

GFEBS constitutes a significant undertaking in the modernization and improvement of Army financial management. In November 2006, we reported to the Committee our positive results in completing the GFEBS Increment 1 technology demonstration; committed to completing the full GFEBS solution blueprint by May 2007; and identified how the Single Army Financial Enterprise (SAFE) architecture was aligned with the DoD enterprise architecture and guided overall program development.

The full GFEBS solution blueprint was finished and the Army has begun to build Increment 2, which we expect to test and field at Ft. Jackson, South Carolina, by November 2008. Increment 2 will manage the Army's \$30 billion real property and general equipment portfolios and support installation management activities, including financial processes for command and staff, personnel and community, information technology, operations, logistics, engineering, resource management, acquisition and health services. It also will support financial activities at the Defense Finance and Accounting Service and Army headquarters activities. Increment 2 will fully subsume 90 legacy business systems.

GFEBS Increment 2 fully complies with the most current version of the Business Transformation Agency (BTA) Business Enterprise Architecture. GFEBS also implements the DoD Standard Financial Information Structure (SFIS), the Department's standard financial schema which enables interoperability across the Department.

The Army is looking forward to the testing and implementation of the Defense Integrated Military Human Resource System this year. DIMHRS will eliminate 66 non-integrated legacy systems, and will provide an integrated personnel and payroll system that meets the human-resource management needs of the Active Component, the National Guard and the U.S. Army Reserve. In addition to integrating personnel and payroll activities for all Army components in a single database, DIMHRS also will provide Soldiers expanded self-service capabilities that eliminate the need to wait in long lines for personnel and financial services. Based on progress reported by BTA, DIMHRS is on track for delivery in October. Preliminary results of the first of five testing phases are encouraging.

The Army, in partnership with the DoD Business Transformation Agency and the Defense Finance and Accounting Service, will begin acceptance testing of DIMHRS in April and full DIMHRS fielding in October 2008. The Army is working with BTA and DFAS to identify and to change organizational and business constructs in order to leverage the best business practices inherent in the DIMHRS solution.

The Army, BTA and DFAS also are collaborating on a pilot initiative to make payments by electronic funds transfer (EFT) for activities associated with the Commander's Emergency Response Program. CERP is helping to win trust and re-build civilian life in Iraq and Afghanistan by providing payments from appropriated funds directly to Iraqi and Afghan citizens engaged in civil infrastructure activities. The preponderance of these payments is made in cash by U.S. servicemen directly to the payee. To eliminate inefficiencies inherent in cash transactions, the Army, DFAS and BTA this year will try EFT payments for CERP-related transactions. The pilot will be conducted in Iraq and will make a material contribution to the creation of a modern banking infrastructure there. There are many obstacles to overcome in this effort, including local customs, banking infrastructure issues and incorporation of robust management controls. We are firmly committed to executing the pilot program to improve CERP's efficiency and to support Iraq's nascent banking system.

Conclusion:

The Army appreciates the Committee's support and oversight of activities to improve and to modernize financial management and transform business processes within the Army. We share the Committee's objectives in developing sustainable, enduring solutions designed to augment the reliability, timeliness and accuracy of the Army's financial management information. I look forward to working with the Committee throughout the year. Thank you again for the opportunity to be here today.