

**NOT FOR PUBLICATION UNTIL  
RELEASED BY THE SENATE  
ARMED SERVICES COMMITTEE**

**STATEMENT OF  
THE HONORABLE ROBERT O. WORK  
UNDER SECRETARY OF THE NAVY  
AND  
THE HONORABLE GLADYS J. COMMONS  
ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
BEFORE THE  
SENATE ARMED SERVICES COMMITTEE  
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT  
ON  
FINANCIAL MANAGEMENT AND BUSINESS TRANSFORMATION**

**18 APRIL 2012**

**NOT FOR PUBLICATION UNTIL  
RELEASED BY THE SENATE  
ARMED SERVICE COMMITTEE**

Chairman McCaskill, Senator Ayotte, thank you for this opportunity to discuss the Department of the Navy's (DON) progress toward achieving financial auditability, business process reform and the important role Navy Enterprise Resource Planning (ERP) will play in these efforts. To maximize the use of our human and fiscal resources; prevent fraud, waste and abuse; and provide the warfighter the best capabilities to achieve the Nation's security strategy, it is essential that the financial data we rely on for decision making is accurate and reliable. I am committed to the Department's aggressive plan to achieve audit readiness and stress the importance of this goal with our leaders, managers, and employees at every opportunity. Setting a clear "tone from the top" and engaging the entire Department in audit readiness is essential for success in this complex undertaking.

To achieve audit readiness, we have focused our efforts on improving our business processes end-to-end; modifying our systems to meet Federal Information System Controls Audit Manual, or (FISCAM), standards; and strengthening internal controls surrounding those business processes and systems. Our business process reform approach has matured into addressing the full spectrum of business operations: focusing on strategic management, understanding the costs of doing business, and managing the organization towards achieving better and more measurable results. Our methodology requires baselining and mapping business processes, allowing the business owners to identify and prioritize problems, and then exploiting opportunities for improvement. Auditable financial statements will be the outcome of our business transformation efforts.

We have developed a detailed Department-wide plan and worked with each major command and our service providers to ensure they understand their role in our success. Based

on our comprehensive plan and our ongoing efforts, we are well-positioned to achieve Secretary of Defense Panetta's goal of an audit ready Statement of Budgetary Resources (SBR) by the end of FY 2014, as well as reaching the FY 2017 date established by the FY 2010 National Defense Authorization Act for full auditability.

The Department is making steady progress on its financial auditability plan. The audit of the Marine Corps' Statement of Budgetary Resources continues. Our goal was to achieve a favorable audit opinion on the FY 2011 SBR audit. We extended the audit three months because an opinion appeared to be within our grasp, but the need for additional test sampling, plus time limitations, forced the conclusion of this second-year effort without an opinion. However, noting the significant progress made, both the DON and the Department of Defense Inspector General agreed, that we should now move quickly into an audit of the Marine Corps' FY2012 SBR.

The Marine Corps' experience has been valuable to the rest of DON and to the other Military Departments as we all seek to achieve SBR audit readiness. The Marine Corps has developed essential financial management capabilities for the first time, such as reconciling cash with the Treasury's balance; and they constructed a robust, effective audit response infrastructure, enabling the rapid collection and transmission of large volumes of business process documentation to auditors for analysis.

Additionally, the Marine Corps is executing an aggressive corrective action plan for business process and system deficiencies identified during its audit readiness preparations and during the annual audits. This sustained progress in improving Marine Corps business operations, set in motion by the pursuit of auditability, has produced instructive lessons for DON and the other Services.

The Department of the Navy has achieved other notable audit readiness accomplishments. In late summer 2011, we achieved a favorable audit opinion on the Department's Appropriations Received process. Validation by an independent accounting firm confirms that the process and systems we use to allocate the resources provided by the Congress are auditable. In January 2012, the Department of Defense Inspector General completed an examination and verified that the processes and systems we use to establish Existence and Completeness of ships, submarines, Trident missiles, and satellites inventories are audit ready. A similar examination of DON's aircraft inventory management is currently ongoing.

A second examination is also underway, focusing on the E-2D Hawkeye aircraft acquisition program. This examination will determine whether the business processes and systems used to manage this major acquisition program meet audit standards. This examination has added importance because the E2-D program is executed within Navy ERP; the results will reflect the effectiveness of the controls in the Navy's "target" financial system.

Though the Department is making steady progress toward financial auditability, much remains to be done. Completing our ambitious SBR audit readiness schedule requires a number of business process assertions this fiscal year and next. We also need to assess the effectiveness of our major business systems' controls. And, following the Marine Corps' example, the entire Department needs to fully develop the same fundamental financial management capabilities required for an audit, including detailed cash reconciliation; and, an effective audit response infrastructure needs to be in place. These complex efforts will test the Department's acumen, as well as the skills of our major service provider, the Defense Finance and Accounting Service.

Navy ERP, which accounts for over half of the Navy's obligational authority, is an essential component of auditability. The Navy's planned implementation of ERP at six major commands, which began in FY2008, will conclude next fiscal year. Concurrently, we are focusing on two other major objectives: assessing Navy ERP's present ability to meet financial audit standards prescribed for a business system; and making improvements in its utility. A methodical effort is underway to standardize the execution of business processes within Navy ERP across our diverse user population.

This year, an independent assessment will be conducted, determining if Navy ERP's internal controls comply with the Government Accountability Office's financial systems audit standards. Completing this survey, and quickly pursuing any follow-up remediation required, will be important steps toward Departmental audit readiness. We are optimistic that the assessment will demonstrate that Navy ERP has effective controls overall. Our E2-D audit readiness assertion, mentioned earlier, showed positive results in the Navy ERP environment.

Additionally, our comprehensive effort to standardize execution of business processes among Navy ERP users is fully underway. Reducing process variations when using the system, along with establishing standard operating procedures to be followed by all, will yield benefits. Paring down the number of steps to complete Navy ERP transactions will make the system more efficient and easier to use. Permitting fewer variations in ERP business processes will reduce system maintenance costs. Finally, consistent, streamlined procedures will require less future work in sustaining Navy ERP's control environment.

In conclusion, DON has an aggressive, forward-leaning plan to achieve financial audit readiness – a plan which has yielded initial successes, but one which will require much more

hard work and creativity throughout the entire Department to complete. Thank you for your continued support, and I would be pleased to answer your questions at the appropriate time.