

Testimony

of

The Honorable Tina W. Jonas  
Under Secretary of Defense (Comptroller)

before the

Senate Committee on Armed Services  
Subcommittee on Readiness and Management Support

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## **Business Transformation and Financial Management**

**The Honorable Tina W. Jonas  
Under Secretary of Defense (Comptroller)**

Mr. Chairman, members of the Committee, thank you for the opportunity to update you on the progress the Department has made in business transformation and financial management.

I would also like to thank the members of the Committee for your continued strong support of the men and women of America's Armed Forces and their families.

Since our last hearing on April 13, 2005, we have made clear and measurable progress in improving the financial management of the Department of Defense.

### **A Comprehensive Plan Is in Place and Underway**

Today, a comprehensive plan for business transformation and financial management improvement is in place and underway.

The plan has three major components, two of which were described in some detail by Under Secretary of Defense Krieg. The Business Enterprise Architecture is the blueprint that details how all of the various systems will work together. The Enterprise Transition Plan details how we will develop and implement new financial management systems and standards, when systems will come on line, and how they will talk to one another.

The Financial Improvement and Audit Readiness Plan, which I expect to provide to you at the end of next month, takes the information related to systems and couples it

with the financial improvement plans of the military Services to create a single roadmap for financial management improvement and, ultimately, auditability.

Already, we are actively using the Financial Improvement and Audit Readiness Plan to eliminate our financial management material weakness, and to establish higher standards of financial discipline and control.

### **The Financial Improvement and Audit Readiness Plan**

The Financial Improvement and Audit Readiness Plan provides a foundation for improved financial management across the entire DoD organization.

Using the Financial Improvement and Audit Readiness Plan we:

- Identify the actions necessary to resolve our financial management weakness;
- Outline the steps necessary to complete those actions; and we will
- Analyze the effects of those actions to ensure they are producing the intended result.

In the near term, the Financial Improvement and Audit Readiness Plan will focus on needed improvements in four key areas:

- Military Equipment (which represents 27 percent of all assets);
- Real Property (which represents 7 percent of all assets);
- Military Retiree Eligible Health Care Fund Liabilities (which represents 29 percent of all liabilities);
- Environmental Liabilities (which represents 4 percent of all liabilities).

Improvements in these areas will produce financial statements that more accurately depict the value of our assets and liabilities. Greater accuracy, in turn, will enable better business decisions and better support of Defense operations.

### **Measurable Progress in All Four Focus Areas**

Measurable progress in all four focus areas has already been achieved – most significantly in the area of military assets.

#### **Military Equipment**

Military equipment alone represents 27 percent of our assets. To date, we have calculated the value of 96 percent of all military equipment programs – everything from combat vehicles to ships to aircraft. Ninety-six percent. And we expect to complete the remaining four percent by the end of 2005.

This is especially significant because the Department has never before had an accurate valuation of its military equipment. Because of this work, we will soon have a baseline value of one of the most important assets on our balance sheet.

Progress in the other focus areas is proceeding with the full cooperation of the Services, whose individual improvement plans are integrated and managed through the Financial Improvement and Audit Readiness Plan.

## **Real Property**

Long-standing issues regarding the best way to value real property assets have now been resolved, and the process of identifying and accurately reporting the value of real property assets is now moving forward. We have defined key milestones for establishing the value of real property assets, as well as the actions that must be taken throughout the Department to achieve an accurate picture of this category of assets.

## **Military Retiree Eligible Health Care Fund Liabilities**

We have now received a qualified audit opinion on Military Retiree Eligible Health Care Fund liabilities for the third year in a row. We established procedures to reconcile outstanding issues, and defined timelines for implementing those procedures throughout the Department. Once those improvements are validated, we will have an unqualified opinion on 78 percent of our total liabilities.

As with military assets, a more accurate picture of liabilities also enables better business decisions, and better support of defense operations.

## **Environmental Liabilities**

Environmental liabilities are the next largest liability after Military Retiree Eligible Health Care Fund liabilities. Environmental liabilities are the costs we expect to pay in the future to clean up or dispose of hazardous materials. Without an accurate estimate of future costs, it is difficult to calculate the amount of funding required to meet our clean up responsibilities.

We continue to make steady progress in both identifying and estimating the future cost of DoD's environmental liabilities. We are now ready for audit verification of

\$17.1 billion or 27 percent of the Department's total environmental liabilities, and we continue to make steady progress on estimating the cost of the rest.

### **Preparing the Way for Audits of the Military Services**

In addition to the four focus areas, another near-term objective of the Financial Improvement and Audit Readiness Plan is achieving a sustainable clean audit opinion for the Marine Corps. To achieve this goal we are focusing on all of the balance sheet items in the Marine Corps, using the Corps as a crucible for gaining a better understanding of the challenges involved in preparing for, and auditing, an entire military Service.

To help us reach this goal, the Marine Corps has already eliminated more than 600 different business processes, and replaced them with one standardized set of 57 business processes – thereby greatly simplifying day-to-day financial management operations.

These three major components – the Business Enterprise Architecture, the Enterprise Transition Plan, and the Financial Improvement and Audit Readiness plan – put us firmly on the path to business transformation and improved financial management.

### **Improvements in Day-to-Day Financial Management**

While we are working on near- and long-term solutions, we are also solving day-to-day problems that cannot wait. For example, military pay.

### **Personnel and Pay Council**

We established the Personnel and Pay Council to help eliminate problems and delays in resolving pay issues.

Composed of senior executives from Offices of Personnel and Readiness and Comptroller at the Deputy Under Secretary level, the Council provides a forum for resolving policy or procedural issues.

### **Improper Vendor Payments**

The Department has also aggressively addressed the problem of improper vendor payments. Application of a DFAS-Internal Review process allowed us to recoup \$119 million in duplicate payments in FY 2003, and \$30 million in FY 2004. FY 2005 data is currently being compiled.

### **Military Pay**

In addition,

- We trained and certified technicians at all 26 mobilization sites to handle war-time pay issues for mobilized Guard and Reserve members.
- We automated the way records are updated to reduce human error, and instituted a process to review the accuracy of records on a regular basis.
- We trained the finance teams that regularly assist finance personnel in theater. Reserve and Guard Finance units are now fully trained before they deploy.
- We also regularly sent teams to military hospitals to ensure wounded soldiers do not face hardships related to pay or government debt.

- We monitor wounded soldiers to ensure they receive the right pay and entitlements, and
- We have suspended the automated collection of debts of wounded soldiers until a case-by-case review can be conducted by their Service.

As a result of the Army's improvements, \$2.8 million in entitlement overpayments were prevented, and over 1,700 pay accounts were corrected prior to the mobilization or demobilization of Guard and Reserve members to ensure that errors in personnel processing did not adversely impact actual pay.

### **Steady Progress**

The results of these, and many other dedicated efforts to improve DoD financial management practices, have borne fruit over the past six months and, cumulatively, over the past four to five years. Much of this progress is the result of a more disciplined approach to good business practices.

Over the past six months, I believe we have made solid progress in advancing our business transformation goals. As we continue down this road, I have no doubt that more improvement will follow. We look forward to reporting our progress in the coming months.

Mr. Chairman, I thank you for the opportunity to discuss our progress in financial management, and on behalf of the Department of Defense, I thank the Committee for its support.

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