STATEMENT OF

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BEFORE THE

COMMITTEE ON ARMED SERVICES

SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT

UNITED STATES SENATE

ON

BUSINESS SYSTEMS MODERNIZATION AND FINANCIAL MANAGEMENT ACCOUNTABILITY

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Chairman Ensign, distinguished members of the Committee, my name is John Argodale, and I am the Deputy Assistant Secretary of the Army for Financial Operations. Thank you for this opportunity to address the Army’s business systems modernization and financial management accountability results.

I want to stress that business systems modernization and financial management accountability are vital to the Army’s success. To effectively man, equip and train an Army at war, the Army must modernize financial systems and improve financial accountability. While we have achieved significant results over the last 12 months in modernizing our business systems and improving financial accountability; additional work is required.

Improving the Army’s financial accountability and modernizing business systems are challenging endeavors, which require a long-term commitment to ensure that enduring improvements are implemented. These efforts must be managed through a disciplined process that identifies the problems to be corrected, develops actions to correct the problems, assigns accountability for and a cost to implementing the corrective actions, informs leaders of results achieved, and enables in-course adjustments to adapt to changing situations.
I believe that the Defense Business System Management Council (DBSMC) and DoD’s Investment Review Board (IRB) offer the requisite disciplined processes to support this necessary transformation of our business systems. Through the governance processes established by the DBSMC and IRB, DoD has defined a set of consistent standards and practices that facilitates improvement activities. Building and maintaining system processes and architectures that are compliant with DoD’s enterprise transition priorities and the Business Enterprise Architecture (BEA), are the central focus of the Army’s development of future business capabilities.

For example, the Army’s General Fund Enterprise Business System (GFEBS) program management plan and Chief Financial Officer (CFO) Strategic Plan provide the framework for our financial improvement activities. The CFO Strategic Plan articulates the goals, objectives and tasks that must be achieved to provide reliable financial information. The GFEBS program management plan provides a disciplined process to modernize the Army’s business systems and to improve business practices. I will discuss both plans and results achieved to date in greater detail.

The General Fund Enterprise Business System will modernize the Army’s financial enterprise (funding, assets and liabilities) using commercially available
ERP software. The Army awarded the GFEBS contract in June 2005. The program has remained on schedule, on budget and has delivered the results required since contract award. We passed our first major milestone in July 2006 with successful completion of a technology demonstration.

This technology demonstration required the configuration and deployment of the commercial software in a live environment in support of one key module, real property management. The objective was to prove the software’s capability to satisfy the Army’s financial management requirements; to comply with DoD’s BEA and the Federal Financial Managers’ Improvement Act (FFMIA); and to operate and interact within the Army’s existing technical infrastructure. The GFEBS technology demonstration delivered positive results in all areas, and demonstrated the ability to manage the Army’s financial resources through a single enterprise resource program.

Specifically, the technology demonstration identified methods to enhance the Army’s real property management, proved the ability to implement Army-wide cost management practices and enabled improved portfolio management of business systems. The demonstration also allowed the Army to reconcile nearly $3 billion in real property and general equipment holdings at Fort Jackson, SC, and Fort Hood,
TX; and to develop repeatable, sustainable real property reconciliation procedures for use across the Army. We plan to implement these procedures concurrently with GFEBS deployment activities to ensure accountability of all Army real property and general equipment assets.

The GFEBS technology demonstration also improved management of the Army’s business systems portfolio. We reviewed, analyzed and categorized 198 existing business systems to determine their alignment with GFEBS. This review enabled us to identify 87 current systems for retirement and subsume their functionality in GFEBS. We found that 25 additional systems, with some financial management capabilities, are scheduled to be replaced by other modernization initiatives. Ten systems require further analysis, while the remaining 76 systems are now logically catalogued and managed as one portfolio to ensure that future investments and software changes are implemented in an effective manner that is compliant with DoD’s BEA and DBSMC transformation goals.

By integrating disconnected financial management processes and successfully configuring the U.S. Government Standard General Ledger, we believe that the Army will be able to generate all required financial requirements, including those necessary for audited financial statements. The technology demonstration was
judged substantially compliant with all applicable BEA and FFMIA requirements based on independent assessments conducted by the Army Test and Evaluation Command (ATEC), the Army Audit Agency (AAA) and the Joint Interoperability Test Command (JITC). The technology demonstration successfully operated within the Army’s existing technology infrastructure and demonstrated the ability to exchange data with other business systems.

GFEBS must interact with at least 76 external business systems performing disbursing, contracting, human resources, payroll and logistics management functions. Effective alignment between GFEBS and these external systems requires a focus on enterprise integration across the Army and Department of Defense. We are coordinating with contracting, human resources, and logistics systems and process owners to ensure optimal alignment at the enterprise level.

To illustrate this point, the Army’s senior financial, contracting, human resources, and logistics systems and process owners meet weekly to share information, synchronize program management plans and develop approaches to ensure business system alignment. Our program executive officer for enterprise information systems meets monthly with counterparts from the other services and
DoD’s Business Transformation Agency representatives to discuss alignment issues at the Department level.

In addition to obtaining favorable results with GFEBS, the Army has continued to improve financial management accountability by implementing the CFO strategic plan. During fiscal years 2005 and 2006, we completed 150 of the plan’s tasks, resulting in improved financial management across the Army. We also aligned our plan with the DoD’s Financial Improvement and Audit Readiness (FIAR) Plan to ensure that our financial improvement objectives are captured and tracked at the Departmental level.

The Army’s strategic CFO plan focuses on processes and systems, and identifies actions necessary to improve financial accountability. Completion of each task requires an independent assessment by the Army Audit Agency and implementation of an effective control environment to ensure that corrective actions achieve desired results. The completed tasks enabled the Army to properly account for $8 billion in environmental liabilities, to post $12.6 billion in supply and equipment transactions to the accounting system in a compliant manner, to report over $16 billion of real property assets, to account for $149.9 million of government
furnished equipment in the hands of contractors, and to report $348 million of internal use software.

We have developed cost estimates for meeting each of the plan’s requirements, and have assigned responsibility to specific organizations for the completion of each task identified in the plan. Understanding the cost to complete the plan enables each functional proponent to properly budget and establish cost benchmarks. Assigning responsibilities to specific organizations establishes an effective level of accountability to ensure that required tasks are accomplished.

The Army will continue to implement GFEBS and complete CFO Strategic Plan tasks. Although both are long term efforts, we expect to achieve measurable results over the next six to eight months. With GFEBS, for example, we will complete the entire systems blueprint by May 2007. The blueprint informs software development requirements and identifies opportunities to improve business practices. Business improvement opportunities will be captured in our benefits realization model, enabling us to develop improvement metrics to measure our progress.
We are also implementing process improvements in the procure-to-pay business process area, which were identified in a recently completed business process study. These opportunities include increased reliance on electronic commerce and elimination of non-value-added activities. Our goal is to increase the use of electronic commerce by 50 percent during fiscal year 2007 and to eliminate all non-value-added activities over the same period, which will result in higher-quality and lower-cost financial management.

Implementation of the General Fund Enterprise Business System and synchronization with Army and DoD business systems modernization efforts through architectural alignment and portfolio management are vital to modernizing our business systems. Completion of CFO Strategic Plan tasks, supported by Army Audit Agency validation and an effective control environment, is essential to improving financial management accountability. Congress has been extremely helpful in providing enabling legislation and appropriations in support of these efforts. Systems modernization and improved financial management accountability require long-term commitments, however. We appreciate the support provided by this committee and welcome your continued interest in the future as we proceed with this difficult transformation of our business systems.