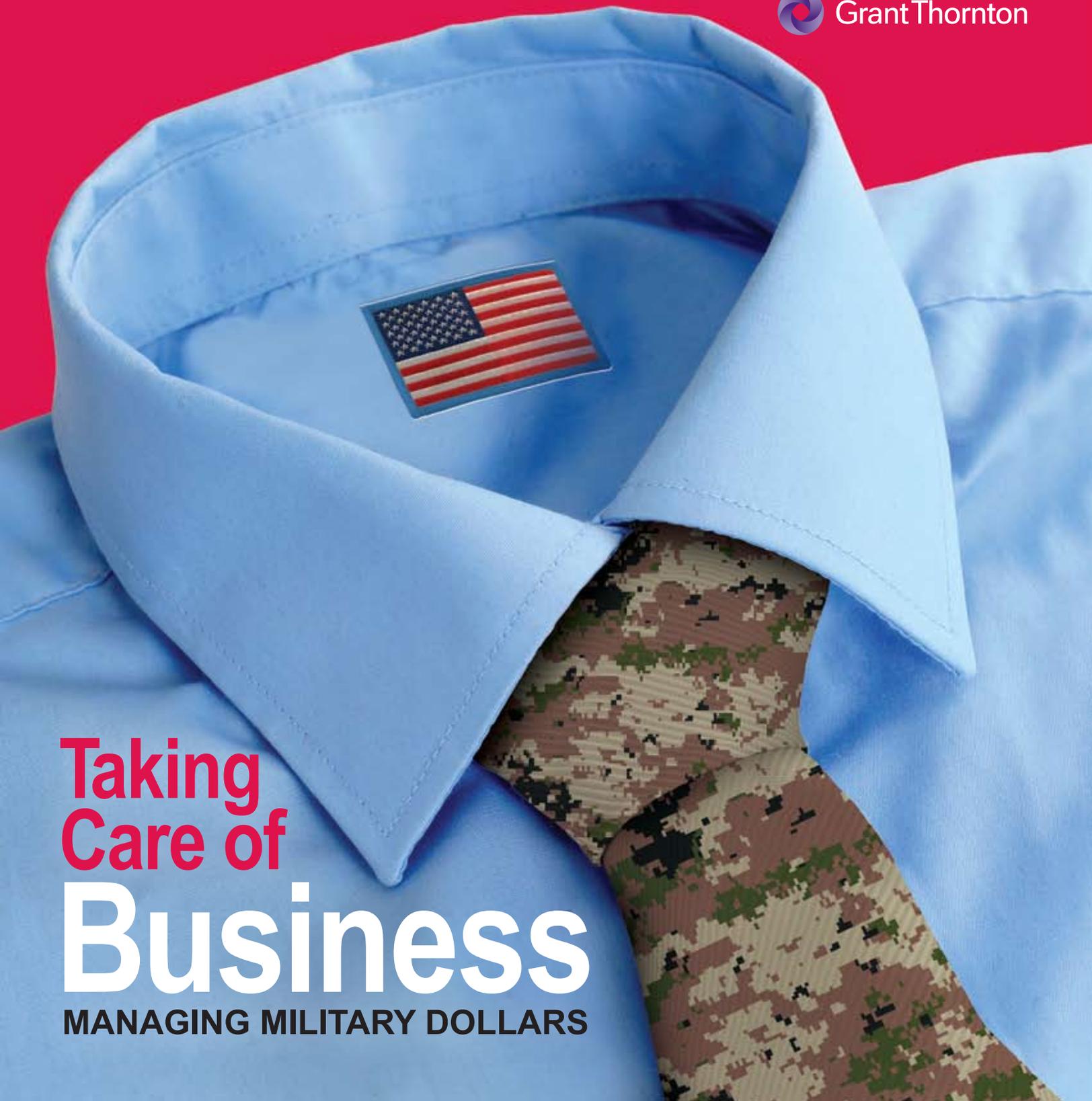


**American Society of Military Comptrollers' Annual Survey of Defense  
and Military Department Financial Management Executives**

MAY 2009



**Taking  
Care of  
Business**  
MANAGING MILITARY DOLLARS



### **About the American Society of Military Comptrollers**

The American Society of Military Comptrollers (ASMC) is the nonprofit educational and professional organization in the overall field of military comptrollership. Established in 1948 and located in Alexandria, Va., ASMC is open to all uniformed and civilian financial personnel in the U.S. Military Departments, the Department of Defense and the Coast Guard. The Society promotes the education and training of its members and the development and advancement of the profession of military comptrollership. ASMC provides professional conferences to keep members abreast of current issues, operates a certification program, occasionally sponsors research, and encourages the exchange of techniques and approaches. For more information on ASMC, please visit [www.asmconline.org](http://www.asmconline.org).



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## Executive summary

**In Spring 2009, the American Society of Military Comptrollers (ASMC), assisted by Grant Thornton LLP, surveyed 1,642 professionals in the Defense accounting and finance community. Forty-one were Executives interviewed in person, and 1,601 were senior managers and staff (the Workforce) who responded to an online survey. Topics included human capital, enterprise resource planning (ERP) systems, financial statement audits and other top concerns.**

### Systems

Survey participants say that much is riding on the success of ERP implementations in the Defense community. They know that ERPs have great potential to improve financial management, but have not yet seen enough good results from them, nor do they expect any soon. Most Executives think that it will take 6–10 or more years to have fully implemented ERPs in their organizations. Some Executives fear that “success” for Defense ERPs has come to mean getting them up and running. Instead of schedules and cost, say many, Defense should be more concerned that ERPs are reliable and useful. Several Executive and Workforce respondents emphasized that the main barrier to ERP success is not technology, but instead people’s unwillingness to change how they work.

### People

Over 90 percent of both Executive and Workforce survey respondents feel positive about the state of Defense financial management, and Executives think that their organizations are good at the basic mechanics of it. However, most respondents do not think that the Defense financial community has enough people with the right skills to meet current and future workload and challenges. Most

enjoy their jobs, but many feel overworked. In the near term, they do not anticipate that there will be staff increases to reduce the pressure, nor do they think that ERPs will decrease workload for some years to come. Workforce respondents are eager for more opportunities (especially more time) to pursue training and professional development.

### Audits

Executives say that having an unqualified opinion on the Defense audited annual financial statements would make financial information and financial professionals more credible to top leaders. The Department of Defense plans to achieve an unqualified opinion by 2017, but only two out of five Executives think that it will take fewer than 10 years, and many do not think that Defense will gain the goal until all ERPs have been operating for a few years.

Defense financial professionals in this survey know that change is coming, and they want to be ready for it. Most of all, they want better information systems and more training and development—they can see the shape of things to come and know what they need to succeed.





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## About the survey

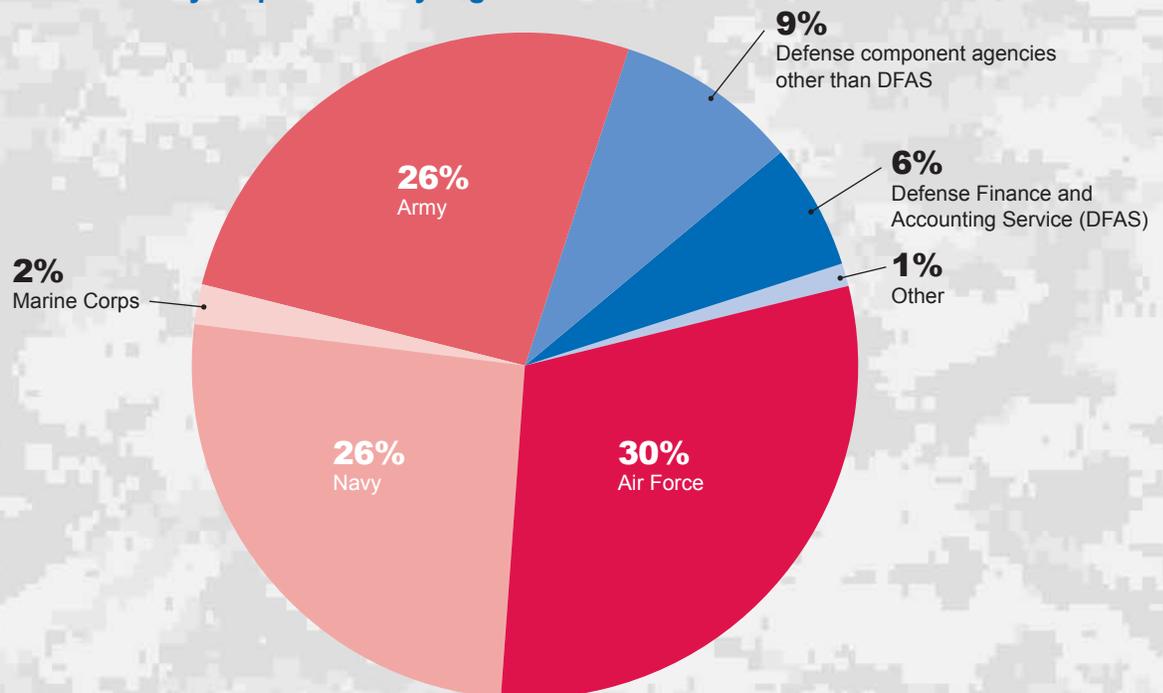
Since 2003, the American Society of Military Comptrollers (ASMC) has sponsored an annual survey of Defense community Executives and the Workforce on their opinions of trends and prospects in financial management. The Defense community includes the Army, Marine Corps, Navy, Air Force, agencies of the Department of Defense and the U.S. Coast Guard. “Executives” in this survey are the Defense financial leaders interviewed in person. “Workforce” includes the respondents to an online survey.

Under ASMC direction, Grant Thornton LLP interviewed 41 Defense financial Executives between January and March 2009. Participants in these in-person interviews include assistant

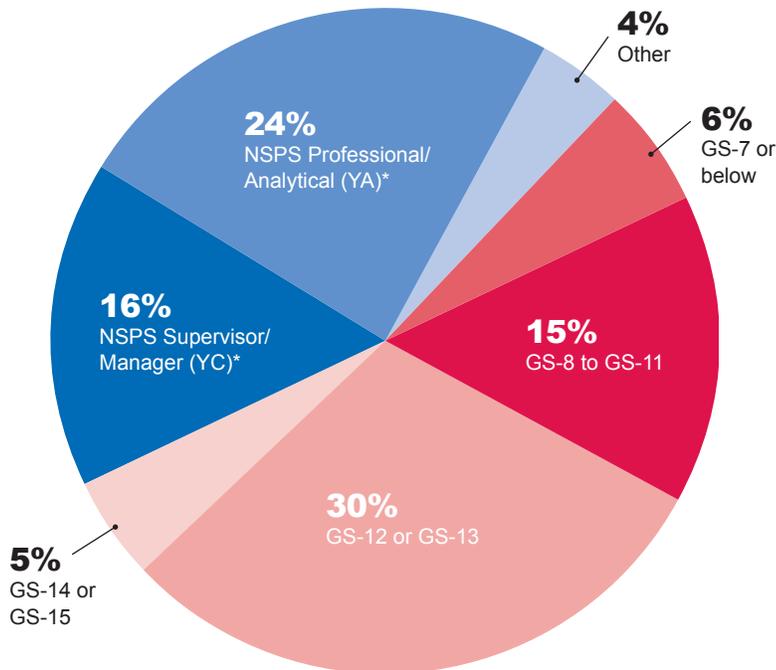
and deputy assistant secretaries, top-level comptrollers, and financial chiefs of agencies and the largest financial offices. Of these Executives, 51 percent are in the four Uniformed Services, 15 percent with the Defense Finance and Accounting Service (DFAS) and 34 percent with other Defense component agencies and the Coast Guard.

We also conducted a similar survey online of 1,601 Defense accounting and finance managers and employees. Most online respondents are ASMC members; 8 percent are active duty military and 92 percent are civilians. Figure 1 breaks out the online respondents into their respective organizations. Civilian online respondents reported their employment levels as shown in Figure 2.

**Figure 1:**  
Online survey respondents by organization



**Figure 2:**  
**Online civilian participants by grade or level**



\*NSPS: National Security Personnel System

To obtain frank opinions from survey participants, we kept their responses anonymous. We did not share the names and affiliations of in-person interviewees with anyone outside the Grant Thornton research team, and the names of online survey respondents were kept from the team.

Throughout this report, we will refer to in-person survey interviewees as “Executives” and online survey respondents as “Workforce.” Also, “Defense community” refers to all parts of the Department of Defense, including the Uniformed Services.

### Scope

We conducted surveys from December 2008 through March 2009; the first two months coincided with the transition between the administrations of Presidents George W. Bush

and Barack Obama. The Obama administration did not have much time to fully develop policy and budgets during this period, so respondents were necessarily a bit uncertain of the specifics of the future direction of Defense policy. This was somewhat alleviated by the continuation of Robert Gates as Secretary of Defense.

This year’s survey started by asking about the potential effect of budget declines on Defense concerns and on Defense financial community issues. On the subject of information technology, this year’s focus is on Defense enterprise resource planning (ERP) systems and expectations for their success. Questions on financial management in Defense entities cover the general health of this field and issues related to audited annual financial reports. Several questions address the financial community’s personnel, including the availability of the right financial and accounting skills for current and future work and resources needed for training and professional development. A new question about job satisfaction is included this year, and as always, we ask about respondents’ top three concerns for Defense financial management and accounting.

The survey design does not call for a random selection of interviews, and therefore the results may not be representative of the universe of all Defense financial management personnel. However, taken together, the online and in-person surveys span all levels of the Defense financial management community, from top leaders to staff just starting their careers. The result is a broad, inclusive view of their opinions.

To see electronic copies of this report, related publications and the questionnaires used, visit the ASMC Web site at [www.asmc.org](http://www.asmc.org) or Grant Thornton’s at [www.grantthornton.com/publicsector](http://www.grantthornton.com/publicsector).

# What is important to the Defense financial community?

When financial personnel talk about their field, often the topic will be people, systems or audits. As we will show in this report, the professionals of the Defense financial management community are no different. This first section is an overview of these three top concerns within the community. The succeeding three sections offer more detail on survey respondents' views on people, systems and audits.

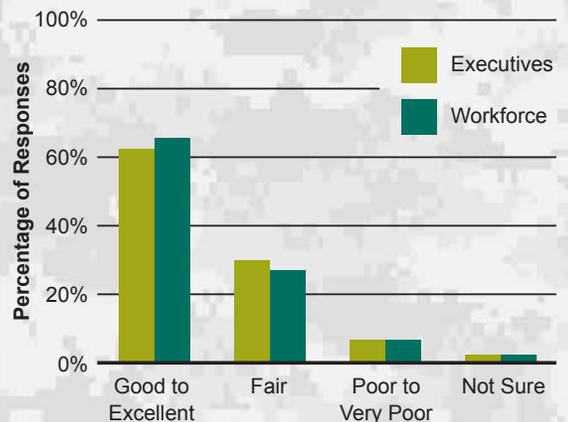
## Overview of community concerns

Most participants in the 2009 ASMC survey on Defense financial management feel positive about their field and the work they do. They are hopeful about the return on large investments in enterprise resource planning (ERP) systems, but are deeply concerned about the technology's ultimate viability and utility. They want to keep working for an unqualified audit opinion of the Department of Defense annual financial statements, but many question the value of some of the statements.

## Overall status of Defense financial management

Figure 3 shows that, as groups, Defense financial Executives and Workforce have about the same opinions on financial management in the organizations where they work. More than 60 percent think that Defense financial management is in good-to-excellent shape, considering mission, available resources and personnel. Things could be better, though, say more than one-third of respondents who rated the status as less than good.

**Figure 3:** Survey respondents' views of the overall state of financial management in the Defense organizations in which they work



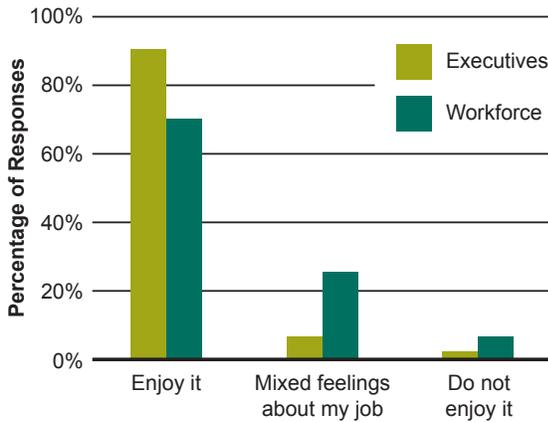
Most Executive respondents think that the Defense financial community does a good job of the basics of financial management. This includes executing the budget, obligating funds, paying people and vendors, and accounting for resources. Even those who rated the community as “fair” on the basics said that improvements are happening, albeit slowly. Yet, says one, “We’ve always been good at the mechanics, not so good at determining the value we are getting.”



**People**

Figure 4 shows how respondents feel about their own work, taking into account both a job’s professional aspects and its effects on personal life. The clear majority of respondents have positive feelings about their jobs, especially the Executives. Twenty-nine percent of the Workforce report mixed or negative feelings about their positions, compared with only 9 percent of the Executives.

**Figure 4:**  
Survey respondents’ opinions on how much they enjoy their jobs



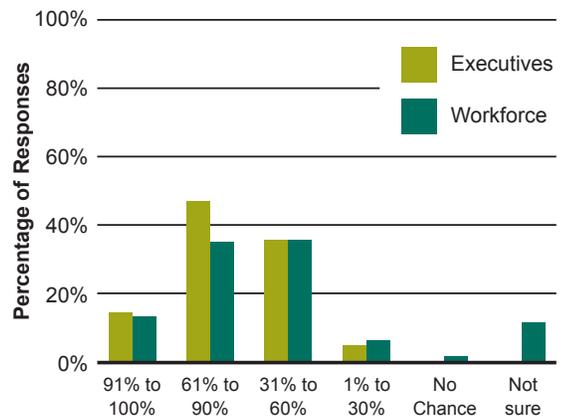
Two-thirds of the Executives said they enjoyed their jobs “a lot.” They say that financial leadership positions combine many positive things: working with smart people, challenges, service, patriotism and a feeling of making a difference. There may be trouble on the horizon, though, because so many respondents report they feel overworked.

**Systems**

ERPs are a “keep me awake at night” issue throughout the Defense financial community. Executives mentioned ERPs twice as often as they did any other topic, with 40 percent of those remarks coming in response to questions about subjects other than information systems. Executives and Workforce respondents also frequently mentioned ERPs and related issues when asked about their top three concerns (see Table 1).

Most respondents feel that ERPs have the *potential* to contribute to success. However, they are less certain about ERPs’ chances of success: in Figure 5, only 14 percent of Executives and 12 percent of the Workforce are 91 to 100 percent certain the ERPs in their organization will be successful.

**Figure 5:**  
Respondents’ opinions on the chances that their entity’s ERP will be successful

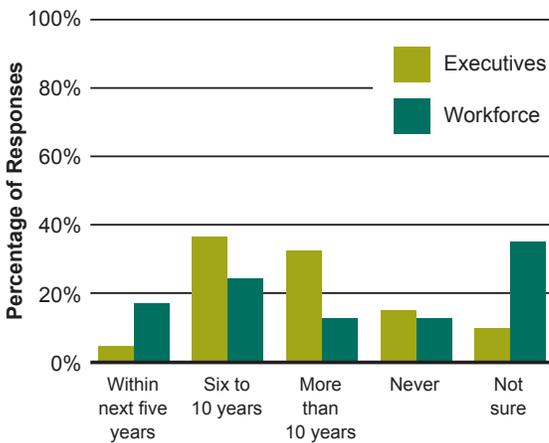




## Audits

Defense as a whole received a disclaimer opinion on its FY 2008 audited annual financial statements. Only a few Defense agencies garnered an unqualified opinion for FY 2008 and no Military Services. Until Defense gets an unqualified opinion, the consolidated statement of the United States Government may continue to receive a disclaimer opinion. Figure 6 shows when survey respondents think that the Defense community will achieve that goal.

**Figure 6:**  
Respondents' opinions on when Defense will achieve an unqualified opinion on all its financial statements



Defense's goal is to receive an unqualified opinion in nine years. In Figure 6, about two out of five Executives and Workforce respondents think that this will happen sometime within the next 10 years. About the same percentage of Executives think that it will take more than 10 years or will never happen, while Workforce respondents are somewhat more optimistic.

Many respondents think that Defense will not gain an unqualified opinion until all ERPs are

up and running for a few years, but as noted in the previous section, ERPs get mixed reviews. Other reasons given for taking so long include culture, lack of senior leader support and a certain skepticism on the value of an unqualified opinion. Says one Executive, "How important is the unqualified opinion to the warfighter? Do we understand the costs and benefits of an unqualified opinion? What are the trade-offs, and how do we engage the leadership to make them?" These three questions set the stage for the audited financial statement responses we received in the survey and represent the crux of the audit within the Defense community.

## Top concerns

Another way of looking at the priorities of the financial community is to ask its leaders about their top concerns, something we have done in this survey for the past five years. Table 1 shows those top concerns, the things that keep the Executives awake at night:

**Table 1:**  
Top concerns of respondents

Concern	Rank of concern	
	Executives	Workforce
People (human capital)	1	1
Resources, money, budget, economy	2	3
Information systems (mostly ERP), standardization, data quality	3	2
Leadership, change, keeping up momentum of improvement	4	4

We will discuss people and information systems later in this report. Here, we will cover resources and leadership.



**Resources.** Many Executive and Workforce members say that resources for financial management are scarce now and about to get scarcer. Many discussed setting priorities for spending during lean times, both for financial functions and military operations. More Workforce respondents say they want warfighters and military missions to receive priority than were concerned with their own job security.

“We need to cut resources intelligently,” says an Executive, “but government has traditionally been sloppy when doing that.” One Workforce member says, “Budget cuts have become a way of doing business, so financial managers must always have a mitigation plan ready when the cuts come down. If they have arguments ready and a number that they can live with ready, oftentimes the cut doesn’t have as large an impact on programs.”

**Leadership.** Executives said that top leaders outside the financial community need to put pressure on Defense organizations to improve financial management. Otherwise, financial management will get lost among other priorities. There was also

a feeling (and a few actually called this “despair”) that non-financial leaders and managers were not as concerned as they should be about financial or performance measures—which is why financial Executives have to be good sales persons.

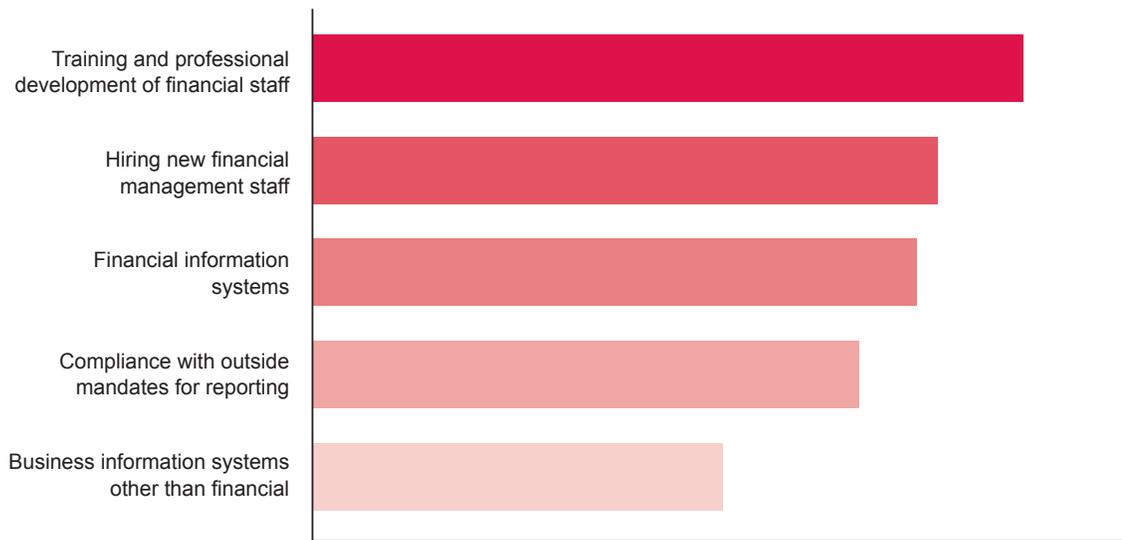
When Workforce respondents discussed leadership, they focused on senior management within the Defense financial community. Many think that these financial leaders should have more say about Defense operations. They also would like there to be less turnover in the ranks of financial leaders.

### **Declining budgets**

When lean times come to Federal budgets, support functions and systems often are hit the hardest by hiring freezes, trimmed training resources, and reduced or stretched out funding for systems. There are exceptions: contracting is a support function in most Defense organizations, and President Barack Obama has ordered the hiring of more contracting officers. Survey participants do not think that this exception will apply to the financial support function, though, and Figure 7 shows the weighted response to a question asking Executives to rank the areas that will suffer the most negative effect of budget declines. According to the figure, Executives think that the human capital areas of training, professional development and hiring would be hit hardest by budget cuts. Taken together, financial systems and business systems other than financial (e.g., ERPs) come next.

Cuts in human capital and systems may be a double whammy for the Defense financial community, according to some Executives. Financial systems and ERPs are supposed to reduce the number of people needed to execute financial management functions. However, if

**Figure 7:**  
**Executives' comparative ranking of financial management areas that will be most affected by budget declines**



these systems are slow to come on line or fail to deliver assumed efficiencies, then reducing financial headcount will increase the workload of those who remain (and keep in mind that many already feel overworked). This means even less time available for training, especially in subjects like using new systems or advanced financial analysis.

Typically, when Congress or the White House Office of Management and Budget changes compliance reporting requirements, they do not provide additional funds for the new work. Organizations have to take this money out of existing resources. With tighter budgets, Executives expect such reporting is not going to be top priority with the leadership, which makes it hard to find funds to meet the compliance requirements. Says an Executive, “The

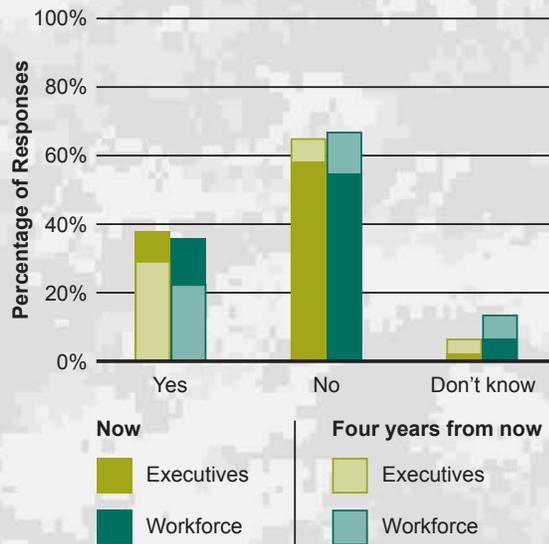
**“Budget cuts have become a way of doing business, so financial managers must always have a mitigation plan ready when the cuts come down.”**

financial community has not done a good public relations job in educating leaders outside the financial management world about the value of an unqualified opinion. The key question that operational leaders ask is, ‘What does it mean to the warfighter?’” Thus, one Executive says, the future situation for Defense financial management is “. . . [a] declining budget coupled with increased pressure to reduce costs while maintaining the same level of service, but with expectations of improving performance.”

# People

As in the previous six annual ASMC surveys, in 2009 most people we surveyed are worried about human capital. Figure 8 shows that neither Executives nor the Workforce thinks that there are enough financial personnel with the right skills to meet the workload and challenges of Defense financial management. The situation is going to get worse, say survey participants, because even though workload is increasing, the financial community is not likely to see a significant increase in size, and new skills will be needed.

**Figure 8:**  
Does the Defense financial community have enough personnel with the right skills to meet workload and challenges?



### Number of personnel

While there seem to be plenty of new and junior staff in the financial management ranks, there are gaps in the numbers and skills of middle managers, say some Executives. It has been

harder to hire people at this level, particularly those with government experience. One source of middle manager recruits has been embedded contractor personnel who see benefits to becoming civil servants.

Increasing the number of financial personnel is more than a matter of acquiring billets, say several Executives. The Defense community has to offer salaries comparable to the private sector and make the hiring process easier for everyone concerned. Many want to recruit more certified public accountants (CPAs) to enhance skill levels.

Two things are helping the Defense community compete for skilled financial personnel, according to some Executives: “President Obama’s election is inspiring more people to seek public service jobs,” says one. “Also, the 2008–9 economic crisis means there are fewer opportunities for financial professionals in the private sector. Defense benefits from both these factors.”

### Procurement hiring may increase ranks of financial managers

In an April 8, 2009, article in GovExec.com, Secretary of Defense Robert Gates called for hiring 20,000 more procurement professionals by 2015, beginning with 4,100 in 2010. Many Defense procurement personnel have financial management backgrounds, and new ones may be recruited from the ranks of unemployed financial professionals from the private sector, said Shay Assad, director of Defense procurement, acquisition policy and strategic sourcing.

## Skills

According to some Executives, the skill sets needed in the financial management community of the 21st century are in the areas of business and financial analysis, information technology (IT), program management and accounting operations. Good examples are the analytic skills needed to take full advantage of modern commercial off-the-shelf (COTS) financial software. According to an Executive, “Most legacy financial systems were built for people who are transaction oriented, but who do not necessarily understand the processes behind the transactions. New COTS financial software requires people to understand the business processes involved, in order for them to be able to use it successfully. Over the next few years, our challenge will be getting the workforce trained to understand those processes.”

How willing and able are Defense financial personnel to learn new skills? It may depend on longevity, say some Executives. One says, “Our people came up through the ranks, learning the old ways of financial management. They are rather entrenched in their skill sets, which makes it difficult to transform our organization to meet current needs.” Another Executive wonders how longtime workers who already find their current jobs “challenging enough” will fare in a new environment.

Some Executives do not see much demand for the new financial management skills of the 21st century. Says one, “We have a lot of good people, but they aren’t being asked to do the right things yet. They’re currently doing reports and reconciling A to B as they’ve done for the past 20 years, when they’re probably capable of doing more if given a little instruction. I’ve been pleasantly surprised by the quality and skills of the personnel. They haven’t always been tasked



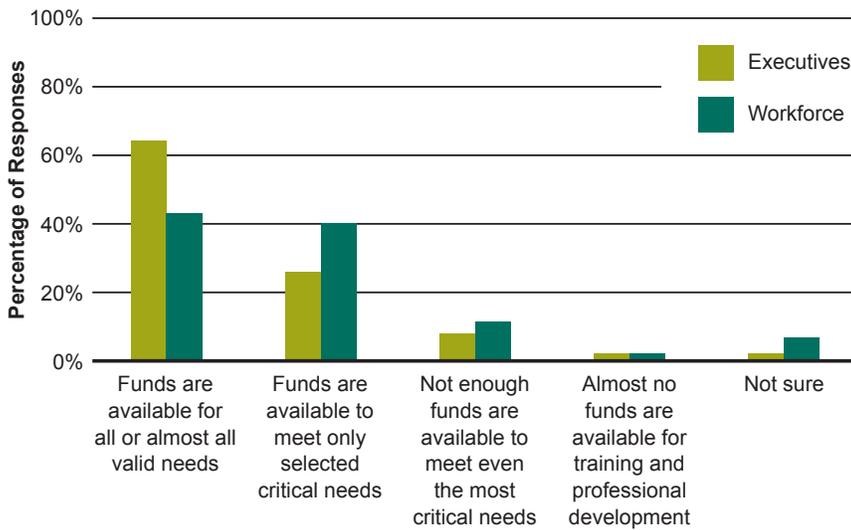
to do the value-added activities of which I think they’d be capable. Retraining and additional education would be needed.”

Shoring up in-house financial skills by using contractors has been a frequent solution in the Defense community. However, to be effective, an Executive says that this approach “... requires employees who fully understand their entity’s current needs, vision and goals, else they may limit what contractors can do, rather than enhance operations.”

## Training and professional development

Defense financial management is in flux, say many survey respondents, so demand for training and development is—or should be—high and growing. Driving demand: new technology and processes, retiring Baby Boomer financial personnel whose leaving creates “brain drains,” and evolving military doctrine that changes how different components of the Defense community interact with each other. The problem: training and development funds for support functions like financial management are usually first to be cut during budget squeezes, which may be in the cards for 2010 and beyond. We asked survey participants their opinions on the availability of resources for training and development now and in the future (Figure 9).

**Figure 9:**  
**How survey respondents characterize the availability of funds for training and professional development of their organization’s financial personnel**



Executives are somewhat more likely than the Workforce to believe that sufficient funds are available to meet all or most training needs. However, says a Workforce member, “Repeated deployments, transformation, restationing, Base Realignment and Closure, staff turnover and severely limited training budgets mean comptroller personnel are potentially ill equipped to face constant changes. This places Defense at higher risk for failure of internal controls and their timely, accurate modification.”

Many respondents say that *time*, not money, is the real limiting factor in obtaining training. Managers cannot spare their people for training because of the extra work required for supplemental budgets, endless budget drills and other issues. One Workforce member gives a specific example: “Even though the Defense Financial Management Course (offered by the Naval

Postgraduate School) is listed on the financial management roadmap under the Highly Recommended education area, I have been told that I cannot be away from the office for the four weeks required for the course.” Managers have to decide to send people to training based on need, not simply because they are available, says another Executive.

**Shaping the future financial workforce**

Bring training and development into sync with the needed future financial skills, say several Workforce respondents. Says one: “We need to establish a knowledge base and course work that will enhance the workforce shaping now going on in the Defense community.”

Workforce participants had hundreds of suggestions for training and development, summarized below:

- More centrally funded and required courses for training, because commanders tend to see financial professionals as support staff and give them lower priority

**Training for nonfinancial leaders**

**“Financial managers are not considered to be valued advisors to the command. A lot of the time we are seen as the ‘toad in the road’ and the person they go to after they’ve done what they want to do because they knew we’d tell them they can’t if they asked first. Incorporating some financial management decision support theory into military leadership training will help future leaders look at their financial team as a partner to be valued.”**  
 – a Workforce respondent



- More refresher courses, because people need to be reminded and updated on procedures
- Uniformed finance professionals need to train to work in the combat theater environment where they will be sent to support warfighting
- More cross-training, which would make it easier to balance workload during peak periods and surges
- In-house training to maintain certifications (e.g., Certified Defense Financial Manager [CDFM], CPA, Certified Management Accountant, etc.)
- Start training and development for new systems and processes well in advance of their implementation, not afterward
- In addition to generic training, have more hands-on training that applies operating regulations to everyday business within specific departments
- Give incentives to encourage commands to permit more training, such as reporting on how many people are CDFM-certified.

One Workforce respondent emphasizes training and professionalism: “Employees need to feel that being a Federal Government employee is a career that needs nurturing, not just a job. Stress the need for ongoing training and provide the ability to acquire pertinent and meaningful training. This will produce a professional core of financial managers loyal to their employer.”

### **Training models and formats**

The question of sufficient funding for training and development depends on which model you are using, says an Executive: “The old system employs on-the-job training as the primary mechanism for development. The new model consists of extensive periods of training, higher levels of training/certification, and provides more

avenues for personnel to obtain training. We need to focus on the new model if we want to develop a higher level of strategic thinkers necessary to meet our future challenges.” In addition, say Executives, it is important to train for the future, not just for the present.

Available online training is good and cost-effective, say Workforce respondents, but other formats are important, too. These include conferences, seminars, and academic and other traditional training methods. A mix of general and specific training and development activities helps to overcome a problem mentioned by several respondents: many financial management personnel do not know what goes on beyond their desk. Formal training lets people see the full cycle of the processes of which they are a part.

Other development suggestions include:

- Better defined career paths for civilian financial professionals, comparable to those of their uniformed colleagues
- More succession planning for midlevel management positions, along with better documented desk procedures
- Follow-on programs to continue to mentor, train and develop interns when they finish their internships
- Revisit the skill levels of longtime employees in the lower ranks because they may never have had the opportunity for basic training and development in government financial management

For more insight into Defense financial training and development, please see the 2007 ASMC survey *Prepare Yourself for the Future of Financial Management* (download at [www.grantthornton.com/publicsector](http://www.grantthornton.com/publicsector), publications page).

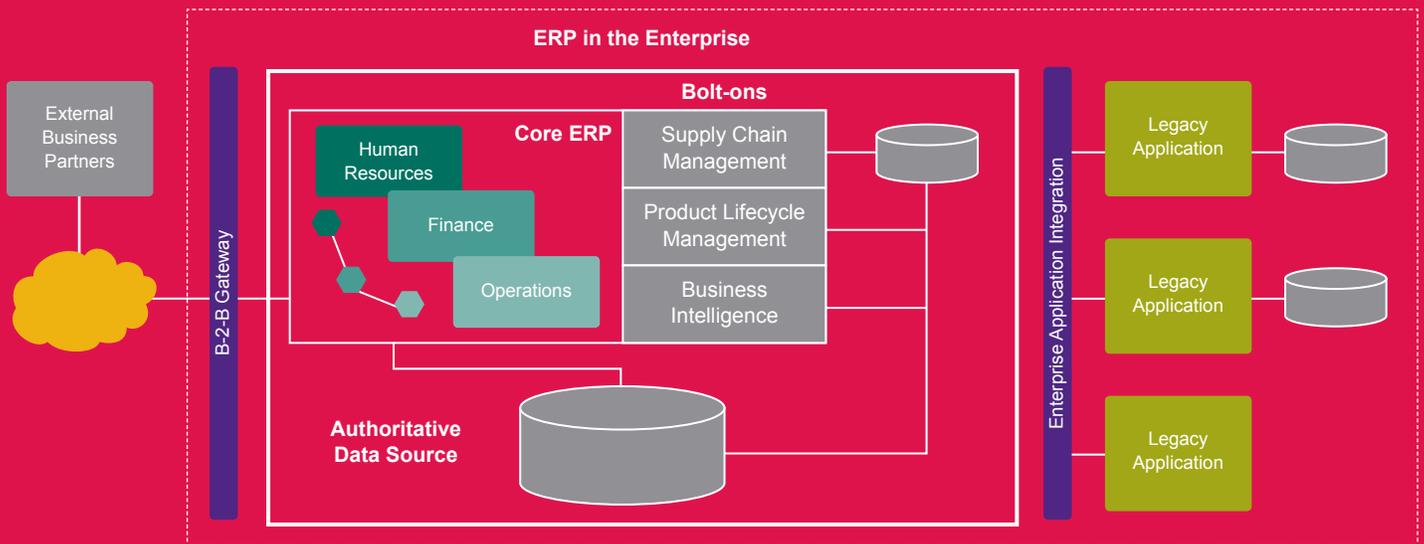
# Information technology and ERPs

As noted earlier, ERPs are the most-mentioned topic in both the Executive and Workforce surveys, and no wonder: there is a lot riding on their success. “ERP is the centerpiece of our core financial management investment,” says an Executive. “In a three-part approach to improvement, ERP is the *systems* piece, which will lead to better business decisions. The second piece involves teaching *people* to understand the system and its capabilities. The third piece is *processes*, which involves implementing internal controls to ensure the soundness and proper use of information.”

Within this triad, people and processes have to change for ERP systems to succeed. Considering people, the sharing of business and financial information is fundamental to reaping the benefits of ERP, yet several Executives wonder whether Defense leaders are ready for others to have access to their data. “Transparency is the ability to see the other guy’s data, not the other way around,” says a former top military comptroller. Further, says an Executive, “Improved reporting through ERP should enable Defense business decision [making] and budget formulation to be based on solid information. It should transform us from a culture of compliance and reporting to a culture of business decision making.” Unfortunately, getting leaders to use ERP information may be harder to do than providing it, say many Executives.

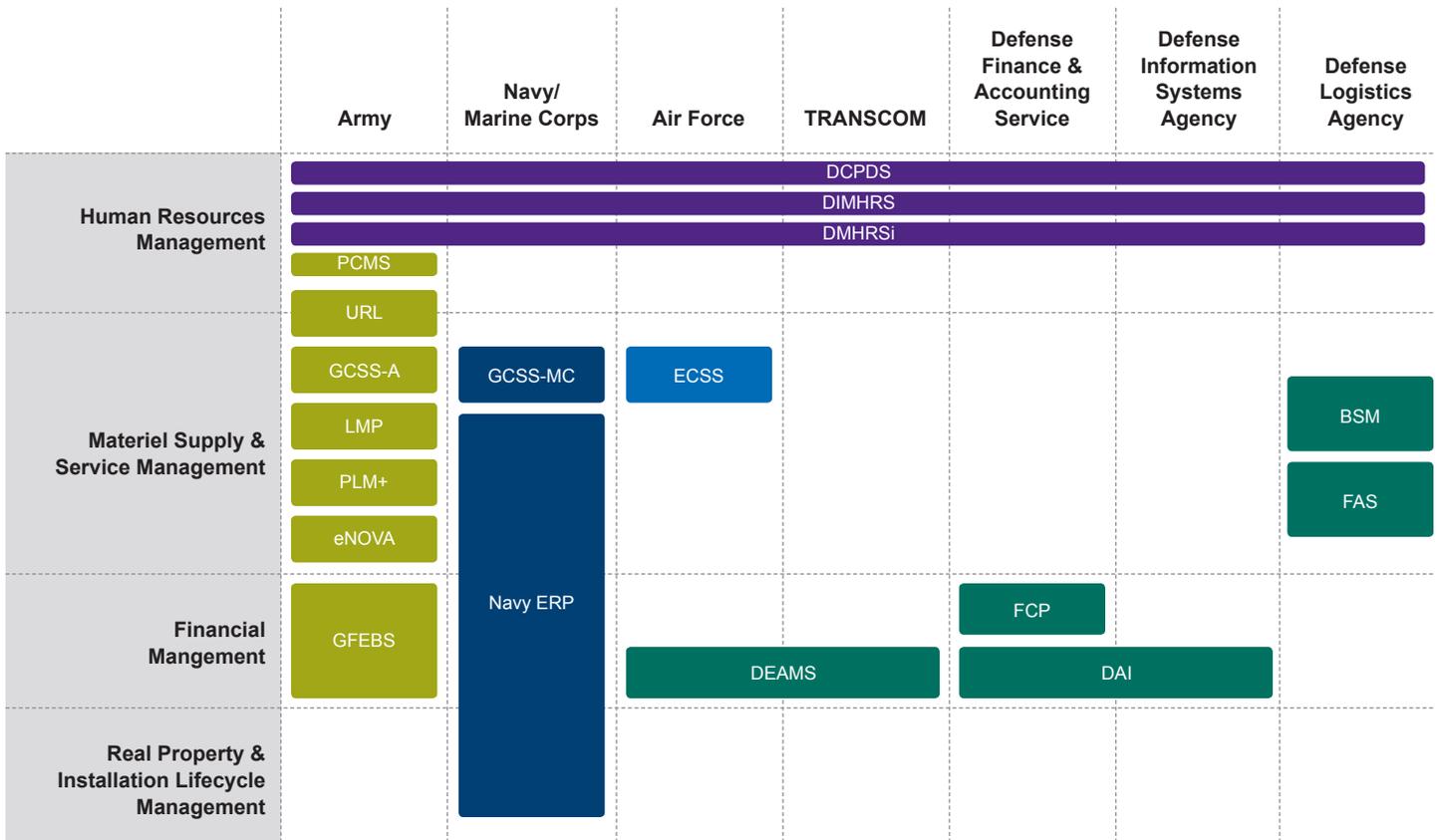
## What is an ERP?

An enterprise resource planning (ERP) system is an organizationwide, networked information system that draws data from shared databases to manage and coordinate the resources, information and functions of business processes.



The figure above shows how an ERP solution fits into an organization’s technology landscape. On the right, the ERP interfaces with legacy applications through an enterprise application integration layer, and on the left with external business partners through a business-to-business gateway.

**Figure 10:**  
**Defense community ERP systems initiatives, early 2009**



Sources: Office of the Deputy Under Secretary of the Army for Business Transformation (DUSA[BT]), [www.army.mil/armyBTKC/focus/sa/erp\\_ent\\_pdod.htm](http://www.army.mil/armyBTKC/focus/sa/erp_ent_pdod.htm); DoD Business Transformation Agency, <http://www.bta.mil/dai>.

**Systems shown in Figure 10 include:**

- BSM: Business Systems Modernization
- DAI: Defense Agencies Initiative
- DCPDS: Defense Civilian Personnel Data System
- DEAMS: Defense Enterprise Accounting and Management System
- DIMHRS (Personnel/Pay): Defense Integrated Military Human Resources System
- DMHRSi: Defense Medical Human Resources System – Internet
- ECSS: Expeditionary Combat Support System
- eNOVA: Army materiel supply and service management ERP
- FAS: Fuels Automated System
- FCP: Forward Compatible Payroll
- GCSS-A: Global Combat Support System – Army
- GCSS-MC: Global Combat Support System – Marine Corps
- GFEBs: General Fund Enterprise Business System
- LMP: Logistics Modernization Program
- Navy ERP: Navy Enterprise Resource Planning System
- PCMS: Personnel Claims Management System
- PLM+: Product Lifecycle Management Plus
- URL: U.S. Army Medical Research and Materiel Command Revolution in Logistics



Figure 10 shows ERP initiatives under way in the Defense community. Some cut across all Defense entities, such as the Defense Civilian Personnel Data System (DCPDS), while most others are within the confines of an individual Service or

agency. However, the many ERPs do not always communicate well with one another, which lessen their value to the larger Defense enterprise.

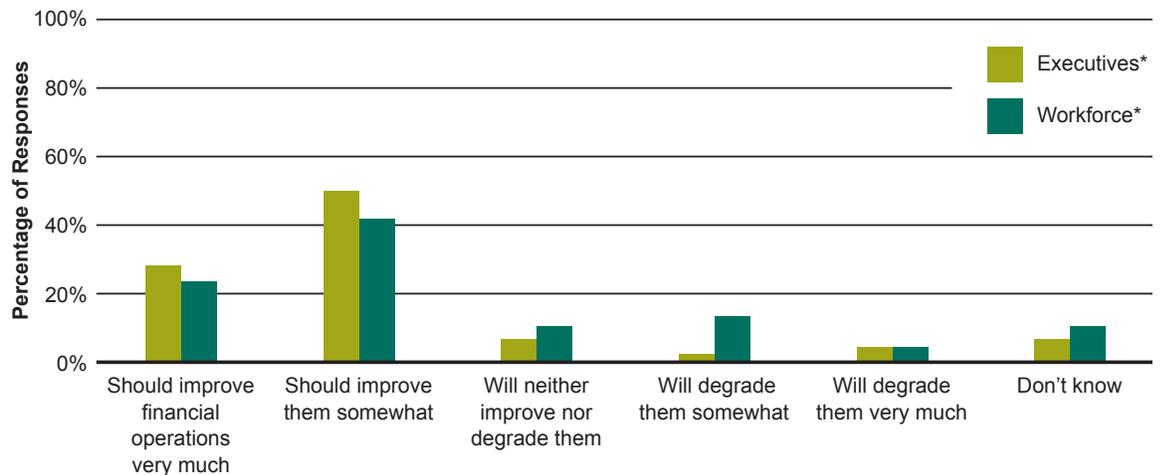
**Will ERPs improve financial operations?**

Figure 11 shows that most respondents think that their new ERP will improve financial management in their entity: 76 percent of Executives and 63 percent of the Workforce expect at least some improvement. A sizable minority of the Workforce (28 percent) think that there will be no change or a negative change because of ERPs.

Respondents expect the following from ERPs:

- Improved transparency and accuracy of information
- Better “auditability” (many think that ERPs are the key to obtaining an unqualified audit opinion on Defense annual financial statements)

**Figure 11:**  
**How respondents think that their new ERP will affect their entity’s ability to conduct financial management operations**



\*Includes only those who responded to this survey question.

- Increased scope and granularity of Defense enterprise financial information available to leaders and managers
- Will give all Defense entities a common frame of reference for financial management and reporting
- Will fix the front end of the information cycle because once data are gathered, they will be accessible to those who need the data
- Permits aggregating cost across the Defense enterprise
- Assets will be more visible and easier to track
- Faster and more comprehensive analysis of trends and faster identification of potential problems
- Replaces legacy systems with an improved capability (although many question whether this replacement will be possible in the short term)

These are the logical improvements of ERPs, “but,” says an Executive, “the problem is that we don’t have metrics against which to base improvement. Intuitively, ERPs should improve things, but we are likely not going to be able to prove it, since we have no benchmarks. Seems as if the single metric now is, ‘Does it work?’ If it works, we will declare success. It will not matter if it makes us more efficient or saves money. We just want it to work because we have no alternatives.”

Among those who are less positive about the success of ERPs, few mentioned technical problems with the systems. Instead, they think that the way the Defense community implements ERPs will cause them to deliver few or no benefits. Some of their issues are listed below.

#### **Problems with differences**

The Defense community should be praised for the progress it has made over the past two decades in reducing the number of its business and financial systems. ERPs have been essential

to this reduction. However, as Figure 10 shows, few ERPs are common to all of Defense, and many respondents think that these systems do not communicate well with each other. In addition, many of the legacy systems have not yet gone away and may have to be run in parallel with the ERPs.

Some respondents complain that available COTS ERPs do not align with the Defense or Federal Government way of doing business. They suggest that more effort should be put into developing government off-the-shelf (GOTS) ERP software that is more compatible. COTS or GOTS, common ERP solutions would benefit the Defense community. Experience in the private sector has shown that basic to ERP success is the willingness of organizations to change their processes to align them to ERPs, not the other way around.

**“Intuitively, ERPs should improve things, but we are likely not going to be able to prove it, since we have no benchmarks. Seems as if the single metric now is, ‘Does it work?’”**



A typical ERP uses a software package maintained and upgraded by its vendor for dozens or even hundreds of customers, who make minimal changes to the package. Instead, the customers change their processes to match those in the package. This enables an economy of scale for maintenance and upgrades and protects against poorly documented changes. However, the more changes an organization makes to the software, such as over customizing it to handle existing processes, the higher the cost to implement, maintain and upgrade the package.

**Implementation schedules**

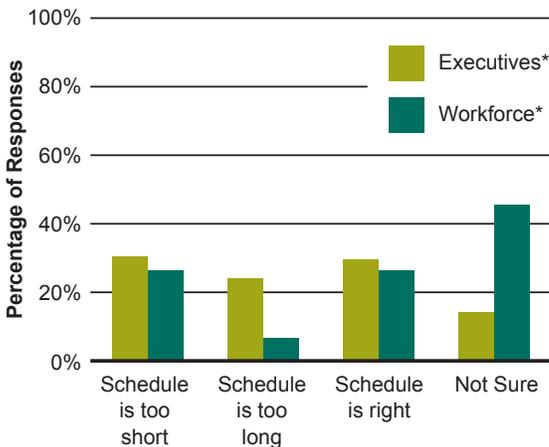
There are no hard and fast rules for how long an ERP implementation should take. Few organizations inside or outside government get their ERPs up and running on schedule. A very general estimate for a large corporation is 18–24 months, but many companies can take much

longer. (The reader should consider this when reviewing Figures 12 and 13, which present respondents’ opinions on the schedules of their ERP implementations.)

Figure 12 shows that only about 25 percent of both the Executive and Workforce groups think that their ERPs schedule is right. In Figure 13, about half of the Executives think that their entity’s ERP will not be running at full speed within the next five years. The Workforce is more optimistic, with 65 percent saying that their ERPs will be fully implemented five years from now.

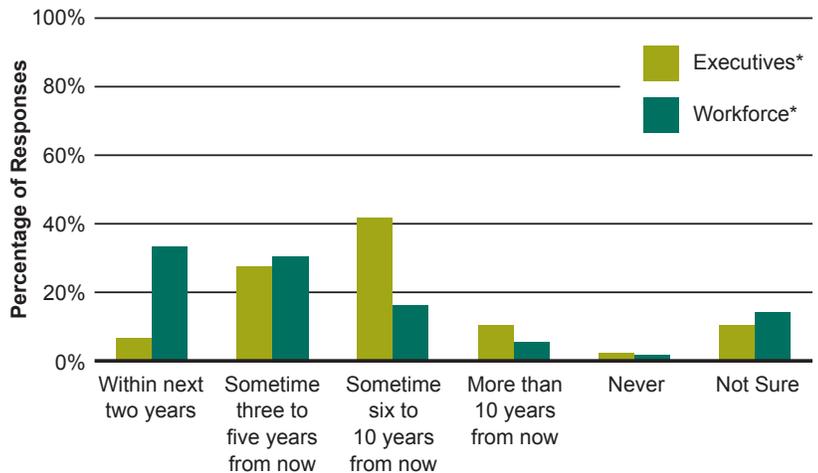
Some Executives say that no one realized how hard it was going to be to implement ERPs or how long it would take. “Having these implementations take so long is not good for the Defense community, or for the continued development of ERPs,” says an Executive. For example, advances

**Figure 12:**  
Respondents’ opinions on whether their entity has set a realistic schedule for implementing its ERP



\*Includes only those who responded to this survey question.

**Figure 13:**  
Respondents’ opinions on when their organization will have fully implemented its ERP



\*Includes only those who responded to this survey question.



in technology may overtake the ERPs before all are fully implemented. Leading-edge technology is now represented by Web 2.0 and cloud computing, both of which rely on the Internet to meet computing needs. Shorter implementation times have their own problems. Says one Executive, “You can meet the ERP schedule, but you may not get what you want in the end.” Workforce respondents say that taking shortcuts to get systems operational and live may cause implementation teams to cut corners in conducting user testing. Letting schedules drive implementations can cause problems like allowing workarounds, keeping legacy systems and not installing adequate internal controls, say others. An Executive observes, “The focus [for ERPs] is on cost and schedule, and it should be more on performance. We need to do a better job ensuring executive committees understand the consequences of decisions they make [concerning ERPs].”

Each Military Department and many Defense component agencies have their own version of ERP. Continued standardization is needed so that all Defense financial management and other business systems can integrate with each other. Unfortunately, managers in the entities that are either implementing ERPs or that are the customers of the systems are reluctant to change their processes to align with those of other entities, much less with an information system. Says a Workforce member, “ERPs are critical to the future success of financial management in the agency, but people look for reasons why it will fail rather than help it succeed. No system/process conversion is easy or error-free, but if people’s attitudes are positive, you can overcome these obstacles.”

### **Lessons learned and suggestions**

One thing is for sure: the Defense community’s ERP experience provides many lessons learned

**“The focus [for ERPs] is on cost and schedule, and it should be more on performance. We need to do a better job ensuring executive committees understand the consequences of decisions they make [concerning ERPs].”**

that could be applied going forward. What will be needed, according to respondents, is top-level attention outside the financial management community to ERP implementations. Defense leaders need to do more than push for ERP implementation, though. Many Executives say the best thing would be that leaders actually use the information for making decisions—that will be the biggest spur to development. Below is a summary of respondents’ suggestions for the lessons learned about ERP implementation:

- Envision an ERP as an end-to-end system that incorporates Defense-wide functions, including procurement, acquisition, budgeting, accounting, etc.
- Constantly review the training materials for ERP systems to update them and to incorporate lessons learned from earlier implementations.
- Decide whether all historic data really need to be converted for ERP use; if not, this will save time and money.
- Aligning business processes with ERPs is important, but so is synchronizing Defense business processes across all organizational boundaries.
- When confronted with concerns about their financial reporting, many managers have taken to saying that ERPs will be the solution, as if that accounts for everything. Before accepting this, financial executives need to require the managers to show how the ERP systems will actually (or at least should) address a specific deficiency.

### **Double duty: legacy and ERP systems**

**“My job is to implement my organization’s ERP successfully... I began this job last year, and it will continue to be more difficult to bring my financial community into supporting implementation of the ERP system while at the same time supporting the old legacy operations. The challenge is to find a way to have the same amount of human resources supporting the old financial systems, while educating and involving the current subject matter expert staff in meetings and planning to transition to the new ERP systems. I expect my job to change more and more to justifying and obtaining enough out-year funding and human resources to cover the obvious gaps that will occur in successfully completing both workloads over the next three years.”**

**– a Workforce respondent**

- Make sure that the financial professionals who are in charge of acquiring or who are on acquisition or implementation teams fully understand the requirements and incorporate them into contracts and plans.
- Invest in up-front organizational change management, because ERPs require changes both in processes and in culture. Says a Workforce respondent, “You can’t push an ERP mentality down on people; you have to garner support and buy-in. It is a completely different mindset that has to be given time to work.”
- Do not patch old systems into ERPs; use ERP technology to replace them.
- Stop allowing entities to develop their own ERPs and focus more on Defense-wide systems. Says a Workforce respondent, “Defense is too compartmentalized. I should be able to transfer from the Air Force, to the Navy, and over to the Defense Intelligence Agency and be able to work on the exact same financial systems without a hiccup or learning curve.”
- Change business processes so they take full advantage of ERPs.
- Leadership support is imperative.
- Define standard operating procedures for ERPs, and standardize wherever possible.
- Fix or get rid of the acquisition process for ERPs—it is not working.

# Audits

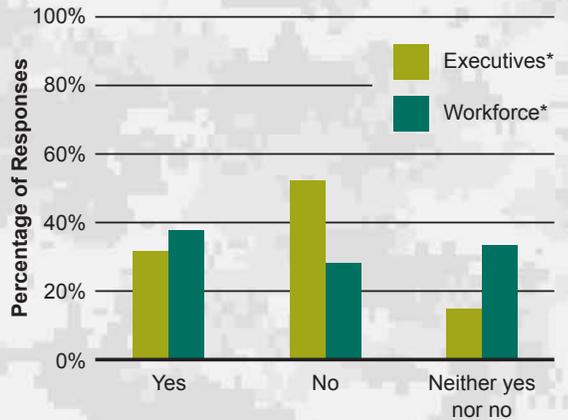
Figure 5 indicates that two-thirds of Executive and one-third of Workforce respondents think that it will be six or more years before Defense garners an unqualified opinion on its annual financial statement audit. The Defense financial statements consolidate those of the three Military Departments and the Defense component agencies into a single financial report. The Federal Government’s consolidated financial statement combines all Defense and civilian Federal entities, and will not receive an unqualified opinion until Defense does, according to the Government Accountability Office.

### Benefits to achieving an unqualified opinion

What does an unqualified opinion mean to the Defense enterprise? Says an Executive, “Unqualified opinions make financial information and financial professionals more believable

and give us credibility with leadership.” An unqualified opinion may also increase the credibility of nonfinancial information systems, the main source of data used for financial management and reporting. Still, says the same Executive, “Most decisions are based on operational or political factors, not financial statements. So, an unqualified audit opinion does not contribute to decision making.” This explains the responses to our question of the usefulness of financial statements to operations decisions (shown in Figure 14):

**Figure 14:** Work done to produce auditable annual financial statements has produced helpful information for decisions about operations



\*Includes only those who responded to this survey question.

Working toward the goal of achieving an unqualified opinion is also beneficial because it forces an organization to develop more efficient financial processes and to fix material weaknesses in reporting and internal controls, say Executives. One Executive reckons a three-to-one return on investment on the effort to get there, measured by better funds management and direct savings.





Also, preparing for the audit forces some managers to document their processes and therefore gain a better understanding of them.

**Getting to an unqualified opinion**

Many Executives say that unqualified opinions will have to await the implementation of ERPs, which is problematic given the findings of the previous section of this report on information systems and ERPs. Some Executives calculate the timing for a Defense unqualified opinion to be several years after ERPs are up and running.

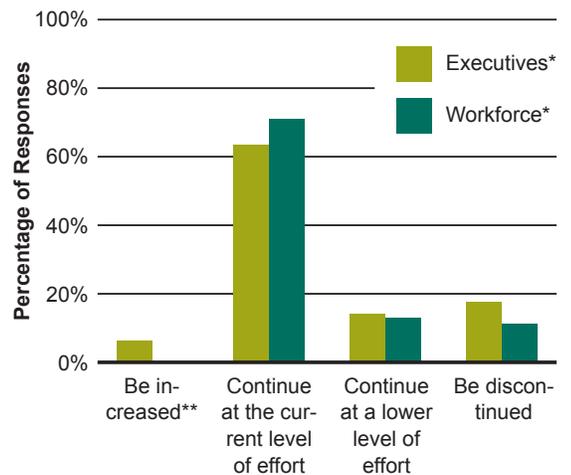
Other Executives are focusing on obstacles to audit readiness. Says one, “We need to define the barriers clearly, based on a methodology, and develop resource plans to address them. We have never used resource plans for corrective actions, but now we want to know how much will they cost and how much have we committed to solving them. We are going to better define outcomes and what it takes to solve the problem and do a better job of monitoring and oversight, not making everything a pretty picture. In the past, reports have shown everything is great. Maybe those reports can be sent to outside oversight entities, but internally we need reports to show areas where we’re not doing as well so we can work on those areas.”

Much depends on the priorities of top leadership, say many Executives. Right now, the Executives are not sure how concerned the Obama administration is about financial statements, but they are certain that top careerists outside financial functions do not give the matter much thought. Says one Executive, “This will take a huge effort to complete, and I don’t see the commitment from the leadership across the department to make it happen. Too many

other priorities, and we haven’t yet shown the benefits to the warfighter. There is no forcing function to make this happen.”

About two-thirds of Executive and Workforce respondents seem content to keep funding levels for financial statements pretty much where they are now (as may be seen in Figure 15). In 2008, the cost to the entire Federal Government of preparing financial statements was estimated to be more than \$200 million a year. Several Executives said they had no real handle on how much it costs to produce their statements.

**Figure 15:**  
Should the amount of resources going to preparing audited financial statements change?



\*Includes only those who responded to this survey question.

\*\*This response was volunteered, not selected from the original multiple-choice question

## Looking ahead

It is clear that Defense financial professionals at all levels have been undergoing changes over the last few years. Also, they will spend much of the balance of 2009 adjusting to new political appointees and the agenda of a new administration. New military doctrine appears to be just over the horizon, and financial managers will need to adjust to it. What will these changes mean to them? To find out, we asked people in the survey to tell us what they think that they will be doing next year that is different from in the past.

The most frequent response from the Workforce was about ERPs: learning to work with ERPs, helping to implement them or re-engineering processes to align with the new systems. Next was “doing more with less,” a frequently repeated phrase that refers to expected budget cuts, increased compliance and accountability tasks, retiring employees and hiring freezes. Without a doubt, many financial personnel are expecting to be working longer hours. A summary of other responses from Executives and Workforce includes:

- **Audit.** Using greater levels of oversight on the financial statement preparation and audit schedule; tearing down barriers that prevent entities from achieving unqualified opinions.
- **Budget.** Trying to prioritize operational requirements, using only baseline funding, should there be no supplemental funding

“I expect to do more contingency planning for funds that will become available later and later in each fiscal year. My organization will have to become more agile in financial management (budget execution) to maintain the same level of support, with more uncertainty as to when funds will be available.”

– a Workforce respondent

for the GWOT; says one member of the Workforce, “Answering a lot of what-if drills if funding is decreased.”

- **Cost management.** Focusing on cost containment and budget decreases (“The skill set we have is in managing increases; now, we will need to go the other way,” says an Executive); conducting more cost analyses; trying to come up with creative/innovative ways to meet mission requirements with limited, dwindling resources.
- **Culture.** Developing a more cost-conscious culture versus execute-to-budget.
- **Customer relations.** Being less of a taskmaster for customers and more of a fixer.
- **Contractors.** Converting more contractor positions to civilian positions because of the push for insourcing; more oversight of contractors.
- **Internal control.** Doing more outreach to their customers to promote internal controls; implementing new internal controls.
- **Iraq and Afghanistan.** Trying to understand what is happening finance-wise in combat theaters of operations.
- **New administration.** Educating new political appointees on the role of financial management and audit.
- **Recovery.** Working to make information more transparent and visible; tracking and auditing construction projects receiving American Recovery and Reinvestment Act of 2009 funds; answering data calls on stimulus package spending and in general dealing with economic stimulus funding.
- **Training and development.** Developing or participating in training, including online training and certifications such as CDFM; broadening personal skill sets, to include budgeting, procurement or other nonfinancial management areas; developing a succession model; extensive coaching, mentoring, training and developing the leaders of tomorrow.

## Conclusion

**After reading the responses of all 1,642 survey participants, one comes away sensing that the Defense financial community wants to be more than it is now. They understand that change is coming and that it can be good for them and their profession. Unlike in years past, they are less likely to oppose this change. Along with skepticism about some well-meaning but unevenly executed financial and business initiatives, they offer clear suggestions about how to make the efforts better. A few simply gripe and complain, but many more offer healthy and professional criticism—they want change to succeed.**

At the same time, the Defense community as a whole—indeed, all of the Federal Government—seems poised for change. This change is being brought about by an economy in crisis, shifting threats, evolving military doctrine, new technology and many other factors. No one is certain of what is going to happen in the future, but the respondents to this survey want to be ready for it. They are clear about the deficiencies within the financial community, but are eager to shore up shortcomings with new technology and more training and development.

Deeper understanding and thus stronger commitment from top leaders outside of the financial management community would accelerate the progress of change, especially in ERPs, and of obtaining an unqualified opinion on the Defense annual audited financial statements. Unfortunately, say survey Executives, neither ERPs nor audit opinions are priorities in the Defense community as a whole, because most leaders do not see the link to supporting warfighters.

Defense financial executives need to do a better job of convincing leadership that, between every budget and battle, there must be excellent resource management. The United States is the world's superpower in part because we can afford to be. To maintain that position, Defense must squeeze every bit of value out of every dollar—and financial professionals are there to make that happen.



## Additional Information

**If you would like more copies of this survey or an opportunity to hear more about its findings, please contact ASMC or Grant Thornton at the addresses below. We will be pleased to discuss the possibility of providing your organization with a briefing or presentation of survey results at a conference or seminar.**

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## Acknowledgments

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