Navigating Through Uncertainty
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Financial management in uncertain times
As we conduct our 2013 survey, the fiscal landscape and health of the United States remain in a state of uncertainty. Our 2012 survey spoke to the impending budget issues; now that we are 12 months down that road, the Defense financial community is contemplating how to navigate forward. The Fiscal Year (FY) 2013 President’s budget anticipated outlays of more than $3.6 trillion and a deficit of more than $970 billion, or 6% of the Gross Domestic Product (GDP). As a result of the sequestration, the Department of Defense (DoD) must reduce spending by nearly $41 billion, approximately 6.5%, from the FY 2013 appropriations. In addition, the federal government and DoD operated under continuing resolutions for the first two fiscal quarters of FY 2013. These compounded reductions have further slowed the budget planning process heading into next year.

Through in-person interviews with executives and on-line surveys of managers, we find that 94% of respondents believe that the challenges facing the financial management (FM) community in FY 2013 are more daunting than in previous years. Sixty-five percent of those respondents indicate that they are experiencing more challenges than they have ever faced. When asked if these challenges are the same or similar to those problems experienced in the past, the overwhelming response of the managers was “no.”

DoD is planning and executing spending reductions and planning furloughs of civilian personnel across all levels of the workforce for later this fiscal year. With few exceptions, DoD will make these reductions across all programs and funds without discretionary application. In these uncertain times, managers, senior leaders, and civilian political appointees are all looking for guidance and trying to steer their organizations to practical solutions. The respondents to this survey voice concerns over the continuing effects of these reductions on the budget cycles beyond FY 2013. This year’s survey focuses on the current fiscal concerns and the tools, techniques, initiatives, and workforce with which DoD leadership will navigate the Department through this perfect storm of circumstances.
Financial management tools and strategy
In an effort to achieve efficiency, DoD has invested in information technology (IT) infrastructures. The return on these investments has been less than expected for the financial management workforce because it has added various complexities to the job and increased the workload for employees. Managers and executives believe that a new strategy must be implemented, one focused on cost and performance.

Cost and performance
The challenges of fiscal uncertainty, morale, and audit readiness are the result of the secondary and tertiary effects of “salami slicing” the budget, that is, cutting activities without regard for priority. Defense organizations indicate that they need to make these key cost decisions rather than respond to externally mandated across-the-board reductions. Moreover, respondents want to have a better understanding of which costs matter and which costs do not.

Audit and audit readiness
Respondents believe that “doing more with less,” while not advisable, can be manageable in the right circumstances. A strong emphasis on internal controls and a better understanding of true costs can help Defense organizations “weather the storm.” Executives and managers agree that auditability could achieve the required savings to meet spending goals.

Acquisition and financial management
In today’s environment, customers have less choice in determining acquisition strategy. The cost savings achieved from staff augmentation and contract support are limited because of this fact. Respondents want to see more focus directed toward the elimination of redundancy and less support for initiatives that do not impact mission readiness.
Financial management workforce
The loss of staff and institutional knowledge among Defense organizations has created problems. Organizations are facing the unrealistic expectations of sustaining operational tempo with less capital and fewer resources.

Top concerns
Both managers and executives are focusing on three main challenges: fiscal uncertainty, morale of the workforce, and audit readiness. All of these are related and key business drivers to one another. Of the three challenges, the disparity in audit readiness is the most prevalent. Executives are not confident that their organizations will be ready for audit.
This is the 11th year that the American Society of Military Comptrollers (ASMC) and Grant Thornton LLP have sponsored an annual survey of the Defense community executives and staff on their opinions of trends, events, and prospects in financial management. The Defense community includes the seven Armed Services and other DoD agencies and field operating activities. The “executives” in this survey are the 35 Defense financial leaders interviewed in-person by Grant Thornton partners and senior leaders. The “managers” are the 1,006 Defense financial professionals who responded to an online survey of the ASMC membership. This year’s response totaled a 40% increase as compared to FY 2012 – the highest response rate achieved in the past three years.

**Survey respondent profile**

Figure 1 shows the distribution by organization of the 1,006 on-line survey respondents.

Of the respondents who provided background information, 98% were ASMC members, including 6% active duty uniformed personnel, 89% defense civilian employees, 1% retirees, and 4% other (primarily academics and employees of private sector companies). Of the active duty respondents, 58% were officers and 42% were enlisted personnel. Sixty-seven percent of the civilian respondents were GS-12 or above and 33% were GS-11 or below. Figure 2 shows the grade levels of the defense civilian employee respondents.
Grant Thornton used an interview guide/questionnaire to conduct one-on-one in-person interviews with the Defense uniformed and civilian financial executives. The respondents represent the highest echelon of financial professionals in the Defense Department and the U.S. Coast Guard.

For copies of the in-person and the on-line questionnaires, please go to www.grantthornton.com/publicsector and click on “public sector publications.”

**Confidentiality**

This report reflects the responses and opinions of the survey respondents to the maximum extent possible. However, to encourage frank responses, we preserve anonymity and do not attribute responses to specific individuals. We do not share names and affiliations with anyone outside of the Grant Thornton research team.
The fiscal landscape and health of the United States remain in a state of uncertainty and concern for this year’s survey. Our 2012 survey spoke to the impending budget issues at that time, and now that we are 12 months down that road, the Defense financial community is determining how to navigate forward in dealing with the sequestration of appropriations. The Fiscal Year (FY) 2013 budget anticipated outlays of more than $3.6 trillion and a deficit more than $970 billion or 6% of the Gross Domestic Product (GDP). As a result of the sequestration, the DoD must reduce spending by nearly $41 billion, approximately 6.5%, from the FY 2013 appropriated levels. The federal government and DoD have operated under continuing resolutions for the first two fiscal quarters of FY 2013. This has had the effect of further slowing the budget planning process heading into the next year.

The 2012 survey challenged the FM community to step up and shine. In the face of impending budget cuts and reductions, financial managers articulated concerns about the uncertainty.

Key focal points during the 2012 survey were strategy, process, structure, culture, and people. Some of the challenges identified in our 2012 survey were:

- Preparing to complete and defend the FY 2013 budget
- Updating the financial compliance standards, implementing new enterprise-wide systems, and understanding budget cuts, while still achieving auditability
- Achieving the proper alignments of people, processes, and functions, with cross-functional integration of programmers and budgeteers
- Changing the mindset of executives and managers, while keeping them focused, engaged, and accountable
- Recruiting and retaining talented people with the right skills in the right places

Introduction
When the 2012 report was prepared, the expectations and effects of sequestration were unknown. It is now the third fiscal quarter of 2013, and a large number of questions remain unanswered. The FY 2014 budget has been presented to the U.S. Congress by the President, and in the current version, it does not account for the effects of sequestration. There is the potential that the budget will have to be reduced by another $40 billion if the relief expected from sequestration does not materialize.

Departments and agencies are still determining how to navigate current requirements and reductions to be made by September 30, 2013. Furloughs have been planned for and announced, and agencies are trying to find ways to mitigate or eliminate them. Operations and maintenance budgets within DoD are under pressure because they must bear more of the brunt of sequestration than the military personnel funds. The FM workforce is stressed and stretched thin, and morale is falling.

In one year, the uncertainties have compounded and the line on the horizon seems farther away than ever. With the opinions derived from respondents to this survey, we hope to shed light on how Defense FM leaders might move forward in these uncertain times.

Figure 3: How do you rate the number of challenges facing the FM community in 2013?

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Less Challenges</th>
<th>Slightly Fewer</th>
<th>About the Same</th>
<th>Slightly More</th>
<th>Most Challenges</th>
<th>Not Applicable/Don’t Know</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.3%</td>
<td>28.1%</td>
<td>65.6%</td>
<td>0.0%</td>
<td>32</td>
</tr>
<tr>
<td>Managers</td>
<td>0.0%</td>
<td>0.4%</td>
<td>4.8%</td>
<td>29.7%</td>
<td>64.1%</td>
<td>1.1%</td>
<td>1005</td>
</tr>
</tbody>
</table>
Financial management tools and strategy

“The new Enterprise Business Accountability System is a good tool, but it is year one and it will take time before the cost becomes a reality.”

One of the leading strategies to reduce costs and increase workforce utilization has been information technology (IT) investment. In an effort to improve efficiency and achieve auditability, many organizations within the Defense community have invested in different Enterprise Resource Planning (ERP) systems. For example, the Army uses the General Fund Enterprise Business System (GFEBS), the Air Force uses the Defense Enterprise Accounting and Management System (DEAMS), and the Navy uses the Navy ERP system. Other systems exist throughout the Defense agencies and related Defense activities. Throughout the survey, a common theme was the frustration that managers had with these systems and investments. Of particular concern, these systems have created increased workloads and large data sets that are difficult to analyze, thereby exacerbating workload issues. Meanwhile, executives acknowledge that these systems provide challenges but also less critical feedback and are focused on the long-term strategy and end state. Clearly, there is a disconnect between those who must work daily with these new systems and those who are in leadership positions.

The IT investment intended to achieve cost savings in the near term appears less important to respondents because of the current fiscal climate. Most respondents have greater concern for the existing challenges, but still seek focus for long-term solutions. Executives agree that strategies must be in place to cut budget, but they acknowledge that the current strategies are not effective. Many believe that a more focused emphasis must be placed on risk and program management, along with a redirected strategy to support the customer. Meanwhile, managers feel that additional efficiencies can be
achieved by reducing wasteful spending and redundancy throughout the Defense community. Yet executives and managers indicate that their organizations are only somewhat capable of implementing these strategies.

Outside of the IT strategy, a majority of respondents disagree with the implementation of cost-cutting strategies that affect the contract environment. The idea of “doing more with less” has resulted in a low return on investment for agencies procuring services. With only some capability (between 42-45%) to implement these strategies, there is a high degree of dissatisfaction with contract acquisition. One respondent opined, “All of

DoD has gone to Technically Qualified Low Cost, and this has been a major issue. It results in poor value management, risk management, past performance, performance management, and healthcare and administrative support.”

When asked about the most important strategy in identifying where to make budget reductions, three answers from the managers yielded more than 77% of all the responses. These three answers were:

1 – Better analysis of alternatives before decisions are made
2 – Greater focus on long-term strategies
3 – Elimination of low-priority offices and programs.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>No Capability</th>
<th>Somewhat Incapable</th>
<th>Neutral</th>
<th>Some Capability</th>
<th>Excellent Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td>6.1%</td>
<td>12.1%</td>
<td>24.2%</td>
<td>42.4%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Managers</td>
<td>6.8%</td>
<td>14.2%</td>
<td>22.1%</td>
<td>45.2%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>
According to survey respondents, the emphasis on cost management is a significant component to dealing with current budget cuts. Fifty-four percent of managers believe this is effective, and 38% think it is realistic. However, some managers have difficulty defining what those “true costs” really are and whether the management of those costs will be implemented effectively. This remains a continual concern for all. On the other hand, the lack of transparency and inability to identify “true costs” associated with different Defense organizations results in blanket cutting across the board. According to one executive, “We will continue old habits of ‘salami slicing’ rather than doing the hard analysis and cutting programs as we get hit with continued budget reductions.” Everyone is feeling the pain, and no service or Defense agency is exempt. However, specific components within the services are protected. For example, uniformed personnel forward-deployed in Afghanistan, along with specific intelligence assets, are protected from these cuts in order to maintain a consistent state of national security during this ongoing time of war. The long-term effects of these cuts will come to fruition, though, as the United States transitions from combat to peacetime. The cuts to training and resources will drastically affect the readiness of our national mission forces that are activated for contingencies.

Managers and executives remain relatively neutral about establishing and evaluating performance metrics. Many managers have the opinion that these metrics are easily manipulated and inaccurate, while
others agree that metrics can provide a good path for improvement in measuring budget cuts. Managers strongly emphasize that improvements in internal controls would be a more effective strategy. The focus on streamlining and maintaining these controls would better facilitate cost management and audit readiness, as opposed to developing performance measures that are not aligned with the current state of the Defense community and its environment of uncertainty.

Figure 5: Focus on determining true costs as a way of dealing with budget cuts.
Audit readiness and audits

**Achieving the FY 2014 deadline**
Achieving auditability continues to be a hot topic within the FM community this year. The current departmental goal is to achieve audit readiness of the Statement of Budgetary Resources by FY 2014. Currently, DoD agencies are implementing the guidance set forth by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), in the Financial Improvement and Audit Readiness (FIAR) Plan. The survey polled respondents concerning their potential readiness and the impact on those efforts by the current budget environment and potential furloughs. The survey discussed internal controls over financial reporting and IT, as well as areas of difficulty—or pain points—and change champions to lead the way.

Of the executives polled, more than 61% responded that they had some level of confidence that their organizations would meet the 2014 deadline, as compared to nearly 13% who had little or no confidence in achieving this goal. When polled about their parent organizations, the executives’ confidence in those organizations dropped more than 29 percentage points, and the number of respondents having little or no confidence rose by more than 32 percentage points.

Managers’ responses were generally consistent with those of the executives in that they believed this goal would be met, but nearly one-quarter of the respondents had little or no confidence in their organizations meeting this goal. Taking the parent organization’s readiness into account and its ability to meet the 2014 goal, the overall confidence of the managers changed nominally.

Thus, senior management is more optimistic of their own organizations, but less so when evaluating the likelihood of success of their parent entities. Notably, the managers who are identifying the controls and creating the documentation needed to support the FIAR implementation appear much more confident in the Department’s potential success.

When we polled managers about useful activities undertaken to achieve audit readiness, they said that targeted training, communication from
organizational leads, instructions and guidance, and assessments performed by management appeared to be most successful.

Passions run deep on this topic for both executives and managers. The dialogue around the FIAR Plan and the current financial audits with DoD were mentioned repeatedly, and these comments varied widely. Most respondents saw the FIAR Plan as a hindrance, but the feeling on the financial audits was more varied. Questions abound as to the agencies that are achieving audit success. Why were these agencies successful? Is leadership looking to those agencies to leverage their successes and learn from their failures? Are they talking to them at all?

Respondents articulated two primary concerns. The first is that the burden on the workforce caused by the current fiscal situation of “doing more with less” has a detrimental effect on the efforts and progress being made to date. The morale of the workforce at all levels appears to be lower than in previous surveys. This is hardly surprising, because there have been hiring freezes, few or no pay raises, and vacancies remaining unfilled. Now there is the added fear of furloughs and having less time to accomplish the mission. The concern is that progress and momentum will be lost, there will be less time to do all that needs to be accomplished, and this will ultimately prolong the process.

“... the goal posts keep moving as to what determines auditability and/or audit ready.”

Figure 6: How confident are you that your organization will be ready to meet the 2014 deadline for auditability?

<table>
<thead>
<tr>
<th></th>
<th>No Confidence</th>
<th>Very Little Confidence</th>
<th>Neutral</th>
<th>Confidence</th>
<th>High Confidence</th>
<th>Does Not Apply</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Org Audit Readiness Confidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives</td>
<td>3.2%</td>
<td>9.7%</td>
<td>22.6%</td>
<td>38.7%</td>
<td>22.6%</td>
<td>3.2%</td>
<td>31</td>
</tr>
<tr>
<td>Managers</td>
<td>5.3%</td>
<td>18.0%</td>
<td>18.1%</td>
<td>37.9%</td>
<td>17.9%</td>
<td>2.7%</td>
<td>1003</td>
</tr>
</tbody>
</table>

Figure 7: How confident are you that your parent organization will be ready to meet the 2014 deadline for auditability?

<table>
<thead>
<tr>
<th></th>
<th>No Confidence</th>
<th>Very Little Confidence</th>
<th>Neutral</th>
<th>Confidence</th>
<th>High Confidence</th>
<th>Does Not Apply</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Audit Readiness Confidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives</td>
<td>22.6%</td>
<td>22.6%</td>
<td>22.6%</td>
<td>29.0%</td>
<td>3.2%</td>
<td>0.0%</td>
<td>31</td>
</tr>
<tr>
<td>Managers</td>
<td>6.1%</td>
<td>19.5%</td>
<td>23.6%</td>
<td>33.7%</td>
<td>14.0%</td>
<td>3.2%</td>
<td>1001</td>
</tr>
</tbody>
</table>
The second concern just adds to the first, and that is the continually changing requirements coming forth in the FIAR guidance.

Managers’ comments often mentioned the FIAR Plan, which they widely criticized. The respondents touched on the theme that, while they expect the guidance to be modified and improved throughout the process, there is an overwhelming feeling that the changes are too numerous and disparate to follow. They will be challenged to respond effectively in the time provided and with the already constrained resources supporting the effort.

Additionally, respondents feel that new system implementations are a complicating factor. The need for continuous communication remains critical, and focused and engaged involvement from senior leadership would be helpful in mitigating the risks of drop-off or regression of the progress made to date. Some of the more significant challenges include systems implementations, lack of interfaces for legacy systems, cutbacks in training coupled with the lack of understanding of the process and objectives, and lack of supporting documentation. The size of the entities adds to the complexities, as the larger and more intricate the entity, the more disparate the controls and systems. These data points may make deadlines difficult to achieve for some business units.
Figure 8: What activities have been most useful for you in your quest for audit readiness?

- Audit readiness related training: 45.8%
- Organizational lead discussions, instructions, and/or guidance on audit readiness related to my assigned areas: 44.3%
- Vendor/contractor lead discussions, and/or guidance on audit readiness related to my assigned areas: 5.8%
- Audit readiness assessments performed by organization’s management: 30%
- Audit readiness assessments performed by vendor/contractor: 8.4%
- Messages sent from organization’s leadership in support of the process: 24.1%
- Cooperation from organizations that have an impact on our financial statements but are outside the organization’s financial management office (procurement systems, etc.): 14.3%
- Other: 8%

Figure 9: What are the principal roadblocks to your organization in achieving audit readiness?

- Financial management systems: 33.9%
- Leadership support: 10.5%
- Undocumented processes: 35.8%
- Complex assessable units: 14.3%
- Lack of training: 26.3%
- Lack of controls: 15.3%
- Cooperation from other organizations: 20.6%
- All others: 46.3%
The two largest roadblocks to achieving audit readiness are undocumented business or control processes and financial management systems. The audit readiness of assessable units appears to be challenging because of the size of the organizations, complexity of processes and systems, and overall volume of transactions flowing through those systems. In addition, reimbursable orders and intragovernmental transactions are deemed by many respondents to be of concern. Financial professionals want more discretion and control over the reimbursable processes and procedures within their organizations.

Respondents believe the most difficult processes or assessable units are reimbursable work orders, vendor pay, contract pay, travel, supply, property, and contract closeouts.

**Comfort level with internal controls**

Managers indicate a higher level of comfort with internal controls over financial reporting for IT than the executives: 58% as compared to 50%, respectively. The most significant challenge according to respondents is overcoming the fact that these Defense-level systems are not controlled by their customers, and they cannot effect changes within the related systems and processes. In addition, a large number of these systems are not compliant with the Federal Information System Controls Audit Manual (FISCAM) and have yet to be subjected to audit or review procedures. For the larger components, pulling transaction universes for testing procedures remains a hurdle. The antiquated legacy systems need to be replaced or targeted for transition to more integrated solutions.

![Figure 10: What internal controls over financial reporting deficiencies are affecting your organization's ability to become audit ready?](image)
We asked executives and managers how improving financial processes could improve efficiencies and how effective and realistic these improvements would be. Nearly two-thirds of respondents believe it could be an effective means to improvement, and more than half say it is a realistic means to change. The responses to this question are consistent. Throughout DoD, the consensus is that financial process improvements, coupled with service provider-level reforms, could effect significant change. These improvements would need to include all of the business processes and controls that feed into the financial systems, and ultimately the financial statements. Moreover, standardization of business practices across agencies and services, where practical and cost effective, could yield additional benefits. However, in the current environment, change has been reactive rather than proactive.

Executives and managers agree that auditability could achieve the required savings to realize the spending goals. However, the executives are less confident of this than managers.

**Impact of budget cuts on audit readiness**

All respondents perceive that the impact of the impending budget cuts will also adversely impact their respective organizational audit readiness. More than two-thirds of managers say their organizations would be affected. Many feel that the additional time needed to accomplish the FIAR implementation and continued audit readiness would now be compromised.

Others point to the more pressing issue posed by the cuts: the potential impairment of military operational readiness. During a recent ASMC-Association of Government Accountants (AGA) event, the Honorable Robert Hale, Under Secretary of Defense, spoke on the sequestration and its impact on the DoD. Mr. Hale discussed how Department cuts in training and certifications, maintenance, and other acquisitions would result in a damaged state of operational readiness.

Executives have concerns but are not clear on the impact of the cuts. They also say that furloughs and cuts would directly impact their staffs and the success of the overall efforts. If furloughs were to occur, activities would slow. No work would be done after hours and/or on off-days because of the restrictions that are expected.
Acquisition and financial management

Agencies have indicated that they would like discretion in determining the reductions to programs and identifying redundancies in acquisitions that might be reduced or eliminated.

Seventy-four percent of executives indicate that they interface with the acquisition managers on a regular or frequent basis. Conversely, managers report very different results, noting that 42% of them have very little to no interaction with the acquisition managers. The executives note that 51% of their respective acquisition communities participate in the budget development, as compared to the managers, who report 32% participation. Based upon these results, this appears to be a potential area for improvement. The acquisition community has the knowledge and experience in working with the vendors and manufacturers. Thus, they understand the challenges and pitfalls presented in making the types of complex procurements for DoD and the Armed Services, which have larger dollar values and require longer lead times to procure.

These acquisition managers are participating in requirements definitions and validations and the Program Objective Memorandum processes. These FM executives and managers also indicate that 28% discuss acquisition program performance with their acquisition managers during the execution year. This is an area where significant and meaningful improvement might be possible. Executives note that changes have begun in some of their organizations as to how proposals are evaluated as well as the types of contracts used. Program and acquisition personnel are scrutinizing service contracts more closely and using more firm fixed price contract vehicles. However, 44% of managers do not know what steps their agencies are undertaking in acquisition management. Executives indicate concerns over the growing pressures to accept the cheapest price point rather than the best technical fit.

Executives feel that focusing on efficiencies in how goods and services are obtained would be an effective means. However, they are not as confident in how realistic this measure would be to achieve the desired end. Surprisingly, many respondents are neutral as to the effectiveness and realism of focusing on efficiencies.

<table>
<thead>
<tr>
<th>Acquisition Interface</th>
<th>Never</th>
<th>Very Little</th>
<th>Neutral</th>
<th>Regularly</th>
<th>Frequently</th>
<th>Does Not Apply</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td>6.1%</td>
<td>18.2%</td>
<td>15.2%</td>
<td>33.3%</td>
<td>18.2%</td>
<td>9.1%</td>
<td>33</td>
</tr>
<tr>
<td>Managers</td>
<td>6.3%</td>
<td>16.2%</td>
<td>23.0%</td>
<td>17.8%</td>
<td>14.4%</td>
<td>25.4%</td>
<td>989</td>
</tr>
</tbody>
</table>

Figure 12: To what extent does your acquisition community participate in budget development?
Executives and managers are taking measures to limit obligations. The periods of performance for service contracts being awarded with current-year funding are ending on September 30, 2013, rather than carrying beyond fiscal year-end. In addition, contracting offices are looking to reduce and/or consolidate redundant services and to combine contracts awarded to the same vendor. The acquisition community is also balancing the needs of the longer-term research and development contracts against these considerations.

When we asked managers about focusing on acquisition efficiencies, they were as confident as executives in the effectiveness, but a greater percentage—more than half of respondents—felt this could be realistic. Thus, the personnel who would be tasked with carrying out this initiative have more confidence in it. Making better choices as to what is purchased, coupled with a concerted effort to share resources and supplies, could prove beneficial. A significant majority of managers note that their agencies are placing emphasis on cost awareness and management, and they believe their agencies are capable of executing this strategy to recognize savings as well.

“... People need to become more creative and not give up. Find ways of making it happen and not complain about it. It is here and we all must deal with it.”
Financial management workforce

How are the current events affecting the FM personnel within your organization?

The effects of pay and hiring freezes are significant. These measures have been ongoing for several years now and, as a result, workforce morale has fallen. Executives respond that they are losing staff and they are unable to back-fill the positions. In addition to the lost knowledge base, this translates to more work for the remaining workforce, and the pressures will only multiply if planned furloughs occur. Under the current plans, FM personnel would not be allowed to perform any work-related functions on their designated furlough dates.

Uniformed personnel will not be furloughed, yet the overall reductions must be met. As a result, a disproportionate amount of spending reductions needs to come from other programs or accounts, which translates to reducing costs related to the civilian workforce.

Managers also note the impact of pay and hiring freezes. They note concerns about work quality decreasing as worker commitment is compromised and concerns over reductions in force as well. These issues serve only to make the workforce psyche more fragile.

Currently, the most experienced generation of the workforce, the “Baby Boomers” or the post-World War II generation, are retiring at increasing rates. While the impact is felt at a moderate rate, concerns among executives are evident. This factor contributes to a potentially significant loss of institutional knowledge throughout all organizations. Knowledge transfer becomes more important as a result of this possibility, and has a direct relationship to the development of documentation to support audit readiness efforts. Emphasis on this risk will ensure that historical events, knowledge, and workarounds are not lost.

According to executives surveyed, early returns on the changes in the FM career continuum have been positive. We asked executives what they are doing to prepare their workforces for the “new normal” of dealing with decreasing resources. Executives place emphasis on continuous and open communication, collaboration, and leadership. Cross-training and education are focal points despite cuts to training budgets. Additionally, employee retention is a concern to executive leadership throughout the Defense FM community.

Figure 12: Rate the effect of pay and hiring freezes on your FM organization

<table>
<thead>
<tr>
<th>Effect of organization</th>
<th>Significant effect</th>
<th>Effect</th>
<th>Neutral</th>
<th>Little Effect</th>
<th>No Effect</th>
<th>Does Not Apply</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>39.0%</td>
<td>33.4%</td>
<td>9.3%</td>
<td>12.8%</td>
<td>3.1%</td>
<td>2.4%</td>
<td>998</td>
</tr>
</tbody>
</table>
Managers are not as enthusiastic about the new FM continuum, with the majority reacting negatively or indicating they do not know enough yet. Managers indicate that just over half of their organizations have undertaken steps to try to prepare the workforce for decreasing resources. About a third of managers note that their organizations have done little to nothing to prepare them for the “new normal.”

Training is a hot topic with the managers this year. With training budgets being slashed, those who need training the most will not receive it, and the skills and proficiencies of other personnel will not be maintained.

Job satisfaction
The job satisfaction ratings of managers changed nominally this year as compared to the FY 2012 survey, but the executives’ ratings changed significantly. In the FY 2012 survey, 86% of executives responded that they “enjoyed their job a lot.” This year, only 53% of executives report this level of satisfaction. This change could be interpreted as a reaction to the current fiscal situation and the related strain on the FM workforce.
Top concerns

*What are the top challenges that will require the most focus on your part?*

1. Fiscal Uncertainty  
2. Morale of the Workforce  
3. Audit Readiness

Managers and executives agree that the Defense market is facing challenges that have never been seen before. Even though a small percentage believes that these challenges are about the same, the consensus is that the magnitude of these challenges is greater than ever before—a so-called perfect storm.

The top concerns of managers and executives directly relate to the fiscal uncertainty of the Defense environment. Sequestration, continuing resolutions, and potential furloughs are top-of-mind. This ties directly into the executives’ other main concern, which is employee morale. Executives stress that communication is key. Open and honest discussions around what is known has helped mitigate the declining resources environment. Since most of the workforce has never had to deal with decreasing resources, honest communication about the facts has helped prepare the workforce for the “new normal.”

![Figure 15: How do you rate the number of challenges facing the FM community in 2013?](chart)
Both managers and executives are concerned with auditability, with 34% of managers and 29% of executives remaining confident. However, 23% of executives have no confidence that their organization will be ready for an audit on time. Again, the consistent preparation and focus around audit readiness places added pressure on the workforce. Meanwhile, only 3% of the executives are highly confident that their organizations will be ready. The greater question is whether Defense stakeholders should focus on audit readiness or whether audits should just be conducted? Managers feel that preparation can only do so much. Many respondents express the opinion that preparations for audit need to end, and independent audits must be done in order to move forward. Addressing those deficiencies already identified would be a step in the right direction to implement corrective action and achieve organizational compliance in the long run. Undergoing the stress and rigor of an audit will yield findings that will provide the roadmap to remediation, mitigation of compliance risks, and even potential cost savings.

The final question in this year’s survey asked how financial organizations might focus their already limited resources over the remainder of this fiscal year and through the next. The top concern is that without better guidance and consistency on implementing these budget cuts from the Office of Management and Budget (OMB) and ultimately the U.S. Congress, the FM community will be treading water. Leaders are already trying to determine how to comply with the current requirements by September 30, 2013; they still need to deal with requirements for the next fiscal year or two beyond. Establishing real financial priorities and creative cost-saving measures that do not compromise the achievement of core missions continues to be challenging and an area of focus.

**Figure 16: How confident are you that your organization will be ready to meet the 2015 deadline for auditability?**

<table>
<thead>
<tr>
<th>Confidence Level</th>
<th>Managers</th>
<th>Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>High confidence</td>
<td>14.0%</td>
<td>33.7%</td>
</tr>
<tr>
<td>Confidence</td>
<td>3.2%</td>
<td>29.0%</td>
</tr>
<tr>
<td>Neutral</td>
<td>23.6%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Very little confidence</td>
<td>19.5%</td>
<td>22.6%</td>
</tr>
<tr>
<td>No confidence</td>
<td>6.1%</td>
<td>22.6%</td>
</tr>
</tbody>
</table>

Managers Executives
Navigating the uncertainties

If there is one thing that is certain this fiscal year, it is the uncertainty and the questions that remain unanswered. How do we get to what’s next?

Senior executives and managers from across the Defense community are clamoring for leadership, guidance, and consistency from the institutions of government that oversee the federal budget. In its implementation, sequestration requires significant cuts to budgets without the discretion, judgment, and choices that agencies would otherwise employ in determining where to cut while still maintaining organizational effectiveness. OMB relies on the agencies to prioritize their missions, yet the current requirements offer little to no flexibility as to implementation. Anticipated spending levels are already lower because of the nearly six months of operations under continuing resolutions. With programs and missions scheduled to have across-the-board cuts, how can senior leadership lessen the blow to the workforce’s ability to accomplish missions and maintain readiness? How will the potentially disparate proportion of these cuts affect the civilian side of DoD? Can capabilities be scaled to still provide core missions?

To complicate matters further, workforce morale is dropping. The in-person executive interviews reveal unequivocally that senior DoD leadership is aware of the effect of all of this uncertainty on the psyche of the workforce. Over the past few years, there have been hiring freezes, few to no increases in salary, and now some agencies are not able to back-fill vacancies arising from retirements, separations, and transfers. Leadership is reducing training budgets across DoD, and the impacts go beyond the financial community. As survey responses reveal, the desire for leadership and guidance has not ceased, it has only increased. When times are tough and retention is critical to maintaining current tempo, how will leadership guide an already strained workforce? How do we improve existing skills? With the looming possibility of furloughs, how do financial professionals do even more with even less?

DoD sent out notices of 22 furlough days to the civilian workforce. At this writing that number has been reduced to 11 days. While fewer days of furlough are obviously preferable, changes like this only serve to increase anxiety in the workforce, generate uncertainty, and undermine the morale of DoD financial managers. How will the progress made through audits and audit readiness efforts be sustained with fewer workdays? Will there be a regression from this progress and/or related remediation efforts?

The continual contingency planning for operations is stressful enough on the workforce. Even as this report is being written, the Office of the Secretary of Defense continues to examine the need for furloughs and whether further reduction or elimination is feasible. At this point, the effect on the workforce goes beyond simply worrying about the mission; now the furlough has the added pressure of personal financial losses. Baby-boomers are retiring at higher rates with each passing year. Coupled with the current fiscal environment, we can only wonder how recruitment of new personnel will be impacted.

We are now in the third fiscal quarter of FY 2013, and sequestration has yet to take full effect. Challenges and shortfalls remain. How will this impact cascade into FY 2014 and beyond?

Now that this perfect storm of events has landed, how will we all step up to lead and navigate the Defense financial community forward and through to the other side?
Additional Information
To request additional copies of this survey or an opportunity to hear more about its findings, please contact ASMC or Grant Thornton at the addresses below. We would 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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