Department of the Navy

Business Transformation: The Road to a "Clean" Opinion

How the DON plans to sustain operational excellence while maintaining fiscal accountability

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The Department of the Navy (DON), with its Navy/Marine Corps Team, is the best maritime warfighting machine in the world. Is it a world-class organization? Absolutely! Is it a business? Depends on whom you ask, but most within the DON team probably would agree that we are not a business, while acknowledging that many aspects of our operations should operate in a business-like manner. That's exactly what the Chief Financial Officers (CFO) Act of 1990 had in mind.

Our challenge is to sustain operational excellence that translates into mission accomplishment, while also maintaining fiscal accountability. Success will ultimately be measured by an acceptable audit opinion on DON financial statements. So how is the Department of the Navy approaching this challenge, and why is this so hard?

Looking Back and Learning Lessons

Looking back over the past 15 years, we've gone through three relatively discernable stages: the formative years, the systems approach, and the "heroic" effort.

The Formative Years

During much of the 1990s, we made the incorrect assumption that if we engaged in a financial audit, identified what was wrong, and fixed the discrepancies, this would result in a "clean" opinion. Unfortunately, that assumption reflected our limited understanding of the audit requirements and the scope of our business environment deficiencies. We further ensured a lack of success by focusing the responsibility on the financial management community. The financial information that appears on the statements or reports comes from our operations—not just from the comptroller.

The Systems Approach

The Department of Defense (DoD) formally acknowledged the need for a more modern, integrated systems environment when it embarked on the Business Management Modernization Program (BMMP) (initially Financial Management Modernization Pro-

gram) effort in 2001. That effort was needed to establish a clear set of standards as well as to address a major shortcoming—our disparate financial feeder systems. The Navy had already embarked on pilot efforts to improve its systems environment when we launched several enterprise resource planning (ERP) pilots in the 1999-2001 time frame. The ERPs represented a step in the right direction, but they touched only small pieces of our massive enterprise and represent a long-term investment.

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The "Heroic" Effort—A Full Frontal Attack

In 2003, with the encouragement of the Office of Management and Budget (OMB), DoD embarked on an effort to determine the scope and cost of achieving a clean opinion within very aggressive time constraints. This produced an increased awareness of the cost and scope of such an effort and initiated a more meaningful discussion of the basic business requirements.

As a result of progress made throughout these three stages, DoD and its components were able to make significant progress in the acceleration of financial reporting (that is, reducing end-of-year closing and reporting from four months to twenty-one days). There also was progress in the implementation of systems that allowed more standard processes for reporting. Even so, we still were far from a favorable audit opinion that would lend credibility to our efforts. Consequently, as we moved into fiscal year 2005, we reviewed the lessons learned from prior efforts and embarked on a new approach: Business Process Transformation.

A New Strategy Supported by a New Paradigm

The strategy is really not so new, but it often gets lost in the massive DoD organizations that, because of their size and complexity, often produce "stovepipe" thinking. The strategy recognizes that DoD/DON financial managers don't produce the numbers that appear on financial statements (both budgetary and proprietary). Rather, business operations are led by our business managers, who produce financial information from their operations—the people, processes, and systems that actually support and record our business. As a result, the focus must be on the business processes, not just the reports or accounting systems that collect the information.

Within the DON, we first introduced this thinking in testimony by the Honorable Richard Greco, Jr. (Assistant Secretary of the Navy (Financial Management and Comptroller)) before the Senate Armed Services Committee, Subcommittee on Readiness in November 2004. Since that time, we have refined elements of the strategy in the DON Financial Management Strategic Plan—Transforming Today to Win Tomorrow.

In essence, the strategy integrates four significant, ongoing initiatives under one umbrella that recognizes the synergy and inter-relationships among them. The four initiatives are the DoD Business Enterprise Architecture, the Navy Enterprise Resource Planning Program, the Functional Area Manager Process, and the DON Financial Improvement Program.

DoD Business Enterprise Architecture (BEA)

The BEA was a tool formerly within the BMMP and now is a federated approach being managed by the Defense Business Systems Management Committee using a new Business Transformation Agency. The BEA gives the DON a basic *Framework* through selected systems, standards, and business rules.

The Navy Enterprise Resource Planning (ERP) Program

The Navy ERP is our primary systems initiative that will comply with the BEA and establish a standard corporate business environment that will support reengineering our business processes. The Navy ERP serves as our *Cornerstone*.

The Functional Area Manager (FAM) Process

The FAM is the portfolio management methodology that will allow us to manage and, over time, to transition our myriad legacy systems into fewer and more compliant systems. It supports budget visibility and investment management decisions. Systems investment decisions will use the BEA and relationships with target systems such as the Navy ERP as the criteria for approval. The FAM process provides a tool to manage our *Transition*.

The DON Financial Improvement Program (FIP)

The FIP is our detailed plan that addresses the specific business process transformation elements of people, processes, and systems. These elements must change if we are to be able first to improve the quality of financial information and ultimately to prepare these processes for review and audit. The FIP is the service component of DoD's Financial Improvement and Audit Readiness effort and is dependent on the DON element of the DoD Enterprise Transition Plan that maps current systems into the future architecture. It provides our primary method of progress measurement and *Integration*.

Although each one of these initiatives is led by different organizations both within and outside the DON, alliances have been established that will support the success of the individual initiatives, as well as ensure goal congruency for financial reporting DoD-wide. Figure 1 (page 17) depicts some of these relationships.

Obtaining high-quality, timely, and accu-

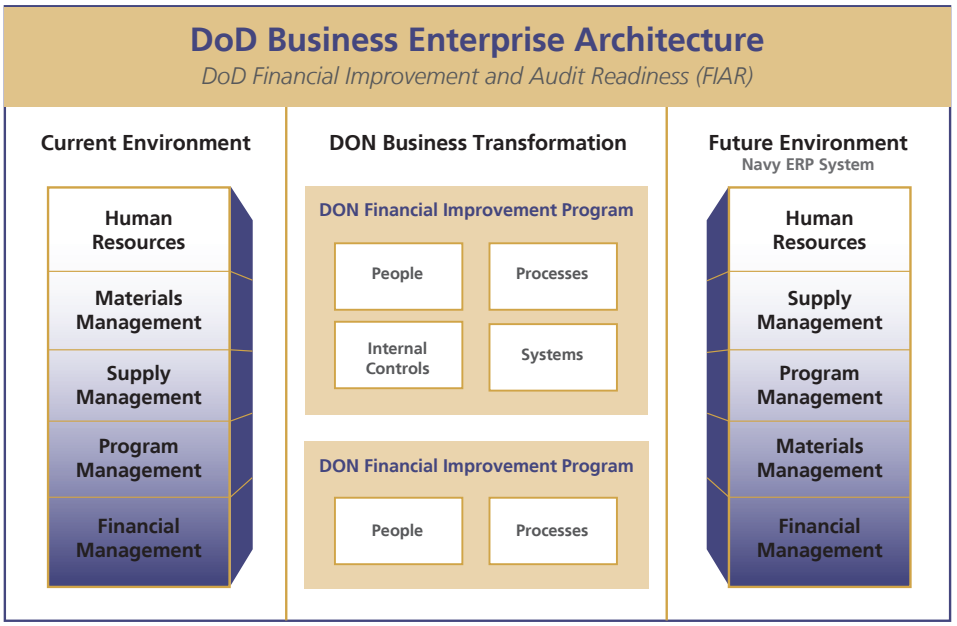

Figure 1. Department of the Navy Business Transformation

rate financial information to inform decision making is the real goal. The audit and ultimate compliance are the result or outcome of this new and much improved business environment. This is the paradigm shift.

So Why Do We Think This Will Work This Time? What's Changed?

Those are very good questions, and appropriate ones, given our lengthy track record of less than fully satisfactory results. The Government Accountability Office (GAO) has reported and testified that even the most well-intended of DoD's initiatives have fallen short because we have demonstrated difficulty in changing our deep-seated organizational culture. The GAO also has opined that the frequent turnover in DoD leadership has exacerbated the difficulty associated with long-term change management efforts.

Recently, however, the environment has changed—and several of these changes could work together to give DON the incentives to make this strategy work. First, there is an increased level of interest and understanding in key congressional committees that control DoD resources. Emphasized again and again are the relationships of better integrated, better controlled business processes to resource requirements, to quality of life issues (such as military pay), and to the quality of information used for warfighting decisions. Congressional expectations and attention levels will remain high.

Second, DON senior leadership is coming together with an increased understanding of what is at stake and what will be required. The DON audit committee is overseeing audit preparation efforts and, more importantly, tying these efforts to business process transformation and systems migration decisions. The Naval Audit Service is a partner in this effort to improve the control environment under our DON risk assessment and complementary management control program. Additionally, initiatives such as Lean Six Sigma have application to improving internal control.

Third, resource constraints have never been greater. If we are to provide resources to fight the Global War on Terrorism—while also recapitalizing our warfighting capability—we will need to get more out of our existing programs.

This is both the imperative and the value proposition that must be satisfied by our Business Process Transformation strategy. The Marine Corps is testing this value proposition using its pilot Financial Improvement Initiative.

The Bottom Line

As DON financial managers, we are committed to playing a key role in changing the culture of the Department for the better. To do so, we must transform ourselves from our traditional roles of technicians and gatekeepers to become partners and change agents. The new strategy places responsibility for improved financial information squarely where it belongs—on line managers who oversee and direct the business processes that produce our financial information and, more importantly, that support our critical warfighting mission. It is an enterprise-wide strategy that brings together the best of all functional disciplines.

This shouldn't be viewed as a transfer of workload; rather, it offers a new way of looking at how we do business. All managers must understand the need for and value of well-documented and well-controlled business processes. Beyond the theoretical, there is a growing need to put this understanding into practice on a daily basis. As financial managers, we have this responsibility directly for our own processes, as well as being partners and advisors to our colleagues in the operational elements of our business.

Bottom line: People, processes, and systems must all change. The associated change management effort will take time as each element of our strategy evolves and begins to provide the processes and systems to match the new thought process.

Will this take us to a clean audit opinion? It will, if we stay the course. But remember—the audit is not the goal. The value is in the improvement in financial information for decision making. Once recognized, this value will, in turn, sustain the strategy. Ultimately, the audit opinion will be the measure of success.

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