STRATEGY RESEARCH PROJECT

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STRATEGIC BEAN-COUNTING: POTENTIAL UNREALIZED IN DOD

BY

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ABSTRACT

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Key decision-makers in the Department of Defense fail to appreciate what commercial industry has known for some time; that accurate and timely financial information can create a strategic advantage. To create this strategic advantage, accounting, and the Planning, Programming, and Budgeting System (PPBS) must be treated as one interrelated financial management system.

Strategic plans consider financial management only from the perspective of trying to get the resources to carry out the strategy. Emphasis should be placed on using financial management as a way of evaluating which strategies will be most effective. If financial information were available for strategic decision-making, it could be used to strengthen the Army's request to Congress for resources by building a business case for transformation.

Efforts undertaken by the Rumsfeld administration to improve financial management are strategically flawed because they do not link changes in PPBS to the modernization of the accounting systems. Modernizing the accounting systems may improve the accuracy and timeliness of financial data, however it will not yield Rumsfeld's ultimate objective of "reliable, accurate and timely financial information upon which to make the most effective business decisions."[1]

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STRATEGIC BEAN-COUNTING: POTENTIAL UNREALIZED IN DOD

> The problems of this institution, and there are many, I don't think come from problems of individuals. They come from the decision-making structure in which people frequently find themselves trapped.
>
> —Paul Wolfowitz, Deputy Secretary of Defense

Trapped is exactly where this institution, the Department of Defense, will stay as long as key decision-makers fail to understand what commercial industry has known for some time; that accurate and timely financial information can create a strategic advantage. However, the strategic advantage cannot be created as long as accounting, and the Planning, Programming, and Budgeting System (PPBS) are treated as two separate processes rather than one interrelated financial management system. Problems with financial management are long-standing and efforts to integrate accounting, program and budget information predate McNamara's development of PPBS.

The original developers of PPBS, Robert McNamara, Alain Enthoven and Charles Hitch, chose to ignore the difficulties in the Department's accounting processes. PPBS was designed as, and remains today, a system where current budgets are developed from previous budgets and not from feedback analysis of actual accounting information. Consequently, the Department does not really know how accurate or adequate it's budget decisions are, or where and how they can be improved.

Strategic plans consider financial management only from the perspective of trying to get the resources to carry out the strategy. More attention should be placed on using financial management as a way of evaluating which strategies will be most effective. If financial information were available for strategic decision-making, it could be used to strengthen the Army's request to Congress for resources by building a business case for transformation.

DOD's financial management process remains on the GAO list of the top 10 examples of mismanagement in the government. Efforts undertaken by Secretary of Defense Donald Rumsfeld's administration to improve financial management are strategically flawed because they do not link changes in PPBS to the modernization of the accounting systems. Problems with PPBS and the problems with accounting are treated in the Department as two separate, distinct, and unrelated issues, rather than as one interrelated system. Modernizing the accounting systems may improve the accuracy and timeliness of financial data, however it will

not yield Rumsfeld's ultimate objective of "reliable, accurate and timely financial information upon which to make the most effective business decisions."[2]

WHAT IS FINANCIAL MANAGEMENT?

CONTEMPORARY WORKING DEFINITION

The terms financial management and resource management are often used interchangeably and their relationship to PPBS and accounting can be confusing. The Army defines resource management as, ". . . the direction, guidance, and control of financial and other resources. It involves the application of programming, budgeting, accounting, reporting, analysis, and evaluation."[3] The Department of Defense Financial Management Regulation (DOD FMR) does not define either financial management or resource management. However, it does define a financial management system as a triad architecture whose three segments include the Planning Programming and Budget System (PPBS), the Services' accounting systems and all other systems that provide financial management information to management.[4] Comparing these two definitions, resource management defines a broader range of management activities as it includes resources other than funding. This paper focuses on a systems analysis of the relationship between PPBS and accounting and for this reason will use a definition of financial management derived from the DOD systems definition. For the purposes of this study financial management is ***the direction, guidance and control of the financial management system which includes PPBS and accounting***.

50 YEARS OF STASIS

The Army's struggle to improve financial management pre-dates the development of the Planning Programming and Budgeting System (PPBS). A 1954 Army publication, Familiarization and Indoctrination: Financial Management stated:

> "The Army needs more effective financial management to enable it to:
> - Present its requirements more effectively.
> - Provide the most effective military force.
> - Reduce the extensive labor involved in estimating for and administering the budget.
>
> The need for improved financial management is urgent."[5]

The 1954 publication defines financial management systems as including the programming, budget and accounting functions, "The Army financial management system consists of the Army Program System, the appropriation and budget structure, budget formulation and the accounting systems."[6] In particular, the 1954 publication calls for the integration of the accounting and budget processes and the development of a single accounting

system that produces information for management. "The 33 unrelated accounting systems produce great quantities of information – much of which is useful and necessary. But they do not produce the information required by command and management at all levels. And they probably cost more to operate than would a single, integrated, modern system."[7] This is an amazing document because of the striking parallels to subsequent calls for financial management reform.

Nearly a decade later, Charles J. Hitch, then Assistant Secretary of Defense Comptroller remarked:

> "The Secretary [Robert McNamara] and I both realized that the financial management system of the Defense Department must serve many purposes. It must produce a budget in a form acceptable to the Congress. It must account for the funds in the same manner in which they were appropriated. It must provide the managers at all levels in the Defense establishment the financial information they need to do their particular jobs in an effective and economical manner. It must produce the financial information required by other agencies of the government . . . But we both were convinced that the financial management system must also provide the data needed by top Defense management to make the really crucial decisions. . ."[8]

McNamara, Hitch and Enthoven went on to implement the Planning, Programming, and Budget System (PPBS) within the Department of Defense in 1962. PPBS focused on relating Defense plans to the budget through a process called programming. Programming organized the activities used in defense planning into integrated combinations of men, equipment and installations whose effectiveness could be related to national security objectives.[9] The costs for these programs were developed from estimates of obligation authority – not from actual costs. Hitch realized this created a logic flaw in PPBS, which he addressed as follows: "It would be preferable to cost the program in terms of expenditures, or ideally in terms of resources consumed. However, the accounting difficulties appeared so great that we did not attempt that approach."[10] PPBS was designed as, and remains today, a system where current budgets are developed from previous budgets and not from actual accounting information.

So what were the accounting difficulties that prevented Hitch and McNamara from using accounting information as a logical feedback mechanism in PPBS? They were some of the same difficulties discussed in the 1954 Army publication — too many accounting systems; arbitrary allocation processes; and non-standard data formats between the business entities (and Services).[11] As Hitch explained, "Our appropriation accounting systems do not directly yield operating costs by program element - e.g. by aircraft type. Many of the alleged 'actual' operating costs of elements in the Five-Year Program are obtained by an arbitrary allocation of

budget categories. Since these 'actuals' constitute the base for projecting future operating costs, some parts of the financial program are not too meaningful."[12]

Today, forty-eight years after the Army called for an integration of the budget and accounting processes and forty years after the initial implementation of PPBS, some parts of the financial management process remain, 'not too meaningful'. The Government Accounting Office (GAO) lists DOD financial management as one of its top 10 examples of mismanagement in the federal government.[13]

> The effectiveness of the U. S. forces is well evidenced by experiences in the Persian Gulf, Bosnia, and Kosovo. However, the same level of excellence is not evident in many of the business processes that are critical to achieving the Department's mission in a reasonably economical, efficient, and effective manner.
>
> — David M. Walker, Comptroller General of the United States

Vocal and persistent criticism is heard from Congress, the Office of Management and Budget and internal DOD resource professionals and is directed both at the accounting systems and at PPBS. Efforts to legislate improvement have not met with much success. In 1990, Congress enacted the Chief Financial Officers (CFO) Act to, "Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources."[14] In spite of the Act, Department of Defense (DOD) stakeholders in Congress, in the Office of Management and Budget (OMB), and in the GAO have been severely critical of the Department's financial management practices. For example, Senator Charles Grassley (IA), ranking Republican member of the Senate Committee on Finance levied this criticism of accounting in 1997:

> The sad truth is, the books at DOD are in such shambles that as much as $50 billion tax dollars cannot be traced. The Department flunks every single audit by its Chief Financial Officer (CFO). And the Inspector General (IG) expects DOD to continue falling short "well into the next century." When you can't audit the books, you don't know how money is being spent. The result is a multi-million dollar money pipe left vulnerable to theft and abuse.[15]

Senator Carl Levin (D-MI), Chairman of the powerful Senate Armed Services Committee, echoes Senator Grassley's sentiments and cites GAO reports that show DOD has not properly accounted for billions of dollars in property, equipment and inventory.[16] Despite intense Congressional interest, improving the financial management practices of the Department of Defense was not part of the 1997 Quadrennial Defense Review, nor had it been addressed in Departmental strategic planning documents of previous administrations. More than ten years after the introduction of the CFO Act the GAO concludes, "The primary reason

the federal government does not have auditable books is the Defense Department's woeful systems."[17]

While Congressional concern focuses on the Department's inability to account for the funds provided to it, internal critics focus on the inefficiency and bureaucracy of the PPBS process. PPBS was instituted by Secretary of Defense, Robert McNamara, to centrally control the Department of Defense's budget process.[18] Since that time, PPBS has been tweaked to accommodate modifications for the Goldwater-Nichols Act, zero-based-budgeting, and the nominal conversion from an annual to a biennial PPBS cycle.[19] COL (Ret.) M. Thomas Davis contends that PPBS is not fundamentally flawed, but does need a major overhaul to realign the force programs to more clearly represent the current national strategy and make the data contained in the system relevant to decision makers.[20] Others have a less charitable outlook on the system, "In practice the aging system generates a glut of budgetary trivia and turtle paced change . . . PPBS resists the very adaptability to changing world conditions it was meant to provide. . ."[21]

The prevailing opinion of analysts and practitioners is that PPBS projects the past into the future when it needs to facilitate future change. Former Deputy Secretary of Defense John White declared, "The one thing I do know with high confidence is that, if we extrapolate the present into the future, we will be wrong."[22] One Army War College student argues that the, "Services seem unable to divorce themselves from past decisions in the programming phase."[23] Peter Senge's first law of The Fifth Discipline, "Today's problems come from yesterday's 'solutions'" is a common thread tying together these thoughts.[24] PPBS relies on historical linear analysis of budget decisions to allocate resources in a volatile, uncertain, chaotic, and ambiguous environment, yet does not accommodate that uncertainty and volatility. Professor Dennis S. Ippolito recognizes this weakness in the federal budget system and feels the challenge is to make policy decisions today that produce budgets that are flexible and sustainable over time.[25] Key to obtaining this flexibility is developing a feedback mechanism in PPBS on what worked, what didn't, why, and by how much. Currently feedback from execution data into the PPBS process takes from 3 to 7 years to be realized in the budget.

The criticisms while valid treat the problems with PPBS and the problems with accounting as two separate, distinct and unrelated issues, rather than as one interrelated systems problem. However, that view may be beginning to change. In March 2001, the Director of OMB, the Honorable Mitch E. Daniels, Jr. stated in testimony before a U.S. House of Representatives Subcommittee:

> . . . while national defense is a priority issue for the Administration, we must ensure that systematic problems at the Department of Defense are adequately addressed. It is critically important for DOD to modernize its financial management processes along with its strategy, mission and resource decisions.[26]

Mr. Daniels' testimony, along with testimony provided during the confirmation hearings of Secretary of the Army, Thomas White and Under Secretary of Defense (Comptroller), Dov S. Zakheim, were the first indications that financial management reform, not just PPBS reform or fixing accounting, will be a key national security issue under the Bush Administration. In a surprisingly strong statement, Secretary Donald Rumsfeld included modernizing the DOD approach to business information in the 2001 Quadrennial Defense Review; the first time strategies to reform the institutional side of the Department have been articulated in such a fashion.[27]

In the face of these criticisms, where is the real problem for financial management and where should resources be applied to improve accountability, answer the critics, and provide better information to decision makers? Clearly the aging accounting systems need to be simplified, modernized and synchronized. PPBS must be streamlined and the data matrices made relevant to modern warfare planning. Most importantly, accounting must be linked to PPBS and accounting information must be used to refine and validate the cost estimates used in the planning and programming process. Financial management must be treated as a strategic asset for the Department of Defense.

IMPLICATIONS FOR ARMY TRANSFORMATION

National security debates tend to rage over weapons systems, the implications of digital warfare, asymmetric threats, and the size and shape of our Armed Forces. Despite a long history of complaints about the shortcomings of the Defense financial management process, the defense intelligentsia has rarely recognized the strategic potential of good financial management. Franklin C. Spinney, M. Thomas Davis, and other defense resource management professionals are beginning to change that bias. According to Spinney, ". . . the lifeblood of any large organization, no matter what its mission, is funding. Nothing will get developed, procured, maintained, staffed, moved or operated without it, and the prosaic job of accounting for it, and what it has bought, is as vital as any war fighting mission."[28] However, today's leaders of the U.S. Army have not heeded this advice. When strategic plans talk about financial management, it is only from the perspective trying to get the resources to carry out

the strategy. Almost no emphasis is placed on using financial management as a way of evaluating which strategies will be most effective.

The Army's primary strategic goal is to transform its forces and doctrine to meet the challenges of the future. The Army's Transformation Campaign Plan (TCP) lists resourcing as a Supporting Line of Operation. Specifically, Line 14 states, "Integrate Army transformation requirements with the Army resource process (Planning, Programming, Budgeting and Execution System (PPBES)) and ensure adequate funding for the transformation objective."[29] This Line of Operation oversimplifies the financial management challenge for the Army. Simply putting the transformation resource requirements into PPBES and tasking someone to ensure adequate funding for the objective ignores the basic tenets of building a good business case for the strategy. Furthermore, responsibility for this Line of Operation has been assigned to three separate organizational elements – the Assistant Secretary of the Army (Financial Management and Comptroller), the G-8, and the Director, Program Analysis and Evaluation. While these three organizations can certainly help integrate transformation resource requirements, critical contemplation of the issue indicates they will not be able to ensure adequate resourcing because they don't effectively control the resource allocation mechanism – Congress does. The Transformation Campaign Plan (TCP) should strengthen the Army's request to Congress for resources by building a business case for transformation.

"Competition for scarce resources among the multiple claimants at the national level is intense."[30] That statement is always true, but especially now when the additional requirements of the war on terrorism, a declining economy and increased spending on homeland defense will compete with Army transformation for resources. Congress, ultimate holders of the Army's purse strings, will demand the Army build a business case for transformation, a business case that articulates for the American people the kinds of capabilities transformation will enable, as well as their costs and estimated useful life. One of DOD's most fervent Congressional watchdogs, Senator Charles Grassley states:

> "We, as Senators, presume already that the Pentagon needs more money – because there is kind of a bipartisan agreement to that, and President Bush won an election with that as one of his key points. We need to know more, and a sound accounting system is the basis for that judgment."[31]

The Army has not thought out this part of the strategy, has not figured out what information it needs to collect, what processes it needs to measure, what tradeoffs should be considered and what alternatives there are to get to the end state. Furthermore, the financial

management system does not provide and has not been tasked to provide feedback and analysis on the effective execution of resources in support of transformation.

STRATEGIC FINANCIAL MANAGEMENT

Unlike the Department of Defense, the corporate business world recognizes the strategic importance of accounting to the planning process. Automation has turned the corporate comptroller's focus from preparation of data to the analysis of information. Comptrollers are increasingly included on the corporation's long term planning team because of the insight and analysis they can provide concerning decisions about competing future alternatives.[32] In the corporate world accounting is involved less with what the numbers are than with what the numbers mean. Defense has not yet turned that corner, made that strategic change to this new way of looking at accounting and accounting information. Defense accounting systems are still focused on satisfying basic fiduciary accounting requirements – on reporting the status of funds appropriated – and not on providing strategic information that would allow for more efficient use of those funds.

THE ACCOUNTING SPECTRUM

Accounting information takes many shapes and can satisfy many business needs. Accounting data supports management decisions along a spectrum of operations, from day-to-day business decisions, through periodic business reporting, to strategic and long range planning. Interactive accounting software provides business managers with real time information on sales, income and expenses allowing those managers to make educated decisions about day-to-day operations between competing priorities. Advances in information management have simplified and streamlined the annual reporting process – providing businesses and their investors with a timely and accurate snapshot of the financial status of the operation. For example, Extensible Business Reporting Language (XBRL) has been developed to eliminate the highly labor intensive data mapping requirements for customers of the capital markets. Al Berkeley, the NASDAQ Vice President for Thought Leadership, puts it this way, "Investors will have more time for analysis and insight, as less time is spent on translation and data entry."[33] Mike Willis, partner at PricewaterhouseCoopers, sees the advantages of XBRL in a broader frame, "XBRL automates what can be automated, and lets financial management be fully engaged in what matters – the issues, the strategies, the opportunities and the decisions to be made."[34] Clearly, the commercial sector sees a strategic role for financial management,

using historical accounting information to validate long-range planning assumptions and measure the accuracy of budget forecasts.

Accounting in the Department of Defense has focused on the middle of the accounting spectrum – periodic reporting – leaving gaps in managerial information at either end. Day-to-day business decisions must be made based on estimates and projections because the department's accounting systems do not provide timely financial status that allows for an accurate assessment of competing local priorities. Similarly, accounting information is not used to refine future forecasts or measure the effectiveness of budget assumptions because it is too difficult to collect data from the myriad of systems, then standardize that data across Service-unique structures and processes.

One reason accounting data is not analyzed is that DOD has too many accounting systems. For example, the Army uses at least six major operational accounting software systems – essentially a different one for each business area (Table 1). The data from each

Major Component	Business Type	Accounting System
Corps of Engineers	Construction	CEFMS
Army Materiel Command	Procurement	SOMARDS
Army Materiel Command	Supply Revolving Fund	CCSS
National Guard Bureau	Guard Activities	SABERS
Army Installations	Operations	DJAS
Army Installations	Operations	STANFINS
Army Appropriation Level	Summary Reporting	HQARS

Table 1: Army Accounting Systems

system is separately summarized before being sent to the seventh system for roll-up into Army-wide reports; making access to data detailed enough to support an analysis very difficult. In addition to the seven accounting systems, Army has identified 21 critical feeder systems that provide financial data that is then recorded in the accounting systems (e.g. assets, real property, manpower hours).

Defense-wide the sheer numbers of systems are staggering. The Fiscal Year 2000 Financial Management Improvement Plan listed 76 finance and accounting systems and 91 critical feeder systems.[35] Multiple manual interfaces between these systems increase the complexity and decrease the timeliness and accuracy of accounting information.

Not only does Defense have a plethora of financial management systems, the data structures in these systems vary widely. Program elements are the heart of PPBS, the linking mechanism between planning and budgeting. However, PPBS did not replace all the separate service budget structures; it simply overlaid them with a veneer of standardization. Each Service retains its own unique program element structure and in the case of the Army, parts of that structure do not directly crosswalk to the DOD program elements. During program and budget construction, complex algorithms are used to move submissions from the Army's data bases into the DOD data base. Using such methods makes it difficult to track the accuracy of the analysis that developed the program and budget data. It also makes it impossible to track backwards from the DOD level to the detailed Army constructs without significant manual intervention. Retaining Service-unique data elements and processes forces the financial management focus to remain on formatting data rather than on analysis and interpretation.

Accounting data structures are built on the data structures used in PPBS. Because the data structures in PPBS are not standard across the Services, the accounting structures also vary widely between the Services. Efforts to develop a standard DOD-wide accounting classification in the mid-1990's failed because the structure tried to accommodate all the different PPBS data elements used by the Services. The resulting classification was over 280 characters long and was really a concatenation of all the differences, not a standardization of the data. In 1998 the Defense Finance and Accounting Service developed a sixty-four page document that addresses how to crosswalk from one Service's accounting classification to another. The Defense Accounting Classification Crosswalk (DACC) defines the data elements in each accounting classification and how each Service's accounting classification relates to the others.[36] This level of complexity is expensive to maintain and makes transfer and summarization of accounting data across appropriations and Services nearly impossible. Non-standard data keeps financial managers in Defense focused on formatting (and reformatting) data rather than on analysis and interpretation.

Even with fewer systems and standardized data the DOD would still have problems using financial management information strategically because the main PPBS data base, the Future Years Defense Program (FYDP) only contains one year of historical data. The good news is that the data reported in the FYDP has to balance to the accounting information certified to the Treasury. The bad news is that a single year of historical data is insufficient for trend analysis. Additionally, the accounting information in that prior year is not static. It changes as the financial obligations funded with that appropriation are refined and final payments and deliveries made. Finally, because of the data accuracy problems in the

accounting system, the data reflected in the prior year has a high potential of being unreliable, even though it has been certified to the Treasury.

Franklin C. Spinney looks at the accounting continuum from a different perspective (Figure 1). He sees poor accounting information, and the failure to use accounting information in the PPBS process, as a fatal failure that drives mismatches between the funding levels called for in the plan (program or budget) and the funds that are actually required to accomplish the objective (reality). [37] Financial management is not used to make strategic decisions in the DOD because the data is not accurate, the data isn't easily comparable across Services and programs, and not enough historical data is kept in sufficient detail to allow for trend analysis. Given the size of the defense budget, $379 billion requested for fiscal year 2003, what is Defense doing to correct the problems in PPBS and accounting?

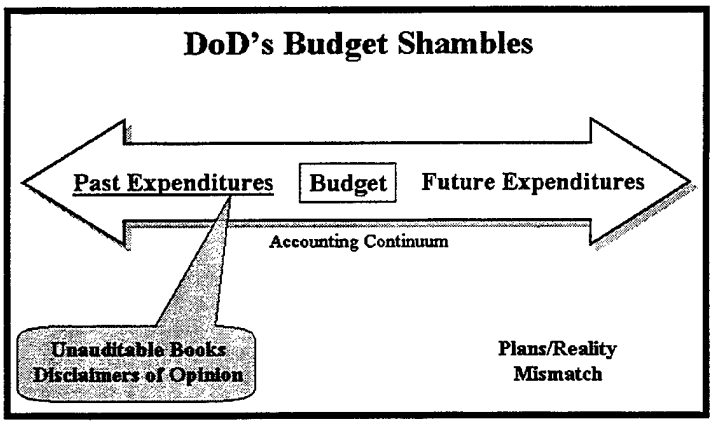

Figure 1: DOD Budget Shambles

A STRATEGIC ANALYSIS OF THE RUMSFELD EFFORT

> One of my highest priorities is to have reliable, accurate and timely financial management information upon which to make the most effective business decisions. Because we do not always have that information, we must change the Department's business operations and systems. . . . Currently the Department's financial and non-financial operations and systems do not work effectively together to produce the most desirable financial management information. Correcting this deficiency is everyone's responsibility.
>
> ——Secretary of Defense Donald Rumsfeld

In a policy memorandum dated July 19, 2001, Secretary of Defense, Donald Rumsfeld centralized in the Office of the Secretary of Defense (OSD) control and oversight for both financial and non-financial business systems development, acquisition, upgrade, and deployment.[38] Prior to this memorandum, control over these systems had rested within the individual Services or with the Defense Finance and Accounting Service (DFAS). The SECDEF also established a Department-wide Financial Management Modernization Program and directed a formal Program Management Office (PMO) be organized under the Under Secretary

of Defense (Comptroller). The PMO was given primary responsibility for development of a financial management *'enterprise architecture'* which is viewed as the blueprint to guide and constrain DOD's investments in financial management operations.[39] Secretary Rumsfeld also made the Service Secretaries accountable to him for the results of their Component's business operations and financial management systems.

OBJECTIVE

Secretary Rumsfeld's policy memorandum establishes the following objective for the Department: "reliable, accurate and timely financial information upon which to make the most effective business decisions."[40] The objective is further reinforced in Quadrennial Defense Review 2001 which states, ". . . financial systems that limit the ability to see and manage the enterprise, and processes that discourage action and reasonable risk at the working level are hallmarks of a mature enterprise that must be transformed."[41] While the Secretary's policy does not set a target date for obtaining this objective, it is widely recognized that it will take years to achieve. In a DOD news briefing, Mr. Steve Friedman, head of Secretary Rumsfeld's panel that reviewed DOD Financial Management, commented, "I wasn't hearing anyone expressing confidence of the year 2010. And I was hearing softer estimates that included 'not in my lifetime.'"[42] GAO's 2001 report on the Federal Financial Management Improvement Act states, "The most difficult challenges are faced by the Department of Defense (DOD), where financial management systems reform will have to be part of a broader initiative to transform its overall business processes that will take years to complete."[43]

CONCEPTS AND RESOURCES

Secretary Rumsfeld's July 19 Memorandum outlines four concepts that pursue his objective; centrally control decisions, establish a Program Management Office (PMO), develop enterprise architecture, and institute accountability for Component business operations in the Service Secretaries. Centralizing control of financial management systems in OSD represents a significant strategic change in DOD's approach to improving financial management, especially since the central control extends to related business systems such as logistics, personnel and acquisition. Up to this point, business systems have been controlled by functional stovepipes within the Services, while most financial systems were managed by the DFAS.[44] Establishing a PMO represents a commitment of significant personnel and resources to the objective. More importantly, establishing a PMO also creates an institutional framework to obtain, isolate, and execute funding in support of the objective. All major weapons and information systems acquisitions are managed through either a formal program executive office (PEO) or PMO.[45]

The GAO sees enterprise architecture as the blueprint for DOD financial management systems modernization. An enterprise architecture systematically captures in useful models, diagrams and narratives the full breadth and depth of the mission-based mode of operations for a given enterprise. The architecture describes the enterprise's operation in logical terms (interrelated business functions, information needs and flows, work locations, and systems applications) and in technical terms (hardware, software, data, communications, security, and performance standards). Enterprise architecture is made up of three distinct and interrelated views: operational, technical and systems. Before the architecture can be used for decision making it must be developed, and the development action itself, if done correctly, should streamline and improve financial management information.[46]

Finally, the SECDEF has made a clear statement about the chain of leadership and accountability for achieving the objective. In the past, financial management issues have generally been left to the Service Assistant Secretaries and the Under Secretary of Defense Comptroller, creating the perception that DOD financial improvement projects ". . . do not have sufficient senior leadership and urgency behind them and are not part of an integrated DOD-wide strategy."[47] Placing responsibility on the Service Secretaries and making them accountable directly to the SECDEF on this issue should reverse this perception.

The initial resources to execute these concepts were designated in Program and Budget Decision (PBD) Memorandum Number 818. This PBD provides $100 million for the development of financial management system architecture and $11 million for the PMO.[48] Contractor personnel will be required to help build the architecture[49] Additionally, Secretary Rumsfeld and the administration are spending important political capital to keep this initiative a priority. For the first time improving financial management practices is a major component of the Quadrennial Defense Review 2001.[50]

RISKS

The strategy faces risks in several areas – resources, technology, organizational distraction, and failure to simplify the underlying business processes. The Department of Defense Inspector General has estimated that it will take a minimum of $32 billion to fix the Department's financial management systems – by which they mean the Department's accounting systems.[51] The current provision of $100 million is a very small down payment on the effort. A moderate to high risk exists that competing priorities of DOD transformation and the war on terrorism will distract leadership and preclude the Department from applying sufficient resources to financial management to achieve the objective. Technology and the

pace of technological change will continue to challenge the Department as they look for operational solutions that will effectively implement the strategy. Moore's Law will drive an increase in technological capabilities, while acquisition and funding processes will likely continue to hamper timely implementation of those capabilities.[52]

Finally, there is a high risk that the strategy will not achieve the objective because the underlying business inefficiencies and redundancies will not be sufficiently addressed prior to the development of the enterprise architecture. The most difficult aspect of improving DOD's financial operations is streamlining and standardizing its underlying business processes.[53] At this time, the DFAS Statement of Work for development of the enterprise architecture does not address reform of underlying business processes, including simplifying and standardizing PPBS.[54] A high probability exists that although the Department will develop the architecture, without a parallel effort to transform the business processes including PPBS, it will not have accurate and useful information for business decisions.

IS THIS THE RIGHT STRATEGY?

Rumsfeld's strategy is consistent with recommendations made by the GAO in their report, "Architecture Needed to Guide Modernization of DOD's Financial Operations" (GAO-01-525).[55] Centralizing control and mandating enterprise architecture are sound first steps toward transforming financial management in the DOD. However, these actions are not sufficient to obtain the objective of: "reliable, accurate and timely financial information upon which to make the most effective business decisions." Since the PPBS data structures and business processes underpin the financial decision data for the department, reengineering and standardizing PPBS and the business processes should be considered concurrently with the development of the enterprise architecture. The focus on automation, rather than on information may lead to a result where the financial management process flows faster, yet still does not yield the management information needed to improve strategic decision making.

CONCLUSIONS

GAO got it wrong and Wolfowitz got it right. The primary reason the DOD does not have auditable books is not just because of the "woeful systems."[56] The problem with DOD's financial management processes lies in the overly complicated and non-standard "decision-making structure in which people frequently find themselves trapped."[57] Getting out of this trap requires rethinking the potential value of financial information and rebuilding the decision-making system to attain that value. For the Army, it would be prudent to re-examine a question posed by RAND senior analyst Carl H. Builder, "In short, the Army needs to confront the

question of why it does analysis. Is it principally to feed numbers to the bureaucratic planning process? Or is it, first and foremost, the means by which the Army tries to understand a murky and dangerous future in which the only certainty is that the Army will be called upon again to serve the nation it so clearly loves?"[58] The historical databases built to facilitate and record the resourcing decisions of the Cold War were useful in that rather static context. In the last 10 years, the world has changed radically – and this change is reflected in the types of missions the U.S. Army is assigned but not necessarily the way decisions are made about resourcing priorities.

Secretary Rumsfeld is on the right track, but won't achieve his objective because his strategy does not recognize that PPBS, accounting, and the strategic application of financial information are interrelated and must be treated as a single system. He continues to allow the PPBS process and the accounting process to operate independently and has not examined how these two systems interrelate in the broader financial management system. Developing enterprise architecture, as recommended by the GAO, will simply result in automating the proverbial cow path and will do little to streamline and standardize business practices across the Department.

Since 1954, managers in the Department of the Army and throughout the Department of Defense have sought financial information that can improve strategic decision making, yet resourcing those systems and mandating standardized business processes that would make them feasible are decisions the Department, up to this point, seems unable to make or to enforce.

RECOMMENDATIONS

According to Army War College professor, Harold W. Lord COL (Ret.), "Policy is what gets funded."[59] In the absence of a financial management system that provides useful information about those funding decisions, policy is increasingly made based on politics, rather than on sound business practices. Secretary Rumsfeld's efforts to fund financial management modernization are a clear indication of his intention to put some real muscle into balancing politics with a business perspective. To make the most of this intention, three specific actions are recommended.

First, financial management reform and the PPBS process should be viewed as one integrated financial management system whose goal is information that can be used across the accounting spectrum, but most importantly for making long-term strategic decisions. Before changes are made to the accounting systems, PPBS should be thoroughly evaluated for places

it can be streamlined and simplified. PPBS processes in the Services should be standardized so that the data can be compared across Services and weapons systems. Feedback mechanisms should be instituted along with clear goals and measures to help guide the process.

To that end, the financial data elements used in PPBS and in accounting should be standardized across the Services and Defense Agencies. Right now most of the accounting and critical feeder systems are not compliant with the standards set by the Chief Financial Officer's Act and will have to be replaced or upgraded. The Secretary should mandate that systems compliance include meeting DOD standard financial data requirements.

Finally, the Department should maintain historical financial execution data that can be used to analyze the effectiveness of financial planning to include programming and budgeting, by expanding the FYDP data base to include at least three prior years of execution data. The massive increases in computing power should make extending the data base relatively easy once processes and data elements are standardized and stabilized between the Services and Defense Agencies.

Implementing these three recommendations will not be easy. It will require us to think differently about financial management and will require us to realize that Service parochialism regarding financial management has become costly and prevents us from using financial information in a strategic way. The country is facing a long war on terrorism, during which the Congressional purse may not always be as open as it is now. Secretary Rumsfeld should seize this opportunity to integrate accounting and PPBS across the Services, making financial management a Joint capability. As another great strategic leader said when this nation was facing a larger crisis 140 years ago:

> "The dogmas of the quiet past are inadequate for the stormy present. The occasion is piled high with difficulty and we must rise to the occasion. As our case is new, so must we think anew, and act anew. We must disenthrall ourselves, and then we will save our country.
>
> —Abraham Lincoln

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END NOTES

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