

RECORD VERSION

STATEMENT BY

**JAMES J. WATKINS
DIRECTOR OF ACCOUNTABILITY & AUDIT READINESS,
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT & COMPTROLLER)**

BEFORE THE

**HOUSE OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY, AND
FINANCIAL MANAGEMENT
AND
SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT**

SECOND SESSION, 112TH CONGRESS

**ON ARMY PAYROLL “THE ARMY FACES SIGNIFICANT CHALLENGES IN
ACHIEVING AUDIT READINESS FOR ITS MILITARY PAY”**

MARCH 22, 2012

**NOT FOR PUBLICATION UNTIL RELEASED BY THE
HOUSE COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM**

Chairmen Platts and Carper, Ranking Members Towns and Brown, Members of the Committees, thank you for the opportunity to testify regarding the Army's audit readiness for military pay. Secretary of the Army McHugh, Army Chief of Staff General Odierno, Under Secretary Dr. Westphal, the Army's Chief Management Officer (CMO), Assistant Secretary of the Army (Financial Management & Comptroller) Dr. Matiella, and I are committed to achieving auditability of the Army's military personnel pay business process. Military pay represents a material aspect of the Army's General Fund Statement of Budgetary Resources, which Secretary of Defense Panetta has required to be audit ready by Fiscal Year (FY) 2014. The Army is executing a sound, comprehensive audit readiness plan and has begun to demonstrate progress toward Secretary Panetta's 2014 milestone.

I thank the Government Accountability Office (GAO) for their audit and recommendations. We concur with their findings that the Army faces challenges in achieving audit readiness for military pay. The majority of the GAO's findings are consistent with the corrective actions already identified in the Army's Financial Improvement Plan (FIP). The FIP provides a detailed schedule of all corrective actions that must be completed to establish audit readiness, including those related to military pay. GAO's findings confirmed our understanding of required corrective actions and provided additional insights into actions that must be completed to assert audit readiness of military pay.

For example, the Army is working with the Defense Finance and Accounting Service (DFAS) to develop and document an effective and repeatable process for identifying the population of active duty military payroll accounts each fiscal year. This

represents our highest priority. In fact, the Army and DFAS implemented a new process in October 2011 that includes a monthly reconciliation of all detailed military personnel pay statements to the summary financial reporting records. This process improvement represents a significant accomplishment that advances the Army's military personnel pay audit readiness.

In addition, we are mapping military personnel and payroll business processes, identifying the key pay-related substantiating documents and procedures for maintaining these documents. As part of this effort the Army and DFAS are working together to create a matrix that outlines the relevant substantiating documents and points of retention of those documents for each payroll entitlement. We are also documenting business processes and internal control activities associated with each detailed military payroll transaction. The business process maps and document retention criteria, which were not available during the GAO audit, will inform the financial statement auditors of how payroll entitlements are processed and how to obtain supporting documentation.

Finally, we are reviewing all policies governing the storage and retention of key personnel and payroll-related documents. Specifically, we are revising Army Regulation 600-8-104, Military Personnel Information Management/Record, to require key personnel and pay-related documents supporting military payroll transactions be centrally located and retained in the service member's Official Military Personnel File. These revisions will require human resource managers to periodically review and confirm that Office Military Personnel File records in master personnel record systems are consistent and complete to support financial statement audit requirements. The

review will ensure policies, processes, and supporting business systems enable timely access to substantiating documentation in a cost-effective manner.

Our goal for Army military pay audit readiness is to ensure controls are in place to continue paying Soldiers the right entitlements, in the right amounts, at the right time, and to accurately report these transactions on the financial statements. Together, the Army and DFAS are working to meet the FY 2014 Statement of Budgetary Resources (SBR) assertion deadline. As a part of the Department of Defense (DoD) audit readiness strategy, we are documenting the military pay processes and control environment, testing the key internal controls, developing and implementing corrective actions to address gaps and deficiencies, and establishing a process for recurring control testing to sustain the auditable environment.

I want to highlight the excellent working relationship between the Army and DFAS, and collaborative and coordinated effort to address these issues. Additionally, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Improvement and Audit Readiness Directorate continues to be a valuable partner in this effort, as the DoD Financial Improvement and Audit Readiness (FIAR) Guidance serves as the Army's roadmap to achieve audit readiness of military pay.

The Army leadership is committed to this intensive audit readiness effort. Leadership support of these efforts is visible and contributing to a culture of change and accountability within the Army. The message is clear—we are accountable for managing the Army's resources and supporting audit readiness efforts. We are making great progress because of the commitment from Army senior leaders and business

process owners. I look forward to working with the members of these Committees and GAO to ensure the Army's continued financial improvement.

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Biography

Department of the Army



James J. Watkins

Director, Accountability and Army Audit
Office of the Deputy Assistant
Secretary of the Army
Washington, D.C.



Mr. Watkins was appointed to the Senior Executive Service on January 2, 2011 as the Director of Accountability and Audit Readiness. He is responsible for Army policies, programs, systems, and procedures designed to implement and maintain the Army's financial accountability and audit readiness programs. Financial operations programs encompass approximately 15,000 military and civilian U.S. employees worldwide (plus several hundred more foreign nationals), annual operating budgets exceeding \$200 billion distributed to more than 1,000 Army-wide fund holders, and net assets exceeding \$260 billion. Mr. Watkins provides advice and guidance on financial accountability and audit readiness activities to senior members of the Army staff, administers a departmental-level quality assurance program, develops financial improvement program milestones, and serves as the focal point for all financial compliance and accounting issues, including follow-up activities for the General Accounting Office (GAO), DoD Inspector General and Army Audit Agency audit reports containing unfavorable or unsatisfactory findings related to financial management operations.

CAREER CHRONOLOGY:

- Director of Army Audit Readiness, HQDA
- Project Manager, Resource Management Tool, HQDA
- Chief of Staff, Family and Morale, Welfare and Recreation Command, Arlington, VA
- Director of Executive Services, Defense Finance and Accounting Service, Arlington, VA
- Chief Financial Officer, Dominican Sisters of Peace, Columbus, Ohio
- Chief Operating Officer, Miller Orthopedic Clinic, Charlotte, NC
- Commandant, US Army Finance School, Ft. Jackson, SC
- Resource Manager, V Corps, Germany
- Commander, 5th Finance Group, Germany
- Branch Chief, Finance Branch, Army Personnel Command (now Human Resources Command)
- Battalion Commander, 9th Finance Battalion, Ft. Lewis, WA
- Executive Officer, Army Finance and Accounting Center (now Defense Finance and Accounting Service)

COLLEGE:

- MBA, Syracuse University
- BS, Business Administration (Major in Accounting), The Ohio State University
- Industrial College of the Armed Forces
- US Army Command and General Staff College

SIGNIFICANT TRAINING:

- South Carolina Executive Institute
- Federal Executive Institute
- Infantry Officer Basic and Advanced Courses

CERTIFICATIONS:

- Certified Public Accountant, State of Ohio since 1981
- Certified Defense Financial Manager (CDFM)

AWARDS AND HONORS:

- Legion of Merit with Oak Leaf
- Meritorious Service Medal with 5 Oak Leaf Clusters
- Army Commendation Medal
- National defense Service Medal with Oak Leaf
- Army Service Ribbon
- Overseas Service Ribbon with 2 Oak Leaf Clusters
- Expert Infantryman Badge
- Parachutist Badge
- The Ohio State University ROTC Hall of Fame
- Distinguished Member, Finance Corps Regimental Association

PROFESSIONAL MEMBERSHIPS:

- Ohio Society of Certified Public Accountants
- American Society of Military Comptrollers
- Association of Government Accountants