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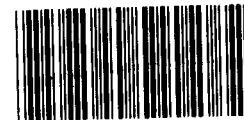
Testimony

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REORGANIZATION OF THE MILITARY DEPARTMENTS'
FINANCIAL MANAGEMENT STRUCTURES

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON INVESTIGATIONS
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss how the military departments' financial management structures respond to the Goldwater-Nichols DOD Reorganization Act of 1986. That Act, the most sweeping reorganization of the Department of Defense in several decades, covers nearly the entire range of DOD activities. As you know, we have been working with your staff and staff of the Senate Armed Services Committee to monitor implementation of several aspects of the Act and we look forward to continuing this effort.

The Subcommittee's interest in financial management is timely. As a result of persistently high federal deficits, we have entered an era of budgetary constraint that will require making difficult resource allocation decisions and improving accountability over our financial activities. The federal financial management structure must ensure that decision makers have accurate, timely and consistent information on which to base their decisions. I have recommended specific legislation to deal with these issues. The legislation would provide for

- centralized leadership that is responsible for developing and implementing a governmentwide plan for improving financial management systems and reporting annually on the plan's progress;

- corresponding financial management leadership in executive branch departments and agencies; and
- annual preparation and audit of agency and governmentwide financial statements to foster accountability and system integrity.

The proposed Federal Financial Management Reform Act of 1987 (S. 1529), which I support, would provide many of the essential elements of successful financial management reform. The topic we are addressing today--the structure of financial management in the military departments--is an important facet of this issue.

Title V of the Reorganization Act mandated that the military departments designate a single office or other entity in each Service Secretariat to conduct functions that are considered to be civilian in nature or key to effective civilian control. In addition to the comptroller (financial management) function, the Act requires consolidating several other functions: acquisition, auditing, information management, inspector general, legislative affairs, and public affairs. Before the Act, there were often duplicate offices for these functions in both the Secretary's and the military Chief of Staff's offices.

RESULTS IN BRIEF

The military departments adopted different approaches to consolidating the offices of financial management and comptroller in each of the Secretariats. The Navy made the fewest changes since it already had its comptroller function under the Assistant Secretary for Financial Management. The Army integrated the functions and the staffs from the financial management and comptroller offices into a new office with the Assistant Secretary for Financial Management in charge. The Air Force, however, chose to reorganize much differently. It abolished the position of Assistant Secretary for Financial Management and gave most financial management responsibility to its Comptroller, a 3-star general. These actions have raised congressional concerns as to whether civilian control in the Air Force has been weakened.

We believe that it is essential that the financial management function of each military department be vested in a highly qualified civilian appointed by the President. Under this arrangement, the function would be led by a person who could

- (1) assure the flow of information to the civilian leadership,
- (2) provide a high level of stature and importance to financial management, and
- (3) be part of the Administration team.

Now let me review in detail how the military departments consolidated the financial management functions in response to the Reorganization Act.

FINANCIAL MANAGEMENT STRUCTURES

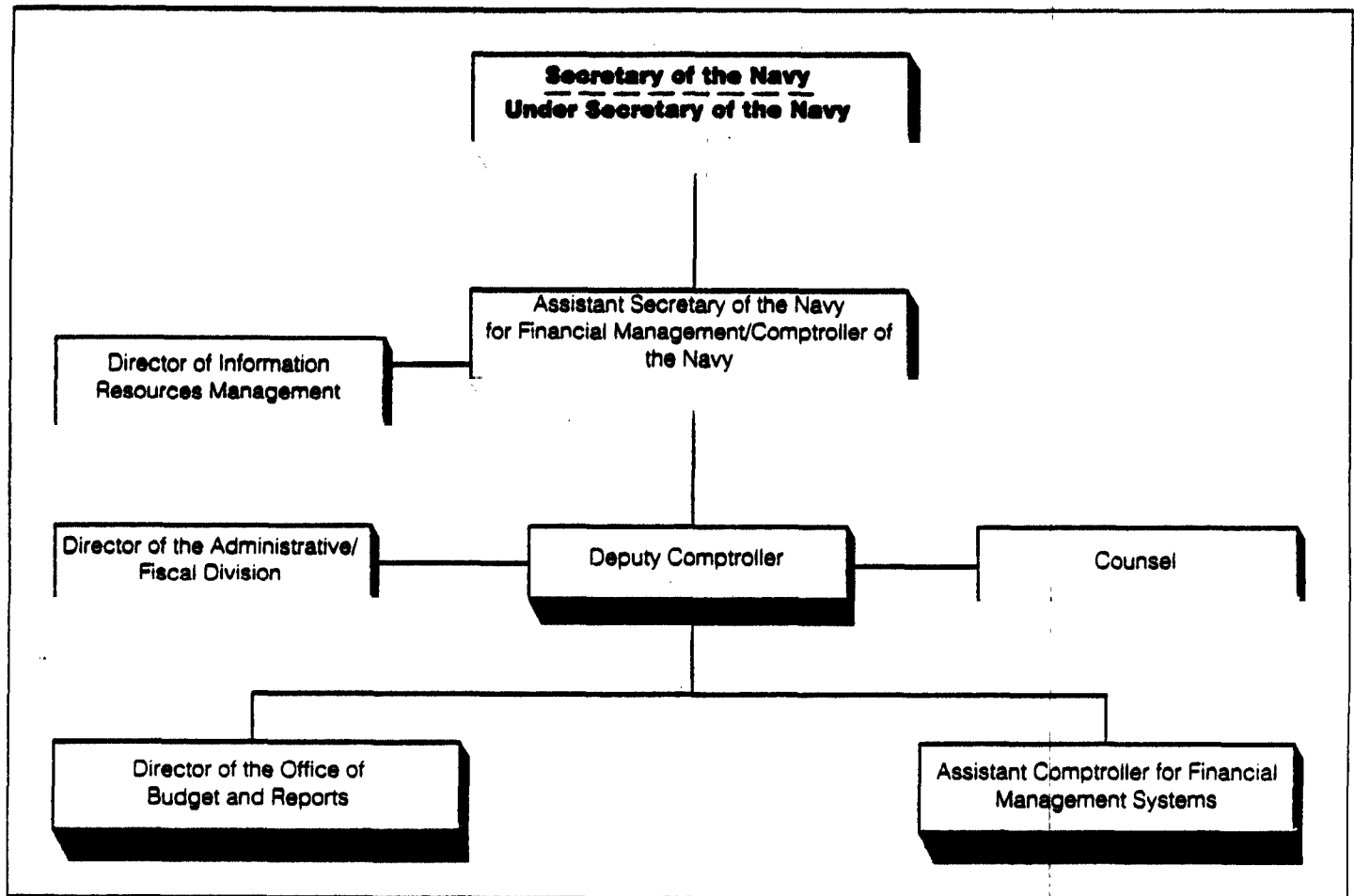
Each military department took a different approach to establishing a single office for financial management functions within the Secretariat.

Navy

Before (as well as after) the Act, a civilian appointee was dual-hatted as both the Assistant Secretary of the Navy for Financial Management and the Navy Comptroller. (See Chart I.) The Deputy Comptroller is an admiral. This dual-hatted structure is principally due to the fact that the Navy is the only two-service organization, with a Chief of Naval Operations and a Commandant of the Marine Corps. It has never been considered appropriate to have the Navy's Comptroller within the Chief of Naval Operations organization, since the Navy must be objective in dealing with both its services. In addition, the Director of Budget and Reports (part of the Comptroller's staff) was required by law to be located within the Navy Secretariat. The Director of Budget and Reports has also been responsible for certain budget formulation and execution functions for the Chief of Naval Operations while the Marine Corps has a separate office for fiscal management

responsible to the Commandant of the Marine Corps for similar functions.

Chart I: Department of the Navy Financial Management Structure



The Subcommittee has raised some questions about the Navy's financial management structure and its relationship with the Marine Corps Fiscal Division. We have evaluated the issues raised and we believe that the Navy structure provides an appropriate framework for effective financial management as well as civilian control in line with the goals of the Act. The Assistant Secretary for Financial Management/Comptroller has responsibility for the

comptroller (financial management) function and the 240 staff responsible for carrying out this function. Also, the Office of the Assistant Secretary has a close working relationship with the Marine Corps Fiscal Division which executes the Marine Corps budget, as the dual-hatted Budget and Reports Office does for the Chief of Naval Operations. Providing a more formal relationship between the Marine Corps Fiscal Division and the Assistant Secretary and his office is an option that could be considered.

Army

Before its reorganization the Army had an Assistant Secretary for Financial Management and a military Comptroller. The Comptroller was responsible to both the Assistant Secretary and the Chief of Staff. (See Charts II and III.) The Army has now combined the Office of Assistant Secretary for Financial Management with that of Comptroller of the Army. (See Chart IV.) The Comptroller, a 3-star general, now serves as the Military Deputy to the Assistant Secretary for Financial Management, while a political appointee serves as the Principal Deputy. The Principal Deputy serves as the acting Assistant Secretary in the Assistant Secretary's absence.

Chart III: Department of the Army Financial Management Structure—Pre-Reorganization (Secretariat)

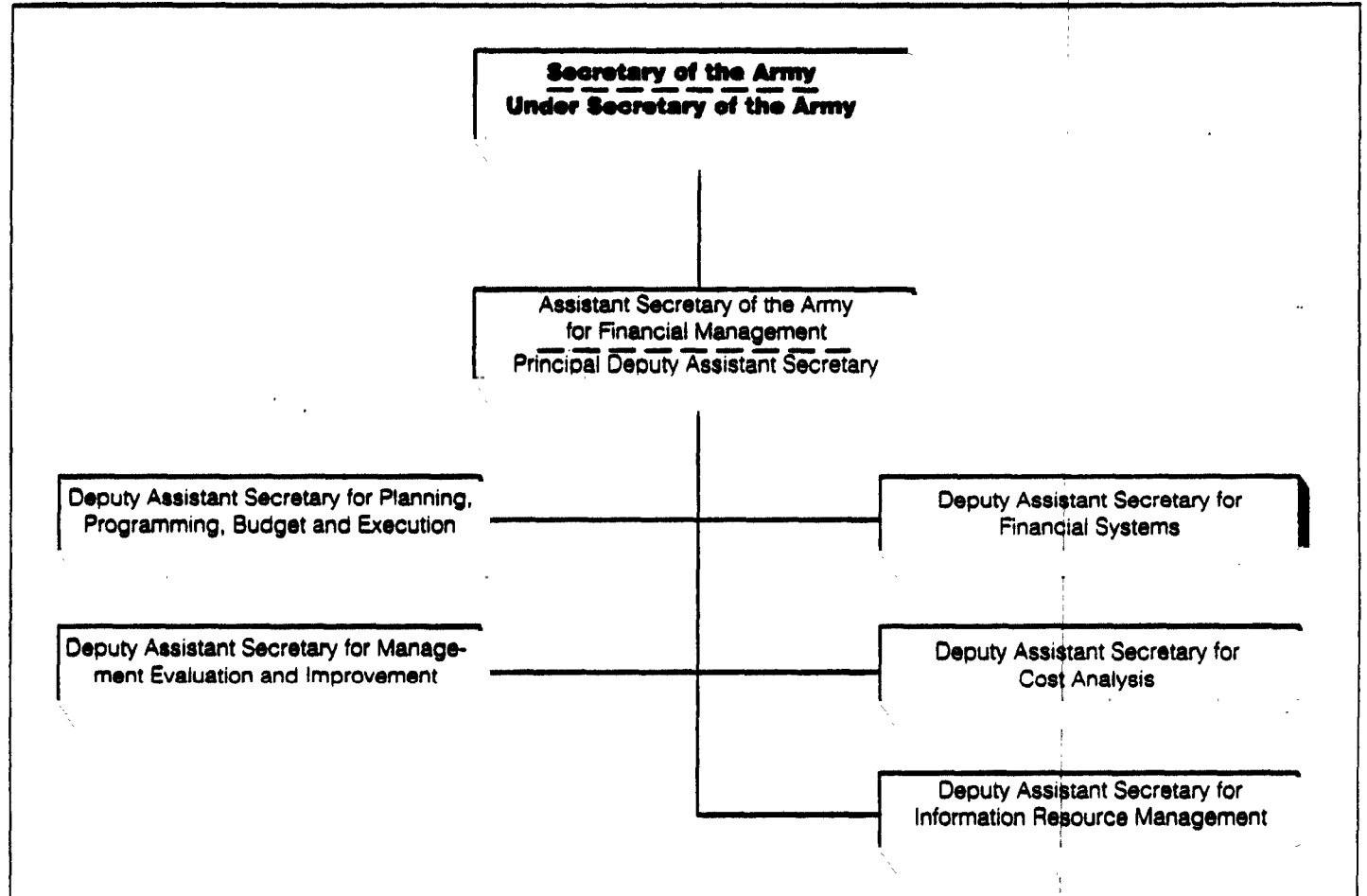
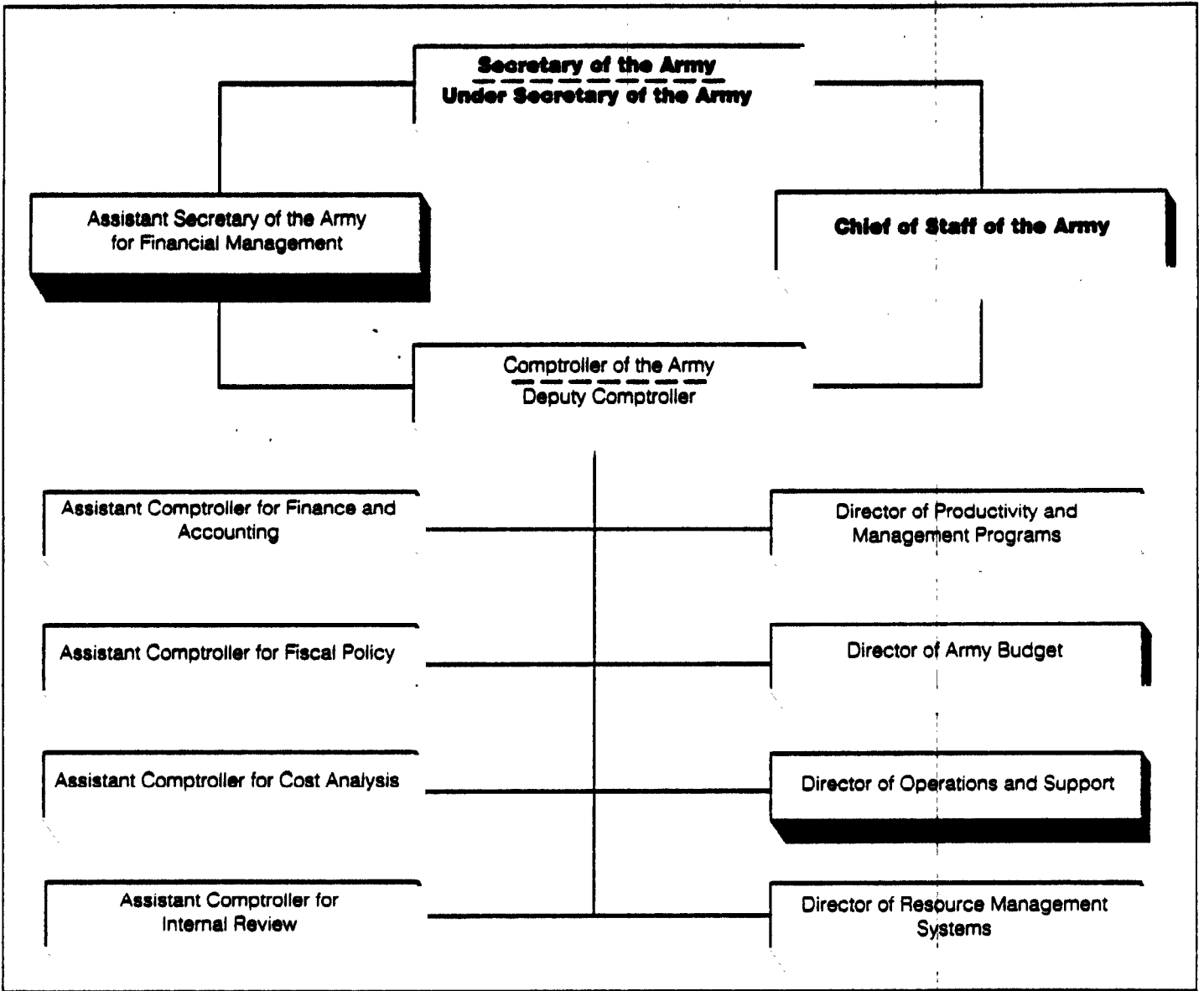


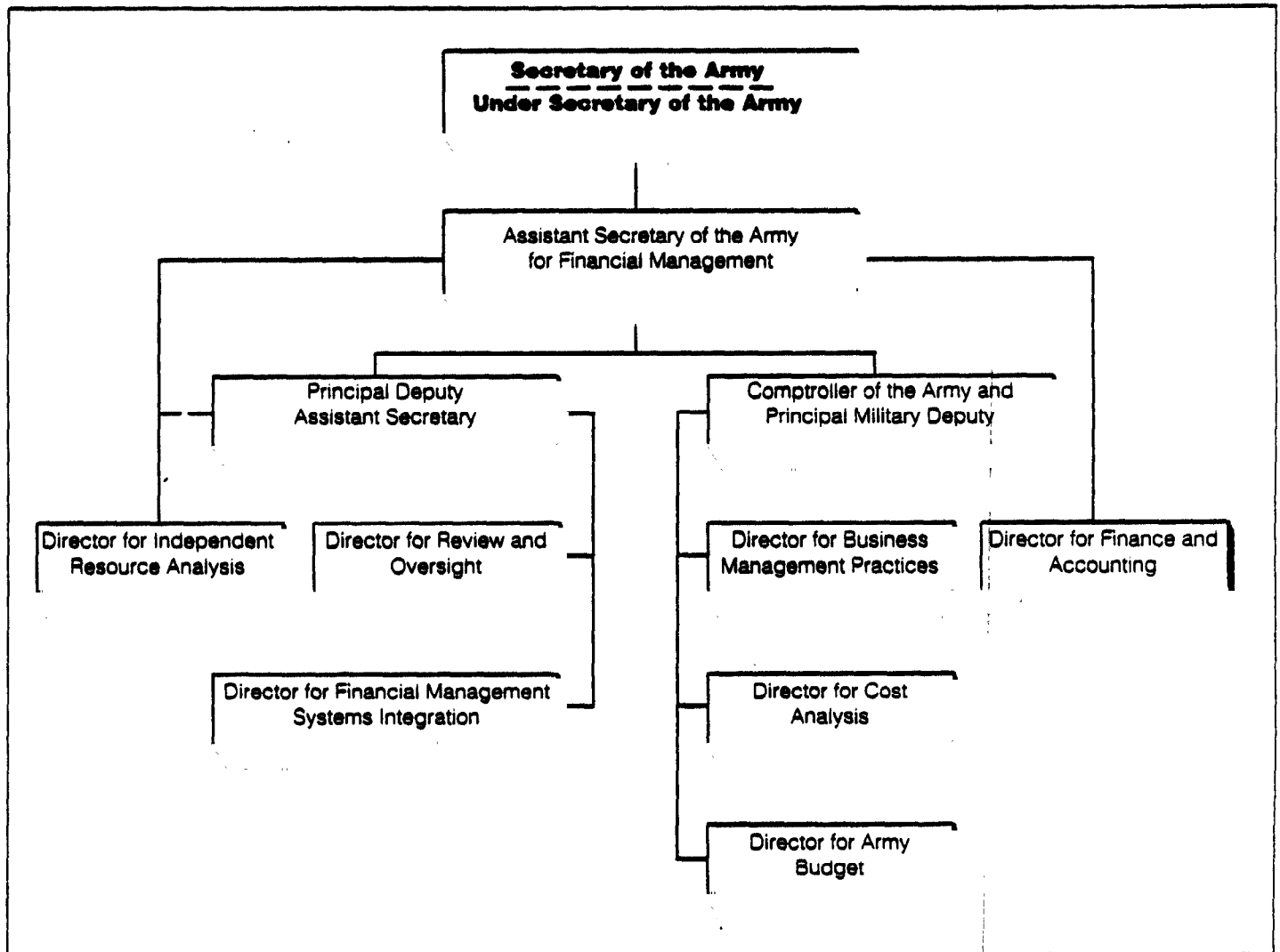
Chart III: Department of the Army Financial Management Structure—Pre-Reorganization (Army Staff)



A number of the Comptroller's former functions, such as acting as the Army point of contact with Congressional Appropriations Committees, and overseeing the Army's Finance and Accounting Center in Indianapolis, Indiana, have now become the direct responsibility

of the Assistant Secretary. Other key offices, including the budget, cost and economic analysis, and business management practices offices, continue to report to the Assistant Secretary through the Comptroller. The Comptroller also continues to provide feedback to the Army Chief of Staff on financial management matters.

Chart IV: Current Financial Management Structure of the Department of the Army

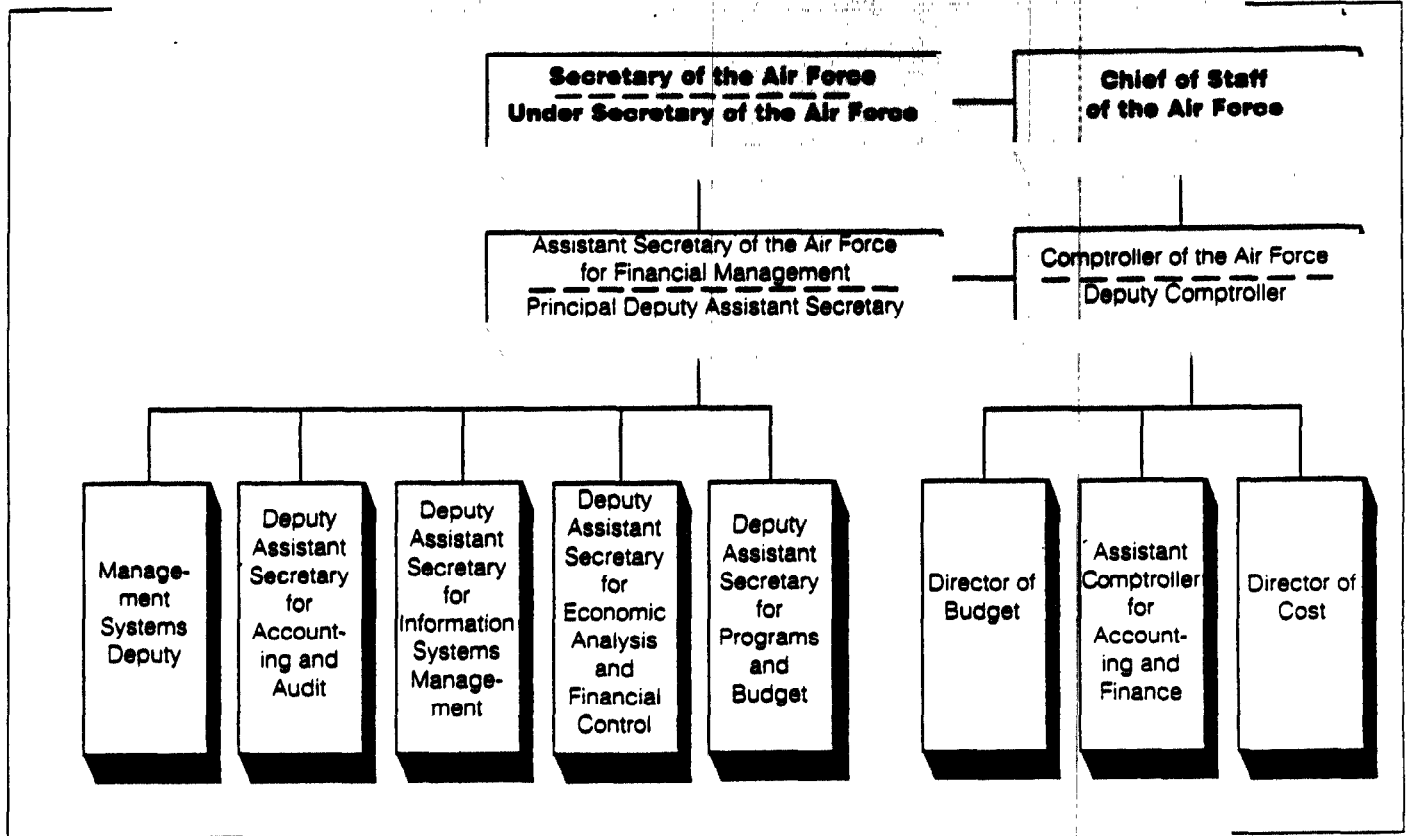


Internally, the structure of the Assistant Secretary's office has changed markedly as a result of the reorganization. The Assistant Secretary now has direct oversight of a staff of approximately 220, as compared to 29 before the reorganization. Offices from both the old Comptroller's and Assistant Secretary's offices were eliminated, and functions were redistributed among several new "Directorships." Several high-level officials, such as Deputy Assistant Secretaries and Assistant Comptrollers, remain within the new structure as Directors, but in a number of instances the reporting lines and scope of authority for these officials have changed. Overall, the Army appears to have made a substantial effort toward integrating its two former financial management structures.

Air Force

The Air Force made the most controversial and, in our opinion, the least desirable change by eliminating the position of Assistant Secretary for Financial Management and establishing its military Comptroller as head of the financial management structure. (See Charts V and VI.) Most functions from the former Office of the Assistant Secretary for Financial Management were transferred to the Office of the Comptroller. However, the functions of information systems management were transferred to the Assistant Secretary for Acquisition, and the functions of program development were elevated to the Under Secretary of the Air Force.

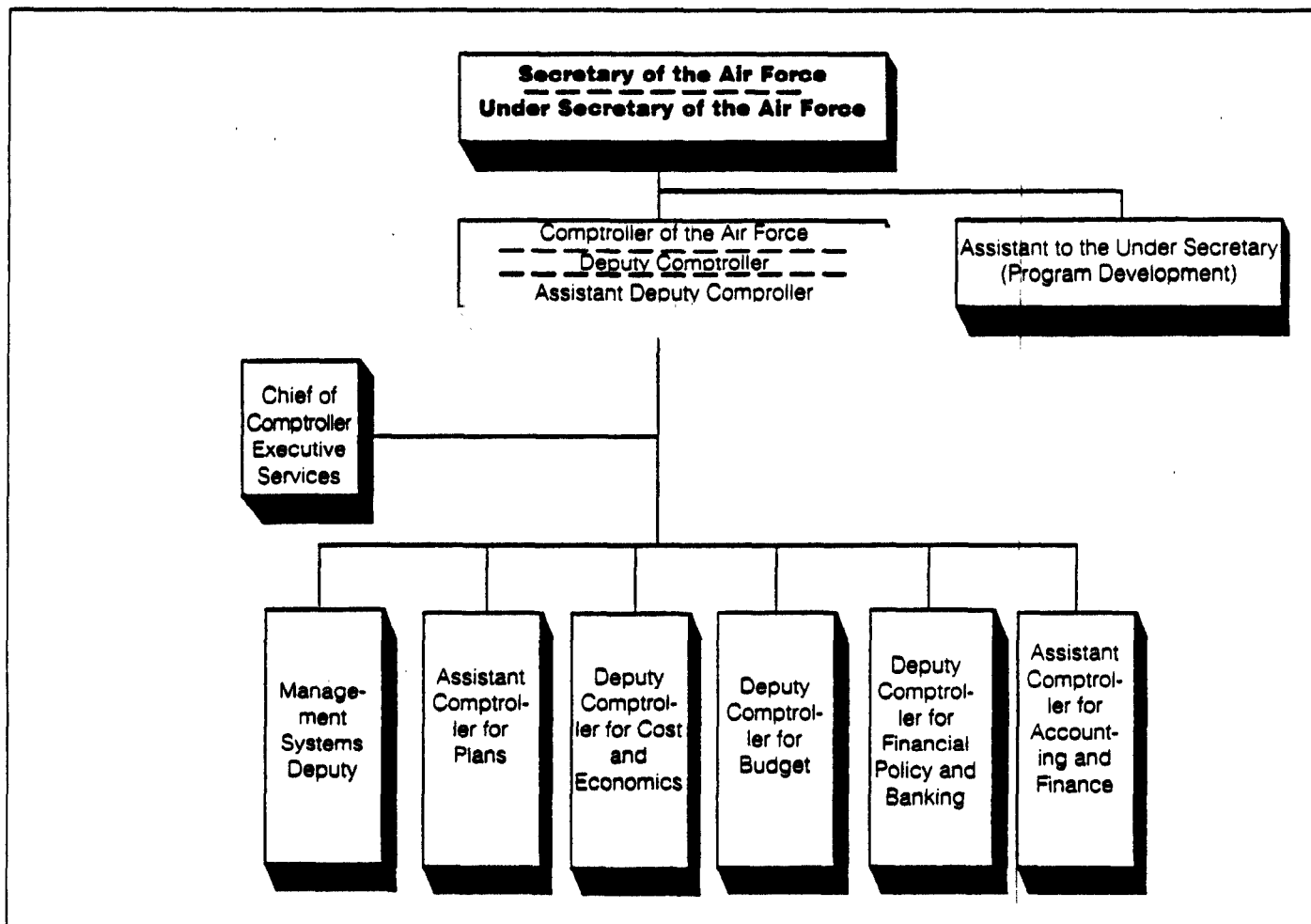
Chart V: Department of the Air Force Financial Management Structure—Pre-Reorganization



Because the Comptroller's office was moved to the Service Secretariat, the Air Force reorganization is in compliance with that aspect of the Act. Furthermore, the current Comptroller has done a good job in carrying out his financial management responsibilities. However, as I will discuss shortly, the Air Force reorganization seems to run counter to the congressional goal of strengthening civilian authority.

Staffing in the office of the Comptroller before the reorganization consisted of 214 individuals and increased by 11 to 225 under the new structure. The former Assistant Secretary for Financial Management's staff consisted of 26 individuals; 11 moved to the Comptroller staff, 3 were assigned to the Assistant Secretary for Acquisition, 4 were assigned to the Under Secretary, and 8 were transferred to the Office of the Assistant Secretary for Manpower.¹

Chart VI: Current Financial Management Structure of the Department of the Air Force



¹The transfer of financial management personnel to manpower occurred because the former Assistant Secretary for Financial Management became the Assistant Secretary for Manpower and Reserve Affairs after the reorganization.

The Air Force retained the Deputy Comptroller position, filled by a career civil servant, and created an Assistant Deputy Comptroller position, filled by a colonel. The Air Force appointed two of the five former civilian Deputy Assistant Secretaries for Financial Management to be Deputy Comptrollers. Five other deputies or assistants are military. One other former Deputy Assistant for Financial Management was appointed Assistant to the Under Secretary and has retained responsibility for program development. Only minimal operational changes in the Comptroller's office have taken place since the reorganization.

STRUCTURING FINANCIAL MANAGEMENT

The Reorganization Act significantly changed the structure that supports the Service Secretary. Service Secretaries were and are supported by Assistant Secretaries who are charged with oversight of key functions and activities. Where before, Assistant Secretaries were generally assisted in their oversight role by a small staff composed largely of civilian employees, the Act essentially merged this staff with the much larger staffs responsible for day-to-day management of the financial, acquisition, and other functions specified in the Act. I believe this integration should ultimately strengthen civilian control -- it reduces duplication and layering and should provide Assistant Secretaries with greater authority and direct control over the people directing, managing, and executing these activities.

The Air Force's financial management reorganization complies with the requirements of the Reorganization Act. However, the Air Force's elimination of the position of Assistant Secretary for Financial Management should concern the Congress because it may diminish civilian control.

The primary contribution of financial management to civilian control is to assure that civilian authorities--the Congress, the President, the Secretary of Defense, and Service Secretaries--receive consistent, reliable, and timely information on which to base their decisions.

A qualified Assistant Secretary is needed to assure that the systems are in place to provide the needed information. And, an Assistant Secretary, with an understanding of the President's and Secretary's agenda, is in a position to ask the right questions, making sure that information flows to the appropriate people. Moreover, an Assistant Secretary signals the importance of financial management and focuses attention on the activity. This in turn should strengthen financial management in the military departments.

FINANCIAL EXPERTISE IS CRITICAL

Assistant Secretaries for Financial Management should have demonstrated ability in the requisite qualifications. Civilian presidential appointees from either outside the government or from the career civil service ranks could possess these qualifications. The appointment of career employees may also offer greater continuity than has been the case with many political appointees. The Assistant Secretary is the principal advisor to the Service Secretary and as such must possess the knowledge to offer informed opinions on financial policy, procedures, and methods, including approaches to utilizing financial information to more effectively manage the activities and operations of the military departments. The Assistant Secretary must be able to integrate the Administration's financial policies into the military department's missions, goals, and objectives and oversee their execution. Effective supervision and control demands appropriately qualified individuals. In this regard, the Reorganization Act requires that the Secretary of Defense inform the President of the qualifications needed by presidential appointees to effectively carry out the duties and responsibilities of their offices.

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In summary, we believe that the goals of strong financial management and civilian control can best be served by having an Assistant Secretary as head of financial management in each of the military departments. An Assistant Secretary brings visibility to

financial management and reinforces the importance of the financial management function. In addition, we believe that the Secretary of Defense should ensure that the qualifications for this position include strong experience in financial management.

To accomplish this, we believe a fourth Assistant Secretary should be authorized for the Air Force and that this position be designated for financial management. Moreover, because of the importance of financial management, I believe that an Assistant Secretary for Financial Management should be required by statute for all the military departments.

This concludes my prepared statement. I would be happy to respond to any questions.