

February 1989

**FINANCIAL  
MANAGEMENT**

**Military Departments'  
Response to the  
Reorganization Act**



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United States  
General Accounting Office  
Washington, D.C. 20548

**National Security and  
International Affairs Division**

B-231225

February 9, 1989

The Honorable Les Aspin  
Chairman, Committee on  
Armed Services  
House of Representatives

Dear Mr. Chairman:

This report responds to the February 22, 1988, request from the former Chairman, Subcommittee on Investigations, Committee on Armed Services, the Honorable Bill Nichols, that we review each military department's reorganization of its financial management structure to assess the effect on civilian control and whether the reorganization satisfied the requirements and objectives of the act.

As arranged with your office, we plan no further distribution of this report until 30 days from its issue date, unless you release its contents earlier. At that time, we will send copies to interested committees and other Members of Congress; the Secretaries of Defense, the Army, Navy, and Air Force; and the Director of the Office of Management and Budget. We will also make copies available to other parties upon request.

This report was prepared under the direction of Martin M Ferber, Senior Associate Director. Other major contributors are listed in appendix III.

Sincerely yours,

A handwritten signature in cursive script that reads 'Frank C. Conahan'.

Frank C. Conahan  
Assistant Comptroller General

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# Executive Summary

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## Purpose

In response to the Goldwater-Nichols Department of Defense (DOD) Reorganization Act of 1986, the military departments reorganized their headquarters financial management structures. As part of its reorganization, the Air Force eliminated the position of assistant secretary for financial management and made the comptroller, a military officer, its chief financial officer. This action generated concerns that the Air Force reorganization has weakened rather than strengthened civilian control.

The former Chairman, Subcommittee on Investigations, House Committee on Armed Services, asked GAO to review each military department's reorganization of its financial management structure to assess (1) the effect on civilian control and (2) whether the reorganization satisfied the requirements and objectives of the act. The Chairman also asked GAO to address a number of related questions that had surfaced since the reorganization.

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## Background

Title V of the Reorganization Act required that the military departments designate a single office or other entity in each secretariat to conduct functions, including financial management, that are considered to be civilian in nature or key to effective civilian control. Before the act, there were often duplicate offices for these functions in both the secretariat and the Chief of Staff organizations within a military department.

The act sought to eliminate parallel or duplicate organizations that might have existed in the service secretariats and Chiefs' offices. The placement of the single offices in the service secretariats signified the desire of the Congress to strengthen civilian control.

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## Results in Brief

The Army undertook an extensive restructuring, integrating the two existing staffs and strengthening its central budget function in the process. This has resulted in increased day-to-day involvement on the part of the assistant secretary in the financial management function.

The Navy made relatively few changes because it already had an assistant secretary for financial management dual-hatted as its comptroller. The Navy did not change its long-standing delegation of some financial management responsibilities to the Marine Corps Fiscal Division. The Congress may wish to consider whether this arrangement meets the objectives of the act.

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GAO believes that the Air Force's action of placing a military officer rather than a civilian presidential appointee at the head of the financial management structure was contrary to the congressional goal of strengthening civilian authority in DOD.

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## GAO's Analysis

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### Financial Management Structure Should Be Headed by an Assistant Secretary

The financial management function in each of the military departments should be vested in a highly qualified civilian appointed by the President. Under this arrangement the function would be led by an individual who could ensure the flow of information to the civilian leadership and, with an understanding of the administration's agenda, be in a position to ask the right questions. Moreover, an assistant secretary signals the importance of financial management and focuses attention on this activity.

### Army Reorganization

The Army integrated the functions and the staff from the Offices of Financial Management and Comptroller into a new office headed by the assistant secretary for financial management. Internally, the structure of the Office of the Assistant Secretary for Financial Management has changed significantly 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 within the former Offices of the Comptroller and Assistant Secretary were eliminated, and functions were redistributed among several new "directorships." Overall, the Army appears to have made a substantial effort toward integrating its two former financial management structures.

### Navy Reorganization

The Department of the Navy made minimal changes. Since the 1950s, it has organized its Office of the Comptroller in its secretariat with the comptroller position filled by an individual dual-hatted as an under secretary, deputy under secretary, or assistant secretary. Prior to the reorganization, the assistant secretary for financial management had the responsibility for the comptroller (financial management) function. The assistant secretary continues to have this responsibility and the 214 personnel responsible for carrying out this function.

Certain financial management tasks, which the Navy defines as fiscal management, have been delegated to the Naval Fiscal Management and Marine Corps Fiscal Divisions, which are part of the Offices of the Chief of Naval Operations and Commandant of the Marine Corps, respectively. It is not clear that the Navy's delegation of fiscal management to the Marine Corps Fiscal Division accomplishes the act's objectives.

Most of the comptroller's budget and reports staff is dual-hatted as the Naval Fiscal Management Division. The comptroller evaluates the director of budget and reports, and the director regularly attends the comptroller's staff meetings as a member of the comptroller's staff. The organizational ties between the Marine Corps Fiscal Division and the comptroller are less defined. In addition, the Marine Corps Fiscal Division has broader responsibilities than those of the Naval Fiscal Division. DOD believes that the current arrangement reflects the Marine Corps' unique status and needs as recognized in the legislative history, which admonishes that nothing in the act is intended to impair the ability of the Commandant of the Marine Corps to carry out his responsibilities.

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## Air Force Reorganization

The Air Force abolished the position of assistant secretary for financial management, transferred many senior level civilian supervisors to areas other than financial management, and gave most financial management responsibility to its comptroller, a lieutenant general. Staffing in the Office of the Comptroller increased from 214 to 225 personnel under the new structure. The staff for the assistant secretary for financial management previously consisted of 26 individuals; 11 were moved to the comptroller's 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. Only minimal operational changes in the Office of the Comptroller have taken place since the reorganization.

Because the Office of the Comptroller was moved to the secretariat, the Air Force is in compliance with the requirements of the act. However, GAO believes its actions were not consistent with the goal of strengthening civilian authority.

In February 1988 testimony before the Subcommittee on Investigations, House Committee on Armed Services, GAO recommended that an assistant secretary for financial management be required by statute for all

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the military departments and that a fourth assistant secretary be authorized for the Air Force for this purpose. The National Defense Authorization Act for fiscal year 1989 included the provision recommended by GAO.

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## Matters for Congressional Consideration

In view of the question created by the existence of a separate Marine Corps Fiscal Division and DOD's belief that the current arrangements reflects the Marine Corps unique status and needs, the Congress may wish to consider whether the act needs to be modified.

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## Agency Comments

DOD does not concur with GAO's position that an assistant secretary for financial management be statutorily required for each military department. It believes that legislating organizational detail results in excessive rigidity and noted that the Secretary of the Air Force exercises more direct control over financial management than ever before. GAO believes that mandating an assistant secretary for financial management is necessary to ensure that future civilian leadership has sufficient oversight over financial management and that the legislative action taken was needed.

While DOD believes the Navy's delegation of fiscal management activities to the Marine Corps Fiscal Division is consistent with the act's objective, it concurred with GAO's proposal that the Congress may wish to consider whether the act needs to be modified in view of the Marine Corps unique situation.

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**Abbreviations**

|     |                           |
|-----|---------------------------|
| DOD | Department of Defense     |
| GAO | General Accounting Office |

# Introduction

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The military departments restructured the financial management function within their organizations in response to title V of the Goldwater-Nichols Department of Defense (DOD) Reorganization Act of 1986. Although the act was intended to strengthen civilian control, some questions have arisen as to whether the reorganization strengthened or weakened civilian control.

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## Federal Financial Management Structure

As a result of persistently high federal deficits, the federal government has entered an era of budgetary constraint requiring difficult resource allocation decisions. Decisionmakers (the President, the Congress, the Secretary of Defense, and the service secretaries) require accurate and timely information on which to base those decisions, and effective financial management is critical to this effort. The federal financial management structure should ensure that civilian authorities have accurate, timely, and consistent information to guide their financial decisions.

We are concerned about the federal government's lack of effective financial management and accountability, and the government's inability to effectively hold federal managers accountable for financial activities because of insufficient financial data. Our audits, agency inspectors general initiatives, and agency self-evaluations conducted under the Federal Managers' Financial Integrity Act of 1982 have disclosed examples of federal financial management weaknesses, including the lack of agency financial management leadership and long-range planning. We have reported on the need for a comprehensive financial management reform.<sup>1</sup> The topic of this report—the structure of financial management in the military departments—is one facet of this issue.

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## Applying the Concept of Civilian Control to Structuring Financial Management

The Constitution established the basic elements of civilian control. These serve as the basis for the President's authority as Commander in Chief, and the Congress' powers to declare war and control appropriations. Historically, civilian leadership has always presided over the military departments, first in the form of the Secretaries of War and Navy, and now through the Secretary of Defense and the service secretaries.

The key elements of civilian control include the Congress, the President, and the Secretary of Defense who has central responsibility for civilian control within the department. The service secretaries are viewed as

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<sup>1</sup>Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, Feb. 1985).

performing a crucial role in civilian control. Therefore, the organizational structure supporting the service secretary, as well as the secretary's own qualifications and management skills, greatly determine how effectively the civilian control role is carried out.

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### Reorganization Act Changes Structure Supporting Service Secretaries

The Reorganization Act changed the structure that supports service secretaries. Service secretaries were and are supported by assistant secretaries who are charged with oversight of key functions and activities. Before the reorganization, assistant secretaries were generally assisted in their oversight role by a small staff composed largely of civilian employees. However, the act essentially merged this staff with the much larger staffs that were responsible for the day-to-day management of the financial, acquisition, and other functions specified in the act. These larger staffs had been under military leadership and control.

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### Requirements of the Act

In order to strengthen civilian authority and eliminate duplication of functional responsibility, title V of the act mandated changes for functions considered civilian in nature or key to effective civilian control, such as financial management, acquisition, auditing, information management, the inspector general, legislative affairs, and public affairs.

Title V required that each of the service secretaries (1) have sole responsibility for these functions within the secretariat, (2) establish or designate a single office or other entity in each service secretariat to conduct the specified functions, and (3) prescribe the relationship of each office responsible for the specified functions to the service Chiefs of Staff and ensure that the office provides the Chiefs such staff support as they consider necessary to perform their duties and responsibilities. Title V further provides that with respect to any of these functions, the offices of the service Chiefs may provide advice or assistance to the Chiefs or otherwise participate in such functions under the direction of the office in the secretariat with sole responsibility. The reorganizations were to have been completed by March 28, 1987, with a report to the Congress on the actions taken to implement the required changes by April 27, 1987.

Prior to the act, there were often parallel offices responsible for the specified functions in both the secretaries and the Chiefs of Staff's organizations. In financial management the Secretaries of the Army and the Air Force had an assistant secretary for financial management while

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there was also a military comptroller within the Chiefs of Staff's organizations. In the Navy the assistant secretary for financial management was dual-hatted as the comptroller.

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## Defining Comptrollership and Financial Management

The act refers to "comptroller (financial management)" as a function to be consolidated within the secretariats. Although the terms comptroller functions and financial management are both used when describing the military departments reorganizations, no clear distinction exists between them. Both terms refer to the range of activities having to do with budgeting, accounting, cash management, financial reporting, internal control, and evaluation or review.<sup>2</sup>

Within DOD, financial management has usually been equated with policy oversight and advising the civilian authorities on financial matters, and comptrollership has been associated with budgeting, accounting, and reporting. This DOD distinction has its roots in the statutory definition of the comptroller functions in the military departments. By eliminating this statutory definition and creating a single office in the secretariat for comptrollership (financial management), the Reorganization Act essentially eliminated the distinction that existed within DOD between these two terms.

Organizational structures with various combinations of financial management and comptroller functions can be found throughout the government and private sector corporations. For example, a large corporation or a major federal department could include such positions as a chief financial officer and a subordinate comptroller, while a smaller enterprise or federal agency could have the same person performing functions of both positions. When there are multiple areas of financial responsibility in or out of government, certain functions are organizationally established. These functions could be the responsibility of a chief financial officer, and various subfunctions, such as accounting, could be the responsibility of a comptroller. Therefore, the size, type, and diversity of the organization will determine the structure of the organizational interrelationships needed to efficiently manage and operate the business.

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<sup>2</sup>For the purpose of this report, the term financial management is used when describing the function.

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## Objectives, Scope, and Methodology

The objective of our review was to assess whether the military departments' restructuring of their financial management functions complied with the requirements of the act. We also reviewed (1) the degree of civilian control, (2) differences in the approaches adopted by the military departments, and (3) the integration of secretariat staff with personnel from the Chiefs' organizations. The former Chairman, Subcommittee on Investigations, House Committee on Armed Services, also requested that we examine some specific concerns resulting from the reorganizations, which are discussed in appendix I, including how the reorganization affected the Air Force Management Systems Deputy position.

We reviewed the legislative history of the act and the departments' implementing instructions and discussed them with defense officials involved in preparing the instructions. To develop an in-depth understanding of the operations of the offices involved, we met with civilian and military officials of these offices who held senior-level positions before and after the reorganizations to discuss their roles and responsibilities.<sup>3</sup> We obtained data from the military departments' personnel authorization documents on the civilian/military personnel composition of the financial management structure before and after the reorganizations. We also reviewed biographies of former Assistant Secretaries of Financial Management and military Comptrollers to determine the types of experience—defense operations, financial management, and politics—they had before assuming their positions.

Our work was performed from February 1988 to August 1988 in accordance with generally accepted government auditing standards. The Department of Defense provided written comments on a draft of this report. These comments are presented and evaluated in chapters 2, 3, 4, 5, and appendix I and are included as appendix II.

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<sup>3</sup>Senior-level positions before the reorganization refer to deputy assistant secretaries and principal deputies in the secretariat and assistant comptrollers or directors in the comptroller organization. Senior-level positions since the reorganization refer to principal deputies and directors.

# Army Integrates Financial Management Functions

The Department of the Army's reorganized financial management structure complies with the act's requirements, and meets the objectives of a streamlined structure. It substantially integrated the functions and the staff from the Offices of Financial Management and Comptroller to create a new financial management organization that did not mirror either structure that existed prior to the reorganization. The Office of the Comptroller, previously part of the Army Staff,<sup>1</sup> was merged into the secretariat to form a new office with that of the assistant secretary for financial management. The assistant secretary remains the head of this new office with the comptroller serving as his principal military deputy. A significant change which resulted from the reorganization is the centralization of budget functions and the responsible staff from across Army headquarters offices into the Office of the Assistant Secretary for Financial Management.

## Army's Approach to Implementation

On October 11, 1986, the Secretary of the Army created the Army Reorganization Commission, which was cochaired by the Assistant Secretary for Financial Management and the Comptroller of the Army. It was comprised of civilian and military representatives from both the secretariat and the Army Staff. As part of the Commission's responsibilities, it was charged with proposing to the Secretary and the Chief of Staff a reorganization plan that met the following criteria: (1) complying with all requirements of title V of the act, (2) incorporating the requirements of other laws and presidential directives affecting the organization of Headquarters, Department of the Army, (3) enhancing civilian control, (4) eliminating duplication in all staff functional areas, (5) ensuring that the Army Chief of Staff would receive adequate staff support in all areas, and (6) decentralizing, where feasible, by transferring functions and positions to agencies and commands outside of Department of the Army, Headquarters.

The Commission presented a reorganization plan that the Secretary and the Chief of Staff approved in February 1987. On March 27, 1987, the Secretary directed the secretariat and the Army Staff to begin operating under the reorganized headquarters effective March 30, 1987. In April 1987, the Army submitted its report to the Congress on its reorganization as required by the act.

<sup>1</sup>The Office of the Chief of Staff of the Army is referred to as the Army Staff.

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## Overview of Prior Structure

Prior to the reorganization, the Army had offices in both the secretariat and the Chief of Staff's organizations that were responsible for financial management functions. The assistant secretary for financial management provided oversight of the overall planning, programming, and budgeting processes in the Army, supervised the comptroller in all his financial responsibilities, and provided technical supervision and guidance over auditing. The assistant secretary also was designated the Army's senior information resource management official. The responsibilities of the comptroller included fund allocation and control, budget analysis, finance and accounting, productivity investment and efficiency programs, installation management, management improvement programs, cost analysis, internal review, and policy development and budget consolidation, justification, and execution.

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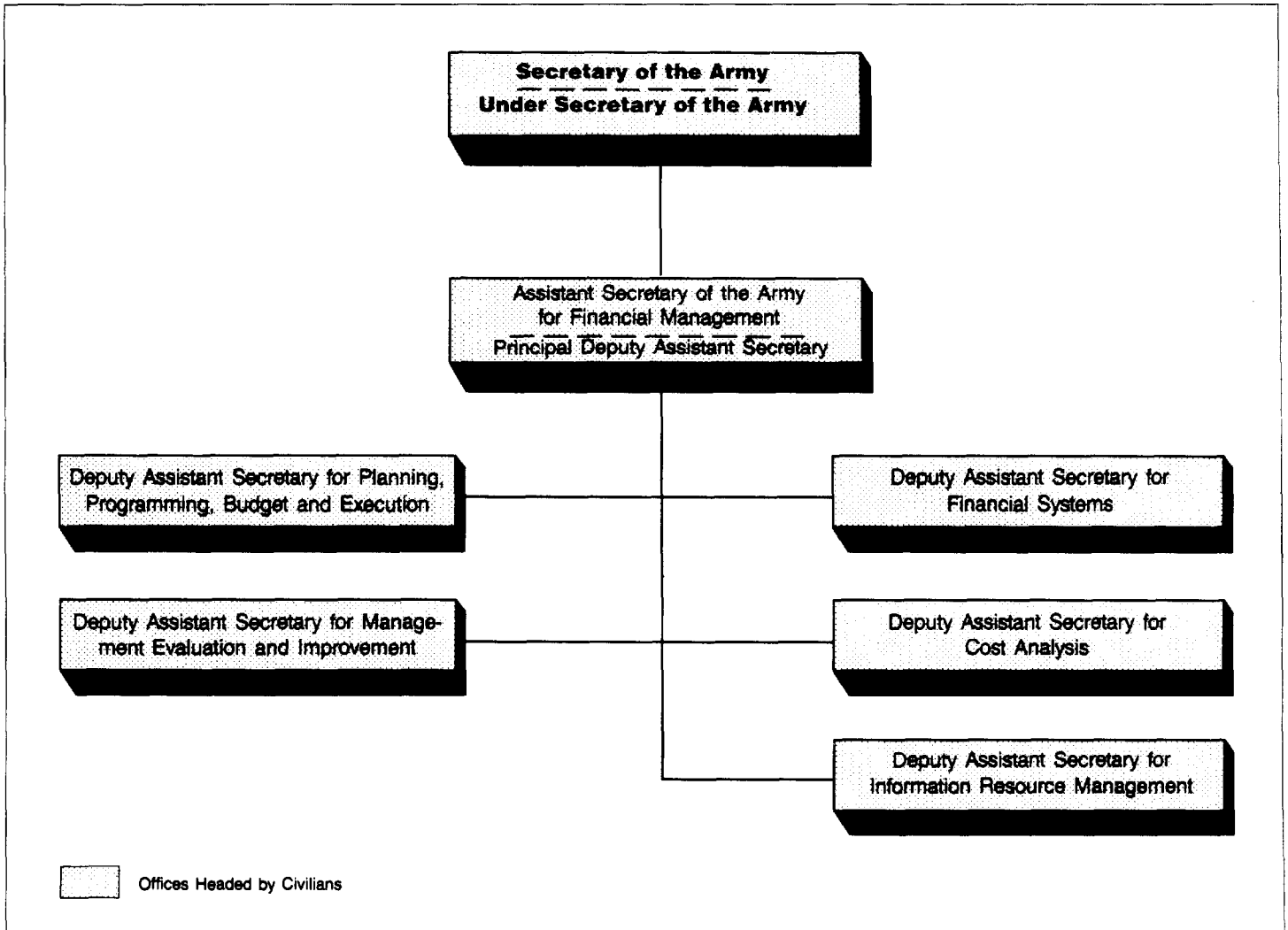
## Secretariat Financial Management Organization

Before the reorganization, the Office of the Assistant Secretary for Financial Management was comprised of a small senior-level civilian staff. A principal deputy assistant secretary, a civilian political appointee, aided the assistant secretary in the execution of his responsibilities. As shown in figure 2.1, those responsibilities were divided into five functional areas, each headed by a deputy assistant secretary.

There were 29 staff members (24 civilians and 5 military officers) responsible for carrying out these functions. Staffing levels for these subordinate offices were small, and this often forced them to be dependent upon other organizations to help with their tasks.

Policy-making and operations of some functions were divided between the secretariat and the Army Staff. For example, in the finance and accounting area, the deputy assistant secretary for financial systems had a military counterpart, the assistant comptroller for finance and accounting, in the Army Staff who also commanded the Army's Finance and Accounting Center at Fort Benjamin Harrison, Indiana. The deputy assistant secretary provided the policy guidance to the assistant comptroller for the operations at the Finance and Accounting Center. Similarly, the deputy assistant secretary for planning, programming, budget and execution was responsible for the development, review, and recommendation of proposals for the action of the assistant secretary with respect to program and budget policies, guidance, and procedures. He interacted with the director of the Army budget, who reported to the comptroller and was responsible for the execution of these policies.

Figure 2.1: Department of the Army Financial Management Structure—Pre-Reorganization (Secretariat)



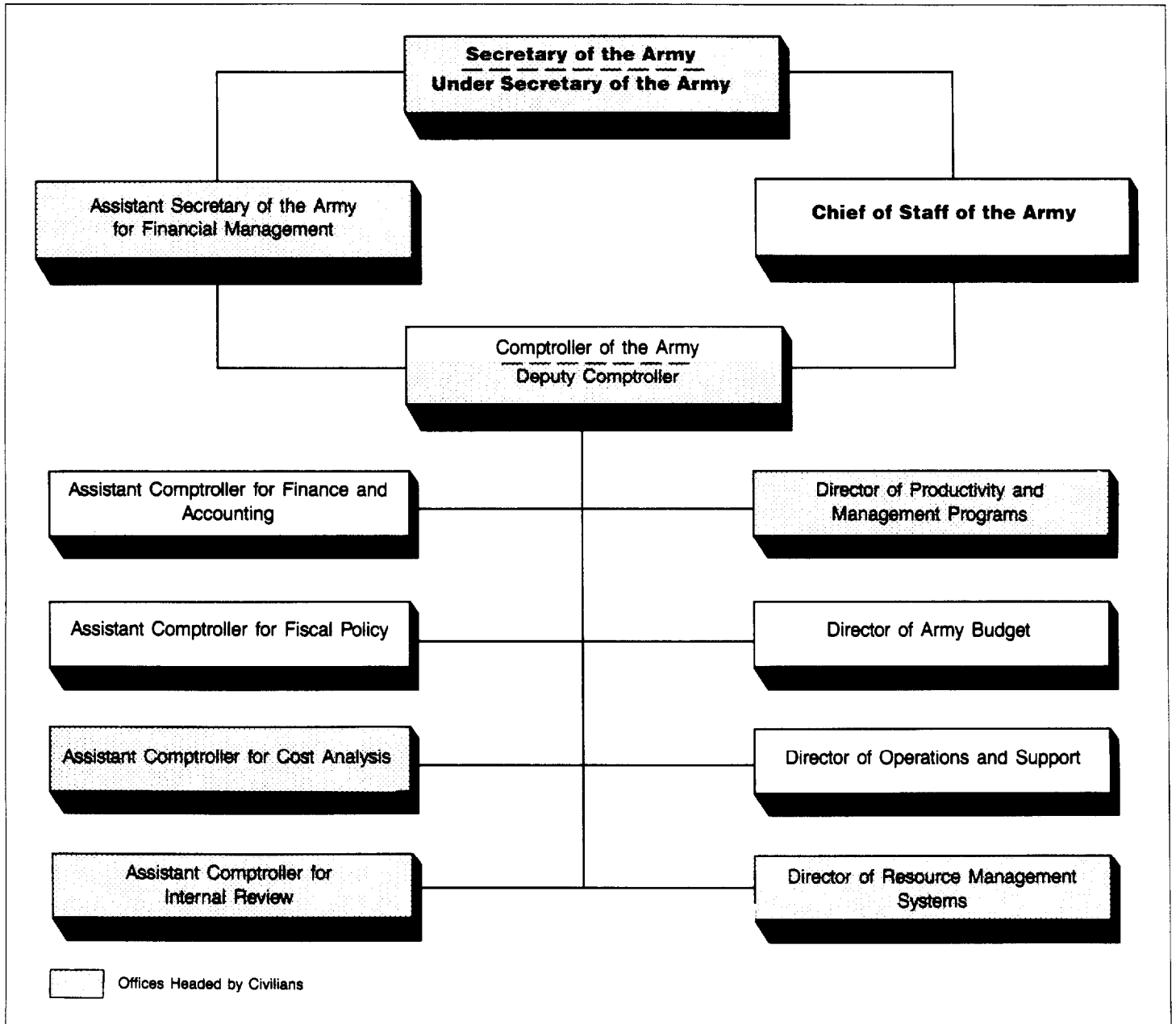
### Comptroller's Office

Prior to the reorganization, the comptroller was responsible to both the assistant secretary for financial management and the Army Chief of Staff. The Office of the Comptroller was organized within the Office of the Chief of Staff, but with the operating policy emanating from the Office of the Assistant Secretary for Financial Management. The organizational elements of the comptroller's office, as shown in figure 2.2, consisted of four functional areas headed by assistant comptrollers (one military officer and three civilians), and four areas headed by directors



Chapter 2  
 Army Integrates Financial  
 Management Functions

Figure 2.2: Department of the Army Financial Management Structure—Pre-Reorganization (Army Staff)



(two military officers and two civilians). A civilian assisted the comptroller as his principal deputy. The total staff of 137 consisted of 104 civilians and 33 military personnel.

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## Integrated Organization Emerges

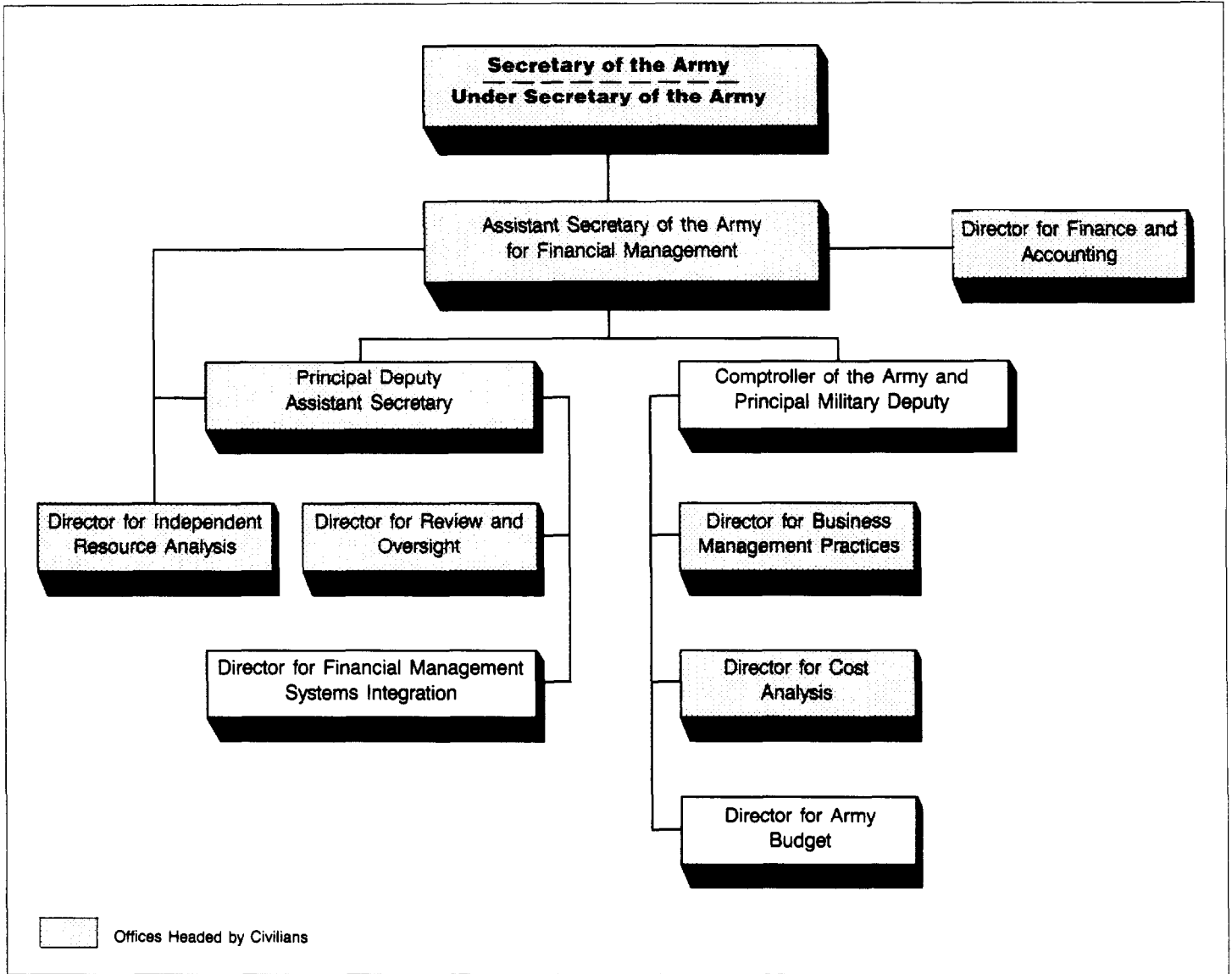
The Army integrated the Office of the Comptroller of the Army with the Office of the Assistant Secretary for Financial Management. The reorganized Office of Financial Management is headed by the assistant secretary for financial management. The comptroller, currently a lieutenant general, now serves as the military deputy to the assistant secretary for financial management, while a civilian appointee serves as the principal deputy. The principal deputy serves as the acting assistant secretary in the assistant secretary's absence.

Internally, the structure of the Office of the Assistant Secretary has changed markedly as a result of the reorganization. The assistant secretary now has direct oversight of a staff of approximately 220, as compared with 29 before the reorganization. Functions within the offices from both the former Offices of the Comptroller and Assistant Secretary were eliminated, and functions redistributed among several new "directorships." Figure 2.3 shows the reorganized Office of the Assistant Secretary for Financial Management.

As part of the reorganization, the Army created some new offices and established some new reporting relationships. For example, the Offices of Business Management Practices and Independent Resource Analysis did not formally exist in either of the former organizations. These offices seek to make innovations in the subject areas. They are headed by senior-level career civilians who had different duties before the reorganization. For example, the director of independent resource analysis used to be the deputy assistant secretary for planning, programming, budget and execution; and the director of business management practices served as the deputy comptroller of the Army.

In the finance and accounting area, the director for the new Office of Finance and Accounting, a career civilian who reports directly to the assistant secretary, formerly served as the deputy to the assistant comptroller for finance and accounting. A brigadier general still serves as the commander of the Finance and Accounting Center, but the director of finance and accounting has now been given the oversight responsibility of that area. Finally, the major general in charge of budgeting also has a much larger responsibility, since the Army Budget Office grew substantially with the consolidation of budgeting personnel from across the Army headquarters.

Figure 2.3: Current Financial Management Structure of the Department of the Army



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## Army Budget Office

The Army sought to strengthen the budget function through giving the director of the Army budget office more direct authority and by consolidating budgeting personnel from across its headquarters offices and centralizing them in the Army Budget Office. As a result, the Budget Office expanded from 46 to approximately 197 staff. After this consolidation was completed, the Army then reduced the personnel authorizations for the budget office by 15 percent, bringing the total authorizations down to 166 personnel. The authorized staffing level for the assistant secretary's total office, now 220, is larger than what existed before in the former secretariat and comptroller's offices, as a result of the transfer of budget personnel from the Army Staff to the budget office.

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## Reporting Lines

Within the reorganized Office of the Assistant Secretary for Financial Management, a division of reporting lines exists between the assistant secretary's two principal deputies, as shown in figure 2.3. The division of reporting lines was developed because the assistant secretary wanted to (1) limit his span of control to a more manageable level and (2) fully integrate the comptroller's and the assistant secretary's staffs into an entirely new structure. Instead of nine officials reporting to him, the assistant secretary now has four.

These four officials include the comptroller (the military principal deputy), the civilian principal deputy, the director for independent resource analysis, and the director for finance and accounting. The assistant secretary designated the comptroller as the liaison to the Army Chief of Staff's office.<sup>2</sup> This was an important factor in deciding which functions should report to the comptroller and which to the civilian principal deputy.

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## Compliance With Requirements of Title V

The actions taken by the Army comply with the act's requirement that there be a single office or entity within the secretariat to conduct the functions of comptroller (financial management). All of these functions previously performed by the comptroller and the assistant secretary for financial management are included in the reorganized financial management organization. The Secretary of the Army chose to retain the position of comptroller. One of the comptroller's duties is to ensure that the

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<sup>2</sup>The act required that the Secretary prescribe the relationship of the secretariat office responsible for the specified function to the Chief of Staff and ensure that the secretariat office provide the Chief of Staff such staff support as the Chief of Staff considers necessary to perform his duties and responsibilities.

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Chief of Staff receives adequate staff support from the secretariat, which meets another requirement in the act.

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## **Conclusions**

Overall, the Army appears to have made a substantial effort toward integrating its two financial management structures. Its reorganized structure complies with the requirements of the act and meets the objectives of a streamlined structure. It also appears to further civilian control by strengthening the authority of the assistant secretary and involving the assistant secretary more in financial management operations.

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## **Agency Comments**

DOD concurred with our analyses and conclusions that the Army has complied with the Reorganization Act.

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# Department of the Navy Organization Remains Largely the Same

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The Navy made the fewest changes to its financial management structure of the three military departments. The financial management organization continues to be headed by a civilian presidential appointee and this individual serves as both the assistant secretary for financial management and the comptroller. The Navy also has two other headquarters organizations concerned with financial management, the Naval Fiscal Management Division structured within the Office of the Chief of Naval Operations, and the Marine Corps Fiscal Division under the Office of the Commandant of the Marine Corps.

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## Comptroller Reported to the Secretary of the Navy

In his June 18, 1987, testimony before the Subcommittee on Investigations, House Committee on Armed Services, the then Secretary of the Navy noted that seven of the eight functions required by the act to be the sole responsibility of the Secretary were functions that already reported to him. He explained that four of the eight functions (including comptroller) reported primarily as they did prior to the act, but adjustments were made to ensure compliance with the act's sole responsibility clause.

The Department of the Navy did not submit its status report on implementation until August 5, 1987. The Secretary explained, in letters to the Chairmen of the Senate and House Committees on Armed Services, that submission of the required reports was delayed because (1) he was recently confirmed as Secretary (April 9, 1987) and (2) he wanted to review the scope and impact of the new functional requirements with the Chief of Naval Operations and the Commandant of the Marine Corps before reporting. In the letters transmitting the reports to the Committees, the Secretary noted that he had finalized the Secretary of the Navy Instructions, issued August 5, 1987, which assigned sole responsibility to individuals and organizations within his office for overseeing the headquarters element of the functions specified in the act.

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## Overview of Structure

The assistant secretary of the Navy for financial management, a civilian presidential appointee, remains the comptroller of the Department of the Navy.<sup>1</sup> The Office of the Comptroller of the Navy is designated to be solely responsible for comptrollership within the Office of the Secretary, Office of the Chief of Naval Operations, and Headquarters, Marine Corps. The comptroller is responsible throughout the department for

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<sup>1</sup>The Office of Information Resources Management, which is discussed later in this chapter, also reports to the assistant secretary for financial management.

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developing and maintaining effective financial policies, standards and procedures, as well as coordinating and integrating a financial system.

The comptroller is assisted by a deputy comptroller, a director for budget and reports, and an assistant comptroller for financial management systems. All three are military officers.

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### The Dual Role of the Assistant Secretary

Historically, the Department of the Navy has had only one individual responsible for comptrollership or financial management activities and that individual serves two roles. In 1950, the assistant secretary of the Navy for air was designated as the first comptroller of the Navy, pursuant to the National Security Act Amendments of 1949. Since that time, the under secretary, an assistant secretary, or a deputy under secretary has always been appointed as the comptroller. When the Navy established the position for assistant secretary for financial management in 1954, the Navy felt that this structure (1) met the statutory requirements that the comptroller be under the direction and supervision of the Secretary, under secretary, or an assistant secretary and (2) also allowed the objectivity needed to oversee both services—the Navy and the Marine Corps.<sup>2</sup>

The Department of the Navy organized its Office of the Comptroller in the secretariat because it oversaw and integrated comptroller activities for both the Navy and the Marine Corps. The Navy department did not consider it appropriate to have its comptroller within one of its military service's organizations, such as the Office of the Chief of Naval Operations, since the department must assure objectivity in dealing with both of its services.

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### Department of Navy Has One Office Within Secretariat Responsible for Comptrollership (Financial Management)

The Department of the Navy authorizes two separate offices, the Office of the Assistant Secretary (Financial Management) and the Office of the Comptroller. Six personnel are authorized to the Office of the Assistant Secretary of the Navy (Financial Management), and 214 are authorized to the Office of the Comptroller. However, as a practical matter, these offices are the same.

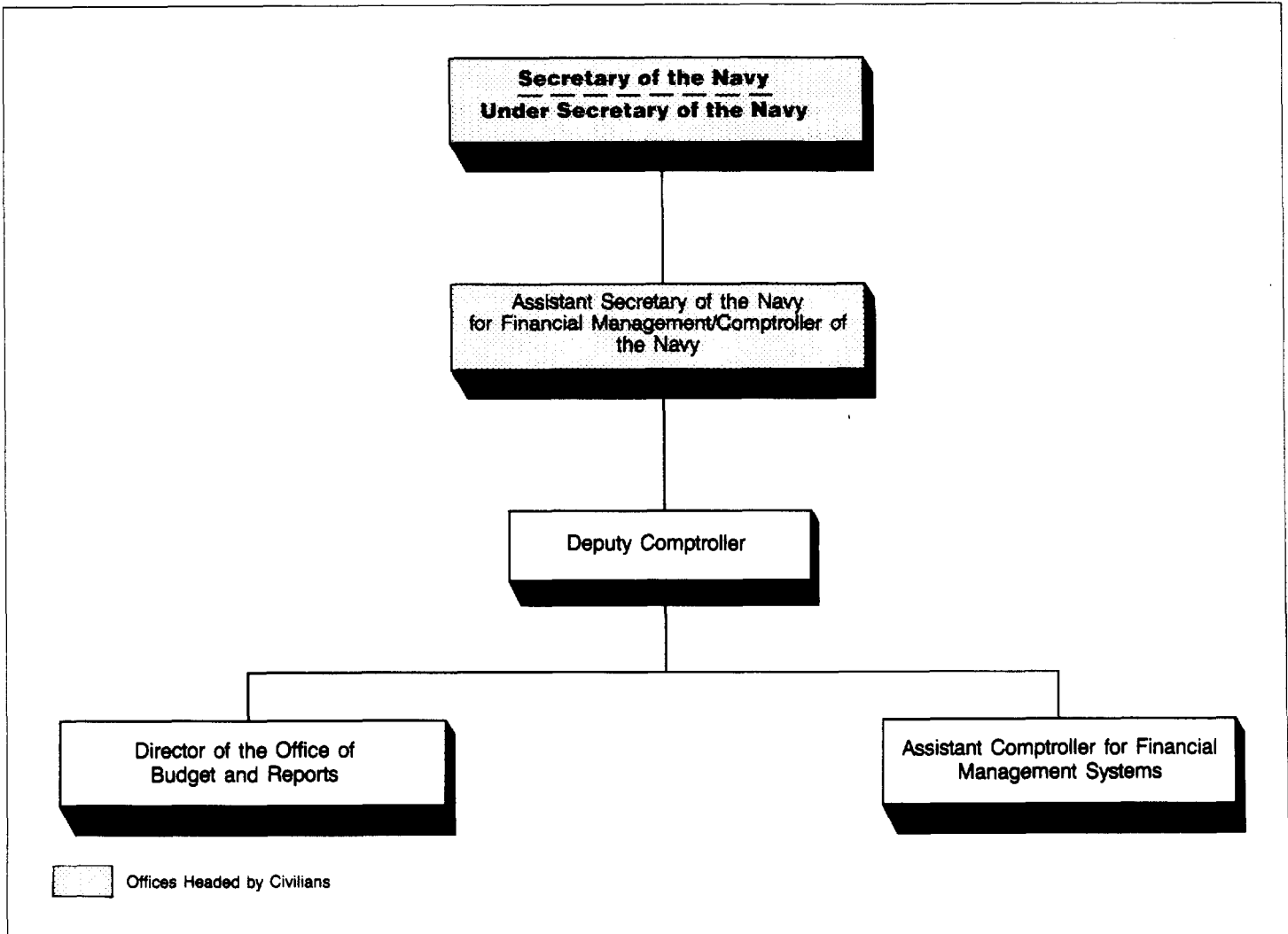
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<sup>2</sup>Prior to the Reorganization Act, the Navy, Air Force, and Army had an assistant secretary for financial management. Additionally, each department was required by law to have a comptroller. The authorizing statutes specified the duties of the comptroller and deputy comptroller positions. The statutes required that a civilian occupy at least one of these two positions in each department, and also mandated that the comptroller be directly responsible to either the military department secretary, the under secretary, or an assistant secretary.

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As discussed in chapter 1, there is no generally accepted distinction between financial management and comptrollership, and the assignment of tasks to officials holding these titles normally reflects organizational patterns and characteristics. Further, Navy officials have noted that the title, Office of the Assistant Secretary of the Navy (Financial Management), may be misleading since the functions performed by its staff are not considered financial management or comptroller functions by the

**Figure 3.1: Department of the Navy Financial Management Structure**



Note: Other offices report to the assistant secretary for financial management; these offices are not associated with the financial management function.



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Navy. Five personnel provide executive or administrative assistance to the assistant secretary/comptroller. Another office which also reports to the assistant secretary and has no financial management responsibility is the Office of Information Resources Management, which has about 33 personnel authorized. That office manages those activities related to the generation, storage, reproduction, distribution, and disposition of information in the Department. As shown by figure 3.1, the assistant secretary for financial management is the ultimate authority reporting to the Secretary for financial management or comptrollership in the Department of the Navy's financial management organization.

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## Navy Distinguishes Fiscal Management From Comptrollership

The comptroller sets the policies for comptrollership throughout the Department of the Navy. Additionally, the Navy has defined a fiscal management function which it believes is distinguished from comptrollership and consists of three basic elements:

1. It integrates programming and budgeting actions by coordinating the review of budget estimates prepared by cognizant organizations with headquarters staff elements to ensure conformance with programmatic decisions reflected in the approved program objective memorandum.
2. It provides fiscal control of funds that have been allocated by the comptroller, including the suballocation of funds to administering offices, and ensures accurate and timely reporting of program status, funds availability, commitments, obligations, and expenditures from appropriate executing organizations.
3. It provides for the review of execution of allocated funds to ensure that program objectives are satisfied and identifies the need to reprogram funds.

Offices that exercise fiscal management for an entire appropriation or fund are called "responsible offices."

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## Fiscal Divisions

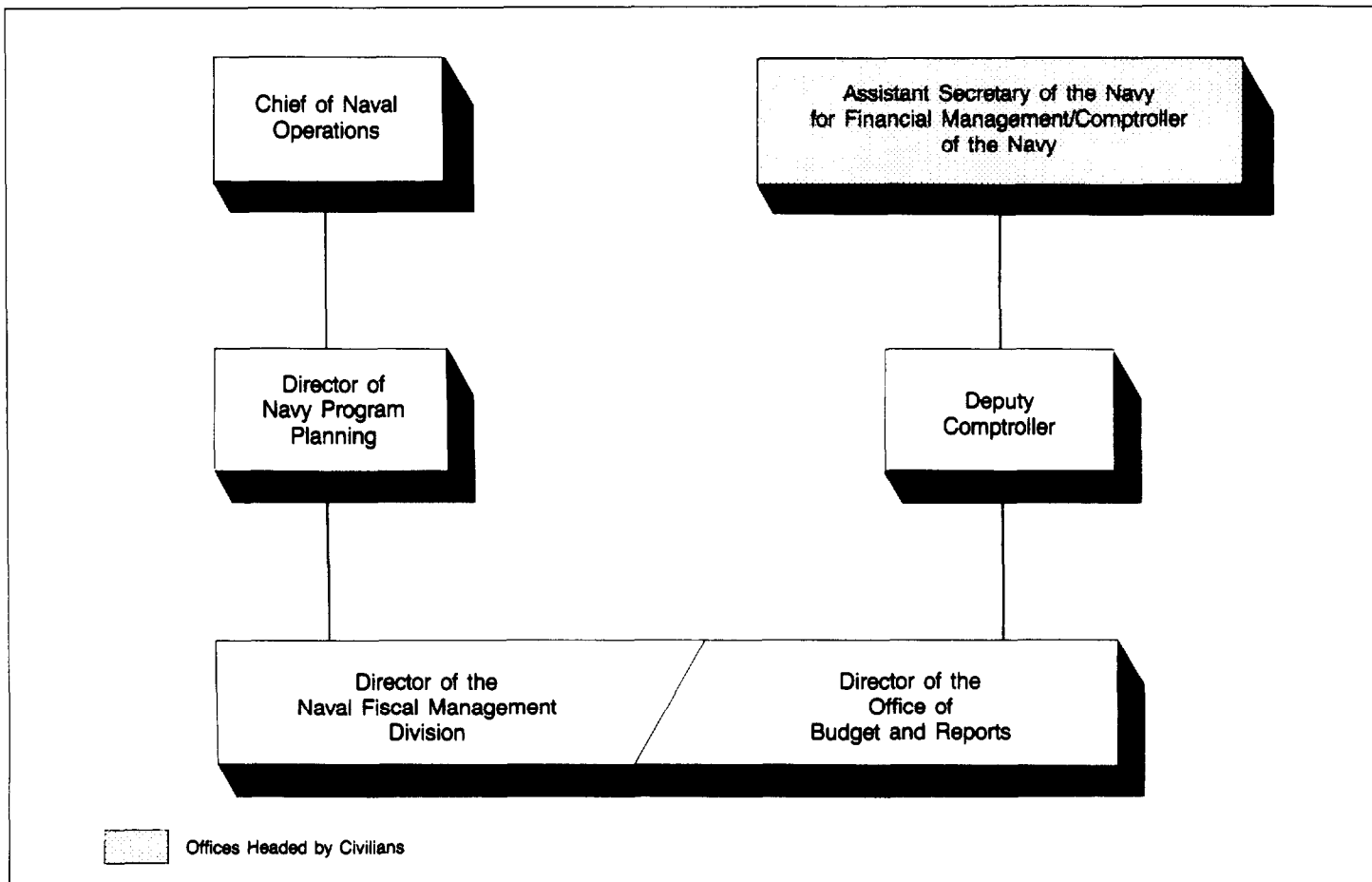
The functions of the Naval Fiscal Management Division, comprised of 175 personnel (154 civilians and 21 military), pertain primarily to acting as the responsible office for Navy appropriations (e.g., Military Personnel, Operations and Maintenance, and Other Procurement). The Naval Fiscal Management Division also has responsibility for justifying the

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requirements for the Navy Operations and Maintenance and Other Procurement appropriations. (As discussed later in this chapter, the Naval Fiscal Division staff is dual-hatted with the Office of Budget and Reports within the comptroller's office.)

The Marine Corps Fiscal Division, comprised of 114 personnel (76 civilians and 38 Marines), is responsible to the Commandant of the Marine Corps for exercising effective control over financial operations of the Marine Corps. The Marine Corps Fiscal Division acts as the responsible office for Marine Corps appropriations, i.e., Military Personnel, Operation and Maintenance, and Procurement. The branch responsible for

**Figure 3.2: Budget and Reports/Naval Fiscal Division Organizational Structure**

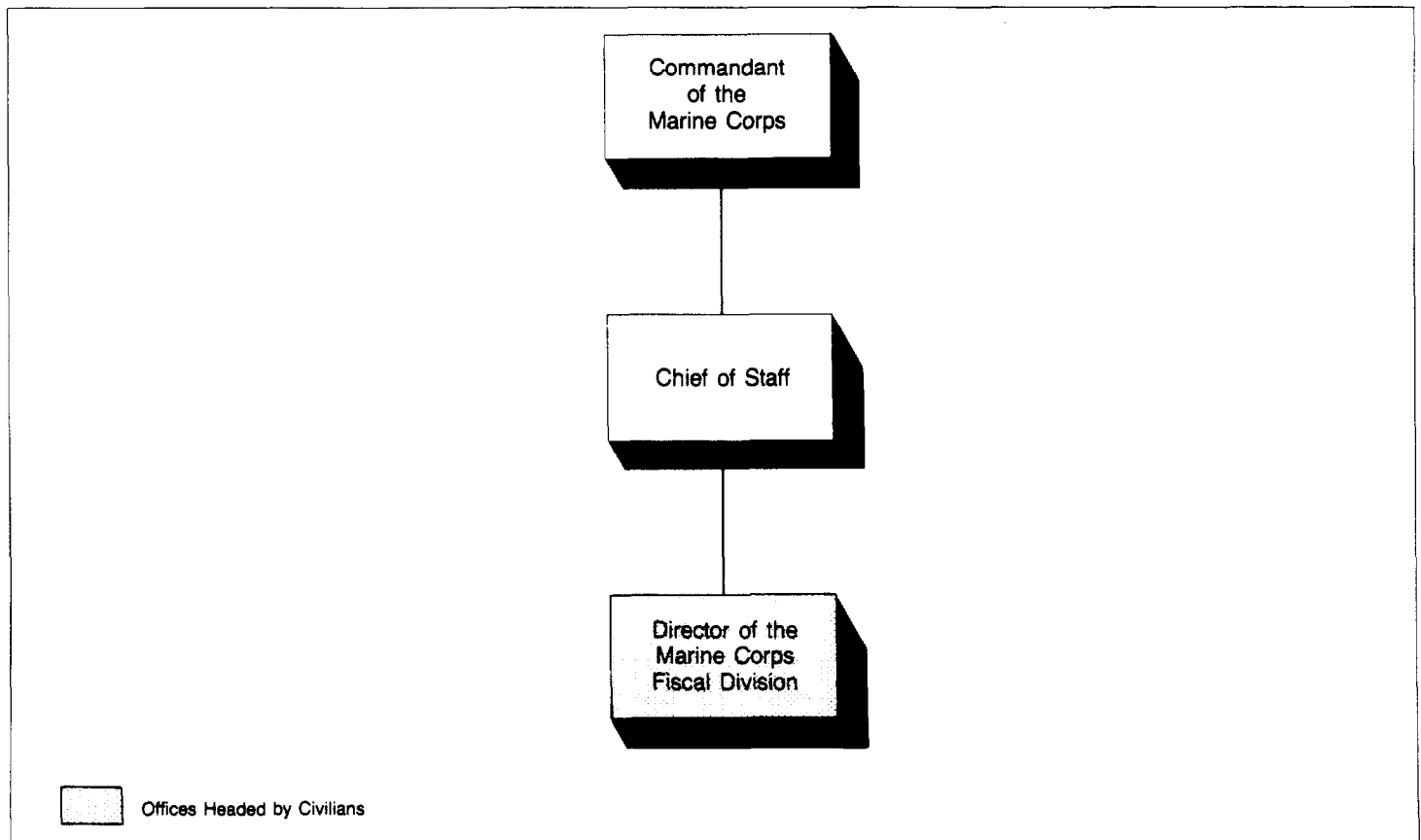


Note: The director and a majority of the staff are dual-hatted to the Naval Fiscal Division.

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budget largely parallels the functions of the Naval Fiscal Management Division. In addition, the Marine Corps Fiscal Division is responsible for Marine Corps-wide implementation of the functions of accounting and finance, audit and review, and financial information systems. In carrying out these responsibilities, the Marine Corps Fiscal Division operates under the policies and procedures established by the comptroller of the Navy. For example, the design, development, and implementation of financial information systems within the Marine Corps follow the policy guidance of the assistant comptroller of the Navy for financial management systems. Even so, numerous policy interpretations and procedural implementation determinations are routinely made by the Marine Corps Fiscal Division to ensure uniformity throughout the Marine Corps. Figures 3.2 and 3.3 show the reporting relationship for the Naval Fiscal Management and Marine Corps Fiscal Divisions, respectively.

**Figure 3.3: Marine Corps Fiscal Division Organizational Structure**



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### Office of Budget and Reports Dual-Hatted With Naval Fiscal Management Division

The director of budget and reports, who is within the Department of the Navy's Office of the Comptroller, also holds the position of the director of the Naval Fiscal Division within the Chief of Naval Operations organization.<sup>3</sup> The Office of Budget and Reports is responsible to the assistant secretary for financial management through the deputy comptroller for the principles, policies, and procedures for preparation and administration of the Department of the Navy budget. About 90 percent of the Office of Budget and Reports staff are dual-hatted as the Naval Fiscal Division staff, and report to the Chief of Naval Operations for fiscal management responsibilities for those accounts assigned to the Chief of Naval Operations as responsible office.

The Naval Fiscal Management Division was established in 1971 to serve as a comptrollership/financial management staff for the Chief of Naval Operations, in support of the responsibilities for this position under the Navy structure. In February 1975, the two offices were consolidated into a single office serving both the comptroller and the Chief of Naval Operations. The personnel were integrated into a single staff authorized under the Office of Budget and Reports. The Navy's implementation of the Reorganization Act in August 1987 authorized only the Office of Budget and Reports to be responsible for the budget aspects of comptrollership, and limited the Fiscal Management Division to performing fiscal management functions as defined by the Navy. The director of the Office of Budget and Reports/Naval Fiscal Division receives two performance evaluations. The primary evaluation is from the assistant secretary for financial management and a second, concurrent rating is from the Chief of Naval Operations.

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### Relationship of Marine Corps Fiscal Division to Assistant Secretary for Financial Management

The assistant secretary/comptroller also formulates the policies that govern comptrollership within the Marine Corps and the responsibilities of the Marine Corps Fiscal Division. The Fiscal Division is headed by a civilian who reports to the Commandant, Marine Corps, through the Chief of Staff, Marine Corps.

The Chief of Staff prepares the Marine Corps Fiscal Division director's performance evaluation and the Commandant, Marine Corps, reviews it. The director also reports to the comptroller on an additional duty basis under the Navy's financial execution officer review format. Under this

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<sup>3</sup>The Office of Budget and Reports was established by a 1941 act of Congress as an office within the secretariat. By statute the director has been a military presidential appointee. Since 1949, the Office of Budget and Reports has been organized within the Office of the Comptroller, and has served as the budget staff at the secretariat level.

arrangement, comptrollers of designated naval commands and offices as well as individuals charged by the Chief of Naval Operations and the Commandant of the Marine Corps to exercise their fiscal roles as responsible offices report to the comptroller for additional duty. The comptroller submits concurrent military performance evaluations and reviews civilian performance appraisals for the naval comptrollers. Requiring that the Marine Corps fiscal director performance also be reviewed by the assistant secretary would strengthen the relationship of the Fiscal Division to the assistant secretary/comptroller's office.<sup>4</sup>

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## Meeting the Objectives of Title V

The Department of the Navy's comptroller is designated as the single office for comptroller (financial management) in the Navy. The comptroller's office is responsible for developing and maintaining the policies, standards, and procedures that are necessary for both obtaining resources and operating a sound financial system throughout the department. The Secretary has delegated fiscal management responsibility to permanently established offices outside the secretariat—the fiscal divisions. Fiscal management as defined by the Navy includes functions, such as the fiscal control of funds and the reprogramming of funds, which are comptroller (financial management) functions.

The statute permits other elements of the executive part of the Department of the Navy to participate in the comptroller (financial management) function under the direction of the assistant secretary/comptroller. However, an objective of title V was to consolidate financial management functions in the secretariat. It is not clear that the Navy's delegation of fiscal management responsibilities to the Marine Corps Fiscal Division accomplishes the act's objectives.

The organizational ties between the Marine Corps Fiscal Division and the Comptroller are not as clear as with the Naval Fiscal Management Division. First, most of the comptroller's Budget and Reports staff is dual-hatted as the Naval Fiscal Management Division. In contrast, the Marine Corps Fiscal Division is a separate organization reporting to the Commandant of the Marine Corps.

Second, the comptroller evaluates the director of budget and reports who also receives a concurrent evaluation, in his role as director of the

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<sup>4</sup>Even though the assistant secretary/comptroller does not review the Marine Corps fiscal director's performance as he does the Navy comptrollers, he is a member of the Navy Executive Review Board, which reviews the performance of all senior executives to determine bonus awards.

fiscal management division, from the Chief of Naval Operations. However, the performance of the Marine Corps Fiscal Division director is evaluated by the Marine Corps Chief of Staff and reviewed by the Commandant. The comptroller is only required to review the Marine Corps fiscal director's performance as part of the overall Navy review of civilians in the senior executive service.

Third, the director of the Naval Fiscal Management Division, because he is also assigned to the comptroller's staff for primary duty, regularly attends the comptroller's staff meetings in his capacity as director of budget and reports. The director of the Marine Corps Fiscal Division does not.

Finally, the Marine Corps Fiscal Division has additional roles and responsibilities which are performed within the comptroller's office for the Navy. For example, responsibility for development of accounting systems is assigned in the Marine Corps to the Fiscal Division. Also, the Marine Corps finance center—the disbursing service for the payment of military payroll, civilian payroll, and contractual obligations—is under the direction of the Marine Corps Fiscal Division director.

The legislative history of the Reorganization Act states that “particular care must be taken by the Secretary of the Navy to ensure that the Marine Corps, which has fewer personnel to devote to staff than the Navy, receives evenhanded treatment in organizing, manning, establishing work priorities, and otherwise structuring and operating the consolidated offices.” Further, the conferees “determined that consolidated offices should include appropriate numbers of Marine generals and other Marine officers to ensure that the interests of the Marine Corps will be represented and that the Commandant will receive support from these offices.” The conferees wanted it “clearly understood that nothing in the legislation is intended to impair the ability of the Commandant of the Marine Corps to carry out his responsibilities to the Secretary of the Navy . . . .”

Marine Corps officials believe that consolidation of their Fiscal Division into the secretariat will impair the ability of the Commandant to carry out his responsibilities. They believe the Fiscal Division is necessary because the Commandant needs to maintain control of service resources and Fiscal Division personnel need to routinely consult with other Marine Corps headquarters staff. In addition, the Marine Corps accounting systems are separate from the Navy systems and integrated with the Marine Corps force management systems. Marine Corps officials also

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believe their needs would lose visibility if their financial operations were integrated into the Office of the Comptroller.

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## Conclusions and Matters for Congressional Consideration

The Navy did not change its long-standing delegation of financial management responsibilities to the Marine Corps Fiscal Division. The legislative history of title V recognizes that consolidation of the specified seven functions must take into account the special status of the Marine Corps. The Marine Corps believes that the current arrangement reflects its unique status and needs. The Congress may wish to consider whether or not the act needs to be modified to reflect the Marine Corps' special position within the Department of the Navy.

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## Agency Comments and Our Evaluation

DOD agreed with our proposal that the Congress may wish to consider modifying the act to reflect the Marine Corps unique situation. Further, it stated that the organizational arrangement of the Marine Corps Fiscal Division was consistent with the objectives of the act because (1) the legislative history of the act indicates an intent to accommodate the special status of the Marine Corps which DOD believes would permit the assignment of fiscal management functions to the Marine Corps Fiscal Division and (2) a distinction can be drawn between fiscal and financial management.

We do not believe a meaningful distinction can be drawn between fiscal and financial management functions. In our view, the functions of the Marine Corps Fiscal Division are in fact financial management functions. However, we agree that the legislative history indicates an intent to accommodate the special status of the Marine Corps.

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# Corrective Action Needed to Strengthen Civilian Control of the Air Force Financial Management Structure

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Although the Air Force's reorganized financial management structure complies with the requirements of the act, it does not meet the goal of strengthening civilian authority. The Air Force consolidated the financial management function in the secretariat. However, it eliminated the position of assistant secretary for financial management and assigned financial responsibility to its incumbent military comptroller, a lieutenant general.

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## Air Force Approach to Implementation

To implement the Reorganization Act, the Secretary of the Air Force established a Reorganization Working Group to consider the law, identify required changes and responsible agencies, assess the impact, and develop recommended actions. The Secretary also established a Reorganization Review Group to evaluate the recommendations and develop options for consideration by the Secretary. Representatives from the secretariat and the Air Staff served as members of both groups. The Review Group presented the recommendations to the Secretary and the Chief of Staff on December 19, 1986. The Secretary announced his decisions on February 18 and March 27, 1987.

On April 28, 1987, the Secretary testified before the Subcommittee on Investigations, House Committee on Armed Services, on the Air Force's implementation of the act. He cited six objectives that he had issued for the reorganization effort. Strengthening civilian control was not an objective, which generated some concern among the Subcommittee members.

On April 29, 1987, the Department of the Air Force submitted its report to the Congress on actions taken to implement title V of the act. The Secretary stated that functions consolidated under his direct control would expand civilian oversight and retain the necessary military perspective and support for the operational concerns of the Chief of Staff. The implementing Air Force instructions were issued April 9, 1988.

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## Overview of Prior Structure

Prior to the reorganization, both the secretariat and the Air Staff were responsible for financial management functions. The assistant secretary for financial management provided oversight for the comptroller functions. In addition, the assistant secretary was responsible for the Air Force programming process and auditing, and served as the Air Force senior information systems policy official.



The comptroller was designated the chief financial officer. His responsibilities included providing financial information and analytical services; planning, developing, formulating, presenting, and substantiating all budget and fund requirements and apportionments; and developing, implementing, and monitoring short-and long-range plans for war and peacetime operations to provide the organization, personnel, and systems necessary to fulfill the comptroller's mission.

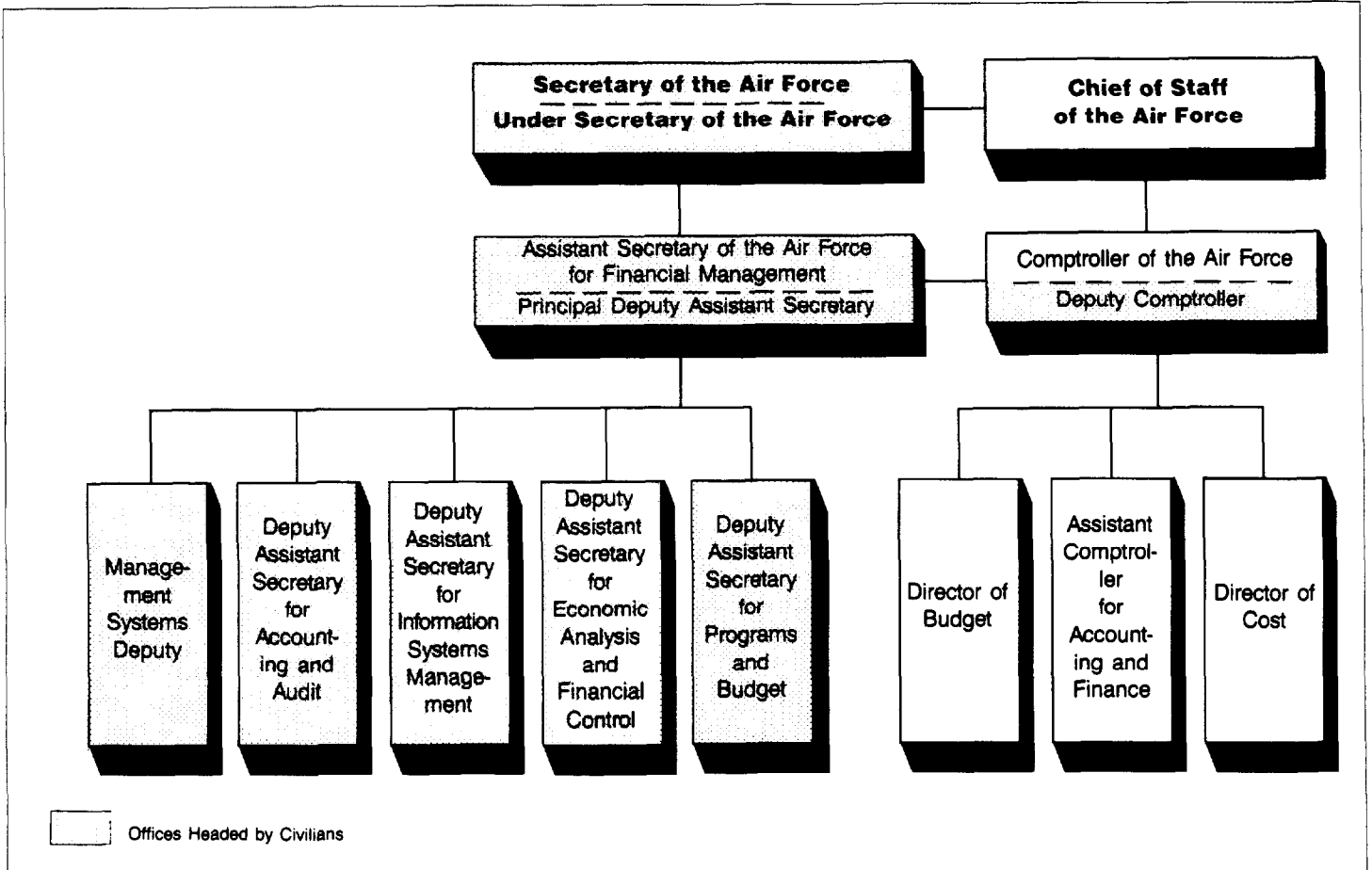
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## **Financial Management Office**

A senior leadership staff comprised of five career civil servants and a political appointee assisted the assistant secretary for financial management. A principal deputy assistant secretary, a career civil servant, acted in the assistant secretary's absence. As shown in figure 4.1, the five other civilians served at the deputy assistant secretary level. The total number of staff in this office was 26 (21 civilians and 5 military).

Policy-making and operations of some functions were divided between the secretariat and the Air Staff, as was the case in the Department of the Army. For example, in the Air Force, the deputy assistant secretary for accounting and internal audit provided policy guidance to the Air Force Accounting and Finance Center, which had operational responsibility for that function and was commanded by the assistant comptroller for accounting and finance. Also, the deputy assistant secretary for programs and budget served as the secretariat focal point for Air Force participation in the Planning, Programming, and Budgeting System and provided oversight for budget submission. He interacted with the director of budget, who reported to the comptroller, and was responsible for executing the planning, development, formulation, presentation, and justification of all budget and fund requirements of the Air Force.

Figure 4.1: Department of the Air Force Financial Management Structure—Pre-Reorganization



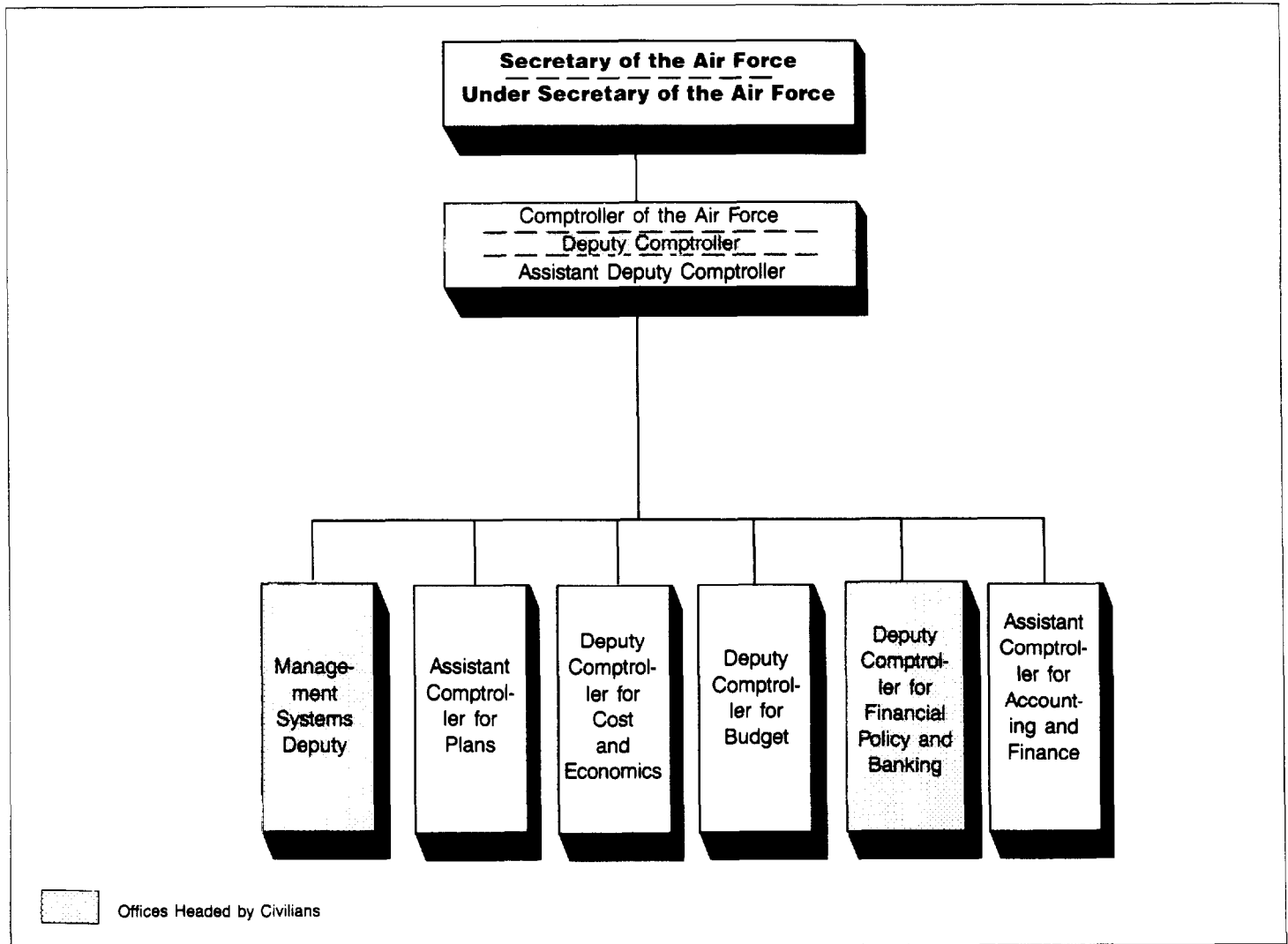
### Office of the Comptroller

The comptroller was directly responsible to the assistant secretary for financial management, but his office was structured under the Air Force Chief of Staff's organization. The comptroller had concurrent responsibility to the Chief of Staff. A career civilian served as deputy comptroller to assist the comptroller in the performance of his official functions. As shown in figure 4.1, the Office was divided into three functional areas, each headed by a military officer. The total staff consisted of 214 individuals (143 civilians and 71 military).

## Reorganization Changes

To comply with the provisions in title V of the act concerning the consolidation of comptroller (financial management) functions within the secretariat, the Secretary of the Air Force eliminated the position of assistant secretary for financial management and established the Air Force military comptroller as head of the financial management structure. The Office of the Comptroller was transferred to the secretariat from the Chief of Staff's organization. Figure 4.2 shows the current comptroller (financial management) organization.

Figure 4.2: Current Financial Management Structure of the Department of the Air Force



Most functions from the former Office of the Assistant Secretary for Financial Management were transferred to the Office of the Comptroller; others were transferred elsewhere. The Air Force transferred the information systems management functions to the assistant secretary for acquisition, and some functions of program development were elevated to the under secretary of the Air Force. Program development had been combined with budget review in the Office of the Assistant Secretary for Financial Management. The Air Force did not consider the program development functions to be included in the category of comptroller functions.<sup>1</sup>

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## Delegation of Functions

Initially, the Air Force considered transferring the Military Construction and Family Housing appropriation account functions from the comptroller to the deputy chiefs of staff for logistics and engineering because this work overlapped and duplicated work conducted by those deputies. These functions are the following:

- funds control, which involves maintaining adequate resources for this account and requires a strong working relationship with the Air Force Finance Center, close scrutiny of budget execution reports, and a detailed outlay forecast analysis;
- budget review, which requires the processing and analyzing of huge quantities of data, and then making judgments and drawing conclusions that result in projects being approved for inclusion in the budget; and
- congressional liaison for budget actions.

However, the Congress required in the Appropriations Act of 1988 that budgetary and fiscal management of the Military Construction and Military Family Housing appropriations and the legislative liaison to the Subcommittees on Military Construction, House and Senate Committees on Appropriations, be maintained in a manner identical to that used before the reorganization.

Also before the reorganization, the Air Force comptroller, through his director of budget, delegated responsibility to the deputy chief of staff for personnel for budgeting and managing military personnel appropriations—an account which is dependent upon the established policy for

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<sup>1</sup>The under secretary expanded the scope of program development functions to create a "special team" of analysts, which as a formal function is unique to the Air Force; in the Army and the Navy, such teams may be formed on an ad hoc basis to evaluate specific issues. A primary purpose of this team is to provide the under secretary with an objective viewpoint of creative alternatives for funding individual programs.

pay rates and military personnel authorizations. The comptroller, now part of the service secretariat, continues to delegate this responsibility. This delegation is consistent with the close interrelationship between budget and personnel policy.

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## Personnel Authorization Changes

Staffing in the Office of the Comptroller before the reorganization consisted of 214 individuals, which initially increased to 225 under the new structure. As of April 27, 1988, authorizations were reduced to 194 as the Air Force worked toward implementing the personnel ceilings also required by the Reorganization Act.<sup>2</sup> Of the 26 members of the assistant secretary for financial management's staff, 11 moved to the comptroller's 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.<sup>3</sup> The Air Force retained a deputy comptroller, filled by a career civilian, and created a position for an assistant deputy comptroller, filled by a colonel. The Air Force appointed one of the four former civilian deputy assistant secretaries for financial management to be deputy comptrollers. Four other deputies or assistants are military and one is civilian. One other civilian former deputy assistant for financial management was appointed assistant to the under secretary and has retained responsibility for program development.

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## Reporting Relationships

The Air Force comptroller is directly responsible to the Secretary of the Air Force, but also provides support to the Chief of Staff. Essentially, the comptroller's relationship (in both the Air Force and the Army) to secretariat officials has changed dramatically as a result of the act. However, a strong relationship still exists between the comptroller and the Chief of Staff. This is consistent with the purposes of the act. The act sought to eliminate duplication by creating a single staff that would be responsive to the needs of both the secretariat and the Chiefs of Staff, and increase the secretariat's authority over specified functions.

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<sup>2</sup>A provision of title V established an overall ceiling for the Office of the Secretary of the Air Force and the Air Staff of 2,639, which applies October 1, 1988.

<sup>3</sup>The former assistant secretary for financial management became the assistant secretary for manpower and reserve affairs after the reorganization.

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## Meeting the Requirements and Goals of the Act

Because the Department of the Air Force moved the comptroller's office to the service secretariat and designated it the single office responsible for financial management, the Air Force is in compliance with the requirements of the act. However, the elimination of the position of assistant secretary for financial management generated concern that the action may have diminished civilian control. In our view, there are several advantages to having a civilian presidential appointee as the chief financial authority.

We believe a presidential appointee would (1) help ensure the flow of information to the civilian authorities, (2) be part of the administration's team, and (3) provide a high level of stature and importance to financial management. The primary contribution of financial management to civilian control is to assure that civilian authorities—the Congress, President, Secretary of Defense, and service secretaries—receive consistent, reliable, and timely information on which to base their decisions. A qualified assistant secretary should ensure that the systems are in place to provide the needed information. The assistant secretary, with an understanding of the administration's agenda, is in a position to obtain the necessary information, and to make sure that it flows to the appropriate people.

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## Conclusions

Because the goals of strong financial management and civilian control can best be served by having an assistant secretary as the senior financial management official, we recommended in February 1988 testimony before the Subcommittee on Investigations, House Committee on Armed Services, that the Congress authorize a fourth assistant secretary for the Air Force and that this position be designated for financial management. As part of the National Defense Authorization Act for fiscal year 1989, legislation was adopted to this effect.

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## Agency Comments and Our Evaluation

Our draft report submitted to DOD for comment contained a recommendation that an assistant secretary for financial management be required by statute for all the military departments. We also recommended that the Air Force authorize a fourth assistant secretary to implement the statute. Because legislation implementing our recommendations has already been adopted, we have deleted the recommendations from this final report.

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**Chapter 4**  
**Corrective Action Needed to Strengthen**  
**Civilian Control of the Air Force Financial**  
**Management Structure**

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DOD opposed our recommendations (see app. II) and did not share our concern that the elimination of the assistant secretary position diminished civilian control. The Secretary of the Air Force believes that with the comptroller reporting directly to him, he has greater and more direct control over financial matters than ever before.

While the Secretary may now have more control than before, we continue to believe that over the long term, an assistant secretary for financial management is needed to ensure that the civilian leadership has adequate oversight and control.

# Civilian Control Over Financial Management

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The financial management structure in each military department should be headed by a highly qualified civilian appointed by the President. A civilian appointee as assistant secretary for financial management could ensure the flow of information to the civilian leadership and, with an understanding of the administration's agenda, be in a position to ask the right questions. The status of the assistant secretary's position signals the importance of the function and focuses attention on the activity. This in turn should strengthen financial management in the military departments.

Before passage of the Reorganization Act, the financial management structure supporting the service secretary in each military department was headed by an appointed civilian official--the assistant secretary for financial management. In the Army and the Air Force, these officials were assisted in their policy-making and oversight role by experienced, high level civilian staffs. The act essentially eliminated these separate, small support staffs, while providing the officials now in charge with greater authority and direct control over the much larger staffs responsible for the daily management of the financial management activities, as was the case in the Navy.

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## Financial Expertise Is Critical

To provide effective supervision of the increased financial management structures, the chief financial management officials should have demonstrated ability in accounting, budget execution, financial and management analysis, and systems development. If civilian nominees with the appropriate credentials are appointed, they could bring significant private and/or public sector experience to influence financial management within the service, providing a fresh perspective, breadth of experience, and technical expertise. This does not preclude the appointment of career employees, since prior experience in government and/or defense is also desirable. The appointment of career employees may fulfill these requirements and provide greater continuity than is the case with many presidential appointees who bring no direct relevant experience to this position.

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## Organization of Assistant Secretary's Office

Since financial management is a function common to the Army, Navy, and Air Force, Members of Congress raised a question as to why the function is organized differently in each military department. We believe that as long as an assistant secretary with appropriate credentials oversees the financial structure, the essential elements for civilian control are in place. Further, we believe that this official should be



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allowed the flexibility to structure the office so it is consistent with this individual's objectives and management style.

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## Strengthening Civilian Control and Financial Management

As discussed in chapter 4, there are several advantages to having a highly qualified assistant secretary lead the financial management function. This individual (1) could help ensure that the financial management systems are in place to provide the needed information to the President, Congress, Secretary of Defense, and the service secretaries, (2) with an understanding of the administration's agenda would be in a position to ask the right questions and to make sure that information flows to the appropriate people, and (3) signals the importance of financial management and focuses attention on the activity. This in turn should strengthen financial management in the military departments.

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## Conclusions

The goals of strong financial management and civilian control can best be served by having an assistant secretary for financial management. This position brings visibility to financial management and reinforces the importance of the function. In February 1988 testimony before the Subcommittee on Investigations, House Committee on Armed Services, we recommended that an assistant secretary for financial management should be required by statute for all the military departments. The National Defense Authorization Act for fiscal year 1989 included the provision we recommended.

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## Agency Comments and Our Evaluation

As discussed in chapter 4, because legislation implementing our recommendation has already been adopted, we have deleted the recommendation from the final report. DOD disagreed with the recommendation, stating that the Secretary of Defense and the service secretaries should be permitted maximum flexibility to structure their secretariats in the manner they believe will best enable them to fulfill their statutory obligations (see app. II).

We believe that establishing a position for an assistant secretary for financial management does not unduly limit management flexibility and is essential to ensure that the civilian leadership has consistent, accurate and reliable information on which to base policy decisions.

# Related Issues

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The Chairman, Subcommittee on Investigations, House Committee on Armed Services, also requested that we address several other related issues resulting from the military departments' reorganization actions. These issues focus on (1) the mix of civilian and military personnel in the military departments before and after the reorganizations, (2) whether a military officer in charge of financial management would be loyal to the service secretary, given the officer's dependence upon the Chief of Staff for future appointments, (3) the independence of oversight functions, and (4) the Air Force's Management Systems deputy position.

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## Civilian/Military Personnel Mix

Members of Congress have raised concerns as to whether military personnel dominate the financial management structures. An appropriate mix of civilian and military personnel within the Office of Financial Management is desirable. Military officers bring an operational perspective and diversity of experience to bear, while civilians bring stability and technical expertise. For example, civilians are probably best suited to oversee the accounting systems in the military departments. This would provide the continuity needed for long-range planning and execution to modernize these systems.

The mix of civilians and military personnel in the military departments did not significantly change after the reorganizations, as shown in table I.1. In the Army, the proportion of civilians to the total staffing has increased slightly from 77 to 81 percent. The personnel mix in the Navy remains the same, with the Navy having the highest percentage of civilians (86 percent) in its financial management structure. In the Air Force, the proportion of civilians has decreased slightly from 68 to 65 percent, a decrease of 40 positions.

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## Leadership Positions

Changes in the proportion of civilians and military personnel in senior positions before and after the reorganization are shown in table I.2.

In the Army the percentage of civilians in senior positions dropped from 76 to 70 percent. The number of civilians is now 7, compared to 13 before the reorganization. The number of military personnel in senior positions dropped from 4 to 3. Civilian officials at this level currently supervise 45 staff members, while the military officials supervise 165. In commenting on a draft of this report, DOD noted that the decrease from 76 to 70 percent in the number of civilians in leadership positions is inconsequential.

**Appendix I  
Related Issues**

**Table I.1: Personnel Authorizations Pre- and Post-Reorganization**

|                                       | Civilian | Percentage of total | Military | Percentage of total | Total |
|---------------------------------------|----------|---------------------|----------|---------------------|-------|
| <b>Pre-reorganization<sup>a</sup></b> |          |                     |          |                     |       |
| Army <sup>b</sup>                     | 128      | 77                  | 38       | 23                  | 166   |
| Air Force <sup>c</sup>                | 164      | 68                  | 76       | 32                  | 240   |
| Navy <sup>d</sup>                     | 190      | 86                  | 31       | 14                  | 221   |
| <b>Post-reorganization</b>            |          |                     |          |                     |       |
| Army                                  | 179      | 81                  | 41       | 19                  | 220   |
| Air Force                             | 124      | 65                  | 68       | 35                  | 192   |
| Navy                                  | 185      | 86                  | 29       | 14                  | 214   |

<sup>a</sup>Includes staffing for the assistant secretary for financial management and comptroller offices.

<sup>b</sup>Army staffing pre-reorganization as of February 1987 and post-reorganization as of September 1987.

<sup>c</sup>Air Force staffing pre-reorganization as of March 1987 and post-reorganization as of January 1988.

<sup>d</sup>Navy staffing pre-reorganization as of June 1987 and post-reorganization as of March 1988.

**Table I.2: Civilian/Military in Leadership Positions Pre- and Post-Reorganization<sup>a</sup>**

|                                       | Civilian | Percentage of total | Military | Percentage of total | Total |
|---------------------------------------|----------|---------------------|----------|---------------------|-------|
| <b>Pre-reorganization<sup>b</sup></b> |          |                     |          |                     |       |
| Army <sup>c</sup>                     | 13       | 76                  | 4        | 24                  | 17    |
| Air Force <sup>d</sup>                | 8        | 67                  | 4        | 33                  | 12    |
| Navy <sup>e</sup>                     | 1        | 25                  | 3        | 75                  | 4     |
| <b>Post-reorganization</b>            |          |                     |          |                     |       |
| Army                                  | 7        | 70                  | 3        | 30                  | 10    |
| Air Force                             | 3        | 33                  | 6        | 67                  | 9     |
| Navy                                  | 1        | 25                  | 3        | 75                  | 4     |

<sup>a</sup>Leadership positions before the reorganization refer to the deputy assistant secretaries and principal deputies in the secretariat and assistant comptrollers or directors in the comptroller organization. Leadership positions since the reorganization refer to the principal deputies, assistant or deputy comptroller, and directors.

<sup>b</sup>Includes staffing for the assistant secretary for financial management and comptroller offices.

<sup>c</sup>Army staffing pre-reorganization as of February 1987 and post-reorganization as of September 1987.

<sup>d</sup>Air Force staffing pre-reorganization as of March 1987 and post-reorganization as of January 1988.

<sup>e</sup>Navy staffing pre-reorganization as of June 1987 and post-reorganization as of April 1988.

The civilian Army principal deputy has 3 directors (2 civilians and 1 military officer and a staff of 19) reporting through him to the assistant secretary. The military Army principal deputy has 4 directors (3 civilians and 1 military officer and a staff of 175) reporting through him to the assistant secretary.<sup>1</sup>

<sup>1</sup>An additional 19 personnel are directly authorized to the Office of the Assistant Secretary for Financial Management.

The personnel mix for the Department of the Navy leadership positions has remained the same. The Navy has one civilian in a senior-level position (the comptroller), compared to three senior level military officers. The number of directors/deputies reporting to these military officials is 11 civilians and 3 military.

The mix of civilian/military personnel holding senior positions for the Air Force changed since the reorganization. Before the reorganization the Offices of the Assistant Secretary for Financial Management and the Comptroller consisted of eight civilian officials and four military officials. The new structure consists of three civilians and five military personnel.

Civilian deputies supervise 3 percent of the headquarters staff in the new Air Force Office of the Comptroller, compared to 6 percent in the former Offices of the Comptroller and the Assistant Secretary for Financial Management. The majority of the staff is and was assigned to military supervisors.

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## The Dependence of Military Comptrollers on the Service Secretaries and the Chiefs of Staff for Appointments

Questions have arisen whether a 3-star officer (lieutenant general or vice admiral) would lack independence if the officer were placed in charge of financial management in the secretariat. It is assumed military officers are dependent on their service Chief for appointment to a 4-star (general or admiral) position.

Though the Chief of Staff of each service does play a significant role in the selection of nominees for both 3- and 4-star positions, the service secretaries must approve the lists of nominees before they are passed on to the Secretary of Defense. By law (10 U.S.C. 601), 3- and 4-star officer positions are designated by the President, and officers filling these positions are nominated by the President and confirmed by the Senate. The Department of Defense's (DOD) administrative procedures supporting this law prescribe that all 3- and 4-star actions are submitted to the President by the Secretary of Defense (DOD Instruction 1320.4). The Secretary of Defense's submission is based on the written recommendations of the secretaries of the military departments, and on the advice of the Joint Chiefs of Staff. The DOD Reorganization Act changed this procedure only slightly, and it did not diminish the role of the service secretaries.<sup>2</sup>

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<sup>2</sup>The Chairman of the Joint Chief of Staff is now required to submit his evaluation of the nominees' joint duty performance, and the Secretary of Defense must inform the President of the qualifications needed to fill all 3- and 4-star positions.

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Thus, the service secretary has veto power over the nomination for 3- and 4-star appointments that emanate from his department, and he would normally work closely with the Chief of Staff to determine the nominees. An independent recommendation for appointment by a Chief of Staff can only formally reach the Secretary of Defense through the Joint Chiefs of Staff. The Secretary of Defense must approve any nominations before they go to the President. A 3-star general officer working in the secretariat is therefore equally dependent on his service secretary for appointment as he is his Chief of Staff.

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## Oversight Role

Concern has also been raised that the military departments do not have adequate oversight mechanisms for the financial management functions. These functions cover a variety of activities. The idea of an overseeing office to ensure that, for example, prices paid are fair and reasonable, is associated primarily with a strong audit function, the primary focus of the service audit agencies. In addition, these tasks have their support in sound finance and accounting systems, which provide early warning of cost overruns, and an independent cost analysis function. The oversight role is also played by the DOD Inspector General and us. We believe the focus should be on making sure these organizations are functioning properly rather than establishing new organizations.

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## Air Force Management Systems Deputy

As a consequence of the Air Force's financial management reorganization, Members of Congress have raised concerns on the responsibilities of the Air Force's Management Systems Deputy, Mr. A. Ernest Fitzgerald. Prior to the reorganization, Mr. Fitzgerald reported to the assistant secretary, and now reports to the comptroller.

Mr. Fitzgerald has alleged that he is not being allowed to carry out his roles and responsibilities as provided for in a 1982 settlement agreement that resolved his 14-year-old whistle-blower protection court case and

established his position.<sup>3</sup> Under the settlement agreement, Mr. Fitzgerald has responsibility and authority for development of improved management controls and broader use of statistical analysis in the Air Force. He is delegated the necessary authority to carry out assigned duties and has authority to utilize resources, including manpower, as required to satisfactorily discharge the duties of his office.

Among the duties and responsibilities assigned to Mr. Fitzgerald under the 1982 court agreement is responsibility at the highest Air Force level for policies and procedures regarding

- integrated performance measurement, cost control, and reduction,
- economic cost-effectiveness analysis,
- management information and control systems,
- productivity enhancement and measurement,
- statistical programs and analysis, and
- cost estimating and cost analysis.

He is also responsible for providing guidance and direction to the Air Staff and the commands for the development and/or implementation of management information and control systems, resource management systems, and associated databases.

Mr. Fitzgerald alleges that the deputy comptroller for cost and economics, currently a colonel, is charged with essentially the same functions theoretically assigned to Mr. Fitzgerald as management systems deputy, which runs counter to the Reorganization Act's goal of strengthening civilian authority. This deputy comptroller serves as the Commander, Air Force Cost Center and his office is the Air Force focal point for cost, management consultant services, economic analysis, and selected financial functions for the Air Force Security Assistance Program throughout the Air Force. He also provides policy, procedures, technical guidance, and staff assistance for cost and economic analysis procedures Air

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<sup>3</sup>The Department of the Air Force originally employed Mr. Fitzgerald as a management analyst. In 1968, Mr. Fitzgerald testified before the Subcommittee on National Security Economics, Joint Economic Committee, about a potential \$2 billion cost overrun in the development of the C-5A transport plane. After his testimony, Mr. Fitzgerald's relationship with his superiors and coworkers in the Department of the Air Force deteriorated. In November 1969, his job was eliminated in a reorganization that he alleged was merely a camouflage for retaliation against him. Subsequently, the President announced that he had personally ordered Mr. Fitzgerald's dismissal but later said that he had confused Mr. Fitzgerald with someone else. Mr. Fitzgerald filed suit in federal court against DOD officials, White House aides, and, later, the President. The Supreme Court held that the President was entitled to absolute immunity for all acts performed within the "outer perimeter" of his authority and recognized qualified immunity for his aides. A 1982 settlement agreement resolved Mr. Fitzgerald's whistle-blower protection court case and established the position of management systems deputy.

Force-wide. The positions of management systems deputy and director for cost, which became the deputy comptroller for cost and economics position, existed before the reorganization; Mr. Fitzgerald was in the secretariat and the director for cost was under the Air Force Chief of Staff's organization. The number of people authorized to Mr. Fitzgerald's office remained the same, 4, while the number of people authorized to the deputy comptroller for costs and economics was 45 before the reorganization and is now 29.

The Air Force used the position description contained in the 1982 court settlement agreement as a foundation for developing functional statements in its reorganized structure. As a result, it is the Air Force's legal opinion that the Office of the Management Systems Deputy's functional responsibilities remain consistent with the court settlement agreement and are unchanged from those that existed prior to implementation of the Reorganization Act. The Air Force does not believe that these responsibilities are the same as the deputy for cost and economics. Because Mr. Fitzgerald's position is a direct result of the settlement agreement, there is no comparable office in the other military departments.

We have reviewed the finalized statements and agree that the functional statement for Mr. Fitzgerald's office is consistent with the 1982 settlement agreement. However, Mr. Fitzgerald has raised concerns about whether his resource allocations and work assignments represent good faith compliance with the settlement agreement. We believe that these concerns can only be resolved by the court. The court agreement states "should any party or parties have violated any provision of the Agreement, that party may file a motion in Civil Action No. 76-1436 alleging violation of the Settlement Agreement and the Court shall entertain such application to determine its validity and whether relief is appropriate."

# Comments From the Department of Defense

Note: The GAO comment supplementing those in the report text appears at the end of this appendix.



Administration  
& Management

## OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, DC 20301

14 OCT 1988

Mr. Frank Conahan  
Assistant Comptroller General  
National Security and  
International Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled "FINANCIAL MANAGEMENT: Military Departments Response to the Reorganization Act," dated September 6, 1988 (GAO Code 391088/OSD Case 7758).

The Department agrees in part with the findings contained in this report. The DoD has made a concerted effort to implement faithfully the provisions of the Goldwater-Nichols DoD Reorganization Act of 1986, including those pertaining to the consolidation of financial management and comptroller functions within the Service Secretariats. The Department considers itself to be in full compliance with the Act.

The DoD does not agree that the assignment of fiscal management responsibilities to the Director of the Marine Corps Fiscal Division, a civilian who reports to the Commandant of the Marine Corps, is contrary to the Act's objective of consolidating financial management functions in the Service Secretariats. As the report acknowledges, the legislative history of the Act provides specific latitude to accommodate the special status of the Marine Corps as a separate Military Service within the Department of the Navy. The Department concurs with the report's conclusion that the Congress may wish to consider modification of the Act in order to clarify its intent on this matter.

The Department also does not agree that the Air Force reorganization of its financial management structure is inconsistent with the Act's goal of strengthening civilian authority in the Department of Defense. The concern expressed in the draft report (that the elimination of the position of Assistant Secretary for Financial Management may diminish civilian control) is unfounded and unsubstantiated. The Secretary of the Air Force believes he now exercises more direct control over financial management matters than ever before and the report offers no evidence to the contrary. The DoD, therefore, cannot support the



Appendix II  
Comments From the Department of Defense

recommendation that the Air Force be required by statute to have an Assistant Secretary specifically designated for financial management. Organizational changes of this magnitude, particularly those involving statutory requirements, should be based on proven needs or demonstrated by experience and hard evidence.

The DoD also disagrees with the recommendation to establish a statutory requirement for each of the Military Departments to have an Assistant Secretary for Financial Management. As a matter of policy, it is the Department's position that the Secretary of Defense and the Secretaries of the Military Departments should retain maximum flexibility to organize their staffs in a manner that reflects their personal management styles, continually evolving organizational requirements, and the policy priorities and objectives of the incumbent administration. If the Department of Defense is to be managed in an efficient and effective manner, organizational structures and management arrangements must be responsive to changing needs and circumstances. Legislating organizational detail results in excessive rigidity and makes it difficult to adapt headquarters organizations to new and ever changing challenges.

The findings and recommendations are addressed in greater detail in the enclosure to this letter. Additional technical corrections have been provided separately to members of your staff. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,



D. O. Cooke

Enclosure

GAO DRAFT REPORT - DATED SEPTEMBER 6, 1988  
(GAO CODE 391088) OSD CASE 7758

"FINANCIAL MANAGEMENT: MILITARY DEPARTMENTS  
RESPONSE TO THE REORGANIZATION ACT"

DEPARTMENT OF DEFENSE COMMENTS

\* \* \* \* \*

FINDINGS

**FINDING A: Requirements of the Goldwater-Nichols DoD Reorganization Act of 1986 (Act).** The GAO observed that the Reorganization Act changed the structure that supports the Service Secretaries, essentially merging the small civilian controlled secretarial staffs with the larger day-to-day management staffs, which largely had been under military leadership and control. According to the GAO, Title V of the Act was intended to strengthen civilian authority and eliminate duplication of functional responsibility for functions such as financial management, acquisition, auditing, information management, the inspector general, legislative affairs and public affairs. The GAO reported that, among other things, Title V required that each of the Service Secretaries (1) have sole responsibility for these functions within the secretariat, (2) establish or designate a single office or entity to conduct the functions, and (3) prescribe the relationship of the functional offices to the Service Chiefs of Staff and ensure that adequate staff support is provided. The GAO pointed out that the Act refers to "comptroller (financial management)" as a function to be consolidated within the Service secretariats, but providing no clear distinction between the comptroller and financial management functions. The GAO found that, by so doing, the statutory distinction between these functions, which previously existed within the DoD, were essentially eliminated by the Act. The GAO observed that, prior to the Act, there were often parallel offices responsible for the various functions in both the Service Secretariat and the Chiefs of Staff organizations, a situation the Act sought to eliminate. (pp. 2-3, pp. 13-17/GAO Draft Report)

**DoD Response:** Concur. The DoD recognizes the purposes of the Reorganization Act and has made a concerted effort to implement its provisions faithfully, including those contained in Title V.

**FINDING B: Reorganization of the Financial Management Structure by the Army.** The GAO reported that prior to the Reorganization Act, the Army had offices in both the Secretariat and Chief of Staff organizations that were responsible for financial management functions. The GAO found that in response to the Reorganization Act, the Army created a reorganization plan to comply with the Act's requirements. The GAO observed, that as part of this reorganization, the Army integrated the Office of the Comptroller of the Army with the Office of the Assistant Secretary for Financial Management, as required by Title V. According to the

Enclosure

Now on pp. 2, 8-10.

GAO, this has resulted in a significant change for the Assistant Secretary. The GAO noted, for example, that the Assistant Secretary now has direct oversight of about 22 staff, as compared to 29 before the reorganization. The GAO also found that offices from within the former Offices of the Comptroller and Assistant Secretary were eliminated and functions redistributed among several new directorships. In addition, the GAO reported that several senior level officials, such as Deputy Assistant Secretaries and Assistant Comptrollers, remain within the new structure as Directors, but the reporting lines and scope of authority have changed in several instances. Overall, the GAO concluded that the Army has made a substantial effort to integrate its two financial management structures. The GAO further concluded that the Army is in compliance with the Act's requirements and meets the objective of a streamlined structure. The GAO also generally concluded that the reorganized Army structure furthers civilian control by strengthening the authority of the Assistant Secretary and involving the Assistant Secretary more in financial management operations. (p. 4-5, p. 19-30/GAO Draft Report)

Now on pp. 2-3, 12-19.

DoD Response: Concur. The Army has complied fully with the Reorganization Act.

**FINDING C: Reorganization Actions by the Navy.** The GAO found that the Navy has made minimal changes as a result of the Reorganization Act. According to the GAO, since the 1950's the Navy has organized its Office of the Comptroller in its Secretariat, with the Comptroller position filled by an individual dual-hatted as an Under Secretary, Deputy Under Secretary or Assistant Secretary. The GAO found that currently, as was the case prior to the Act, the Assistant Secretary for Financial Management has the responsibility for the comptroller (financial management) function. The GAO reported that the Navy organized its comptroller office in the secretariat because it oversaw and integrated budget activities for both the Navy and the Marine Corps. According to the GAO, the Navy did not consider it appropriate to have its Comptroller within one of the Service organizations, since it must assure objectivity in dealing with both of the Services. The GAO also reported that the Navy authorizes two separate offices, whose titles imply a distinction between financial management and comptrollership. The GAO noted that, generally, the Comptroller sets the policies for the Navy and Marine Corps to execute as fiscal management responsibilities. The GAO pointed out, however, that both the Comptroller and Financial Management offices are supervised by the Assistant Secretary for Financial Management. (pp. 5-6, pp. 31-36/GAO Draft Report)

Now on pp. 2-3, 20-23.

DoD Response: Concur. There are, however, a number of inaccuracies in the draft report pertaining to organizational and functional details. Technical corrections have been provided separately to the GAO. In addition, it should be noted that the Office of the Comptroller of the Navy (NAVCOMPT) sets policies for comptrollership that are executed by comptroller organizations within Navy and Marine Corps commands throughout the Department, as

well as defining a fiscal management function that is distinct from comptrollership. Organizations other than NAVCOMPT within the executive part of the Department (i.e., the Secretariat Office of the Chief of Naval Operations, and Headquarters, Marine Corps) are limited to the performance of fiscal management functions as opposed to comptrollership.

**FINDING D: Navy Delegation of Fiscal Management Responsibilities.**

The GAO reported that certain financial management tasks have been delegated to the Naval and Marine Corps Fiscal Divisions, which are part of the Offices of the Chief of Naval Operations and Commandant of the Marine Corps, respectively. For the Navy, the GAO reported that most of the Comptroller Budget and Reports staff is dual-hatted as the Naval Fiscal Division. The GAO pointed out that the Comptroller evaluates the Director of the Budget and Reports and the Director regularly attends the Comptroller staff meetings. The GAO found that the Marine Corps Fiscal Division has broader responsibilities than the Navy Fiscal Division, and identified several examples indicating that its ties with the Comptroller are less defined. The GAO also pointed out that a basic objective of Title V was to consolidate financial management functions in the secretariat. The GAO concluded, therefore, that the Navy's delegation of fiscal management responsibilities to the Marine Corps Fiscal Division does not meet this basic objective. The GAO acknowledged that the legislative history of the Reorganization Act recognizes that the Navy consolidation must take into account the special status of the Marine Corps, and that the ability of the Commandant of the Marine Corps to carry out his responsibilities is not to be impaired by the legislation. The GAO reported that it is the Marine Corps position that the current arrangement reflects its unique status and needs, as recognized in the legislative history, and consolidation of its Fiscal Division in to the secretariat would, in fact, impair the ability of the Commandant to carry out his responsibilities. The GAO concluded that, in view of the consolidation objective of Title V and the unique status of the Marine Corps, the Congress may wish to consider whether or not the Act needs to be modified. (pp. 6-7, p. 31, p. 36-44/GAO Draft Report)

Now on pp. 2, 4, 23-29.

**DoD Response:** Partially concur. While most of the facts presented are correct, the DoD does not agree with the GAO conclusion that arrangements pertaining to the functions of the Marine Corps Fiscal Division are inconsistent with the objectives of the Reorganization Act. The legislative history of the Act, as described in the draft report, indicates an intent to accommodate the special status of the Marine Corps that would permit the assignment of fiscal management functions to the Marine Corps Fiscal Division. Also central to this issue is the question whether fiscal management, which has been delegated to the Navy Fiscal Management Division and the Marine Corps Fiscal Division, can be distinguished from financial management. The Department believes that it can, for the reasons cited in the draft report. The GAO apparently considers that they are one and the same.

**FINDING E: Reorganization Actions by the Air Force.** The GAO found that, prior to the Reorganization Act, both the secretariat and the Air Staff were responsible for financial management functions. The GAO reported that the Assistant Secretary for Financial Management provided oversight of the comptroller functions, with the Comptroller designated the Chief Financial Officer. The GAO found that to comply with Title V, the Air Force abolished the position of Assistant Secretary for Financial Management, transferred many senior level civilian supervisors to areas other than financial management and gave most financial management responsibility to the Comptroller, a lieutenant general. The GAO acknowledged that the Comptroller is now directly responsible to the Secretary of the Air Force, which is consistent with the Act. The GAO observed, however, elimination of the position of Assistant Secretary for Financial Management has raised concern that this may have diminished civilian control. The GAO identified several advantages to having a civilian presidential appointee as the chief financial authority, including (1) assurance of information flow to civilian authorities, (2) the official being a part of the administration's team, and (3) providing a high level of stature and importance to financial management. The GAO concluded that, although the Air Force reorganized financial management structure complies with the requirements of the Reorganization Act, it does not meet the goal of strengthening civilian authority. The GAO further concluded that it would be desirable for the Congress to authorize a fourth Assistant Secretary for the Air Force, specifically designated for financial management. (p. 7-8, pp. 45-54/GAO Draft Report)

Now on pp. 3-5, 30-37.

**DoD Response:** Nonconcur. While many of the facts presented are correct, the DoD strongly disagrees with the GAO conclusion that the Air Force reorganization of its financial management structure does not meet the Reorganization Act goal of strengthening civilian authority. The draft report accurately points out that the reorganization actions taken by the Air Force are in compliance with the requirements of the Reorganization Act. The Air Force has consolidated financial management under the Comptroller in the Air Force Secretariat, eliminated redundancies, and streamlined the financial management staff. The DoD, however, does not share the GAO concern that the elimination of the Assistant Secretary for Financial Management may diminish civilian control. As the Secretary of the Air Force has stated in testimony before the Congress, the Comptroller now reports directly to him without intervening layers of bureaucracy and he considers himself to have greater and more direct control over financial management matters than ever before. The draft report contains no evidence that elimination of the Assistant Secretary for Financial Management has lessened civilian control in the Air Force or adversely affected the ability of Air Force civilian leadership to make informed decisions on financial management matters. (See also the DoD response to Recommendations 1 and 2.)

**FINDING F: Desirability of Civilian Control Over Financial Management.** The GAO reported that prior to the Reorganization Act, the financial management structure supporting each Service

Now on pp. 4-5, 38-39.

Secretary was headed by an appointed civilian official. According to the GAO, the Act essentially eliminated the separate, small support staffs that previously existed; instead, providing the officials greater authority and larger staffs for the daily management of financial management activities. The GAO observed that the chief financial management officials should have demonstrated financial expertise and could be fulfilled by appointment of career employees. The GAO further observed that, since financial management is a function common to the Army, Navy and Air Force, it could be organized uniformly, within all three Services, while the Service needs could be met by having an Assistant Secretary oversee the financial structure and organize the functional areas, as needed. The GAO reiterated the advantages discussed in Finding E of having a highly qualified Assistant Secretary lead the financial management function. The GAO concluded that the goals of strong financial management and civilian control can best be served by having an Assistant Secretary for Financial Management for each of the Services. (p. 8, pp. 55-57/GAO Draft Report)

DoD Response: Nonconcur. The DoD believes that the goals of strong financial management and civilian control can best be served by having financial management systems and organizational structures that are responsive to the Secretary of Defense and the Service Secretaries. They are the officials who are responsible and accountable under title 10 United States Code for managing the DoD and the Military Departments in an efficient and effective manner. Furthermore, there is no inherent benefit in having the Military Departments organized uniformly, because organizational needs, the background and experience of key officials, and environmental circumstances often differ from one Service to another. System performance, managerial competence, and the ability of the financial management community to provide the Service Secretary with the information and advice needed to make sound decisions, are the key factors in evaluating the financial management structure in the Services; not organizational uniformity. (See also the DoD response to Recommendations 1 and 2.)

FINDING G: Related Reorganization Issues. The GAO provided additional information on several related reorganization issues. The GAO reviewed the mix of civilian and military personnel within the financial management structures of the Services and found there has not been a significant change as a result of the reorganizations. The GAO did observe, however, that there has been some drop in the percentage of civilians in senior positions for both the Army and Air Force.

With regard to the loyalty of a senior military officer assigned to the secretariat, the GAO found that while the Chief of Staff does play a significant role in the selection of nominees for both three or four star positions, the Service Secretaries are also heavily involved, a process that was not significantly changed by the Reorganization Act.

The GAO also assessed the Service oversight mechanisms for the financial management functions. The GAO found that a number of organizations and systems are already in place to oversee the functions and systems. The GAO concluded, therefore, that rather than establishing new oversight organizations, the focus should be on ensuring that existing organizations are functioning properly.

Finally, the GAO assessed the responsibilities of the Air Force Management Systems Deputy under the reorganization. According to the GAO, the Systems Deputy has alleged he is not being allowed to carry out the roles and responsibilities provided for in a 1982 court settlement agreement, and that the Deputy Comptroller for Cost and Economics is assigned essentially the same functions. The GAO reported it is the Air Force legal opinion that the Systems Deputy's functional responsibilities remain consistent with the settlement agreement and are not the same as those of the Deputy Comptroller. The GAO concluded that, on its face, the functional statement for the Systems Deputy is consistent with the 1982 settlement agreement. The GAO noted, however, that questions regarding good faith compliance with the settlement agreement can only be resolved by the court. (pp. 55-66/GAO Draft Report)

Now on pp. 40-45.

DoD Response: Concur. With respect to the decrease from 76 to 70 percent in the number of civilians in senior Army financial management positions, it should be noted that the magnitude of this change is inconsequential. As the GAO accurately cites earlier in the report, the Army has strengthened civilian control over its financial management functions in implementing the changes mandated by the Reorganization Act.

#### RECOMMENDATIONS TO THE CONGRESS

See comment 1.

RECOMMENDATION 1: The GAO recommended that the Congress authorize a fourth Assistant Secretary for the Air Force, specifically designated for financial management. (p. 54/GAO Draft Report)

DoD Response: Nonconcur. The DoD has consistently opposed legislating the establishment of specific positions and their functions. Such legislation impairs managerial effectiveness, engenders organizational inefficiency, and infringes on the management prerogatives of the Secretary of Defense and the Service Secretaries. It removes the flexibility that these officials need to organize and manage the programs under their cognizance in a manner that is consistent with their own management style and responds to rapidly changing national security circumstances, priorities, and requirements.

Furthermore, as pointed out in the DoD response to Finding E, the absence of an Air Force Assistant Secretary for financial management has not lessened civilian control nor has the GAO provided evidence to the contrary.

**Appendix II**  
**Comments From the Department of Defense**

See comment 1.

**RECOMMENDATION 2:** The GAO recommended that the Congress require, by statute, an Assistant Secretary for Financial Management for all the Military Departments. (p. 8, p. 57/GAO Draft Report)

**DoD Response:** Nonconcur. The DoD disagrees with this recommendation for the reasons cited in the response to Recommendation 1. In addition, as pointed out in the DoD response to Finding F, uniformity of organizational structure and nomenclature among the Military Departments is neither inherently necessary nor desirable. The Secretary of Defense and the Service Secretaries are appointed with the statutory authority and responsibility to manage the DoD and the Services in an efficient and economical manner. They should, therefore, be permitted maximum flexibility to structure their secretariats in the manner they believe will best enable them to fulfill their statutory obligations.

**MATTER FOR CONGRESSIONAL CONSIDERATION**

**ISSUE:** The GAO suggested that, in view of the compliance question created by the existence of a separate Marine Corps Fiscal Division and the unique statute of the Marine Corps within the Department of the Navy, the Congress may wish to consider whether the reorganization Act needs to be modified (p. 9, p. 44/GAO Draft Report)

Now on pp. 5, 29.

**DoD Response:** Concur. While the DoD does not agree with the GAO that fiscal management, which has been delegated to the Marine Corps Fiscal Division, is indistinguishable from financial management, the DoD takes no issue with the GAO framing of the matter nor with the recommendation for its consideration by the Congress.



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The following is GAO's additional comment on DOD's letter dated October 14, 1988.

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**GAO Comment**

1. Because legislation implementing our recommendation was adopted, we deleted the recommendation from our report.

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# Major Contributors to This Report

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