

Perspectives From Robert Hale Under Secretary of Defense and Comptroller U.S. Department of Defense

At the time of his nomination by President Barack Obama in January 2009, Robert Hale was Executive Director of the American Society of Military Comptrollers (ASMC), the professional association of Defense financial managers. From 1994 to 2001, Mr. Hale served in the Pentagon as the Assistant Secretary of the Air Force (Financial Management and Comptroller), where he was responsible for annual budgets of more than \$70 billion, efforts to streamline Air Force financial management, and compliance with the Chief Financial Officers Act. For the 12 years prior to his Air Force service, Mr. Hale headed the National Security Division at the Congressional Budget Office (CBO), developing quantitative analyses of major defense budget issues and testifying frequently before Congressional committees. Mr. Hale graduated with honors from Stanford University with a BS in mathematics and statistics. He also holds a master's degree in operations research from Stanford and an MBA from George Washington University. He is a Certified Defense Financial Manager (CDFM), a fellow of the National Academy of Public Administration, and a past member of the Defense Business Board.

We had an opportunity to gain Under Secretary Hale's perspective when he joined me as a guest on The Business of Government Hour. The following is an excerpt of our conversation on a variety of topics related to how DoD is changing the way it does business.

Principal Financial Advisor to the Secretary of Defense

I am the principal financial advisor to the Secretary of Defense Leon Panetta on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget. I am also the DoD's chief financial officer, managing the department's financial policy, financial management systems, and business modernization efforts. For us to be successful, defense financial managers must achieve three broad goals: acquire the resources necessary to meet national security objectives; ensure the legal,



effective, and efficient use of those resources; and maintain a capable financial management workforce.

This year, we will execute about \$688 billion worth of budget authority to maintain our national security. We obligate \$2 billion to \$3 billion a day on average. It's a very sizable amount. The Department of Defense is in many ways more like a country. Our budget is about equal to the gross domestic product of the Netherlands. In terms of specific things that I do, I spend much of my time formulating budgets, as it is key to identifying and putting together our priorities. We also put them together in a way that convinces the Congress and the public that we both

need the resources and will spend them appropriately to maintain national security.

I also have a responsibility to make sure that we execute the budget in a manner that's legal. There are 8,000 pages in the DoD financial management regulations. It's effective—we meet the needs of our warfighters. And, finally, it's efficient—for the sake of the taxpayers and ... particularly in these days, efficiency is very much on our minds. All of those are part and parcel of my day-to-day responsibilities.

The great majority of financial managers in the Department of Defense work for our commanders and managers in the field. There are about 68,000 people in the defense financial management community. Roughly 58,000 of them are civilian employees. The other 10,000 are military. I'm going to guess 90 percent or more work for our commanders and managers. That's how it should be. They are the people out there actually doing the day-to-day tasks. They're the ones that need the advice and counsel to make sure that things are legal, effective, and efficient. A small percentage works in offices like mine that provide oversight. I think, basically, it's structured properly.

Challenges Facing DoD's Comptroller

Certainly, a key challenge is to make sure that we acquire the resources needed to meet our national security objectives. This is extremely difficult when we are dealing with an economic crisis that has led to strong downward pressure on all federal spending, including defense spending, as a way to reduce the deficit. At the same time, it's a dangerous world. We're still in a shooting war in Afghanistan. We are completing the military mission in Iraq. We've been supporting a NATO mission in Libya. I think a key challenge is striking that right balance—getting the resources we need, but also understanding that we need to make every dollar count in order to hold down the deficit. Once we get the resources, we need to execute them in a manner that's effective. We do that pretty well.

A bigger challenge is how well we document the way we've spent the money and presenting that information to the public. In particular, we are one of the two federal agencies that have never had a clean audit opinion on its financial statements. We need to change it. We are working on that issue, but it is definitely a challenge. The last one I'll mention is championing a strong financial management workforce. We need to have those 68,000 people well-trained. We need to provide a better framework for that training. I'm in the process of putting in place a course-based certification

program for defense financial managers. In summary, my three top challenges are managing the budget, pursuing financial auditability, and maintaining a strong workforce.

Financial Improvement and Audit Readiness Strategy

The Department of Defense has reasonable controls over its budgets. There are some of our critics who assert the contrary. I think they're wrong. As evidence of that, I'd quickly note that we have 3,000 auditors who are watching our programs and financials. We are compliant with key federal financial legislation. We do need to achieve auditable financial statements for a variety of reasons. It'll help us clean up some imperfections in our business processes. Most importantly, having auditable financial statements will reassure the public that the department is a steward of the public trust.

I'll tell you a quick story. It was early in my tenure as comptroller of the U.S. Air Force. I was trying to explain to my wife auditable financial statements. She's not an accountant. I started talking and she stopped me and she said, "Well, Bob, if you don't have auditable financial statements, how do you know they're not stealing from you?" I started to explain that audited financial statements aren't designed to detect fraud, really. I just stopped and realized we'll never convince the public we are good stewards of their funds without doing it. It's that important.

When I came into this job, there had been progress made, no question. I quickly realized, though, the department wasn't heading in a single direction. Services were doing different things. Some were doing more, some less. There



was little common purpose, so we formulated a focused approach. We identified the highest priorities for improving financial information and achieving audit readiness. These priorities specifically focused on the kinds of information we used most to manage. For us, that's budgetary information because we manage the department based on budgets.

The second priority is mission-critical asset information, which is very important to warfighters. Auditors call it existence and completeness. We have focused our attention on trying to improve information for those categories and move toward audit readiness. At the same time, we also formulated a cost-effective approach for the rest of the audit. Our FIAR strategy organizes activities into five distinct "waves" representing significant levels of effort and accomplishments. Wave 1, Wave 2, and Wave 3 are being worked concurrently and are consistent with the initial FIAR priorities. Wave 1 focuses on the processes and controls associated with the appropriation and distribution of funds from the Congress to the department. Wave 2 includes several end-to-end processes that are separated into assessable units, each of which must be audit-ready before the Statement of Budgetary Resources (SBR) can be audited. Wave 3, as noted earlier, focuses primarily on the existence and completeness assertions, which moves the department closer to achieving its long-standing goal of total asset visibility.

There are other things we need to do to have full auditability, but the items noted above are absolutely critical. There are benefits to pursuing this focused approach. It holds down the cost, because you're focusing your efforts and setting priorities. It has also brought the department together as everybody accepts we need budgetary information. There is more

support for this focused approach than there was for some of the others that we have pursued in the past. It is the right way to approach the problem. It's not a panacea. There's still a lot of hard work to go, but I think we have the right focus.

Challenges and Obstacles to Improving Financial Information and Audit Readiness

The size and the geographical dispersion of the DoD and its operations represent a major challenge to achieving full auditability. This brings me to two other major challenges or impediments we face. First, our financial systems are old. Some of them date back to the 70s and 80s. These legacy systems aren't designed to do what auditors expect. They're designed to track budgets. They are not designed to accommodate audits. I'll give you one fairly simple example. An auditor wants to see an invoice, a receiving report, or a contract that matches the invoice. We have that information, but it's not automatically available. When an auditor pulls a sample of thousands of payments spread all around the world, we have to go chase down the paper. It's a task that you can't do quickly, and it's very expensive. Our financial systems will automate all the necessary information.

Our business processes are variable across our command—sometimes from base to base. These processes may be effective, but, in some cases, they are simply not something an auditor would accept. I'll give you two examples. In one audit we discovered names weren't being deleted from the access list in the financial systems. The auditors were rightly concerned, but it was easy to fix. In another instance, we do what's called bulk obligations of military personnel dollars. We manage military personnel dollars centrally because we manage military personnel centrally. All we have are these bulk obligations. The auditors wanted to see more detail. This is a much harder fix, but we're going to have to change this business practice in order to move toward auditability. There are some major challenges we've got to overcome, but we are on our way. It's going to be a lengthy journey.

Modernizing Financial Systems—Enterprise Resource Planning Systems

We are installing enterprise resource planning systems (ERPs) in three of four armed services. The Marine Corps isn't presently implementing such a system. We are also installing enterprise resource planning systems in most of the defense agencies. Implementing a new IT system is a challenge. There are the technical challenges, which tend to be relatively easier to overcome, especially after you've done it a few times. I think the hard task is always change management. You install a new ERP in a commander base. You're

DoD's FIAR Strategy





asking somebody who perhaps has spent 20 years doing financial management a certain way to do it in a different way. There is inevitably frustration experienced and retraining required.

I had a chance to visit some of the sites that are installing new ERPs. You could see the frustration on faces and hear it in the voices of the people who are being asked to change. We've got to ask them to do it, but it's not easy. It's also not something that you do at one base and you're finished and you can export it easily to the next base. Change management is a major challenge with these ERPs, but we are making progress.

The Navy is farthest ahead ... about half of the Navy is on their new Navy ERP unit. The Army is moving out smartly and hopes within a couple of years to have their new system deployed throughout the Army. The Air Force is getting started at one major base and moving out from there picking up the pace. We have several agencies including one major defense agency on their new ERP. It will be a number of additional years and some sizable additional expense before we finish this major modernization effort.

Cutting Costs and Realizing Savings

We began then-Secretary Gates' reform agenda with the FY2010 budget. Under the leadership of former Secretary Gates, we looked at systems that were either poorly performing or where, frankly, we had bought enough to meet our inventory needs. For example, we ended procurement of the F-22 aircraft and that of the C-17 transport aircraft. We terminated some poorly performing systems. We had the VH-71 presidential helicopter that was heading toward being a half a billion dollars per helicopter. We terminated that program. We terminated programs that were too narrowly

focused or beyond what we needed. There were some 20, mainly weapons, programs that were terminated or restructured in fundamental ways in the FY10 and FY11 budgets.

With the FY12 budget we submitted last February, our focus was now on DoD business operations. We looked hard at whether we could just pursue better business practices. For example, we have literally thousands of data centers in the Department of Defense. We can achieve substantial efficiencies by consolidating data centers. This may also lead to potential, substantial savings. We need to restructure our organizations in ways that save money. The department disestablished the joint forces command (JFCOM) that was set up about a decade ago. The rationale is that the joint forces could be sustained without a separate command devoted mostly to that task. It saved DoD about \$400 million a year by closing JFCOM. There are a number of other reorganizations that are either underway or will get started. We did continue system terminations, for instance, the Marine Corps' expeditionary fighting vehicle and the Army's SLAMRAAM [Surface Launched (SL) and Advanced Medium Range Air-to-Air Missile (AMRAAM)] ground-to-air missile. Finally, we did some streamlining. Looking at lower priority tasks and acknowledging we'll have to do with a little less. There were hundreds of examples, but I think those are illustrative of the changes that we made to try to achieve some substantial savings.

Slowing the Cost of Medical Care

Our goal is to continue high-quality care to our active duty personnel, their dependents, military retirees, and their survivors, but to do it while slowing the growth in costs. We will not reverse that growth, so our goal is to slow it. For the last several years, we have pursued a number of efficiency efforts in an effort to slow the growth in medical care costs. For

example, we were able to achieve legislative authority to use the same drug pricing schedule used by the U.S. Department of Veterans Affairs, which will save us nearly half a billion dollars a year. We are now using Medicare prospective payment rates for many of our outpatient activities, which also achieves substantial savings.

We need to make some changes in what we charge our beneficiaries for health care, particularly our retirees. I'll pick just one example. There's a system called TRICARE Prime. It's a health maintenance organization that's used by many working-age military retirees—working age being defined as under age 65. They pay, right now, \$460 a year as an enrollment fee for this coverage. Just by way of comparison, I have a federal employees program that is generally similar to TRICARE Prime, and I think my fee is about \$4000 a year. We've asked Congress to allow us to increase these fees modestly from \$460 a year to \$520 a year, and then, to index the fees to a medical care index so that they keep pace with growth in the cost in the private sector.

Congress seems to view the concept as generally favorable, but it did limit some of the indexing to the cost-of-living allowance. We have a number of other programs. For example, we have made changes to the pharmacy co-pays design to incentivize the use of generic drugs as well as the mail-order pharmacy, where medically appropriate. Both actions will save us a fair amount of money. These are a few examples of the proposals we are pursuing that are working their way through the legislative process.

Building an Effective Financial Management Workforce

One of my three main strategic goals is to champion an effective financial management workforce. First, I think this workforce that's out there now is generally well-trained. We have many courses. We did a small thing early in my tenure here. We created a searchable website that cataloged all the professional development courses available to financial managers through the U.S. government. We are also embarking on the establishment of a course-based certification program

for Defense financial managers. I want to formalize more of our training. I also want to focus more training on strengthening our analytic orientation. We are still pretty heavily oriented toward reporting. We need that, but we've installed new financial systems that make it easier to produce reports. There'll be more time to focus on the analytic side of our business, so I'm hoping to use this course-based certification to move toward strengthening our analytic capabilities.

Our people are key and we're trying to take some steps to provide meaningful improvements in these areas. I want to go back to fundamentals. I think the biggest thing will be to maintain, develop, and motivate a workforce that can get this job done. I think it's probably the most important way in which we can accommodate the future.

I find the work we do very satisfying. It's technically satisfying, at least in the Department of Defense and financial management. You are involved in financing one of the world's largest and most complex organizations. I think the biggest reason is something I'll call driving home satisfaction. It doesn't happen every day, but there are times when I drive home from work thinking that I have done something that day to actually help the men and women who, as I speak, are putting their lives on the line to defend our freedom. This makes me feel good. I think you can find that kind of driving home satisfaction not just in the Department of Defense, but in many other public-sector jobs. It's not for everyone, but it can be very rewarding. It's an honor to serve, it really is. ■

To learn more about DoD financial management, go to <http://comptroller.defense.gov/>



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