



Modernizing Financial Management Practices for the Department of Defense



By Adriana Weiss, Lead Consultant, WBD;
Jeff Rosenberg, Associate, WBD; and Rebecca Grzyb, Senior Consultant, WBD.

March 2022



Overview

Multiple DoD financial management practices are rated “high-risk” according to two U.S. oversight bodies responsible for mitigating federal inefficiency and waste. The Government Accountability Office and DoD Inspector General cite ineffective financial management processes, systems, controls, and incomplete corrective action plans are adversely affecting

DoD financial operations. To address financial management deficiencies for its DOD client, Washington Business Dynamics, LLC (WBD) has crafted innovative financial management solutions. By uniting technological advancements with workforce modernization efforts, WBD has helped the DoD navigate a technology-driven transformation designed to improve outcomes.



1. Introduction

Financial management at the DoD and the role of the Government Accountability Office

Financial managers at the Department of Defense (DoD) support the security objectives of the United States. They help the DoD fund its projects, major acquisitions, and personnel. Military departments, defense agencies, and field activities (collectively called DoD Components) rely on sound financial management to plan, execute, and maintain its budgets. Like many federal agencies, DoD financial practices are subject to audit by the Government Accountability Office (GAO).

The GAO provides Congress, the public, and leaders in U.S. federal agencies with “timely, fact-based, non-partisan” reports that assess an agency’s gaps, risk factors, and areas to improve to save taxpayers’ dollars and decrease public risk. **Since 1995, the GAO has highlighted the DoD’s financial management practices as an ongoing source of risk in their biannual [High-Risk Series](#).** The GAO states that agency leaders must act on five criteria for removal from the High-Risk List, and rates the progress made in each area. The five criteria include:

1

Leadership commitment

Demonstrated strong commitment and top leadership support

2

Capacity

Agency has the capacity (i.e., people and resources) to resolve the risk(s)

3

Action plan

A corrective action plan exists that defines the root cause and solutions and provides for substantially completing corrective measures, including steps necessary to implement solutions we recommended

4

Monitoring

A program has been instituted to monitor and independently validate the effectiveness and sustainability of corrective measures

5

Demonstrated progress

Ability to demonstrate progress in implementing corrective measures and in resolving the high-risk area

The GAO rates each high-risk area's progress on the five criteria as either, met, partially met, or not met.

In response to its financial management high-risk rating, the DoD has consistently committed resources to improve its financial management weaknesses and the GAO has recognized progress in key areas such as leadership, capacity, and monitoring.

Despite improvement in some areas, [the GAO states](#), "The Department of Defense needs to continue to improve its information systems controls, action plans, and monitoring efforts to produce reliable, useful, and timely financial information for decision-makers." **Ineffective financial management processes, systems, controls, and incomplete corrective action plans, according to the GAO, are lingering inefficiencies that continue to make DoD financial management a high-risk area.**

The GAO report notes,

Although DOD's spending makes up about half of the federal government's discretionary spending, and its physical assets represent more than 70 percent of the federal government's physical assets, it remains the only major agency that has never been able to accurately account for and report on its spending or physical assets. DOD's financial management issues extend beyond financial reporting as long-standing control deficiencies adversely affect the economy, efficiency, and effectiveness of its operations.

[GAO High-Risk Series: DoD Financial Management](#)

Although DOD's spending makes up about half of the federal government's discretionary spending, and its physical assets represent more than 70 percent of the federal government's physical assets, it remains the only major agency that has never been able to accurately account for and report on its spending or physical assets.

Robust software and technology, particularly ones that enable automation of common tasks and simplify reporting and accounting, offer solutions to these perennial challenges. But to fully leverage the capacity of technology to increase the availability and reliability of financial information, the DoD's workforce must undergo concurrent modernization. Financial managers must take a long-term strategic approach to financial planning, collaborate with stakeholders to align missions with funding packages, integrate disparate systems into enterprise-wide solutions, and assist with financial data compliance. Concurrently, they must learn to adapt to the improved products and tools available to their sector. **We propose solutions that unite technological advancement with workforce development to ensure holistic, sustainable improvements in financial management processes and outcomes.**

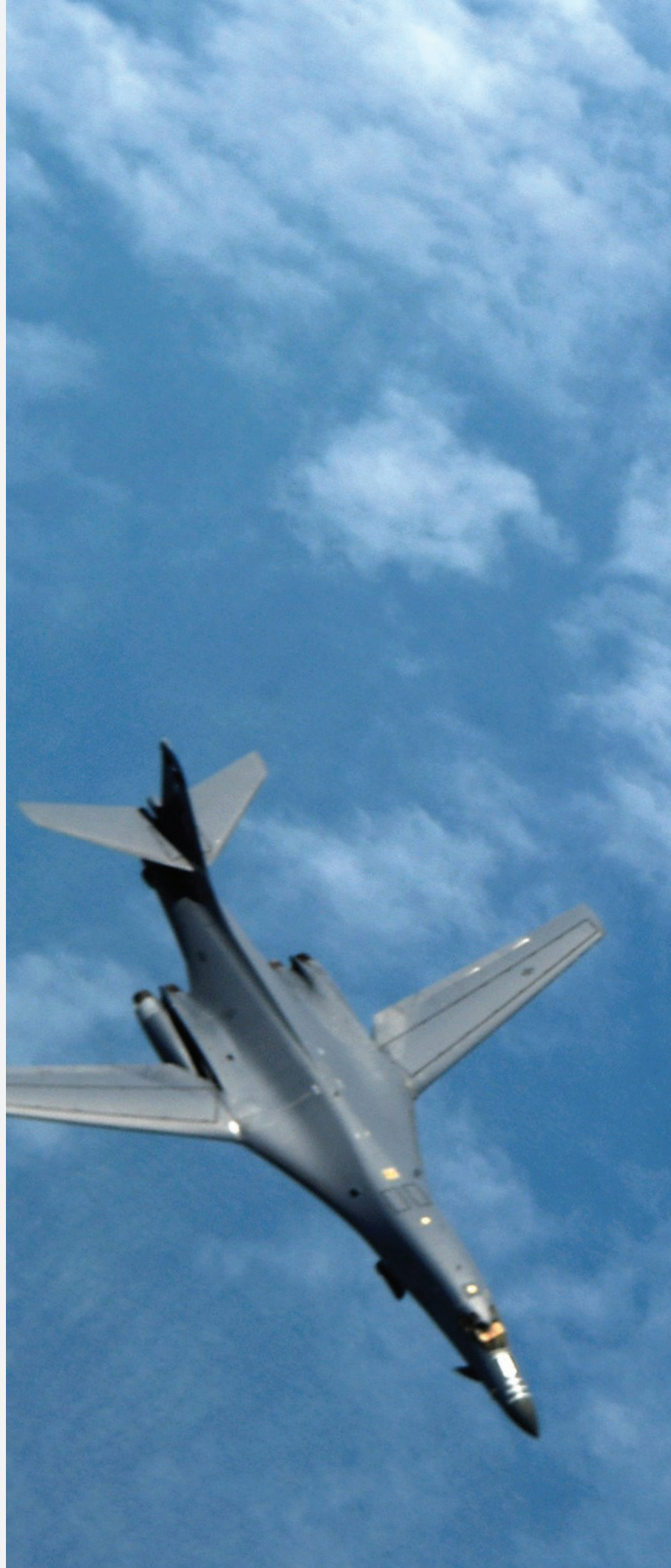
Financial Management in the DoD

Making resource allocation decisions through the DOD's internal processes and federal regulations

Financial managers within the DoD and its Components are entrusted with the management of all financial and investment activities. Their central role is managing the Planning, Programming, Budgeting, and Execution (PPBE) process, while ensuring compliance with regulatory and statutory financial management mandates in the DoD [Financial Management Regulation \(FMR\) 7000.14-R](#).

All resource allocation decisions are routed through the PPBE process, which links strategic objectives with resourcing decisions. The PPBE process requires financial management teams to review their strategic objectives, prioritize their requirements, and develop budget justifications to receive formal resourcing and funding determinations.

From Defense Planning Guidance and five-year Program Objective Memorandum submissions in the planning and programming phases, respectively, to Budget Estimate Submissions in the budgeting phase, financial managers track the near- and long-term impacts of resourcing decisions against Agency and Department goals — including but not limited to the National Security Strategy, National Defense Strategy, and National Military Strategy — to help ensure the final budget request to Congress is defensible and in the best interest of the DoD.





2. Keys to Successful Financial Management

Advanced software, strategic advisor roles, and improved data literacy and stakeholder engagement skills target GAO “high-risk” areas.

Adopting sophisticated financial management systems will allow financial managers to address GAO recommendations to improve the availability and accuracy of financial data. **New technologies, such as Enterprise Resource Planning (ERP) software, offer greater access to better data, accurate models, and more intuitive reporting and monitoring frameworks.** A complete corrective action plan for ERP implementation requires a workforce that is ready to adopt the solution. To fully leverage the benefits of ERP systems, the financial management workforce must adopt new roles and skills that align with digital solutions.

Technology: New Software to Remedy Current Weaknesses

The Department of Defense Inspector General (DoDIG), the primary advisor to the Secretary of Defense on fraud, waste, and abuse within the DoD, issued an [audit in FY2020](#), citing material weaknesses across DoD financial statements. This included IT security, asset management, and cost recording. The audit, like the GAO’s, implied that DoD financial managers should have a more reliable understanding of their agency costs. **One promising technology that has the potential to transform the integrity of DoD financial data and, by extension, financial management, is ERP software.**

ERP solutions allow organizations to collect, store, and transform resource data in a unified, accessible database. By reducing the number of applications in operation, ERPs eliminate redundancy and allow leadership to quickly access pertinent financial information.

An empirical study of 70 business units published in the [International Journal of Accounting Informational Systems](#) found that, “use of enterprise systems results in improved firm performance in the long run” and that “significant relationships exist between non-financial and financial firm performance.” These results confirm the effectiveness of ERP systems and imply that the benefits of implementations can transcend financial

Data Security and Integrity

Accurate, secure data is the cornerstone of responsible stewardship of funds. WBD works with defense financial managers to validate data across multiple systems, develop cost transparency, and achieve audit-ready financial portfolios. We then work with our clients to leverage enterprise-level data to drive business efficiencies.

measures to improve all aspects of the organization. According to the GAO, [in the Fiscal Year 2019](#), 88 percent of a sample of DoD Components committed to implementing ERP systems. Doing so may address risk areas highlighted by DoDIG and the GAO.

For example, the DoDIG audit cited inaccurate recordings of inventory, property, plant, equipment, and government property in possession of contractors. Asset costs typically represent non-negligible infrastructure or operational costs, and flaws in asset accounting prevent accurate value management. Commercial ERP software would decrease human error in recording and managing assets and costs by automating these processes. It would also directly address the GAO's assertion of "the need for more effective monitoring and reporting" of DoD physical assets.

The DoDIG report also indicated that DoD financial management would benefit from more transparent cost reporting of projects since this would allow more accurate advice and performance monitoring. In [FY2020, the Joint Strike Fighter program](#), aimed at building next-generation strike aircraft capabilities, was not recorded on DoD financial statements. This represents a \$2.1 billion oversight.

To assess and advise strategic initiatives, financial managers must improve the accuracy with which they record and monitor the costs of these initiatives. As with real asset management, ERP solutions can provide project cost accounting. ERP solutions are effective at providing real-time insights into the status of the project, including the amount of budget spent, value earned, and risks of cost overrun. Enhanced data governance offered by ERP solutions would increase the

In FY2020, the Joint Strike Fighter program, aimed at building next-generation strike aircraft capabilities, was not recorded on DoD financial statements. This represents a \$2.1 billion oversight.

availability of this kind of data, thereby increasing financial transparency over large-scale defense programs. This, in turn, would improve financial systems and controls, mitigating those risks identified by the GAO.

Roles: From Short-term Accountant to Long-term Strategic Advisor

In a [2021 Appropriations Committee testimony](#), the GAO highlighted the need for better management of defense spending. **Financial managers should play a key role in addressing areas cited in the testimony, such as inaccurate budget forecasting and under-execution of funds. This can be achieved by increasing the role of financial managers in planning, analysis, and advising on spending and budget considerations.**

A primary responsibility of financial managers is strategic planning, yet most daily financial management operations focus on **short-term, often annual, financial goals**. These include establishing controls, guiding allocations, and monitoring

expenditures, revenues, and fund flows. By replacing these tasks with software applications, financial managers will have more time and resources to fulfill FMR mandates of strategic financial management. On a day-to-day basis, financial managers can pivot from tracking funding packages toward evaluating and creating strategic financial plans or roadmaps to help ensure that funding decisions result in optimal returns on investment and prudent resource allocation.

Maintaining better estimates of future requirements would also greatly reduce the amount of funding that remains unspent or expires before obligation — the [GAO estimates](#) that billions of dollars have gone unused over the past decade. Having financial managers play a larger role in strategic planning would facilitate adding new requirements into the defense budget.

For example, [in FY2021](#), the DoD submitted a request for almost \$70 billion in overseas contingency operations (OCO) costs in addition to its base budget. Most of these funds should not fall under the OCO category because they will likely be recurring year after year. But without long-term financial planning, it is unclear how these expenses should be included in future annual budgets.

Requiring more rigorous analyses from financial managers would help the DoD avoid costly errors resulting in improper payments (amounting to over \$500 million in 2017 and 2018 alone).

Financial Manager as Strategic Advisor

WBD has helped financial management offices within the DoD play a more active role in strategic planning. Our solutions allow agencies to:

- Prioritize requirements
- Optimize resource distribution
- Identify investment opportunities in dynamically evolving marketplaces
- Mitigate funding risks with feasibility studies and what-if analyses given fiscal constraints

Portfolio, performance, and resource management analyses should also play a larger role in financial management. Rather than exclusively managing funds, financial managers ought to be involved in determining *how well* the DoD and all its Components are using funds to maintain the financial health of their entities.

Requiring more rigorous analyses from financial managers would help the DoD avoid costly errors resulting in improper payments ([amounting to over \\$500 million in 2017 and 2018 alone](#)). Cultivating an analytical culture in financial management teams would facilitate the root cause analysis and corrective action planning needed to sustain long-term improvements to financial practices.

As transactional roles are automated, financial managers ought to take on advisory roles. Financial managers are uniquely positioned to engage with DoD Agency leadership and

A workforce skilled in using business systems is better equipped to monitor spending across disparate environments and access more accurate and timely financial information.

stakeholders in strategy execution as the subject matter experts on resource management.

To achieve business improvements such as cost reductions, full-value rate setting, and cost-efficient acquisitions, it is advantageous for leadership and key stakeholders to engage with financial managers early on. These subject matter experts can leverage their understanding of program costs and fiscal constraints like budget controls to support the identification and implementation of process improvement initiatives.

Skills: Adopting Private Sector Best Practices to the Public Sector

To transition financial managers into the roles discussed, the DoD should consider adopting workforce development trends from private-sector financial institutions. [The GAO High-Risk Series notes](#), “DoD acknowledges that workforce planning across the department is stagnant, and it has difficulty competing with industry for financial management talent.” In a separate report, the GAO states that

DoD financial management — its management of business systems and processes, internal controls, and financial reporting — continues to face significant challenges, including a decentralized environment; cultural resistance to change; lack of skilled financial management staff; ineffective processes, systems, and controls; incomplete corrective action plans; and the need for more effective monitoring and reporting. Sound financial management practices and reliable, useful, and timely financial and performance information would help ensure DOD’s accountability over its extensive resources and more efficient management of its assets and budgets.

From: [DoD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits](#)

To develop these recommended “sound financial practices,” the financial management workforce must improve their skills in areas that have long been targeted by the private sector. **Three skill areas required to achieve these outcomes are increased technological proficiency, data literacy, and stakeholder engagement.**

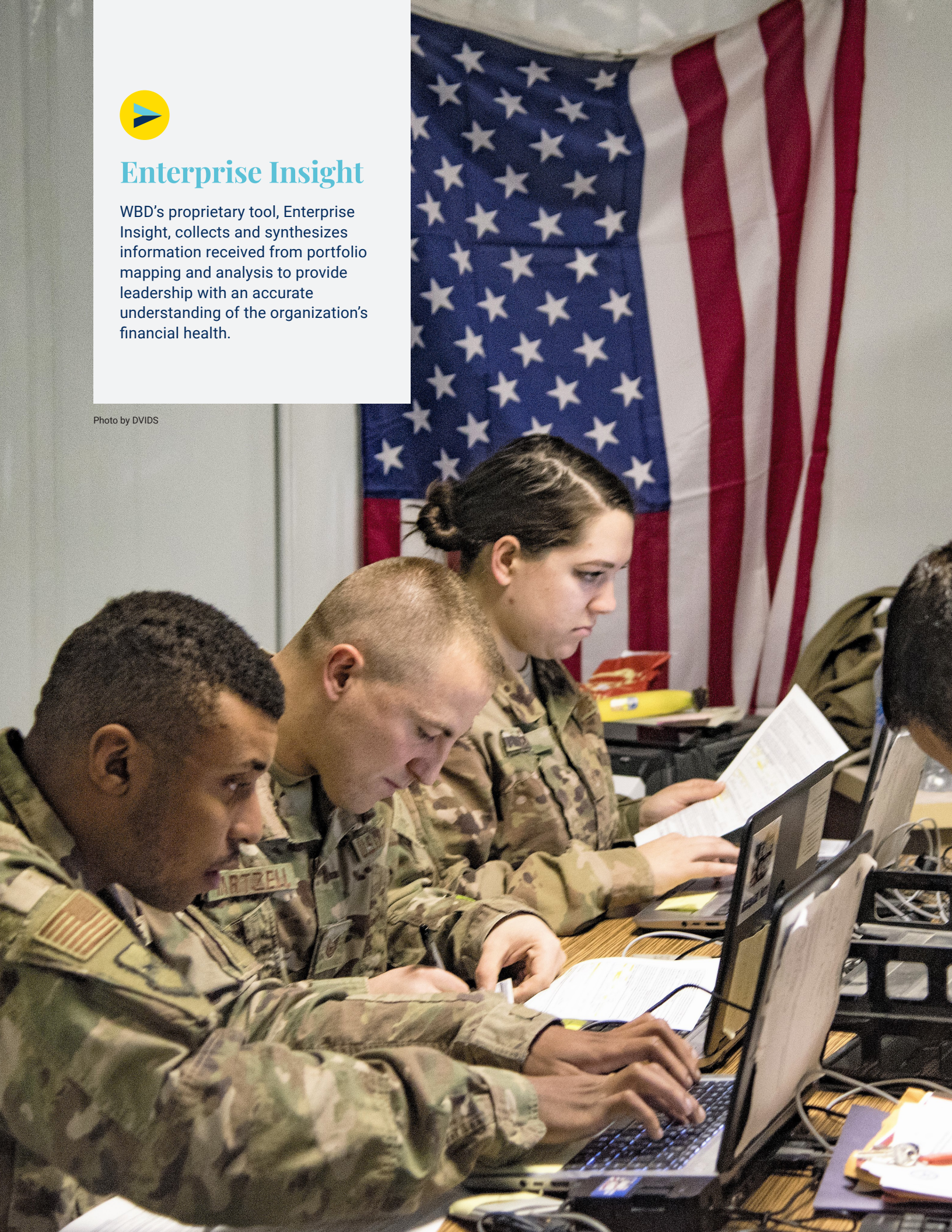
Agencies are making investments in technological proficiency and requiring a workforce skilled at using it. Spreadsheets will likely remain in DoD financial management, but successful financial planning will rely on familiarity with novel financial management applications to build dashboards, conduct scenario analyses, run forecasts, monitor controls, and manage funds. A workforce skilled in using business systems is better equipped to



Enterprise Insight

WBD's proprietary tool, Enterprise Insight, collects and synthesizes information received from portfolio mapping and analysis to provide leadership with an accurate understanding of the organization's financial health.

Photo by DVIDS



monitor spending across disparate environments and access more accurate and timely financial information.

Data literacy and visualization skills are also closely linked to technological competence. As the workforce increases its access to business systems, and the rigorous data that these systems provide, financial managers should also strengthen their data skills to leverage these new tools. Financial managers need to understand the sources and context of data, the analytical methods driving conclusions, and the use cases and applications of information derived from data. This would help their departments better monitor the financial health and performance of its assets and resources.

As financial managers spend more time conducting analyses, their ability to leverage data visualization software and best practices will strengthen their understanding and communication of results. **Better data visualization skills would improve reporting and oversight capabilities.**

Financial managers should also be skilled at discussing their work and insights with stakeholders. Along with the ability to leverage new technologies, financial managers must be able to advise their agencies on the status of funding, budgets, and assets and its impact on organizations' lines of business. The ability to communicate financial impacts can have staggering effects on overall financial health.

In 2020, for example, [the DoD reported](#) large cost savings on military construction projects. These reports did not fully communicate the financial realities of the attempted business transformation — costs were not necessarily saved, but

A workforce skilled in using business systems is better equipped to monitor spending across disparate environments and access more accurate and timely financial information.

rather were deferred due to delays in implementing the projects. Workforce development that targets improved stakeholder communication would positively impact reporting standards, ensuring that department business goals are accurately understood and defined.



III. How WBD is Helping

WBD consultants have improved the DOD's financial management technology systems, redesigned its financial manager roles, and built digital skills.

WBD is a management consulting firm with decades of experience providing financial management support to DoD agencies. WBD consultants help defense entities manage financial data and embrace strategic roles and technical skills.

Leveraging Financial Management Technology

WBD has built enterprise-level dashboards by developing interfaces across multiple sources of financial data, including DISA Financial Management System (DFMS), Defense Finance Accounting Service (DFAS), and the Defense Logistics Agency (DLA) which allowed our clients to monitor internal budget controls and other financial indicators. Accurate, secure data is the cornerstone of responsible stewardship of funds.

WBD works with defense financial managers to validate data across multiple systems, develop cost transparency, and achieve audit-ready financial portfolios. We then work with our clients to leverage enterprise-level data to drive business efficiencies.

We have developed capabilities such as service cost modeling so that costs can be understood and controlled. This has helped our customers maintain financial rigor and accuracy throughout the planning process, defend budgets before

Congress, and bill customers for the full value of reimbursable services. And as we help our client agencies strengthen their financial management processes and supporting capabilities, **WBD has received praise from GAO for helping clients meet GAO and DoD regulations and guidance.**

Redesigning Finance Roles

WBD integrates financial managers into strategic roles within their DoD Agency or Component, shifting their roles beyond routine financial management tasks, such as tracking funding packages. Leveraging financial management systems (FMS) to automate routine financial management tasks, WBD has helped financial management offices within the DoD play a more active role in strategic planning. Our solutions allow agencies to

- Prioritize requirements
- Optimize resource distribution
- Identify investment opportunities in dynamically evolving marketplaces
- Mitigate funding risks with feasibility studies and what-if analyses given fiscal constraints

WBD's clients develop stronger programmatic narratives by facilitating collaboration with acquisitions and capital planning and investment control teams. We help our clients align financial planning to business operations cycles and acquisitions process phases. And, due to our immersive consulting approach, we identify and advise on process inefficiencies, improvements, and opportunities for further cross-functional coordination with other resource management stakeholders.

Building Digital Skills and Enterprise-Level Solutions

WBD supports data analysis and technical proficiency skill-building for DoD Agencies and Components. Our clients, for example, use the Defense Agencies Initiative (DAI) digital solution (an FMS tool used by multiple defense agencies for financial tasks including budget formulation, accounting, and reporting) to monitor current execution and future planning. **WBD has developed capacity-building initiatives to allow financial managers to not only execute funds and track packages but also to use reporting features to generate analysis that allows leadership to identify trends and more accurately forecast future challenges.**

We also work with financial managers to help them use their financial management software to aggregate data and information across multiple projects, delivering a holistic view at a portfolio or program level and the data and information required to optimize decision making to achieve strategic and tactical business objectives.

Our clients can effectively communicate with members of Congress, building trust, understanding, and confidence in their use of funding authority.

As our financial management practices become increasingly data driven, WBD helps our clients build stakeholder engagement capabilities to disseminate financial insights. We use tools such as Microsoft Power BI to develop financial management dashboards, giving clients intuitive visualizations of their organization's financial performance. Our proprietary tool, Enterprise Insight, collects and synthesizes information received from portfolio mapping and analysis to provide leadership with an accurate understanding of the organization's financial health.

These kinds of enterprise-level financial management tools have helped our DoD clients present their insights to leadership, and informed IT investments, acquisitions roadmap development, and divestitures. WBD clients also learn to function as liaisons between financial management offices and Congress; our clients can effectively communicate with members of Congress, building trust, understanding, and confidence in their use of funding authority. ●

