



## All Things Financial Management

### Episode 15: The Mission and Operations of the Defense Logistics Agency with Mr. Shawn Lennon

**INTRO:** Welcome to All Things Financial Management, an ASMC podcast sponsored by Guidehouse where we discuss all things under the auspices of the comptroller's office and address top of mind issues in the financial management community.

**TOM RHOADS:** Good morning. My name is Tom Rhoads. I'm a Partner with Guidehouse where I work with clients across the DOD and other government agencies to transform and optimize their financial management functions. I'll be your host for today's podcast. For those of you who may be new to this podcast series, let me take just a moment to provide some background on the American Society of Military Comptrollers. The American Society of Military Comptrollers, or ASMC, is a nonprofit, educational and professional organization for individuals, military, civilian, corporate, or retired, involved or interested in the field of defense financial management. ASMC promotes the education and training of its members and supports the development and advancement of the profession of defense financial management. The society provides membership education and professional development and certification programs to keep members and the overall financial management community abreast of current issues and encourages the exchange of information, techniques and approaches.

And with that, I'd like to introduce our guest for today's podcast. With us today we have Mr. Shawn Lennon. Mr. Lennon is the deputy Director J8 and Director of Financial Improvement Audit Remediation for the Defense Logistics Agency. Mr. Lennon also serves in a dual capacity as the agency's Director of Resource Management. As the Deputy Director J8, he serves as the deputy Chief Financial Officer, a principal financial management advisor, influencing senior leaders in the agency, the department and other federal agencies, industry, academia, Congress, and foreign governments by maintaining strategic relationships, gaining trust, identifying and preemptively solving critical issues. On behalf of DLA and the department, he is directly responsible for providing executive leadership and policy advice for the agency's \$50 billion annual budget and for leading the planning execution and sustaining of daily's three financial statement audits and the statement on standards for attestation engagements number 18, examination for service stone items in DLA custody. Shawn, thanks for being here with us today.

**SHAWN LENNON:** Thanks for having me, Tom.

**TOM RHOADS:** That's great. And we appreciate your time and know that you're busy. And typically, we like to start out by asking you to share your story with us. Can you

tell our audience what brought you to your current position or current role at DLA?

SHAWN LENNON: Yeah, absolutely. Let's see, about 20 years ago I graduated from my undergraduate school and spent a summer in London in a work abroad program. And at the time didn't really know what the next step was going to be for me, so I sort of just used that as an opportunity to do some traveling and get to see the world a little bit. I had spent a semester overseas as part of my undergraduate school. I was born and raised in New Jersey and did a little bit of traveling throughout the country but had never really gone overseas. So had some really great experiences in the UK both during college and immediately afterwards. Of course, I came back right after 9/11, my return home, my now wife and I were over in England and were delayed in being able to return to the United States because of course, as everybody knows, all air traffic was shut down for a period of time.

When we got back, I was trying to figure out what to do next in my life and wasn't really sure. The only thing I did know that as I wanted to get into some field where I could give back and contribute and I thought that was in federal service, but I really didn't know how. I didn't know how to go about even applying or what opportunities were out there. And so like most people do when they're trying to just make ends meet to pay the bills, I got a job waiting tables at Red Lobster and worked there while I was applying to all these different jobs and all these different positions, looking for something in the DC area. Had a couple of near misses of trying to get positions that didn't really work out and so wasn't really sure if it was going to work out for me.

A couple years had gone by putting resumes out there and all of a sudden one day I got a call from an intern coordinator with CECOM up in Fort Monmouth, New Jersey. And the resume that I had submitted about three years prior was still sitting on their desk collecting dust. They blew the dust off and gave me a call and asked me if I was still interested and I said, "Interested in what?" I wasn't really sure what they were even talking about. So after a quick explanation, I realized what it was related to. And so I went in for the interview. At the time, they were offering programs, it was called an intern program, but it was essentially you get in as a GS 7 and you work two years to go through training and on the job training and courses to get to a GS 11. I was sold, still didn't quite know what I was signing up for, but I definitely said I was interested and went to the interview and got offered the position and start up my first day still not knowing exactly what I was going to be doing.

But the one thing that sort of set me on my path was that I majored in entrepreneurial studies in my undergrad program. And so when the intern coordinator and somebody else in the G8 of CECOM at the time saw that, they said, "Oh, entrepreneurial studies? So like running a business? Oh, we have this thing called revolving funds or working capital funds. It's just like a business you'll fit right in." And so that sort of started my journey to be working with revolving funds and pretty much have worked in various aspects with revolving

funds throughout my life. Starting as a budget analyst with CECOM, which is within Army Materiel Command. At the time, just looking at the Tobyhanna Army Depot budget and submitting that up the chain to eventually get incorporated into the Army Working Capital Fund budgets.

And then when the command was closing down Fort Monmouth and they were talking about most people going to Aberdeen Proving Ground, we started to look into where we would live in Maryland if we were to move down there. And at the time I also found out about this program at Syracuse University called the Defense Comptrollership Program. And I was sort of amazed that this program was offered. It seemed too good to be true. They told me that it was a paid graduate degree. Not only do you get one graduate degree, but you also get a second master's in business and an executive master's in public administration. And they also paid your salary and sent you there to be able to go to school full time as your job.

And so I knew that, for me, that's what I wanted to do. So I put in everything I could to make it happen and ended up going up there in 2010. And as part of that, the Army decides where to put you afterwards. And so they had selected a position for me within the Assistant Secretary of the Army for Financial Management Comptroller. And so they tell you where you're going to work after you complete the program. And so I knew I was going to come down to the National Capital Region. And so that's what we did. My wife and I, we got married in the interim there and then we moved down to Virginia in the summer of 2011, and I've been down here ever since, 11 years.

And so that sort of set me up first working in the Army Budget Office, similar work also within the Army Working Capital Fund. But then a year later, moving over to the financial operations side, which is the first time that I had left the budget world and getting into the accounting and audit world. And that's where we started preparing for undergoing financial statement audit and all the phases of identifying our problems and putting in corrective actions to fix them. And then I got an opportunity within the Office of the Under Secretary of Defense Comptroller within the Financial Improvement and Audit Remediation Directorate and worked there for a year and then returned back to the Army to be the Director of Army Working Capital Fund to oversee the first few financial statement audits. And then I was given another opportunity to return back to the Comptroller's Office, but this time on the program budget side as opposed to the DCFO side.

And so doing that, I was overseeing the Air Force Working Capital Fund and the Transportation Working Capital Fund budgets. And then they re-created the revolving funds directorate, which was disestablished back in 2016. And so when that was re-created, me and five others were moved to become part of that directorate as it was standing up and was offered the position of the Deputy Director for Revolving Funds. And so in that role, I got to oversee all the DOD revolving funds, not just the Army or Air Force, but all the Defense Working Capital Funds including Navy, and DECA Commissaries and DLA, DFAS and DISA.

And we also have some other revolving funds for the Pentagon and National Defense Stockpile, which I'll get into later.

And so that was a much broader level than I'd ever seen before. And then when this position came up here with DLA, which was both Deputy Director of Finance as well as the Director of Financial Improvement and Audit Remediation, it just seemed like a really good fit, almost fate. And so I threw my hat in a ring and was offered the position and started about a hundred days ago. I just passed my hundred days here at DLA.

TOM RHOADS: Did you ever think when you came back from UK and were working for three years, that you would be a senior executive in an organization that's supplying \$46 billion in goods and services to its customers?

SHAWN LENNON: Never. If I told somebody that at the time, they would've sent me to the nuthouse, right? No, there's no way I could have ever imagined this in any way whatsoever. In fact, I didn't even really know at the time that the DOD had financial statements. I'm not sure how much the public actually even knows that today, but certainly never could have imagined it.

TOM RHOADS: Yeah, I guess it's another example of time and patience pays off, right? So that's exciting. The DLA is the Nation's Combat Logistics Support Agency and they manage the end to end global defense supply chain, and DLA supports all the services and 11 combatant commands as well as other federal, state and local agencies. And that's a tremendous undertaking to supply \$46 billion in goods and services. What else can you tell us about DLA's mission?

SHAWN LENNON: Yeah, Tom. So like I said, I'm very new here to the Defense Logistics Agency. I'm by no means an expert in all the missions that the DLA is involved in. It is a vast enterprise with worldwide reach, with warehouses throughout the world. We supply basically all of the fuel that the military needs to fly and drive and steam. We supply medical supplies, food, spare parts. The list of things is almost endless. There's so many different aspects of the business that DLA is involved in.

Just to give people an idea just for one small aspect of what DLA is, I just want to talk a little bit about COVID-19 support. When the pandemic started two and a half years ago and there was a very, very strong need. For those of you that were around, you remember the desire to have a lot of different things that support not just the DOD or the government, but the entire United States and the world. And so DLA had a massive role in going out and buying and delivering all sorts of things to help in response to COVID-19.

So just as a few examples, DLA delivered over 1.2 million doses of the vaccine. DLA purchased and delivered over 600 million COVID-19 test kits. Over 5 million gloves, 72 million N95 respirators, hundreds of millions of surgical masks, hand sanitizer, gowns, whole array of additional items both in PPP and other supplies

to respond to the pandemic that were used like I said, not just for DLA but for the whole of governments. The Department of Health and Human Services was our biggest customer in terms of responding to COVID-19. And so we would deliver the products and services that they requested of us to respond to that emergency. And we still do that today. We're still delivering test kits to a whole host of places to respond to that.

And so that's just one aspect that we didn't even have this mission three years ago, but DLA was able to respond quickly using the statutory authorities that we have and using collaboration with all the different stakeholders throughout the whole government to respond. And that's just an amazing thing that I was able to follow from the outside and that I'm happy to be a part of from on the inside now.

TOM RHOADS:

Yeah, that's amazing. I'm not sure that the broader audience realizes the impact that DLA had with our COVID response. That's incredible—the volume and the depth of services that you provided. Earlier, Shawn, you mentioned that because you studied entrepreneurial studies, the government was interested in your ability to support somewhat of a commercial enterprise and that brought you into the revolving funds of the working capital funds. Can you share with us what a working capital fund means and how that could be different from a general fund?

SHAWN LENNON:

Yeah, absolutely. It's in one way, super complicated and in other ways really simple. You can go into a two week or even four week course to learn all the ins and outs and aspects of how a working capital fund operates and all the benefits and all the challenges. But really just think about it as if instead of most of the government how it operates, where Congress has to pass an appropriations bill and the president signs it into law and that gives money to federal agencies, including the DOD, to go out and pay its people and buy things. And so that's how most of the government works.

Well, in a revolving fund or working capital fund, the terms are synonymous. We get the vast majority, not a hundred percent, but almost all of our funding we get from customers. We get very little directly from Congress. And so the way that works is if we're doing work for a federal agency, most of that is DOD. But like I said, we do work for a whole host of other federal agencies including Health and Human Services and Department of Homeland Security and many others. They come to us and they say, "Hey, I need a part or I need a service." Like I said, we provide a lot of different classes of supply to our customers, but we also provide distribution services and disposition services and document services and other things that are service type work. So they come to us and they come with money. We say, "Here's how much it's going to cost," and then they pay us for the product or services that we're offering.

And so we're able to do that. We're able to provide, we're able to perform our mission mostly through what we call funded customer orders where the customer comes to us and says, "Here's what I want." And we tell them, "Here's

how much it's going to cost," and then we'll build them just like a business would to provide that good or service. And so just like a business, we'll have accounts payable and accounts receivable that we have to monitor and make sure we're collecting.

And we also do work with the public, non-federal agencies. And so we're able to establish relationships with companies, state and local governments, foreign governments where we have agreements. And so very similar where they'll come with the money to pay for the good and services that we have. And so that really just is sort of the basis for why it's called a revolving fund. The money comes in and revolves around. We use that money that we get from our customers to pay our people, pay for the infrastructure that we have and all the IT and everything that we need to run, plus the cost of the actual goods that we're buying and that we use that money from our customers to provide it to our customers. So that's sort of in a nutshell.

TOM RHOADS: I imagine that you, not you, but the working capital funds with the revolving funds price, their goods and services to breakeven on their net operating results.

SHAWN LENNON: So that's where it gets hard because now, we have to try to figure out, okay, it's sort of like a nonprofit would where you try to not earn a profit in the long term. You try to essentially run at a net zero. And so we do that during the budget cycle, whereas a general fund would request for appropriations and say how much they're going to spend in a given year. We spend a lot of time in our budget development process coming up with our prices or our rates. A price for a good or a rate for a service generally.

And so in order to do that, we need to know how much things are going to cost, not just for the products themselves, what is a widget going to cost next year, but also what is all the overhead going to cost us, all the people and all the buildings and all the software and all the other things that it takes to run our business and then bring that all together into these prices and to make sure that we are properly allocating overhead costs to the right customers so that we can break even over the long term. And what happens is you never get it exactly right. In any given year, we're always going to either make money, which we call a positive operating result, or we're going to lose money, which is a negative operating result. And in either case, we either raise or lower prices in the next year to try to get back to the zero.

And so, if you're on the customer side, what you're going to see is fluctuations in the prices that you pay for products, not just due to the normal course of price changes with general inflation, but also in whether or not we made or lost money in a given year. And as you can imagine, when you're trying to predict the price of fuel, anybody that's been going to the pump over the last year or so knows that in any given day, the prices can fluctuate very much. And so one of our big businesses is buying and selling fuel. And so we have to try to predict what the fuel's going to be in the next year and then we're not going to be right.

We're going to either guess too high or too low, and then we're going to either recover or return losses or gains to the military services the next time we set that price change.

TOM RHOADS: It sounds interesting and complex. And speaking of financial results, DLA is currently undergoing its fifth financial statement audit. Are there any unique audit challenges that a working capital fund faces?

SHAWN LENNON: Yeah, and this is one of the really exciting aspects of a working capital fund is because you have inventory and you have revenue, your expenses are really meaningful because you're trying to break even over the long term. It adds those sort of core elements of running a business. Just like any business, just like Amazon or Walmart, you don't want to have too much inventory because inventory costs money to maintain, right? You have to have the warehouses to store it in, you have to have people to manage it. There's a cost of inventory and there's also a benefit. You want to have the product on the shelf to support your customers' requirements. You don't want to walk into a Walmart and not have a good that you're looking for. You don't want to go to Amazon and it's out of stock, right? That's unacceptable to them.

So we have to find that balance is what is the right level of inventory that we're going to maintain on the shelves and then what's the access to inventory that we need to maintain with contracts with vendors to be able to procure something with the lowest lead times feasible and affordable.

And so when you do that, you have this large inventory balance that you have to not only know [its] existence and completeness, where it is, how many I have, what condition it's in, who owns it. We run distribution centers that store not only DLA-owned items, but we also store items that are owned by the military department. So if you walk into a warehouse, DLA warehouse, you'll see stuff owned by the Army and the Navy and the Air Force and the Marine Corps and DLA in any given warehouse. And so we have to ensure that we have the proper tracking so that we know whose part is whose so that when an order comes in, we have accurate records so that we know that we can fill that order timely and then we have to make sure we have a proper value for that item. And then we present it on our financial statements so that it can be audited to prove that yep, those records are correct all the way across the board from quantity to value.

Like I said, we provide these goods or provide these services, that's all revenue. That's a huge line item for us. We're going to exceed 40 billion in revenue this year again, and 40 billion of expenses. And these are audited lines of our statement of net costs. Even if you do break even or come close to hitting net zero for a given year, you still have these large bounces of revenue and expenses that are audited by our independent public accountants every year. And they want to know what kind of internal controls that we have in place to show that those balances are accurate. And then of course our Fund Balance with Treasury, which typically, as I mentioned earlier, for our general fund, that

would be your appropriated funds where you would show how much of appropriate funds you've received and then you'd draw that down as you expend it.

Like I said, we have a very, very small piece of appropriated funds, but most of that Fund Balance with Treasury, that's cash, that's just like a checkbook. And so, we have a lot of collections, a lot more in collections than maybe any other, definitely DoD agency, maybe many other federal agencies. And so, all this work that we're doing for our customers is coming through as collections of our revenue and proving that we have the accurate records over those balances at any given point in time. And the really interesting part about that is that it's not only just a line item on a balance sheet, it's also how we manage our business. We need to ensure that we have sufficient funds in our bank to pay our bills.

The one interesting thing that most people don't know or may not know about working capital funds, especially for supply activities, and DLA has a very large supply activity service. The military services also have a supply activity in each. Supply activity essentially is the activity that buys and sells inventory. So we go out and procure the parts, put them on the shelf, and then we sell them when the customer needs them. Or like I said, we have contracts in place where the vendor will ship directly to the customer. Well, those agreements, that business line for buying and selling inventory and having adequate cash is done through what we call contract authority. This is this great authority that the Congress gave some federal agencies, DOD being one of them.

Unlike appropriated funds, contract authority is similar to a credit card, whereas you don't need to have the cash in the bank to go out and place an order. So just think of any order that you would place with your credit card. You know, got to have the cash to pay the bill when it comes in 30 days, but you don't need it at the time. And so we have to manage that to ensure that we have enough cash in the account to pay our bills, to make our labor costs, payroll, pay our contractors timely, and all these other expenses that come in to make sure that. And so we manage that very closely. And so it's an integrated part of our business, of our budget process, of our accounting, and of our audited financial statements. So it all ties in from beginning to end.

TOM RHOADS: Got it. It's so refreshing to talk to someone who can take something so complex and explain it in a way that makes it so understandable. And in that spirit, we usually like to wrap up by asking you, knowing what you know now, to share with our guests who are listening, what advice would you give those new careerists who are just starting out their federal career?

SHAWN LENNON: Yeah. So first let me say that I would highly encourage everybody to go back to some of the prior people that have been interviewed. I found that I got great advice just by listening to your prior speakers. I had the opportunity to work for both Mobola Kadiri and Alaleh Jenkins during my first tenure that I mentioned at the OUSD comptroller in the Financial Improvement and Audit Remediation Directorate. They had some great advice that they provided in their interviews.



And then more recently with Audrey Davis from DFAS gave some great advice. So I'm not going to attempt to try to replicate a repeat, but I'll just say I agree with the recommendations and the advice that they provided. I encourage you to go back and listen to those.

And then for me, I think what it all boils down to more than anything else, because I could go on and on about all sorts of things, but at the end of the day, I think this captures it. It's really just to be curious. Be curious about how things operate and ask questions. Curiosity will lead you places you could not imagine and asking questions, even if they're super basic, super simple questions, at least in your mind, or super complex questions. Don't be afraid to ask those questions. Let your curiosity come out when you're in meetings, when you're in one-on-one conversations, when you're learning a new job, solving problems, whatever the case may be.

Because don't think that somebody's asked it before. There's a really hard and fast reason why things are done the way they are today. Because I'll bet you a lot of the time, that's not going to be the case. There's going to be a pretty good chance that people will say, "Well that's just how they did the job before. And so that's why we do it that way." And so what that does is it allows you to think about ways to do things better. There's nothing more satisfying to me than coming in and updating a process. It doesn't have to be a major overhaul, just tiny tweaks to the process to improve efficiency. Something that used to take three hours, takes 30 minutes. Something that you used to get check the box now provides value to somebody that it didn't provide before. Those little things mean a lot and they build up over time.

And all it takes is some curiosity. So like I said, whether it's the job that you've been doing for a really long time or something that's brand new and that you've never done before or you're in a meeting covering for a boss or somebody else that couldn't cover and you have no idea what the topic is, don't be afraid to ask questions because you'll never know where that'll lead and how much that could actually improve ultimately whatever it is that you're trying to achieve in your given position.

TOM RHOADS: Shawn, thanks so much. That's great advice and I want to thank you for taking the time out of your schedule. I know how busy you are and to do this podcast with us. So thank you so much.

SHAWN LENNON: Yeah, thanks Tom. I really appreciate the opportunity to do this. I've enjoyed all of your previous interviews. I hope that people get something out of this. I'm always welcome to have conversations with people. I love to meet folks, people that want to know more about either what DLA does or some of the things that I've done in my career. Like I said, I can't say enough about great experience that I've had throughout my career. I've had some amazing mentors, both mostly informal, probably actually non-formal. I've been so lucky throughout my career to have people that have invested time to help me learn the job and

teach me from my very first position in CECOM. I had a wonderful team leader, Mary Beth, a great supervisor, Jean.

And as I worked my way up through the chain, given opportunities throughout the organizations and so I just couldn't be more thankful for the career that I've had. I don't know where it's going to go. And that's one of the great, interesting things about doing this type of work. The one thing I do know is that I love what I'm doing, and I love to come to work and be able to try to problem solve, to deliver readiness and lethality to our warfighter. And it's hard to make that connection for those of us that are in financial management because we're sitting at our desks in spreadsheets and PowerPoint slides a lot of the time. But when you step back and think about it and think about how we all contribute to how the DOD operates, it's just sort of amazing. And so again, just thanks for having me.

TOM RHOADS: Thank you, Shawn.

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