

ALL THINGS FINANCIAL MANAGEMENT PODCAST

Reflections on the current budget environment

with Russ Rumbaugh, Former Assistant Secretary of the Navy,
Financial Management & Comptroller



Welcome to the All Things Financial Management Podcast, presented by Guidehouse and the Society of Defense Financial Management. I'm your host, Tom Rhoads. Join us as we discuss top-of-mind issues facing defense financial managers.

TOM RHOADS: Mr. Rumbaugh, thanks for being here today.

RUSS RUMBAUGH: Thank you for having me and please call me Russ.

TOM RHOADS: Thank you so much, Russ. Be happy to do that. Can we start by having you tell us about your background and what brought you to your former position as the Assistant Secretary of the Navy Financial Management Comptroller? In other words, Russ, can you just share with us your story?

RUSS RUMBAUGH: I very much appreciate the question. I'm always a little surprised when people want to know the background, but honored to be here and share in any way. My overarching story is, as I like to tell it, is that I've done defense budgets from every perspective. My time at DON FM was my third time in the Pentagon. I previously also worked in the Congress, both in the Senate and the House, and I've studied it, think tanks and taught it at universities. So that's how it became a career. For your point about the story, it might be better to do it as just a couple vignettes that I look back and realize were really important. One, I knew at the time and one I didn't.

My first one, when I first had left the service and was back in Chicago and needed to feed myself, I had gotten a temp job at a mutual fund company where I sat on a small team that used Microsoft Access database to lump together the different corporate databases. Needless to say, at the time, that felt like such a placeholder. But one, it created this sense of rigorous thinking and as you know, anytime you do database work, you have to understand the relations between all of the different databases and how each field relates

to the other one. I really do credit that unexpected experience giving me a way of thinking that introduced me to financial management.

Of course, it also made me very sympathetic in the DON FM Comptroller role I had to worry about the financial management systems having lived through the difficulty of making different systems talk to each other. The second story I would tell is in grad school, which little embarrassed to admit to this audience, was for a political science degree. But as I was there enjoying my big picture thinking, I realized I wanted to distinguish myself and needed something more particular. I happened to have one of the former directors of the National Security Division at Congressional Budget Office there. I took her class, Cindy Williams. I still owe her a great deal as I do many people and then took statistics.

That combination of plunging into the quantitative is what started me on budgets as the focus. Hopefully folks thought my tenure as the FM went well. I'm certainly proud of it and whatever I owe, it dates back from that decision. So one event in my life that I didn't even realize was happening and another one, a very conscious choice that really shaped my path. I'd like to think of them as both as stories of expertise and learning what you do, both of them with unexpected results.

TOM RHOADS: That's exciting. Thank you for sharing that, Mr. Rumbaugh. The financial management workforce is critical to achieving an unmodified opinion. Can you share some challenges that the FM workforce is facing from your perspective?

RUSS RUMBAUGH: Well, Tom, the FM workforce is critical for many reasons beyond just the unqualified opinion. The unqualified opinion is a great goal we have and I think will really improve not just how the Defense Department does business every day, but actual outcomes including better defending our country, better prosecuting the wars and operations our country asks us. I am always very proud to have been associated with the financial management workforce. While I just listed all those reasons, I think the financial management workforce is critical. The real thing driving them today is these very uncertain times we live in. I had the honor of doing a piece with Rich Brady shortly after I left office and didn't even see what was coming.

Today talking to you, I'm very aware of how much uncertainty is troubling people's professional lives and spilling into their personal lives, that creates an environment we haven't seen for a long time. In fact, the only analogy I've seen somebody come up with is the purge of the China hands back following World War II. That was a long time ago, and I think the workforce is feeling that in a way they didn't really feel in the nineties. In the face of that uncertainty, I would counsel two things. First, a patience with leadership. This uncertainty we're going through is so wild.

I recognize that rank and file don't totally know what's going on, don't totally know what the future holds in store for them, but unfortunately, my sense is that's true all up and down the leadership chain. That this is a time when nobody knows what's going on or even has insight into it. That can be very hard. It's always nice to think your bosses know what's going on and have a plan or have insight into whoever has the plan, but having that patience with your chains of command, with your colleagues. Everybody is living in an uncertain time. The second council I would offer is when I was in the job, I took

great pride and I still take great pride of being part of that professional community you described that critical community.

And that profession that we don't just work for our organizations, but we also have a commitment to the profession of financial management. I think that we'll always have value. It will always make each and every one of us critical, but I also hope it in these uncertain times makes us sympathetic and empathetic to each other. That we should see ourselves in each other, know that we're in this together even as chance and circumstance may split us in different ways. Hopefully, we can remember all of us are going through uncertainty and if we can, be helpful to everybody. I wish I was having such a successful career post-service that I could offer everybody a job and have this powerhouse financial management.

Unfortunately, I'm not in such a position, but if there is anything I can do, I'd be honored to support or help anybody with whatever it is I can.

TOM RHODES: Thank you, Russ, and such good counsel and advice and perspective on the workforce. The department has made significant progress towards an opinion this year, but there's still so much that needs to be done. Can you share with our audience some of the challenges that DoD is facing in achieving its goal of an unmodified audit opinion?

RUSS RUMBAUGH: Absolutely. Unfortunately, the main challenge I see is not something I think will age out. Anytime you walk out of office, you need to maintain some humility and recognize the challenges you faced may not be the ones that folks in the job right now are facing, but I think the challenge that most disturbed me or caused me to try to get at it—I would describe that as stove-piped communities. As I said, I'm very proud of being a part of the financial management community and very proud of what financial managers have done, but it's also not that hard to draw a circle around us, the financial managers. From the beginning of the audit journey, we've all known to say audit is not just a financial management problem.

What we have had more difficulty with is recognizing that those other communities, supply officers, logistics officers, contracting officers, procurement officers, program managers. All of these different communities are all under pressure themselves. Unfortunately, we need them to work with us to get to the point where we can get to a clean audit opinion. I would argue the same reason we aren't at a clean audit opinion is because we have all these processes that don't smoothly talk to each other, which makes independent auditors anxious and worried as they can't trace through as they fear the controls aren't holding as some task moves through some end-to-end process but passes through different communities with different levels of responsibility.

When the Marines achieve their clean audit opinion, that became very, very clear. The financial management community may be the most pressing one is we don't have a hold of the entire expense cycle. While we are the money managers and we have a great deal of responsibility within our financial management systems and processes. At the end of the day, we are part of a broader group that deals with outside vendors and contractors. And to do that, that requires partnering with the contracting community, with the program community to actually let the contract and receipt, invoice, and accept from that.

That lack of a tied together expense cycle is maybe the best illustration of how these different processes don't talk to each other, but I think you can find at all kinds of them, installations, ammunition, munitions, all across the board. When I had the honor of sitting in the Deputy Secretary's Decision Group, one of the things that always struck me was even as they made decisions at that senior level with the vice chief sitting there, they couldn't see all the way down because there was a divide between each of the communities. Only when we get through that, when we get to an opinion. The great news if we unlock that the outcome will not just be a clean opinion, but it'll be a more efficient and effective way to serve those service members who are out there putting their lives on the line for our country.

TOM RHODES: Thank you for sharing that, Russ. Again, really, really neat insights into some of the challenges that an organization, the size and complexity of DoD is facing and breaking down barriers and increase in collaboration to drive efficiencies and the byproduct of an audit opinion. Can you share some of your thoughts on the current budget environment?

RUSS RUMBAUGH: Absolutely. Tom, although if we can return, I told the story about working for the mutual fund company. At the time, \$84 billion assets under management, and they had the same thing. Their systems didn't talk to each other, the client system, the sales system didn't talk to the financial system, which didn't talk to the sales system. Those three different pots made it difficult to do high-end analysis at the executive level. Of course, that was quite a long time ago. We at DoD, as I always like to say, a little bit to the irritation of some of my accountants have long been an accountable organization. We're just not an auditable organization.

Some of that accountability came from making sure within each of the community's processes we had cohesion, but as the rest of the world caught up and passed DoD's early steps at that, we failed to tie them together. You asked about the budget. I couldn't help myself and went back to audits and expanded on my last answer. The budget environment is unfortunately also one of uncertainty. We just heard the president this week throw out a number. It's a number, my old boss, the Comptroller Mike Cord, had also thrown out of \$1 trillion. Unfortunately, we're not quite clear what that will actually be. Hopefully we'll see the president's budget sometime soon, but we remain in a great deal of uncertainty.

What I would challenge everybody is I like to run around while in office talking about how FY 23, FY 24 and FY 25, if we just got the president's budget or fiscal responsibility act levels would be higher anytime for the Department of the Navy, at least since 1988. In other words, if you were serving in the Navy or Marine Corps, these were the best budget times of your life. Obviously, I'm saying that in real terms, not just inflation adjusted. It's easy to have highs and inflation adjusted. But in real terms at high levels, we didn't actually get the Fiscal Responsibility Act levels. Nevertheless, the final 25 number is slightly higher than FY 24, so I believe still holds, although I haven't seen the breakdown by component.

So maybe it didn't go as much to the Department of the Navy, although I feel, forgive me, a little parochialism, certainly hope they did well. The most important thing I think we need to take away from realizing we're in good budget times is that we face problems

that you can't just buy your way out of. Sometimes it is easier just to spend money. There are certain things we have to do, but we're not seeing that. I felt that most importantly in shipbuilding and in installations, at least on the Department of the Navy side. Although I think installations rings true across the Defense Department, that we weren't getting the outcomes we wanted and yet we were spending significant sums of money.

That makes me think it's not just the money coming in, but how we spend the money, which takes me back again to those processes and systems. Similarly, with shipbuilding, nobody is defending the current situation. The question is how do we get better and we need to recognize that it isn't some magical budget increase that will increase the number of ships we build. It's something more fundamental that we need to solve. We need to solve that no matter what the budget outcome is. Nevertheless, I have no doubt that most financial managers in the Department of Defense are still trying to figure out FY 25, trying to scramble to put together FY 26 and well aware they need to be working on FY 27.

So we're always dealing with three budget years, but I bet right now it's particularly difficult trying to juggle all those balls, and I only wish the best for everybody as they do their best to maintain the professionalism and deliver on what's being asked of them.

TOM RHOADS: Thank you, Russ, and you mentioned that we are living in uncertain times and as such, knowing what you know now what advice would you give to new careerists who are just starting out their careers? And what advice would you give them to help them kind of navigate these uncertain times and have a hope for the future?

RUSS RUMBAUGH: I think those are two different things. I'm not sure if I learned advice early in my career to navigate the uncertainty we're in. We are in new levels of uncertainty that surpass much of what I had to deal with in my career personally or professionally. Especially for the early career folks, I'd mentioned already my personal experience, and without a doubt, having your own expertise is important. But what I experienced as a senior leader in the financial management community with something more than just expertise, so I want to take that for granted that you should be good at your job and working to be better at it. The advice I always give everybody is to make sure you have a sense of the other perspectives around you.

I very much love the budget and financial management processes. I think they're one of the best staffing processes out there. I think they help senior leaders understand what trade-offs they have to make or could make to try to better achieve the outcomes they desire, but that doesn't mean the budget process by itself comes up with the right answer. It's an enormous amount of inputs from a lot of different places and people to figure out what the right answer is. As somebody who's a part of it, trying to have a better sympathy or sensitivity to other perspectives will make you better at everything you do. The simplest one, of course, is to be sympathetic to what your boss's perspective is.

Your boss is demanding something of you. What is being demanded of your boss? What is being demanded of your boss's boss? What problems do they have that they need solutions to? But that goes down the chain of command too. If you have subordinates, what are your subordinates concerns? Is it as simple as making sure they get home in time tonight for something in their family? Your colleagues and just as I said, we have

these other [inaudible 00:16:52] communities, what about them? They too are trying their best for their country, trying to serve the defense department. What are their concerns? Being aware of all those different perspectives will better help you recognize what you have to bring into the conversation.

Again, it doesn't mean those other perspectives are right. One of the best things about being a financial manager is having your own analysis, having your own expertise, your own background and experience to say, "Hey, I really think we need to consider this perspective." That internal integrity is incredibly valuable and why we are turned to so often, but recognizing that there are other things that need to be weighed will help somebody. Most importantly, I think that is useful at every stage of the career because a brief moment pausing and thinking, what else are other people in this meeting worried about? Will help give you a better sense and allow you to grow and build on each experience you have, even as you deepen your own expertise and strengthen your own understanding of which direction we should be going.

TOM RHOADS: Russ, thank you for sharing that with us. We want to thank you so much for being here with us on our podcast today. We know how busy you are for you to carve out this time. It was very meaningful and we appreciate it, and I want to say thank you again. Thanks so much.

RUSS RUMBAUGH: Well, I assure you the pleasure and honor was all mine. It's been an honor of a lifetime to be part of the financial management community. I love participating in any way I can, even if it is just telling Glory Day Sea stories.

TOM RHOADS: So appreciate it. Thank you so much.


RUSS RUMBAUGH: Thank you for having me.


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