

HEARING TO RECEIVE TESTIMONY ON FINANCIAL MANAGEMENT AND BUSINESS TRANSFORMATION AT THE DEPARTMENT OF DEFENSE

WEDNESDAY, APRIL 18, 2012

U.S. SENATE,
SUBCOMMITTEE ON READINESS AND
MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:35 p.m. in room SD-G50, Dirksen Senate Office Building, Senator Claire McCaskill (chairman of the subcommittee) presiding.

Committee members present: Senators McCaskill, Manchin, and Ayotte.

Majority staff members present: Peter K. Levine, general counsel; and Jason W. Maroney, counsel.

Minority staff members present: Pablo E. Carrillo, minority general counsel; Lucian L. Niemeyer, professional staff member; and Bryan D. Parker, minority investigative counsel.

Staff assistants present: Jennifer R. Knowles, Kathleen A. Kulenkampff, and Mariah K. McNamara.

Committee members' assistants present: Stephen Hedger, assistant to Senator McCaskill; Mara Boggs, assistant to Senator Manchin; and Brad Bowman, assistant to Senator Ayotte.

**OPENING STATEMENT OF SENATOR CLAIRE McCASKILL,
CHAIRMAN**

Senator McCASKILL. The Senate Armed Services Committee Subcommittee on Readiness and Management Support will begin this hearing.

This is a hearing that we do on an annual basis. Some have likened it to going to the dentist and having your teeth drilled. As I said to the staff as I walked into the committee hearing, this is the kind of hearing that people who love wonky should really gravitate towards because this is a subject matter that clearly is complicated and difficult and in some ways tedious but it is obviously going to take a great deal of tenacity, which I know our military is capable of, in terms of getting this right. And this is our annual effort to look at the financial management and business transformation at the Department of Defense.

We are pleased to be joined by the Comptroller today—and I appreciate that—the Department of Defense Deputy Chief Manage-

ment Officer, the Chief Management Officers and—Chief Financial Officers of all three military departments—I think we have one missing because of an injury, but we understand that—and the Director of Financial Management and Assurance at GAO.

This witness list makes for a long witness table. In fact, we had to change rooms to accommodate all of you. However, with both the CMO's and the CFO's present, we have the full range of senior officials responsible for DOD financial management and business transformation before us at one time. This would not have been possible as recently as 5 years ago because the Department was unable to tell us who the responsible officials were.

I am particularly pleased by the presence of the service under secretaries today which reflects both their personal commitment to the issues of financial management and business transformation and the positive impact that our legislation establishing them as the chief management officers of their departments has already begun to show.

Welcome to all of you and thank you for your participation in this important hearing.

Last October, the Secretary of Defense announced that he had directed the Department to accelerate its schedule to achieve audit readiness for its statement of budgetary resources, moving the deadline from fiscal year 2017 to fiscal year 2014. Secretary Panetta stated “we owe it to the taxpayers to be transparent and accountable for how we spend their dollars” and acknowledged that this will require the Department to change the way it does business. I could not agree with him more.

It will not be easy for DOD to meet the 2014 deadline. Even as the military departments have accelerated milestones for future years in an effort to meet the new requirement, the Department's most recent update on its Financial Improvement and Audit Readiness plan indicates that it has fallen behind on a number of milestones that were supposed to be achieved this year.

In the past, the Department of Defense has relied heavily on the fielding of Enterprise Resource Programs—I will try to avoid acronyms whenever I can, but for purposes of this hearing, I will call these ERPs, Enterprise Resource Programs—to achieve auditability. This approach has always been problematic both because of the Department's dismal track record in fielding new business systems and because new business systems alone will never solve the financial management problems without accompanying changes to business processes, internal controls, and culture.

The 2014 deadline makes it difficult, if not impossible, for the Department to continue to rely on ERPs to solve its management problems. Senior Air Force officials have already acknowledged that they will not be able to rely on ERPs to meet the 2014 deadline since the three Air Force ERPs are not scheduled to be fully deployed until 2016 and 2017. The Army and Navy plan to field their core financial ERPs in 2012 and 2013—but other critical Army and Navy systems, including IPPS—Army, GCSS—Army, IPPS—Navy, and GCSS—Marine Corps—are not scheduled to be fully deployed until 2017 or do not yet even have deployment dates established.

DOD's inability to rely on ERPs as a cure-all for its financial management problems could result in lasting improvements if the Department seizes this opportunity to refocus its attention on needed changes to underlying business processes and internal controls. If the Department conducts end-to-end analyses of its business processes, identifies needed internal controls, and makes the cultural and process changes required to implement those controls, it should be able to make real progress towards sound financial management even before the fielding of new ERPs.

If, on the other hand, the Department relies on one-time fixes and manual work-arounds in an effort to meet the 2014 deadline, it could spend significant amounts of money without addressing the underlying financial management problems. Even worse, if the Department pushes for audit reviews before its systems and processes are ready, it could spend huge sums to hire an army of auditors without moving any closer to a long-term solution.

I hope we will hear a commitment from our witnesses today to focus on needed changes to the Department's business systems and culture and to avoid a short-term fix that could delay rather than expedite the real objective of developing timely, accurate data on which sound management decisions can be based.

If we fail to address this issue, the Department will remain at risk of sending the wrong paychecks to soldiers in the field, wasting taxpayer money on improper payments and overdue bills, being unable to account for billions of dollars in funding, and making critical management decisions on the basis of unsupportable financial information. Sound business processes and good data are critical to our efforts to provide efficient management, save money, and ensure accountability at the Department of Defense. We simply have to do better.

And I now will turn it over to Senator Ayotte for a statement, if she would like to make an opening remark.

[The prepared statement of Senator McCaskill follows:]

[SUBCOMMITTEE INSERT]

STATEMENT OF SENATOR KELLY AYOTTE

Senator AYOTTE. Thank you very much, Madam Chair.

I want to welcome our witnesses for being here today and thank them for your hard work.

This is our consecutive hearing on the defense financial management and business transformation in as many years, and I commend you. I want to commend the chairman for continuing to make better financial stewardship at the Department of Defense a significant and major priority for this important subcommittee.

Today's hearing drives at the heart of the fiscal crisis we face as a Nation: how the Federal Government spends taxpayer dollars. We must closely scrutinize spending at every Federal agency, including the Department of Defense, to identify and eliminate waste and duplication. However, as I have said in the past, we must ensure that budget cuts at the Department of Defense do not undercut our warfighters or endanger our readiness for future contingencies. To distinguish between necessary budget cuts and cuts that would harm our troops and damage military readiness, we must have reliable financial data and effective business processes

and systems. Every wasted dollar is a dollar we deprive our warfighters of as they seek to protect and defend our country.

A recent finding by the Government Accountability Office illustrates how important it is to reform financial management at the DOD and how the Department does business. According to the GAO report released just last month, the total acquisitions cost of the Pentagon's 96 largest weapons procurement programs grew by over \$74 billion, or 5 percent, just over last year's amounts. In the midst of our Nation's fiscal crisis and tightening defense budgets, we can and must do better.

One specific area of financial management that should be reformed relates to the proliferation of requests to transfer funds among defense accounts. I appreciate that the Department of Defense needs the budgetary flexibility to respond to emergent, higher-priority needs for our warfighters engaged in hostilities. But we have been seeing a migration of funds for new, unauthorized programs not tied to the war and a frenzy in the last 30 days of the fiscal year to spend taxpayer funds before they expire, regardless of the urgency of the requirements that the money is being spent on. Neither of these trends are conducive to a healthy, transparent financial management system and must be addressed in an era of declining defense budgets.

To his credit, shortly after taking office, Secretary Panetta elevated financial management at the Department of Defense to make it a priority. Secretary Panetta directed the Department of Defense to cut in half the time it would take to achieve audit readiness of a key financial statement called the Statement of Budgetary Resources or, since we love acronyms so much, the SBR. I fully support this goal which would achieve an audit-ready Statement of Budgetary Resources by 2014.

In fact, I introduced legislation last year that would have required by statute that the Department of Defense meet this goal. That is how important I think it is. My proposal passed the Senate Armed Services Committee and the Senate unanimously but was, unfortunately, not included in the final conference report. I hope we can revisit this important priority this year in the Defense Authorization Act, and I certainly plan to bring this forward.

From our witnesses, I would like to hear their assessments of whether each of the services is on track to meet the 2014 goal. I am particularly interested in getting an update on the Air Force's progress on this because we know that the Air Force has had some difficulty on this particular aspect of meeting the audit readiness goal of 2014 for the Statement of Budgetary Resources.

I am also interested in hearing about the Defense Department's efforts to ensure that steps being taken now to achieve auditability will be repeatable in future years. Spending billions of dollars for a one-time effort to achieve auditability could not be replicated that cannot be used in the future makes absolutely no sense. We want to be able to use this information year to year and make it valuable for you. Such a short-sighted approach would waste billions of dollars and not solve the Pentagon's longer-term financial issues.

While much work remains to achieve the ultimate goal of full audit readiness for 2017, the Department has achieved some encouraging progress, and I want to commend you for that. Notably,

some of the Department of Defense components, including the Army Corps of Engineers, have received clean audit opinions. By contrast, the Marine Corps received a qualified audit opinion of its Statement of Budgetary Resources from the Department of Defense Inspector General. It is imperative that those Department of Defense components work toward clean opinions like the Marine Corps. We would like to see that, of course, across the services, that we leverage the lessons learned from other organizations within the Department of Defense that have succeeded to make sure that every branch succeeds.

In testimony before Congress over the last few months, the Department of Defense Inspector General has maintained that three problem areas must be resolved before the Department of Defense will be able to meet its audit readiness goals in 2014 and in 2017. They include the quality of the Department of Defense's financial management data, weaknesses within its internal controls, and implementation of its Enterprise Resource Planning, or ERP system, as the chair has noted. I agree with the DOD IG's overall observation and would certainly like our witnesses to address each of these areas.

One area I would like to focus on is the Department of Defense's procurement of Enterprise Resource Planning systems, automated systems that, as the chair has described, perform a variety of important business-related functions crucial to meeting the goal of audit readiness. Both GAO and the Department of Defense IG have repeatedly reported that these new systems, some of which cost billions of dollars to develop and deploy, lack elements that are critical to producing auditable financial statements such as a standard set of accounts that match the United States standard general ledger. This requires manual work-arounds which increases the risk of human error and further degrades the quality of the Department of Defense's financial management data.

The Department of Defense must successfully re-engineer its inefficient business processes and implement these ERPs in a way that allows it to realize their intended benefits. Otherwise, it will do little else than line the pockets of the contractors hired to integrate these ERPs into the Department of Defense and will not reach our goal of achieving audit readiness.

With a \$1.3 trillion deficit this year, we cannot accept the status quo with respect to the Department of Defense or anywhere in our Federal Government. With at least \$487 billion and up to a trillion in defense reductions being looked at by this committee and by the Congress and perhaps implemented over the next decade, we cannot afford to do without the reliable financial management data needed to help us distinguish between defense budget cuts that are necessary from those that may endanger our National security.

Madam Chair, clearly there is much to discuss today, and so I thank you so much for convening this hearing. And again, I want to thank the witnesses for being here.

[The prepared statement of Senator Ayotte follows:]

[SUBCOMMITTEE INSERT]

Senator McCASKILL. Senator Manchin, would you like to make a comment?

Senator MANCHIN. I am ready for the witnesses.

Senator MCCASKILL. Great. Let me go through the list of witnesses and then I will defer to each of you to decide who wants to testify. I certainly would want to start with Secretary Hale. But we have here today from the Air Force Mr. David Tillotson, who is the Deputy Chief Management Officer of the Air Force, and we have the Honorable Jamie Morin who is Assistant Secretary of the Air Force of Financial Management and Comptroller. We have from the Army the Honorable Mary Sally Matiella, Assistant Secretary of the Army, along with the Honorable Joseph Westphal, the Chief Management Officer for the Army. From OSD, we have Comptroller Hale who is here, the Under Secretary of Defense, and we have Elizabeth McGrath who is the Deputy Chief Management Officer at the Department of Defense. From the Navy, we have the Honorable Robert Work, who is the Chief Management Officer of the Navy, along with the Honorable Gladys Commons, who is the Assistant Secretary of the Navy. And from GAO, all by himself, we have Mr. Asif Khan who is the Director of Financial Management and Assurance for the Government Accountability Office.

I thank you all for being here, and I will defer to you, Secretary Hale, to begin this process and then to defer to your colleagues in whatever order you think is appropriate for us to move through the various branches for their testimony.

**STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY
OF DEFENSE, COMPTROLLER**

Mr. HALE. Chairman McCaskill, Senator Ayotte, members of the subcommittee, Senator Manchin, let me thank you for the opportunity to talk about improvements in defense financial management, in particular audit readiness. Let me say at the outset this issue is important to me. If that makes me a wonk, well, then so be it. It is something we need to do. I know that and I think everybody at this table agrees.

Ms. McGrath and I have submitted a joint statement and we will now summarize it jointly for you.

It has been 8 months since our last status report. In that time, we have continued efforts across the Department. The job is not done. I think GAO's report makes that clear. But I believe we are on the right track. I think we are making progress and at a faster rate, and I am reasonably confident that we will meet our goals.

As you know, this audit effort is important for two reasons. First, we need a clean audit to ensure that managers have accurate financial information to make these important decisions. But second—and I think the most important thing—we need to reassure the public and the Congress that we are good stewards of the public funds.

Today we can account for funds appropriated to us but not to an auditable standard. To reach that goal, more than 2 years ago, we put in place a new focused strategy. The strategy concentrates first on the information that defense managers most use to manage, budgetary information and accounts and location of assets. That strategy has been endorsed by GAO. It is supported I believe at all levels of the Department.

We have also in place a governance structure and you have before you today many of the senior leaders who provide that govern-

ance. And despite lean budget times, we have put aside adequate funds to meet audit needs throughout our 5-year budget planning period. Now we need to execute. We have to carry out that strategy, and I think it is happening.

Let me highlight a few of our accomplishments over the last year. I will focus DOD-wide accomplishments because I want to leave to my service colleagues the many activities that they have undertaken.

The key event in the last year was clearly Secretary Panetta's personal endorsement of the audit effort. At that time, as you know, he accelerated to 2014 our goal for the Statement of Budgetary Resources for general funds. His endorsement has been a game-changer. It has opened doors I never expected to be opened, and we need to find ways to leverage that endorsement in every way we can. I brief him periodically at his staff meetings, and although a lot of things from Syria to North Korea are on his mind, he always focuses when I bring up this topic.

As more field level managers become involved, we are moving to tell them what needs to be accomplished. The services have already done a lot. They are in the process of sending out now a checklist to all our commanders that lists the basic actions that they need to take.

We are also developing a course-based certification program for defense financial management professionals. One of the goals of that is to improve audit training. And since our program was last announced, we have made a fair amount of progress. We will have pilots out this year, large-scale implementation next year. And we are grateful to Congress for providing the legislative authority that we needed in the fiscal year 2012 authorization act.

We have also introduced a specific training program in audit readiness and more than 1,000 DOD personnel took that program last year.

And we are working to ensure that the defense agencies have effective programs leading to auditability of their Statements of Budgetary Resources. These agencies account for almost 20 percent of our budget. We will never be audit-ready without them, and so we need to bring them along with the military departments.

We have also worked to ensure that the agencies that provide needed services are pursuing audit efforts. The Defense Finance and Accounting Service is particularly important, but the list of key service providers includes the Defense Logistics Agency, the Defense Contract Management Agency, the Defense Contract Audit Agency, and others.

And we are partnering with other key functional areas. And here is one case where Secretary Panetta's endorsement has helped a lot to get other senior personnel involved. Our human resources personnel, for example, are working to help us solve audit issues in their areas, including some of those highlighted by GAO in their recent audit of Army military personnel.

The efforts are bearing fruit. You mentioned some audits that we have already achieved. The Army Corps of Engineers, DFAS, DECA, DCAA all have audit opinions. The Defense Information Systems Agency recently achieved a clean opinion on their \$6.6 bil-

lion of their working capital funds. The TRICARE Management Activity received an unqualified opinion on last year's statements.

There have also been many key service-specific initiatives, and I want to leave them to my colleagues.

To achieve and sustain financial management improvement, we have got to change our business practices. We are with you there and we are doing it. But we need better financial systems as well, especially to sustain this effort at a reasonable price.

So let me know ask Beth McGrath, the DOD's Deputy Chief Management Officer, to complete our joint oral statement by describing our system efforts. Beth?

[The prepared joint statement of Mr. Hale and Ms. McGrath follows:]

**STATEMENT OF HON. ELIZABETH A. McGRATH, DEPUTY CHIEF
MANAGEMENT OFFICER, DEPARTMENT OF DEFENSE**

Ms. McGRATH. Thank you.

Like Mr. Hale, I appreciate your personal engagement in and oversight of these important issues.

Like the private sector, DOD is focused on smarter, leaner, knowledge-based management and optimization of both processes and technology. Our efforts to improve financial management and achieve auditability are part of this broader effort to improve our business operations and deliver maximum value to the warfighter and the taxpayer.

Since we last testified before this panel in July of last year, we have taken a number of steps to improve our overarching business environment. Our strategic management plan reflects business initiatives, including audit, each with specific goals, metrics, and milestones so that progress may be tracked. To enable the successful execution of these initiatives, we have developed a map which highlights interdependencies among them.

Additionally, we continue to evolve the business enterprise architecture by further defining across functional and end processes, adding additional standards that enable interoperability and improve usability.

With regard to systems, we acknowledge that there have been and continue to be challenges with many of our business system implementations. However, to improve business operations, we must transition away from labor-intensive, paper-based, siloed processes to more streamlined technology-enable approaches.

In that regard, I wish to highlight a number of ongoing efforts.

Our streamlined acquisition approach to acquisition of business information technology continues to be implemented across the Department. We are implementing and have implemented better and more performance measures that monitor system development and implementation progress.

We continue to emphasize business process re-engineering for every business system that is seen before the Defense Business Systems Management Committee. We have greater connectivity to the overarching IT infrastructure that enables the most efficient and secure execution of the Department's IT missions.

We also have employed tighter controls on spending, both that limit the Government's liability on poor-performing programs but

also enable IT rationalization through portfolio-based analysis. To that end, we appreciate the inclusion of section 901 of the 2012 National Defense Authorization Act, enabling integrated governance for our entire portfolio of business systems for a single investment review board.

In summary, DOD continues to pursue and adopt a mission-focused, outcome-driven business management culture of continuous change and improvement.

We look forward to your questions.

Mr. HALE. If it is all right with you, Chairwoman McCaskill, we will go Army, Navy, Air Force, one statement per department, and then I assume GAO. Does that work?

Senator MCCASKILL. That works very well. Thank you.

STATEMENT OF HON. JOSEPH W. WESTPHAL, CHIEF MANAGEMENT OFFICER OF THE ARMY; AND HON. MARY SALLY MATIELLA, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. WESTPHAL. Good afternoon, Madam Chair, Ranking Member Ayotte, members of the committee. It is good to be with you today and thank you for having this hearing.

Dr. Matiella, our Assistant Secretary for Financial Management, and I have a joint statement together. We presented it for the record, and I will make a few summary statements of it.

The first thing I want to tell you is that your Army leadership is really engaged. I believe we have a sound plan to achieve an auditable Statement of Budgetary Resources by the end of fiscal year 2014 and a full financial statement of audit readiness by the end of fiscal year 2017.

Through the Department's financial improvement and audit readiness efforts, the Army is connected to the larger audit readiness community sharing lessons learned and best practices. Consistent with the Department's strategy, the Army developed a financial improvement plan with specific measurable actions and interim milestones. Our plan enables the Army to assess progress, overcome obstacles, and incorporate recommendations from both independent auditors and the Government Accountability Office. We continue to subject it to close scrutiny. Since July 2011, we have received two positive audit results by independent public accounting firms. These are incremental but important steps towards auditability. Dr. Matiella and I are confident that the Army is on track and will achieve our goals.

In support of these efforts, the Army continues to work with the Department's Deputy Chief Management Officer, Ms. McGrath, to improve our investment control process. Published in October of 2010, the Army's business systems architecture and transition plan provides a framework and a road map for enabling audit readiness, optimizing business operations, and steering our business systems investments. Using this framework, the Army will transition our legacy systems and prioritize our business systems investments within a single integrated architecture.

Over a year ago, the Army chartered the Business Systems Information Technology Executive Steering Group, a governance forum that I personally chair to review business policy and serve as a key

component of the Army's investment review process. Comprised of senior Army leaders, including Dr. Matiella, this group shaped the business systems information technology strategy that was approved by the Secretary of the Army in February of 2011. The combination of a clearly defined strategy and effective investment controls ensure the Army makes sound investments in our business systems.

More recently, the Army conducted our first five business domain portfolio reviews covering over 700 business systems. The reviews are not only serving to solidify the Army's business systems architecture but also helping to establish a targeted environment centered on our Enterprise Resource Planning systems. As the process matures, the portfolio reviews will provide a great opportunity to identify improvements to our business processes, streamline our business systems, and establish a culture of continuous improvement.

In conclusion, Dr. Matiella and I assure you that the Army is on track to meet our auditability goals, to improve management of our business systems investments, and establish a solid foundation for business transformation across the Army.

On behalf of the Army, we do want to thank you, the members of this committee, for the continued interest in this very important matter and your unwavering support that you do give to our soldiers and families, as you so stated.

Madam Chair, I have got to tell you that there was not a single acronym in my remarks.

[The prepared joint statement of Mr. Westphal and Dr. Matiella follows:]

Senator MCCASKILL. I am so proud. That was remarkable. In fact, I kind of noticed there were no acronyms. Very well done, Mr. Westphal.

Mr. WESTPHAL. Thank you.

STATEMENT OF HON. ROBERT O. WORK, CHIEF MANAGEMENT OFFICER OF THE NAVY; AND HON. GLADYS J. COMMONS, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. WORK. Madam Chairman, Ranking Member Ayotte, thank you for this opportunity also for discussing the Department of the Navy's progress towards achieving financial auditability and business process reform and the important role that the Navy Enterprise Resource Planning will play in these efforts.

I, like my colleagues, have submitted a joint statement with Ms. Commons for the record, and I would just like to make a couple key points before answering your questions.

Ms. Commons and I, as well as the Secretary of the Navy, the Commandant of the Marine Corps, and the Chief of Naval Operations, are all committed to the Department's plan to achieve audit readiness. At every chance I get, I personally stress the importance of this goal with our leaders, managers, and employees at every single opportunity, and I believe the Secretary, the Commandant, and CNO do also. I think as Secretary Hale has said, setting a clear tone from the top and engaging the entire Department in audit readiness is very essential.

We have developed a very detailed, department-wide plan. We are now working with each of our major commands and our service providers to ensure that they understand their specific role in achieving this very important goal. Based on some very, very important foundational work by our predecessors, the tone from the top, and this plan, particularly the trail-blazing efforts of the Marine Corps, I believe the Department of the Navy is very well positioned to achieve Secretary Panetta's goal of an audit-ready Statement of Budgetary Resources by fiscal year 2014, as well as being fully audit-ready by 2017.

Our major IT systems we think are well aligned with this effort. All three of our major current efforts are on strong footing. The Navy ERP is on schedule to complete its program of record in fiscal year 2013. We have 66,000 users now worldwide. We will have 71,000 by the end of the fiscal year in 2013. That will manage about 47 percent of our total obligational authority. 27 systems have been retired to date as a result of this deployment. We are on schedule to reduce another 55 systems this fiscal year, for a total of 82, and we expect a total of 96 systems to be shut down by fiscal year 2016.

Additionally, we have a comprehensive effort to standardize execution of business processes among our Navy Enterprise Resource Program users. Reducing the process variations, as you mentioned in your statement, ma'am, when using the system along with standard operating procedures that will be followed by all will achieve the greatest benefits across the department. Paring down the number of steps to complete Navy ERP transactions will make this system more efficient and easier to use, and by permitting fewer variations in the processes, we will reduce systems maintenance costs. Finally, consistent, streamlined procedures will require less future work in sustaining our control environment, which is very important.

And we are in the process of developing data standards across the enterprise that will allow us to aggregate information from all of our ERP systems with those systems that we decide to maintain.

The Marine Corps Global Combat Support System is deployed. It will eliminate four major legacy systems by the end of fiscal year 2013. And in fact, I am very pleased to report that since 2008, we have reduced more than 1,400 systems and applications and we have shut down 400 networks.

The Navy's Future Personnel and Pay Solution, FPPS, has been refocused. I ordered an assessment of this effort in late 2010, and as a result of this assessment, we have determined that instead of initiating a large-scale business systems acquisition, we will instead focus on process improvement and leveraging this investment with the existing Navy Standard Integrated Personnel System. The Navy reached this conclusion after an exhaustive review of its policies, practices, and processes, and I believe this is a case of business process engineering done right. Instead of building the system to automate how we used to do business or do business today, the functional community is first rethinking what it wants to do in the future, and only then will we look to IT solutions to support the new and improved way of service delivery. We think this approach has reduced the original estimated cost by at least \$167 million

and eliminated at least \$157 million in additional cost growth from fiscal year 2010 through 2017.

I think this example points to one of the keys to both auditability and the successful launch of IT systems. As you mentioned, ma'am, re-engineering of our business processes is the key. Our business process reform approach is now mature to the point where we address the full spectrum of business operations by focusing on three things: strategic management, understanding the costs of doing business, and managing the organization toward achieving better and more measurable results.

Our methodology requires baselining and mapping business processes, allowing the business owners across the department to identify and prioritize their problems and then exploiting opportunities for improvement.

A second key is data standardization, and a third is having good internal controls.

We are focused on all three of these things. Auditable financial statements will be the outcome of these efforts.

So the Department of the Navy I believe has an aggressive, forward-leaning plan to take control of how we do business, to standardize data and ultimately achieve financial audit readiness, a plan which has yielded initial successes. We have had two favorable opinions on appropriations received and on the existence and completeness of our submarines, ships, missile, and satellite inventories. We have not received formal word, but we have been told that our aircraft inventories are also ready. So we continue to make progress, and I am relatively confident that we will meet all of the deadlines.

I would like to echo Under Secretary Westphal's appreciation for this committee's focus on this effort, and we look forward to continuing to work with you and your staff. And I am very much looking forward to any questions you might have.

[The prepared joint statement of Mr. Work and Ms. Commons follows:]

STATEMENT OF HON. JAMIE M. MORIN, ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER; AND DAVID TILLOTSON III, DEPUTY CHIEF MANAGEMENT OFFICER OF THE AIR FORCE

Mr. MORIN. Madam Chair, thank you again for the opportunity to join colleagues from across the Department and our valued partner from GAO, Mr. Khan, for today's hearing to discuss the Department and your Air Force's efforts to achieve audit readiness.

As you mentioned, unfortunately, our Under Secretary and CMO, Ms. Conaton, is recovering from an injury today. So you have me and her Deputy Chief Management Officer, Mr. Dave Tillotson, here and we will seek to provide a short statement and then answer any questions that you have.

Since the Air Force leadership testified last to this subcommittee back in July of last year about audit readiness, we have made continued progress towards that goal and particularly since the Secretary laid out his accelerated deadline of 2014. We remain very strongly committed to achieving that accelerated goal for the Statement of Budgetary Resources, as well as, of course, the broader leg-

islative requirements for a clean audit by 2017. We are leaning forward aggressively on this.

The goals are challenging for an organization as large and diverse and geographically distributed as the Air Force, and so we do continue to assess, as I have testified before, that there is moderate risk in meeting that deadline primarily due to systems challenges. As was stated earlier, our effort now focuses on achieving audit readiness within our legacy systems which is an effort that we are working aggressively on but remains an uncertain piece of our effort.

We are working to mitigate that risk very directly through, first of all, strong engagement of Air Force leadership at all levels, as well as highly focused investments of additional human and financial resources towards this effort. And we have made great progress over the last year.

Speaking of leadership engagement, Secretary Panetta's directive to accelerate to 2014 has been both a blessing and a challenge for the Air Force. The core challenge is, of course, that that accelerated deadline means that we cannot rely on all those ERP resource planning systems that we had depended upon in our previous plan. And that is a real challenge, and waiting for those multiple critical systems to be deployed and fully used is no longer going to work. So we have a shift in strategy. That is clear.

But the blessing is that the Secretary's engagement, coupled with the consistent and strong guidance from this committee and other committees in law and in hearing after hearing over the last couple of years, has really helped to build a degree of consensus on the importance of this effort and a degree of leadership commitment that is showing real dividends. Audit readiness has become a regular agenda item at the four-star leadership of the Air Force involving both civilian and military leaders in a way that I think could not have been anticipated or imagined without the leadership from this committee and the Secretary.

I think this top-level leadership is driving increased involvement from military commanders at all levels down to the field. There is still work to be done in that regard, but it is catching on quite aggressively. It also enables our very strong focus on personal accountability, and that is something that is playing out in financial incentives for our civilian senior executives where their performance plans are directly tied for about 140 civilian senior executives to delivery on audit readiness goals, and it is playing out in military evaluations as well, albeit to a somewhat lesser extent.

It also contributes to the very strong support we have received in the DOD internal resource allocation process for some of the key areas where we needed investments. And I think of those investments and we as an Air Force leadership think of those investments in terms of three components: people, processes to include internal control there, and systems. And so all three are working together.

We are certainly encouraged with some of the interim successes we have had in meeting the accelerated deadline, particularly the fact that we got two clean opinions in the last year, so on our funds balance with Treasury reconciliation and on our funds distribution process down to our major command level. And we also, like some

of the other services, have an examination currently underway looking at our military equipment. The DOD IG is performing that right now, and indications so far are quite good. That is our aircraft, our ICBM's, our satellites, et cetera.

But we clearly still have a very aggressive schedule ahead of us, and it will touch those people, process, and systems pieces.

Our most immediate challenge right in front of us is people where we need to continue to hire, whether through Government civilian hiring or through contractor hiring, people with the requisite skills, personnel contractors with the knowledge and experience in accounting, auditing, and financial reporting, that will help us get across the finish line here. This is a challenge because, again, the scale of the Department of Defense makes finding enough people with enough skills a challenge.

But we also need to continue to invest in the people, and that is why we strongly endorse Under Secretary Hale's leadership on this financial management workforce certification initiative. We think that is critical.

Our process redesign and internal control efforts and those improvement efforts have become certainly all the more important with the accelerated deadline, and we have been working them aggressively. But I wanted to shift just to a very brief discussion of our Enterprise Resource Planning system investments because that is, obviously, a key focus of this committee.

Financial systems modernization is clearly a key enabler for both achieving and sustaining full audit readiness by 2017 in a cost-effective manner to avoid that army of auditors that you discussed in your opening statement, ma'am.

The Air Force recognizes, though, there are major challenges involved in fielding Enterprise Resource Planning systems in a big organization like ours, and we have and will take the appropriate action to address concerns identified through best practice reviews and audits both from internal and external sources. And we very much appreciate the active support we are getting from the Office of the Secretary of Defense, from the Air Force Audit Agency, from the DOD Inspector General, and of course, from GAO.

In the case of DEAMS, the Defense Enterprise Accounting and Management System, our core financial system for the general fund and transportation and working capital fund, we have learned some very key lessons from the other ERP deployments, and that has led us to focus on things like end-of-year financial activities and focus on user training and education and especially use experience issues associated with system stability. And we are measuring our success against those goals on a weekly basis. DEAMS has now been deployed at Scott Air Force Base and we have gone through 2 years worth of budget closeout in that system. We received milestone B authority for that system back in January and we are about to kick off an operational assessment with the Air Force operational evaluation team looking at the actual implementation of the system. We will take any lessons that come out of that and we will expect to deploy the system at five other bases over the next fiscal year.

As the committee is aware, another major Air Force ERP system, ECSS, our Expeditionary Combat Support System, has not fared as

well. The program is currently going through a major restructuring effort. We are now approaching 7 years since funds were first expended for this system, which was designed to restructure our logistics processes and field a massive ERP. The total cost on the system is now over \$1 billion. I am personally appalled at the limited capabilities that program has produced relative to that amount of investment. The rest of the senior Air Force leadership feel that way. That is why we are restructuring, looking for an alternative path. The restructuring effort is ongoing right now, but the committee and the Congress should expect to see a way forward identified in the next month or so. We owe you a clear and concise description of a much better way forward for our logistics modernization and financial improvement.

Let me just conclude by saying that while we certainly do see moderate risk in that 2014 deadline, we are leaning aggressively to achieve it and we are strongly committed to that 2014 SBR audit goal, as well as the ultimate goal of full accountability by 2017. This is a key part of the Air Force's effort to squeeze the maximum amount of combat capability out of each taxpayer dollar that this Congress and this Nation entrusts to us. We take it seriously and we will continue to do so.

Thank you again for your engagement and support.

[The prepared joint statement of Mr. Morin and Ms. Conaton follows:]

Senator McCASKILL. Mr. Khan?

STATEMENT OF ASIF A. KHAN, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KHAN. Good afternoon, Chairman McCaskill. I am here today to discuss the status of financial management improvements and business transformation in the Department of Defense.

At the outset, I would like to thank the subcommittee for holding this hearing and acknowledge the importance of focusing attention on actions needed to meet difficult challenges.

Effective financial management and reporting are important for DOD decision-makers and their accountability for their stewardship of Federal funds. Financial management is integral to other DOD business operations such as acquisition, logistics, and supply chain management that provide crucial support to the DOD mission and it depends on business information systems to store, compile, process, and report reliable and auditable data.

In my testimony today, I will provide GAO's perspectives on financial management weaknesses that impede DOD's progress towards auditability and efforts to resolve them and difficulties DOD is experiencing in implementing business information systems to support its financial improvement. My testimony is based on our work at DOD.

DOD financial improvement and audit readiness, or FIAR, plan, the plan's semiannual updates, and the FIAR guidance establish a strategy, track progress, and provide instructions for DOD military and other components achievement of auditability. Interim milestones mark components' progress towards the ability to produce a full set of auditable financial statements. Congress has mandated

DOD audit readiness by fiscal year 2017, and Defense Secretary Panetta has now accelerated to fiscal year 2014 a major milestone towards that objective, an auditable Statement of Budgetary Resources, or the SBR.

DOD leaders have shown commitment to improving the Department's financial management, and its components are taking action in response to our recommendations. Yet, much remains to be done. We have found problems that continue to impede progress, including deficiencies and processes and controls, missed interim milestones, and premature assertions of audit readiness.

In 2011, we reported on the difficulties of DOD components in producing an auditable SBR. For example, two assessable units we selected for review, Navy and Air Force, did not fully follow the FIAR guidance and the work did not support their conclusions of audit readiness. In our review of Army military's payroll processes, staff was not able to locate documentation needed to support payments to active duty military personnel. We found deficiencies in Navy's attempt to reconcile its fund balance with those in the Treasury records, a key step in preparing the SBR. And the Marine Corps has not been able to receive an opinion on its SBR due to a lack of supporting documentation. The Corps has made progress in remediating many of the weaknesses identified in the fiscal year 2010 audit, and audit efforts continue on the SBR for fiscal year 2012.

Regarding business transformation, DOD has said that it considers a successful implementation of its ERPs critical to transforming its business operations, addressing longstanding weaknesses, and ensuring the Department meets its auditability goals. We have reported that several ERPs have cost overruns and time slippages. In 2011, we reported that assessment of Army and Air Force accounting systems found operational problems, gaps in capabilities that required manual work-arounds, and training that was not focused on system operations. As a result, financial services staff had difficulty using these systems to perform daily operations. Our own assessment of these systems had similar results.

GAO also reported in 2011 on weaknesses in DOD enterprise architecture and business processes that affect DOD's auditability. And while DOD and the military departments largely follow DOD's business process re-engineering guidance to assess business system investments, they have not yet performed the key step of validating assessment results. DOD has taken corrective actions in response to our recommendations, and we have work underway to evaluate its continuing efforts.

In closing, we are encouraged by the sustained commitment of the DOD leadership. Duty components now have the responsibility to implement the FIAR plan and respond to our recommendations and to implement our recommendations and those of the Inspector General. They are followed through with actions in full accordance with the FIAR guidance, and business systems following the best practice and sustained progress over the long term will be needed for full auditability. To support the subcommittee's oversight, GAO will continue monitoring and reporting on the Department's financial management improvement efforts.

Madam Chairman, this concludes my prepared statements. I will be pleased to answer any questions that you may have or others may have. Thank you.

[The prepared statement of Mr. Khan follows:]

Senator McCASKILL. Thank you, Mr. Khan.

You know, I think that Secretary Panetta's directive for 2014 is one of those good news/bad news. I think it is good news because it really gets everyone leaning forward in a way that perhaps they had not been. The bad news is I am worried about this manual work-around.

And I would like all of you to address this, and you can decide whether or not it is the Chief Management Officer or whether it is the Assistant Secretaries that do this. I need a yes or no about whether or not you believe you are envisioning a manual work-around for a one-time fix to get to the 2014, and can you make any representations today on the record that you will avoid a manual work-around, that you would be more willing to say we cannot do it than do a manual work-around that is very expensive and does not solve any long-term problem? We will start with the Air Force and work our way down the table.

Mr. MORIN. Senator McCaskill, I can assure you there will be some manual work-arounds required, but we will not do a large-scale, army-of-auditors, fully manual approach. We will rely on our existing financial systems, admittedly some of which date back to the Vietnam War, but we will rely on a series of systems that have differing degrees of controls in them. In some cases, we will have to do manual reconciliations between those systems because they do not interface. That will be labor-intensive, but it is not a thousands of people type labor-intensive. We will try to strike a careful balance to assessing internal controls, finding out where we can rely on them. In some cases, there will be a level of manual work-around, but it will not be an enterprise-scale level of manual work-around which is I think what you are talking about here.

Senator McCASKILL. I will probably circle back once I get everybody's answer because I think we need to try to get our arms around this in terms of what costs are going to be.

Ms. MATIELLA. It did create some manual work-arounds for us. Basically we have to do more cleanup in the legacy system. It was cleanup that we had not planned on doing, that we did not feel like we needed to do because it basically going to cancel. Well, it is not going to cancel with the due date that is now 2014. So we have to do the cleanup now, but that is a one-time fix. So once you get that cleanup done, those beginning balances correct, those opening balances correct, they are correct forever. And it is a one-time fix. It is a manual work-around. It will not create continuing work for us. So it is something that we are planning for and that we have budgeted for, and we believe that is doable by 2014 and will not be something that will set us back going into 2017 at all.

Mr. HALE. May I bat cleanup?

Senator McCASKILL. Let us let the remaining service—let Secretary Commons speak to it and then I will let you bat cleanup.

Ms. COMMONS. For the Department of the Navy, we feel that the manual work-arounds will be at a minimum. First of all, as you know, our ERP is well deployed. We only have two more commands

that we are going to deploy, and we will have completed our program of record. What we are finding in our ERP is that the internal controls built into the system are, in fact, working. We tested some transactions in the system and we know that the controls around the system is fairly good.

Also, for our legacy systems, we have always built our transactions down at the transaction level. So we know we have some systems issues to work there, but we feel that we are working those issues and that we are moving forward in the right direction.

For our reconciliations, especially with funds balance with Treasury, we are working with the Defense Finance and Accounting Service to automate that process. It is a manual process at this point, but we think that we are making good progress and that we will be there within time frame for the auditable Statement of Budgetary Resources, as well as the 2017.

So we really believe that we are looking at our business processes end to end and that we are trying to make improvements in those processes for the long-term, not just to achieve an audit-ready Statement of Budgetary Resources, but long-term improvement.

Senator MCCASKILL. Secretary Hale?

Mr. HALE. If I could summarize, I would say that there will be some manual work-arounds. We see them as temporary. GFEBS, the Army system, for example. We have had some problems. We are doing some manual work-arounds. The Army is engaged, along with DFAS, in fixing the business process problems that led to those, and I expect that we will be back on track without manual work-arounds I hope fairly quickly. As Dr. Morin said, there will be some where the Air Force has DEAMS, because they will not have it in place, but they will get DEAMS at some point.

So I think yes for some, but I expect them to be temporary, and I would echo what was said here. We are not going to hire an army of auditors to do this manually. That is not sustainable and it is not our plan.

Senator MCCASKILL. Do you think before 2014, Secretary Hale, that you are going to be able to put a figure on what the manual work-arounds for a 2014 deadline is going to cost over and above what we would be expending had the deadline not been moved?

Mr. HALE. Well, we could try. I am reluctant to commit to that because it probably would not be as easy as it may sound.

Senator MCCASKILL. No, I do not think it sounds easy. I think it sounds really hard.

Mr. HALE. I think it would be difficult.

Senator MCCASKILL. But the problem is if you do not do that analysis up front, then you really are not making a sound management decision as to whether or not it is worth it to move up the date.

Mr. HALE. But I would argue strongly we need the pressure that is generated by the 2014 deadline. We need to pressurize a huge—it is like turning an aircraft carrier. We have got to be hard right or hard left. We got to get this organization moving, and I think this shorter deadline has done it. So if it drives us to some modest manual work-arounds, so be it. I think we will get to the end game more quickly and save money sooner.

I will think about whether or not we can quantify that, but I believe there are some qualitative benefits to the earlier goal that are significant.

Senator MCCASKILL. I am not trying to pick a fight here about this. I really just genuinely want to have some sense of this. You know, I think I legitimately am entitled to some skepticism because of the amount of monies that have been expended in this effort and the billions of dollars that clearly have not turned out to be wise investments in terms of what they have produced to date.

And what I do not want to have happen is—when you say a modest investment, well, “modest” needs context because I think most Americans would think that what you might consider modest might be a heck of a lot of scratch in order to meet this earlier deadline.

I am glad that Secretary Panetta has done this overall. I think it is very positive because I do think it is going to help really push everyone as hard as they can possibly be pushed to get some of these problems resolved. But I want to make sure that we are not in the process being short-sighted. Frankly, it reminds me a little bit of BRAC. You know, sometimes we have extremely high upfront costs for benefits that sometimes are exaggerated way down the line further than when everyone had been told they were. And so I want to make sure we are not having one of those upfront expenditures that does not, in the long run, show that it is worth the investment.

Mr. HALE. If I get to compare my cost to BRAC, I am in good shape.

Senator MCCASKILL. Then it would be modest. You are safe with “modest” if you compare it to BRAC.

Mr. HALE. We spent \$35 billion on the last BRAC round. We are not going to be in that ball park.

We will try to think about that problem systematically and get back to you.

Senator MCCASKILL. I have a number of other questions, but I will defer to my colleague, Senator Manchin, because I know has some questions he wants to ask and I will come back for more after he has—

Senator MANCHIN. Thank you, Madam Chairman. I appreciate it so much and all of your service. I appreciate you all being here. And I want to apologize for running back and forth to committee meetings, but that is sometimes how it happens here.

Secretary Hale, if I may, I am sure you are scrutinizing contracting very closely since it accounts for about 55 percent of the DOD budget in 2011, and there are so many examples of fraud, waste, and abuse.

I recently met with the National guardsmen who say that a contractor knowingly exposed them to sodium dichromate in Iraq during the cleanup of the Qarmet Ali water treatment plant, which I think you all know about. There is even a recent DOD report that faults this contractor for not protecting the nearly 1,000 soldiers who guarded the site, and West Virginia had a number of those soldiers. The report states that the contractor recognition of and response to the health hazard represented by sodium dichromate contamination, once identified at the Qarmet Ali facility, was delayed. The delay occurred because KBR did not fully comply with the oc-

cupational safety and health standards required by the contract. As a result, a great number of service members and DOD civilian employees were exposed to sodium dichromate and for longer periods.

This was a \$28 billion contract to restore this plant and the surrounding oil fields. There is ongoing litigation, so I am not going to go into all the details but soldiers have died. Many more have lasting illnesses because of the exposure. And I talked to one of the widows yesterday.

The most troubling part of this contract is the indemnity clause which I could absolutely not believe at all that this Government would enter into a \$28 billion contract with an indemnity clause that lets the contractor totally off the hook. Even if the contractor knowingly does something wrong like expose soldiers to a known carcinogen, it means that the taxpayers will foot the blatant contractor abuse.

So my question is simply this, sir. Do we have any contracts like this in Afghanistan?

Mr. HALE. Well, Senator Manchin, I am not familiar enough to answer that question. It is a good one. I can tell you that we have the well-being of our soldiers, sailors, airmen fully in mind. But I am going to need to answer for the record or get somebody who is more of an expert on this to come talk to you. I will do it either way you like and we will get with your staff.

Senator MANCHIN. The bottom line. It took so long for this contract to be revealed to what was going on and why such a blatant protection of a contractor that was charging \$28 billion and held totally harmless—totally harmless—by this Government. And it is just hard to explain to these widows. And I have got so many people involved and exposed on this. I would like to see and know if we have some contracts that we might have out there that have these type of indemnity clauses or hold harmless.

To Mr. Khan, if I may. Your testimony is important because the DOD accounts for 57 percent of discretionary spending, more than all of the agencies combined. The fiscal future of our Nation, I do not think I need to tell you, depends on us getting this right.

And I said throughout all of these posture hearings I am concerned that we are cutting 100,000 service members by 2017, but no one can tell me how many contractors we are cutting. I cannot even get an accurate figure on how many we have. And we have more contractors in Afghanistan and Iraq than we do American troops. I am told that we have approximately 150,000 contractors compared to about 90,000 men and women in uniform. It makes common sense to me as an American, which I think we all love our military and we are so appreciative of what they do, that given the choice between the soldier and an overpaid contractor performing the same mission, that I would choose the soldier.

Let me tell you when I was down visiting our troops in Afghanistan, I had soldiers coming to me from my State of West Virginia, and I would say are you signing back up. And they said no, no. I am going to work for that person. I can get so much more money. And I said if that job was not available, would you stay in the service. Probably so. Something is wrong, sir, desperately wrong. I just cannot even believe it.

I would like to know from you, sir, just offer your perspective on the overdependence on contractors of the Department of Defense.

Mr. KHAN. That is an area really I am not an expert or specialist in. I mean, I can respond to that for the record. But I share your concerns on the overdependence on the contractors.

Senator MANCHIN. Let me give you some ratios to all of you and see if it makes sense to any of you.

World War I, we had one contractor for every 24 soldiers.

World War II, we had one contractor for every seven soldiers.

Vietnam, one contractor for every five soldiers.

The Balkans and Iraq, it is 1 to 1.

Currently in Afghanistan, we have more than a 1-to-1 ratio.

I do not know how the growing reliance that the Department of Defense has—how you choose to deploy your resources. I do not know how you would do that in an effective and efficient manner.

Mr. HALE. Senator Manchin, what we need to do is think about the criteria for jobs. There are some jobs that ought to be done by contractors, and I fear that sometimes we demonize our contractor workforce in a way that is not helpful. We could not fight effectively without them. But there are certainly jobs that need to be done by Federal civilians and by military personnel. I will not say we have got that right or perfect, but we are certainly looking at it. I can tell you, for example, that our contractor dollars from 2012 to 2013 go down in similar levels to our civilian workforce and our military workforce. So you are seeing some downturn in contractors.

But I would caution against just blanket statements that we do not want contractors. There are jobs they should do, temporary jobs, jobs with special skills. Audit is a good example. We do not have the skills in the Department of Defense to do audit well. They know how to do it better in the private sector. That is temporary work. At least we hope so. And we need to hire people temporarily to do that and we are. So I would urge you to avoid blanket pronouncements, but I accept the fact that we need to look at the mix.

Senator MANCHIN. Well, let me ask you a direct question then, sir. Can you get me an answer on the difference of pay between the front-line service person that is doing exactly the same job as the soldier in uniform?

Mr. HALE. Well, first, I do not think any contractor is doing exactly the same job as a front-line soldier.

Senator MANCHIN. Well, when a soldier tells me with his own mouth and he says I am going to go do exactly what I am doing now, whether he is protecting, whether he—

Mr. HALE. I will ask for help from—

Senator MANCHIN. I just want an answer. I cannot get an answer from anybody.

Mr. HALE. I do not think they are doing exactly the same thing.

Senator MANCHIN. Well, I beg to differ with you, sir. They are. If you will just go to the front lines and talk to the soldiers.

Mr. WESTPHAL. Senator, we have done an analysis and a review of the number of contractors, and we are doing this very complex analysis, which is what you are getting at here, of what is a uniquely governmental function that we need to have either a soldier or a civilian employed by the Government do the job or a con-

tractor. In that report, we have been able to identify the number of full-time FTE's that we are contracting for the generating force and what we have for the operating force. So we have got some fidelity. It is not precise on the number of contractors both in what we call the generating force, which is all the support elements to our operating force, and our operating force. And then what is the equivalence in dollars.

To do that analysis, we have gone and looked at exactly what you just asked, which is what are the benefits and pay and all of the things that accrue to a civilian or to a soldier and what does the same thing mean for a contractor. And we are finishing up that report.

I know, Senator McCaskill, Madam Chair, you had I believe a hearing on this subject on contracting. And so I know there is a great deal of interest on this, and we are trying to get those answers.

Senator MANCHIN. Can I get a comparison on the pay? All I am asking for is a comparison on the pay. Even if you do not think they do the exact same job, as close to a job as the two would do, if I could get that.

And can you tell me how many contractors you are cutting? If you are proposing to cut 100,000 men and women in uniform by 2017, can you tell me how many contractors you are prepared to cut?

Mr. WESTPHAL. We will get you that.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator MANCHIN. Thank you, sir.

Senator McCASKILL. Thank you.

Senator Ayotte.

Senator AYOTTE. Thank you very much, Madam Chair.

I wanted to ask all of you about—we have seen with the General Services Administration the rightful public outrage and outrage from this Congress about the misuse of taxpayer funds, inappropriate use of taxpayer funds for mind readers and all kinds of things that is just completely unacceptable. Please tell me how we can assure that each of your departments has proper oversight and controls in place to make sure that that type of misuse of taxpayer funds never happens within the Department of Defense, please.

Ms. McGRATH. I will start. With regard to specifically the conferences, I can tell you that back in the November time frame, actually we completed a thorough review across the Department of Defense to ensure we had proper controls and policies in place for conferences, and each of the heads of components reviewed and attested to the Deputy Secretary that those were in place.

Following what I will call the GSA incident, we have gone back out to all of our heads of components in the military and actually across the Department to, once again, look and to assure that they have got proper controls in place to make sure we have not missed anything. And we asked for a review of all conferences that have occurred in the last 2 years, and that is to be reported back to the Deputy Secretary on the 11th of May. And so we absolutely take this very seriously. Each of the components can attest to their specific actions and activities, if you like, but I can say that we are

absolutely ensuring that we have got proper controls in place and so that things like that do not happen.

Mr. WESTPHAL. If I could, the Secretary of the Army issued a directive over a year ago on this matter which is to look at all of the conferences done by the Department of the Army, the costs, and to have a process by which conferences are approved. And that was partly due to cost-cutting requirements that we had, but partly also to ensure that we were not doing anything excess. So I think we can provide you that policy, that directive. I believe the Navy and the Air Force have adopted similar—

Senator AYOTTE. We would be very interested in receiving that. I think it is important. We have to be able to account to taxpayers. And when I think about some of the reductions that you are asked to make, it would be completely unacceptable to find out that our taxpayer dollars were somehow going to conferences that were wasteful or somehow did not address core training important opportunities that are needed for our military. So, yes, I appreciate that you are looking at this, and we would love to see a copy of that.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator AYOTTE. Go ahead.

Mr. TILLOTSON. From the Department of the Air Force point of view, we have implemented similar policies. I think Ms. McGrath and Secretary Westphal have captured the thought. The Secretary issued guidance out to the field about a year ago. We have followed up since that time several times, and it has been reiterated, I can assure you, to all command levels as recently as last week to make sure that we are following diligently the policies we have already put on place, as well as collecting the information over the last 2 years to support Ms. McGrath's review.

Mr. WORK. The Department of the Navy has a very similar thing, ma'am. What we have is a tiering system in which commanders at lower levels can, for example, approve conferences for maybe \$100,000, but any expense of great expense has to come all the way to either the Assistant Commandant of the Marine Corps or the Vice Chief of Naval Operations, or in the case of the secretariat, to the administrative assistant who works for the Secretary. So like all of the other services, there is a tiered system in which we monitor very, very closely, and we have flags. For example, if it goes to an area that might be considered a nice place to go like Las Vegas, the first thing we always ask is why are you going—

Senator AYOTTE. Why are we going to Vegas?

Mr. TILLOTSON. Why are we going to Vegas? And if they cannot prove that that is the cheapest opportunity for the taxpayer, then we deny it.

Senator AYOTTE. Well, I appreciate that and we certainly would like to see your policies and appreciate that this is something you have already put a focus on prior to this incident that was really a complete debacle.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator AYOTTE. Let me just ask you, Secretary Hale. Government-wide Federal agencies have reported an estimated \$115 bil-

lion in improper payments in the fiscal year 2011, and in turn, we have only recovered, as I understand it, a little over \$1 billion of those over \$120 billion. Now, that is over across all Federal agencies.

So I would ask Secretary Hale and also Mr. Khan. How much did the Department of Defense pay in improper payments over the last fiscal year, and how much of that amount has been recovered? And what are we doing to make sure that we are clamping down on overpayments and also recovering money that has been overpaid?

Mr. HALE. We have an aggressive program. I will start with the end. We have an aggressive program, we believe, to look for improper payments. I will give you some examples, and it varies by the category of payment.

For commercial payments, we use a system called the Business Activity Monitoring System. It is a set of business rules that look for payments that look suspicious, and then they kick them out. If they have they got the same number and the same date or a similar date and amount, they will kick them out for human review. And the BAM system, as we call it, has we think been quite effective.

TRICARE, which is, as you know, our medical system that pays providers, has built into all their contracts what amounts to a recovering auditing procedure where they look after the money has been paid for whether there have been overpayments.

And we are developing, in connection with the legislation Congress passed a couple of years ago, a post-payment sampling procedure for all of our payment categories so that we will statistically go back and verify that we have reasonable levels.

I believe it is around \$1 billion of improper payments. That is \$1 billion too much, but it is a tiny portion of our budget. And I cannot tell you. We do have a recovery procedure. Many of those improper payments are personnel, and we tend to get those back very quickly. We have the best set of auditors in the world for personnel, which is all the people that receive the money, and they tend to look very carefully at their paychecks and tell us if there is a problem. Many of them will tell us if it is too high. They will all tell us if it is too low, I think. And we are able to quickly usually correct those problems.

So I think we have a good program, but it is one that needs continued attention because we are aware that in this day and age we need to have as little as possible, preferably zero, improper payments.

So let me get you more specific numbers on the exact amount and the recovery.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator McCASKILL. I appreciate that.

And Mr. Khan, I do not know if you had anything to add to that.

Mr. KHAN. I am not going to dispute the numbers that Secretary Hale has just mentioned. It is just that going back to fiscal year 2010, we had concerns in DOD not including all classes of transactions which were captured in the methodology for calculating improper payments. We understand this year that—the class of transaction I am referring to is commercial pay—that that is included

in the methodology for calculating improper payments. We do have work underway to look at—essentially it is done on a sampling basis as to how robust the methodology this year is to come up with the improper payments numbers. Again, we are also going to look at recovery auditing as part of that body of work. So we will have more information forthcoming later on this year.

Senator AYOTTE. Thank you.

I just wanted to ask one final question with the chair's permission.

We have got this problem with the end-of-the-fiscal-year spendathon. How do we solve this? How do we get to the point where there is not this position and what are we doing about it, this idea that at the end of the fiscal year, program managers and everyone involved has to try to spend—find ways to obligate money so that they are getting to the end of the fiscal year and we do it on things that we do not need because of this concern that if you do not do it, you come before us and say, well, they did not use all their—obligate all their money last year, they did not need it all, so we can give them less?

So help us with this because I think it is not only a problem in the Department of Defense, I think it is a problem across the Federal Government. But I know that it is a problem in the Department of Defense because I have spoken to people at the highest levels about it and I have spoken to people at the lowest levels of the Department of Defense about how this happens.

Mr. HALE. Well, I share your concern. I mean, there are some rules in place that Congress has put place that we can only obligate so much of our operating dollars in the last 2 months, and we do adhere to that. But it is still a lot of money, and I do not think it solves it all.

I will tell you something called the Budget Control Act is probably one of the better ways to do this. There is just going to be a lot less free money, and we will be looking for ways to reprogram—and I would like to address that in a moment, if I might—funds to meet what are probably more than \$3 billion of unbudgeted fuel bills, some very substantial increases above budgeted levels for operating tempo in Afghanistan. I think it will soak up a lot of the dollars.

But I hear your concern. In a private business, if you have found a way to save money at the end of the year and still meet customer needs, you would probably get a bonus.

Senator AYOTTE. You would get a bonus.

Mr. HALE. We, unfortunately, do not do that, and there is some of what you said, that we do judge, to some extent, by the amount of obligations.

So I will not sit here and tell you it is not a problem. I think that tighter times will help correct it, and there are some rules in place that try to discourage it.

Do any of my colleagues want to add to that?

Mr. WESTPHAL. Well, I totally agree.

You know, the other issue that we get, as we work through continuing resolutions and the lack of a budget, we are also in many cases under-executing on parts of our budget. And that creates a different kind of culture within the enterprise about how dollars

are allocated. So we need a tighter process all the way around. We need a better sense of our budget obligations where Congress can be helpful and we need a better sense ourselves to manage through that.

And I think we are getting the mechanisms. I do not know if you can talk about this. In the Army we have some mechanisms to address this end of the year.

Ms. MATIELLA. We do a very aggressive major review. For example, we are doing that right now. We are looking at obligation rates. We are making sure that folks are on track according to their plan because everybody has a plan, an expenditure plan, out there. And so if we see that they are not spending according to plan, then we ask them why and they have to come back and give the reasons. And then at that point, we evaluate whether they are even capable of spending the money. If not, there are other areas where there is a need. So the mid-year review process looks at that and tries to push back on people spending according to plan, and if they are not able to, what is it that is out there that is unfunded that needs to be addressed.

Mr. MORIN. Ma'am, if I could add on behalf of the Air Force. We are working on a number of lines in order to address the best challenge. And as Mr. Hale said, some of them are getting addressed naturally by the more scarce dollars, and the fact that the Air Force is looking at a more than \$1.4 billion fuel price shortfall will mean that we are tapping all of our other operational accounts looking for the sources to pay for that. So that will reduce available funds for all activities whether end-of-year spending or otherwise.

But I would also say that we are looking at some of the key areas of challenge. End-of-year spending typically migrates to things like information technology and support contracting. For information technology, as part of our broad enterprise level efficiency initiatives, we have moved to more strategic sourcing and enterprise level buys of that technology, which will make it harder for local operations to identify and buy ahead of need, if you will, for information technology because they have available resources. It will bring those monies back to headquarters for prioritization.

Similarly, service support contracts are being very carefully tracked as part of our efficiency effort. We are projecting a 30 percent decline in service support contract funding for 2013 compared to 2010, and we are enforcing those restrictions. So again, the ability to migrate dollars into that at the end of year is constrained.

But I think most importantly, what we are doing is working to change a culture of spend it all. You particularly see this with our acquisition programs where our progress reviews that the financial and acquisition personnel conduct out in the field with the program managers and program financial officers are focusing on right-sizing and right-timing resources. It may be that a program needs more resources in 2012 and fewer resources in 2013 because a particular piece is available earlier. It may be the opposite. We work to realign those resources, take money that is made available, and apply it to higher priority warfighter needs and have an open discussion with those program managers where they are incentivized to find savings to address the substantial list of execution year

challenges that emerge in the context of running an enterprise of the scale of the defense establishment.

Senator AYOTTE. I thank you all. I want to thank the chair for her patience.

And also, I would suggest if it is not already a criteria, that performance evaluations be part of the measure, be how much money did you return to the taxpayers. Thank you.

Senator MCCASKILL. It reminds me of that episode of "The Office" where he found out that he had \$4,300 left—Steve Farrell did—and he had to spend it by the end of the day or he was going to lose it in next year's budget, and they had to decide whether there was a fight between the copier and the office chairs. And near the end of the day, the CFO in the office explained to him that he could get 15 percent of it, I think, in a bonus if he did not spend it at all. And you can imagine what he decided to do.

Unfortunately, we do not have that at DOD, and we waste a lot of money because of it.

Mr. HALE. I wonder if I might say a word, before you leave, Senator Ayotte, if you have a moment, about reprogramming.

This is an area that is very important to the Department of Defense. We depend on this. And we work hard to be transparent and to have discipline in this process. I am well aware that concerns have been raised in the Congress and by a number of members about it.

But I did want to put it in context for you. Last year in 2011, we did policy reprograms. The Congress allows a certain amount of mechanical transactions between funds, which are just that; they are mechanical. Our policy-related ones were about \$11 billion—I am sorry—about \$18 billion. That is a huge sum of money, but it is less than 3 percent of our budget. We put budgets together a full 2 years in advance before we complete executing them. 97 percent 2 years in advance does not sound that bad to me. We need that flexibility.

I understand we also need to do better at things like new starts and to minimize them—and I am working to do it—fewer September reprogrammings. The last one just did not work out for a variety of reasons. But I would appeal to you to not judge the whole process harshly. We need it to meet the needs of the warfighters and to make effective use of taxpayer dollars.

Senator AYOTTE. No. I appreciate that and I understand that. I think where we become concerned is when it is leading us in directions that we did not authorize or we kind of said as a policy matter as a group we do not want you to go in this direction. That is where we become concerned or starting something new. So I think those are the areas where we become particularly concerned. I am not saying that you do not need flexibility. So I appreciate that very much.

Senator MCCASKILL. I am going to try to get to some of the nitty-gritty on some of the things we have talked about today now. I do think we do need context. While I understand this conference in Las Vegas is deplorable and embarrassing and horrible for taxpayers, if you look in context, the reason it has become such a big deal is it is so easy for everyone to understand. It is so easy for everyone to visualize it. And so therefore, it is very easy to commu-

nicate it, and it is the kind of thing around here that allows everyone to do righteous indignation and photo ops because it is bad and it is easy for people to understand.

Now, this stuff is not. It is the opposite. It is very difficult to understand. And I have really worked at it to try to understand it, and there are days I just—of course, one of my staff people came up and said, you know, Claire, it is not ERP. And I say I know it is not ERP. I am trying to have some fun here. You know, miscalling the acronyms is about the most fun you can have with this subject matter.

But just to give context so people understand, we have a defense integrated military human resource system that we spent 12 years on and more than \$1 billion in an effort to modernize the military payroll and personnel systems. And of course, we had to cancel it 2 years ago. Now, if you look at that, that makes that money spent on that conference in Las Vegas look like couch change.

And if I look at all the 11 ERP programs, we now cumulatively are \$6 billion over budget and 31 years behind schedule. Now, that is a problem. And I know you are all working on it and I sense how focused you are and I do think improvements have been made. So I am not here to say that we are not doing better because I think we are. But I do think that if everyone out there understood the magnitude of the issues that we face in terms of financial accountability in the Department of Defense, maybe they would be more focused on this than on the clowns and the mind readers in Las Vegas.

Let me talk a little bit about the inability to account funds in Afghanistan. I have been worried about the accuracy of distribution of our money to the ANA, the payroll of the Afghanistan National Army. And I know that the IG identified almost \$50 million worth of errors in the ANA payroll advances. They concluded this was possible because DOD did not have written procedures or perform adequate reviews and they relied on summary and not detailed data when distributing the quarterly advances.

After all the problems we had in Iraq and after all the reports of CIGR there, how is it possible that we still have this level of failure in terms of written procedures or review as it relates to the expenditures of funds in Afghanistan?

Mr. HALE. I am not familiar with this, I am embarrassed to say. I will get familiar with it. I am going to ask if any of my colleagues are aware.

Ms. MATIELLA. I am not familiar with the issue. However, I can propose that anytime there is a problem, it is because the systems, like you said, are not there to do the work that they need to do. And as you well know, in the Department of the Army, our legacy systems just cannot do that kind of work. That is why we are rolling out a new system, a system that will have much more discipline that is much more integrated than the ones we have now.

Senator MCCASKILL. Is the ANA payroll coming through the Army or is it coming through OSD?

Mr. HALE. No. I think it would be through the Army, and we do pay them, as you know. This is American monies. I believe it is done through the Army.

Senator MCCASKILL. I understand. There is a lot of the subject covered here. If you will get back to me on this particular problem because I want to make sure that we are doing better on that.

Mr. HALE. We will.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator MCCASKILL. I noticed that Mr. Work said that the Navy will be shutting down more than 100 legacy systems over the next few years. Do the other branches have numbers for me on how many legacy systems and what the plans are that you are going to be shutting down? Air Force or Army, do you have any numbers for me on legacy systems?

Ms. MATIELLA. Overall, we are going to shut down 700 legacy systems as we implement the different ERPs that we have. So to date, for example, with GFEBS we have shut down 80 systems so far. But in the long run, our goal is to shut down 700 systems.

Senator MCCASKILL. Okay. And the Air Force?

Mr. TILLOTSON. For the two Enterprise Resource Planning systems, DEAMS and ECSS, the target was nine systems, as I recall, for DEAMS and about 240 systems for ECSS. The ECSS shutdown, obviously, has been delayed. So those plans, which should have been executing over the next several years are now put out. As we deploy DEAMS, over the next 2 years, we will get a partial shutdown for each base that we go to. We will not get the full shutdown until DEAMS goes to FOC, which is about in 2016 or thereabouts.

We are looking, however, at our broader range of business systems, and I will get back to you with the kinds of numbers we are looking at there. Those are unrelated ERPs. This is part of the broader business system review that we have been conducting all along but we have put renewed emphasis on as a result of the 2012 language that directs us to go back and look at business expenditures of \$1 million or more over the fiscal yearDP.

Senator MCCASKILL. Are there any legacy systems that you want to speak to at the Office of the Secretary of Defense?

Ms. MCGRATH. I can add we just submitted our annual report on the business operations, and we do articulate in there a termination or shutdown of 120 systems across the board. And I think it is important to note that systems and instantiations of systems, I will say, sometimes an art in the way we count. And so the 120 that we report back to you this year comes from our DOD IT repository. What we are talking about are also multiple instantiations of systems. Not to make this more complicated, but there are many, I will say, different versions of systems that are out there. So when you are hearing really big numbers, all that is very good news, but the way we count from a departmental level, we would count those multiple instantiations as one, even though there may be more than one out there in existence.

Senator MCCASKILL. What you are referring to is you would have one system with a lot of modifications that had occurred over time, and so you are counting each modification as a separate system as opposed to that entire enterprise.

Ms. MCGRATH. Or if we have a system that is deployed in the Navy and it is the same one that is deployed in the Army, we

would count those as two instantiations of the same system. They both have the same name.

And so I would just caution. This has been a long dialogue with regard to how to we count systems and what those definitions are. And again, it is all very good news in terms of shutting down and rationalizing the legacy environment. When we report on an annual basis to you, we are very specific about the authoritative data source that we use.

And so I can say unequivocally we have terminated 120 systems that are outright in the DOD inventory last year, in addition to some of what the military departments are articulating in terms of various instantiations. So again, it is all good news, and I do not mean to complicate it, but it is important to understand where the numbers come from.

Senator MCCASKILL. Yes, Secretary Westphal?

Mr. WESTPHAL. Madam Chair, if I could. The Army went through a series of portfolio reviews on each of our enterprise systems. And I just held a meeting on each one of them to have a report on how many of the legacy systems we are in fact—as we integrate these enterprise systems, we are eliminating.

And I have asked our staff to get together with those two great folks that you have behind you there, Mr. Levine and Mr. Carrillo, to report to them about the results of the portfolio reviews. And I do not know if they have received that report yet. But I wanted the committee—because I think the three under secretaries have been in great partnership with your staff over the course of the last year and a half meeting on a regular basis and sending our folks to report on these activities to get some feedback, but also to keep you and the membership involved.

So on these portfolio reviews, I think at least the Army will be able to give you a pretty good assessment of where we are in terms of those legacy systems and what progress we intend to make this year as we integrate across all these different portfolios.

Senator MCCASKILL. Okay.

You mentioned GFEBS, or the General Fund Enterprise Business Systems. Let me go down that road.

According to the DOD IG, GFEBS does not have effective internal controls and, as a result, does not contain accurate and complete general ledger information as required by applicable law.

At about the same time, GAO reported that approximately two-thirds of the invoice and receipt data must be manually entered into the Army's GFEBS system from the invoicing and receiving system due to interface problems, and the system's limitations significantly affect users' abilities to perform their daily task. As a result, Army installations were certifying year-end data with caveats and notes relating to inaccurate, incomplete, and missing data.

This system, this General Fund Enterprise Business System, was initiated more than 7 years ago and is scheduled to be effectively deployed this summer—fully deployed. How soon do you think you can address this problems, and do you agree with both the findings of GAO and the DOD IG as it relates to these problems?

Ms. MATIELLA. Some of this work was done almost 2 years ago, and since then, GFEBS has gone through a lot of reviews and a lot of fixing. Like you said, at this point we are almost fully de-

ployed. We have 45,000 users on the system. We project to have about 55,000 users in the end. We have closed out several years. We got a clean opinion on appropriations received. After exam 1, which examined three different installations and how they used GFEBS, we got a qualified opinion on that. We are getting ready to roll out exam 2. So we are doing a lot of self-checking, and through that self-checking, we are improving GFEBS.

At the time that they did the audit, we were not as compliant as we are now. Right now we are 95 percent compliant with SFIS requirements. SFIS is your Standard Financial Information Structure that DOD requires and that the AAA checks for us. So we have made a lot of improvements in GFEBS since that time.

However, we still have problems and we continue working on those problems. Our Department has been very aggressive, but it is a system that shows—I have talked with different CFO's throughout Government about this software. It is an SAP product. And I have talked with them about whether—for example, SAP is used by the Department of Agriculture who has a clean opinion and got a clean opinion with this software. And so I have talked to them about how they rolled it out, how they were using it, and they are all believers in the fact that this is good software. So it is just a matter of us learning how to use it, making sure that we are improving the way we use it, that we are interfacing into it correctly. We do have interface problems, but we are getting data that drops out of it. That itself has also improved. It used to be high. It is lower now. Our reject rate is much lower than it used to be. We are tracking it. We send weekly reports to the CMO and to Secretary Hale about how we are improving those reject rates. So we are holding ourselves very accountable for improving it. So we see a bright future for GFEBS.

Senator MCCASKILL. Mr. Khan, do you have any comment on Secretary Matiella's comments?

Mr. KHAN. I mean, the GFEBS problem highlights an issue which is a bigger issue, the issue of the manual work-around that we highlighted in our report. That is because of the information the ERPs are going to be receiving from the feeder systems, the older systems, which are going to have to continue operating because there are so many of them. This is an issue which other ERPs also will be facing because the system operational entries of the feeder system and then that has to really get communicated into ERPs. If that is not done correctly, then there would be a need for manual work-arounds.

Ms. MCGRATH. Ma'am, I would just agree with what Asif just articulated in terms of the challenges, in terms of passing the data from the legacy environment into the ERP. We do not have standard data across the enterprise, and so it becomes evident in the implementations. That is why we are working from an end-to-end perspective because if we do not, then we will never fix the ECSS. We have to take that broader perspective to your point earlier about the business process re-engineering. It requires just to bring forward, if you will, all of the legacy practices and change them so that when we are implementing these ERPs, and we do have a holistic approach to the data and the systems and the training aspects that have been identified.

Senator MCCASKILL. You know, stepping back from this, do you think we have made—I mean, if you look at what has been a common, common problem in all of these struggles, it has been data standardization and it has been interface, you know, the specs on interface. So if 5 years ago, on a scale of 1 to 10, we were a 1 on data standardization and interface specs, are we at a 5 now? Can we measure our progress? Because really that is what has caused a lot of these overruns and the date sliding and a lot of the money that has been wasted. Am I correct? Those two issues?

Mr. WESTPHAL. You are, Madam Chair. I will give you one example of what I think you are trying to show here. If you take the Army's personnel system and its financial systems, they were two separate systems that did not interface. So consequently when an auditor would go and say, okay, how do I know Colonel Westphal is really married, well, Colonel Westphal has been in the Army for 30 years. Somebody goes back and looks and cannot find a marriage certificate because 30 years ago there was a different way of doing that and the personnel system was not interfacing with the financial system. So this enterprise system, IPSAE, as we call it, will integrate those two systems, and it will be one individual who will enter data. So you will not have different stovepipes entering separate data that is not going to give that auditor the things he needs.

The GAO was right. That documentation was not there, and therefore it could not verify that we were making the right payments at the right time at the right place. We hope to fix that.

Unfortunately, IPSAE is not going to be fully deployable until 2017. So we have got a lot of work to do between now and then to get those records in place, first of all, to come up within the Army and figure out what are the rules about what documents are going to be acceptable. A marriage certificate may be acceptable in one place but somebody else might say, well, that is difficult to get. They come in different forms and shapes from each State. So we have to have some way to line up those requirements across the board, and that is what we are working on.

Senator MCCASKILL. Mr. Khan, what would your reaction be to overall where are we on data standardization and interface specs?

Mr. KHAN. Data standardization is very critical, especially given the accelerated date of 2014 and the plans of the services to use the legacy systems longer than expected without data standardization. It is not really going to be feasible how the information from the legacy systems or the feeder system is going to get input into ERPs or how they will be able to produce financial statements.

Going back to your original question where we are compared to 5 years ago, the SFIS initiative—that was the initiative to standardize the data within DOD. That really has gone through fits and starts and really has not reached the degree of maturity it should have to this point in time. So it still needs a fair amount of work to get to where it needs to be.

Senator MCCASKILL. Maybe I need to talk to Secretary Panetta and say we need a deadline for data standardization. We will get to some significant manual work-arounds on that.

Even before Secretary Panetta established the 2014 goal, the Navy plan called for achieving an auditability statement of—an

SBR by the end of the third quarter of 2013. The most recent update we received indicates that that Navy schedule is slipping. For example, the Navy had planned to begin audit for its reimbursable orders in the second quarter of 2012, but now it has skipped to the first quarter of fiscal year 2013. You had planned to begin audit of its requisitioning orders in the second quarter of 2012, but that has slipped to the second quarter of 2013. You had planned to begin audit of its contracts in the second quarter of 2012. That has slipped to the third quarter of 2013, and planned to do audit of its fund balance with Treasury, as you all call it, FBWT, in the fourth quarter of fiscal year 2012, but the goal has now slipped to the fourth quarter of 2013.

What is the postponement of these milestones about, and how is it going to impact your 2014 deadline?

Ms. COMMONS. Madam Chairman, we still believe that we will meet the 2013 date that we established. We believe that by the end of fiscal year 2013, that we will have an audit-ready Statement of Budgetary Resources.

What we are finding in our discovery, as we go through these processes, we are finding that we need to take more corrective actions than originally planned. We want to go through a very deliberate process.

We are not rushing this just to meet a deadline. We want to ensure that when we make changes to our business processes, that these are long-term improvements. That is one reason that we are focused on our business processes end to end, not just looking at financial pieces, but we are going from the beginning of the process to the very end to ensure that when we make changes to the process, that it will result in an audit-ready statement. So much of the delay is that in discovery we have found that we need to make more corrective actions.

With regard to reimbursable work orders, we realize that it is a Government-wide problem. It is not simply a problem that the Department of Defense can solve by itself because we get reimbursable work orders from across the Federal Government. We need to have a methodology for accounting for that, and I believe we are all working trying to figure out exactly what to do in that process so that we can do the necessary eliminations.

So basically we understand that we are moving some of the dates out but primarily because the corrective actions will take some time. And we also need to have time to test those corrective actions to make sure that the things that we have put in place actually work. So we want to have a very deliberate process to be able to have an audit-ready Statement of Budgetary Resources.

Senator MCCASKILL. Mr. Khan, let me ask you about one of your findings—I think it was just last month—one of your findings about the difficulty the Army is going to have meeting the 2014 because of deficiencies with payroll processes and controls.

One of the findings was that the Army did not have an effective, repeatable process for identifying the population of active duty payroll records. This is a big deal because it is \$46 billion. It is a lot of money. Could you comment on whether or not you think that the Army has established a viable approach to addressing this particular finding in your audit?

Mr. KHAN. At the point in time we had done our field work, they were in the process of addressing that issue, but we were not able to validate whether or not they had come up with a repeatable process. But I mean, like we had highlighted in that report many of the processes and systems that the Army are also used by the Air Force and the Navy. So we just wanted to highlight that. That is an issue that both the other two services should also really keep in mind when they are coming up to their Statement of Budgetary Resources timeline.

Senator MCCASKILL. Do you think you have made some improvements in that area? Do you think you have got something that will pass the standard in terms of effective, repeatable process?

Mr. WESTPHAL. We think we are on our way to get there, but boy, we are working very hard right now to get that documentation and get it ready for the year 2014. So we are working very hard on it and we will keep you apprised of that as well.

Senator MCCASKILL. In 2010, the Marine Corps asserted that its SBR was ready for audit but was unable to get the clean audit. GAO reviewed the audit findings and concluded the failure was attributable in part that the Marine Corps did not have adequate process and system controls and controls for accounting and reporting on the use of budgetary resources. The Marine Corps developed an action plan and milestones in response to that finding and sought a new audit for fiscal year 2011 SBR. However, GAO found that many of the Marine Corps' actions did not address the specific auditor recommendations and other actions were not adequate to correct the underlying problems.

And some of this is just underlying internal control problems, which if you do not get that fixed, you cannot dress it up. I mean, you have got to start with the internal controls or you are never going to get that clean opinion that you guys are all working so hard to get.

So talk to me about that. And I would like both Mr. Khan and Secretary Commons to address, you know, why would you push for another audit if you had not addressed the internal control issue. Was it a miscommunication or a lack of understanding about what was going to be necessary? Or did you think you had solved the problem and were disappointed to find that you had not?

Ms. COMMONS. The Marine Corps has, in fact, addressed many of the issues that were identified in the findings and recommendations. Many of those were systems issues which will take time to correct. So we felt it important to continue the audit because of the lessons that we are learning from the Marine Corps.

We agree with you that internal controls are key. We have to address the internal controls across the Department, just not in the Marine Corps but across the Department, and the Marine Corps has taken action to do that. In fact, the DOD IG recommended that we continue the audit because the Marine Corps had made significant progress. So we believe that we are solving those issues that we can do in the short term. There are some long-term issues we are going to have to continue to work on.

Mr. HALE. Can I add a thought there, Madam Chairman?

Senator MCCASKILL. Sure.

Mr. HALE. I believe that we would have been better off to jump in the pool and get a private auditor to look at what we have done. Often we have done this for small parts. The Marine Corps was an exception where we did it for the entire Statement of Budgetary Resources. But we just found they know a lot more about what we need to do frankly, and we did not know what we did not know. And so I think it has been very helpful to have that audit. We have learned a great deal, and I have encouraged the other services and they are doing it. Whenever they think they are reasonably close—I realize we cannot just do this whimsically, but when they are reasonably close, let us go get somebody in here and pass the test or not pass the test, and if we do not, they will usually tell you why.

Senator MCCASKILL. They better. That is part of their job. Right, Mr. Khan?

Mr. HALE. They should, as you know from your career better than I do.

So I think this strategy of going to audit when we think we are reasonably close is a good one. It is not cheap, but it is not cheap to not get there either. So I endorse it strongly, and we are going to pursue it.

Senator MCCASKILL. Do you have Yellow Book experience which you guys all know, I assume, Yellow Book is the Bible of Government auditing? Do you have people internally that are familiar with Yellow Book standards and auditing processes? I mean, how much of this are we outsourcing? Frankly, I think going through a trial run audit is a great idea. It is a great learning process, but if we are buying one from a full-blown private accounting firm for as complicated as your enterprises are, I do not want to think about what your bills are. In fact, do not tell me because then I will be off on a tangent—

Mr. HALE. So I will not tell you.

Senator MCCASKILL—about contracting for personal services that are beyond the pale.

So why can we not get either through DCAA or—I mean, we have—one time I tried to count how many auditors were in the Department of Defense between IG, DCAA, DCMA, GAO, everybody who worked at DOD, and I think I got to 30,000 when I started counting. Now, a lot of them are not doing audit functions. A lot of them are doing different kinds of functions, but they are within organizations that would be considered audit-like.

So I guess could we not get a team of trained Government auditors within DOD to be a roving squad to put people through their paces on audit work and come up with findings and would be illustrative to these different branches as to where they are in the process that maybe would not be as expensive as hiring a full-blown audit from the outside?

Mr. HALE. Well, first, we are trying to develop more skills. I wish we had more. We have some. We have some good people. And I will ask my colleagues to comment on this.

As far as using the internal audit agencies, it will violate the independence rules. GAO will not allow that.

Senator MCCASKILL. Well, not GAO. What if we got a special hit squad from DCAA and—

Mr. HALE. Well, first, DCAA, as you know well, is a pricing audit agency. They do not do financial statement audits. They are auditors.

Senator MCCASKILL. Yes, but a lot of them are Yellow Book.

Mr. HALE. And I have got them pretty busy doing other things right now.

Senator MCCASKILL. I can go find you a bunch—I mean, I can go out to State auditors offices—

Mr. HALE. You could do that.

Senator MCCASKILL—and find you a team of Government-trained auditors that you could get a lot less expensively than \$500 an hour.

Mr. HALE. I think we would get into independence problems there too if they really worked for me or for any of the unders.

Senator MCCASKILL. Yes, but you are not trying to do this to get a clean opinion. You are doing for training.

Mr. HALE. Let me ask the Services to comment on their remediation efforts and the extent they have people.

Mr. MORIN. Ma'am, if I may.

Senator MCCASKILL. Yes.

Mr. MORIN. Ma'am, we have been trying to do this within the limits of audit independence and have had some reasonable success. The Air Force Audit Agency has provided a team of about 25 of their auditors that are focusing for us on just targeted areas of internal control investigation that directly support our audit readiness effort. They are not telling me go in and do this to pass an audit in quite those terms, and they are not themselves auditing in that sense, but they are doing very targeted investigations of key controls that are driven by our audit readiness plan. And then we will, of course, have another, a separate auditor, come in and do an eventual examination.

Senator MCCASKILL. Of course. I mean, obviously, I am not suggesting that we would ever hire anyone to do audits internally. I mean, that would not work. But having the expertise inside that can help with guideposts. I get it that you wanted to try again because you had made progress and you wanted to see how much progress you had made. And I think that is all good. But the basics of internal controls I think a lot of Government auditors could have helped with that would have not needed a whole—

Ms. MATIELLA. I believe that certifications are very important. They show a skill set. For example, the certification of being a certified public accountant is an important skill set to have when you are trying to become auditable or create financial statements that are auditable. I am a CPA. My audit director is a CPA. It is a very valuable skill to go out and hire. It does make a difference in terms of knowing what is required by the Yellow Book.

We also use our AAA, our Army Audit Agency, to a large extent to check us, to be independent but also to check us to make sure that we are doing the right thing.

Senator MCCASKILL. Well, I think that is great.

Mr. WORK. Ma'am, we are doing something very similar. We have about 30 members of the Naval Audit Service that go out. They did surprise audits. The first thing they looked at was inter-

nal controls. We identified a major issue there. Then we started to populate that around all of the different budget submitting offices.

Then the second thing that we go in and look at is do they have the right documentation. These are lessons learned from the Marine Corps audit.

And so then we will continually step up what they will look at.

But I think, going back to what Mr. Hale said, saying we will get to a Statement of Budgetary Resources by 2014, put a search light or a flashlight on all of the different internal processes we have, and that has, quite frankly, illuminated a lot of problems that we did not know existed. So as Ms. Commons said, this is a very deliberate process and the more help we get from—the Marine Corps audit was very, very important for all of us because it really kind of set the bar on what we have to do. So I believe that we are doing much of what you are suggesting right now.

Senator MCCASKILL. Good.

Mr. MORIN. Senator, can I add one more point on that topic, if I may?

Senator MCCASKILL. Sure.

Mr. MORIN. And that is that one of the things that we did not probably anticipate, when we hired these independent public accounting firms to do examinations and do limited scope that looks at our assertions, is in some cases they have come and told us you were going further than you needed to in preparation for this assertion. I had independent public accounting firms on two of the assertions I have done where they identified areas where our plans, they felt, went beyond the standards that were required. Now, other areas they said, even though they gave favorable opinions, there are others areas for improvement. But in certain cases they said, you are moving towards doing a full financial system certification for a particular system, and that is not a system of record and you probably do not need to go the expense of doing that. So there is return in having these outside eyes on the problem that goes beyond just working through the process. Sometimes that external commercial audit perspective tells us we are making the problem harder than it had to be.

Senator MCCASKILL. I am sure all the outside audit firms that are watching this hearing, glued to whatever place, are very grateful to you right now because I summarily dismissed how expensive they were, I think you were pointing out that there can be value added is important.

I only have two more questions and then we will submit some more to you for the record. I will note that Senator Manchin had more contractor-related questions that we will submit. I will not go into them now because I do not think—they are important. Obviously, I think all of you know how engaged I am in the contracting issue. But he wants to know about the costs of benefits to veterans versus the oversea contractors, and I will make sure that those get in the record for his answer on that.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator MCCASKILL. Let talk about DEAMS for a minute at the Air Force. In February, GAO reported that the interfaces on the DEAMS system at the Air Force and the legacy systems were inop-

erable and required reports either that are not being produced or that are inaccurate or incomplete. The interface problem with the Standard Procurement System became so serious that that interface was turned off and the data was manually entered into DEAMS. And in an April 2011 survey, 48 percent of the DEAMS users said their workload has increased as a result of DEAMS and only 10 percent felt that their work was more accurate. Clearly that is not a good outcome for this system since we have spent 8 years and \$330 million on it.

What is your response to these problems that have been so recently pointed out? And I would like Mr. Khan to also speak to that.

Mr. MORIN. Yes, ma'am. Now, it is important to note the GAO study was just published a couple of months ago, but it was a result of field work that occurred predominantly in the last calendar year, some of it early in that year. So there has been significant progress since then.

Let me begin with the interface issue. You referred to the Standard Procurement System interface, and it is a portion of that interface which does not work. We are successfully importing data from the standard procurement interface which is one of our main basic contracting systems for new contracts. Modifications of existing contracts are the part that do not come through. And so 95 percent of the new contracts come through fine. For the modified contracts, the majority need to be handled manually. That is among the 245 areas that were identified for improvement in the course of moving towards stabilization of the system ahead of the operational assessment that I referred to in testimony earlier. There are some inherent limitations in working with an old system like SPS, and that is a system that has been looked at for replacement for some time and so has been frozen and in place for a while, which is a problem. We believe that with the bulk of the new contracts coming in successfully and with some process improvements, we can get to an acceptable level of performance there.

On the workload piece, if staff were promised that DEAMS would yield a lightening in their workload, that was not a good promise to make. ERP systems in general are not workload savers and they should not be sold that way in comparison to the legacy systems which we have in a lot of the DOD which are quite easy to use. They are quite easy to use in some cases because they do not have appropriate internal controls. And so doing the work properly sometimes takes more effort. Directly linking obligations to specific contracts and tying that through to a receiving report requires work.

And so I do not want to overpromise here. There are areas where we can improve workload. Again, we had laid in 245 specific discrepancies we were seeking to resolve as we worked through to stabilization of DEAMS. We have addressed all but about 40 of those. The remaining 40 we anticipate being closed out by the second week of May, so within a month. And that will be when we move into the operational assessment of that system it has got. We take the workload piece seriously, but we do not anticipate fielding a system that is going to make everyone's life much easier because we are fielding a rigorous system.

Senator MCCASKILL. Well, and frankly, I really understand the point you are making because I think one of the reasons we got in this mess is everybody wanted to hold onto legacy systems. So every time they were asked, it was, oh, no, this is horrible. It is just way too much work. So there was this cultural predisposition towards holding onto legacy systems which frankly has caused a lot of the interface problems and a lot of the time slippage and a lot of the budget overruns and so forth.

Would you agree with the description that Secretary Morin made, Mr. Khan, about that they are getting there?

Mr. KHAN. We would have to go back and evaluate that.

Part of the issue is also related to what I mentioned earlier on about data standardization. That was the problem why SPS, the Standard Procurement System, was not communicating properly with DEAMS. That is an issue.

And the other one goes to some of the features which the users of DEAMS had and the legacy systems are not in the newer system.

So it is like Dr. Morin is saying. It is managing the expectations that in some of the cases workload is not going to lighten up for the users. But this is also linked up with the business process re-engineering effort which is a part of the National Defense Authorization Act. If that is followed through, the expectation is that the processes are going to be much more streamlined than they were in the legacy environment. So ideally that is going to lighten the workload.

Senator MCCASKILL. Finally, for the record—and I have got other questions that I will submit to you for the record that I did not get to. Believe it or not, there are some I have not gotten to.

The auditability of Army classified programs. Earlier this year, the Army was asked to reprogram funds for a variant of the GFEBS system that will be able to handle its classified programs. Without this new system, the Army said it would not be able to achieve full auditability of its SBR by the 2014 deadline set by Secretary Panetta. The reprogramming request was recently withdrawn largely because it did not meet Senator McCain's criteria for approval of a new start reprogramming request.

I would like you to state for the record what is the impact of a withdrawal of the GFEBS SA reprogramming request on the Army's ability to meet the deadline and what steps, if any, would you like Congress to take in the 2013 authorization and appropriations legislation to address this issue?

Mr. WESTPHAL. Madam Chair, as I understand it, I think if we are able to get the resources in fiscal year 2013, we will be able to fix this issue. We have asked for the reprogramming, and Senator McCain, as you pointed out, has asked us to put our report together on that and we are producing that.

Senator MCCASKILL. Okay. Well, if you would let us know and make sure that we get what you need in the authorization, as it relates to that, I think it is very important that the classified programs have that auditability, and I do not want to leave them behind. So let us know on that.

As usual, you all are working very hard at a very, very difficult problem. And I get very frustrated with the amount of money that

has been spent and the amount of time it has taken. But please do not lose sight that I do understand that it is incredibly complicated what you are trying to do. There are no businesses that have the challenges that you have in terms of enterprise-wide auditability.

And I am not going to let up on this because I think it is essential that we get to that point. I will be watching. I mean, I feel like ordering my buttered popcorn and Diet Coke to watch this 2014 date because I think this is going to be very interesting to see how this turns out. I do think everybody is on point about it. I think everybody is working very hard towards the goal. I will be paying very close attention to how much money it costs us to get to this 2014 number. And I will look forward to whatever assessment you think you can give us, Secretary Hale, about manual work-arounds and what the price tag on that is going to be so that I could have a conversation with both you and Secretary Panetta to make sure that we have done the cost- benefit analysis.

I think pushing everybody has a lot of benefit. I just want to make sure the costs associated with that benefit are not too high. And I would appreciate any feedback we can get specifically on that in the coming weeks and months.

As usual, thank you very much for all of your service. The public has no idea how much you know and hard you work. I do. Thank you very much.

[Whereupon, at 4:44 p.m., the subcommittee adjourned.]