

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

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**WEDNESDAY, JULY 27, 2011**

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

The subcommittee met, pursuant to notice, at 2:09 p.m., in room SR-232A, Russell Senate Office Building, Senator Claire McCaskill (chairman of the subcommittee) presiding.

Committee members present: Senators McCaskill, Begich, Manchin, Portman, Ayotte, and Cornyn.

Committee staff members present: Leah C. Brewer, nominations and hearings clerk; and Jennifer L. Stoker, security clerk.

Majority staff member present: Peter K. Levine, general counsel.

Minority staff members present: Pablo E. Carrillo, minority investigative counsel; and Lucien L. Niemeyer, professional staff member.

Staff assistants present: Brian F. Sebold and Breon N. Wells.

Committee members' assistants present: Tressa Guenov, assistant to Senator McCaskill; Lindsay Kavanaugh, assistant to Senator Begich; Joanne McLaughlin, assistant to Senator Manchin; Brent Bombach, assistant to Senator Portman; Brad Bowman, assistant to Senator Ayotte; and Dave Hanke, assistant to Senator Cornyn.

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

Senator MCCASKILL. Thank you, everyone, for joining us today for this hearing.

The Readiness Subcommittee meets today to address the issues of financial management and business transformation at the Department of Defense. We are pleased to be joined by the Honorable Robert Hale, the Department of Defense Comptroller; the Honorable Elizabeth A. McGrath, the Department of Defense Deputy Chief Management Officer; the Comptrollers of the three military departments, and Mr. Khan, Director of Financial Management and Assurance at GAO.

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

The Government Accountability Office first designated Department of Defense financial management as high risk in 1995, as a result of pervasive financial and related business management systems and control deficiencies. These deficiencies, GAO reported, have adversely affected the department's ability to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, prevent and detect fraud, waste, and abuse, address pressing management issues, and in some ways maybe the most important of all, the ability to prepare auditable financial statements.

Over the last decade, this committee has initiated a series of legislative provisions designed to address these problems as recommended by GAO. Unfortunately, we continue to hear reports that soldiers in the field have received the wrong paychecks, that the department cannot account for expenditures of billions of dollars in Iraq and Afghanistan, and that DOD cannot reliably determine the number of contractors it employs.

Before leaving office earlier this month, Secretary Gates likened his efforts to find efficiencies and reduce waste in the department to something akin to an Easter egg hunt. He stated, "My staff and I learned that it was nearly impossible to get accurate information and answers to questions such as 'How much money do you spend?' and 'How many people do you have?'"

The underlying problem is that Department of Defense financial management systems are riddled with decades-old problems that are difficult to reverse. As GAO recently explained, the Department of Defense systems environment that supports its business functions is overly complex and error prone and is characterized by, one, little standardization across department; two, multiple systems performing the same tasks; three, the same data stored in multiple systems; and four, the need for data to be entered manually into multiple systems.

According to the department systems inventory, this environment—now this is hard to believe. This environment is composed of 2,258 business systems and includes 335 financial management, 709 human resource management, 645 logistics, 243 real property installation, and 281 weapon acquisition management systems.

The department is endeavoring to address these problems by fielding a series of enterprise resource planning programs. And I hate acronyms, but it is very hard to function on the Armed Services Committee without getting close and personal with acronyms. So these are known as ERPs, and ERPs will be referred to over and over today in the hearing.

So for everyone, and the public particularly, you should know that that means enterprise resource planning programs, which basically is shorthand for "We are trying to get our arms around it." Which are intended to provide timely, reliable, accurate, and useful information for management decisions.

Unfortunately, these programs have not lived up to expectations. The FIAR plan itself indicates that all three military departments have already missed deadlines on the implementation of their ERP systems. Last year, GAO reported that six of DOD's nine largest ERPs had experienced schedule delays ranging from 2 to 12 years and incurred cost increases ranging from \$530 million to \$2.4 bil-

lion, in significant part because of the department's failure to follow good management practices.

Similarly, the Department of Defense Inspector General reported last month that the Army's GFEBS system, or its ERP system, is at high risk of incurring additional schedule delays, exceeding planned cost, and not meeting program objectives as a result of inadequate planning and integration efforts.

Even if the GFEBS is deployed in a timely manner—that is, the Army's enterprise resource program management, even if it is deployed in a timely manner, the IG reported, it may not meet the Army's financial management objectives. In particular, the IG reported that the Army has not adequately planned for data conversion from existing systems to the GFEBS, failing completely to address the conversion of historical transaction data and the conversion of data from 49 non-Army systems.

According to the IG, these flaws mean that even if the Army fully deploys GFEBS in a timely manner, the Army will not be able to achieve its objective of auditable financial statements. I am deeply concerned that the shortcomings documented by the IG in the Army's GFEBS program are symptomatic of problems with the other ERP systems and that these problems will undermine the department's efforts to address its financial management issues and achieve an auditable financial statement by 2017.

Sound financial systems 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.

At this time, I would like also to insert a useful document into the record. Thanks to Senator Coburn's efforts, this document was prepared by the Congressional Research Service to chronicle the timeline of DOD's efforts since 1990 to achieve an unqualified audit.

It is a document that I recommend to everyone for their perusal. I think it is an excellent history for the public to know about. So I want it to be added to the record at this time.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator McCASKILL. And I will now turn the microphone over to Senator Ayotte if she would like to make any opening statement.

#### **STATEMENT OF SENATOR KELLY AYOTTE**

Senator AYOTTE. Thank you very much, Madam Chairman.

I want to welcome our witnesses and thank them for appearing today.

I understand that this is the first hearing the Senate Armed Services Committee has held on defense financial management and business transformation in several years. So I want to thank the chairman for scheduling this meeting.

This hearing goes to the heart of the fiscal crisis that faces our Nation. As Admiral Mullen has said, the greatest threat to our National security is our National debt. And we need to work to address that fiscal crisis, and obviously, with what we are looking at on a national level, the Department of Defense needs to be included in that process.

We have to closely scrutinize every single Federal agency, including the Department of Defense, to identify and eliminate wasteful or duplicative programs. However, as we reduce defense spending, we must ensure that those reductions do not undercut our warfighters or endanger our readiness for future contingencies.

To distinguish between necessary defense budget cuts and cuts that would harm our troops and damage readiness, we must have reliable financial data and effective business processes and systems in place. Unfortunately, the Department of Defense is one of the few agencies in the entire Federal Government that cannot pass an independent audit of its finances, and I am skeptical whether the department will even be ready for an audit by 2017, as required by the law.

The department's inability to be audited could limit its ability to successfully implement management controls and efficiency initiatives, achieve savings, and redirect increasingly scarce defense dollars to the higher priorities.

Shortly before Secretary Gates left office, he publicly expressed frustration that his efforts to find efficiencies and reduce wastes were "something akin to an Easter egg hunt." He explained, "My staff and I learned that it was nearly impossible to get accurate information and answers, such as 'How much money do you spend?' 'How many people do you have?'"

In light of the fiscal crisis we are confronting and the many proposals to cut defense spending, these are questions that we just must be able to answer. I am encouraged that Secretary of Defense Leon Panetta has said that making the Department of Defense auditable is a top priority and that he will look into actually accelerating the current timetable for achieving this important goal.

But it is important to remember that the auditable department is not really the desired objective. It is a means to a more important end. The department must be auditable and we must have reliable financial data so that we can be responsible stewards of the taxpayer dollars and so that we can ensure that every dollar supports our warfighters and improves our military readiness.

Let there be no doubt, careful investment in financial management can save money. The Defense Information Systems Agency, DISA, for example, has returned \$10 for every \$1 spent on financial improvement. And the Marine Corps has achieved \$3 for every \$1 invested in improved financial management.

Senator Tom Coburn estimates, as the chairman has mentioned and, of course, introduced the document that he produced, and I want to commend her for doing that. It is a very important document. Senator Tom Coburn estimates that the department could realize at least \$25 billion in savings each year for the next 10 years through improved financial management.

In preparing for this hearing, staff polled several experts inside and outside of Government regarding the most significant structural impediments to improving financial management and business processes and systems at the Department of Defense. There seems to be a consensus regarding the leading impediments to improving financial management, and that is some of these impediments include unclear lines of authority, a workforce not suffi-

ciently trained in key components of financial management, as well as potentially ineffective accountability and oversight.

There are also potential problems related to enterprise architecture and investment controls as well as, the chairman has mentioned, with the implementation of the enterprise resource planning, or ERP systems. Here are some important questions I hope to address at this hearing.

Do those leading the department's financial improvement efforts have the authority needed to influence the service secretaries and military chiefs, as well as other political appointees within the department, to ensure that what is required to succeed actually gets done?

How well are current oversight mechanisms within the department functioning? Is the department's financial management workforce sufficiently trained and certified in accounting, well versed in Government accounting practices and standards, and experienced in relevant information technology?

Is the Department of Defense's Financial Improvement and Audit Readiness plan, the FIAR plan, on a path to succeed?

I am troubled by cases where we are spending billions of dollars on enterprise resource planning that accomplishes little more than lining the pockets of contractors who are hired to integrate them into the department. In a few high-profile cases, new systems have come online at considerable expense to the taxpayer, but the relevant entities are still unable to pass an audit. Every dollar must be spent deliberately and carefully to achieve the desired objective.

Thank you again, Madam Chairman, for calling this important hearing. I look forward to hearing from the witnesses, and I look forward to working together to improve financial management at the Department of Defense. Improved financial management will help us make the tough decisions we need to make, eliminate waste, and support our warfighters.

And I want to thank all of you for being here today.

Senator MCCASKILL. Since this topic is rather dry, and typically, we don't have hordes of Senators show up, I want to particularly comment on both Senator Cornyn and Senator Begich being here. I had not planned on giving anyone else an opportunity to make an opening statement, but I am so proud of you for showing up—  
[Laughter.]

I want to give both of you an opportunity, if you would like, to make a few comments on the record.

Senator Cornyn.

Senator CORNYN. Madam Chairman, thank you for having this very important hearing.

I am called away to the Judiciary Committee to introduce a Texan who is being nominated for a judicial office. So I am going to be leaving now, and I will come back.

And I have some questions for the witnesses, but no opening statement.

Thank you for the opportunity.

Senator MCCASKILL. Thank you. Thank you, Senator.

Senator Begich.

Senator BEGICH. I am glad we could surprise you, Madam Chair. That is always good.

But I really don't have any opening. I am anxious for the testimony. You have a great lineup, as I saw when I decided to be able to make it over here for at least an hour I think I can be here for.

Senator MCCASKILL. Great.

Senator BEGICH. So I look forward to it.

Thank you.

Senator MCCASKILL. Thank you, Senator.

We will start with Secretary Hale.

**STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY OF DEFENSE, COMPTROLLER; ACCOMPANIED BY HON. ELIZABETH A McGRATH, DEPUTY CHIEF MANAGEMENT OFFICER, DEPARTMENT OF DEFENSE**

Mr. HALE. Okay. Well, good afternoon, Madam Chairman and Senator Ayotte and Senator Begich.

Thank you for the opportunity to discuss financial management at the Department of Defense. Secretary Panetta, as you have said, our new Secretary of Defense, my new boss, shares your interest in financial management, shares my interest in financial management improvements and has asked that I provide him a comprehensive review of our efforts. And I look forward to his personal guidance.

To bring you up to date on our progress and also our continued challenges, the department's Deputy Chief Financial Management Officer, Ms. McGrath, and I have prepared a joint statement. I am going to summarize it briefly for the both of us, and then we will turn to the service FMs.

First thing to note is that as we work to meet national security objectives, DOD financial management has its strengths. I know that is not popular, but I believe it is true.

For one thing, I think it is effective in getting the financial resources that we need to our warfighters, and I view that as my primary job. We do have a dedicated workforce, I think a reasonably well-trained one—let us talk more about that later—more than 60,000 financial management professionals who bring a culture of stewardship, certainly my experience for 7 years in the Air Force, a culture of stewardship to their jobs.

We have effective processes in some key areas. As a result, violations of key financial laws are few. Much better, I might add, than in the non-defense agencies. Timely and accurate payments are the rule. Again, much better than in the non-defense agencies. And interest associated with late payments is low.

We have also made progress on an issue that is of concern to me—I have been working on it for several decades as a professional—and I know to you, improving financial information and moving toward audit readiness. We have auditable financial statements in a couple of large organizations, particularly in the Army Corps of Engineers, several of the large defense agencies, and several of our large trust funds.

But it is also clear that our greatest audit challenges lie ahead, especially the need to move the military services to auditability. We really have been picking around the edges of this problem, to some extent. We have to turn to them because they are the key issue. In addition, there are enterprise-wide weaknesses in DOD fi-

nancial management, without question, and they require an enterprise-wide response.

To pass an audit, an organization needs systems and processes that record financial results of business events in a consistent and reliable manner. Our current business environment does not always meet that standard. Many of our systems are old, and they weren't designed to handle information that support audit standards.

The issue is even more challenging because of DOD's enormous size and geographical dispersion, which makes manual solution of these problems almost impossible. Some of the smaller independent agencies have been able to do that. We simply can't.

To deal with these enterprise challenges and to improve financial information and achieve audit readiness, we have revised the approach that DOD has used in the past. It wasn't working. I think we can all agree.

Since August 2009, our emphasis has been improving the quality of data and moving toward audit readiness for the information that we use every day to manage the department. Specifically, budgetary information and existence and completeness of assets. Knowing where our assets are and how many we have.

We have also put in place a cost-effective approach to dealing with the other information that is needed to move toward full auditability. Less than 2 years have passed since we launched this new approach. I call it the focused approach. I can tell you that financial auditability is now readily acknowledged as a high priority in the department. I think it will be even a higher priority under my new boss.

And we have made some noteworthy changes I think are moving us in the right direction. We have a clear governance process with headed by our department Chief Management Officer, Deputy Secretary, and supported at the OSD level by me, the CFO, and the Deputy Chief Management Officer, and by the service FMs and the service DCMOs.

We have established long-term and, particularly importantly, short-term goals which are actively managed by our governance bodies. We have ensured that each military department has programmed adequate resources to support this focused strategy over the entire Future Years Defense Plan.

We now require, and I think this is important, that senior executive performance appraisals for both financial and nonfinancial personnel include financial and audit goals where that is relevant to them. We are assembling teams within each military department that will be tasked with improving financial controls because we need to do that if we are going to be successful.

We are establishing a course-based certification program for our defense financial managers that will give us a framework like they have in the acquisition workforce so that we can require certain courses of our personnel and ensure, for example, that they have training in accounting and auditing. And we have maintained a close working relationship with our oversight bodies, including GAO and the DOD IG. I have personally briefed Gene Dodaro, the Comptroller General, and Gordon Heddell, the DOD IG.

In addition, we have focused our improvement on improvements in business systems. And I know you are particularly interested in these. Our goal is a streamlined systems environment made up of IT capabilities that work together to support effective and efficient processes and operations.

Ms. McGrath, the DCMO, has the lead for OSD. The services and agencies are managing overall implementation. We are focusing our system efforts in three areas—improvements in acquiring and implementing IT systems, including those, implementing those ERPs, that word you don't like, Madam Chairman; reducing required data exchanges and system-to-system interfaces while increasing standardization; and use of business enterprise architecture, which provides data standards, business rules, performance metrics, and standard system configurations.

In addition to procedural changes, though, we are actually doing something. And this is, I think, most of proud of it. We are actually moving and taking tangible steps toward auditability of the service statements that big boys use of the audit world. We have launched an audit of the Marine Corps statement of budgetary resources. If successful, this would be the first time that any military service has completed an audit of a financial statement.

In May, we began a DOD-wide examination and validation of our funds control and distribution process, known in audit terms as appropriations received. This is being done by an independent public accounting firm. I expect that this validation will yield a positive opinion in August, and periodic validations of our appropriations received will demonstrate to Congress and to me that we are controlling our funds carefully and in ways that ensure we comply with the laws that you enact.

In June, we began a validation by a public accounting organization of the Army's organization and bases that have implemented their ERP, the General Fund Enterprise Business System, or GFEBS. This will identify any areas that must be improved to ensure that we are using the system in a manner that is auditable. I don't want to get these things deployed throughout the department and find out that we aren't going to achieve our goal.

In July, we tasked a public accounting firm to validate the Air Force's processes and controls to reconcile their accounts with Treasury, essentially their checkbook with Treasury. It is called Funds Balance with Treasury.

And by the end of the calendar year, we expect to begin several other validation efforts, including the accounts and locations of large portions of our military equipment. In short, there is a lot still to do. I make no bones about it. We have got a long way to go. But I think we are making progress.

I believe we do have a plan. We are committed to improving financial information and achieving audit readiness in the Department of Defense. And our goal is to achieve auditable financial statements by 2017.

Madam Chairman, this concludes my opening statement. I believe we will turn to the service FMs now, and then we will be glad to answer your questions.

[The prepared statement of Mr. Hale and Ms. McGrath follows:]  
Senator MCCASKILL. Thank you very much, Secretary Hale.



Secretary—is it Matiella?  
Ms. MATIELLA. Matiella.  
Senator McCASKILL. Matiella.

**STATEMENT OF HON. MARY SALLY MATIELLA, ASSISTANT  
SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND  
COMPTROLLER**

Ms. MATIELLA. Thank you.

Madam Chairman, Senator Ayotte, members of subcommittee, thank you for the opportunity to testify today regarding financial management in the United States Army and our commitment to achieving auditable financial statements.

Secretary McHugh, Chief of Staff Dempsey, Secretary Wessel, our Chief Management Officer, and all of our senior leaders recognize the value and the importance of achieving the mandate of the National Defense Authorization Act for Fiscal Year 2010, which requires the Army to be audit ready by September 30, 2017.

The Army employs hard-working soldiers and civilian personnel across all functional areas, who are dedicated to achieving audit readiness goals. These professionals are transforming our financial and business systems to improve financial management, to provide timely, accurate, and relevant information for decision-makers, and to reassure the American taxpayers and Congress that the Army is a trustworthy steward of public funds.

I am confident that we will be audit ready by September 30, 2017, because we have a sound and resourced financial improvement plan, which conforms to the department's financial improvement and audit readiness criteria. We have a solid ERP strategy guiding our business systems development and deployment, and we have effective governance and oversight ensuring accountability.

Our financial improvement plan is fully resourced, contains detailed corrective actions and milestones, incorporates lessons learned from the Army Corps of Engineers audit and the Marine Corps audit, and identifies the organizations responsible for corrective actions. Further, the plan requires significant evaluation and testing to ensure internal controls vital to the audit readiness and ensures that the internal controls are in place and operating effectively.

To ensure that we are audit ready by September 30, 2017, our improvement plan calls for four audit examinations each year from fiscal year 2011 to 2014. These examinations culminate with an assertion of audit readiness of the Army's statement of budgetary resources in fiscal year 2015.

These four audit examinations ensure that our financial management practices and corrective actions pass audit scrutiny. To ensure audit readiness is sustained, governance and oversight are being provided by the auditors' senior leaders.

Additionally, management personnel across all business functions are being held accountable for achieving audit readiness milestones. This accountability is included in their financial—in their fiscal year 2012 performance plans.

In summary, execution of our financial improvement plan and our ERP strategy, combined with our senior-level governance and

oversight, enable the Army to be audit ready by September 30th of 2017.

I am personally committed to meeting our National security objectives and mandates of the law requiring auditability. I will continue to collaborate with the members of this committee, your counterparts in the House of Representatives, the GAO, Comptroller Hale, Deputy CMO McGrath to ensure the continued improvement of the Army's business environment.

I look forward to your questions.

[The prepared statement of Ms. Matiella follows:]

Senator McCASKILL. Thank you.

Secretary Commons.

**STATEMENT OF HON. GLADYS J. COMMONS, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER**

Ms. COMMONS. Madam Chairman, Senator Ayotte, Senator Begich, thank you for the opportunity to discuss the Department of the Navy's efforts to achieve financial audit readiness.

The department is fully committed to achieving financial auditability, and our senior leaders have provided the resources to do so. We are moving forward.

As Secretary Hale noted, the Marine Corps is in the second year of audit of the statement of budgetary resources. We hope to have positive results from that audit by the end of the year.

As also noted, the department is currently undergoing examination by a private firm of our appropriations received process, and we should have those results in August.

The Department of Defense Inspector General is currently examining the completeness and existence of high-value military equipment—that is, our ships, ballistic missiles, and satellites—to be followed by an examination of the existence and completeness of our aircraft and ordnance inventory.

We have learned many lessons from the Marine Corps audit, and we have incorporated those lessons into our overall department's financial improvement plan. We are also sharing these lessons with the other departments. They include from the very complex of ensuring the accuracy of our beginning balances to the simple—maintenance of our supporting documentation and separation of duties.

We are working with our service providers to ensure we all understand what must be done and who is responsible. We have reached across our own aisles to assign responsibility to our business process owners, such as our human resource organizations and our acquisition organizations. Beginning in October, every senior executive responsible for executing our business processes will have an audit readiness objective in his or her performance plan.

We are also engaging our general and flag officers through the Vice Chief of Naval Operations and the assistant Commandant of the Marine Corps. In August, we will begin training our new general and flag officers specifically on their responsibility as they relate to auditability.

Achieving auditability is challenging, and there is much work to be done. We are committed to this effort and we are making progress.

Thank you for your interest and support of our efforts. I will be pleased to answer any questions you might have later.

[The prepared statement of Ms. Commons follows:]

Senator MCCASKILL. Thank you very much.  
Secretary Morin.

**STATEMENT OF HON. JAMIE M. MORIN, ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER**

Mr. MORIN. Thank you very much, Madam Chair, Ranking Member.

It is a pleasure, as always, to have a chance to come before this committee and the subcommittee. It is a committee I had a lot of chances to work with when I spent 6 years on the staff in the Senate.

If I may, I would like to just summarize the written testimony that I prepared for the committee and have the statement entered in the record.

When I came before the Armed Services Committee 2 years ago as a nominee, I accepted a charge from Senator McCain that for the Air Force, business as usual would not be acceptable when it came to the audit readiness effort. And that is a charge I have taken to heart and I think the Air Force has stepped forward aggressively on over the last couple of years. Air Force leadership simply will not and cannot accept doing business as usual if we expect to get to audit readiness by the statutory deadline in 2017.

As I promised at that confirmation hearing, I have been a very strong advocate for Under Secretary Hale's effort to really focus our Financial Improvement and Audit Readiness plan on the information that matters to managers. I said at the time and I agree now that that is a good idea because it builds a positive feedback loop, where the people charged with leading and running the Department of Defense on a day-to-day basis see the practical results of the FIAR effort.

They get the better information they need to manage better, and therefore, they are more likely to seek to invest more in getting us to that statutory timeline. It gives the leaders the information they need in order to maximize the value we get out of each taxpayer dollar.

I think this new focus really has delivered in terms of creating stronger managerial incentives, and it has raised the profile of audit readiness across the department. Senator Ayotte's point about auditability as a means to an end of good stewardship is, I think, right on target, and that mindset is really taking hold across the Air Force.

Like my colleagues, I am pleased to report that the Air Force has made some very good and important progress on some of our key interim deliverables over the last year or two. Some of the wins include our assertions of audit readiness on appropriations received and distributed; our Funds Balance with Treasury reconciliation process, which Mr. Hale mentioned.

That is a critical challenge. And sort of balancing our checkbook with Treasury, it is over a million transactions a month. And we

are matching up 99.99 percent of them, which is an essential enabler for our broader audit readiness effort.

And the existence and completeness of our entire military equipment portfolio. We are also moving onto a range of operation—operating materials and supplies, things like our cruise missiles and aerial targets and several other items there.

The progress that has been made is a direct result of the exceptional commitment from our chief Management Officer, Under Secretary Conaton, and the Air Force senior leadership. They have increased the resources to this—applied to this effort every year, and they have applied the right level of management attention to focus the team on the progress.

Just a month ago—2 months ago, I should say, Under Secretary Conaton and the Vice Chief of Staff for the Air Force, General Breedlove, wrote to all of our major commands underscoring, first, the overall importance of financial improvement in audit readiness and how it plays into Air Force efficiency efforts, but also charging each of those commands with creating the right incentives in the performance plans of their senior leaders to focus the organization not just at a headquarters level, but down to the field on the financial improvement effort.

But while we have made great progress on some of these interim deliverables, we do still have a long way to go to meet the 2017 deadline. Our ability to achieve audit readiness depends in part on our ability to field our ERPs, as you know. I mean, these systems are replacing Vietnam-era bookkeeping systems that are not compliant with any of the key requirements that are needed to get to audit readiness.

While ERPs are not a panacea and the fielding of them has not been without challenges, there is no alternative to modernizing Air Force financial management systems. Whether it is ERP or something else, we have to modernize those systems if we are going to get to audit readiness.

In fielding our ERPs, we have benefited greatly in the Air Force from being a little bit behind the other services. We have had an opportunity to observe their deployments, observe their fielding, and learned quite a few lessons.

So, for example, we have had a heavy focus on data cleanup and data integrity efforts and migrating the historical data over. We continue to push forward, consistent with guidance from OMB and others, to focus on fielding discrete increments and smaller pieces of these ERPs in order to improve accountability, avoid big bang approaches.

Successful deployment of these systems, though, will depend on execution and our ability to work these systems through an acquisition and fielding timeline that is—will strain the system. If we do Department of Defense acquisition business as usual, we will not be able to successfully field these systems.

It is for those reasons that I do see moderate risk in the Air Force's ability to meet that fielding timeline. As a result, we are working to hedge against that risk and explore interim solutions that would help us achieve auditability in a more patchwork way if the systems do not deliver on the schedule that is currently there.

Again, this is sort of a belt and suspenders approach in many cases. But having observed the DOD acquisition of IT systems over quite a few years, while we have a schedule in front of us that I have reasonable confidence in, I know that the historical record of achievement of planned schedules on IT acquisitions is not good, and I feel a need to hedge against that.

But I do want to be very clear. We have a comprehensive plan toward our business systems modernization and toward our business process improvement that is carefully crafted to get us toward an audit-ready environment by 2017. And we are pressing forward with a very strong leadership commitment to achieving that deadline.

With that, I am ready for the committee's questions and the testimony of the other witnesses.

[The prepared statement of Mr. Morin follows:]

Senator MCCASKILL. Thank you, Secretary Morin.

Mr. Khan.

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

Mr. KHAN. Thank you.

Chairman and members of the subcommittee, good afternoon. It is a pleasure to be here today to discuss the status of DOD financial management improvement and business transformation efforts.

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

In my testimony today I will provide GAO's perspective on the status of DOD financial management weaknesses and its efforts to resolve them. And in addition, I will also address the challenges DOD continues to face in improving its financial management operations. My testimony today is based on our prior work at DOD.

Regarding the status, like, Madam Chairman, you had mentioned, more than a decade DOD has dominated GAO's list of Federal programs and operations at high risk due to their susceptibility to fraud, waste, abuse, and mismanagement. In the last 20 years, as a result of significant financial management weaknesses, none of the DOD components—including the Army, Navy, or the Air Force—have been able to prepare auditable financial statements.

DOD's past strategies for improving financial management have generally been ineffective. But recent initiatives are encouraging, specifically recent changes, as Mr. Hale laid out, to the DOD's plan for Financial Improvement and Audit Readiness, the FIAR plan, if implemented effectively, could result in improved financial management and progress toward our auditability. The Army, Navy, Air Force, and the Defense Logistics Agency have key roles in implementing this plan.

DOD faces many challenges in overcoming its longstanding management weaknesses. I am going to highlight six of these challenges, which very much resonate what you have mentioned in your opening statements.

First, one of the toughest challenges in implementing the FIAR plan is sustaining committed leadership. The DOD Comptroller has expressed commitment to the FIAR plan, and he has established a focused approach to achieve FIAR's long-term goals. This is intended to help DOD achieve near-term successes as well.

To succeed in the long term, efforts to improve financial management needs to be cross-functional. DOD agencies and offices that perform business functions—for example, weapon system acquisitions and supply chain management—are highly dependent on financial management.

However, within every administration and, of course, between administrations, there are changes in senior leadership. Therefore, it is paramount that the FIAR plan and other current initiatives be institutionalized throughout the department at all levels.

Second, a competent financial management workforce with the right knowledge and skills is needed to implement the FIAR plan. Effective financial management requires a knowledgeable and skilled workforce that includes individuals who are trained as well and well-versed in Government accounting practices and experienced information technology. Analyzing skill needs and then building and retaining an appropriately skilled workforce are needed to succeed in DOD's transformation efforts.

The third challenge is to assure accountability and effective oversight to the improvement efforts. DOD has established bodies responsible for governance and oversight of the FIAR plan implementation. It will be critical for senior leadership at each DOD component to ensure that oversight of financial management improvement projects is effective and that responsible officials are held accountable for progress.

Fourth, a well-defined business architecture is the fourth challenge. For DOD, a key element of modernizing financial management and business operations is the use of integrated information systems with the capability of supporting the vast and complex business operations that DOD has.

A well-defined enterprise architecture will be needed as DOD's blueprint for modernizing its business systems. However, DOD has yet to address previously identified issues associated with both architecture and investment management.

The fifth challenge, like we have mentioned, is enterprise resource planning, or ERP systems. They are expected to form the core of business information systems and DOD components. Their effective implementation is essential to improving DOD financial management and related business operations, and they will be key to becoming auditable.

However, the components have largely been unable to implement ERPs that deliver the needed capabilities and on schedule and within budget. Effective business system modernization across DOD is a key to achieving hundreds and millions of dollars in annual savings.

Finally, weaknesses in DOD internal control over financial management are pervasive and primary factor in the department's ability to become auditable. DOD needs a practical approach to prioritizing actions to correct these weaknesses.

In closing, I am encouraged by the recent efforts and commitments the DOD leaders have shown towards improving the department's financial management. However, the department's ability to address these six major challenges that I have highlighted today will be critical to improving its financial management operations and achieving auditability.

These challenges are significant. They deal with the very basic building blocks of sound financial management. However, it is absolutely critical at the same time that DOD continues with its current efforts, commitments, and momentum going forward.

Chairman, this concludes my remarks. I will be happy to answer questions you may have.

Thank you.

[The prepared statement of Mr. Khan follows:]

Senator McCASKILL. Thank you, Mr. Khan. And thank you for all of your work in this area.

We will begin questions now. And let me start with using an example, because the challenge of this hearing is to make this product consumable to the public and to my fellow Senators in a way that allows us to keep attention and pressure on this issue.

I think one of the reasons that the Department of Defense has failed at this for so long is because it never received the kind of attention and emphasis that it should have through the years, particularly as it relates to sun-setting legacy systems and interfacing between the various functions of the military. The military, I think, is famous for its silo capability, and no place has the silo been more prevalent than in the management of financial information within the Department of Defense.

But there are real consequences to the failures that have continued to plague the Department of Defense in terms of financial management. And it caught my eye that there was a report just issued a few days ago, and this is from the Inspector General of the Department of Defense. The cost of war data for Marine Corps contingency operations were not reliable.

What this report said is that the data—out of \$4.3 billion in Marine Corps transactions, the Inspector General found that 86 transactions valued at \$1.82 billion were not properly supported. In addition, almost \$1.5 billion in transactions were reported in the wrong operation or cost category. As a result, data provided to the members of Congress and other decision-makers did not reflect how funds were really actually spent.

Now, it is astonishing to me that we would have almost half of the transactions in a contingency operation not properly supported and that we would have \$1.5 billion in those transactions in the wrong cost or operations category.

And I want to give you a chance, Secretary Commons, to respond to the report. I know that management has been asked to provide completion date for the recommendations on this audit by August 22nd. And I would ask you that this committee would also like to receive the completion date for the recommendations that have been made in this audit.

But I want to give you a chance to respond to this recent report that Congress is not getting accurate information about how we are

spending our money in Iraq and Afghanistan when it comes to Marine operations.

Ms. COMMONS. Madam Chairman, I believe for that report, it was a matter of establishing a cost code to report those costs, and we had not promulgated that information to all of our field activities. So some of them did, in fact, record it in the wrong category.

We are in the process of correcting that and putting out policy so that they will know exactly how to report the costs in the proper category. And we will work with that. We will be happy to give you the information about the completion date and the precise actions that we will take to make sure that that does not happen in the future.

Senator MCCASKILL. Well, it is very troubling that we are not getting cost codes to people in the field. The taxpayers of this country have spent an enormous amount of money on these contingency operations, and I don't need to go through the record as to how many different ways we have figured out that we weren't keeping good track of the money in contingency operations.

So we will look forward to responses on this and, most importantly, look forward to a signal from the Inspector General that they are more comfortable that we are keeping track of contingency operations spending.

Let me now briefly go to the GCSS-Army and GCSS-Marine Corps systems. One of the elements of the Financial Improvement and Audit Readiness plan, which is the FIAR plan that people have referred to, is the existence and completeness of critical assets.

In a report that is scheduled to be issued tomorrow, GAO says that DOD's business systems make it difficult to obtain timely and accurate information on the assets that are present in theater and operations, and the department lacks a comprehensive plan for addressing the problem.

They go on to say ongoing efforts to modernize or replace DOD business information systems, including systems supporting supply chain management, are intended to improve data quality. However, we have found that data quality problems persist, and these systems are not designed to routinely share data across organizational boundaries, such as among military departments.

So this is the situation we have. We have the Army and the Marines sharing equipment in theater. Anybody disagree with that—that they are sharing equipment in theater, the Army and the Marines?

Okay. They both are designing systems to track real-time equipment in theater, equipment that they are sharing. Now, \$3.9 billion we are planning to pay for this system for the Army, almost \$4 billion for a system to track equipment for the Army. And we are paying another \$934 million, or another \$1 billion, to develop and field the same kind of system for the Marines to track the same equipment.

Now, here is punch line. They don't speak to each other. Now, how does this happen? How do we end up buying \$5 billion worth of systems to track the same equipment that don't talk to each other? And that is for, obviously, the Army and the Navy, but also I would love to hear from Ms. McGrath or Secretary Hale on this question also.



Ms. MCGRATH. I am happy to start. I will say from a GCSS-Marine Corps perspective that the difference between the two systems is, I will say, more significant than just they have the same—let me start over.

The two systems, although they sound very similar in the capabilities they deliver for the respective organizations, are embedded into very different, I will say, business processes that they execute their both supply and maintenance infrastructures.

And so, although they sound very much the same, they do operate within two very different infrastructures and processes, and they are not one-for-one used by the same people. And so, although, as I mentioned, they sound very similar, there is a lot more detail behind the execution of those systems and those capabilities that those systems enable.

Senator MCCASKILL. And they couldn't use the same system?

Ms. MCGRATH. That said, I do believe that because the Marine Corps has fielded, GCSS-Marine Corps—they are certainly further ahead in their implementation than the Army is to date—that the Army did, as part of their analysis of alternatives, it is my understanding, take a look at the GCSS-Marine Corps capability as part of their analysis of alternatives prior to making the decision to go with a different application to deliver their capability.

Senator MCCASKILL. Well, I would like to find out who that person was that made that decision, that looked at the Marine Corps. And I would like the analysis as to why the Marine Corps system was not adequate and why we had to spend another \$4 billion.

That is a significant price tag, and it is—there better be damned good reasons as to why the Marine Corps system was inadequate, if it was so inadequate that you had to spend another \$4 billion to get the job done.

And so, I would appreciate knowing who the decisionmakers were on that item. And I would like to have a written analysis of why the Marine Corps system was inadequate and why it remains inadequate today.

In light of our current fiscal climate, why they cannot suck it up and use the same system the Marines are using to track equipment since it has been fielded.

Ms. MCGRATH. Yes, ma'am. There is an analysis of alternatives that is required to be done on every one of those business systems. So, for us to provide to you, we could do that in the very near term.

Senator MCCASKILL. Okay, great. Thank you very much.

Senator Ayotte.

Senator AYOTTE. Thank you, Madam Chairman.

I wanted to follow up on the Inspector General's report. I know that you are going to report back to this committee, but I think what that report showed is that the reconstruction money defense dollars are particularly susceptible to waste, fraud, and mismanagement, in conjunction with the OCO funding.

And what is it that—I know we are going to get a report back. But Secretary Hale, what is it that you see, having reviewed that report, that needs to be done to DOD to improve that process, the financial management of the overseas funding and contingency operations funding?

And also, I guess in conjunction with that, the other piece of that report, which I am deeply interested in, had to do, of course, with the money that was going to our enemy because we were contracting in some instances with those that were collaborating with our enemy. And Senator Brown and I have a bill that is incorporated in the NDAA.

But I think also recently when we asked General Dempsey, who is—in his confirmation hearing about this topic, he pointed out that there was a need for more contracting officers, better trained contracting officers.

So I throw all of that at you and would ask you to say, you know, what is it—when you reviewed that report, what was the impression you had in terms of what we need to do differently? And I would love to have Mr. Khan also comment on that.

Mr. HALE. Let me focus on the corruption issues in Afghanistan. There are major problems, Senator Ayotte. I think you know that. We have established a task force to try to reduce it where we can. I mean, we are dealing with a culture that is just different than ours.

But I believe they are having some success. I mean, they have started vetting contractors and subcontractors to try to weed out those that have bad records. They are trying to work with Afghan officials, the ones we can—that we can work with well, to minimize corruption.

We have gotten most of the cash off the battlefield. We pay for hardly anything in U.S. cash now in Afghanistan. It is almost all electronic funds transfer. And where we can, we pay in afghanis, which are a lot harder to export to outside the country.

So I think there is some progress. But it is an uphill fight, and we are dealing with just a very different culture than the one we have. So the best answer I can give you, it is going to be an ongoing issue, I think, as long as we are involved in Afghanistan.

Senator AYOTTE. And can you also follow up to the issue that the chairman raised in terms of the misallocation of funds in terms of the OCO funding?

Mr. HALE. I am going to defer that one to Ms. Commons. I, frankly, have not reviewed that particular report. I think she answered it. And I will look at it, but I have not.

Senator AYOTTE. I know that you had answered to it, but I thought maybe you might have some insight on that as well.

Mr. HALE. I would underscore what she said. We need to fix it. And I think what I heard Gladys say was we need to get the right codes out there.

I mean, I don't know that we violated the Inefficiency Act or anything like that. But we need to get it in the right category so we are supporting and providing the information that we all need. Not just you, I need it, and we all need it. So we need to fix it.

Senator AYOTTE. I also wanted to ask you about the milestones that have been completed since you submitted your last report on the department's Financial Improvement Audit Readiness, or the FIAR plan, in November 2010. According to your most recent report, which you submitted in May, the department accomplished only 1 milestone and 11 were pushed out to future dates.

So, as I understand the math, you know, 1 for 12. And your report also identifies another set of milestones called the interim goals for initial FIAR opportunities—excuse me, priorities—and the results here aren't much better, with 4 milestones being met and 9 pushed out to later dates.

So if we put that all together, we are basically 4 for 13 on these interim goals, and the department has been citing those as things that it has been focusing on. But if we look at it as 5 for 25, shouldn't we be concerned about this? And what does it suggest in terms of the department's ability to meet the 2017 deadlines?

And if Mr. Khan can also comment on this, I would appreciate it.

Mr. HALE. Well, I haven't counted them in the fashion you have, but I will accept your math. I like to look at the ones we have actually got started, and I think they are so important. We haven't done any in the past in terms of validations. We haven't had any goals, nor have we done any to speak of.

And we actually have an audit of a military service under way. First time that has ever happened in the Department of Defense. And I won't go through them all again, but we have a number of the validations.

I don't want to waste the money by pushing if we are not ready, but I hear your point that we need to pick up the pace in terms of meeting these deadlines. And I share your concern.

Again, I haven't counted them quite that way, but I will accept your math and accept the challenge that we need to pick up the pace.

Senator AYOTTE. Is there anything more that we can be doing as Congress to help this process move forward? Because, obviously, you are working toward it. Are there obstacles that we have put in place, or can we better give you the tools that you are missing right now?

Mr. HALE. Well, I rarely ask for hearings, but I think some steady pressure, hopefully moderate pressure, is a good idea. I mean, it focuses us, just as I had a boss early in my career who said to me when I became confirmed, "Yours is the power to call meetings."

That sounded very bureaucratic, but I learned that he was right because it focused attention. Well, yours is the power to call hearings, and it also focuses attention.

There are some things you can do. One in particular. We haven't talked about it, but we have proposed a course-based certification program for defense financial managers, similar to the one in acquisition. It will establish a framework we don't have now. It will allow us to require courses.

We want it to be mandatory with appropriate waivers. That will require legislation. It is in the House bill. I believe it is in the SASC bill. I think the SASC language is very good, and I hope that it survives in conference. So I would appreciate your help there.

And I will say one more thing you can do, and I know you can't do this personally. Don't put us on another continuing resolution for 6 months. I can't tell you how much time that drained from financial managers. It is very difficult to manage, and it also was devastating, I think, to our contracting workforce.

So if there is any way we can avoid that, I would hope—I would hope you would try.

Senator AYOTTE. Secretary Hale, I have to tell you, this is music to my ears because I am the newest appointment to the Senate Budget Committee, and I am anxious for us to actually get down to the hard work of putting together a budget. And I couldn't agree more that this, you know, short-term funding is not the best way to fund a government, nor is it the best to deal with the fiscal crisis that we face.

Mr. HALE. A debt ceiling agreement would help, too.

Senator AYOTTE. Well, there you go. [Laughter.]

And I don't know if Mr. Khan had any comments? My time is up. But if you had any comments on——

Mr. KHAN. Can you heard me? Just to add to what Mr. Hale said, I think there have been slippages in milestones. The more important ones to view and to keep track of are the slippages in the ERP milestones.

2017 is going to be upon us very soon, sooner than we expect. Without the implementation or effective implementation of those ERPs within the services, it will be a challenge reaching the 2017 milestone to be audit ready.

Thank you.

Senator AYOTTE. Thank you.

Senator MCCASKILL. Thank you.

I do want to say for the record that the irony is not lost on at least the subcommittee chairman that it does take some nerve for us to call a hearing calling you to task for your lack of fiscal management in light of what we are busy trying to get done here in the halls of Congress this week.

Clearly, this could be in the category of, "Hello, pot, this is kettle." [Laughter.]

So I do get that part.

Senator Begich, questions?

Senator BEGICH. Thank you very much, Madam Chair.

Let me, if I can, and whoever can answer this, and then I may have some additional follow-up to it.

First, we know the Corps of Engineers—and maybe this is for Secretary McGrath and Secretary Hale. I am not sure which one. But the Corps of Engineers and Defense Contract Audit Agency have auditable financial statements. How are you—and I heard you mentioned a little bit, but I want to follow through on this. They are able to be audited. What are we learning from that?

And I guess, just so you know, I am just a little frustrated, and I am glad—you know, I know a lot of you folks are new to the process here. But I am frustrated that we are not—it is one of the largest units, and we can't audits ourselves. So I won't go through that lecture.

But how does the Corps do it? What are you doing to replicate or improve on that? And why is it going to take you 6 years?

Mr. HALE. Well, the Corps is a lot smaller. I don't take away from their accomplishment one bit. It took them about 8 years, I might add, to get there. But they are a lot smaller, and that makes it easier.

We have learned, I think, from what they have done and are trying to copy their successes. Even more importantly, we are finally, as I have said, auditing the financial statement, one of them, of a major—of a service, the Marine Corps statement of budgetary resources. We are learning a great deal from that.

It is discouraging in some ways because I think we have learned that our business processes are simply not standard, sufficiently standard to accommodate an audit, and I believe that is going to be true throughout all of the military services.

To start to fix that, we have—I have asked the services to assemble teams, probably from their audit agencies, that should go out to the commands and get a report on financial processes and make an assessment for us about what we have to do to improve them so that they are auditable. And I hope that we can get that started soon. We are working internally to move ahead.

So that is an important lesson learned. The other reason it takes so long are the systems. We simply have to have them. I think it is particularly true in the Army and the Air Force. Their systems are sufficiently old that they just aren't going to support what an audit requires.

And they take time to implement and money, and both are in short supply, particularly the money. I am not making excuses. I know it sounds like whining. I would like to go faster, too.

Senator BEGICH. No, let me walk through this. Are you going to do within each one of those kind of—and it sounds like you are, to some extent—but instead of waiting for the whole thing to be developed, are you going to do sub—

Mr. HALE. Yes.

Senator BEGICH.—audits? I mean, I know when I was on my local assembly, I was chair of the Budget and Audit Committee for, I think, 2 or 3 years. And you know, we were given a presentation to change the system and do the whole thing.

They were going to do the whole thing all at once, which was going to be a disaster. I mean, you could see it coming. And we forced them into kind of these micro elements so we could actually refine it as it moved along. Is that—that is the game plan, right?

Mr. HALE. Yes. I mean, that is the game plan and a focused strategy. So let us focus on the information we most use to manage, which makes sense, let us start with the stuff that we actually need, which would include the budget, because we manage the place based on budgets, and also knowing where our assets are and how many we have because that is critical to warfighters.

So we focused first on that. And we will take pieces within that as well. These validations that I spoke of are essentially mini audits. Pick a section they think we are ready to go. We will hire an independent public accountant or, in some cases, the IG, and ask him to go in and give us advice.

And we are already finding that we are learning a lot from those because they can tell us, you know, “Hey, you are doing okay here, but you are not doing okay there. You have got to change.”

Senator BEGICH. Let me ask you in regards to assets. And I am trying to follow up on what the chairwoman was getting to. And that is so the Army versus the Air Force versus the Marines, is

their management of their assets systems different, or will be different? I am seeing a head shake “yes” here.

Mr. HALE. Well—

Senator BEGICH. So it wasn’t your words, but I saw a head over here—

Mr. HALE. I would say they have different processes.

Senator BEGICH. Well, that is not what I am asking. I am not sure—you know, an asset is an asset, okay? You know, as a former mayor, you know, I had a police department, a fire station. We had the same system. They had different missions. They had sub-missions. And then I had public works, libraries. Everyone had a different mission, but the asset management was the same.

So, as a mayor, if I wanted to know, at any given point, what my capacity is in an emergency, what kind of equipment was available department, city-wide, I could do that.

Ms. MCGRATH. So there are total asset visibility is what you are talking about, and the GCSS capabilities that we have discussed, both the Army and the Marine Corps, are their respective contributors, if you will, to that total asset picture.

There is another I will call it a command-and-control system that has a responsibility to bring that asset visibility from the respective components into that common operating picture. Today, my understanding is that we don’t have that total asset visibility in the aggregate because we don’t have defined I will call them standard across the department. But we are moving—

Senator BEGICH. That is your goal?

Ms. MCGRATH. Yes, absolutely. Moving toward not only the standards within the logistics space for asset visibility, but total asset visibility, period, irrespective of commodity, be it a ship or a plane or a piece part.

And that is tied to the overarching logistics I will call it road map, so that they have that common operating picture, both on the field and in the business space.

Senator BEGICH. Let me ask you one—another question in regards to the layers. As you guys are doing your work, and not to be disrespectful, but like us, we come and go. It is the layers deeper down.

What is going to change in that culture after how many years of no audits—forever? So how are you going to change that?

And I know you are going to say you are going to do training. You are going to do this and do that. But the reality is some of those people will have to go. That is just the way it is. Because I know this—you cannot retrain 100 percent of the people to change the way they have been doing business for the last umpteen years.

One, are you going to do that? Do you have the systems to do it and a process that is going to be immediate, not just, well, we have got to kind of move them over here and move them over there to survive?

Because if you don’t do that, it doesn’t matter what system. Because the people at the front—and this is my simplistic way of saying it—at the front desk, putting the data in, wherever they may be stretched across the globe, wherever our assets are—if they are not trained or understand the new culture, you are going to still have problems down the road.

So to me, it is going to be those layers deeper down. What are you going to do to dramatically change that culture? And are you going to be able to do and have the wherewithal to say to them we are not doing business that way. And if you don't like working here, then get the hell out because we have got to change the way we do business.

Who wants to take that one?

Ms. MCGRATH. Again, I will start. The change management challenge, I think, is the largest challenge. And there are many challenges—

Senator BEGICH. The change—the culture?

Ms. MCGRATH. The culture, right. The change management challenge, sort of articulating both the business value and the need to change so that people understand what their contribution is to the overall business outcome you are trying to achieve. And here we are talking about financial auditability.

Some of the things that have been discussed in terms of taking a cross-functional look at achieving auditability we are putting in place largely due to a lot of the tools that Congress has provided us in the NDAA legislation, ensuring that we have done appropriate business process reengineering. So the front desk individual can't do things the way they are accustomed to doing. They must change.

Senator BEGICH. But they—but let me—my time is up. So my question is, if you can't get them to change, do you have the mechanisms to get rid of them? That is the ultimate because the human element is what starts the train moving.

Ms. MCGRATH. I think, through the systems implementations and the drive to the business outcomes driven by the—not only the top leadership but layers down is what is required to make those changes happen. And I think that all of the tools we are putting in place, institutionalizing where we can, wherever we can, will help enable that sustained practice.

Senator BEGICH. Simple question—I am going to end here. Do you have the capacity to get rid of people who are not—I mean, it is just—it is human nature in any organization change. You are going to have a percentage that will not adapt. That will want to keep their job, but will not adapt.

That is the ultimate question, because if you don't get that information flowing on the front end, I guarantee you, whatever you see on the top, it is going to be a problem. That is my only question—yes, no?

It is a pretty—you should say yes to this. I am trying to help you.

Ms. MCGRATH. Well, no, no—

Mr. HALE. Yes, but this is not a strength of the Federal Government. It is very difficult to terminate employees. But, yes, the process exists. It is just it is cumbersome, and it tends to take a long time.

Senator BEGICH. But you understand the problem?

Ms. MCGRATH. Absolutely, and I think that driving a change management through efficiencies and effectiveness at the organization will enable those people to I want to say get out of the way, whether—

Senator BEGICH. Think about their future?

Ms. MCGRATH. Think about their future—much better words.

Senator BEGICH. Okay. I will leave it at that.

Thank you, Madam Chair.

Senator MCCASKILL. Senator Cornyn?

Senator CORNYN. Thank you, Madam Chairman.

Thank you all for coming today.

I am here because I am concerned about our National security. And during tight budgetary times, I know the Pentagon is going to have to be doing more with less. I intend to make it one of my responsibilities to make sure it is adequate to the task and the challenges we face.

But as someone who believes that the National security is the number-one responsibility of the Federal Government, I simply can't—I can't explain to my constituents, nor do think anybody can with a straight face, some of the anecdotes that we have heard with regard to financial mismanagement. And I appreciate what you said, Secretary Hale, that a little firm pressure is a good thing, and I just wanted to show up and let you know I am going to be contributing to that. [Laughter.]

And that pressure is going to get firmer and firmer and firmer, using every tool that I have, whatever that may be.

But when I read an interview in 2008 that the Comptroller at the Defense Information Systems Agency gave to Federal News Radio where he acknowledged both the problems with the financial management discipline that you talked about, as Senator Ayotte identified, the 10-to-1 savings, \$10 basically saved for every dollar invested in financial management system improvement.

But they actually, in this radio interview, said that they found \$400 million at the Defense Information Systems Agency. This is for an agency that has 16,000 personnel. And so, if you multiply that across all the personnel, assuming you could do that, it is shocking, to say the least.

I was delighted to hear Secretary Panetta testify, both informally and at his hearing, that he intended to make this a priority. And I appreciate all the work that you are—each of you are doing to make it a reality. But it strikes me along the lines that Senator Begich mentioned, that what is critical is to have goals, resources, and accountability.

And I know the chairwoman well enough and Senator Ayotte and the rest of us enough to know that we intend to provide you with not only the goals, but the resources and also the accountability that is going to be necessary for your success and our collective success.

Secretary Hale, in 2006, you headed up a task force to look for the Secretary of Defense—look into the possibility of creating a Chief Management Officer for the Secretary of Defense. In your report, your task force recommended creating a position with responsibility and authority to be the CMO/COO for the department, a principal under the Secretary of Defense for management and CMO.

There continues to be difficulty with not having senior-level managers armed with appropriate budgetary and organizational authority needed to direct under secretaries and service secretaries responsible for the day-to-day management of the department's fi-



nancial improvement and business transformation efforts across all the functions within the department.

Why isn't the approach that you recommended when you headed up the task force needed today?

Mr. HALE. Well, I think the department chose another route, which is to vest that authority in the Deputy Secretary. And they wanted one Secretary. And I understand that.

And they did create a Deputy Chief Management Officer. She is sitting to my left. I think it has been very valuable to the department. It has given somebody who has the time and experience—or somebody who has the experience the time to focus on the systems.

They used to fall as a collateral duty to the Comptroller, in many respects, and it wasn't happening because the budget was so overwhelming in terms of time. And it has given somebody who has the experience and the time the opportunity to focus on performance management and other things that Beth does.

So I believe it has worked out well. They did choose a different route, and I accept that. We were an advisory group when I issued that report. I wasn't, I think, the lead, but I was on the team. But I think it is working reasonably well.

I am pleased with the DCMOs—and not just, I might add, at OSD. I think the services are well—let me add something maybe, Madam Chairman. We just went through—we had a hearing, how long ago was it now, on efficiencies. We just finished a review with each of the services and the defense agencies.

I confess I was skeptical going in about how well we were doing with the plans for those—that is \$178 billion in 2012 to 2016. I am much more encouraged. The services are clearly taking this very seriously. They all have management structures. Generally, they have plans for the 2012 and 2013, or where they can't meet them, and there are cases, they have—they are looking actively to substitute other efficiencies.

So I believe I teamed with Beth, the DCMO, in that effort, and I think she was very helpful, and her office. So I am feeling better about the \$178 billion, and I know that we are going to have to look for more and that we will need to continue that oversight.

So I just wanted you to know that we are working the issue. And wherever Secretary Gates is, I want to tell him, too.

Senator CORNYN. Ms. McGrath, since you are the Deputy Chief Management Officer, how do you feel about the recommendations of Secretary Hale's task force and the alternative direction the department has taken? And do you feel like that your position is one of sufficient—that you have the resources you need not only to do your job, but to hold other people in the department accountable?

Mr. HALE. Can I just clarify one thing? I wasn't the Secretary at the time. That was an advisory group. I just want to make sure that I didn't make the recommendation as the Secretary. I was on the Defense Business Board.

Senator CORNYN. If I misspoke, I apologize. I knew you headed up the task force, or at least that is my notes here.

But Ms. McGrath?

Ms. MCGRATH. I feel that the Deputy Chief Management Officer has the authority through the Chief Management Officer, or the

Deputy Secretary of Defense, where I am going to say all of this conversation comes together to execute both the priorities, some of the oversight that Mr. Hale talked about in terms of efficiencies, both the follow-through and execution, and the identification of new ones.

We work very closely—or I work very closely with the Under Secretaries of the military departments, as the Chief Management Officers of the military departments. Again, they are looking from a corporate perspective how do things integrate. And so, I actually do think it is an effective structure and that the department has capitalized on the opportunity and is using it effectively.

Senator CORNYN. Mr. Khan, do you agree or disagree?

Mr. KHAN. The positions have been established, and people have filled those offices. We are waiting for how these particular offices are going to result in specific actions.

One of the positives that maybe I can point out, and that is the example we are looking for, was the recent removal of the DOD personnel security from DOD high risk. That is a positive. We are looking for the same type of intensity, same type of commitment and leadership for the removal of the other high-risk areas.

So, I mean, we are much more focused on results. There have been plans. There have been governance boards. The role of the CMO or the CMO organization at the military departments is to drive the transformation.

And as far as from what we can see, it is a start, but we want to see the results. And the results would be how it impacts, how the role, responsibilities, and action impact some of the other long-standing and pervasive weaknesses. And we would like to see some more action on the other high-risk areas—financial management being one area.

Senator CORNYN. Thank you. My time is up.

Senator MCCASKILL. Thank you, Senator.

Senator Manchin.

Senator MANCHIN. Thank you, Madam Chairman.

I am so sorry that I was running late. I had another meeting to be at, but I wanted to fill in a few things.

And first of all, the concern I think that Senator Ayotte talked about is what we have is with what is happening and what we are hearing about happening as far as the corruption, outright thievery that goes on over in Afghanistan and Pakistan and every place else that we seem to be doing business over there.

It is hard for me to understand how \$10 million can go missing in cash. You know, the report is—I think is \$10 million a day, up to about \$10 million a day. Did you touch—did you touch on this, Kelly?

Senator AYOTTE. I didn't touch on the numbers, but, yes, talked about—

Senator MANCHIN. But \$10 million, that is \$3.6 billion a year. And how no one can—this has been going on for I don't know how long. And I have been over there a few times. So we see a lot of concerns we had. But I can follow up with another question that might be something more on your line, if that is not in your line on the money.

Mr. HALE. Well, it is in my line. I mean, anything to do with money. I am not familiar with the specific numbers. I will say what I said earlier.

There is a problem in Afghanistan. It is a different culture. And we are doing our best to push for less corruption. We have established a task force under the command now of General Allen. It has done a number of specific things—vetting of contractors and subcontractors to try to be sure that we are dealing with people that are reliable, working with the officials where we can work with them to try to minimize this problem.

We have essentially—we don't use American cash anymore in Afghanistan. Almost all of it is electronic funds transfer. We are trying wherever we can to pay local vendors in afghanis. It is a lot harder to export those to other nations.

All of these are good things, and we need to continue, and we need to push this hard. I think we probably won't fully solve the cultural issues. I mean, we will do our best.

Senator MANCHIN. No, I know that. I mean, I just—I can give you a few examples.

I have a constituent who is in the military and working with the Afghanistan Ministry of Interior public affairs. He tells me that 250 to 1,000 vehicles that we purchased through U.S. tax dollars are missing. That is a lot of vehicles that go just missing.

I was a former Governor, and all of us have had former positions we were responsible for offices. I was responsible for the State budget and how we procured. It all starts with how you purchase. If you can't—you know, if you don't have a good purchasing system, you are not going to have a good auditing because you can't follow it.

And that is what we—we revamped our whole purchasing, and we had to have a purchase order. And it had to be one that was of need. The purchase order followed into a purchasing agreement. The purchasing agreement followed into basically a complete auditing system that had to show how we disposed of it also.

And I don't know why it is so complicated, and why you—has it just morphed into something so large that it is just unmanageable for you all?

Mr. HALE. Well, I think we are just dealing with different attitudes than we do in the United States toward accountability.

Senator MANCHIN. I am not even saying over there. I am just saying how we do our business.

Mr. HALE. Oh, here.

Senator MANCHIN. Yes, I mean—

Mr. HALE. I am not dealing with 250,000 vehicles missing in the United States. And I need to know about that.

Senator MANCHIN. Well, I am—

Mr. HALE. Is that here? Is that what you are saying?

Senator MANCHIN. I am just saying that we haven't had—when was the last time we had a really good audit for the whole Department of Defense?

Mr. HALE. Well, we have never had a successful one.

Senator MANCHIN. That is what I thought.

Mr. HALE. A financial audit. I hear your point. But I do believe that—I mean, I am not aware of—

Senator MANCHIN. And I am brand new. I am the new kid on the block here. I can't—it is just inconceivable for me that—how the Department of Defense, being one of our largest, and you can see the amount of money we put into it. We were told yesterday that we spend more money on defense than all the other nations combined.

I don't know if that is accurate or not, but it might be right close.

Mr. HALE. Might be.

Senator MANCHIN. And how we don't have a handle on this thing.

Mr. HALE. Well, let me come at that differently. I believe we do have reasonable financial controls—and I know this probably won't be a popular statement—in the Department of Defense on the budgetary—on the money you give us. I think we aren't over there putting—spending your \$671 billion that you gave us any way we want.

And I say that for two reasons. One, we have got 60,000 people who do have a culture of stewardship. I have a lot of personal familiarity with them, and I know they do.

But we also have external auditors. We have got about 3,000 auditors in the Department of Defense watching our every program and financial move. It is really a notch in their belt to find that we violate the law or the rules. And that should be. That is their job.

And over the last 5 years, if you look at violations of the major Federal law governing financial management, the Anti-Deficiency Act, 20 cents out of every \$1,000—20 cents out of \$1,000—actually resulted in an ADA violation. That is 20 cents too much. My goal is zero, and it is the only right goal. But it is 200th of 1 percent.

I don't think it suggests a system that has no reasonable controls. I think we do. We have problems. We need to pass an audit. But we do, I believe, have reasonable controls.

And I might add that the amount of ADA violations are significantly less than in the non-defense agencies, taken as a whole.

Senator MANCHIN. Let me just say this, that you know that with the financial challenges we are having right now, and we have—we have our problems, too. So none of us are immune from those problems. But you know there are going to be some adjustments as far as the budget—and your budget and everybody's. I think you—

Mr. HALE. Say it is not so, Senator.

Senator MANCHIN. You see that coming. To what extent everyone believes—everyone believes since you all really don't have an accurate audit, then whatever we have to cut, we could cut there, and it could probably be made up in the waste or fraud or abuse.

What do you believe truly is feasible through fraud, waste, and abuse right now before you start cutting into what we call the quick of the matter?

Mr. HALE. I can't give you a number. I mean, I think that fraud that goes on—

Senator MANCHIN. Well, we are going to cut—let us say we can cut \$400 billion.

Mr. HALE. Well, I certainly don't think you can get anywhere near that from fraud. And waste is in the eye of the beholder.

Senator MANCHIN. I am saying over a 10-year period. I am saying over a 10-year period. I have heard anywhere from \$400 billion to maybe \$800 billion over 10 years. That is \$40 billion to \$80 billion a year.

Mr. HALE. I don't think you can get anywhere near \$400 billion with fraud, waste, and abuse by any reasonable definition.

Senator MANCHIN. Over a 10-year period? Over a 10-year period?

Mr. HALE. Over a 10-year period. We will have to make changes in our strategy in order to accommodate those kinds of cuts. We will also look for efficiencies of the sort that we identified and that we are now monitoring, \$178 billion over 5 years in that case. But it is not going to do it by itself.

We will have to cut back numbers of troops. We will have to delay investments. And we will have to look at that in a strategic context.

Senator MANCHIN. Then you don't—then what you are saying, out of a \$700 billion a year budget, you don't believe that there is 5 to 6, 7 percent of waste or fraud or abuse in that?

Mr. HALE. I certainly don't think there is 5 to 7 percent of fraud. Waste is always in the eye of the beholder. There are some who feel some of our programs are wasteful, even though—

Senator MANCHIN. I agree.

Mr. HALE.—we believe they contribute to national security. That is a debate we need to have. But, no, I absolutely don't think that we are sitting there with \$400 billion over 10 years of fraud. And I don't know of any evidence.

If that was true, how come those 3,000 auditors are only finding 20 cents out of every \$1,000 that violates the ADA? Because it is a violation—it would be. Fraud is almost certainly going to be a violation.

Senator MANCHIN. So you are basically thinking it might be more policy, deciding on what we think we need and what we don't need?

Mr. HALE. Absolutely. And we are looking at it carefully, and we will be responsive. But it is not going to be—it will be fewer troops and less investments.

Senator McCASKILL. I know you can't put a number on it. I think that sometimes that waste part is in the eye of the beholder. I would say that two systems tracking assets that can't speak to each other, even if one has much more capability than the other, a \$5 billion price tag on IT that is tracking assets is a huge number in any private sector enterprise, even as big as the Department of Defense.

But let me ask about accountability. Who is the single official within the Department of Defense who is responsible for the Financial Improvement and Audit Readiness plan?

Mr. HALE. It would be the Secretary of Defense. But he has basically delegated that to the Chief Management Officer, the Deputy Secretary.

But in an organization our size and with the scope of the responsibility, I think you are looking at the rascals who have the day-to-day responsibility—the CFO and the DCMO at the OSD level; the service FMs and the service DCFOs—DCMOs, I should say, at the service level.

Senator MCCASKILL. And who has the primary responsibility on all the feeder systems?

Mr. HALE. Well, that would be the service—you want to take a shot at that?

Ms. MCGRATH. So the systems that really, I am going to say, it depends where they are in their respective life cycle in terms of who has the day-to-day operational control and then investment decisions.

Through the investment review board process, we have been able to obtain greater visibility in terms of development and modernization, and so that we do have an oversight process required by statute, where we are reviewing the development, any modernization to the legacy environment, so we have a better understanding on how those investments fit into the broader picture.

The proposed legislation—the revision to the Section 2222 actually provides—we very much support. And it provides greater visibility into total investment for those systems. So it is not just development modernization. It is the total investment.

So that we can, from in particular a business space—from a business perspective have a better view of all of the investments to then drive both IT rationalization, any changes that are made, any changes over \$1 million to that—to that business environment so that we can better drive elimination of duplication from a legacy to an ERP, the future, to look at duplication of existing systems across the department.

So we very much support the draft legislation that was—that has been proposed.

Senator MCCASKILL. Well, the reason I ask about the feeder systems is I review all this. And as I look at the plans and I look at the ERPs, I am always on the watch for that moment in this—you know, I know we have got some issues about all the things that are going to happen all at once in some years and some of the services in 2015 and 2016. And you know, I am realistic about whether there is going to be a pushback on the 2017 number.

But what I am really worried about is we are going to get to the end of this process, and they are going to say, “Well, there is the feeder system problem.” And that no one is going to—and they are going to say, “Well that really wasn’t my problem. That feeder system wasn’t my problem.”

I want to make sure that, right now, we know who to hold accountable on the feeder system problem. And Mr. Khan, could you speak to that issue as to from where you sit can you make any observations about who you think is the logical person to have responsibility over all these feeder systems that are going to ultimately either provide or not provide the ability for us to get to an auditable system?

Mr. KHAN. Feeder system is a huge problem because of the data which comes in from the feeder systems has to be fed into—eventually into the ERPs. So the data conversion would be an issue.

I mean, just going back to—I think if I address what—the question you had originally about accountability and oversight. I think that is critical that when investment decisions are made for giving additional funding to a particular system or a program, that it has

to be looked at very carefully as to how they are going to be linked with their transformation within DOD itself.

And one of the elements of transformation which is linked with the business—or the enterprise architecture is that how it is going to address the legacy systems and the feeder systems. So that is the point in time when the investment decisions are being made that those hard questions have to be asked.

Senator MCCASKILL. Right.

Mr. HALE. Can I address that?

Senator MCCASKILL. Yes.

Mr. HALE. I think we—I am very worried about that, too. I don't want to get all these systems deployed at great cost and in considerable time find out we don't—we are not using them in the right way or the feeders.

So what we have done is asked each service—and the Army has started, and I will ask Ms. Matiella if she will comment on that—with these validations. We have taken—is it three bases you are starting with?

Ms. MATIELLA. Yes.

Mr. HALE. And we are actually asking an independent public accountant to go out, look at GFEBS, which is their ERP.

Senator MCCASKILL. Right.

Mr. HALE. And say, “Are we using it in a way to include the feeder systems that is auditable?” I suspect we are going to have problems and that we will have to fix them, but at least we are finding out now.

So do you want to add to that?

Ms. MATIELLA. Yes. As we—as the auditors go onto a specific installation, they look at GFEBS and the integrity of the data and the processes in GFEBS. And of course, what that includes is the data that came in.

And so, as they come up—as they come up with their recommendations and their findings, it will include those—that data that came in from other feeder systems. And so, we will be alerted to the fact that it may be that it is an HR feeder system or logistic feeder system that may be creating a data integrity problem within GFEBS.

And of course, I am charge of—to a large extent of making sure that the end-to-end processes will end up in auditability. For example, I am the process owner for procure-to-pay. So I have got to make sure that whatever goes through a procurement system, in fact, does result in good, auditable data in the end.

And so, we are in the Army looking at end-to-end processes to make sure that whatever goes into the accounting system, into GFEBS, is auditable at that transaction level, does have supporting documentation.

And I work with the other assistant Secretaries very, very closely to make sure that they are working their systems to make sure that in the end, the Army is successful in auditability. So we are looking at things end-to-end.

Senator MCCASKILL. Okay, good. Because—

Mr. HALE. And we will do it with the Navy. I hope this year to start one with the Navy ERP in the context of a major defense ac-

quisition program. And as the Air Force's system matures, we will do the same thing there.

Senator MCCASKILL. Okay, good. I just want to make sure that we are prepared. And obviously, you are concerned about it, Secretary Hale, for the right reasons.

It could be all of this effort and all of this money is only as good as the data feed-in. And—

Mr. HALE. I might add, the processes that we use and the training of the people, it is all a package.

Senator MCCASKILL. It is all included. Yes.

Mr. MORIN. Madam Chairman?

Senator MCCASKILL. Yes?

Mr. MORIN. Thank you, ma'am.

I wanted to highlight just one thing that I think is important in the context of our overall business systems modernization. It is that these new systems are much more intolerant of bad data.

And so, whereas the legacy systems have tolerated feeder systems that have bad data, and it has sort of skated sometimes below the radar screen, with our implementation of DEAMS at Scott Air Force Base, we found instances where feeder systems are providing bad information in large quantities because the business processes in those nonfinancial systems were bad.

But the system highlighted that for us directly. It told us thousands of transactions were not meeting standards, which instantly brought the level of management attention in order to fix the problem. So there is an advantage to these new systems in that we catch those problems.

Senator MCCASKILL. Yes, that is good. That is great. Thank you for that.

Senate Ayotte.

Senator AYOTTE. Thank you.

Ms. McGrath, one of the—I just wanted to ask you about something that had happened. One of the Business Transformation Agency's, BTA's, largest initiatives is the Defense Agencies Initiative, also called DAI, an ERP system for the defense agencies. BTA, in fact, was the first agency to implement DAI for itself and, from what we understand, was a small-scale effort but one that was very successful in terms of following the best practices that we are talking about today.

Now we have heard that as BTA is being shut down and about half of that agency or so is being folded into your office, that you are going to stop using DAI for your new business in fiscal year 2012 and force the BTA folks that you are inheriting to go back to the old, antiquated system supplied out of the Pentagon.

Is that what is happening? And if so, why would we want to go backwards when we have this new system that we have piloted?

Ms. McGRATH. The Defense Agencies Initiative—BTA was the first user, if you will, of the Defense Agencies Initiative, which is the financial—ERP solution for the defense agencies. There are other agencies who are also using the DAI solution today and has a complete implementation schedule.

The OSD team, if you will, uses a legacy system called WAAS today. And instead of having, I am going to say, my office on a standalone system as part of the overall OSD footprint, we are not



moving toward implementation for just my office, but rather moving toward implementation with the rest of OSD when we move on to DAI. We are scheduled to implement DAI as part of OSD.

It is just I would not have my own office do it, whereas my budget is rolled up into the overall OSD budget. And so, I would be the anomaly, if you will, and not standard with the rest of OSD. So I guess my overall message is we are moving to DAI. We are not doing it today because I am a component of the broader OSD budget, but we are certainly aligned and on track to do that.

Senator AYOTTE. And as the Deputy Chief Management Officer, you are leading the transformation of business operations across the department. What problems, if any, have you had in convincing folks in the Pentagon to get on board and to start using the new system that has already been up and running for a few years and is completely ready for them to use? Are you having problems convincing the Pentagon to use the new system?

Ms. MCGRATH. I am sorry. Is your question specific to utilization of DAI?

Senator AYOTTE. Yes.

Ms. MCGRATH. So there is no problem convincing the Pentagon, if you will. The Washington Headquarters Services actually executes the budget for OSD. We are on the implementation schedule for DAI.

It is just more of a timing issue than a convincing them to do that. So there is no, I will say, challenge in terms of the business benefit for the solution. It is just the—we will align to the rest of the implementation, just like I would have otherwise before the—

Senator AYOTTE. But if you have folks that have already used this system successfully, why are you farther down on the list rather than farther up on the list?

Ms. MCGRATH. BTA—my office is an OSD element today. Before anybody from the Business Transformation—any of the functions from Business Transformation Agency moved into my office, I today am part of OSD. And so, my budget today is done as part of the broader OSD budget.

BTA, as a defense agency, used an ERP-based solution to do their financials. And so, with the disestablishment of the defense agency, all of their systems, which they use to executive the operations of their defense agency, aren't needed to run that. I am—again, I am a member of the OSD element.

OSD is on a path to move to DAI. We are moving there. I am just part of the implementation for OSD. And so, I don't view it as a challenge in terms of the business value. It is just a—it is a timing—

Senator AYOTTE. So when would—

Mr. HALE. Would I help if I made it clear, her office was never on DAI. It was the agency that was on it. She will move to it, along with all our offices, I hope, fairly soon. I can't remember when it is scheduled.

Senator AYOTTE. Right. Well, so what is the timing then?

Ms. MCGRATH. I know it is—I don't have it, I am sorry, off the top of my head. I know it is not the beginning of 2012. I believe it is 2013, but I would like to come back and tell you what the very specific date is.

Senator AYOTTE. I would appreciate that. And I just wanted to ask Mr. Khan. Overall, we are going to have to make some tough choices around here, no matter what the deficit plan that goes forward. It is going to cause us to have to make some difficult choices across every agency.

And how sufficient is the quality of our financial data to ensure that we are not making cuts that undercut our warfighters or endanger readiness? Can you help us, just in terms of where we are on the financial management end of when we need to make these difficult decisions, how reliable is the information we are going to receive?

Mr. KHAN. Thank you for that question.

That question really goes to the heart of the importance of a financial statement audit, which really trues up the internal controls and the infrastructure which provides reliable financial information.

So the challenge in answering your question is that without having adequate internal controls, adequate processes, it is difficult to say how reliable the information that we are making decisions on. In part, it also touches upon some of the other questions you had earlier on about information coming from other areas, which feed into DOD, about the internal controls, about how that information is processed, how that information is reported.

So just want to link that to the importance of the improvement in financial management infrastructure itself. And the proof of that is going to be successfully passing an audit, which will give the—which will give management comfort that the information that they are using for decision-making is reliable.

It has got reasonableness of having gone through internal controls. It has the rigor of an audit. Even though you may not be using the financial statements for making decisions, but the information that goes into them, which is much more detailed, that is reasonable, reliable.

Mr. HALE. May I add to that? Oh, go ahead.

Senator AYOTTE. Sure. No, I thank you for that answer. Go ahead, Secretary.

Mr. HALE. You know, you have heard me say, and I believe it is true, we have reasonable controls. We are not over there spending this money wherever we want. If we were doing that, you would get wholesale Anti-Deficiency Act violations. It is just not happening.

So I will use the colorful language of my former boss, Secretary Gates. Maybe it was an Easter egg hunt to get the information. But I guess he found the eggs because he made the decision—and I am not trying to be silly.

In the end, I think we got him enough so that he felt comfortable making those decisions in a way that wouldn't damage the troops. And he would never do that.

So it is not pretty. We need better financial systems. We need audits. But we are not over there just randomly spending this money. We are spending it the way you tell us.

And I think we can establish that. In August, we will establish it for our funds distribution process through an independent audi-

tor. And I will go back to my ADA violations to say, overall, I believe we have reasonable controls.

Senator AYOTTE. Well, one of, I think, the overall fears we have is that we are in a position, if you are looking to 2017 and the best scenario of having—being audit ready, we just don't want to be in a position here where we are getting—instead of taking the rotten eggs, we are taking the chocolate eggs, so to speak.

And so, that is where we want to make sure that we are making some good decisions. And so, I appreciate your commenting on that, and that kind of goes to the whole—

Mr. HALE. And we share your concerns. I mean, we are going—we are heading for some difficult times. And we need to work with you and with less than perfect information, unquestionably. But I believe we can make the right decisions.

Senator AYOTTE. Thank you.

Senator MCCASKILL. Senator Portman?

I will let the witnesses know that we are planning on having a vote at 4:00 p.m. So I am sure we will be able to wrap this up by about 10 after.

Senator Portman.

Senator PORTMAN. Thank you, Madam Chair. We have got to stop having these meetings together like this.

Senator MCCASKILL. I know.

Senator PORTMAN. My chair on every committee.

Senator MCCASKILL. It is because you are a wonk, too.

Senator PORTMAN. Yes. [Laughter.]

Well, first of all, thank you all for being here, and I appreciated the comments from my colleague from New Hampshire, and your answers to her.

I am sure that you have heard this today already, but, you know, we think what you do is incredibly important. And as some of you know, I offered an amendment, which was later accepted, to ensure that you all continue to have the stature that comes with being a confirmed position.

Now that you are all in position, you probably think that is okay. Maybe if you have to go through it again, you would disagree with that. But, seriously, we really believed, as a Congress, that it was important to hold you all up and to empower you so that in dealing with other confirmed appointees, you know, you had the ability to ensure that financial management and the critical roles you play were given adequate consideration.

With that comes a lot of responsibility. And we expect you to utilize that full power that we were trying to empower you with. When I was the OMB director, I met regularly with the chief financial officers in the hopes of doing just that, empowering people, letting them know that, at least in my role as OMB director, I viewed what you do in the agencies as incredibly important.

And I think what Senator Ayotte said is true. We are going to be under enormous budget pressure here. And so, it is more important than ever. We want the money to go to our troops, and we want it to be as efficiently and effectively spent as possible.

And that is going to be your job in a tight budget environment, where there will be tremendous pressures on the budgets of every one of the services. So, with that in mind, let me ask a couple ques-

tions about accountability and specifically as it relates to the audits.

And I think Senator McCaskill and, I am told, Senator Corning also raised this accountability issue earlier today. But Secretary Hale, I saw in your prepared remarks, you talked about the audit process, and you said, “The department will achieve its financial management goals only through the active partnership involving both the Comptroller, you, and the Deputy Chief Management Officer. We also have to have help from those in acquisitions, logistics, other business areas as well as business communities that reside in the department.”

And you said you have “engaged the department’s Chief Management Officer as well as military department Chief Management Officers and the service vice chiefs in a personal commitment to support the goals.”

I am just, to be honest with you, a little concerned about some of these terms. Active partnership? Help, engage, personal commitment? It doesn’t sound like a mission with a whole lot of accountability and responsibility.

And I thought that the whole point of having the Chief Management Officer or at least an identifiable leader, a single leader, who puts his or her weight behind this problem and can hold people accountable, you know, was the intent of Congress.

And I know Secretary Panetta has said this is a priority of his. But again, from your comments, I get the sense it is going to take more than just prioritization to make audits happen.

Can you speak a little to the accountability issue and how we ensure that, at the very highest level, there is a commitment to this and that someone is held accountable?

Mr. HALE. Well, I think there is clear accountability. It starts with the Secretary of Defense. But his focus is—I mean, he has got so many things to do. I think the Chief Management Officer, who will be the Deputy Secretary of Defense, Bill Lynn for the moment, is the primary accountable official.

I meet weekly with him. I have discussed this issue a number of times. We have had several formal meetings. But we have got to get this out farther than OSD. And so, there has to be a process. So we have set up one.

Beth McGrath and I chair a governance board, meets quarterly, has the service FMs there. So we get down to that level. Also has many of the defense agency leaders. It has senior representatives from acquisition, technology and logistics, and from personnel. Increasingly, where we are going with that FIAR governance board, as we call it, is kind of stoplight charts of how we are doing on our various milestones.

Then there is a monthly meeting at a level down with my Deputy Chief Financial Officer and the financial ops personnel in the services so that we get it a level down. This is a big organization. No one person—I mean, Bill Lynn can’t manage this day-to-day. He just doesn’t have time. And I don’t have enough time. I can’t devote all my time to it.

Senator PORTMAN. I can’t believe he has—

Mr. HALE. But he is responsible for it, and he understands that.

Senator PORTMAN. Yes. You think there is an understanding of that and the accountability thing, how you talked about the, in a sense, I guess, performance measures that you are using? And then you have some green, yellow, and red lights, since you said stoplights, attached to those. And do you feel like that is something that, at the highest level, there is a commitment to? Is there an alignment that people understand at Mr. Lynn's level?

Mr. HALE. Yes. I mean, we have—and maybe Beth wants to add to this. We have monthly meetings of DBSMG, Defense Business Systems Management Group. I mean, and we review all the major priorities. This is one of the top nine business priorities in the Department of Defense. There are stoplight charts.

You know, is it perfect? No. Could we do better? I am sure we could. But there is a commitment to this. Certainly more—I spent 7 years as the Air Force FM. It is a whole lot different. I mean, there was no commitment, frankly, at that point, no strong senior commitment.

It is clearly a senior—and it is going to get more senior because, obviously, Secretary Panetta cares about this. I mentioned these testimonies to him, and he is just busy with a lot of other things. But I am scheduled to see him next week, and I will give him an overview of where we are and get his personal guidance.

Senator PORTMAN. Tell him that the former OMB directors are all relying on him.

Mr. HALE. Okay. [Laughter.]

Senator PORTMAN. I am a former OMB director, too.

Mr. HALE. His heart is in the right place, and I am looking forward to his help. And even if it is—just his support will be very important, and just his stating that it is important will be very important.

Senator PORTMAN. Given your background, do you feel there are enough green and yellow lights on your charts to indicate that you are going to meet your 2017 date?

Mr. HALE. I am cautiously optimistic, but I know we have got to pick up the pace. You look at the timing, there is a lot toward the end of that. We are going to have to find ways to move that back in order to meet it.

I am more optimistic that we will meet these requirements for the high-priority information. I know you weren't here, but we have plan that focuses on the information we most use to manage, and we are focusing heavily on that. It is budgetary information because, as you know well, we manage the Government, and certainly DOD, by budgets.

And also, our accounts and availability of assets because they are so critical to the warfighter. I am more confident that we will meet it there because we are focusing heavily on it. But we have an approach for full auditability, and as I say, I will choose my words carefully, I am cautiously optimistic.

Senator PORTMAN. Well, thank you all very much.

One quick final question and just sort of a nodding of heads or shaking of heads. How much time do you spend ensuring financial standards—kind of the CFO role—as opposed to just getting through the budget process and preparing the budget? Do you all feel like you have enough time to spend on the broader CFO role?

Ms. MATIELLA. Absolutely. We focus a lot on auditability, as well as the budget. Basically, it is a long, long day, but both things are important. We have to focus on both things, the budget side and the accounting side.

And so, I believe, you know, not only does it have my attention as a senior leader, but it has the attention of the CMO and the Secretary of the Army and all the senior leadership. Definitely accountability is there and ownership is there at many, many levels.

Senator PORTMAN. Good to hear.

Ms. COMMONS.

Ms. COMMONS. I spend a considerable amount of my time focused on the auditability effort. By and large, the budget process is one that has worked very well for us, and I can spend a little less time focused on it. So I do spend a lot more time focused on auditability.

As Secretary Hale said, I was also here in '95 working as the Principal Deputy, and certainly, there was no real senior leadership focus on this issue—these issues. The senior leaders are really focused on this issue now. They have given us the resources that we need to make progress here.

Even the business owners are now aligned with us and focused on improving our business processes. And I believe that is the key to sustainability for this effort. We are focused on actually look at our business processes end to end, standardizing those processes and making the changes that we need in order to sustain this even when I leave as the assistant Secretary.

I believe that is the only way that we will become auditable and keep that auditability forever.

Mr. MORIN. And sir, I would also agree. The three priorities that I am working pretty much every day are rebalancing the Air Force budget to get the maximum combat capability out of each taxpayer dollar, the financial improvement and audit readiness effort and the broader transformation of our financial operations to have actionable accurate information and quality service to the airmen who depend on it, and then the reinvigoration of our cost-estimating capability so that we make the right decisions on our acquisition programs with the best possible information as make those long-term investment commitments.

Senator PORTMAN. Thank you.

Mr. Khan, you are welcome to—I am over my time here. So the chair is being very generous.

Mr. KHAN. Maybe I can just comment on the commitment of the leadership. We have been impressed by the current team. Like I mentioned in my opening statement, I think the leadership is an important element to have a plan in there to be able to sustain it and to be able to work together across the different functions.

Thank you.

Senator MCCASKILL. Thank you, Mr. Portman.

I just have two other areas I want to—and one of them we may not have time to get time and take for the record. But the first is interfacing.

And you know, we have—one of the problems is that we can't take commercial off-the-shelf systems because everybody wants to hold onto the legacy systems, and then we have to like adjust them

and customize them to try to do interfaces. And it is expensive. It is very, very expensive.

GAO has looked at the data on the planned interfaces in the ERP systems. And I am a little surprised at how many interfaces are planned. I mean, it is a huge number in every branch.

The winner goes to the Air Force, and so I am going to focus this question for you and ask you to get back with an answer. You all are planning on having an interface with your system, the ECSS system, 157 interfaces in Phase 1, growing to 673 interfaces.

Now I don't know how you get to 673 interfaces. And I can't figure out why you would need to get to 673 interfaces. So I would like you to look into that and get back to us with an explanation and maybe a plan to reduce the number of interfaces. Because the more interfaces you have, the more unwieldy it is in terms of getting systems that work efficiently and effectively that don't cost \$5 billion to develop.

Mr. MORIN. Yes, ma'am. We will get back to you with details on the interfaces that are involved. I will say at a top level, and recognizing that ECSS is a system to run essentially the entire logistics enterprise of the Air Force. So it is a very—as designed, a very broad all-encompassing system.

But there is always a tradeoff in developing these ERPs between do you make it truly the entire enterprise, thereby doing away with lots of the interfaces, but accepting much more development risk in building a more complicated system to address different business processes? Or do you constrain the size of that system, accept the need to build interfaces to legacy systems, and all of the data interface problems that you have alluded to earlier?

There is no one good answer there. But the process that we have in DOD for looking at these systems and challenging those sorts of assumptions that Ms. McGrath and Mr. Hale are very intimately involved on, forces discussion on exactly those design decisions.

Senator MCCASKILL. Well, we need some kind of clarification. I think all of you have 50, 40, 100 planned, but nobody has anywhere near 657 planned. So we need to understand why there is this wide disparity and why there are so many. Because it is trouble. It is trouble to have that many interfaces. It is not going to happen.

Now, finally, asset valuation. In the grand scheme of public accounting and Government accounting and yellow book standards, and asset valuation has obviously been controversial and difficult in terms of auditing and determining what asset valuation is. I was there for the wars over asset valuation in terms of infrastructure in State government.

So I know that, Mr. Hale, you have said that the asset valuation, you are asking the Federal Accounting Standards Advisory Board to change the Federal accounting standards to prevent the expensing of military acquisition costs.

I am curious what OMB and GAO, if they agree with this approach. And I would particularly like your input, Mr. Khan, about what GAO thinks about the approach that DOD is recommending, saying it is too expensive to get at some of the legacy aspects in terms of valuation. And we would just like briefly your input on that.

Mr. HALE. Yes, briefly. We will ask—we haven't yet. But we will ask the FASAB for military equipment, to allow us to expense it. For other assets, we will pursue our waiver phased approach.

We are going to wait until we get the statement of budgetary resources because it feeds the information once it is auditable. That will help. We need the ERPs, especially the logistics ones, to do this.

And finally, we plan to do it only prospectively. That is, we won't go back and try to figure out every building we ever built. We will start with the ones that—which means that we will get qualifications on our opinions for a while. But I think it is a more effective use of the taxpayers' money.

Bottom line is we don't use it much to manage. It is of low value, very low value, and very different than a private company where asset valuation allows them to depreciate, and they can use it to offset taxes. I don't pay any taxes. And they need the book values, especially if they were going to sell it. Well, I am not going to plan to sell the Pentagon.

It is just not information we use. So we need a cost-effective way, and we think we found it. I did brief Mr. Dodaro on this, and I believe he was generally supportive. I am not going to sign him up to saying he would agree to everything. But I believe he was generally supportive.

Senator MCCASKILL. And is OMB okay with it?

Mr. HALE. Say again?

Senator MCCASKILL. OMB okay with it?

Mr. HALE. Yes. We believe they are comfortable. I don't have anything signed, and we will have to go through a formal coordination process when we get to FASAB. But yes, we have briefed Danny Werfel, and I believe he is generally supportive.

Senator MCCASKILL. Mr. Khan, do you want to let Mr. Dodaro speak for GAO here, since his name has been brought up? I don't want to put you in an awkward position where you state one thing, and maybe Gene disagrees.

Mr. KHAN. No, I don't. I wouldn't do that, speak for Mr. Dodaro.

But essentially, in our discussions with Mr. Hale's office and OSD, certainly we agreed with the current approach of continuing with the existence and completeness of the mission-critical asset. We feel that is going to provide important information.

At the same time, we feel that maybe going to FASAB may be premature. Going down the existence and completeness approach may provide more information in the next few years, which may impact what sort of standards you may really need to have to address. Primarily, this is the issue of military equipment, accounting for that, because that is largest part of the assets which has different viewpoints of how that may be accounted for.

And the other point is that having the standards changed in the near future is not really going to impact the auditability. Because before going through existence and completeness, valuation is going to be a stage after that.

Mr. HALE. And we accept to wait a year or two.

Senator MCCASKILL. Right. I understand.

Mr. HALE. I mean, we are going to focus on the higher-priority stuff at the moment, as we are doing.



Senator McCASKILL. I understand that. And the vote has been called. So we will close the hearing here. I will say that I will look forward to an opinion, even if it is qualified. I would be thrilled with a qualified opinion.

Mr. HALE. So, if we get a qualified opinion, we are going to have a party. Will you come? [Laughter.]

Senator McCASKILL. Well, I think you can assume it will be a qualified. I don't think that any of us are expecting a clean audit the first time around.

Mr. HALE. But how about the party, Madam Chair?

Senator McCASKILL. I am just looking forward to an audit.

Thank you all for this hearing, and we will continue to follow up and provide the pressure we think is necessary.

Thank you.

[Whereupon, at 4:09 p.m., the subcommittee adjourned.]