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**DEPARTMENT OF DEFENSE UPDATE ON
THE FINANCIAL IMPROVEMENT AND
AUDIT READINESS PLAN**

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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**DEPARTMENT OF DEFENSE UPDATE ON THE FINANCIAL
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HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, June 15, 2016.

The committee met, pursuant to call, at 10:05 a.m., in room 2118, Rayburn House Office Building, Hon. William M. “Mac” Thornberry (chairman of the committee) presiding.

**OPENING STATEMENT OF HON. WILLIAM M. “MAC” THORN-
BERRY, A REPRESENTATIVE FROM TEXAS, CHAIRMAN, COM-
MITTEE ON ARMED SERVICES**

The CHAIRMAN. The committee will come to order. Today, the committee meets to receive an update on the Department of Defense’s Financial Improvement and Audit Readiness [FIAR] plan. This issue has been a high priority for this committee for some time, and as the September 2017 deadline approaches, we need to understand how much progress has been made and what obstacles lie ahead.

The Department of Defense [DOD] is the largest single entity of the Federal Government, and it is charged, in my view, with its foremost responsibility. Taxpayers deserve to know that their money is being spent with appropriate checks and controls. That public confidence is essential as the men and women of DOD work to safeguard our Nation.

The processes which enable annual audits also enable better decisionmaking by the Department and by this committee, which will be of growing importance in this dynamic complex threat environment.

The fiscal year 2010 NDAA [National Defense Authorization Act] codified the requirement that the Department be fully audit ready by September 2017. In 2011, this committee’s Panel on Defense Financial Management and Auditability Reform, led by Mr. Conaway, made a number of findings and recommendations that have been incorporated, and in some cases, executed by the Office of the Comptroller. Many significant challenges have been identified, and undoubtedly, more will be uncovered. The chances of success are greatest when the Department, the services, and other DOD organizations resolve with this committee to overcome those obstacles, whatever they may be.

We look forward to discussing the progress made by the Department in executing the plan, how successes have allowed the plan to move forward, and where lessons learned from prior missteps have altered that plan. The committee remains dedicated to keep-

ing the Department on its course toward fiscal responsibility in being good stewards of the taxpayer dollars.

I yield to the distinguished ranking member.

STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SMITH. Thank you, Mr. Chairman. I agree with everything you said. I will submit my statement for the record and just be brief and say that it is enormously important that we get to the September goal of next year and have the full ability to audit the Department of Defense.

We have worked on this committee a great deal on acquisition reform, which is all part of how do we spend our money more wisely, but the greater transparency that we have with how the Department of Defense spends all of its money, the more, you know, efficiently we are going to spend that money and the better we can understand how to conduct oversight properly, and the time has come for us to achieve that goal. I thank Mr. Conaway for his leadership on this issue, and I look forward to your testimony. Thank you.

The CHAIRMAN. Thank you. We are pleased to welcome the Under Secretary of Defense Honorable Mike McCord, as well as Honorable Robert Speer, Assistant Secretary of the Army, Honorable Susan Rabern, Assistant Secretary of the Navy, and Honorable Ricardo Aguilera, Assistant Secretary of the Air Force, all for financial management and comptrollers of their individual departments.

Without objection, any written statements you would like to submit will be made part of the record.

And, Mr. McCord, you are recognized for any comments you would like to make.

STATEMENT OF HON. MIKE McCORD, UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE

Secretary McCORD. Thank you, Mr. Chairman.

Mr. Chairman, Ranking Member Smith, and members of the committee, thank you for the opportunity to update you on DOD's audit readiness. I appreciate your support for our efforts, and I especially want to commend the contributions of Congressman Conaway. He led your committee's panel on all the oversight, as you mentioned, which played a key role in focusing the Department's efforts and continues to keep us on the right path.

Inside the Department, achieving auditability is an important part of Secretary Carter's reform agenda. You might remember, when he testified before this committee in March, he laid out his plan to ensure we are ready for the future as well as ready today.

There was really four major parts that I talked about when we described his strategy. First, it is connecting the Department to the full spectrum of American technological innovation. That is probably the most noted. Second is force for the future initiatives to find new ways to attract and retain the best people. Third is innovation in the way we think operationally, including planning and

wargaming. And then fourth is reforming how we do business, which is where audit effort and acquisition reform come in on our top priority.

Mr. Chairman, I especially want to recognize your leadership on acquisition reform. The Department greatly appreciates the ability to work with you on that complex issue. While they are important subjects, and we tend to talk about them and the Secretary tends to talk about them one at a time in individual speeches often because they are so important, these efforts are all connected to the Secretary and, therefore, they are connected to us. These are our top management priorities, but even as we focus on the five strategic challenges, I think the members of this committee know well that the Secretary has described.

With me today, as you said, are my colleagues, the assistant secretaries of the Army, Navy, and Air Force who have been heading up the military departments' efforts to get this audit ready, and I would like to thank them for their leadership. My office has been the focal point for the overall policy and for defense agency audits, but my colleagues here and their chief management officers in the services have done the heavy lifting that has gotten the Army, Navy, Air Force, and Marines mobilized for this long endeavor.

This audit effort has been a team effort even beyond those that are sitting at this table today. I also want to highlight the contributions from the DOD Inspector General [IG], GAO [Government Accountability Office], and OMB [Office of Management and Budget]. While obviously we respect the independence of the IG and the fact that GAO works for you, not for the executive branch, we have been working together to achieve a common goal, and we have been benefiting from their advice. I would also like to recognize the DCMO [Deputy Chief Management Officer] organization inside the DOD who are key partners with us on this effort.

Our focus on the audit has yielded substantial and measurable results over the last couple of years. For the first time ever, the military services audited their annual budgets for fiscal year 2015, combined with the successful recurring audits of other parts of the Department that we have had for several years. About 90 percent of our fiscal year 2015 budget was audited. Those audits did not produce a clean opinion the first time out for the services, but still, we learned a great deal from our initial effort, and we will be back at it for fiscal year 2016, back at it for fiscal year 2017. We are putting the contracts in place now to enable us to audit our full financial statements in fiscal year 2018, as planned, according to the common goal that we have.

For those of you who don't work with these terms regularly, I just want to clarify briefly that a financial audit is different from a program audit. There are hundreds of audits done by inspector generals usually in DOD in any one year. A financial audit examines our financial and business processes, and a successful audit confirms that the information on the financial statements is clearly and fairly presented.

A financial statement audit does not necessarily tell you that those funds were spent wisely. That is part of what—you know, the joint responsibility that we both have that is separate from the audit itself. The absence of a clean opinion does not equal waste,

fraud, and abuse, nor does having a clean opinion prevent there being waste, fraud, or abuse. The lack of an audit opinion means that your systems and controls don't meet audit standards. We are working hard to change that, and a substantial progress has been made, especially in the last 5 years.

Fixing the audit findings that we do have continues to be our biggest priority. My written statement, as well as the report that we provide to this committee twice a year, the FIAR plan report, gives you more detail in the nature of the challenges in how we are addressing the specifics. The good news is that we now have, because of the audits that these services have done, have the baseline of auditor findings that provides an independent assessment of where the problems are as opposed to our own assessments of where the problems are, and helps us focus our efforts.

Preparing our huge global enterprise for its first full audit is a challenging task. Our department, as the chairman noted, is not just another Federal agency. In terms of the scope of our resources, our responsibilities, and complexity, we are more like an economy. Indeed, each of my colleagues here individually is responsible for the financial management of annual resources that exceed the GDP [gross domestic product] of about 100 of the member nations of the IMF [International Monetary Fund].

While this is a major management challenge, we have a sound plan on the audit. We are sticking to it. We are making progress and we are fully committed to getting it done. I thank the members of this committee for your leadership and support. I am proud of the progress we have, and I am confident the Department is on the right track to achieve a positive opinion.

[The joint prepared statement of Secretary McCord, Secretary Speer, Secretary Rabern, and Secretary Aguilera can be found in the Appendix on page 37.]

The CHAIRMAN. Great. Mr. Speer.

STATEMENT OF HON. ROBERT M. SPEER, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND CONTROLLER

Secretary SPEER. Chairman Thornberry, Ranking Member Smith, and distinguished members of this committee, I thank you for the opportunity to appear before you today to discuss the Army status, efforts, and accomplishments towards achieving auditable financial statements.

In addition, I want to convey to you that Secretary of the Army Fanning, Chief of Staff Milley, and the Under Secretary and Chief Management Officer Murphy, and I are committed to improving the Army's financial management and meeting the requirements to be audit ready by September 2017.

It is good to be here this week as we celebrate the Army and the Army financial management corps' 241st birthday. These birthdays recognize the contributions and longstanding outstanding traditions and customs and excellence of both. Unfortunately, our history does not include being audit ready. It is not yet in our DNA.

However, we are changing and building a culture of accountability and understanding audit. It is not easy to derive the significant change, yet despite the operational and fiscal challenges the

Army faces, our soldiers and civilians remain dedicated to improving the business processes and using our resources efficiently and effectively as we generate readiness.

The current fiscal environment and operational demands present a unique challenge for audit readiness. However, this environment also affords us the opportunity to evaluate technology, organizations, and training, as well as our business processes. We see the value to being auditable. Such information of accountable stewardship have never been more important than they are today.

The Army's financial improvement plan for achieving our audit readiness milestones includes an iterative external audits and examinations by independent public accounting firm, or an IPA, to inform and focus our Army's audit efforts. These audits and exams provide us feedback on areas requiring additional corrective actions and focus our efforts to improve progress towards a financial statement audit.

The independent public accounting firms completed an audit in 2015 on our scheduled budgetary activities. Although we received a disclaimer, the accounting firm was able to complete the audit and provide the Army valuable feedback. In response, the Army has developed corrective action plans and we are in the midst of remediating and implementing those recommendations. We also are repeating a similar audit in 2016.

Clearly, important to achieving success is leadership involvement. As such, your Under Secretary of the Army chairs our enterprise audit committee. He increased the frequencies of these meetings from quarterly to monthly. During these meetings, we monitor the progress of those corrective action plans and we hold leaders accountable for where they are attaining and meeting milestones. We also hold senior executives responsible and accountable for achieving their audit readiness milestones with inclusion of financial improvement metrics in their annual performance assessments.

Audits have indicated we need to improve and enforce our systems of access controls. The Army continues to achieve success with our enterprise resource planning system. The General Fund Enterprise Business System, known as GFEBS, is our core business and accounting system. GFEBS enables the Army's audit readiness progress while simultaneously modernizing and improving the Army's business processes.

The Global Combat Support System-Army and Logistics Modernization Program, our retail and wholesale supply systems respectively, effectively complement the auditable features achieved in GFEBS. The future delivery of the Integrated Pay Personnel System-Army, will be important to sustaining the audit, but more importantly, they also provide effective total human resource and pay operations.

Finally, our dedicated team of professionals is our most important and valuable resource to achieving audit readiness. Under a program Congress approved, we are implementing a DOD-based certification program. Our committed management workforce has improved their skills with nearly 90 percent having achieved certification.

In summary, we continue to improve across all business areas. Our annual exams have expanded in size and scope, while providing valuable insights to remediation while we develop a culture of auditability. The strong commitment of leaders and dedicated workforce is the Army's greatest asset and will enable us to achieve our goals. I sincerely look forward to continuing our work with members of this committee, GAO, and DOD to ensure that we continue to achieve success and reach our goal of financial audit readiness. Thank you.

The CHAIRMAN. Thank you.
Dr. Rabern.

STATEMENT OF HON. SUSAN J. RABERN, ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND CONTROLLER

Secretary RABERN. Chairman Thornberry, Ranking Member Smith, distinguished members of the committee, thank you for the opportunity today to discuss the Department of Navy's progress towards auditability. After years of preparation, we eagerly enter the audit environment, along with Army and Air Force, as private sector accountants began an engagement on Navy's fiscal year 2015 schedule of budgetary activity.

The disclaimer we received at the end of our inaugural audit was not unexpected, given other government agencies' experience. Our Navy team endured the rigors of a first year audit, learned a great deal, and our department-wide team is aggressively tackling the deficiencies the auditors identified. We are on course navigating toward an audit of all Department of Navy financial statements in fiscal year 2018.

I would like to begin by noting our successes. Navy commands produced, on time, over 95 percent of the documentation requested by the auditors. Given the global magnitude of that effort, their careful preparation, teamwork, and dedication to task were clearly demonstrated.

We have an aggressive enterprise-wide approach to correcting deficiencies. A flag officer or senior executive has been appointed to remediate each finding. I personally monitor progress demanding sustainable corrective action while preparing for full audit in 2018.

Characteristically, the Marine Corps is aggressively moving out ahead. The Marine Corps has been under audit for several cycles now and has made great progress in improving its business environment, strengthening its accountability through increased compliance with accounting standards. The Marines have provided many lessons learned for the other services to follow. We expect them to stay on present course asserting auditability on all four financial statements at the end of 2016, a year ahead of the congressional mandate to do so.

While I remain optimistic, I don't want to minimize the challenges we are facing. The auditors found significant internal control weaknesses in our systems, business processes, and in the statement compilation process. These findings make it absolutely imperative that we immediately strengthen internal control environments in every one of our business systems. The first year audit identified 220 major deficiencies, 82 percent of them related to IT

[information technology] system weaknesses. Simply stated, we have too many systems and most of them were not originally configured to conform to auditability standards.

To overcome these challenges, we are taking several actions. First, we will continue to downsize our current suite of systems, eliminating redundant capabilities. During the implementation of Navy ERP [enterprise resource planning], almost 100 business systems were eliminated. We now plan to reduce the number of general fund Department of Navy accounting systems from three to two while eliminating all other non-auditable legacy systems, avoiding maintenance costs, and streamlining IT controls.

Second, during our audit readiness preparations, we discovered that we could not guarantee the integrity of the data resident in many of our systems. Auditors identified ineffective controls over access and security and noted that we often fail to ensure proper separation of duties among users. The audit highlighted these weaknesses and systems managers are now strengthening those controls in earnest ensuring and documenting compliance.

Third, we are putting procedures in place that will identify and document every accounting adjustment made throughout the year, requiring all Navy organizations to record and retain documentation supporting every adjustment. At the same time, we are identifying the root causes of these adjustments with the goal to eliminate them at every step and every business process.

Fourth, we are working with our primary service provider, the Defense Finance and Accounting Service, to strengthen controls governing their compilation of our departmental financial statements. DFAS has undergone an independent assessment of the controls for which they are responsible and they are addressing deficiencies which contribute to statement inaccuracies, including unsupported accounting adjustments created in their processes. Our collaboration is demonstrating the need for a well-documented business partnership in which roles and responsibilities are clearly understood and adhered to on a daily basis.

Finally, we have confirmed what we have long suspected. Absolute uncompromising protection of business and financial data generated by classified programs challenges the efficiency of the audit process. For the first year audit, DOD classification authorities restricted the number of data elements that were shared with IG audit teams. This restriction increased sample sizes resulting in a larger volume of documentation that Navy organizations were required to produce eliminating the auditor's ability to analyze transaction data.

We are revisiting this issue with urgency, mindful that the solution must ensure protection of these very important programs which serve as the cornerstone of our national security. Beyond our near-term emphasis on the 2015 SBA [Schedule of Budgetary Activity] audit results, we have identified actions necessary for the audit of all our financial statements in fiscal year 2018, and we are aggressively tackling them as an enterprise. Our approach is consistent with DOD guidance, emphasizing a line-by-line survey of each statement with a focus on beginning balances.

Over and above the implementation of effective tools that will allow Navy to sustain the gains already made, I believe that the

greatest positive contribution to come from the first year audit has been within the Department of Navy culture. Audit deficiencies now receive the highest level of visibility and attention, including Secretary Mabus, the Chief of Naval Operations, and the Commandant of the Marine Corps. Audit is now a talking point at every level of the Department from senior flag officers and civilians to the most junior personnel and an integral part of the Department-wide managers' internal control program.

As we attend to the detailed work that will ultimately result in a clean opinion, we remind ourselves not to lose sight of the real objective. Complying with audit standards will result in greater accountability for the public funds appropriated for the Navy and Marine Corps critical contribution to the defense of this Nation. Thank you.

The CHAIRMAN. Thank you.

Mr. Aguilera.

STATEMENT OF HON. RICARDO A. AGUILERA, ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT AND COMPTROLLER

Secretary AGUILERA. Thank you.

Mr. Chairman, Ranking Member Smith, members of the committee, thanks for the opportunity to address this issue with the committee. I want to share our progress and challenges towards achieving the audit readiness mandate.

We have a strong support from across the enterprise. We are continuing to imbed auditability in our way of doing business. We have a governing structure that is actively engaged in monitoring our progress and assessing roadblocks and the challenges when they arrive.

The 2015 Schedule of Budgetary Activity audit has re-enforced that we are on the right track regarding our approach to balancing our checkbook, reconciling our universe of transactions, and implementing information technology controls. We are actively applying the lessons learned from the 2015 SBA audit as we prepare for the full financial statement audit.

Overall, we are pleased with our progress. We have received positive feedback from our auditors. We are focused on the critical tasks that remain to get us to full auditability, and we are addressing the following key challenges at this stage.

Number one, reconciling our universe of transactions. Many of our transactions rest in legacy systems. For the SBA audit, we have reconciled 45 of those systems and we are adding an additional 28 systems that need to be reconciled for the full financial statement audit. These reconciliations are heavily logistics related and require more effort than our financial systems and represent one-third of our system's efforts.

Two, institutionalizing our IT controlled discipline. Seventy-three percent of our IT notice of findings and recommendations in the SBA audit were related to compliance with existing internal controls. These findings represent a significant change to our management efforts, and we are addressing that through training and field support. Additionally, we are applying lessons learned from our

SBA notice of findings and recommendations to all of our systems to prepare for the full financial statement audit.

Three, to complete our asset valuation activities. The FASAB [Federal Accounting Standards Advisory Board] and OSD [Office of the Secretary of Defense] have issued valuation policies that we need. The new policies align with our military equipment methodology and we are well underway with that valuation effort. Our teams are working with both existence and completeness and evaluation of real property among other things and should complete their work in the fall.

Four, we want to accelerate the progress that we are making in our Air Force working capital funds area. The bottom line is that the Air Force working capital funds effort started later than our general funds effort, but we have established a solid team led by our Air Force Materiel Command and are quickly closing the gap with our progress on the general fund side.

DFAS has helped us by establishing a dedicated team to support the working capital fund effort, and we are leveraging the lessons learned from the general fund to accelerate our progress. We fully expect that working capital fund to be on par with the general fund by the end of this fiscal year.

And five, we are going to continue with the rollout of the Defense Enterprise Accounting and Management System, or DEAMS. We recently reported to the Congress that DEAMS is in a critical change status. Ironically, it is precisely the audit control attributes of this enterprise resource planning, or ERP system, that have created the challenges for our users. We opted to retain the front-end audit controls that made this Oracle commercial solution successful in the private sector, but this has required a significant focus of change management as we shift our audit controls from the end of the financial process to the beginning.

We are beginning to see success from this approach as our user community has developed new ways to embed auditability in their daily work. We actively include these lessons in the critical change plan that is currently being developed.

So in summary, the Air Force is fully committed to being audit ready in September of 2017. We expect there to be challenges over the next year of preparation, and based on the history of other Federal agencies, we expect the timeline to achieve an unmodified opinion of our financial statement to take many years. However, the process of preparing for an audit has led to significant improvements in our financial operations, and we fully expect that trend to continue.

Again, thank you for your leadership and your support on this issue.

The CHAIRMAN. Thank you.

Mr. McCord, Mr. Smith and I have all acknowledged the persistent leadership of Mr. Conaway on this area, and I wanted to yield my question time to him.

Mr. CONAWAY. Well, thank you, Chairman, and I want to thank the chairman as well. Full committee slot hearings are finite, and I appreciate him dedicating one to this issue. I also want to thank, collectively, your teams and all those hundreds and hundreds of

folks behind you that do this heavy lift. It is hard, it is complicated, and there is just a lot of it, and I appreciate that.

One thing that does concern me is on the future horizon is a change in administration, which everyone knows is going to happen. A couple aspects of that. One, how do we make sure the new team coming in is properly briefed and understands exactly where we are, and if they—and also, through the Senate, confirm how important this issue is to keep it going, keep it on track, and then also comments that—what are the risks of the existing political leadership going on autopilot over the last 4 months of the administration and not finishing strong, and then properly resourced the overall efforts, given these budget strains and the strength in the Department of Defense budgets, can you talk to us a little bit about the resourcing of this?

And then in the Senate NDAA, there is a section 811 that would make structural changes, with respect to many of the organizations, putting them under a new system. My personal view is that would complicate an already difficult circumstance, so any comments you have on that as well.

So if we could just go down the line and speak to us about the change in leadership and the risks to keeping this momentum going.

Secretary MCCORD. Thank you, Mr. Conaway. We have already had a couple of meetings of—led by the deputy secretary on transition. It is too early for us to actually communicate with the two candidates, under the law, but as soon as that is possible, starting probably in August, we will be providing information, on an equal basis, to either side that wants it, and then obviously at a higher level in November once there is a President-elect. So we are going to be ready for that.

We are focused, first and foremost, per the Secretary and the deputy, on our day jobs of executing the mission today, but we are very focused also that we are going to be ready to do a solid transition.

I will tell you that when I came in with the previous team, the transition was pretty much about the budget, because when you arrive as the comptroller, there is a budget that has been left to the 80 percent mark, say, and the new administration has to come make their priorities and finish it off and submit it. So that dominated the transition materials that we received that, years ago, there was very little on this subject. And we are going to do a much better job of making sure that the new team is aware of this issue, which has moved a good bit in the 8 years since then.

Obviously, we can't speak to what the new folks, what the new team, what priority they might place on this issue or whether they might come in and decide that our strategy doesn't make sense to them. We have followed the same strategy for years and we have benefited from the support of this committee and the Senate Armed Services Committee. To be able to follow one strategy for a number of years, I think, is a key element of why we have made progress, but it is not a given that the new team will decide that what we are doing makes sense. We will certainly try and present them all the facts and make our case as to why they should continue to implement the strategy that we have laid out.

With respect to resources, obviously, that is something we can talk about. Constrained resources are a strain on a number of subjects, as is the mandate to reduce headquarters personnel by 25 percent. All of us and all of our teams are headquarters people, by definition, it is a headquarters function that we do, and so we are trying to deal with the budget uncertainty of the current climate and do this at the same time.

Final point, and I would be happy to expand on this, maybe not to use all of your time later. The administration is concerned, the Department is concerned, the Secretary is concerned as the statement of administration policy on the Senate bill says with the enormous scope of both the management changes, many of which we see as unhelpful in the Senate bill, coming, especially in the acquisition realm, a year after that were already significant changes in last year's NDAA on this subject.

One of particular concern to me, the Senate bill moves DFAS out from under the CFO [chief financial officer], disrupts what I see as an end-to-end financial management process that I think should be under the CFO, but that is only one of the many changes which we think are excessive in the Senate bill. And the Secretary will be happy to communicate, as again the SAP [Statement of Administration Policy] does, some of the concerns we have about the many changes being thrown at us right as there is a transition of administrations under the Senate bill.

Secretary SPEER. I would like to take that also and—first of all, I would like to take this opportunity too, Congressman Conaway, you came and sat down with us in our group in terms of leadership a couple of years ago. And I think we saw the interest over here, and I think the interest here and the push here will keep leadership focused. I can't speak to the incoming political leadership that we will come into, but the culture and how we are—I said it is not in our DNA, but we are starting to build that. We are starting to build it within our leadership, the understanding of the value of the audit, the understanding that the resources produce outcomes. And tying the resources to the outcomes is what we are also trying to do through the audit, if we can better show better data for decisionmaking, so we are doing that.

But I will point out the Corps of Engineers went about this back in early 2000. They achieved a successful audit now for about 8 years in a row now. I stole their leader. He is sitting behind me here. Mr. Wes Miller was a leader who led and guided that. I brought him in. So when I walk out the door, that type of leadership remains. They understand what it takes to get to audit. They understand the importance of the control, the environment, and what the education and training of a dedicated workforce is.

So I think that will be significantly important to the sustainment of it and bringing it to that, but also understanding that the value of good, solid, timely, and accurate information is what part of the—is being brought right now to the senior executives as well as the generals within that part.

I think the current involvement of the current political leadership, as Secretary McCord mentioned, in the fall, Secretary Work is going to pull us back together and ensure where we are, that we are still on track before we head into the end of the year, and I

think that drive will keep us focused through this part. And then the folks who are behind us will also do so. And I look forward for the continued involvement of this committee and yourself to also come back on over and meet with folks to identify the value of what their stewardship provides to outcomes.

Secretary RABERN. With regard to the three parts of your question, first, with regard to the transition. I really have taken a very strong stand about embedding the change within the careerists in the civilian side and the active duty. They will be those who carry through not only this transition but others in the future.

I learned my lesson about this when I was the assistant director and chief financial officer of the FBI [Federal Bureau of Investigation]. It was about embedding into the DNA and those who would carry on the lessons learned, the business practices, the changes, and I do believe we have done that. I went through the same challenge as the chief financial officer of the U.S. Customs Service when it was integrated into the Department of Homeland Security. Again, it was about embedding into, as my colleague from Army likes to say, the DNA. And once you have that embedded, it becomes just a part of the fiber of the organization, and I do believe we are doing that.

With regard to resources, I would echo Mr. McCord's comments about the headquarters reduction, so I won't belabor that, I would just echo it very strongly. We are part of the headquarters reductions and we have a team in place that is actively doing very important and very positive business.

With regard to resources, the other thing I would say is we need stability. We need stability with regard to resourcing, especially as the OPTEMPO [operational tempo] with the fleet has been so demanding and has taken a toll. So it is a very careful balance of our resources with regard to the emphasis we place on audit and the very expensive audit requirements that our IT system changes require and the maintenance of the fleet so that it can fight the fight.

With regard to structural changes, I would again echo Mr. McCord and say that I believe any structural changes at this point would be very disruptive. We now have in place the systems, the people, the processes. It has taken us years to get to that point, and I do believe that structural changes at this point would be adverse to our progress. Thank you.

Secretary AGUILERA. And, sir, again, let me echo my thanks for your leadership in this issue and working with this committee. We look forward to doing that as we continue to get through audit readiness.

The three parts to your question substantially have been answered. I would echo the comments that have been put forward by my colleagues. I would offer with you—with the Air Force the commitment that I see is, as a former auditor, what I would think is almost irreversible. I am really pleased when I go into senior level decisionmaking meetings on the audit, and I am sitting side by side with my counterparts in the personnel arena, in the civil engineering community, and the logistics community and to see their commitment in getting all of their areas, all of their portfolios ready for audit as well. So in terms of momentum, I feel as though in the

Air Force, it is almost irreversible and baked into the DNA, as Mr. Speer said.

So in terms of transition, I would echo my comments—my colleagues with in particular. Resources, again, I believe headquarters reductions have allowed us to move—have not been favorable to us but have impeded us in the SBA audit, but we would look toward stability. We want to see more stability—signals with more stability in the future. And any structural changes that the NDAA on the Senate side might be proposing again, I would echo. We have all of the equipment we believe that we need and anything more than that would be disruptive to our efforts.

Mr. CONAWAY. Well, thank you for your answers, and I appreciate that. One quick anecdote. About a year and a half ago, I was aboard the USS *Texas* and taking a tour of that submarine. I was doing a mini town hall meeting in the galley, and a young seaman out of nowhere asked me, said: Congressman, how is that audit thing working?

And I don't know if you guys planted him there, planted that question or what, but it gave me some comfort that the importance of this is working its way down through the uniform service piece of this, and I appreciate the hard work. There are a lot of trials and tribulations between here and where we all want to get to, and I appreciate what your team has gotten us to this point.

With that, Mr. Chairman, I appreciate your indulgence, and I would yield back.

The CHAIRMAN. I thank the gentleman.

Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman, and I appreciate you all being here. I know this is difficult, time consuming, but important, and so you have really represented that.

I wonder, particularly Secretary Rabern, if you could speak a little bit more, you talked about the procedures documenting the root causes. Can you go from your perspective in having been on this and other lateral moves, I think, what you see as the root causes? You did talk about, you know, the DNA, basically the culture of the organization. What more can you tell us about those root causes and how you are getting at that?

Secretary RABERN. I would be delighted to do that. From my point of view, regardless of the organization where I have had the honor to serve, it is about recognizing the operational mission of the organization and that that is what is driving the people who work there.

So when I was at the FBI, we were tackling some very difficult issues. Suffice it to say, audit was not the number one thought on every FBI agent's mind every day. So it was about teaching them, using their own language, what we were trying to do so that we would be able to identify areas of redundancy and find ways to get them additional resources by eliminating those bad practices.

One of the things that I have learned, as I have come back now to the Department of Navy, is that first it is about the mindset. So again, it goes to speaking to people in their own language. Once you do that, as my colleagues have indicated, it really becomes part of their DNA. So if you are talking to a nuclear submariner and you speak to that nuclear submariner about an operational inspec-

tion, and you talk about the audit in those terms, they have an aha moment, and they tackle it in exactly the same way that they would tackle that zero defect mindset at sea.

So much of what I would say is the answer to your question is, the root cause is that we are warfighting organizations. We are not accustomed to this. The systems that were developed years and decades ago by very well-intentioned people were not developed with the audit in mind.

The other thing that I would add has to do with the creation of the Defense Finance and Accounting Service. The migration of talent to DFAS has allowed them to perform the functions that they provide as our support service, but at the same time, it was a loss of talent from the Department of Navy.

So in an environment where it is a competition for talent, you know, it is a buyer's market, so we are all, my colleagues, the IGs, the private sector firms are competing for the same talent. So the initiatives that may be on some of your minds to help us with that kind of direct hiring authority and those kinds of things would be very welcome.

So that is just the tip of the iceberg, from my point of view, as to the root causes. And if I haven't answered your question, I would be glad to provide more information.

Mrs. DAVIS. You know, I know that you are looking to find the best people to fill positions, and you need authorities to do that, especially to be able to hire perhaps on a fast track, if you will, when you see people who have the talent to be able to progress towards or to enter into a separate area. And that may raise questions as well because you are saying as you are talking to people in the language that they understand this, in fact, when you are trying to get somebody even from a different discipline, in some cases, how does that work and how have you found that to be helpful?

Secretary RABERN. I will tell you, frankly, that much of it has to do with the sense of providing an important service to the security of our Nation. So if we are talking about recruiting young people, I found this in every organization where I had the honor to serve, they want to serve this mission. They want to serve. But they also are—especially the generation that is coming up just graduating from college, they have a different sort of mentality about moving from job to job to job. So we have to open our minds to allowing them to grow in that process, be willing to hire them, train them, track them, and bring them back by appealing to that sense of service to a higher cause.

Mrs. DAVIS. Yeah. I appreciate that because I think what I am learning and I think what you have all shared is that really wasn't the way people performed in the past, particularly in leadership positions. So I think that we would like to give you that opportunity, those authorities so—to understand that better and to get at what sort of has held a lot of people back in the past, maybe women, young people, and people of color perhaps as well. And I think that is critically important, so I appreciate your dealing with that.

I am going to go ahead and, I think, turn it just back to the chairman. I wondered if there is any other, you know, guidance that you have implemented regarding actions to resolve financial weaknesses within your services. What else have you all found in

terms of the accurate reporting? What is it—is there something else that you can address within this area where you have gotten guidance and been able to use that or not use that perhaps in the past?

Secretary SPEER. I can take parts of that. One is there is no real quick fix to the material weaknesses and the weaknesses that we found. You have got to make it in something that is sustainable. And so quite often in the past, we tried to do a checkbook mentality, you know, check the block, fix it, and move on, but it wasn't really fixed.

So you have got to go to the root causes you talked about and see why either a control is not working, who, you know, and looking more holistic end to end. And quite often, what we did is we turned to the resource manager, the comptroller and said, it is your responsibility, but we didn't bring in, as my colleague said, what the mission and the outcomes were supposed to be along the way, and that is really where the material weakness is embedded.

So you have got to fix the control environment, you have got to train and make sure people are properly—to do their job, and then you have got to hold them accountable. And then you have got to make sure they get the proper feedback and the mechanisms that—within the tools.

Going back to early 2000s, the tools weren't in place, the systems weren't in place, so they didn't allow their internal controls. And so between the systems, the improvement in internal controls with people knowing and understanding their job and being properly trained across the board, we are removing the material weaknesses they tie around the total process, not just financial management. You know, human resources, logistics, running of installations all feed into the financial statements, and quite often, the material weakness is embedded in the outcome of how people perform their mission, and they weren't even doing it how they had defined how they are supposed to do it.

Mrs. DAVIS. Yeah.

Secretary SPEER. And so we think now we have tied those two together and people better understand that the resources we give them is to those outcomes, and that as long as they are trained properly with the proper tools and given the ability to do it, they will execute properly.

Mrs. DAVIS. Okay. Thank you.

I am going to turn it back to the chairman at this point. Thank you.

The CHAIRMAN. I thank the gentlelady.

Mr. Franks.

Mr. FRANKS. Well, thank you, Mr. Chairman.

Mr. Chairman, I am especially mindful of the fact that this effort to move toward a more auditable services posture is in large measure due to your leadership, and I think this gives a lot of us great credibility. But I especially want to point out that there is probably no one on this dais that has the knowledge and the understanding of just the entire audit philosophy and mechanism in general than one Mike Conaway. He is far ahead of all of us. And I think that the effort that we are involved in here is going to give many of us

trying to advocate for a stronger military budget a lot more fire power, and I really appreciate all that is being done here.

And I suppose many of us here recognize the profound impact this sequester has had on the military, and I hope that this process that we are involved in right now will really help us in the debate going forward to turn back some of that, in my judgment, unwise policy.

So with that, I just have some, again, very simple questions, and I will address Mr. McCord.

Mr. McCord, how long has—I should just say how has the plan changed over time as you have executed? What has significantly changed since 2005 or since 2009, respectively?

Secretary MCCORD. Thank you, Mr. Franks. The main change that really my predecessor Bob Hale made in 2009 was to focus, first and foremost, on the budgetary side, which is the information that people use to manage most. The thought process was that this would get it into people's heads quicker that this is information—that doing this audit effort will help you manage better. And I think there is a key psychological part there, and the Marine Corps I think has demonstrated that they got this first and foremost ahead of everyone else maybe, is that when you stop thinking of audit as something like eating your vegetables that you are doing only because someone told you it is good for you, but you don't quite get it yourself that you want to do it, then you approach it mentally as a chore as opposed to getting the buy-in that, oh, this is actually going to help me run my organization better. That is the big breakthrough, I think, that the Marine Corps made in being the first service out there.

And I think that having the budget be the first—the annual budget that we get from Congress be the first thing we focus on auditing enabled that mental lead that people connect the audit effort with goodness for themselves, goodness for their organization, and being able to be on top of their own resources better.

Subsequent to that time, we really haven't changed the plan significantly very much. When I succeeded Mr. Hale, my thought was to keep, you know, the plan, as long as I saw that it was working. I still believe that it is. The main new information now, of course, is that each of my colleagues here in each of the military departments has had a—each of the services has had an independent audit now. So we have somebody else, an independent company, independent audit firm telling them what you need to work on, and so, of course, we are reacting to that now.

And Dr. Rabern mentioned the large number that the Navy had, for example, but many of those were the same thing repeated a bunch of times. So it wasn't as bad as it sounds that there was 200 different problems, but there were many cases of the same problem. So the focus now, naturally, shifts to as you go from years of planning to get this done and preparing to get this done to actually being in and having the independent firms tell you where you are weak. That is necessarily going to focus us on the specific things that the independent firms have now said, you need to fix this the next time I come back, because in general it will be the same firm that comes back the next year. Obviously, they are going to be

looking to see if you corrected the deficiency that they identified the first time.

Mr. FRANKS. Well, Mr. Chairman, I guess I have already made the point that I think this is a significant moment and that your leadership and that of Mike Conaway will be a legacy both for the military and for each of you. And so I would just ask the last question, just a quick thought. If there is anyone there on the panel that would suggest if there is one thing Congress and this committee could do to assist you in the endeavor to ensure success, what would that be?

Secretary MCCORD. I would say that—I think I may repeat a comment I made briefly earlier that I think the ability to work with this committee and your partners in the Senate to follow pretty much the same plan for a couple of years in a row now, 4 or 5 years, has really helped us a lot, and that that is something that I would request, that unless you—obviously, in your judgment, if you think that we are not going in the right direction, then of course we need to talk about changing the plan, but if you think we are, to let us continue to kind of move in the direction that we are, I think that has been of enormous help to us

Budget instability, obviously we all want that to be fixed, and that is something that requires the entire body, you know, to get together to figure out how to deal with sequester. That is an enormous drain on the time and mental energy of leadership, not just in the FM community but the Secretary, the deputy. You know, that is a larger problem that weighs on us and is a big distractor, but—

Mr. FRANKS. Well, thank you, Mr. Chairman. I thank all of you.

The CHAIRMAN. Thank you.

Mrs. Hartzler.

Mrs. HARTZLER. Thank you, Mr. Chairman. I would like to echo the words of my colleague, the appreciation for the leadership of the chairman and Mike Conaway on this. This is a vital, vital project that you are embarked on, and I want to thank you all for your tireless efforts.

And this isn't just about, you know, spreadsheets and the mundane parts of accounting here. This directly impacts the readiness of our soldiers, and we are fighting a fight here to try to ensure that our men and women have the resources they need.

You know, we are facing a readiness crisis. We have had cuts to our defense, and many of us here in this room have been advocating for more dollars to be invested to address the threats in the world. But time and time again we are facing challenges here by people saying: Well, the DOD can't have an audit, so they don't—you know, if they can't audit, then why should we give any more money? And so this is putting men and women's lives at risk, and it is imperative that we get this done certainly by next September, but sooner better.

And I enjoyed hearing your testimony. I appreciate especially, Dr. Rabern, your getting prescriptive and telling what you are doing after the results, the steps. Some of them I jotted down here. You have decreased the number of systems by 100, the accounting systems. That makes sense. If they are not—everybody is operating on a different accounting system and they are not talking, they

can't guarantee the security. We need documentation for every adjustment, makes sense, unsupported documentation.

I wanted to ask about the classified problem. It just seems off-hand that you could have auditors who are specifically of the classified level to do that portion. Is it as simple as that or what do we need to do to address the classified problem?

Secretary RABERN. I will describe as generically as I can for obvious reasons. Some of it has to do with what I refer to in terms of the competition for talent. So to have people who, first of all, are able to obtain the level of security clearance that is required is very time consuming. So there is very few things more disheartening than having one or two people who are allowed access to these programs for one of either the IG or the independent audit firm, then leave to take another job. So that is one component.

The other component has to do with ensuring the protection for the information within those systems, and I probably should not elaborate beyond that. I would be happy to come by and talk with you in greater detail about that. It is something that has brought the financial community and intelligence communities to a point where now, I think, we are starting to have the discussions that will allow us to protect the integrity of the data but also provide meaningful information so that the auditors can conclude that the opinion is well earned.

Mrs. HARTZLER. Well, keep up the great work.

Secretary RABERN. Thank you.

Mrs. HARTZLER. Mr. Speer, I didn't hear in your testimony, but I was involved in a couple of other things as you were talking here, so maybe I missed it, but did you get as prescriptive as Dr. Rabern did, listing specifically what needs to be done to be able to do an audit and what you are working on? Could you outline five of those things that you specifically are working on again?

Secretary SPEER. Yeah, absolutely. And I am sorry if I get passionate about it too, because it is more than five.

Along the same lines, we had 290 corrective actions that we are working right now.

Mrs. HARTZLER. Ninety?

Secretary SPEER. Two hundred ninety.

Mrs. HARTZLER. Two hundred ninety.

Secretary SPEER. Two hundred ninety findings that were from the auditors, of which were shared between us and DFAS, and we are working those corrective actions already. We have got a good portion of those already underway or already corrected. Many of them were very similar across, as Mike McCord said, to where you will find them in one system, but they are iterative across all systems. And we needed to fix, for instance, access control, the similar access control in one system.

We had similarly—when we fielded our general fund enterprise, business system had over 200 systems. We are down to 70. We got actually down to 60, but a couple grew back. And the way they grow back is you have minor micro-applications being applied. So those are examples of definitive type things.

The other piece of it is just training. Part of the aspect of getting at it is that we found folks are not necessarily intentionally doing the wrong thing and that there is not standardized across. So as

the auditors identify those, they weren't necessarily notice of findings, but we found that, for instance, our commands needed additional training in some of the aspects that they do, so we are focusing training towards those as we go through.

I would like to also go back to what we found in terms of all. I think each of us saw this problem, and you got to it in terms of the sensitive activity of classified data. It is not only the training on that and the access from the auditors, but it is also the case to where as we reduce the number of systems—the good part of having bad systems was nobody could see and couldn't aggregate the sensitive activity that was going on in there, was we start reducing and make very transparent type systems in the audits. That is one of the things in terms of keeping the data classified we are having to do.

So one of the things that the Army will be asking for help for in continuing the support of some of our additional systems called GFEB [General Fund Enterprise Business System] sensitive activities that we are fielding is very necessary to sustain the audit. And so we have added people to classified programs to be able to do manual sorts through the data, and that is very important and it has enabled us to get through.

So you know, not only at reducing the number of systems, training, getting up the corrective action plans, understanding how to aggregate the data so the auditors can get that was one of the challenges we all got to called the universe of transactions.

And then lastly, the reconciliation of the way that the manual processes are. What we found is that everybody focused a lot on the system that didn't look at the manual controls, and a lot of the manual controls were some of the things from lessons learned that we found that individuals were non-standardized and were not keeping sustained across the commands. So we have got a heavy effort right now going through under our optimization effort to standardize those business processes across it so we can better align the training and make sure for policy. We then update the policy to make sure folks understand what is expected of them across those and that leaders then make sure that it will be done properly within their business areas.

Mrs. HARTZLER. Thank you. Thank you.

The CHAIRMAN. Mr. Gibson.

Mr. GIBSON. Thanks, Mr. Chairman, and I appreciate the panelists.

This certainly is a very important hearing, and you know, we have heard time and again how important this is to the integrity of all of our efforts, this reform. And I want to associate myself with the remarks of Mr. Conaway.

Years ago, I spent 3 years on the faculty at West Point, and among the issue areas that was studied and brought highlight to the cadets were the vulnerabilities, the challenges of transition. So, you know, I appreciated the remarks that you made on that.

So much effort has been put into this in recent years, and it really needs to be successful, and knowing that we have this period of vulnerability or challenge and the fact that leadership is putting effort against that is encouraging.

Towards that end, you know, assuming we get there in 2017, what has been done to SOPs [standard operating procedures] and software systems to ensure that we stay there once we get there? So, you know, what comes to mind is, you know, oftentimes when you bring a new endeavor forward and you are working on something online, you will have to fill out a series of boxes and submit, and you submit and it is missing two categories. It stops you. You didn't even get accepted. You have to go back and you get a red box that says you haven't done this.

So, you know, assuming we get there, what have we done to our code, our software system so that, you know, even down at the battalion task force level, although I—you know, I know that that is generally not the problem but, you know, as we work at our financial officers across the DOD, as they enter in data that, you know, they will get stopped and have to, you know, provide full view of things before they go forward.

I guess we can start with the DOD and go to the services. I am really just interested, assuming we get there, what have we done to SOPs and software systems that once we get to a full audit, that as we bring on new—it is often the case in the services that you change jobs about every year or two. What have we done in the superstructure to make sure that we don't get off track going forward?

Secretary MCCORD. I guess at our level, Mr. Gibson, we primarily approach that as management practices to make sure we stay on track. I probably have to get you for the record a more specific software answer. I am not a software expert myself. But the primary focus that we have is on making sure that procedures, are both holding managers accountable and their performance ratings and those systems that we set up are going to sustain the effort. But I couldn't—I would have to get back to you for the record on software-specific coding.

[The information referred to can be found in the Appendix on page 63.]

Secretary RABERN. I have a couple of what I consider to be really good examples, one for Marine Corps and one for Navy. As you peel back the layers of these processes as you have described, it is amazing what you find. Just recently, the Marine Corps realized that they had coded an automated system for separations that was, for lack of a better word, foolproof. So as you described, stop you here, you can't go further until you do it right.

And what we discovered, as we respond to audit, is they had re-inserted a human being into the process which was then adding errors. So they have modified the SOPs. No longer is a human being allowed to interfere with the hard coding in those systems. That is one example.

For the Navy, we have learned, as a result of the findings of our first year audit, that we had hundreds exam—hundreds of instances of a supply system, so every ship had developed their own version of a system. So right now we have a flag officer reporting to me every other week on the progress to get to one system where the coding will not allow any other changes to be made.

So that is kind of where we are at. And again, I would say I applaud the efforts of the independent audit firms in helping us find

these things, and holding people accountable for fixing them is what is going to get us there.

Mr. GIBSON. Well, thank you. That is exactly the kind of response I was looking for.

Mr. McCord, what I would recommend is—and I have got scars in my past, in my body to—I mean, it would probably be worthwhile to sort of capture these points across the services because so much effort has been put into getting—and I certainly—Mr. McCord, I certainly understand your point. You are not going to micromanage this. You are going to manage practices and people. But, you know, the services are really learning some hard lessons in this to make sure that we stay on track, and I think it would be worthwhile to have a repository of best practices so that we can socialize that across all the services.

Secretary MCCORD. Your point is well taken, Mr. Gibson.

Secretary SPEER. Can I add one thing to that, because I mean, we were jumping on that earlier. But first of all, we are deficient in it. One of the findings from the auditors was the documentation was insufficient. We thought that in the European environment we had fixed a lot of it and found that there is still the human in the loop and that we had not properly documented and/or where documented, there were more than one instance, and it wasn't standard.

So when you—part of what we are trying to do right now is make a repository through knowledge management as part of our effort right now of ongoing. One of our corrective actions is to provide where those SOPs and where those standard business practices are.

And so we have got, as one of the efforts to be done, within the next 6 months to do so. We have found that there are best practices amongst the different commands, and we are using that to streamline and identify where those best practices are. That is part—again, I point to Mr. Wes Miller. He had done that at the Corps of Engineers. And so we are trying to do that.

And it is not all automated, though. What you find is that a lot of the SOPs over time, they exist, but folks have gotten away from using either those, you know, tactics, techniques, and procedures and SOPs, and getting back now out of a deployed environment. They have gone to what had worked for them in a deployed environment, and now we are trying to identify those and make sure the policies direct them to it.

Mr. GIBSON. Absolutely. I thank all the panelists.

And, Chairman, thank you for your indulgence. My time has expired.

The CHAIRMAN. Thank you.

Mr. McCord, I have got a few questions. But if the other three of you have something to add, I don't mean to exclude you.

So is there any doubt, Mr. McCord, that DOD will be ready to meet the statutory deadline of being audit ready by September 30, 2017?

Secretary MCCORD. We are pretty confident that we are on the path to get there. Obviously, on that date, there will, absent some very unusual series of events, be different people holding these jobs who will actually be the ones to make the assertions at that time.

As I alluded to briefly before, we will be—the contracting to hire the independent firms to make that deadline has to take place near the end of our watch this year. And so I think the confluence of timing will work pretty well.

The deputy secretary is going to get us together again in the fall about the time that we will be able to transition—pardon the use of the word there—to move from talking to both candidates to talking to the President-elect will be about the timeframe when we will need to make those decisions. So we might be able to have a little overlap with the next team to say, here is what we see, we think we are ready to go. We will want to push the button and go on contract in the fall of 2016 to start the process for the fall of 2017. We might be able to have enough interaction to have an informed decision that the next team will have some ability to comment on; otherwise, we will just make the best decision, of course, that we are able to, based on our information, this fall on our watch.

The CHAIRMAN. Okay. I think Dr. Rabern said that as they analyze the weaknesses so far, 82 percent of the problems related to IT weaknesses, at least I wrote that down. So that leads me to have a question. Are we going to get a bill or a budget request from DOD or any of the services to have a big IT purchase or upgrade in order to comply with that deadline?

Secretary MCCORD. I would say, in general, no. There will be specific examples. There have been and there may continue to be. We are working now on an omnibus program, and there may be examples where we ask for a specific amount to fix a particular thing. But as Dr. Rabern alluded to, changing systems at this point is not in the cards, not—of any of us to do, kind of a fundamental throw this out start something new. That is not at all what we think—we think that we have the systems that are going to work for us, and there may be tweaks needed but not fundamental change-outs.

Secretary RABERN. If I could just add—

The CHAIRMAN. Yes, ma'am.

Secretary RABERN [continuing]. To perhaps calm your fears. Of the 220 findings, 149 will be remediated by the 30th of this month. This goes to Mr. McCord's comment about the redundancy of some of the findings. We are also being very harsh with our systems owners. It is about eliminating systems. It is not about anything other than that, unless we find ourselves with no alternative. So we would only come back if we find ourselves in that place.

And I would say I am very excited about the pace of learning as folks in uniform and our civilians learn how to respond rapidly to this new environment.

The CHAIRMAN. Well—and I don't know nearly as much about this as Mr. Conaway or you all. What my memory is when we talk about this before, is part of the problem was business systems that didn't talk to each other have created part of the difficulty in getting to an audit. So that is part of the reason I ask, okay, are we on track to have this thing work together or are there going to be big expenditures? But you have made me feel better.

And I presume you all don't have a substantially different answer for the Army or the Air Force?

Secretary SPEER. I don't have a substantially different answer, but we do need the funding that we requested to the modernization

of the systems we do have. For instance, our integrated pay personnel system helps sustain the audit. It helps eliminate hundreds of human resource systems to allow the integrity of the data within that, but also improves the ability to look at the total force and allows us to integrate the personnel pay of our military folks into that.

We have a single and fully filled now General Fund Enterprise Business System throughout the Army, and we won't be asking for a new one. We do have funding that we requested for the sensitive activities I mentioned earlier, which allows us to protect the classified data that we didn't see. We didn't realize that these transparent open systems back 8 years ago would allow people to see what was going on in the classified community. And so those are the limited types of things, but not new financial systems is not coming down the pike.

The CHAIRMAN. Okay.

Anything different for the Air Force?

Secretary AGUILERA. In the Air Force, there are no new financial systems, but the critical change process that we are undergoing right now for the Defense Enterprising Accounting and Management System, DEAMS, we will be able to give you a full report at the end of July on what is required for that system going forward.

The CHAIRMAN. In other words, it is possible you all may have more budget requests?

Secretary AGUILERA. Right now, it looks like probably reorganizing within the budget for that. So perhaps a reprogramming of some kind.

The CHAIRMAN. Okay.

Ma'am, do you have something else?

Secretary RABERN. I am sorry, I would be remiss if I did not credit the Marine Corps. Because the Marine Corps has been so far ahead of Navy, we have had lessons learned. And included in that is the use of Marine Corps systems that have passed the audit and having the Navy start using those systems. We have some—at least one very good example of that and we are hoping we will find others.

The CHAIRMAN. Okay. Can that extend to the other services, do you think?

Secretary RABERN. Absolutely.

The CHAIRMAN. Are you all willing to look at a Marine Corps system?

Secretary SPEER. We did look at it. We looked at it before we went to General Fund Enterprise Business System, and now we have fully filled this system. It is more modern and capable also. So part of the issue we all have is the feeder systems that feed it from other non-financials. And we have got to get rid of some of those interfaces that feed that are hard to maintain. So that is part of what we are reducing within the General Fund Enterprise Business System.

Our system is fully compliant, so I think GFEBBS is the right answer for us. And it is integrated with the rest of already logistics modernization and our Global Combat Support System which provides our other logistical support.

The CHAIRMAN. Okay. I am just saying it is okay to look across to other services, though, when appropriate.

Mr. McCord, one of the questions as you all were talking about having these independent agencies evaluate your systems was, for me at least, do you believe DOD can internally rectify all of the issues that they identified or are there situations where an outside entity can help come correct some of the weaknesses that have been identified?

Secretary MCCORD. I think that we are and need to be open to outside input. And when I mentioned in my opening statement that we have been meeting on—I have been meeting with Gene Dodaro, the head of GAO, on a periodic basis, with OMB officials present, with the inspector general present the last time we met, many of these folks have experience from other agencies that have seen things before that we haven't gotten to that yet. And I found this with the OMB folks, for example, that have useful insights for us.

In addition, some of the things—again, from having that broad view, GAO has the same ability to inform us with things that they have seen with advice. And we have tried to get them to be more partners with us, recognizing that they do have to stand apart from us at the same time a little bit.

We also have—I guess I lost my train of thought here. We have to learn from what the independent auditors say. One of the concerns that we have is that the scope of what we do may make it hard to get audit firms on contract with us for the scale of work that we have to do. As you know, there are the so-called big four. Two of those firms really aren't doing audits right now. They are doing the consulting side, which makes it hard for them to then be independent auditors. And so having sort of two of them in and two of them out constrains us already.

The amount of work that we have, I mean, it would be attractive work, I think, given the size of it, but it is also—you know, there is limited number of people that can handle the size of the work that we do, and that would be one the concerns we have is sort of the capacity of independent firms that have this outside expertise to work with us.

The CHAIRMAN. Okay. Again, my memory may be fuzzy, but I recall that in some of our past discussions that there was concern about the DOD agencies being able to get audit ready and that some of their issues might even affect whether the services were ready. Can you address that?

Secretary MCCORD. Yes. That is a fair observation. The Fourth Estate, as we call the defense agencies in general, are not as far ahead as my colleagues in the military departments are. Some of them are. And that is not a blanket statement, because there is about two dozen of them. Some of them have been passing an audit for years. Defense Finance and Accounting Service as an entity in and of itself has passed an audit, I believe it is 14 or 15 times in a row now. But there are many that have never done so and are not as far along as the services. That is correct.

What we are—the strategy that we are following, and we have described in our plan is we are basically, as you might expect, taking the biggest and most important ones first, the most material in audit terminology. So that would be the ones that are business-

like, DISA [Defense Information Systems Agency], DLA [Defense Logistics Agency], the ones that you would probably expect. Two combatant commands: SOCOM [Special Operations Command], because they are service-like and control their own funds; TRANSCOM [Transportation Command], because they are a businesslike entity; and then our health—Defense Health Agency. So those are kind of the biggest ones that we are focused on first and then we will move to smaller and smaller ones as we go.

Ideally—and this gets back to the sort of auditor capacity point I was making. Ideally, you might like to have just one firm audit all of that, but because people have these consulting relationships, some of them are sort of conflicted out. They can't—it would be hard to find a firm that has no consulting relationship with any of two dozen defense agencies. That argues against bundling them all together, which would make it easier contractually maybe to get a handle on them as one entity. So that is kind of the tension that we have.

The inspector general, if I could speak for them on this point, would prefer to have as, you know, one big contract or maybe one contract just for all defense agencies. We don't think we are going to be able to do it that way because of the need to get independence and have people that haven't consulted for SOCOM, say. So we can't have any package that includes SOCOM, include—you know, no one would bid on it if it has done any consulting. So that is the tension we have.

But we do recognize—you are correct, Mr. Chairman, that we have some work to do on the Fourth Estate to catch up to where the services are. All of them, as we said, have done an audit, they are full budget this year, which only some of the defense agencies could claim that.

The CHAIRMAN. And I think finally for me at this moment, there have been press reports—and I don't mean to pick on anybody in particular, but I think it was DLA had some—had bought some things and, you know, lost track of how many it had or disposed of various items. And, obviously, it is an enormous enterprise.

I am trying to get to the question of what an audit gets us. And so in the—just taking that hypothetical example, if DLA is able to pass an audit, should it theoretically be possible, then, that someone could go and keep track of what they buy, where it is, how it is disposed of and—you know, with any of the items for which they are responsible?

Secretary MCCORD. The way I would respond is, is one of the most important benefits of audit is cleaning up the way you do business to attempt to go into audit and attempt to get a clean opinion. So it is almost—I will try a trite kind of phrase, you know, that it is the journey as well as the destination. It is what—cleaning up your operation—

The CHAIRMAN. It is the systems and processes necessary to get to a clean audit, right?

Secretary MCCORD. Necessary even to show up for the audit and especially necessary to pass the audit—

The CHAIRMAN. Yeah.

Secretary MCCORD [continuing]. Then provide that better information about your organization. It doesn't mean that, for example,

there couldn't be fraud. Right? Someone could collude to alter the records and steal a piece of equipment. That can happen whether you are passing an audit or not. But it reduces the chance of—having better controls means you are more likely to catch any particular thing.

And, again, I think Susan Rabern could maybe comment from the Marine Corps experience as the service that went first, that that was where the light bulb went on, I think, first with the Marines is the things that I have to do to get in the game for audit and to pass an audit allow me to run my business better, increase the chances that I will find ways to redirect resources within my own organization from things that are lower priorities or things where I can find efficiencies. It does help you run the business better.

Dr. Rabern may want to give some example from the Marine Corps particularly.

Secretary RABERN. I don't know whether I would emphasize the Marine Corps examples because I feel I have some other examples that might be better. So with apologies, the things that come to mind really are my experience at the FBI. And I would say that the work we have done is hard. It is labor intensive. We have made amazing progress. But that said, there is a lot of really hard work ahead of us.

And the thing that I worry most about has to do with assets. So when you are talking about the Navy, it is about—it is a capital intensive institution, as was the FBI. So when you are asking people to count and cost things, that becomes very, very difficult. And to your DLA example, these are massive enterprises. And so having the IT systems that are ready, sustainable, permanent, eliminating the bad business practices, those are the things that are going to be the really—the next very steep learning curve that we will have to climb.

The other thing I would add is, with regard to the other agencies, to elaborate on Mr. McCord's comments, in addition to the clean opinions that he cited for the Fourth Estate entities, we have the issue of what is called the SSAE [Statement on Standards for Attestation Engagements] 16 reports. And this really goes to the nature of service being provided to the Army, Navy, Air Force, and Marine Corps.

So we have been working together on a very collaborative way, first with DFAS as our ready partner. We have made tremendous progress with them, and we are tackling those similar kinds of things with the other elements of the Fourth Estate.

The CHAIRMAN. Well, I will just comment, finally, I think the way you started—Mr. McCord, the way you started out your comments, it is important to say what an audit is and what it is not, and what it—but what it enables managers to do, which to me is the key thing. So that is part of the reason for that question.

Mr. Conaway had another question. I yield to him.

Mr. CONAWAY. Real quickly. Mr. Speer, you mentioned that one of the recommendations out of the 2012 audit panel was that performance evaluation documents include specific items as to what needs to be accomplished for the next year. And you mentioned that you have baked that into the Army's evaluation so that you

understood if the other agencies, other services have done the same thing with respect to their personnel. And then on an annual basis, have we actually—obviously, you are not going to say who, but have you actually disciplined anyone who failed to meet the standard that was set in their—you know, ahead of their evaluation?

So, Mr. Speer, any experience actually using the evaluations to improve performance?

Secretary SPEER. I can't definitively say what the outcomes of any specific individual was. I just know that we are now monitoring, there is incorporating in each of the senior executive's performance plans. So it should be if they are not maintaining and achieving that objective that is in their performance plan, it will impact both in terms of their feedback as well as their performance and their performance-based evaluation where they receive monetary compensation or otherwise for it. And we certainly can go back and see if there is—you know, whether it is within some of those.

We talk about it. We certainly provide feedback on it to individuals, and we provide feedback to individual commands. We then go through, and as I said in the audit committees, monitor and provide commands feedback as how the individual commands are doing for feedback to those performance statements.

Mr. CONAWAY. Ms. Rabern. Dr. Rabern.

Secretary RABERN. Specifically answering your question have we held anybody accountable? Yes, we have. Two examples I would be happy to talk with you about privately. It is all about sending the message that this is serious business; we mean it, and those who aren't performing, we will find someone who can. The time is of the essence. We have to have people who can do this job. It is not fair to anyone to have someone in the job who can't do it, and it is not fair to those around them. So the answer to your question is yes, sir, we have.

Mr. CONAWAY. All right. Thank you.

Mr. Aguilera.

Secretary AGUILERA. And I echo the comments. Yeah, our SES [Senior Executive Service] corps also has those audit requirements in their performance evaluations. I don't know of any particular instance where we have had to discipline anyone. I can get that for the record.

[The information referred to can be found in the Appendix on page 63.]

Secretary AGUILERA. But I would also like to comment on the—and commend the Department for the FM certification program to elevate the level of financial management and expertise in the entire staff. And all of the services are complying with that, and the Air Force is taking the lead on that. And we are very proud of the achievements of our airmen in that regard as well.

Mr. CONAWAY. I appreciate that.

Mr. McCord, you started down that path about the limited resources with respect to audit firms and firms big enough to do the job. In 2018, will there be another firm needed for the overall DOD rollup or will that be able to do that with—in other words, how are you going to do the consolidation, in effect, of all these disparate agencies under one roof? Is that a different firm?

Secretary MCCORD. You know, I get the challenge. I think that would be helpful and we would desire it, but we can't create the supply. Right? I mean, if the two firms—the two of the big four firms that aren't in that business right now choose not to, you know, to bid, then we will have to do it another way. And one possibility is to have not—probably the real-life possibility is to have the Government Accountability Office do the audit. That is, you know, something we have discussed a little bit, if we can't get a public firm to do it.

I don't think the Inspector General of the Department of Defense has the capacity or would likely have the capacity to do the entire thing themselves without—certainly, not with any less IPA support than there is now.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

And just briefly, you talked about the DHA [Defense Health Agency] are along the list of those agency specific areas within the Defense that have to be looked at, have to be audited. And I wondered if you could—I mean, there has got to be something that is actually unique from one to the other, I would assume. And is that true that you are looking at some different things?

We have obviously had a number of reports, commissions, et cetera, looking at expenses within the DHA. And I am—and as we consolidate that more or have DHA more as a focus as we look at new ways of making sure that our men and women are covered and their families, is that different?

Is that going to add—and even in terms of who you bring in to take a look at those, knowing that we have many, many private entities as well within health care? How do you see that moving forward? Where will that fit?

And there is also a—you know, a concern about retention for the services as we look at health care. Can you just very briefly—and we can look at this again. I am just wondering how that fits in, obviously, within the personnel committee in trying to continue and work with you as you move forward in that area.

Secretary MCCORD. Well, Ms. Davis, as you know, the management of the health enterprise is on the table, I believe, in both authorization bills.

Mrs. DAVIS. Right.

Secretary MCCORD. So we recognize that that is something that may be coming. I don't see us right now altering our audit strategy for DHA. But, you know, it is something we would take a look at, depending on how this comes out at the end of the year in the final NDAA. But, yes, I do—

We have, of course a number of years, we have had changes in TRICARE that we requested that have been agreed sometimes in part and sometimes not. But then there is a more fundamental management change that is on the table this time. Again, I don't see that, though, having us—it needs to be audited. However it is run, however it is managed, it needs to be audited. So I think that we are going to probably press ahead basically unless we see, you know, the management changes would require us to do something else. But at this time I think that we would probably stick with the

plan of having the DHA be one of those corps defense agencies, along with DLA, DISA, that are the first things that we need to get done.

In terms of having the whole Department be audited, you know, you cannot overlook the big defense agencies. There is an agency here or there that is so small and specialized, maybe the folks—the system, the POW/MIA [prisoner of war/missing in action] effort, that you could possibly pass an audit if they—you know, they would be so small. But DHA is not one of those.

Mrs. DAVIS. Right.

Secretary MCCORD. So I think that we are going to probably just continue to press, unless we see that the management changes that might be—ensue out of the NDAA or otherwise would cause us to revisit, but I don't anticipate that at this time.

Mrs. DAVIS. Okay. Thank you.

The CHAIRMAN. Mr. Lamborn.

Mr. LAMBORN. Thank you, Mr. Chairman. And excuse me for being late. I was in another committee having a markup on a number of bills. But thank you for having this hearing.

And I hope I am not duplicating anything that may have been asked or answered earlier. In fact, I know this is related—not the same, but related to what Representative Conaway was just asking you about. But this is for any one of you.

In your written statement, you identified that auditors found noncompliance with IT controls to be an issue. You cite that remediation actions have focused on the accreditation processes for these systems, yet in reality, these are typically one-time activities that have been valid for several years. Your stated course of action does not address the human aspect of this noncompliance.

So why are administrators throughout the enterprise not removing users' access when they leave an organization? Are administrators receiving additional training or losing their privileges? This is a huge vulnerability that our adversaries can and most likely have exploited.

Secretary SPEER. I will take that one on first. Because, you know, we had a false sense of security. We implemented a brand new ERP across the Department of the Army and GFEBs in the control mechanisms, and we had documented as to what folks needed to do in terms of access controls. But, again, the human in the loop wasn't enforcing it. So we brought folks together and we found out what was wrong, and we are now identifying both the further controls to ensure it is being done properly. And we found not only had it not been done inside of that ERP, the feeder systems.

So when we talked earlier about having multiple findings, we had 290 findings in the Army. Of the findings, 32 percent of our findings from the audit through an SBA dealt with systems. So many of those were duplicates across. And so we have to go through and now start putting in the regular checks to make sure folks are, in fact, clearing people out when they out-process.

Many of those are manual processes that individuals have to make sure they are done. But some of those are just making sure, again, that their standard processes are understood. They are being held accountable for those, and that who has to hold those folks accountable. And so we are putting a reemphasis focus on

those. So it is many of the control mechanisms that we talk about that are being violated when the auditors came through.

Secretary RABERN. I would just add four points. We are, in fact, removing access in those cases where we find that it is necessary and required.

I would just echo your concern about the exploitability of this problem, and it is imperative that we get it fixed at a return. We are standardizing our SOPs and requiring adherence to those SOPs. And then the final point I would make is that in every case, we are holding a flag officer or an SES career civilian accountable for the correction.

Mr. LAMBORN. And as a follow-up, although—I will wait—I will stand back and wait.

Mr. Aguilera or Mr. McCord, do you have something to add? Then I have a follow-up.

Secretary AGUILERA. I would echo the comments. We are pursuing a lot of the same policies.

Mr. LAMBORN. Okay.

Secretary AGUILERA. Not all of them have to do with—not all of those notice of findings and recommendations have to do with ghost employees that are still logging onto systems. Also things like the person—a separation of duties, the person who enters an obligation isn't the same person that approves the obligations. So we are taking steps in those arenas as well.

Mr. LAMBORN. Thank you.

And, Mr. McCord, do you have anything to add?

Secretary MCCORD. No, not on this one.

Mr. LAMBORN. Okay. And then my follow-up question, then, is did you find any of the departments more susceptible to this kind of lack of compliance or not? Are you able to comment on that? Or was it the same across the board?

Secretary MCCORD. The IT issues were pretty similar across the three. It was a major finding in every case.

Mr. LAMBORN. Okay. Thank you very much.

Mr. Chairman, I yield back.

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

And, witnesses, thank you for your testimony today, and thank you for your service to the Nation.

The need to improve business and financial oversight and transparency in the Department of Defense will help support efficiencies in your operations and strengthen controls to deter waste, fraud, and abuse. This is something that the American people will hold us as their elected representatives accountable for, and so we must hold you all accountable for it.

And I know that the Department is committed to full financial audit readiness by September 30, 2017. So over the next 15 months, DOD will be preparing its financial statements for a full audit. And what I would like to ask, and I hope that this question has not been asked and answered—I am just arriving at the hearing. I had prior business, so I apologize for not being here to listen to all of the testimony and questions and answers.

But if punitive actions are taken by Congress, do you believe that this will help ensure the future preparation and readiness of the

Department of Defense for an audit or will it hinder it? And I will ask each one of you that question.

Secretary MCCORD. Thank you for that question, Mr. Johnson. When you say “punitive actions,” I guess the first thing that comes to mind to me are the several versions of what has been called Audit the Pentagon Act that have been introduced in the House or the Senate over the last couple of Congresses. And often the penalty or the stick in those bills is to take funding away from a department or some part of a department that doesn’t have a clean opinion and give it maybe—and there might be a carrot aspect where the money would flow to someone who has a better audit performance.

And the fundamental concern I have about that is that each of our military departments or each of our parts of the department has a mission to perform, and taking funding away from them because of their audit performance or lack of audit performance doesn’t change the fact that they still have a mission to do. And on the flip side, to give money to—to make up an example, to give money to DTRA [Defense Threat Reduction Agency] because DTRA passed an audit over and above what they request and what they need, to me, is not a good use of taxpayer resources either.

I mean, I understand that money is an incentive in life, but to—the biggest stick that has been out there in the various iterations of this bill has been to take money or to take milestone authority or other—to make acquisition decisions harder is the other one. But, similarly, I mean, the reason that we have these programs and the reason that we request funding for particular agencies within the Department is because they have a mission to perform, and I would sort of hate to divorce the funding—you know, you should evaluate that on the merits, whether you think what DTRA or some other part of the agency is doing is needed or not needed based on requirements, not based on as a regard for performance, as important as it is, on the audit.

Mr. JOHNSON. I understand. Any of the other witnesses have anything to add to that?

Secretary SPEER. You know, I would add the same thing to that. I think it is more holding accountable instead of disincentivizing. Because I think some of the—I will call them punitive measures or disincentives. It is like failing a class and then saying, well, you don’t go to class then. The people who need the funding need to be able to fix and rectify some things that some of the folks will be pulling the funding from and completing the mission they need to.

I think we definitely need to hold a level of accountability, but in terms of what this committee is doing to us right now is, you know, identifying and then recognizing those folks who do achieve and providing some sort of incentive to do so and providing the value of what they need to do.

I think that some of the things we have seen in terms of those—for instance, I can’t do the work without DFAS. Taking DFAS away from the Department of Defense would not help us.

Mr. JOHNSON. All right.

Secretary SPEER. We need to share the responsibility for those things, identify what is not being done, then rectify those things.

Mr. JOHNSON. All right.

Doctor.

Secretary RABERN. I would echo my colleagues, but I would add that these kinds of punitive actions would potentially further degrade readiness at a time when our personnel tempo is quite severe. And the last thing I would say is I believe it would further—it would demoralize our workforce who have worked so hard to get us to the point where we are now.

Mr. JOHNSON. All right.

Mr. Aguilera.

Secretary AGUILERA. I would echo the comments already made. It would damage readiness. And then, as I said before, as an auditor I have been heartened by seeing the cooperation among the different communities in the Air Force, civil engineers, logisticians, engaged in our auditability. And so punitive actions like that would actually retard the whole audit process because they wouldn't have the manpower, they wouldn't have the resources available to them to help us reach audit. So in the end, it would actually set us back.

Mr. JOHNSON. All right. Thank you, and I yield back.

The CHAIRMAN. My understanding is there are no more questions. So I want to thank you all for being here. I think it is important to also express appreciation for the progress that has been made so far.

It seems that we went a long time with fits and starts and restarts on this audit issue, but now we are making progress. And I think that is credit to the leadership of the departments involved and especially to the people you all work with every day. And I know you will understand, if we work to continue to hold the Department's feet to the fire, that we meet the statutory requirement and can ultimately have a successful audit.

As we talked about, it is important for public confidence, it is important for better decisionmaking, and then—so there is a lot that stems from the controls and systems that are put in place when you can have a successful audit.

So, again, thank you all for being here and answering our questions. And we will look forward to further conversations on this in the future.

The hearing stands adjourned.

[Whereupon, at 11:40 a.m., the committee was adjourned.]

A P P E N D I X

JUNE 15, 2016

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

JUNE 15, 2016

Joint Statement

of

The Honorable Mike McCord
Under Secretary of Defense (Comptroller)/
Chief Financial Officer;

The Honorable Robert M. Speer
Assistant Secretary of the Army,
Financial Management and Comptroller;

The Honorable Susan J. Rabern
Assistant Secretary of the Navy,
Financial Management and Comptroller;

and

The Honorable Ricardo A. Aguilera
Assistant Secretary of the Air Force,
Financial Management and Comptroller

before the

United States
House Armed Services Committee
June 15, 2016

Embargoed Until Released

Mr. Chairman, Congressman Smith, members of the Committee: Thank you for the opportunity to report on the status of the Department of Defense's (DoD) financial management, with a specific focus on audit readiness. We are proud of what our enterprise-wide team has accomplished and are confident that we are on a solid path to financial auditability.

Because not everyone is a certified public accountant, we will preface our comments by explaining what a financial audit means. One sometimes hears in the media that the Pentagon is not being audited. On the contrary, we have hundreds of audits conducted on all facets of the Department's programs every year as part of what we consider very thorough government oversight. However, a financial statement audit is much different than a program audit. While audit principles are the same, program audits look at narrow slices of our business and are not time constrained. A financial audit, in contrast, is time sensitive and focuses on entire organizations and their processes. Contrary to popular belief, financial statement audits do not specifically look for potential waste or inefficiency. A clean opinion on a financial audit does not guarantee that all the funds were spent wisely. And the absence of a positive financial statement audit opinion does not mean that there is rampant waste or fraud, or that we do not know where we spend our money. The lack of an unmodified, or "clean," audit opinion does mean that our processes, systems and controls do not measure up to current accounting standards. We are working hard to make appropriate adjustments to fix this.

When Secretary Carter appeared before this committee on March 22, he described his reform agenda, which includes an emphasis on innovation in what we buy, how we attract and retain talent, how we think and operate and how we do business, from warfighting techniques to acquisition policy to our business processes, including achieving auditability. We assure you that Secretary Carter, Deputy Secretary Work, the Secretaries of our Military Departments, and

other senior DoD leaders are committed to achieving and sustaining auditable financial statements to reassure Congress and the American public that DoD is a good steward of their funds.

Secretary Carter has clearly said that Congress and taxpayers should—and do—expect nothing less than auditable financial statements from DoD. We specifically appreciate your commitment to this issue. In that regard, the Committee’s understanding of the issues related to this initiative and your leadership have been very instrumental. Congressman Conaway’s 2012 panel, for example, directly contributed to our audit efforts, to include providing a comprehensive set of recommendations that we continue to implement and track. Our personal thanks go to him for his constructive support and engagement, and his Pentagon visits to attend meetings and monitor our efforts.

Six years ago, when the National Defense Authorization Act for Fiscal Year 2010 codified the requirement that our financial statements be audit ready by September 30, 2017, we were setting broad priorities, revising our strategy and methodology, and assessing business processes from end-to-end so that we could better understand the problem. In many ways, this “discovery” period has made us appreciate that the expertise, business processes, and systems that have served our national security mission so well were not developed with a financial audit in mind. Making the necessary changes in all three business elements—people, processes, and systems—takes time, but these changes are well underway and being evaluated by independent auditors.

Today, over 90 percent of the Department’s \$673 billion in current-year budgetary resources and 78 percent of total budgetary resources are under audit. Importantly, we know

what work has to be done to prepare the remaining statements for audit. We have a credible plan in place and work is intensifying and finely focused. This is a great achievement and a testament to the sustained commitment of leadership at the highest levels and of the hard work of both financial and functional communities.

We would like to put this achievement as well as the magnitude of the challenge in better context for you. The Department of Defense operates around the globe, on land, on the seas, in the air, in space, and in cyberspace. We are arguably the largest organization in the world. We buy everything from basic supplies to satellites and ships; provide worldwide health services to our uniformed members, their families, and veterans; support research and development critical to our national security; deploy troops; house and move families; and operate schools, commissaries, and recreational facilities. We serve in peace keeping, humanitarian, and combat operations all over the world.

The sheer size and scope of our operations dwarf every federal agency and most multi-national companies. Each Military Department would make the Fortune 500 list in its own. In fiscal year (FY) 2015, the Department reported \$560 billion in net costs, \$2.3 trillion in assets, and \$2.4 trillion in liabilities. We manage nearly 3 million active duty, reserve, and civilian personnel and provide benefits to more than 2 million military retirees and their family members.

While the Department's size has varied through history, we are quite large and it will take many years to fully integrate our processes and systems so that they can successfully sustain an audit. Change is always hard, but changing a huge, global enterprise in a resource constrained, dynamic national security environment has been a truly daunting task.

Progress to Date

Last fiscal year, each Military Department began its first independent audit of its General Fund FY 2015 appropriations, and most of the larger defense organizations completed mock audits of their FY 2015 budgetary resources. (A mock audit is different from an audit or examination in that we are using experienced auditors to conduct "audit-like" reviews or testing, but these auditors support management and, as a result, are not considered independent." For smaller organizations, this is a more reasonable use of resources.) Additionally, a number of reporting entities are sustaining positive audit opinions on their full financial statements, including the U.S. Army Corps of Engineers – Civil Works; the Defense Finance and Accounting Service; the Defense Contract Audit Agency; the Defense Commissary Agency; and two of our largest funds, the Medicare-Eligible Retiree Health Care Fund and the Military Retirement Fund. The Defense Information Systems Agency and the Defense Logistics Agency recently contracted for a full financial statement audit. Next year, full financial statement audits are expected to begin for the U.S. Special Operations Command, the U.S. Transportation Command, and the Defense Health Programs.

We currently grade and rank all organizations relative to how advanced they are in achieving auditable financial statements. This also ensures that senior leaders can monitor progress in those areas most critical to audit readiness, such as having a complete list of assets or balancing our "checkbook" with the Department of the Treasury. We continue to closely monitor progress against the critical capabilities. Our May 2016 Financial Improvement and Audit Readiness Plan Status Report details the status and plans of the Military Departments and other Defense entities. The Assistant Secretaries for Financial Management and Comptroller for each Military Department are fully engaged and each of us provides a brief summary of the

status of audit efforts within our military department. While individual Service plans may vary based on unique aspects and conditions of each Service, their approaches are sound and their commitment is constant and unified.

Army Perspective on Progress to Date

Audit readiness is a top priority for the Department of the Army. Army leaders remain fully committed and actively engaged in ensuring compliance with auditability and sustainability requirements, while working to improve Army financial management.

The Army has been using a series of successive audits of its General Fund Schedule of Budgetary Activity (SBA) and targeted elements of the balance sheets in order to drive towards meeting Congress' requirement and senior leaders' desire for asserting auditable financial statements by September 30, 2017. In addition to SBA audit activities, the Army is establishing methodologies for valuing balance sheet assets and liabilities, including real property (buildings), general equipment (end-user equipment, such as helicopters), operating material and supplies (e.g., ammunition), and environmental liabilities (e.g., environmental cleanup and disposal costs). The Army plans include continued use of audits and examinations to drive financial improvements that will lead to fiscal responsibility and supportable financial statements. The Army's FY 2016 General Fund SBA audit is now underway. In addition, the Army has expanded efforts into a limited-scope audit of the Army's working capital fund.

Throughout and following these audits, the Army uses audit results to develop corrective action plans to focus efforts and resources on remediating deficiencies. Army leaders monitor efforts and status of the organizations responsible for remediating and achieving the identified corrective actions. These corrective actions will be the critical factor in the Army's ability to

meet the congressionally-mandated deadline. In addition, these audits are building experience and understanding across the Army as to what financial statement audits require and what will be required to sustain audit readiness. The Army is fully committed to asserting full financial statement audit readiness by September 30, 2017.

Navy Perspective on Progress to Date

During the FY 2015 SBA audit, Navy commands produced on time over ninety-five percent of the documentation requested by the auditors. Careful preparation, solid teamwork, and tremendous dedication to task were clearly demonstrated. Post-audit, Navy has implemented an aggressive enterprise-wide approach to correct deficiencies. A flag officer or senior executive is accountable for the correction of each audit finding under his or her purview. Progress is closely monitored and sustainable swift results are required.

The Navy and Marine Corps teams are executing comprehensive game plans to achieve audit readiness on all four financial statements by FY 2017. These plans emphasize sustainable, standardized, efficient business processes, improved controls over business processes, and consolidation of information technology (IT) systems. The Department is implementing the Department of Treasury's "G-Invoicing" program which will standardize processes, receipt, and acceptance for reimbursable work orders. Navy is replacing one of its two General Fund accounting systems with the Marine Corps' general ledger, which is more audit-compliant. Navy continues to implement changes to Navy Enterprise Resource Planning to expand its capabilities and audit compliance.

In addition, Navy commands are now tracking, documenting, and reducing the number of accounting adjustments while eliminating the root causes for the adjustments. The Navy is also

instituting regular reconciliations, facilitating end-to-end tracking of all financial transaction data flowing between systems. Finally, the Service has made major strides in accountability for major military assets, especially in the areas of real estate, inventory, ordnance, and military equipment.

The U.S. Marine Corps (USMC) has made major improvements in its business environment in the years since it became the first Service to undergo audit. The progress the Marines have made in audit readiness is directly attributable to the leadership and diligence its team has shown. It is presently on track to assert auditability on all four of the USMC statements at the end of FY 2016, a year earlier than the Congressional mandate requires. The Marine Corps' experiences with "full" financial statement audits will be a tremendous help to the Navy and the other Services in preparing for audits.

Air Force Perspective on Progress to Date

The Air Force continues to make significant progress in its drive to produce auditable financial statements by September 30, 2017. Air Force commitments to accountability and continued responsible financial management are evidenced by the results produced by its airmen and service providers. As mentioned in the "Progress to Date" section of this statement, the Air Force completed its first ever audit of the General Fund Schedule of Budgetary Activity for FY 2015. This marked a critical milestone for Air Force audit readiness efforts, validated its strategy, and provided valuable insight and areas for improvement in Air Force business operations. The Air Force has worked closely with its auditors to prioritize findings and recommendations from the audit and implement cost-effective corrective actions.

The active engagement of Air Force leaders has been critical to its success, and the Air Force continues to include financial improvement and auditability goals in the annual performance plans for all of its senior executives. Significant progress has been made in recent years, but there is a long way to go. Our new financial management system, the Defense Enterprise Accounting and Management System (DEAMS) will serve as the foundation for long-term Air Force financial management improvement efforts. DEAMS has deployed to approximately half of the entire Air Force user base and provides inherent accounting controls in a commercial off-the-shelf accounting system. As the Air Force transitions from legacy systems to an enterprise solution, it continues to embed audit improvements in its business processes.

While the history of other federal agencies' financial audits shows that large agencies take three to five years to achieve unmodified audit opinions, the Air Force is committed to becoming audit ready and to ultimately achieve an unmodified audit opinion as soon as possible. The magnitude, complexity, and nature of Air Force operations, processes, and systems create challenges, but it continues to make progress. The Air Force knows what work needs to be done, and it has a credible plan in place to accomplish it.

Interpreting Initial Audit Results

The individual audits of the Military Departments' General Fund FY 2015 appropriations each resulted in a disclaimer. In other words, sufficient information was not readily available for auditors to make judgments, so auditors could not complete the audits. These outcomes were fully expected. Audits of the Military Departments' FY 2016 Schedules of Budgetary Activity are underway and similar results are expected. While the opinions, themselves, may not change, we are committed to demonstrating progress by prioritizing and fixing documented problems.

Because the approach of building an initial foundation with audits of current year budgetary resources began with the Marine Corps, we recognize the Corps' role in "taking the beach" for us in what has been an enduring annual campaign, from which we have learned many lessons. In its third year of effort, it received an unmodified (or clean) opinion from the DoD Office of Inspector General (DoD OIG) on its FY 2012 SBA. This opinion was later withdrawn after a subsequent audit identified uncertainty involved in handling suspense accounts. While a recent review determined the value of these suspense accounts to be less than material, the DoD OIG stated that it was no longer cost effective to try to support a restatement of the earlier clean opinion, particularly as the Government Accountability Office had highlighted additional concerns with this opinion. All parties agree, however, that the Marine Corps has made significant progress with these limited scope audits and will enter a full financial statement audit next year. This is an example of where setbacks on this audit journey can actually support later progress.

One lesson that we have learned is that it takes time for the audit infrastructure to mature, lessons learned to be implemented, and findings remediated. For example, it took the Department of Homeland Security ten years to achieve an unmodified opinion on its full financial statements, and its budgetary resources are only \$89 billion compared to DoD's approximately \$1 trillion in budgetary resources—one-tenth the size of DoD's. Again, the resulting disclaimers were not unexpected. It will still take many years before a positive audit opinion is received. We have a lot of work to do to improve our overall business practices and systems, both to improve the quality of our financial information across the enterprise and to pass an independent audit.

Addressing Audit Findings

So what is left to do to get to the 2017 goal? Our first priority is to fix known problems and address auditor findings. The initial, limited-scope audits of the Military Departments resulted in more than 400 combined auditor findings and recommendations. The large number of problems and the redundancy of problems across the components suggest systemic issues. Solving these problems requires the concerted efforts of many, not just the military Services' and not just the financial management community's. What is a problem for one organization may very well be a problem for another organization. Policies must be updated and new procedures put in place. Leaders have made resolving these issues a priority, and acquisition personnel, logisticians, and resource managers all have a role to play.

Findings from the initial audits primarily fall into the broad categories of:

- Documentation,
- IT systems,
- Balancing our “checkbook” with the Department of Treasury, and
- Manual corrections.

Documentation

Documentation is one of our biggest hurdles. Auditors found we are too often missing either the documentation to support the transaction, itself, or the documentation to support the authority for the transaction. For example, an auditor test of civilian pay could examine a sampling of new hire paperwork, timesheets, leave requests, annual performance reviews, and promotions. Each piece of documentation would be checked for proper signatures and approvals, timeliness, and so on. Auditors would want to confirm that policies and procedures

are being followed and records maintained, not just whether the proper amount was paid. For FY 2015, the civilian pay processed by the Defense Finance and Accounting Service (DFAS) was approximately \$50 billion and is just one example of an area auditors could explore. Each day we complete hundreds of thousands of transactions—from purchasing lightbulbs to deploying troops worldwide. In FY 2015, DFAS processed 135.7 million pay transactions, made 5.7 million travel payments, and paid 11.8 million commercial invoices. For each transaction, proper documentation must exist and be available to auditors. Documentation is equally important in providing both the authority or, in some cases, the methodology for the business process. Remediation actions are focusing on using electronic media and developing central repositories for key documentation, supporting more timely access.

IT Controls

Auditors found that IT controls, such as security measures, were not effective or not in place. For example, in some instances auditors found that people who had left their positions within an organization still had access to its systems. In addition to financial audit implications, IT controls also support our cybersecurity goals and are particularly critical because of the sheer size of our enterprise. Remediation actions are focusing on integrating current systems' accreditation processes under CIO cognizance with additional reviews that directly support financial controls and the audit.

Balancing our "Checkbook" with the Department of the Treasury

Each month, our records get reconciled to records held by the Department of the Treasury. The process is similar to a personal checking account balance that must be increased for deposits (appropriations and collections), decreased for expenditures, and then balanced to a

bank statement. Due to the size of the DoD budget, the multitude of systems, and the enormous amount of funds expended and collected, the number of accounting transactions that must be reconciled between DoD accounts and Treasury is very large and the task complex. Auditors found that often the entity did not have a process to routinely balance its checkbook and resolve any discrepancies. Remediation actions have been directed at addressing root causes for current transaction exceptions, as well as implementing automated tools that support regular cash reconciliations.

Manual Corrections

When problems arise with balancing our books, we too often make a manual correction, more commonly referred to as a journal voucher, to record the adjustment. One audit cited 20,000 journal vouchers in one month. Manual corrections often lack supporting documentation to justify the adjustment. Additionally, too many manual corrections may be an indicator of underlying problems, such as weak internal controls. For an auditor, manual corrections are a red-flag for transactions not being captured, reported, or summarized correctly. Auditors must judge whether the errors that triggered the correction are isolated or systemic, leading them to select more transactions to test. If the auditors cannot estimate the magnitude of the errors, they may not be able to complete the audit or issue an opinion on the financial statements. Remediation actions for this category vary, but the largest material weakness (dollar wise) involves reconciling intragovernmental business transactions. DoD is working closely with Treasury to develop and implement a much needed, government-wide solution.

Remaining Challenges

While significant progress has been made on our current priorities related to budgetary execution and asset accountability, much more work remains. This work can be addressed in terms of three specific high-risk categories: valuing assets, preparing information related to sensitive activities, and IT systems.

Valuing Assets

Fixing these known problems is our top priority. Our biggest challenge, however, is having a complete list and cost of our assets. The Department manages a huge inventory of assets, consisting of more than 500,000 buildings and other structures located at nearly 5,000 different sites. Our Real Property totals more than \$1 trillion in replacement value. Assets also include inventories of supplies, military equipment, and software. Inventory and Operating Materials and Supplies total over \$250 billion (gross) and Equipment, when measured in historical cost, totals over \$1 trillion.

In order to complete an audit, we have to know with certainty that all of our assets have been inventoried and how much we paid for them. This is especially hard with historical assets, many of which were acquired long ago. Sometimes the original documentation just does not exist. We have been working with the outside board that sets federal accounting standards to develop practical, cost-effective alternatives for how we establish the value of an asset at the time it was acquired. The Federal Accounting Standards Advisory Board is even allowing us to forgo the valuation of existing land and software as a one-time exception to the rule. For other assets, we must still assign a value, and going forward, we must have the processes in place to manage all assets correctly.

Preparing Information Related to Sensitive Activities

Additionally, all of the financial information we are preparing for audit in other areas must be reported and audited for sensitive and classified activities. Auditors with appropriate clearance are being brought in, but providing sensitive documentation and accessing classified systems is taking extra time. We realize that this information must be included in our audits, but both audit and financial reporting processes must be in place to properly protect it.

IT Systems

It should come as no surprise to the Committee that IT systems also continue to be a challenge. The Department's IT systems environment includes a mix of legacy and modern systems. There are over 1,000 systems and nearly 400 separate IT systems directly relevant to audit. Most of the business legacy systems were designed to support a particular function, such as property management. As a result, a single transaction may pass through several different systems as it moves through different functional areas. In addition to being inefficient, multiple entries dramatically increase the likelihood of human error. Further, auditors cannot trace our dollars when transactions move from one system to another. Because the systems were not integrated when they were set up, fixing problems requires a lot of manual workarounds, stretching resources even more thinly. Outdated policies and procedures have triggered unnecessary system modifications that exacerbate the problem, and many of the legacy systems will still be in use when we begin full financial statement audits in FY 2018. Implementing integrated systems, along with making policy and procedure changes, is being consistently supported by management.

Projections for FY 2017 and Beyond

Documentation, valuing assets, IT systems and controls, sensitive information—these are the areas we are watching most closely. Our plan for addressing problems and going under audit is sound, and initial audits underscore both our progress and our plan for moving forward. We currently have a plan to present the entire Department of Defense for audit. It will involve individual standalone audits for the following organizational entities:

- Military Departments,
- Largest (most “material”) Defense Agencies and funds,
- Components and funds that already have financial statement audit opinions, and
- Defense intelligence agencies.

These audits are essential and cover, on a standalone basis, the vast majority of the information that makes up the DoD Consolidated Financial Statements. More importantly, these audits should satisfy both Congress’ and the American people’s desire for improved visibility and assurance that we are being good stewards of the funds entrusted to us. Stewardship also includes not spending funds unnecessarily. The cost both in time and resources of contracting for and beginning an audit of our consolidated financial statements, when impediments to success are known to exist, are prohibitive. We must continue to mitigate and evaluate risks related to a full audit before proceeding to the audit, itself.

Over the next 16 months and beyond, we will continue to improve systems, simplify procedures, and transition our workforce into the new way of doing business—annual audits. Working groups are addressing the most challenging policy issues, legacy systems are being

sunset, and better systems deployed. Leaders are maintaining momentum by embracing better and more efficient ways of doing business.

In March 2016, each Military Department's reported to the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff that it would be audit ready by September 30, 2017, and were committed to entering a full financial statement audit in FY 2018. Given the significant work remaining, the Deputy Secretary asked for another reassessment this fall. He stressed the importance of making and sustaining improvements, and leaders are aware there is a long way to go before the Department achieves the same level of excellence in its business operations as it has in its mission operations. Senior leaders will continue to review the Department's audit readiness status to ensure audit remains a visible Department-wide priority and progress remains on track.

This kind of high-level visibility and commitment is essential as we prepare to transition to a new administration. We are transforming long-standing business processes that have supported our missions for many years but that were not always sufficient. We have also established sufficient positive momentum for this important initiative that will assure that it will readily transition to the next leadership team.

Current Incentives Are Sufficient and Stability is Important

As mentioned before, we greatly appreciate the support the Committee has given the Department in moving us to audit. The attention you focus in your oversight role is positive, constructive, and needed. However, there are currently some members of Congress who question our commitment to and progress on audit. They want to add disincentives that would be counterproductive to the teamwork and the synergy we have built across the defense

enterprise. For example, the Administration objects to language in section 901 of S.2943, the Senate Armed Services Committee National Defense Authorization Act for Fiscal Year 2017, which would move DFAS from the Under Secretary of Defense (Comptroller) to the Under Secretary of Defense (Business Management and Support) organization. DFAS performs important financial management and pay functions that are and should remain under the purview of the Chief Financial Officer (CFO). This action would remove core financial management functions, including payment of the Department's vendors, cash management, and financial audit support from the supervision of the CFO and sever critical links between DFAS and the CFO with respect to management of the Department's funding and audit functions. A crucial ingredient to all the Services achieving unqualified financial audit opinions is the role DFAS plays as a service provider. As the DOD focal point for audit, the CFO's centralized control of the service provider and the audit plan ensures all are vectored properly. Moving DFAS away from the Comptroller community or even out of the Department is divisive and harmful to the forward motion we are experiencing right now. Moving DFAS introduces unnecessary churn, complexities, and risks to our efforts to improve financial processes and achieve auditability. This would create extensive layers of bureaucracy, further obfuscating an already complex environment, and raising issues of jurisdiction and organizational boundaries, compliance with policy, and unclear lines of authority. As a service provider, DFAS is only a part of the total end-to-end processes to produce auditable financial statements. The transfer would not solve any operational accounting issues and would only create a delay in achieving auditability. We hope you consider and share with colleagues that these kinds of disincentives undermine the strength of the audit teamwork already built. We are sure that is not what Congress wants.

Conclusion

Mr. Chairman, this completes a brief review of just some of our many efforts to continue to improve Defense financial management, in order to become auditable. While we have made significant progress, challenges remain and there is much work still to do. We close by reiterating DoD's strong commitment to improved financial management, including auditability. We owe it to you. We owe it to the troops. And we owe it to the American people.

Mike McCord was sworn in as the Under Secretary of Defense (Comptroller)/Chief Financial Officer on June 27, 2014 and serves as the principal advisor to the Secretary of Defense on all budgetary and financial matters, including the development and execution of the Department's annual budget of more than \$500 billion.

Before assuming his present position, Mr. McCord served for five years as the Principal Deputy Under Secretary of Defense (Comptroller). In addition to other duties, he served as DoD's Senior Accountable Official for the American Recovery and Reinvestment Act of 2009 and was a member of numerous senior-level decision-making bodies inside the Department on budget, program, strategy, financial management and legislative matters.

Mr. McCord joined the Department of Defense (DoD) with 24 years of experience in national security issues in the legislative branch, including 21 years as a Professional Staff Member on the Senate Armed Services Committee (SASC) for former Senator Sam Nunn and the current Chairman Senator Carl Levin. He served on the SASC full committee staff beginning in 1987 and also, starting in 1995, as the minority or majority staff lead on the Subcommittee on Readiness and Management Support.

On the SASC Readiness Subcommittee, Mr. McCord was responsible for installation and global basing matters including construction or leasing of new military facilities, maintenance of existing facilities, base closure and base reuse matters, land and property disposal and exchange issues, DoD use of public lands, and privatization of DoD housing and utilities. He was also responsible for oversight of over \$100 billion in annual DoD operation and maintenance funding and military readiness policy matters including training, contingency operations funding, equipment maintenance, and the working capital funds.

At the full committee level he had oversight of defense budget matters, including the defense topline; oversight of DoD's Quadrennial Defense Review; supplemental funding for contingency operations and natural disasters; resource allocation among subcommittees; ensuring compliance with discretionary and mandatory spending targets; and advising the Committee on fiscal and budget policy issues. He also managed the Committee's review of the reprogramming of defense funds and coordination with the Appropriations and Budget Committees.

During 2003, he served as the budget analyst for defense and veterans issues for the Democratic staff of the House Budget Committee under Representative John Spratt. His primary focus was on the cost of military operations in Iraq and Afghanistan. Mr. McCord began his career as an analyst at the Congressional Budget Office, where his primary responsibility was analysis of military personnel programs, including personnel strength levels, pay and benefits costs, and military retirement.

Mr. McCord has a B.A. with honors in economics from the Ohio State University and a Master's degree in Public Policy from the University of Pennsylvania. He and his wife Donna reside in Virginia.

Honorable Robert M. Speer
Assistant Secretary of the Army
Financial Management and Comptroller (ASA (FM&C))

On 3 December 2014, Mr. Robert M. Speer became the Assistant Secretary of the Army, Financial Management and Comptroller (ASA (FM&C)). Mr. Speer advises the Secretary of the Army and Chief of Staff, on all matters related to Army financial management. He oversees the development, formulation, and implementation of policies, procedures and programs for improving the efficiency and effectiveness of overall resources in the Department of the Army. He is also responsible for the formulation and submission of the Army budget to Congress and the American people.

From 28 February 2014 to 2 December 2014, Mr. Speer was the Acting Assistant Secretary of the Army, Financial Management and Comptroller (ASA (FM&C)).

In October 2009, Mr. Robert M. Speer was designated as the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller) (PDASA (FM&C)).

Prior to these assignments, Mr. Speer served as a Managing Director for PricewaterhouseCoopers Public Services, where he led their Defense and Army business. He has been significantly involved in Department of Defense financial management solutions and defense related professional organizations throughout his career. His position with PricewaterhouseCoopers followed nearly 28 years of experience and progressive responsibility in Department of Defense /Federal comptrollership, budgeting, finance, treasury, accounting, program management, and federal financial management systems.

CHRONOLOGY:

- Managing Director, PricewaterhouseCoopers, Federal Practice lead for Defense and Army business, McLean, VA, December 2005-October 2009
 - Engagement Director, Office of the Under Secretary of Defense (Comptroller), Audit Readiness Support, October 2008-October 2009
 - Engagement Director, Defense Finance and Accounting Services, Enterprise Risk Management and Business Activity Monitoring, October 2006-October 2009
 - Program Manager, US Army Corps of Engineers Civil Works 2006 Financial Statement Audit, March 2006-November 2006
- U.S. Army and Department of Defense
 - Commandant, U.S. Army Finance School, July 2002-November 2005
 - Comptroller, Program Management Office for the Iraq Relief and Reconstruction Fund (IRRF), January 2004-July 2004
 - Executive Officer, Assistant Secretary of the Army for Financial Management & Comptroller (ASA(FM&C)), July 2000-June 2002
 - Commander, Defense Finance & Accounting Service (DFAS) Operating Location, San Antonio, Texas, July 1998-June 2000
 - Program Manager, Joints Chiefs of Staff, Chief, Joint Intelligence Architecture and Technology Division, Director for Intelligence, July 1997-June 1998
 - Executive Officer, Deputy Assistant Secretary of the Army for Financial Operations, (FM&C), July 1995-July 1996
 - Finance Branch Chief, Personnel Command, Alexandria, VA, July 1993-June 1995
 - Commander, 82d Finance Battalion, 82d Airborne Division, June 1991-June 1993
 - S3, 18th Finance Group, XVIII Airborne Corps, Fort Bragg, NC and Desert Shield/Desert Storm, Southwest Asia, July 1990-May 1991
 - Executive Officer, Information Systems Software Command, Fort Belvoir, VA, February 1988-June 1989
 - Commander, Headquarters and Headquarters Company, Information Systems Engineering Command, Fort Belvoir, VA, September 1986-February 1988
 - Chief of Pay and Exam, 39th Finance Section, Hanau, GE, August 1980-June 1983
 - Chief of Disbursing, 30th Finance Section, Fort Sill, OK, January 1979-August 1980
 - Deputy Chief of Central Accounting Office, 30th Finance Section, Fort Sill OK, October 1978-December 1979

COLLEGE:

- MS, National Resource Strategy, Industrial College of the Armed Forces, Washington, DC, 1997
- MBA, Management of Information Systems, Indiana University, Bloomington, IN, 1985
- BBA, Accounting, University of Notre Dame, Notre Dame, IN, 1978

SIGNIFICANT TRAINING:

- Industrial College of the Armed Forces
- Command and General Staff College
- Defense Enhanced Financial Management Training

CERTIFICATIONS:

- Certified Defense Financial Manager

AWARDS AND HONORS:

- Distinguished Service Medal
- Defense Superior Service Medal
- Legion of Merit
- Bronze Star (2d Award)
- Meritorious Service Medal (6th Award)
- Army Commendation Medal

PROFESSIONAL MEMBERSHIPS AND ASSOCIATIONS:

- Association of the U.S. Army (AUSA)
- American Society of Military Comptrollers (ASMC)
- Association of Government Accountants (AGA)

While on active duty in the U.S. Navy, Dr. Rabern held positions on the staff of the Chief of Naval Operations and Joint Chiefs of Staff, where she was responsible for budget development, financial forecasting, preparation of briefings for the Joint Requirements Oversight Council and Quadrennial Defense Review, posture statements and Congressional testimony. Upon retiring from the U.S. Navy in 2000 she was selected into the Federal Bureau of Investigation's Senior Executive Service and assigned as Assistant Director & Chief Financial Officer. As principal advisor to the FBI Director on all financial matters, she was responsible for all financial planning, programming, budgeting, investment, audits, contracting, establishing standards, policy and procedures worldwide and congressional appropriations testimony.

As Assistant Commissioner & Chief Financial Officer of the U.S. Customs Service, Dr. Rabern served as the key advisor to the Commissioner on all matters relating financial and resource programs, construction and procurement. She oversaw all financial management and accounting activities relating to operations and programs, including, human capital, payroll and benefits, and the agency's annual audit. She was responsible for financial statements and reports to the Department of the Treasury, Office of Management and Budget, and Congress.

As Chief Financial Officer of the U.S. Agency for International Development, she was responsible for all financial matters related to the delivery of economic development and humanitarian assistance programs through grants, contracts, and loans to governmental and non-governmental organizations globally. She developed and implemented a system of internal financial management controls to assure timely identification of management decisions required to ensure fiscal integrity.

As Deputy Director of the USAID Office of Military Affairs, Dr. Rabern was responsible for stand-up of the Secretary of Defense and Secretary of State's "3-D" Strategy within the geographic Combatant Commands. She worked hand-in-hand with regional and functional command centers, the State Department's Office of the Coordinator for Reconstruction and Stabilization, and the Bureau for Political & Military Affairs, managing all resourcing and personnel functions, developing performance goals and indicators, and providing a structure to integrate the development, diplomacy and defense elements of the National Security Strategy including reconstruction, stabilization, strategic communications and security sector reform.

As a student at the Industrial College of the Armed Forces, Dr. Rabern served as a research fellow, focusing on U.S. engagement with the former Soviet Union. While earning a Ph.D at the University of Virginia she taught at the Virginia Military Institute, later serving as the inaugural Director of the Institute's Center for Leadership & Ethics where she was responsible for leadership development, preparing cadets for service to the nation.

Ricardo A. Aguilera is the Assistant Secretary of the Air Force for Financial Management and Comptroller. As the Air Force's comptroller and chief financial officer, he serves as the principal adviser to the Secretary and Chief of Staff of the Air Force on all financial matters. He is responsible for providing the financial management and analytical services necessary for the effective and efficient use of Air Force resources, to include nearly 700,000 military and civilian personnel and a budget of about \$167 billion. This includes directing the development of the Air Force program and budget, overseeing the Air Force Cost Analysis Agency's acquisition and operational cost analysis, providing analytical services necessary for the effective and efficient use of Air Force resources and conducting Air Force accounting and finance operations.

From 2010 until his current appointment, Mr. Aguilera was the director of the Chief Financial Officer Academy at the National Defense University's College. In this capacity, Mr. Aguilera helped develop curricula and lectures, and he provided administrative support to the CFO Academy.

Earlier in his career, Mr. Aguilera was promoted into the Senior Executive Service, and from 2006 until 2008 he served as the associate director for contingencies and international affairs in the Office of the Under Secretary of Defense (Comptroller) where he oversaw all funding for military operations in Iraq and Afghanistan. From 1998 until 2006 Mr. Aguilera was the deputy chief of the Operations and Personnel Support Branch of the Office of Management and Budget's National Security Division.

EDUCATION

1987 Bachelor of Arts, New York University, N.Y.
 1991 Master of Arts, The George Washington University, Washington, D.C.
 1996 Graduate, U.S. Naval War College, Newport, R.I.
 2004 Graduate, Federal Executive Institute, Charlottesville, Va.

CAREER CHRONOLOGY

1. 1991-1993, Presidential Management Intern, U.S. Government Accountability Office, Washington D.C.
2. 1993-1998, Senior Evaluator, U.S. Government Accountability Office, Washington D.C.
3. 1998-2006, Deputy Chief of the Operations and Personnel Support Branch, Office of Management and Budget, National Security Division, Washington D.C.
4. 2006-2008, Associate Director for Contingencies and International Affairs in the Office of the Under Secretary of Defense (Comptroller), the Pentagon, Washington D.C.
5. 2008-2010, Department of Defense Comptroller Chair, CFO Academy, National Defense University, Washington D.C.

PROFESSIONAL MEMBERSHIPS AND ASSOCIATIONS

Budget Federal Credit Union (Vice President of the Board of the Directors 2001-2005)
 American Society of Military Comptrollers
 Association of Government Accountants

PROFESSIONAL CERTIFICATIONS

Certified Defense Financial Manager

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

JUNE 15, 2016

RESPONSE TO QUESTION SUBMITTED BY MR. CONAWAY

Secretary AGUILERA. At the Air Force Senior Executive Service (SES) level, Financial Improvement and Audit Readiness (FIAR) has been incorporated into performance plans. We have performed a review of the performance objectives for senior leaders and we are currently not aware of any specific disciplinary actions taken as it relates to FIAR. In response to audit findings and readiness activities, corrective actions focus on developing and disseminating to the technical level process and policy changes, and implementing the training to support awareness and compliance with those changes. [See page 27.]

RESPONSE TO QUESTION SUBMITTED BY MR. GIBSON

Secretary MCCORD. Mr. Gibson, you've highlighted one of our primary vulnerabilities in the way we do business today, and also some of the key elements of our strategy for sustainment of financial auditability. The vulnerability comes from decentralizing most of the decisions on exactly how business is done across our massive enterprise, often differently for the same basic task and frequently using multiple business systems that feed information into our financial systems. Every one of these varied processes and systems should have a Standard Operating Procedure (SOP) that's been tested for effectiveness. This makes the audit more time consuming (and expensive) and creates the need for much more manual intervention to adequately monitor compliance. Simply stated, our approach in these matters is to simplify and standardize processes. One element of this approach involves reducing the number of legacy systems and standardizing both systems and data, automating controls where possible. We have issued policies enforcing upfront controls (such as system access control) and edit checks in the systems along the way to strengthen data integrity, eliminate need for manual corrections, and prevent inaccurate data from processing. As a result, there will be fewer manual processes and work-arounds required allowing us to sustain our remediation and auditability. The best example of this is in the Procure-to-Pay process where we are automating the interfaces between financial and contracting systems, and minimizing the number of systems involved in this process that supports spending streams of hundreds of billions of dollars each year. [See page 20.]

