

[H.A.S.C. No. 116-40]

**THE DEPARTMENT OF DEFENSE'S  
FINANCIAL IMPROVEMENT AND  
AUDIT REMEDIATION PLAN:  
THE PATH FORWARD**

---

COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

---

HEARING HELD  
MAY 16, 2019



---

U.S. GOVERNMENT PUBLISHING OFFICE

37-526

WASHINGTON : 2020

COMMITTEE ON ARMED SERVICES

ONE HUNDRED SIXTEENTH CONGRESS

ADAM SMITH, Washington, *Chairman*

|   |                                    |
|---|------------------------------------|
| SUSAN A. DAVIS, California              | WILLIAM M. "MAC" THORNBERRY, Texas |
| JAMES R. LANGEVIN, Rhode Island         | JOE WILSON, South Carolina         |
| RICK LARSEN, Washington                 | ROB BISHOP, Utah                   |
| JIM COOPER, Tennessee                   | MICHAEL R. TURNER, Ohio            |
| JOE COURTNEY, Connecticut               | MIKE ROGERS, Alabama               |
| JOHN GARAMENDI, California              | K. MICHAEL CONAWAY, Texas          |
| JACKIE SPEIER, California               | DOUG LAMBORN, Colorado             |
| TULSI GABBARD, Hawaii                   | ROBERT J. WITTMAN, Virginia        |
| DONALD NORCROSS, New Jersey             | VICKY HARTZLER, Missouri           |
| RUBEN GALLEGO, Arizona                  | AUSTIN SCOTT, Georgia              |
| SETH MOULTON, Massachusetts             | MO BROOKS, Alabama                 |
| SALUD O. CARBAJAL, California           | PAUL COOK, California              |
| ANTHONY G. BROWN, Maryland, <i>Vice</i> | BRADLEY BYRNE, Alabama             |
| <i>Chair</i>                            | SAM GRAVES, Missouri               |
| RO KHANNA, California                   | ELISE M. STEFANIK, New York        |
| WILLIAM R. KEATING, Massachusetts       | SCOTT DESJARLAIS, Tennessee        |
| FILEMON VELA, Texas                     | RALPH LEE ABRAHAM, Louisiana       |
| ANDY KIM, New Jersey                    | TRENT KELLY, Mississippi           |
| KENDRA S. HORN, Oklahoma                | MIKE GALLAGHER, Wisconsin          |
| GILBERT RAY CISNEROS, Jr., California   | MATT GAETZ, Florida                |
| CHRISSY HOULAHAN, Pennsylvania          | DON BACON, Nebraska                |
| JASON CROW, Colorado                    | JIM BANKS, Indiana                 |
| XOCHITL TORRES SMALL, New Mexico        | LIZ CHENEY, Wyoming                |
| ELISSA SLOTKIN, Michigan                | PAUL MITCHELL, Michigan            |
| MIKIE SHERRILL, New Jersey              | JACK BERGMAN, Michigan             |
| KATIE HILL, California                  | MICHAEL WALTZ, Florida             |
| VERONICA ESCOBAR, Texas                 |                                    |
| DEBRA A. HAALAND, New Mexico            |                                    |
| JARED F. GOLDEN, Maine                  |                                    |
| LORI TRAHAN, Massachusetts              |                                    |
| ELAINE G. LURIA, Virginia               |                                    |

PAUL ARCANGELI, *Staff Director*

MICHAEL HERMANN, *Professional Staff Member*

STEPHANIE HALCROW, *Professional Staff Member*

RORY COLEMAN, *Clerk*

# CONTENTS

---

|  | Page |
|--|------|
| STATEMENTS PRESENTED BY MEMBERS OF CONGRESS  |      |
| Smith, Hon. Adam, a Representative from Washington, Chairman, Committee on Armed Services .....  | 1    |
| Thornberry, Hon. William M. "Mac," a Representative from Texas, Ranking Member, Committee on Armed Services .....  | 2    |
| WITNESSES  |      |
| Norquist, Hon. David L., Under Secretary of Defense (Comptroller), U.S. Department of Defense; accompanied by Hon. Thomas Harker, Assistant Secretary of the Navy (Financial Management and Comptroller), U.S. Navy; Hon. John Roth, Assistant Secretary of the Air Force (Financial Management and Comptroller), U.S. Air Force; and Hon. John Whitley, Assistant Secretary of the Army (Financial Management and Comptroller), U.S. Army ..... | 3    |
| APPENDIX   |      |
| PREPARED STATEMENTS:   |      |
| Norquist, Hon. David L. ....   | 33   |
| DOCUMENTS SUBMITTED FOR THE RECORD:  |      |
| [There were no Documents submitted.]   |      |
| WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:   |      |
| Mr. Banks .....  | 43   |
| Mr. Brown .....  | 43   |
| Mr. Cisneros .....   | 44   |
| Ms. Haaland .....  | 44   |
| Mr. Langevin .....   | 43   |
| QUESTIONS SUBMITTED BY MEMBERS POST HEARING:   |      |
| Mr. Cisneros .....   | 47   |
| Mr. Conaway .....  | 47   |
| Mr. Waltz .....  | 48   |



**THE DEPARTMENT OF DEFENSE'S FINANCIAL  
IMPROVEMENT AND AUDIT REMEDIATION PLAN:  
THE PATH FORWARD**

---

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC, Thursday, May 16, 2019.*

The committee met, pursuant to call, at 10:01 a.m., in room 2118, Rayburn House Office Building, Hon. Adam Smith (chairman of the committee) presiding.

**OPENING STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, CHAIRMAN, COMMITTEE ON ARMED SERVICES**

The CHAIRMAN. I call the meeting to order. Good morning. Welcome.

Today we are meeting to discuss the Pentagon's effort to audit itself and basically better understand where they are spending their money, which is an incredibly important undertaking.

We are joined with four witnesses from the Department of Defense: the Honorable David Norquist, who is the Under Secretary of Defense, the Comptroller, welcome; Honorable Thomas Harker, who is Assistant Secretary of the Navy for Financial Management and Comptroller; the Honorable John Roth, Assistant Secretary of the Air Force—you are sensing a theme here—Financial Management and Comptroller; and the Honorable John Whitley, Assistant Secretary of the Army, who has the same position there.

Thank you all for being here.

And this is a subject I think every member of the committee has been very focused on. And it is all about greater efficiency and greater accountability within the Pentagon.

I don't know if it is the world's largest bureaucracy but it is probably pretty close. And spending, you know, north of \$700 billion a year now, it is a large organization to understand and control. But I think the one thing everyone in this room agrees with is we can do better in terms of understanding how the money is spent, where it goes, and make sure that we are spending that money efficiently.

And this is an incredibly important issue, because taxpayers want to know, whether it is the Pentagon or anyplace else, that the money is being well spent. Whatever it is going for, at least we understand what it is.

And the Pentagon has not really met that standard. Too large, too bureaucratic. As a number of stories have documented, can't even really keep track of all the inventory within the Pentagon. And in many instances, can't adequately explain how you spent the money you spent the previous year.

So then when we are exercising oversight in the Armed Services Committee and trying to figure out how do we better spend the money, what programs work, what programs don't work, we don't have the metrics to really make as informed a decision as we would like to be able to make.

Those decisions will always be difficult, no matter what. But if we can see the money, understand it, where it is spent, what the result was, it is better.

Now, I also understand part of the problem is there are computer and IT [information technology] systems going back decades that have not really been updated sufficiently to keep track of what they need to keep track of.

But the biggest question that I have is, we all can understand to some degree what a full audit would look like. You know, if you have a business and you audit it, you know, penny by penny and you understand exactly where it is going, then I think we can all agree that it is going to be a while before the Pentagon gets to that point.

But if we can learn how are we progressing, how is it better this year than it was last, was 5 years ago, what are you doing to give us that greater understanding of how the money is being spent and what the results of that spending are.

And then what can we do going forward? What are the next steps as we move toward that point where we have the full understandable audit? What are the, sort of, steps along the way that we can get to a better place on?

Those are the questions I am most interested in.

Thank you all for being here.

I do—I have an interview to do at 10:40, so I am going to duck out briefly at that point, but I will be back, and Mr. Brown will take over the chair in that timeframe.

And with that, I turn it over to the ranking member, Mr. Thornberry.

**STATEMENT OF HON. WILLIAM M. “MAC” THORNBERRY, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, COMMITTEE ON ARMED SERVICES**

Mr. THORNBERRY. Thank you, Mr. Chairman.

And I want to start by congratulating you, Mr. Norquist, as well as the team at the Pentagon and the people at the Pentagon for the past several years who have worked incredibly hard to get us to the point where the entire Department of Defense could be subject to an audit.

It turns out that it was in 1990 that Congress passed the law that required all government departments to be audited. And from 2002 to the current day, there has been some provision in the NDAA [National Defense Authorization Act] to drive us closer to actually having the audit take place.

One of the notable provisions was, in the fiscal year 2014 NDAA, we required that the full-scope audit be performed beginning in fiscal year 2018. A lot of people were skeptical about whether it could occur, and it did occur. And so I think the first thing to say is congratulations.

And I particularly want to point out the persistent, knowledgeable engagement of our colleague, Mr. Conaway, who, from the time that he joined this committee, has been on this issue based on his expertise and his understanding of what it can help achieve and has not let up.

But he also kept us from changing the goalposts. Because there is always—I say, every year from 2002, there was some provision about the audit, but there was also a temptation to keep moving the goalpost and keep changing what we asked you all to do. He kept us with some discipline focused on it and now it has begun. And it is just the beginning, as I am sure you all will talk about.

I find there is misunderstandings about what an audit can and cannot do. As I understand it, you all can correct me if you need to, but a clean audit does not guarantee that you don't waste money. A clean audit does not guarantee that you can defend the country with the technologies and the weapons and the people that you need to.

But, as the chairman mentioned, a clean audit can help us make better decisions by understanding better how much and on what we are using our resources.

Finally, I would just note that for the fiscal year 2018 audit, about half of the issues that arose were related to cyber and IT. Another 500 or so were related to financial reporting.

So I do think we on this committee and in Congress need to pay attention to make sure that we don't take actions that make it more difficult to achieve someday a clean finding of the audit. For example, slowing down movement to the cloud may be one of those things that make it harder to have data that is compatible, and that is where a lot of these issues have arisen.

So, I think this a good start. It is something that we have been pushing toward for a long time.

You all deserve congratulations, but obviously now you know where the problems or the issues are, and together we need to go fix those.

The CHAIRMAN. Thank you.

Mr. Norquist.

**STATEMENT OF HON. DAVID L. NORQUIST, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE; ACCOMPANIED BY HON. THOMAS HARKER, ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER), U.S. NAVY; HON. JOHN ROTH, ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER), U.S. AIR FORCE; AND HON. JOHN WHITLEY, ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER), U.S. ARMY**

Secretary NORQUIST. Chairman Smith, Ranking Member Thornberry, distinguished members of the committee, I appreciate the opportunity to testify before you today on the financial statement audit, a key priority for the Department of Defense [DOD]. I am joined by the service financial managers, who are prepared to answer your questions on their respective service audits.

I would like to start by thanking you for your unwavering support for the Department of Defense, as well as your support for and

interest in the audit. Until last year, DOD was the only large Federal agency not under full financial statement audit. Together we have changed that.

Now, audits are not new to the Department of Defense. Numerous audits covering program performance and contract costs are completed each year by the Government Accountability Office, the Defense Contract Audit Agency, the Department of Defense Office of the Inspector General, and the service audit agencies.

But financial statement audits are different—they are comprehensive, they occur annually and they cover more than financial management; for example, they include verifying the count, location, and condition of our military equipment, real property, and inventory. It tests security vulnerabilities in our business systems, and validating accuracy of personnel records and actions such as promotions and separations.

For example, the auditors looked at the Navy's database of real property—to include buildings, underground water pipes, fence lines—polled a statistical sample, and then went to the relevant bases and checked to see if they could locate each item and what condition it was in. They also looked around the base for other property that ought to have been in the property system and wasn't.

The audit was extensive. With \$2.7 trillion in assets and \$2.6 trillion in liabilities, it involved approximately 1,200 auditors reviewing hundreds of thousands of items over the course of 900 site visits to 600 different locations.

So, what was the result? Six organizations received unmodified audit opinions, which is the highest rating. Two received modified opinions, which means the data is right with some modest exceptions. And the remaining organizations, the majority, received a disclaimer, and many of them this was their first year under audit. The disclaimer means that the auditors did not have enough evidence to provide an opinion. The short answer is they didn't pass.

No organization received an adverse opinion, which is the lowest level. The auditors reported no evidence of fraud, and provided favorable feedback that the Army, Navy, and the Air Force had properly accounted for major military equipment and military and civilian pay.

At a more detailed level, though, the auditors identified over 2,300 findings, what they call notice of findings and recommendations, or NFRs. And the Department has developed corrective action plans to address 91 percent of them as of May 13, 2019.

To give you an example of the types of finding, and I will stay with the real property example, the auditors polled a sample of real property assets for the Navy and found that about 6.5 percent of them, or about 2,000 items, no longer existed—the building had been knocked down and removed, the property or structure had been taken away, but it had never come out of the property system.

In contrast, the Army had very few errors on the existence; their buildings were there. But a number of things they had in their facilities were listed as in usable condition, and from the auditors' perspective they weren't and they ought to have been knocked down.



Identifying these problems is not a step backwards but a step forwards. The very purpose of the audit was to find as many problems as we could so we could start to fix them. And our database of findings has already proved tremendously valuable.

It has allowed us to track our progress resolving these issues. For the first time the Department has tools for oversight and accountability and the opportunity to leverage this information using modern data analytics.

I would like to close by thanking the President, Secretary Shanahan, and the Inspector General for their unfailing support and partnership. This audit is not about compliance. It is about protecting taxpayer dollars. And we are fully committed to making annual financial statement audits the new normal at the Department of Defense.

Finally, to Congress and this committee, both members and in particular your staff, thank you. Not only have you worked with us closely throughout, but you have been a key part of the force in getting us here. We appreciate the support and we will need your sustained attention as we move forward with the fiscal 2019 year audit and beyond.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Norquist can be found in the appendix on page 33.]

The CHAIRMAN. Thank you very much.

My understanding is that the other witnesses are here to answer questions but do not have opening statements.

I agree with a couple things that the ranking member said.

You know, first of all, it is important to understand that a full audit does not eliminate waste, does not, you know, guarantee efficiency and make sure that whole problem gets fixed. There are issues even if you know whether you are spending your monies in the right place.

That is a separate and broader discussion. And once we get into acquisition reform, which I know Mr. Thornberry has done a ton of work on as well, that gets to those questions, as well. And also there has been an effort made to get a better understanding of it.

But within the audit world, if we had a full audit, if we continue forward on the path that we are on and get to a better place, what is the real advantage of that, can you tell us?

How potentially does it save you money? Does it give you the ability to spend money better? How does having a greater understanding of what your assets and liabilities are, where the money goes and where it is coming from—what are the two or three things you would say, this is going enable us to do this better and more efficiently?

Secretary NORQUIST. Sure, Mr. Chairman.

I think there are three things that stand out.

The first one is the better data to inform better decision making. And part of this is if you don't trust the accuracy of your data, it is hard for people to rely on it and use it.

As we have gone through the audit, to comply with it, you have to get transaction-level information. You can't just bundle them as you run it through the system, which means you can do much more sophisticated analysis.

You can look—and I will just use a budget example. Money that was obligated in the last week of the fiscal year that was then de-obligated 2 weeks later, well, that is not a real transaction, right? That is somebody gaming the system. You can find things like that.

But you can do the same thing for analysis of trends, costs, or payments for items. And so the ability for us to make sophisticated analysis, square footage of property, analysis of the usage of them goes up dramatically.

The other part is it drives reform. Many of the errors in the process comes from inefficiencies in the system, a place where somebody is doing manual data entry of information that had previously been entered in another system. So in order to pass the audit you have got to remove that, you have got have the clean data flow through.

Well, you have reduced the chance for error but you have also reduced the cost. And as the Navy has reduced its bill to DFAS [Defense Finance and Accounting Service], when it switched from passing information that needed to be manually entered to automated, that saved \$65 million. Those type of things become permanent savings because you are never going to go back and remake that as a manual process.

And I think the final piece is transparency. This is the ability to answer the questions of Congress and others at a greater level of detail about where we stand on inventory, where we have other things, and the confidence that comes with making decisions when you have that extra transparency.

The CHAIRMAN. Well said.

And final question, as I said in my opening statement, what is the next step? What is the next most important thing that you need to do or we need to do in terms of discussing this process?

Secretary NORQUIST. So, the next step in the process is, we have already started the next audit. So as we complete corrective action plans for things that the auditors have found, a new audit team is going to come behind, and as those—whatever has been completed by, say, June or so of this year, they will retest, and so we will see if we have fixed them.

We are particularly prioritizing inventory, real property, and IT. Those are some of the areas where the most direct benefit to the warfighter is, seeing the most immediate benefit to the Department. And it is the existence and completeness—we will get to the property and evaluation, but the existence and completeness is a near priority.

We will work through those and we will keep marching through. Again, when the auditors complete their audit, they will find another batch of things. Each of the services will prioritize. But we are going to keep moving, solving those problems that have the immediate benefit to the taxpayer and the needs of the warfighter first. And we will be able to show you for each of those findings who was responsible, when they thought it was closed, whether the auditor validated it is closed, and which of the areas that remain as problems.

And I think one of the challenges for Congress has been during all the years of audit readiness, is you couldn't show the Congress the progress. You couldn't show them where we were stuck, and

where we are going forward. And the database we have now based on this and with the auditors' independent evaluation will allow us to move forward in that area.

The CHAIRMAN. And I would think, overall, it would make our systems more secure as well as we better understand what IT systems we have, what is in there, we clean them up.

You know, we have a better idea what it is we are trying to protect and are better able to protect it.

Secretary NORQUIST. Absolutely. There is a series of audit standards for IT systems and security that the Congress has passed, people know them under the acronyms FISCAM [Federal Information System Controls Audit Manual] and FISMA [Federal Information Security Management Act]. The auditors go through that.

And so, as the ranking member pointed out, a significant percentage of our findings were around vulnerabilities to the security of those business systems. And that is going to be a major area of focus, particularly in the CIO [chief information officer] world, to close those findings.

The CHAIRMAN. All right. Thank you very much.

Mr. Thornberry.

Mr. THORNBERRY. As I understand it, Mr. Norquist, so, after this year's audit, there may well be some new findings that emerge. In other words, the finding from 2018 are not the total universe that there will ever be of things that we need to improve.

Have I got that right?

Secretary NORQUIST. Absolutely.

Mr. THORNBERRY. And so what you do with an audit—and I have learned all this from Conaway, of course—what you do with an audit is you go and take samples of various things, and then when you have problems that becomes the finding and then you can go fix it.

Secretary NORQUIST. Correct. And in some cases by fixing the first level the auditors were able to go further, and that uncovered new areas they couldn't see before. All of this is useful and helpful. It just will take time to uncover them all.

Mr. THORNBERRY. Okay. Only other question I have got is, as I recall, you helped get—and you were in the Comptroller position when the Department of Homeland Security [DHS] got to a clean audit.

Can you just reflect a little bit on that experience and the challenges at DOD versus Homeland Security, what it takes to get from here to there?

And I don't even know if "there" is possible with the DOD. But can you just—based on your experience in getting a clean audit at Homeland Security, reflect on it—on that for the DOD?

Secretary NORQUIST. Sure. So the beginning of the audit at Homeland Security looked much like the beginning at DOD. There was a discussion of whether it was a good idea. There was a discussion of whether you could ever possibly get to a clean opinion.

The difference was Homeland Security didn't have a choice. The audit was mandated the moment it was created, so it started with an annual audit, whether it was ready for it or not.

The processes that we put in place there are the ones that we have adopted here. The first is, you need the auditors to provide

you detailed level findings. You know, a normal commercial auditor will simply tell you, you have not passed, and stop.

We have worked with the IG [Inspector General] to make sure that no matter—whether we are going to pass or not, the auditor keeps going, find as many things as possible. We have the auditor load those findings into the database so we don't waste time with self-assessment.

I am really not interested in whether somebody thinks they are in a good place. I am interested in them fixing the problem and whether the auditor agrees.

The lessons we learned from that DHS experience, breaking the audit into pieces, so at DHS it wasn't simply whether the department passed. Customs and Border Protection, ICE [Immigration and Customs Enforcement], FEMA [Federal Emergency Management Agency], Coast Guard, each were evaluated in a standalone way, much as each of the services are evaluated, so the department could see the progress and could explain it to the Congress. Now, the truth is, it took 10 years. I mean, I wasn't even at DHS when they completed but the individuals who were there when I was there and carried on saw it.

And so one of the things that is very important to me is, you have a process that is not personality-dependent, that will keep going. This one crossed administrations as a very bipartisan process. Tom Harker was there at the Coast Guard helping them get across the finish line.

But the lessons from there are directly relevant to DOD, and I think they have been very valuable in making sure we get the best start on our efforts.

Mr. THORNBERRY. Thank you. I yield back.

The CHAIRMAN. Mr. Gallego.

Mr. GALLEGO. Thank you, Mr. Chair. I yield my time to Ms. Slotkin from Michigan.

Ms. SLOTKIN. Thanks. Thanks for being here, everyone.

Mr. Norquist, in 2018—first of all, I should just say, I think most of us here really want to be able to go home to our districts and say with a straight face that Department of Defense needs the resources that it needs and its accounting is in place and therefore, when they say they need something, there is not waste going on.

So, I think we are all in the same place that we want the same thing. And it is hard for some of us to go home and justify increases in spending when, every business in my district, you have to pass an audit. Right? Every home budget has to account for itself. So, I think we are all coming from a positive place on this.

Mr. Norquist, in 2018 you said it might take DOD 10 years to successfully pass an audit. I know we have had the six organizations that have passed.

Based on us being kind of a year ahead now, what is your anticipated timeline, for the record, in completing a true, complete audit?

Secretary NORQUIST. So, for the Department as a whole—and the 10-year experience really came out of the DHS case. The Department as a whole doesn't get a clean opinion until each of the 24 elements does.

Ms. SLOTKIN. Right.

Secretary NORQUIST. So, let me first turn to each of the services and let them tell you where they believe they are and their timeline, because the Department is going to be when they are done.

Ms. SLOTKIN. And just for the sake of time, if it could be pretty brief?

Secretary NORQUIST. Yes.

Ms. SLOTKIN. Thanks, guys.

Secretary WHITLEY. We, the Army, we have put forward dates. Secretary Esper testified here that our goal is fiscal year 2021 for a modified opinion on the Army Working Capital Fund and fiscal year 2022 for a modified opinion on the General Fund.

It is a very uncertain science, so we caveat those dates——

Ms. SLOTKIN. Of course.

Secretary WHITLEY. With the fact that these are goals.

Ms. SLOTKIN. Great.

Secretary HARKER. Good morning. For the Navy, we are looking at a 5- to 7-year window for getting to a clean opinion across all of our financial statements. A lot of that is dependent on system improvements we are making, and then also changes and standardization of business processes so that we can have everybody doing things the same way and decrease a lot of the manual transactions that are occurring.

Secretary ROTH. The Air Force is actually in a very similar place as the Navy. And we have some experience, for example, through our intelligence programs.

The National Reconnaissance Office actually has a clean opinion. It took them 9 years to get to their clean opinion, as well. So we would say also, we would give a range of 4 to 5, 6 years at the optimistic side to get there, as well.

Ms. SLOTKIN. Okay.

And can you give me a sense, Mr. Norquist, of the sense of savings that was borne out just by the sort of first round of audit? Give me a couple of highlights that I can explain to people back home.

Secretary NORQUIST. Sure. So the first one I would highlight is when you looked at inventory. And I will use a Navy example—and if anyone wants that deeper, Tom can talk to it.

They looked at inventory and they found places where there was inventory that had been purchased but not put in their property system, which means those trying to fill orders couldn't see it. And they found \$73 million worth of inventory that was reusable put back into their system, became available to the warfighter.

Another example, Hill Air Force Base. The auditors don't just look at the existence, but there were missile motors that—I think it is about 71 missile motors worth \$53 million. In the database, they said they were unserviceable, couldn't use the motors. Auditors went out, checked the motors, they actually were in working condition.

So, you can get those back in the system. That is another \$53 million that we didn't have to order.

And so this is why the accuracy and the integrity of the inventory system is so important. The completeness of it and the accuracy of it. It saves you money in making sure you have access. It

also supports the warfighter, that he is not waiting for a part that he actually could have access to.

Ms. SLOTKIN. And I know we are all focused oftentimes on the needs of the warfighter in terms of hardware, but clearly it seems to me business management systems is a place where we could do some improving.

Could you tell me your strategy for acquiring better business management tools, the way everyone at home has to do?

Secretary NORQUIST. So, the area we are looking for with business management systems is, we need to make sure that the data in it meets the standards. We have, for example, accounting has SFIS [Standard Financial Information Structure], a standard as to how the coding should be structured. So when it passes from one system to the other, it stays all the way through. Some systems don't use all the data and they are set up to truncate it, well, then you have lost the data as it flows through.

So, buying those systems in a way—and I think one of the provisions in the NDAA from last year requires us to have CPAs [certified public accountants] and others look at those systems, confirm that they will meet the standards.

The nice thing about the audit is those systems get tested at—along the way so we can see whether or not they are meeting the standards, not simply waiting till the end and going Oh, it doesn't meet our requirements.

Ms. SLOTKIN. Great.

And then last question, I think obviously the training of personnel dealing with this kind of skill set—what are you going to do differently to make sure we are properly training people at the Department to do this kind of financial oversight?

The CHAIRMAN. So, you will have to answer that one fairly quickly. I am sorry, I should have pointed this out, we try to wrap up in 5—

Secretary NORQUIST. Yes, I got it. We have a pretty robust program and certification process for our financial management community and OPM [Office of Personnel Management] has often recognized it as one of the best practices.

So we are very serious about the quality and the seriousness of the training. And there is a lot of professional certifications that go with this.

Ms. SLOTKIN. Thank you.

The CHAIRMAN. Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman. Secretary Norquist, when the committee undertook the efforts to request audits, we understood that instituting these new practices were going to look bleak when the reports first came back and that also it would be a great roadmap of what we need to do and how we need to implement better controls.

Secretary NORQUIST. Yes.

Mr. TURNER. But absent those controls, one of the concerns I think that anybody who is an advocate for national security and defense spending hears, from those who are concerned that DOD has problems in satisfying audit requirements, is concerns that the money is being wasted or stolen, misdirected, that it is not being applied toward the issues of national security.

How can you assure us that—we are getting ready to mark up the NDAA again, with another large increase for the purposes of trying to address the issues of readiness, address the issues of modernization and look to our near-peer adversaries of modernization.

How can you assure us, absent the findings from the auditors, that everything is in place to be able to adequately report spending? That these dollars that we approve are actually going to our national security, are not being misspent, are not being redirected, and are not being misappropriated?

Secretary NORQUIST. So this is a great question. I think it highlights the difference between the budgeting and the accounting.

We have a very strong budget process. So when there is money put into a program for F-15 [fighter aircraft] or some other project, the Congress puts in a particular line.

All of our rules are designed around tracking those from a budgetary perspective, and so we know that those funds were spent on that program absent a reprogramming or some other notification with Congress.

The audit just goes beyond that. And so you take a building under construction, the audit is—it is fine that you spent the money on the building. The audit wants to know where is it in construction in progress, how complete it is.

Once it is up, it wants to make sure do you know—can you depreciate it, do you know it is still in usable condition. So the audit takes us to a greater level and the benefit of that shows up mostly in inventory.

But if you look at pay, it is one of our single largest items. The auditors didn't have findings related to those areas. And so when we get money in those we have confidence that we are executing a consistent—with the budget description. The audit just has a much higher standard in terms of how much further along we go.

Mr. TURNER. Thank you, Mr. Secretary.

I yield back.

The CHAIRMAN. Thank you.

Mr. Carbajal.

Mr. CARBAJAL. Thank you, Mr. Chair.

I find it mind-boggling that we haven't achieved a clean audit. It is one of the issues that comes up when I have discussions with my constituents. And whether I go to the Chamber of Commerce, the Rotary, everybody just is aghast that we haven't been able to do this for the Department of Defense.

Having come up in the ranks of the enlisted in the Marine Corps, it is mind-boggling that there has not been an accountability and a reprimand at the higher echelon of our DOD and all our branches of the military, quite frankly.

The examples you gave of failing to update our databases with inventory, millions of dollars that possibly would go—be at waste, is very unsettling.

Secretary NORQUIST. Yes.

Mr. CARBAJAL. And I know you wouldn't answer the questions of reprimand and accountability.

But certainly I hope that in the audit that there is within the DOD some kind of section where the higher-ups understand what

reprimand and accountability will look like if they continue to not implement the best accounting measures possible.

Under Secretary Norquist, the DOD IG has indicated that longstanding material weaknesses will continue to affect DOD's ability to improve its financial management and ultimately accomplishing a clean audit opinion.

What steps has the Department taken to address some of these material weaknesses such as accounting for its property and equipment?

From the list of longstanding material weaknesses, are there specific ones the Department feels are more urgent in terms of addressing?

Secretary NORQUIST. I would be happy to do that.

So I think in terms of what is the most urgent, the answer is inventory, is the IT security, and the property. Those are the three that are the particular focus.

We will move across all of them, but those are the first three.

I think if the—I mean, if one of the services—if Tom, do you want to give an example of the steps you are taking on inventory?

Secretary HARKER. Yes, sir. Thank you for the question.

We have made a lot of progress around inventory where we have gone base to base, trying to do a full complete inventory this last year. We did an inventory of the vast majority of our bases.

We have identified areas where there is material that is not recorded in the accountable property system of record and we are taking steps to get that inventory into our record.

In Jacksonville we found \$280 million worth of items that had been bought, purchased, were not in our system of record, and they now are. We found \$81 million of those have gone back into the system of record and they are now being used to fulfill requisitions. To date, we have filled over \$3 million worth of requisitions from that.

Mr. CARBAJAL. Thank you.

One of the areas GAO [Government Accountability Office] continues to see as areas of improvement is DOD's focus on centralizing its monitoring and reporting process by utilizing the database to include financial management-related findings and recommendations and corrective action plans to essentially track progress.

Secretary Norquist, is the Department facing any specific challenges in terms of utilizing and populating the database more?

Secretary NORQUIST. So this was a tremendous help. One of the lessons we took from DHS, which is we set up an NFR tracking database. We worked with the IG. The IG was very helpful. They modified the contracts to require the auditors themselves to enter the findings. So when we show you a report of the findings, it is not our view, it is the auditor's view.

The system that was set up was sufficiently well done, that although it was not mandated, each of the services came along and said, it is easier for me to use your system to track progress. And they started loading all of their corrective action plans.

So now you have got a single system that says, here is the auditor-identified problem. Here is the service's corrective action plan with who is accountable. Here is when it is supposed to be complete.



And so I think what the GAO and others were highlighting is they are very fond of that process. They think that works well. And they have encouraged us to use that.

Mr. CARBAJAL. Thank you.

Mr. Chair, I yield back.

The CHAIRMAN. Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

I yield my time to Mr. Conaway.

Mr. CONAWAY. Well, thank you, Mr. Rogers.

And I also appreciate the kind comments of the ranking member to start. I know it was painful for him to do that, but I certainly appreciate the comments.

On the property, plant, and equipment focus, what benefit would be if—at some point in time in the future, we will need to evaluate whether or not we have got excess capacity at all the bases around—we typically call it a BRAC [base realignment and closure], those kind of things.

Secretary NORQUIST. Yes.

Mr. CONAWAY. To start that, the base document would be those records that you are going through right now, so that if the decision-makers had—were looking at records that had buildings that didn't exist or had buildings that were—did exist but weren't on there. The decision would be less—it wouldn't be as good as if those records were there.

So the importance of having these records is really important as you go about making your decisions.

Mr. Norquist, this time next year we will have—hopefully the chairman will have another hearing like this where we will ask you to perhaps bring in the report card—

Secretary NORQUIST. Yes.

Mr. CONAWAY [continuing]. For the NFR work that is moving from 2018 to 2019 and forward. And we will be able to see that progress and help us understand that.

In the meantime, though, it would be helpful for the team to know—markers of success. You have talked a couple of anecdotal pieces where one-off money has been found to help—assist in those kind of things.

One would be the reduction in audit effort from year to year as you got better, as your systems got better, as the accountants were able to rely on the systems to shrink the size of their databases.

Could any of the three of you who have maybe experienced something like that share with us where, all right, one year it took us this many audit hours and man-hours. The next year, our systems were better and the auditors were able to shrink their sample size.

Can you give us any kind of an anecdote like that, that shows real progress on sustaining an audit year to year for—

Secretary NORQUIST. I think the—Congressman, the best example is the Army Corps of Engineers.

I will let John Whitley talk to it, but the Corps of Engineers has a clean opinion. But they have gone through this process from beginning to end.

So, John?

Secretary WHITLEY. Yes, sir.

The Corps of Engineers did see significant changes as they got into the modified and then the clean opinion. So they have got a clean opinion for about 11 years.

Over that period of time they went from about 150 auditors down to 35. Sample sizes, we have talked already about going in and taking samples. Those sample sizes declined from about 14,000 down to about 2,000. And the cost of the audit, the cost for the auditors fell, cut in half from about \$10 million to \$5 million during that period.

Mr. CONAWAY. So, hopefully this time next year you will see additional progress. You can help the committee understand—that is real progress.

Secretary NORQUIST. Yes.

Mr. CONAWAY. Because while a clean audit for the whole thing is a part of a longer journey, year in year out, you are going to have to provide us with audited financial statements and those kind of things.

Part of the problems early on were the variety of legacy systems that you were trying to cope with where you were converting from manual to electronic and everything else.

Any sense on how many legacy systems are still being maintained and that you still rely on? I know you were trying to get away from them, but could you give a sense on the reduction in those legacy systems?

Secretary NORQUIST. So, we have about 294 significant business systems, which is the largest set, not all of them under DOD's control.

I will use one example and the services can probably just talk to their accounting systems. Defense agencies, we used to have 7 different systems supporting 22 different defense agencies. Those have all come down to one system called DAI [Defense Agencies Initiative], and that is a huge improvement for us.

And I don't know if maybe the Air Force wants to talk about their efforts on system consolidation?

Secretary ROTH. Very similar, I will use as an example. Okay.

As we are actually pretty pleased with where we are with munitions inventory. We are at actually 100 percent in all. We were able to sunset 10 systems in going to a new modernized, more up-to-date system. So that is just an example of the kind of trend that we are looking for in terms of trying to sunset as many systems as possible.

Ultimately, for example, we have an accounting system which we call DEAMS, which is Defense Enterprise and Accounting Management System. Ultimately we hope to sunset a number of older systems as we move to DEAMS and it becomes——

Mr. CONAWAY. So, Mr. Roth, tell us why getting rid of those systems is important going forward, because someone has to remember how those systems were coded——

Secretary ROTH. Yes.

Mr. CONAWAY [continuing]. And maintain them and all those kinds of things. That all goes away, help us understand that.

Secretary ROTH. Well, as has been noted before, part of our problem are the aging systems and the nature of the aging systems and they take a lot of care and feeding. But the other problem is as

data moves from one of these systems to the other, is an opportunity for error at each one of those stages.

Okay, and so that is one of our fundamental weaknesses right now, one of our Achilles' heels, is that a lot of our data moves from one kind of—like an HR [human resources] system to the financial system, from the logistics system to the acquisition system, those kinds of things.

The fewer interfaces you have, the fewer opportunities for error and, therefore, fewer opportunities for audit findings.

Mr. CONAWAY. I appreciate that.

I would like to tell the committee that even in companies that have clean opinions, from time to time the auditors will find things they would posit to management that could be improved going forward.

So even if we had a clean opinion across the entire system, it would not be unexpected going forward that we would have new improvements to be made in this regard.

This is hard work. You have got a lot of folks who put a lot of time and effort into it. I appreciate that effort.

We are all frustrated. You are frustrated that we are not already there. But just to share with my colleagues, as Mac said, I have been shepherding this for a while. It is not for lack of effort, it is not lack of management from the top—coming from the top that this is not getting done, so it is hard.

So, I yield back.

Mr. BROWN [presiding]. Thank you very much. And as the chairman said, he will be returning in a few minutes.

And I will go ahead and yield to myself for 5 minutes more or less.

So, according to the summary from the Department of Defense Inspector General, auditors found significant control deficiencies regarding IT systems and you have mentioned that, you have discussed some of that here today.

There are some specific findings relating to IT systems.

The IG also characterized financial management systems and information technology as the most significant weakness.

As these deficiencies prevented the auditors from assessing the financial data completely due to the inability to assess the integrity of the data, should we expect another wave of adverse findings, once the financial data itself is better assessed?

Secretary NORQUIST. So, there are—there is ways for the auditors to test it, but there are limits. I would always expect as the auditors are able to go further, for them to find additional challenges. But they are concerned that if you enter the data into the system in one location, does it properly manage the transaction to the other side?

They can do that the hard way, by recreating the process themselves. But the more they can rely on the system, the stronger and the better the process gets.

Mr. BROWN. And when will the integrity of the IT systems be sufficient for a full assessment of the financial data that it contains?

Secretary NORQUIST. So they will do that system by system. They will have certain systems where they have reviewed—and I think

the Army has at least one that they have gone all the way through all the corrective action plans. Which one is that, LMP?

Secretary WHITLEY. LMP, the Logistics Management Program.

Mr. BROWN. Well, can you give me maybe an example of one that is not where it needs to be but will be in a short period of time?

And then perhaps what area or what activity, what component is experiencing the greatest difficulties in this area?

Secretary NORQUIST. Sure. Do one of the services want to take—which systems you have that you have to replace? Go ahead.

Secretary WHITLEY. So I would just say, just tangential to your question, the LMP system, it took about 4 years. We have—that started with 29 findings. It went to 22. It went to 12. It went to 3. And then this year, we have zero findings. It is covered by one corporate crosscutting finding on end user controls.

So that is an example.

We have our other systems, our financial management ERP [Enterprise Resource Planning] and our tactical logistics ERP. They are kind of at the beginning stage, maybe a year or two into that process. So I would predict another couple of years on those.

Mr. BROWN. Anyone—any examples of some—you know, a couple of decades?

Secretary ROTH. Well, I will jump in. I think it has been pretty well documented over the years.

The interface between our pay and personnel systems has always been a challenge. And we tried some enterprise-wide, DOD-wide systems that failed, and these kind of things.

So we in the Air Force—and the reason it is a problem in part because it takes a lot of manual effort to get it right. I mean there is no two airmen, for example, that are paid precisely the same thing. And so, you have to make sure you get all the data, in terms of seniority and grade and all those kinds of things, correct.

So the Air Force is moving to a new system, AFIPPS [Air Force Integrated Personnel and Pay System] by acronym, where we will integrate the pay and personnel system in the—and it is going to reduce the error rate well over 90 percent.

Mr. BROWN. Are some of the challenges associated with the fact that many forms, while the data is entered on a computer terminal, the data is not computable? It can't be transferred digitally?

Secretary NORQUIST. So what happens is, in some cases, it is—right, it is entered in a format that is not easily transmitted, or that system only uses five pieces of information and the systems on either side of it need all eight. And so, you have got to restructure that system so it holds the full set of the string of data and allows it to be used by both sides of the process.

Mr. BROWN. Would the DD 214 be an example of a form?

Secretary NORQUIST. Do you know if that is one of the issues? Let me take that one for the record. I will take that one.

[The information referred to can be found in the Appendix on page 43.]

Mr. BROWN. Okay. Thank you. And I will yield to Mr. Wittman for 5 minutes.

Mr. WITTMAN. Thank you, Mr. Chairman.

Gentlemen, thanks so much for joining us today. Thank you for your continual effort in the realm of auditing. It is not headline

grabbing, but I think it is fundamental to how we manage the massive amount of resources that we send to the Pentagon.

Mr. NORQUIST, I wanted to get you to elaborate a little bit more. You have talked about some of the challenges within the current DOD system.

Secretary NORQUIST. Yes.

Mr. WITTMAN. And we understand that there are a lot of different ways in which the service branches either transact business, account for expenditures.

It seems like, to me, there ought to be, as—not only as part of getting the picture clearer in the audit, that we ought to look at these systems and determine, are there simpler and easier ways to do this?

You just heard the Air Force talk about developing their system on the side of paying personnel. Is there a way that we can look at unifying these systems?

Shouldn't there be a single system that cuts across services branches in how we transact, how we acquire, how we pay personnel, to make it easier to go to a single place in doing the audit?

It seems like, to me, that would make your job a little bit easier, is to have some commonality across systems, either in how we account for things or just the nuts and bolts about how transactions take place.

Secretary NORQUIST. Absolutely.

And so, when we look at a process, the first question we ask is, can we have a single system for the entire Department? If you can, that makes everything easier, and there are places where we do.

You then drop down and say, in some cases, the process is sufficiently complicated. And we have seen the challenges when you try and get all three services onto a system where they each have slightly different processes; it makes it very hard for the program manager to ever deliver a working system.

In some of those cases, your answer—your question is can I get them all to agree on receiving and transmitting data in the same format?

Mr. WITTMAN. Yes.

Secretary NORQUIST. In which case, then I may not mind that they are different systems, as long as they will talk to everything else the way they are supposed to. And so, you work your way through that.

Some of them, the question is do I replace it, do I retire it?

In a few cases, it may be simple enough just to modify the system, and it will be sufficient.

Mr. WITTMAN. To what extent can you push the different service branches with, sometimes the inertia that exists there to say, this is the way we do it, we can't do it another way because of particular reasons?

Do you look at that critically and say, well, these are legitimate reasons why you have a unique way of doing it? Or these are not legitimate reasons; there should be a way that you can do it in common with the other service branches.

Because I think, in some instances, being able to push the envelope, push the service branches essentially past their point of com-

fort to say, this is the way we have always done it and we can't do it another way.

Do you think about that? Do you push the issue to really make them critically think about how they are doing and the process by which they are doing it?

Secretary NORQUIST. We do. And that is usually one of the core of the conversations, which is, is it really an unusual process that you have to do? And the answer is, if it is, why; is it your policy? Maybe we just change the process.

I mean, one of the things you always have to be careful about is automating your existing process, not revising your process to take advantage of automation.

And so, in some cases, we go back and we work with the service and say, that is not the best way to do it. One of the other services has a better way. You need to come over to this direction.

And those are the types of challenges. They are often very difficult. You are really down into the technical aspects.

Mr. WITTMAN. Yes.

Secretary NORQUIST. But it is an essential change if you can get it right.

Mr. WITTMAN. Sure.

Let me ask you of your expectations about where we are today and the path that has been charted by DOD, and where DOD will be in 5 years, in 10 years, related to the audit.

How much clearer will the audit be? How will systems change? And what can we expect in that 5-year and then 10-year window as far as transparency and clarity and the result of each subsequent audit through that period of time?

Secretary NORQUIST. So I think as you look out, say, 5 years, you will either have organizations with modified or clean opinions, or they will have a particular challenge remaining. And we saw this at DHS.

They would get down to the—they had fixed everything, except—

Mr. WITTMAN. Yes.

Secretary NORQUIST. And then all of a sudden, instead of having a discussion about financial management of the audit in general, having a very detailed, specific discussion of a particular challenge in that organization. That is a very strong place to be.

But between 5 and 10, not only do we want to see folks getting to a clean opinion—

Mr. WITTMAN. Yes.

Secretary NORQUIST. We want to be able to take advantage of the data.

So part of what we are trying to do, in parallel with this, is, now that we are having ever more accurate data and we have the universe of transactions and other things, how do we use that to drive decision making?

The Congressman mentioned earlier the BRAC and real property. Well, if you don't believe your square footage, you are going to have a real hard time having a conversation about whether you need more buildings or less. So you want them to have more accurate data, so you can be clear about that.

And making use of that data is the real transformative effect that we are looking for.

Mr. WITTMAN. Very good. Thank you, Mr. Norquist.

Mr. Chairman, I yield back.

Mr. BROWN. Thank you.

Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman.

I want to welcome our witnesses here today, and thank you for your testimony.

Let me begin with this question. As the chair of the Intelligence and Emerging Threats and Capabilities Subcommittee, I am increasingly concerned with the lack of clarity on the cost expenditures associated with the cyber operations.

Secretary NORQUIST. Yes.

Mr. LANGEVIN. For example, this committee needs to have a sense of how CYBERCOM [United States Cyber Command] has used its appropriated money to date, and how it is not duplicative of what the military services are funding for organic capabilities and for CYBERCOM.

So can you tell me how can the audit create greater transparency on operational and other costs for DOD cyber operations?

Secretary NORQUIST. So the value of the audit is the ability to break down the transactions to the lowest level, the transaction level.

The issue with cyber is going to be making clear to people the boundaries of the definition.

So some people by cyber refer to almost anything that uses IT, which becomes very broad. But being able to be particular about what we mean and then either through the budgeting process set up categories so that Congress sees those numbers in its report.

Right now for a lot of those there is sort of ad hoc data calls. We can use the audit findings to produce more accuracy in those, but you are still working off what is the definition and how do we capture it.

But the level of accuracy in the data and the ability to sort on certain key information will help be able to give you a better answer.

Mr. LANGEVIN. And so where are we in establishing those definitions and giving that clarity?

Secretary NORQUIST. So I know there is a set we used this year in terms of reporting the dollar amount for cyber. I would have to sit down with you and go over that definition and see if it is meeting your requirements, but that was something that I know we did as part of the program build this year and was part of our reporting to Congress.

Mr. LANGEVIN. Okay. I welcome that, if we can work on that together, then thank you.

Next question, there has been a push for innovation of the audit to increase audit readiness.

Secretary NORQUIST. Yes.

Mr. LANGEVIN. How is the Department leveraging AI [artificial intelligence], machine learning, and process robotics to enhance accountability?

Secretary NORQUIST. So there is some very helpful tools in keeping the cost of the audit down, and improving the accuracy using bots.

I think the Army is the most forward on that, so maybe, John, you can talk to the use of bots?

Secretary WHITLEY. Yes. We have rolled out robotic process automation to look at some of the things we talked about when the systems don't talk to each other well.

The long-run solution is to merge those systems into a single system; that takes time. In the meantime we are using robotic process automation to clean up those unmatched transactions and those other discrepancies.

We are at the very early stages of exploring the other things you mentioned, AI and everything else. So I think there are going to be a lot of applications. We are not using any of those at the current moment specifically for audit, but we are in the middle right now of figuring out how to and where to do that.

Mr. LANGEVIN. Okay. And this is for all of our witnesses.

So those of us on the committee surely understand that the warfighter is and should be focused on the mission. However, we also understand that the more effectively the Department's resources are managed, the more effective our military operations will be. And we are going to get more bang for the buck, obviously.

So the financial management [FM] community cannot achieve a clean audit alone. Our warfighters who are responsible for equipment and inventory on a day-to-day basis must be engaged, as well.

So how is the Department driving buy-in beyond the FM community out of the services and down to the operational level?

Secretary NORQUIST. That is a good question. Let me just give an overview, and then each of them give their examples.

One of the things I had been uncomfortable and was expecting was as the auditors started to pull their samples, we might get pushback on the field from the level of effort involved.

But when it came to the types of findings with inventory, things that were easily understood by the commanders in the field as to their value, instead what we noticed was an enthusiasm for this. And what the auditors found is the number of places where there was strong leadership, there is very high accountability rate.

So at Kadena and Osan Air Base, 14,000 munitions, \$2.2 billion, auditors came back and said 100 percent, perfect.

Let me let each service talk in terms of how they are engaging the military in the field.

Mr. LANGEVIN. Okay. And if you could also include how you are using metrics for accountability—

Secretary NORQUIST. Absolutely, metrics. Good.

Secretary WHITLEY. Yes. Well, we measure the accuracy of the samples that are taken, so we know—so for example if an auditor goes into a location—to an arsenal or a depot, does a real property or a general equipment sample, we count—they might have a sample size of 150, if they find 5 exceptions we know exactly what that percentage is and we are tracking that over time.

And we are—we have made it very clear to our commands and our organizations that we expect those percentages to be marching



up and then to get into the 99 percent, the 100 percent range within a couple of years which is where we need to be for the audit opinion.

Mr. BROWN. And perhaps we can take the other examples for the record.

Secretary NORQUIST. For the record? Okay.

[The information referred to can be found in the Appendix on page 43.]

Mr. BROWN. Yes, thank you.

Mr. Banks.

Mr. BANKS. Thank you, Mr. Chairman.

The audit found a number of outdated IT systems. Some of them were decades old that cost the Department millions of dollars to maintain.

Cyber and IT are two critical aspects of the National Defense Strategy as all of you know. I am concerned that these two aspects of the audit have the most notice of finding and recommendations, or NFRs, representing 1,084 out of the 2,348 total.

Secretary NORQUIST. Yes.

Mr. BANKS. I have had many service members tell me about the poor quality of personnel related systems. Service members often need to use several interfaces or repeat actions on different platforms. This problem is especially prevalent in the Reserves, as I experienced firsthand.

Mr. Norquist, can you summarize the audit findings regarding the functionality of Department IT systems?

Secretary NORQUIST. So, Congressman, I think you started with the right thing. It is the single largest source of findings in the audit. There is a very large number of old systems that we have to either retire and replace, or modify.

The personnel ones, things like travel—those are ones that are very labor intensive. They do not have the automated controls that make it easier for people to avoid making mistakes. All of those generate frustration. So we are looking to systematically go through and replace those.

In our process, the CIO is a key lead in this effort. And so when we talk about meetings it is not really the FM who is chairing them, they are one of the key players.

But we have one that is acquisition—with the head of acquisition who co-chairs it. We have one where the CIO co-chairs it.

And the point to them is we—as the FM community, we are happy to be involved. But this is really an IT security issue, an IT issue. And the audit is identifying it but it is not FM in nature, it is quality of service to the field with the accuracy of the data.

Mr. BANKS. Got it.

Of the IT-related NFRs specifically, how many findings or recommendations could you say that would require an entirely new system to address the problems?

Secretary NORQUIST. Let me take that for the record, and we will be able to see if we can sort that.

[The information referred to can be found in the Appendix on page 43.]

Mr. BANKS. Okay, thank you.

And Mr. Norquist, how long would you expect the remediation process for those NFRs to take?

Secretary NORQUIST. I think those will be one of the longest poles in the tent. I think even after we get a clean opinion, there will still be findings and audit systems will have just figured ways around them. But getting those down is part of the single largest effort.

Mr. BANKS. Okay, thank you.

Last year in the Navy Times, it was reported that the audit found that, quote, five sites that managed ballistic missile defense elements and technical information were failing to take basic cybersecurity steps to ensure that information on America's ballistic missile defense system won't fall into nefarious hands, end quote.

Mr. Norquist, to your knowledge have there been any steps taken to correct those vulnerabilities to our missile defense systems?

Secretary NORQUIST. So there are steps being taken to correct on—and those would be on the warfighting side. But just like we have folks worried about IT security on the business systems through the audit, we have forums that look at the cybersecurity of weapon systems in those programs. And those steps are underway.

Mr. BANKS. Okay. Some of the system flaws had been originally identified in 1990 and in 2013.

Secretary NORQUIST. Yes.

Mr. BANKS. I can't find any evidence that those at that point were ever addressed or fixed after those findings many years ago.

What is the DOD Inspector General's timeline to reinvestigate?

Secretary NORQUIST. I don't know about the Inspector General's timeline. There is congressional language that directs us for a series of weapon systems, particularly the ballistic missile defense ones, to look at cybersecurity, have the services develop assessments of the risk and the corrective action plans.

That needs to go faster. The risk there is very serious. I believe the ballistic missiles is one of the first to start going through it. But we need to do better in that area because of the sheer risk and vulnerability that cyber creates.

Mr. BANKS. Got it. Thanks.

In your summary of audit findings, 464 findings from the fiscal year 2018 audit related to IT security. Are you aware if any of these are critical weaknesses in systems necessary to maintain the safety of our service members and the security of our nation?

Secretary NORQUIST. So most of the ones in the audit are business systems. But even then, there is a consequence of business systems. They are either privacy data, people's personnel records—an individual potentially being able—that could be accessed if you are not secure.

Spare parts, making sure the integrity of the spare parts information to support the warfighter. So even though they are business systems, it is the business of supporting the military, and therefore there are consequences.

Mr. BANKS. Appreciate it very much. Thank you.

I yield back.

Mr. BROWN. Thank you.

Mr. Cisneros.

Mr. CISNEROS. Thank you Mr. Chairman. Thank you, gentlemen, for being here.

Mr. Norquist, I am concerned with self audits and sharing best practices. So rather than waiting for the next audit to come about, how are we encouraging the services and the various commands about implementing processes to find those repair parts, they may be sitting on a shelf that nobody knows about.

How are they implementing these processes so we can find them before the next audit comes?

Secretary NORQUIST. So we have, for each of the areas—whether it is inventory or IT security or financial—we have forums where all the services are there and give updates and share best practices.

Did you want to mention one quickly, John?

Secretary WHITLEY. I can just give you a couple of concrete examples, sir.

I mean we—we were just at one of our arsenals, depots, that one of the things that we care about is equipment and the inventory of the equipment and the condition of the equipment.

One of the things that typically happens is a piece of equipment is purchased and used for a particular job. That job gets finished. That piece of equipment gets set aside and we lose track of it.

That becomes an audit problem because we lose track of its condition. But that also becomes an operational problem because now I have an expensive piece of equipment that might be needed somewhere else in that plant.

So what that organization did was they created a system that now ties to the inventory of the general equipment that reports when it is idle at every day. And that allows everybody else in the organization to recognize that and then to go in and if they have a need for that equipment to use that equipment.

It is helping our audit records keep the condition of the equipment and the status of the equipment up to date, but it is also helping the plant.

So we took that and we have now broadcast that across all of our arsenals and depots. And that is going to be a practice that they will all start adopting.

Mr. CISNEROS. Are we performing—are the various commands, are they performing self audits? Are they going and doing spot checks of repair parts and making sure that these parts are there and that they are actually working and that we can use these repair parts?

Secretary NORQUIST. Right. So each of the services does an audit of their inventory.

You know part of this is the auditors come through and in the long term what they will switch to is checking your controls. They will check the way you did your own audit, if they have confidence. At the beginning of an audit, they don't even assume confidence. They go and they replicate the test themselves.

But each of these organizations does a process of inventory. Some do site by site. Some do 10 percent a month. Others do a whole sweep at a particular time. But yes, they do.

Mr. CISNEROS. And what are we doing to share best practices across the services. So if the Army has a good idea, like you just

said, how are we sharing that with the Navy and the Air Force to make sure this is something they can implement?

Secretary NORQUIST. So we have a number of forums where we do that. We have the regular meetings where we do this. We also have training events where we have people who have had success whether it is from another service, from another agency, come and speak.

Did you want to give an example, Tom?

Secretary HARKER. Thank you, sir.

One of the areas where the Navy has made a lot of progress this year is dealing with real property accountability. So we took findings we got from the auditor and we implemented a plan to do a full and complete inventory of our real property over a 6-month period.

We finished that in March of this year. And the auditors have gone out in April and started doing their testing. And so far they have identified less than one-half of 1 percent error rate, which is well within the audit standards.

We have shared what we have done with the Army and the Air Force so that they can look at incorporating that into their real property testing.

Secretary WHITLEY. Can I just answer?

Mr. CISNEROS. Go ahead.

Secretary WHITLEY. The three of us meet weekly and then our audit leads, underneath us, they meet weekly as well. I mean, it is—there is a lot of communication across the service.

Mr. CISNEROS. All right.

And what steps are being taken to insure that military services, particularly senior uniformed personnel, are considering the findings of the audit and integrating them into corrective steps?

Secretary NORQUIST. It is actually in their performance evaluations. I will let—Tom, do you want to dive in?

Secretary HARKER. Sure. For the Navy, the Deputy CNO [Chief of Naval Operations] for Logistics, Vice Admiral Smith, has gone out and personally visited every region and met with the various commanders on the ground and talked to them about the importance of inventory.

He has put out a directive that mandates them to conduct an inventory last year, which they did. And he has worked with the chief of the Supply Corps and the commander of NAVSUP [Naval Supply Systems Command] to develop an inventory operations center where they go in and they test and track the inventory results by warehouse.

Mr. CISNEROS. Is that being done like on the command level? And I will give you—just say in the Navy, our commanding officers of a ship, is he being held accountable for the inventory that he has there on that ship?

Secretary NORQUIST. Go ahead.

Secretary WHITLEY. Navy—commanders in the Navy.

Mr. CISNEROS. Are they accountable for what is on the ship?

Secretary HARKER. Yes, sir. Down at the ship level, we are tracking the inventories as well. So at the ship level, at the warehouse, at the BSO [Budget Submitting Office] level, it is being tracked at all levels.

Each of our inventory points in our ERP system, they are tracked, the different number of warehouses and locations—to hold each commander accountable.

Mr. CISNEROS. I am sorry. Running out of time.

But can I just get for the record that the other services are doing that same process and holding the local commander accountable for their inventories, as well?

Secretary NORQUIST. We will take that for the record, yes, sir.

[The information referred to can be found in the Appendix on page 43.]

Mr. CISNEROS. Thank you. I am out of time.

Mr. BROWN. Thank you.

Next, Ms. Haaland.

Ms. HAALAND. Thank you, Chairman. And thank you, gentlemen, for being here this morning. I appreciate your time.

The 2019 DOD IG report on the audit results listed 20 agency-wide material weaknesses. One of these was related to environmental and disposals liabilities where auditors found that the DOD was unable to develop accurate estimates and account for environmental liabilities in accordance with GAAPA [Generally Accepted Accounting Principals] 2014 DOD environmental liabilities best practices guide.

It identified challenges the Department faces, which include incomplete fixed asset listings, lack of comprehensive defensive-wide processes and controls for identifying and measuring environmental liabilities, and the inability to adequately support assumptions or factors used in calculating environmental liability estimates.

How does the DOD—and this is for you, Mr. Norquist—how does the DOD's inability to develop accurate estimates for environmental and disposals liabilities impact the accuracy of the fiscal year 2020 environmental remediation budget request?

And specifically, that the DASD [Deputy Assistant Secretary of Defense] for Environment, Maureen Sullivan, testified at a House Oversight hearing that DOD PFAS [per- and polyfluoroalkyl substances], for example, the cleanup, back-of-the-envelope estimate was \$2 billion but the fiscal year 2020 environmental remediation budget request is only \$1.1 billion.

Secretary NORQUIST. So, this is one of the very useful—we talk about the tools that we are going to be able to take advantage from some of the audits. So, the budget for environmental remediation tends to run about \$1 billion a year and goes about the rate of inflation.

So, the question is, are we making progress? What is the real size of the challenge? There are standards to use, both the auditors and environmental community, to assess the liability. What is the chemical, what is the space it is in, and how do you do the measurements?

Part of the value for the audit for our community and your use and mine is the accuracy of those environmental assessments. Are they in compliance?

The auditors are checking, do you know each of the locations where you have an environmental liability and are you confident? Have you properly mapped out the size and scale? That will make

sure that when we are budgeting for it, we have an appreciation of the size as well as, is that liability going down year after year or even with the investment we are making, is that liability going up and we need to take a different look?

So, this is one of those areas where the value of the audit plays in a place that would not necessarily be immediate obvious to someone of its use.

Ms. HAALAND. Okay. Thank you for that. And so, I have just a few follow-up questions.

How does it impact the quality of DOD environmental remediation efforts generally?

Secretary NORQUIST. So, in general—

Ms. HAALAND. You kind of answered that already, probably, but—

Secretary NORQUIST. Well, what they are doing is they are taking on the highest priorities areas first and the ones for which the technology is the most effective. But this will allow them to be certain that they are not missing something, right, that you have more confidence in the completeness of your assessment, identify other areas where you might need to be focusing that you hadn't seen before.

Ms. HAALAND. Okay. Thank you. Because there are real human—I guess, human tragedies involved with this contamination of this kind and that—I mean, that has to be taken into consideration, not just economic but physical issues that have been raised because of this contamination.

So, next, what does the DOD need to do in order to address these shortfalls? And last, what is the DOD's timeline for addressing the shortfalls?

Secretary NORQUIST. So, let me take the timeline for the record. I will get that to the environmental folks on that.

[The information referred to can be found in the Appendix on page 44.]

Secretary NORQUIST. But each one of them, they need to develop a corrective action plan on either, one, how to ensure they have captured the full range or how to improve the accuracy of their liability estimates for the ones that they have.

But I think the point you made earlier in your comment was very clear. This financial statement looks like a sheet of numbers but there is a person whose payment is either accurate or inaccurate at the end of the week.

There is an environmental cost that we either have captured and are properly treating or not. There is a spare part that arrived at the warfighter when they needed it or not.

So, all of these numbers, while they look like it is just a sheet of paper, they all translate to real, meaningful things for the people out there trying to get the mission done.

Ms. HAALAND. Thank you. I appreciate that because when—when these—when things like this happen, these contamination issues, it takes a tremendous toll on not just the person who is being affected by it but the entire community. And I feel like we need to—we need to, you know, think about the humanitarian effects that these things have had on people.

And I yield my time. Thank you, Chairman.

The CHAIRMAN [presiding]. Thank you.

Mr. Khanna.

Mr. KHANNA. Thank you, Mr. Chairman. Thank you all for your service.

Yesterday, the Oversight Committee had a hearing about TransDigm and how they basically were ripping off American taxpayers by having excessive prices and the Inspector General went through part after part where they were charging 4,000, 3,000 percent profits.

And there was bipartisan concern on the committee. Congressman Mark Meadows spoke about his outrage, as did the Ranking Member Jordan and Democrats did.

TransDigm obviously is a bad actor. And one of the things that the Assistant Secretary of Defense there brought up was, it is unfortunate that you often have to have complex bureaucracy to deal with bad actors like TransDigm that then slows down the process.

But one suggestion that came up, and I am curious what you think of that, is to allow contractors at the Department of Defense the discretion to ask for cost information even if it is below a threshold if they feel that a defense contractor is a bad actor or isn't being honest.

And so this wouldn't require it in every case but would give them the discretion to do so. And I would be curious about your—everyone, Mr. Norquist, maybe starting with you, your thoughts about that or other solutions.

Secretary NORQUIST. Sure. I think that is an important step forward. So, the model that this company did, and it is really—it is not a partner firm, it is a predatory approach—is they went and they bought licenses for things where there was no other competitor, attached to large assets like aircraft where the Department couldn't function without it, and if they were under \$2 million, the rules don't require them to disclose cost.

Now, that was originally set up because you weren't trying to hit the same reporting burden on every firm. And for most of the firms, that is not an issue.

But as you point out, the bad actor creates a burden for everyone else. By being below that threshold, they didn't have to disclose cost data, they had no other competitors, they could drive markup. So, that predatory practice by functioning in that rule gap is a real problem. So, I think one of the things you want to do is you need to get the accuracy of the data.

The question is, you also need to figure out how to not be trapped in a monopoly supplier position like that, whether it is looking at the licensing rules or some of the others.

But there is a real problem with that and the need to try and break that monopoly. And—we have a lot of good firms, they are partners, they are aimed at the national security. And then we have got these predators that make life difficult for everyone.

I don't know if the—any of you have comments on that, or—no. Okay.

Mr. KHANNA. Well, I appreciate that.

The other [off mic] that we are dealing with [off mic]. The community may actually get something in that progressives have called—and I won't [off mic]. We would really welcome the [off

mic]. It is something we need to fix without putting a burden on most of the good actors [off mic].

Secretary NORQUIST. Absolutely. Happy to work with the committee.

Mr. KHANNA. Thank you.

The CHAIRMAN. Thank you, I just want to echo that point.

I mean, that is hopefully one of the things, once we—you understand better what the inventory is, what you have, what is coming in, we can do a better job of policing this sort of thing. Because the amount of money that the Pentagon spends is just an open invitation to people to try to gouge, particularly if they don't think you are keeping track—very careful track of what they are charging, what they are doing.

So, the better system we have, the better we are going to be able to address this and I want to work with Mr. Khanna as we try to figure out what we could do to change law and help address this issue.

Mac, do you have anything?

Well, thank you very much, it is very helpful and this is going to be an ongoing process, obviously, but I think we are making progress and look forward to working with you to continue to do so.

With that, we are adjourned.

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



---

---

# **A P P E N D I X**

MAY 16, 2019

---

---



---

---

**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

MAY 16, 2019

---

---



**House Armed Services Committee  
Written Statement for the Record  
The Honorable David L. Norquist  
Performing the Duties of the Deputy Secretary of Defense  
16 May 2019**

Chairman Smith, Ranking Member Thornberry, distinguished members of the Committee, I appreciate the opportunity to testify before you today on the financial statement audit, a key priority for the Department of Defense.

I'm joined by the Service Financial Managers—the Honorable John Whitley, Assistant Secretary of the Army (Financial Management and Comptroller); the Honorable Thomas Harker, CPA, Assistant Secretary of the Navy (Financial Management and Comptroller); and the Honorable John Roth, Assistant Secretary of the Air Force (Financial Management and Comptroller)—all of whom are prepared to answer your questions on their respective service audits.

I'd like to start by thanking you for your commitment to National Security, your unwavering support for the Department of Defense and, in particular, your support for and interest in the audit.

Why a financial statement audit?

The financial statement audit requirement was initially established in 1990 when Congress passed the Chief Financial Officers Act, which, as amended, required the 24 largest federal agencies to complete independent annual financial statement audits. Until last year, DoD was the only large federal agency not under full financial statement audit.

Together, we have changed that. On November 15, 2018 the Department of Defense completed its first ever department-wide financial statement audit, fulfilling a presidential commitment and beginning to address this longstanding congressional concern.

Audits are not new to the Department of Defense. Numerous audits covering program performance and contract costs are completed each year by the Government Accountability Office (GAO), the Defense Contract Audit Agency

(DCAA), the Department of Defense Office of the Inspector General (DoD OIG), and the Services' audit agencies. For example, the DCAA employs over 4,000 auditors to perform contract audits that are focused on identifying inappropriate charges by contractors to the Government.

However, this is the first time that the Department underwent a full financial statement audit. Financial statements summarize the Department's assets and liabilities—everything the Department owns and owes—and the Department's program costs, revenue, and budgetary resources. A financial statement audit is comprehensive. It occurs annually and it covers more than financial management. For example, financial statement audits include:

- Verifying count, location and condition of our military equipment, real property and inventory;
- Testing security vulnerabilities in our business systems;
- And validating accuracy of personnel records and actions such as promotions and separations.

#### What did the auditors do?

The audit was extensive. Given the Department's size—\$2.7 trillion in assets and \$2.6 trillion in liabilities—conducting the audit required an historic effort that amounted to the largest financial statement audit ever. It involved approximately 1,200 auditors reviewing hundreds of thousands of items; more than 24 stand-alone audits, plus an overarching consolidated audit; over 900 site visits to 600 different locations; and the tireless efforts of many within the Department.

To do this work, the auditors went through billions of transactions, pulled statistically valid samples, and then tested them for accuracy and completeness. For example, for each payment to a contractor, do we have an invoice, a receiving report, and a contract that match? Likewise, for each payment to an employee, military or civilian, do we have proof that it was the correct payment for that employee? The auditors also went through our databases of property, of inventory, of equipment, pulled statistically valid samples, and tested them, verifying the count, location, and condition of that equipment.

For example, with respect to real property, the auditors asked the Navy for their database of real property—to include buildings, underground water pipes, fence lines, etc.—and pulled a statistical sample from that report. They then went to a select number of bases with that list and checked everything that is supposed to be on each base—whether it was there and what condition it was in to determine whether you had the records to demonstrate that you owned it and that information was consistent and accurate. The auditors also looked around the base for any other property and checked to see if it was recorded. They did the same thing with inventory, going to warehouses, pulling samples of spare parts, and looking for completeness.

The cost of performing the audit was \$413 million in FY 2018. This amount covers the audit fees to the Independent Public Accounting (IPA) firms (\$182 million) and infrastructure to support the audits (\$231 million). The \$182 million in audit contract costs is approximately 1/30<sup>th</sup> of 1% of DoD's budget and, as a percentage of revenue, is equal to or less than what Fortune 100 companies such as General Electric, Proctor & Gamble and International Business Machines (IBM) pay their auditors. In addition, we anticipate spending about \$559 million in FY 2018 fixing problems identified by the auditors.

#### What were the audit results?

To summarize:

- Six organizations received unmodified (clean) audit opinions, which is the highest rating: U.S. Army Corps of Engineers (USACE) Civil Works, Military Retirement Fund (MRF), DoD Office of Inspector General (DoD OIG), Defense Health Agency – Contract Resource Management (DHA – CRM), Defense Finance and Accounting Service – Working Capital Fund (DFAS), and the Defense Contract Audit Agency (DCAA).
- Two, the Defense Commissary Agency and the Medicare-Eligible Retiree Health Care Fund, received modified opinions, which means the data is right with some modest exceptions.

- The remaining organizations received a disclaimer, which means the auditors did not have enough evidence to provide an opinion.

No organization received an adverse opinion, the lowest level; and the auditors found no evidence of fraud and provided favorable feedback that the Army, Navy, and Air Force had properly accounted for major military equipment and military and civilian pay.

The auditors identified over 2,300 findings, which they call Notifications of Findings and Recommendations (NFRs). The findings were detailed and compelling. For example, the auditors pulled a sample of real property assets for the Navy and found that about 6.5 percent of them no longer existed, and the Army, who had very few errors on existence, had a number of facilities erroneously listed as being in usable condition. The auditors found similar issues with inventory: either items noted to be in a specific warehouse had already been moved to another location or been used, assets sitting in warehouses were not in the inventory system, and that assets recorded to be in good condition were unserviceable. At Hill Air Force Base, for example, the auditors pulled a sample of uninstalled missile motors and found that seventy-one of them, worth \$53M, were incorrectly recorded as unserviceable.

Identifying these problems is not a step backwards. They are a step forwards. The very purpose of the audit was to find as many problems as we could so we could start to fix them. In fact, while most audits stop as soon as the auditors have determined the organization won't get a clean opinion, we worked with the Inspector General to arrange for the auditors to keep going in order to find as many problems as possible.

One of the other benefits of the audit is that we have addressed two fundamental misconceptions about the financial statement audit itself. The first is the belief that it's a paperwork exercise that is irrelevant because we're not a company selling stock. The accuracy and completeness of our real estate, inventory, budget information, and equipment records matters to the mission—and that became very clear to people as soon as the audit was underway. The second misconception is that the audit would find a pot of gold, which generally results from an all too easy misunderstanding of the difference between budgeting and accounting.



### What are we doing now?

For the over 2,300 Notifications of Findings and Recommendations (NFRs) the auditors found and entered into our database, the Department has developed Corrective Action Plans (CAPs) to address 91.5% of them as of May 13, 2019. Some of these Corrective Action Plans will take months to execute, while other will take years—and in July, the auditors will begin to test the problems we think we’ve fixed.

This database is already proving enormously valuable—allowing us to track our progress resolving these issues—taking us from a simple “did we pass the audit” level of analysis to a detailed understanding of whether, and in what areas, we are improving. For the first time, the Department has real, granular insight into itself, as well as real tools for oversight and accountability.

Within the thousands of identified issues, Acting Secretary Shanahan has directed the Department to “prioritize corrective actions that provide the greatest value to our operations and our warfighters, starting with”: real property; inventory and operating material and supplies; and information technology (IT).

By the end of the year, he directed each accountable organization to conduct “a full existence and completeness baseline and rights baseline to ensure 100 percent reconciliation of our capital assets to our accountable property systems of record (floor-to-book, book-to floor)”; “a floor-to-book and book-to-floor physical inventory of all Working Capital Fund inventory and all General Fund munitions/ordnance and uninstalled engines in its possession;” and take additional steps to limit IT “system access to only those who need it.”

### What is the plan going forward?

To conclude, this is just the beginning—the first of what has become an annual practice for the Department. In fact, as we continue to make progress in addressing the FY 2018 audit findings, we have launched the FY 2019 audit. Auditors are currently developing their testing plans and will commence site visits in June and July and deliver their report in November. We also look forward to delivering our mid-year update to Congress on June 30th.

The audit has been a dynamic catalyst for change within the Department—and we welcome the transparency it brings. In addition to the improvements it will continue to drive in real estate, inventory, equipment, and IT security, the audit will improve our financial integrity and decision making as well as providing a critical opportunity to leverage modern data analytics to improve every element of how we do business in the Department of Defense.

We are deeply committed to the long-term effort required to receive an unmodified opinion, and will continue to use closure of NFRs and the auditors' independent feedback as a measure of our success and progress toward a Department-wide unmodified opinion.

I would like to close by thanking the President for his deep commitment to this effort, Secretary Shanahan for his tireless support, the Inspector General for his partnership, and Congress and this Committee, both members and staff, for the key role you've played in making annual financial statement audits a reality for the Department of Defense. Not only have you worked with us closely throughout, but you have been a key part of the force in getting us here.

Thank you again for the opportunity to provide you with an update on the audit progress. We appreciate your continued support—and will need your sustained focus and attention as we move forward. Despite our substantial improvements, we know there will be no shortage of issues to tackle as we make annual audits the new normal at the Department of Defense.

**David L. Norquist**

Effective January 1, 2019, David L. Norquist began performing the duties of the Deputy Secretary of Defense.

David L. Norquist was sworn in as the Under Secretary of Defense (Comptroller)/Chief Financial Officer on June 2, 2017, 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 \$680 billion. Mr. Norquist has over 29 years of experience in federal financial management and is a Certified Government Financial Manager (CGFM).

Prior to his current tour in the Department of Defense he was a Partner with Kearney and Company, a CPA firm. His career as a federal employee includes eight years with the Department of the Army working at Army Headquarters, at a Major Command and at a field site; five years as professional staff on the House Appropriations Committee, Subcommittee on Defense; and four years as Deputy Under Secretary of Defense in the office of the Comptroller.

From 2006 to the end of 2008, Mr. Norquist served as the first Senate confirmed Chief Financial Officer for the Department of Homeland Security.

Mr. Norquist holds both a BA in Political Science and a Master of Public Policy from the University of Michigan and an MA in National Security Studies from Georgetown University. He co-authored DHS: The Road to a 'Clean' Opinion, Journal of Government Financial Management (Summer 2014) and is author of The Defense Budget: Is it Transformational? Joint Force Quarterly (Summer 2002).

He and his wife, Stephanie, reside in Virginia with their three children.

**John P. Roth**

Mr. Roth performed the duties of the Undersecretary of Defense (Comptroller) and Chief Financial Officer. He served as the principal advisor to the Secretary of Defense on all budgetary and financial management matters, including the development and execution of the Department's annual budget of more than \$550 billion.

Before assuming this position, Mr. Roth was the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller). As the most senior career financial manager in the Department, Mr. Roth was responsible for the preparation and monitoring of the entire Defense budget. Prior to this, he was Deputy Director of the Investment Directorate, Office of the Under Secretary of Defense (Comptroller) where he was responsible for all Defense programs funded by Procurement and Research, Development, Test and Evaluation (RDT&E) appropriations. Mr. Roth entered the Senior Executive Service in 1990.

Mr. Roth graduated from the University of Virginia in 1974 with a Bachelor of Arts degree and earned a Master of Science degree in Public Administration from George Washington University in 1977. Mr. Roth has also completed the Executive Excellence Program at the Federal Executive Institute, the National Security Leadership Course at Syracuse University and the Program for Senior Managers in Government at Harvard University. Mr. Roth entered civil service as a trainee in the Department of the Navy's Centralized Financial Management Training Program. Mr. Roth was awarded the Meritorious Executive Presidential Rank Award in 2005 and the Distinguished Executive Presidential Rank Award in 2012.

Mr. Roth has had tours of duty as a financial management intern and budget analyst at the Norfolk Naval Supply Center; as a budget officer at the Naval Data Automation Command; and as a budget analyst in the Office of the Secretary of Defense (OSD).

Mr. Roth has two sons, Andrew and David. Mr. Roth's personal interests include hiking, tennis, and history.

---

---

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

MAY 16, 2019

---

---



#### **RESPONSE TO QUESTION SUBMITTED BY MR. BROWN**

Secretary NORQUIST. The DD Form 214—Certificate of Release or Discharge from Active Duty is not an example of a data set that currently presents difficulties in digital transfers between IT systems for the Army, Navy or Air Force. An example of a challenge associated with transferring data between systems is the transfer of data from our legacy accounting systems to our modern enterprise resource planning (ERP) financial systems. Many of our legacy accounting systems used 6-digit general ledger account codes (GLACs), whereas our ERP systems utilize 8-digit GLACs in accordance with federal financial system requirements. This disconnect can make the transfer of data from a legacy system to a modern accounting system cumbersome or problematic. [See page 16.]

---

#### **RESPONSES TO QUESTIONS SUBMITTED BY MR. LANGEVIN**

Secretary NORQUIST. Our Department-wide Notice of Findings and Recommendations (NFR) database provides leadership with dashboards that display real-time metrics on our progress developing and implementing corrective actions and auditor validation of NFR closures. Examples of metrics contained in these dashboards include total number of NFRs by Component, number of NFRs covered by corrective actions plans (CAPs), number of NFRs projected to be closed in the current fiscal year and number of CAPs that have missed projected validation dates. These are just a few of the metrics that are evaluated and discussed in monthly progress review meetings that I hold with the Military Service Secretaries. [See page 21.]

Secretary WHITLEY. In addition to tracking sample exceptions, the Army tracks the submission status of supporting documentation for each installation and activity independent auditor's visit. This ensures the required documentation is submitted on time and to standard, as well as helping us determine whether historical documentation is complete for capital assets and determine the way ahead for any identified gaps. We are currently tracking the status of Army Working Capital Fund and munitions inventories as well as variances monthly with a goal of 100% completion by the end of the fiscal year. We will have a baseline for variance as we move forward to future fiscal years with the goal of continually improving. The Army is using metrics to drive accountability across both Working Capital Fund and General Fund. The Army measures the accuracy of responses to auditor testing. For example, when the auditors conduct site visits at the arsenals or depots they check a sample population of real property or general equipment by physically viewing the asset against the information within the property system to determine accuracy. For instance, a sample size of 100 buildings that has 5 exceptions has a pass rate of 95%. We look to leaders to improve this pass rate every year. For FY19, we have a goal of getting as many asset categories (e.g. real property, general equipment, inventory and munitions) above 95% pass rate as possible. The metrics are also utilized to pinpoint areas of improvement at the local level. Using sample pass rate data for a specific Army installation, we are able to provide feedback to Commanders and installation personnel of issues identified or areas in which they excel. This information is shared across the enterprise and assists with the development and implementation of corrective actions. [See page 21.]

---

#### **RESPONSE TO QUESTION SUBMITTED BY MR. BANKS**

Secretary NORQUIST. The Department has planned modifications to existing systems that will help address audit findings, however none of the Department's IT-related NFRs will require development or acquisition of an entirely new system. [See page 21.]

**RESPONSES TO QUESTIONS SUBMITTED BY MR. CISNEROS**

Secretary NORQUIST. Commanders at all levels are accountable for their inventories. Also, each of the military services has a designated leader at headquarters who is responsible for driving accountability throughout their organization. Please refer to the responses from Hon Whitley, Hon Harker and Hon Roth for additional details specific to the Department of the Army, the Department of the Navy and the Department of the Air Force. [See page 25.]

[The information referred to was not available at the time of printing.]

---

**RESPONSE TO QUESTIONS SUBMITTED BY MS. HAALAND**

Secretary NORQUIST. The DOD does not believe there are any budget shortfalls related to environmental cleanup and funding in the FY 2020 President's Budget request is sufficient for the year. Environmental and Disposal Liabilities (E&DL) represent expected future costs over the life of cleanup efforts. Cleanup processes cannot be completed in a single year with some operating for decades. [See page 26.]



---

---

**QUESTIONS SUBMITTED BY MEMBERS POST HEARING**

MAY 16, 2019

---

---



#### **QUESTIONS SUBMITTED BY MR. CONAWAY**

Mr. CONAWAY. As you know, the requirement in Section 1006 of the FY 2019 NDAA requires accounting firms that provide certain services to the Department to inform the Department about disciplinary proceedings. The FY19 Conference Report made clear that the statements provided by the accounting firms should concern “relevant” disciplinary proceedings. Does the Department have an interest in receiving or reviewing reports of disciplinary proceedings that are irrelevant to the services being provided to the Department? Would it be fair to say that a “relevant” disciplinary proceeding would be a proceeding against a person(s) who is actually providing audit or audit remediation services to the Department? Furthermore, there are concerns that these reporting requirements under section 1006 as currently written only apply to “accounting firms.” However, there times when non-accounting firms may compete against accounting firms for these contracts. How does the Department intend to manage this potentially unfair advantage?

Secretary NORQUIST. Potential Unfair Advantage: The Department is acting in compliance with Section 1006 of the FY 2019 NDAA as written stating that any accounting firm providing financial statement auditing or audit remediation services to the Department must disclose all relevant disciplinary proceedings. Relevant Proceeding: The Department defines a relevant disciplinary proceeding as those against a person(s) who is actually providing audit or audit remediation services to the Department. Disciplinary Proceedings: The Department does not have an interest in reviewing irrelevant disciplinary proceedings against an accounting firm. Currently, Section 1006 of the FY 2019 NDAA only requires accounting firms to disclose disciplinary proceedings and does not include non-accounting firms. Non-accounting firms account for 28 percent of audit support services and 39 percent of audit remediation services. For audit services, only accounting firms are eligible to bid on and perform this work so unfair advantage is not of concern. For audit remediation services, both accounting and non-accounting firms are able to bid on and perform this work. We will be working with all firms during the rule-making process to minimize the potential for any unfair advantage.

---

#### **QUESTIONS SUBMITTED BY MR. CISNEROS**

Mr. CISNEROS. What is the Army doing to ensure local commanders are being held accountable for their inventories?

Secretary WHITLEY. Army policy mandates local commanders complete annual 100% inventories of all property, which may be performed in a single inventory or distributed throughout the year in cyclic inventories. Cyclic inventory intervals and proportions of items are directed in writing by the Accountable Officer. 100% joint inventories are also mandated prior to a change of command, before the incoming commander assumes responsibility for the organization. At the local level, commands track the completion of cyclic inventories through a variety of methods, including unit level Command and Staff updates and Logistics Readiness Reviews. Army policy directs commanders to report the results of the inventory to the Accountable Officer, with a signed statement identifying discrepancies or certifying adjustment actions have been taken for discrepancies. Army Regulation 735–5 Property Accountability Procedures provides options to adjust for property. A financial liability investigation is conducted when negligence or misconduct is suspected; the loss exceeds an individual’s base pay; or the loss involves a sensitive item. Losses of sensitive items or final losses over \$100,000 also require a stricter investigation and General Officer approval of the findings. Army Commanders and functional leads meet monthly with the Vice Chief of Staff of the Army and Under Secretary of the Army to report on their progress. These same leaders meet quarterly with the Chief of Staff of the Army and the Secretary of the Army to report on their progress. The Secretary of the Army and I report Army’s progress to the Secretary of Defense and the Deputy Secretary of Defense, respectively, on a regular basis. In addition, the Army has internal programs and organizations charged with holding Commanders accountable for inventory through ensuring compliance with inventory policies and procedures. These programs include the Command Inspection Pro-

grams run by the Office of the Army Inspector General, Internal Review Programs, and the Manager's Internal Control Program. As a routine function of asset management, Commanders conduct monthly, quarterly, and annual inventories to manage property assigned to their command.

Mr. CISNEROS. What is the Air Force doing to ensure local commanders are being held accountable for their inventories?

Secretary ROTH. [No answer was available at the time of printing.]

#### QUESTIONS SUBMITTED BY MR. WALTZ

Mr. WALTZ. A significant amount of the General Funds appropriated by Congress are used by the Department of the Navy and other DOD Customers to issue reimbursable orders to Navy Working Capital Fund Support Organizations operating under Working Capital Fund business rules.

While Working Capital Fund operations are not the focus of this hearing; critical operations such as depot maintenance, base support, supply management, transportation and research and development are funded with Working Capital Funds. The Department of the Navy (DON) Fiscal Year 2017 Annual Financial Report on the Working Capital Fund shows material weaknesses in financial management and the use of inadequate financial management systems. This mismanagement of funds is reflected in reports of discouraging trends in maintenance and readiness of our Naval forces.

How is DON rectifying the financial management material weaknesses for the Working Capital Funds? Does the DON have certified (or proven) financial management systems in place capable of managing business type financial management of Working Capital Funds? This would include adhering to working capital fund principles of cost and performance, effective cash management, revenue recognition, supply management, near real-time reporting and stabilized rate structures while maintaining a breakeven position?

Secretary NORQUIST. The DOD has prioritized findings and material weaknesses in Real Property, Inventory and Operating Materials and Supplies, Government Property in the Possession of Contractors, and Information Technology for all Components with a focus on audit findings that directly impact our operations and support of the warfighter. These priorities also apply to the Navy's Working Capital Fund as well as the Army Working Capital Fund and the Air Force Working Capital Fund. Leveraging our Notice of Findings and Recommendations (NFR) database, we have been aggressively monitoring and following up with Reporting Entities implementing corrective actions to ensure rapid resolution of NFRs and accountability. The Department of the Navy (DON) has prioritized the streamlining of its system environment in its DON Business Operations Plan. Some of Navy's legacy systems were designed for material management purposes, but not to capture financial data in a format conducive to producing financial statements in accordance with generally accepted accounting principles. While this business environment may represent a material weakness relative to financial reporting, it does not necessarily mean funds are being mismanaged. The DON is targeting a reduction from nine general ledger accounting systems to two by October 2020, with the ultimate goal of one by 2021. These migration efforts will result in a simplified systems environment with one modernized ERP system and standardized business processes. Please refer to the Hon. Harker's response for additional details.

Mr. WALTZ. A significant amount of the General Funds appropriated by Congress are used by the Department of the Navy and other DOD Customers to issue reimbursable orders to Navy Working Capital Fund Support Organizations operating under Working Capital Fund business rules.

While Working Capital Fund operations are not the focus of this hearing; critical operations such as depot maintenance, base support, supply management, transportation and research and development are funded with Working Capital Funds. The Department of the Navy (DON) Fiscal Year 2017 Annual Financial Report on the Working Capital Fund shows material weaknesses in financial management and the use of inadequate financial management systems. This mismanagement of funds is reflected in reports of discouraging trends in maintenance and readiness of our Naval forces.

How is DON rectifying the financial management material weaknesses for the Working Capital Funds? Does the DON have certified (or proven) financial management systems in place capable of managing business type financial management of Working Capital Funds? This would include adhering to working capital fund principles of cost and performance, effective cash management, revenue recognition, sup-

ply management, near real-time reporting and stabilized rate structures while maintaining a breakeven position?

Secretary WHITLEY. In FY18, the auditor issued 111 findings specific to the Working Capital Fund plus an additional 50 findings related to the Working Capital Fund and General Fund. These findings were summarized into 12 material weaknesses for the Army Working Capital Fund. To address these findings, the Army has developed and is implementing 180 corrective action plans (CAPs) to remediate all of these findings and close the material weaknesses. Army's goal is a modified opinion on the Working Capital Fund financial statements in FY21. The Army does have dedicated financial management systems in place capable of managing business type financial management details for Working Capital Fund. The core system is the Logistics Modernization Program (LMP). The LMP Product Office worked from FY15 to FY18 to implement CAPs for 29 NFRs related to IT general controls. The number of NFRs decreased from 29 (FY15) to 22 (FY16) to 12 (FY17) to 3 (FY18). Currently, LMP has no specific outstanding findings, but is covered by one entity-level finding on end-user access controls.

Mr. WALTZ. A significant amount of the General Funds appropriated by Congress are used by the Department of the Navy and other DOD Customers to issue reimbursable orders to Navy Working Capital Fund Support Organizations operating under Working Capital Fund business rules.

While Working Capital Fund operations are not the focus of this hearing; critical operations such as depot maintenance, base support, supply management, transportation and research and development are funded with Working Capital Funds. The Department of the Navy (DON) Fiscal Year 2017 Annual Financial Report on the Working Capital Fund shows material weaknesses in financial management and the use of inadequate financial management systems. This mismanagement of funds is reflected in reports of discouraging trends in maintenance and readiness of our Naval forces.

How is DON rectifying the financial management material weaknesses for the Working Capital Funds? Does the DON have certified (or proven) financial management systems in place capable of managing business type financial management of Working Capital Funds? This would include adhering to working capital fund principles of cost and performance, effective cash management, revenue recognition, supply management, near real-time reporting and stabilized rate structures while maintaining a breakeven position?

Secretary HARKER. The Department of the Navy is undergoing a financial management transformation that addresses both the General Fund and Working Capital Fund material weaknesses identified in the FY 2017 and 2018 financial audits and improves management of Working Capital Fund activities. There are four key aspects focused at directly addressing the identified underlying root causes:

- 1) Decommissioning legacy financial systems and consolidating on a single, modern ERP. Migration work is underway and all Working Capital Fund activities are scheduled to migrate to ERP by FY 2021.

- 2) Executing a business process re-engineering effort to consolidate systems and implement modern, standardized, and streamlined business processes. Work is underway on inventory and supply chain management, including the implementation of a modern logistics system, further consolidation of supply chain systems, and improved inventory management processes.

- 3) Develop and deploy a more robust OMB A-123 internal control environment, including system, process, and management oversight controls.

- 4) Where possible, realign funding to the point of execution to reduce the reliance on the General Fund to General Fund reimbursable agreements and improve transparency and oversight.

Mr. WALTZ. A significant amount of the General Funds appropriated by Congress are used by the Department of the Navy and other DOD Customers to issue reimbursable orders to Navy Working Capital Fund Support Organizations operating under Working Capital Fund business rules.

While Working Capital Fund operations are not the focus of this hearing; critical operations such as depot maintenance, base support, supply management, transportation and research and development are funded with Working Capital Funds. The Department of the Navy (DON) Fiscal Year 2017 Annual Financial Report on the Working Capital Fund shows material weaknesses in financial management and the use of inadequate financial management systems. This mismanagement of funds is reflected in reports of discouraging trends in maintenance and readiness of our Naval forces.

How is DON rectifying the financial management material weaknesses for the Working Capital Funds? Does the DON have certified (or proven) financial management systems in place capable of managing business type financial management of

Working Capital Funds? This would include adhering to working capital fund principles of cost and performance, effective cash management, revenue recognition, supply management, near real-time reporting and stabilized rate structures while maintaining a breakeven position?

Secretary ROTH. [No answer was available at the time of printing.]

