

**Opening Statement of Chairman Thomas R. Carper
Improving Financial Management at the Department of Defense
May 13, 2014**

As prepared for delivery:

Today's hearing will examine the efforts underway at the Department of Defense to improve financial management and obtain a clean, unqualified audit of its books.

Let's begin today's hearing by asking why financial management at DOD is important in the first place. Accurate and complete financial accounts give agency leadership and Congress the information necessary for effective management and planning. Clean, auditable financial statements also give us the information we need to hold agencies accountable, to look in every nook and cranny of federal spending and ask this question: 'Is it possible to get better results for less money?'

After all, we can't effectively identify areas to reduce spending if we don't know how much, and where, we're spending that money in the first place.

Federal agencies have been required to produce auditable financial statements since the mid-1990s. Unfortunately, nearly two decades later, the Department of Defense -- which spends more than \$2 billion every day -- has yet to meet this obligation. Despite years of effort and one deadline after another, DOD's books are so flawed that auditors still cannot even attempt to perform a complete audit.

It's no surprise, then, that the Department's finances have been on the Government Accountability Office's high-risk list since 1995.

In part, this is due to pervasive management deficiencies that would never be tolerated in a private sector business and that are actively being addressed in other federal agencies. Here are just two examples.

Just last month, the Government Accountability Office released a report showing that the Department's antiquated inventory systems, often containing incomplete and inaccurate information, have led to millions of dollars in wasteful ammunition purchases.

The Department continues to buy spare parts that it doesn't need. In fact, last year the Department gave this Committee figures showing that, at one point in 2013, it had \$754 million worth of items that were on order, but not yet delivered, which the military services simply did not need. However, the Department still paid for and accepted the unneeded items.

This clearly is an unacceptable situation. And these are just the problems we know about. In all likelihood, the poor state of the Department's books masks even more instances of waste and fraud.

In these tough economic times, we simply cannot tolerate this continuing level of mismanagement and waste.

In 2011, we met in this same room and had a hearing - maybe with the same title - and discussed how the Department was going to meet its statutory deadline of achieving financial auditability by 2017.

Just after that hearing, then-Secretary of Defense Leon Panetta made an important announcement that greatly elevated the priority of financial management.

He also established an additional deadline for a partial financial audit by the end of fiscal year 2014, in order quicken the pace of improvements. To his credit, Secretary Hagel has stood by these goals.

This means that in seven months, the entire department should have its Statement of Budgetary Resources – a key financial component - ready for audit.

We are here today to get an update on this quickly approaching deadline.

Fortunately, the Department of Defense can look to some recent successes to help find the right path to reach its goal.

The Marine Corps has made some important progress in auditing its books, achieving a clean opinion on a portion of its fiscal year 2012 accounts, last December. That is good news.

Also, the Department of Homeland Security was until recently the only other Department unable to audit its finances. Last year, Homeland Security was able to achieve a ‘clean’ audit.

The key question is whether the entire Department of Defense is learning enough, and fast enough, from these examples.

Today, we have been joined by several witnesses who are each key players in helping the Department of Defense improve its financial management processes and controls.

Their work, if successful, will allow the Department to produce reliable financial statements that regularly produce critical information for decision makers. To our witnesses, thank you for joining us and we look forward to your testimony.