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U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

HEARING: "Improving Financial Accountability at the Department of Defense"

WASHINGTON – *Today, Sen. Tom Carper (D-Del.), Chairman of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, convened the hearing, "Improving Financial Accountability at the Department of Defense." For more information or to watch a webcast of the hearing, click here.*

A copy of Sen. Carper's remarks, as prepared for delivery, follows:

"Today's hearing will explore the Department of Defense's plans for improving its financial accountability.

"Since the mid-1990s, federal agencies have been required to produce auditable financial statements. Currently, the Department of Defense is incapable of doing this. In fact, its books are so bad that auditors cannot even attempt to perform a complete audit. This is clearly unacceptable.

"A year ago, we met in this same room and had a hearing - maybe even with the same title - and talked about how the Department was going to meet its statutory deadline of achieving financial auditability by 2017. We are here today to get an update. We know the Marine Corps is currently attempting its second try at auditing a portion of its financial books and are learning from these audits.

"As our witnesses and my colleagues know, successful financial statement audits are simply the outcome of strong financial management. Keeping a federal agency's books in order, ensuring good financial controls, and getting a clean audit helps ensure that taxpayers are getting the services they paid for. Unfortunately, these basic managerial tasks have proven challenging to the Department of Defense.

"Federal agencies should always strive to be good stewards of taxpayer funds, but as we struggle to address our massive federal debt and deficit, this effort has taken on even greater importance. We must improve the basic financial management practices at the Department of Defense, the Department of Homeland Security, and throughout the Federal government. After all, we can't effectively identify

areas to reduce spending if we don't know how much, and where, we're spending in the first place.

"Unfortunately, most Americans question whether we in government are capable of making the kind of tough decisions they and their families make with their own budgets and checkbooks.

"They wonder why a massive arm of the federal government like the Department of Defense can be so incapable, year after year, of doing the same work. I don't blame them for frustration and skepticism.

"Now more than ever, we need to establish a different kind of culture in Washington when it comes to spending. Clean, auditable financial statements can provide the roadmap we need to move from a culture of spendthrift towards a culture of thrift. Clean statements would give agency leadership, and those of us here in Congress, the information we need to look in every nook and cranny of federal spending and ask this question: 'Is it possible to get better results for less money?'

"When it comes to the Department of Defense, it's clear to me that we can get better results and save money.

"Unfortunately, the Department's finances have been on the Government Accountability Office's high-risk list since 1995, in part due to pervasive management deficiencies that would never be tolerated in a private sector business. In fact, these deficiencies aren't tolerated even in most federal agencies. These deficiencies make it difficult, if not impossible, to know for certain how and when the Department of Defense spends its money.

"The Department of Defense has annual expenditures of nearly $700 billion – spending approximately $2 billion every day. Managing this level of spending requires transparent information that is reliable and relevant. Without quality financial data, and the assurance of a clean audit opinion, the Department is unable to assure the Congress, and the American people, that the funds we entrust them are spent prudently.

"A series of recent reports detail a litany of the Pentagon's oversight problems:

1. Members of this panel recently wrote to the Department of Defense about the Inspector General's report on the Department's inability to recoup about $200 million in delinquent debts due to poor, but basic, record keeping.

2. Just last week, we found out about a helicopter contract through which the Army has overpaid millions of dollars for spare parts. The size of some of these overpayments is staggering. An $8.00 helicopter door part, for example, went for $284.00 in DOD's accounting world. In another instance, the Army paid five times too much for a $1,500.00 rotor part that turned out to have already been in the military warehouses.

3. In fact, we have seen from the Department of Defense that, at any given time, there is roughly a billion dollars of spare parts on order that the Department simply does not need, but the Pentagon inventory system doesn't allow for the order to be changed.

4. USA Today recently reported that the Department of Defense racked up $720 million in late fees

for shipping container leases by not returning the containers on time. This $720 million in late fees was on top of the cost of the actual leases.

5. Finally, the Commission on Wartime Contracting found earlier this month that there was an estimated $60 billion in DOD waste and fraud related to the Iraq war.

"In these tough economic times, this level of waste is simply unacceptable. Even worse are the fraud, waste, and abuse that we cannot identify at the Department of Defense because the financial management systems are so poor.

"Fortunately, momentum is building to address this widely recognized problem. The House of Representatives has formed a panel to study financial management at the Department of Defense. As Mr. Hale can attest, he is often called to testify in front of Congress on the Department's progress in this area.

"And most of all, Secretary Leon Panetta has expressed his intent to greatly improve financial management at the Department of Defense.

"To quote the Secretary:

> **. . . [I]t is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less.**

"We have an opportunity – an imperative actually – to make financial management at the Department of Defense better so that, every day, decisions can be made based on quality information. This way we can support the men and women in uniform in a way that obtains the best results for a fair and reasonable price.

"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."

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