

Improving Financial Management at the Department of Defense Hearing

Opening Statement

Senator Tom Coburn, M.D.

Thank you Chairman Carper for holding this important hearing. I want to start by reading an assessment of the DOD financial management from 2001 and asking what has changed in the past 13 years:

I am most surprised when I hear some of my associates ask why auditability matters. I suspect this question is the result that many of my colleagues lack real world experience—they have never run a business or an organization that has to make the most of the resources it has available. To a business, reliable financial data is what powers the company's strategic planning, budgeting and operational decisions and often means the difference between success and failure.

But even to Congress, auditability is of paramount importance. We cannot do our job without it—the fact that our largest federal department, with a nearly \$700 billion budget, still cannot comply with the law after nearly several decades is a failure that rests squarely on Congress's shoulders because by accepting the continued excuses and delays we have failed to do our job.

The Appropriations and Accountability Clause in the Constitution, Article 1, Section 9, Clause 7, says:

“No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.”

The intent of this clause is simple: Congress cannot possibly know that the executive branch is obeying the first part of the appropriations clause (spending) of the Constitution without confidence in the second (accountability). The decades-long failure by the Pentagon to comply with existing federal financial management laws is against the very spirit of the Constitution—our Founding Fathers demanded that those spending taxpayer dollars are accountable to taxpayers.

Though the Pentagon is not a business, its financial management problems are intimately related to its problems of waste, mismanagement, and its budget woes under sequestration. Currently, neither Military leaders, nor lawmakers, can consistently and reliably identify what our defense programs cost, will cost in the future, or even what they really cost in the past.

When the Pentagon doesn't know itself and can't tell Congress how it is spending money, good programs face cuts along with wasteful programs that we don't need, which is the situation in which we find ourselves today—cutting the lean instead of the fat.

Unreliable financial information makes it impossible to link the consequences of past decisions to the defense budget or to measure whether or not the activities of the Defense Department are meeting military requirements.

The problem is clear: you can't manage what you can't measure. If the Pentagon doesn't know how it spends its money, Congress doesn't really know how DOD is spending its money. With the nation's debt at near \$18 trillion and counting, and tighter budgets across the federal government, DOD needs more than ever to better manage its scarce resources.

Today, DOD leadership has told us that they are on the right track, making progress—but we've heard that song before. Some of our nation's best watchdogs—the GAO and the DOD IG will testify that the core financial management weaknesses—the longstanding deficiencies—still exist, and remain a significant risk to DOD meeting its statutory audit requirements.

If you take away only one point today, it should be this: poor financial management is the root cause of much of DOD's current problems—be it the ability to control costs, as evidenced by weapon system and IT system cost overruns, anticipate its future costs, measure performance, or prevent waste, fraud, and abuse. Congress best helps DOD fulfill its obligations under the law, and to the American taxpayers, by holding DOD accountable for its failure to comply with the law.

Assessment 2001	Current State
Inability to consistently provide reliable financial and managerial data for effective decision-making	No change

<p>Lack of an overarching approach to financial management – disparate systems (accounting, financial and feeder) hampered by lack of integration and standardization</p>	<ul style="list-style-type: none"> • DOD FIAR plan provides the approach, it is unclear how well it is being implemented, especially as audit goals are de-scoped and deadlines missed • Systems environment remains more or less unchanged
<p>Convolutd business processes which fail to streamline excessive process steps – sometimes driven by accounting, operational and organizational structures, further complicated by aged and disparate systems</p>	<p>Enterprise Resource Planning (ERP) results have been mixed – Air Force Expeditionary Combat Support System (ECSS) cancelled after nearly 10 years and over \$1 billion spent</p>
<p>Difficulty in obtaining financially based, outcome-oriented management metrics</p>	<p>This problem continues – GAO has reported that metrics are not adequately defined</p>
<p>Inability to produce Chief Financial Officer (CFO) Act compliant annual financial statements</p>	<p>No change</p>
<p>Disproportionate budget dollars appear to support non-value added activities – since useful information is hard to extract, useful corrective action is difficult to implement – with a lack of wide-spread understanding of how financial information can help</p>	<p>No change</p>
<p>Cultural bias toward status quo – driven by disincentives for change, and short timeframes of political appointees who otherwise might serve as agents of change</p>	<p>No Change</p>
<p>Requires an infusion of personnel with technical and financial skill sets necessary to achieve integrated financial management systems</p>	<p>DOD is investing in training programs, still not fully implemented</p>