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THE DEPARTMENT OF DEFENSE'S FINANCIAL IMPROVEMENT AND AUDIT READINESS PLAN: FISCAL YEAR 2020 AUDIT RESULTS AND THE PATH FORWARD

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HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

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THE DEPARTMENT OF DEFENSE'S FINANCIAL IMPROVEMENT AND AUDIT READINESS PLAN: FISCAL YEAR 2020 AUDIT RESULTS AND THE PATH FORWARD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, April 28, 2021.

The committee met, pursuant to call, at 11:03 a.m., via Webex, 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. Good morning, everybody. We are on a full remote hearing. The first time we have done this in a little while, so forgive me if there is a bug or two as we work our way through it. But we have a full committee hearing this morning on "The Department of Defense Financial Improvement Audit Readiness Plan: Fiscal Year 2020 Audit Results and the Path Forward."

We have four witnesses before us. Douglas Glenn, who is the Deputy Chief Financial Officer for the Department of Defense, he will be the only one offering testimony. The other three will be here and available to answer our questions as we get to them. And they are: Wesley Miller, who is the senior official performing the duties of the Assistant Secretary of the Army. Alaleh—sorry. I practiced this, too. Alaleh Jenkins, who is performing the duties of the Assistant Secretary of the Navy, Financial Management and Comptroller. And Stephen Herrera, who is the Principal Deputy Assistant of the Air Force for Financial Management and Comptroller for the Department of the Defense.

So I think we are all very familiar with the subject this morning. I will not give a long opening statement. This is an effort to audit the Pentagon and the basic point of this is do a better job of spending the money that we spend. I know that we always have very big debates about what the top-line numbers should be, how much money we should spend and I understand that is important.

But it is equally important how we actually wind up spending the money that we spend and there are a number of different ways that we can be more efficient and more effective in doing that. The ranking member and I are, you know, working on those. But one of the biggest ones is to know where we are spending the money and that is the purpose of the audit. To be able to go dollar for dollar all across the 700 and whatever it is, 50 billion, roughly, dollars that we spend in the Pentagon and be able to identify where it is

spent so we can figure out what areas we may be able to find savings and better track that money.

I do want to thank a number of folks at the Department of Defense both current, those who were there during the Trump administration, and those came before who have worked very hard over the last decade to get us to the point where we can do an audit. We are not quite there yet getting the full audit. Every year we are making improvements.

But I just want to close with two points. One, that it is enormously important that we get this done. That we get to the point where we understand where the Pentagon is spending its money so we can better track and do it in a more efficient manner than we are currently doing it. And number two, we have a long way to go to get there. So I am anxious to hear from our witnesses today on how that process is going and how we are going to get there.

And with that, I will turn it over to the ranking member, Mr. Rogers, for his opening statement.

Mike, do we have you there?

Mr. Rogers, are you hearing me? I see you, but you are not saying anything.

Katy, do we know what is going on here?

STAFF. Sir, they are working through some technical difficulties with the ranking member. He cannot hear.

The CHAIRMAN. Ah.

Mr. ROGERS. Can you hear me?

The CHAIRMAN. Yes.

STATEMENT OF HON. MIKE ROGERS, A REPRESENTATIVE FROM ALABAMA, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. ROGERS. Good. Thank you, Mr. Chairman.

The DOD [Department of Defense] is the largest Federal agency with nearly 3 million service members and civilian employees. It has an annual budget of over $700 billion and more than $3 trillion worth of assets under management. Maintaining financial control over this behemoth is critical to ensure taxpayer accountability and avoid waste, fraud, and abuse. Unfortunately, we don't know if that is the case because DOD has yet to pass an audit. Progress is being made, but the Department still has a long way to go.

The 2020 audit continues to highlight obsolete financial management systems, poor inventory controls, and cybersecurity weaknesses as major challenges. It likely won't be until the end of this decade before the Department has the proper systems, procedures, and controls in place to pass an audit. I think that is unacceptable. I look forward to hearing from our witnesses on what can be done to expedite that timeline and how this committee can be helpful in that effort. And with that, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you very much.

So we will turn it over now to Mr. Glenn for his opening statement to update us on how all of that is going.

Mr. Glenn, the floor is yours.

STATEMENT OF DOUGLAS A. GLENN, DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE; ACCOMPANIED BY WESLEY C. MILLER, PERFORMING THE DUTIES OF ASSISTANT SECRETARY OF THE ARMY FOR FINANCIAL MANAGEMENT AND COMPTROLLER; ALALEH JENKINS, PERFORMING THE DUTIES OF ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER; AND STEPHEN R. HERRERA, PRINCIPAL DEPUTY ASSISTANT OF THE AIR FORCE FOR FINANCIAL MANAGEMENT AND COMPTROLLER

Mr. GLENN. Good morning and thank you. Chairman Smith, Ranking Member Rogers, distinguished members of the committee, I appreciate the opportunity to testify before you today on the Department of Defense financial statement audit, a key priority for us all. I am joined by my esteemed military department colleagues, each serving the capacity of performing the duties of their respective Assistant Secretary for Financial Management and Comptroller: Mr. Wes Miller, representing the U.S. Army; Ms. Alaleh Jenkins, representing both the U.S. Navy and Marine Corps; and Mr. Stephen Herrera representing both the Space Force and the U.S. Air Force.

Leaders and financial managers throughout the DOD are embracing our audit responsibilities and as good stewards of taxpayer dollars are working to increase transparency in how we manage the resources entrusted to us. Additionally, we are keenly aware that DOD is the primary obstacle to the U.S. Government achieving a clean audit and something we would all like to see. We are working closely with other Federal agencies and oversight bodies such as Department of Treasury, the Government Accountability Office, the Office of Management and Budget, as well as the larger financial communities such as the Federal Accounting Standards Advisory Board, the American Society of Military Comptrollers, and the Association of Government Accountants.

Having just completed our third annual consolidated audit, the Department continues to make steady progress toward not just an unmodified audit opinion but, perhaps more importantly, improved financial management and data integrity for decision making. Our audit transitioned more than 3,400 notices of findings and recommendations last year. They also looked to see whether we successfully closed past findings. As of early April, our auditors validated that we have successfully closed 23 percent of our prior year findings. Also I am happy to note that DOD increased our clean opinion count to eight, and these entities represent 35 percent of DOD's $3.1 trillion assets. If you include the Medicare-Eligible [Retiree] Health Care Fund, which received a modified opinion, the assets under a clean opinion increased to 44 percent.

In 2020, the Department began using material weaknesses to prioritize our corrective actions and to strategically move the Department closer to an unmodified opinion. Material weaknesses are issues that if left unaddressed have the potential to lead to significant, erroneous reporting and are the specific issues cited in the OIG's [Office of Inspector General's] report that are preventing the DOD from achieving an unmodified opinion. The Department's 2020 audit report noted 26 departmental material weaknesses. The

auditors found no new material weaknesses at the Department level, but we were successfully able to downgrade two of those material weaknesses. I believe that this allows me to say that last year's audit report is better than the prior years.

In addition to improved opinion accounts, material weaknesses, and NFR [notices of findings and recommendations] closures, our collective efforts resulted in an improved rating for DOD Financial Management in GAO's [U.S. Government Accountability Office's] 2021 High Risk List. The audits are driving the cultural changes needed for business reform goals. The audits demand information technology system improvements and data consolidation. It is arming our decision makers with real-time, Department-wide views and advanced data analytic capabilities. We are now able to use dashboards, metrics, and analytics at a departmental level to support efficiencies, sustain improvements, and harness the power of data for better decision making.

At the risk of sounding dramatic, the audit is also driving improved national security. We already know DOD systems are primary targets for cyberattacks, both foreign and domestic. Auditors annually test our processes and procedure controlling who can access our systems, what levels of access they can have and what procedures they can perform, and who can access the coding and configuration capabilities. Even with this good news, it is reasonable to ask how does this benefit the taxpayer and is it worth what we are spending on audits? Annually, we pay our IPAs [independent public accountants] roughly $185 million for audits and examinations. This is less than 1 percent of total annual budgetary resources and well within industry standards, and return on investment is highly positive.

The audit is giving taxpayers improved accountability for the assets entrusted to us, transparency in our use of those assets, and is pushing DOD and the U.S. Government closer to a clean opinion. We believe the return on investment will continue to grow as audits mature, root causes to problems are addressed, and our data is made more accurate and reliable and timely.

Now that we have highlighted our overall audit results, I would like to spend a few minutes on the status of each military department and their planned approach for audit over the next few years.

In 2020, the Army made significant progress, particularly in the area of information technology, and reduced their NFR account over the prior year by 30 percent. The Army used workflow technology to validate and improve the quality of 50,000 real property asset records. Improved data analytics has helped to identify "ghost" general equipment assets such as tanks and helicopters that should have been removed from the appropriate system, and a machine logic they are using is helping Army to address and reduce unmatched transactions between their systems, resulting in better and more efficient asset management.

The Army has developed an audit roadmap that identifies milestones to remediate their material weaknesses. Over the next 2 years, Army will focus on remediating Fund Balance [with] Treasury issues, the most material item on their financial statements. Establishing beginning balances is also a near-term priority and essential to achieving an Army clean audit opinion.

The Army's third priority is a completeness of their property, plant, and equipment as well as inventory populations, which ensures they have accountability and supporting documentation over their assets and transactions.

The Department of the Navy is optimizing financial systems, enhancing processes, and investing in its workforce. Focusing on these three components directly benefits the Department of Navy mission, sailors, and Marines by strengthening readiness and lethality.

Optimizing the Department of Navy financial system requirements entails consolidating its accounting systems into one unclassified system for each service—the Defense Agencies Initiative for the Marine Corps and Navy ERP [Enterprise Resource Planning] for the Navy. These are planned for October 2021 and October 2022, respectively. This reduces the complexity, increases the audibility, shrinks operating costs, and minimizes cyber vulnerability.

In addition, just as data is a strategic asset so is the Department of Navy [DON] workforce. The Department of Navy is investing in its workforce through upskilling and employing best practices, thereby ensuring the DON workforce has the skill sets necessary to execute and improve its processes.

At the beginning of 2021, the Department of Air Force established a multiyear audit roadmap, and an integrated master schedule collects objective data inputs from across the Air Force to manage near- and long-term audit goals. Leveraging this matured, data-driven approach, the Air Force is making a conscious decision to prioritize reductions in most of its significant weaknesses over the next 18 months. This includes the reported value of its military equipment both in production and in use and the balance of Air Force cash accounts within the Department of Treasury, which together represents 70 percent of the assets reported in the Air Force financial statements.

The Fourth Estate—which comprises the other Defense organizations, Defense Agencies, and DOD Field Activities—is also making steady progress. Auditors have thus far validated the closure of 30 percent of the Fourth Estate prior-year audit findings. The closure rate for IT [information technology] findings alone rises to 78 percent for Fourth Estate. Of the 25 DOD service provider examinations, 12 have resulted in an unmodified opinion, which is an increase of 1 over the prior year.

The Defense Finance and Accounting Service, one of our major service providers, is championing financial excellence through transparency of our financial data and helping lead efforts to reconcile our Fund Balance with Treasury. A project to resolve our aged or old statement of differences, which is similar to reconciling hundreds of checking accounts each with billions of dollars in them spanning decades of time, has resulted in 99 percent reduction in total differences. Our aged or old balances in our suspense accounts was similarly reduced by 98 percent over the prior year.

The annual audit regimen has set the Department on an irreversible course in support of business reform, reinforcing accountability to taxpayers, and directly contributing to enhanced military readiness. By continuing to equip the workforce with the resources and tools to respond to audit requests and remediate our audit

findings, the Department will achieve its audit goals of business excellence and sustain an improved level of business proficiency for the benefit of the warfighter and the American people.

I suspect we all look forward to the day when we hear on the evening news or the drive home, "For the first time in history, the U.S. Government has achieved a clean audit opinion." We need hearings like this. We need to be asked hard questions and asked about the assets entrusted to us, and we welcome your continued collaboration and oversight. You and your colleagues have continued to stress the importance of these audits which we need for continued progress. We appreciate the confirmation questions you have posed to nominees that reinforce this message. The DOD IG [Inspector General] and GAO both have recognized our strong tone-at-the-top and that is due, in part, to you holding us accountable. We look forward to your questions.

[The joint prepared statement of Mr. Glenn, Mr. Miller, Ms. Jenkins, and Mr. Herrera can be found in the Appendix on page 37.]

The CHAIRMAN. Thank you very much. I appreciate that. So we will go through the members. They are being texted who is up for the questions, so we will go through in order limiting you to 5 minutes. For our witnesses, we try to keep it to 5 minutes, so even if the member does the old trick of asking you a 4-minute-and-50-second question, that means you only have 10 seconds to answer said 4-minute-and-50-second question. I will try not to be rude, but we do want to get to everyone who we want to get to here. And also, members, so we have, you know, Ms. Jenkins, but the other three we have Army and Navy and Air Force representative though they haven't shown up on the screen, if you have questions specific to those service branches, those other three witnesses are available to answer those.

Just a couple of areas, one in terms of, you know, the big picture thing in understanding the audit issues, so two questions on that. One, can you give us some idea of when you think that happy day that you referenced at the end of your opening statement will be achieved?

And just to sort of frame that, so we have the Department of Defense, but there are a lot of other agencies in the government. Let's take CMS [Centers for Medicare and Medicaid Services], for example, you know, Medicare and Medicaid. Do they have a full audit? Are they able to go through and say, here is everywhere that we are spending our money and all of the assets? How does what DOD is doing compare to what is going on at other agencies and how could that potentially guide us to get to where they are assuming they are in a better place, if that question makes sense?

Mr. GLENN. I don't know if CMS is audited individual or specifically as a standalone entity. It is part of HHS [U.S. Department of Health and Human Services] which I know as a whole does receive a clean audit opinion. We are, as I alluded to, working with other organizations and have already on a couple of occasions reached out. For example, we reached out to the Department of Homeland Security to talk about how they recently litigated their contingent legal liability which was successful. That was one of the two material weaknesses we were able to mitigate this year.

We recently just chatted with the Department of Energy, and thank you to the Association of Government Accountants for facilitating that conversation. But we sat down with the Department of Energy to understand how they handle property in the hands of contractors, which is one of our priority areas and material weaknesses.

The CHAIRMAN. So, but you don't have any sort of estimate on when you are going to get to the place that HHS is now?

Mr. GLENN. I can give you an estimate. I struggle with this question because I know you are not going to let me off the hook with anything other than a firm date. I struggle because you are asking my opinion when somebody else will reach an opinion and——

The CHAIRMAN. Sure. And just so you are clear, I don't want a firm date because I know that it would be a ridiculous question. What I am searching for is, "Yeah, we really don't know. It is too far out to really understand," or, you know, "3 to 5 years is reasonable, 1 to 2 isn't," or "talk to me in 2 years and we will see." That is kind of what we are looking at.

Mr. GLENN. I won't shy away from the question. I will stick to what is said before that if I was in Vegas betting, I couldn't pick a better year, but I would say 2028. We are looking very closely at our corrective action plans and the final dates for remediation are 2028, so——

The CHAIRMAN. Yes.

Mr. GLENN [continuing]. If everybody sticks to those plans, we should be able to declare a victory that year.

The CHAIRMAN. And I think it is crucially important that we do. As I know some people have speculated, look at all the money we are spending just to try to get to here, is it really worth it? It absolutely is.

Mr. GLENN. Absolutely. And I am happy to specify why I think that.

The CHAIRMAN. Yes. No, I think you did a good job in your opening statement. And the last thing I would ask is, I am particularly interested right now in our software and technology; software in particular as we are trying to make sure we have the strongest information systems we can have. How are we doing in terms of, you know, estimating the software we own, how we buy it, how we can do that in a more efficient and effective way?

Mr. GLENN. I think we need a lot of change there, sir, to be honest. But we have a large number of systems that are collecting financial information, and every time you have multiple systems, they have to pass that along to some other system so it can be consolidated to produce consolidated statements. And every time you have an interface point you need a reconciliation and you have an opportunity for stuff to get lost or perhaps it has to be translated and you lose stuff in the translation.

So we need to do a better job of consolidating the number of financial systems within the Department and that is a challenge because a lot of times these systems, while they may not have been designed for the audit, they were designed for something else and they have a very real value-added purpose, but people are very hesitant to let that go just for financial reasons.

The CHAIRMAN. Understood. Thank you.

Mr. Rogers is recognized.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. Glenn, what, if any, additional resources or authorities does DOD need to expedite financial modernization and hopefully get a clean audit sooner?

Mr. GLENN. Sir, could you repeat that question? I want to make sure I heard it right.

Mr. ROGERS. Yes. I am interested in knowing what additional resources or authorities Congress needs to give you that would expedite your ability to create financial management modernization and hopefully get a clean audit sooner.

Mr. GLENN. Thank you. I suspect in the years ahead you will be seeing budget requests for system migrations and perhaps new enterprise resource planning systems. In June, we will be sending up a report on audit incentives which will have, potentially have some additional budgetary flexibilities we might be asking for. We are working through those right now with our Budget Department.

Perhaps some flexibilities around expired funds that for entities that have shown, demonstrated progress on the front. Perhaps also an incentive like a working capital fund we could perhaps generate to help incentivize progress and/or system implementations and modernization efforts.

Mr. ROGERS. And what do you see is the biggest deficiency the DOD has to getting a clean audit and what are you doing to address that main deficiency?

Mr. GLENN. Tactically, it is probably Fund Balance with Treasury, which is reconciling with Department of Treasury. Fortunately, thanks to DFAS [Defense Finance and Accounting Service] we made huge progress last year. That was the 99 and 98 percent reductions. I think we will get there. We have a pretty good chance this year; if not this year hopefully next. Strategically though it is probably the systems issue that we talked about earlier. We really need to reduce the number of systems. People are hesitant to do that and it really takes a strong change management effort to do that.

Mr. ROGERS. All right. Thank you very much.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you.

Mr. Langevin is recognized for 5 minutes.

Mr. LANGEVIN. Thank you very much. I want to thank our witnesses for being here today. Thank you for your testimony. Let's start with Mr. Glenn, if we could.

You mention a lot of progress in the cybersecurity processes and procedures for Defense financial systems, but the inspector general report on the audit stated that "DOD did not make significant progress," and you are nearly 50 percent away from reaching your goal in all five IT priority areas. So despite prioritizing this effort, why have you failed to make meaningful progress?

Mr. GLENN. I think it is the change management effort, sir. And you are absolutely right, more is needed. Cyber vulnerability is an area that DOD should be leaving and we are aggressively working on that. One quarter of all NFRs relate to IT access controls, so right now there is a number of efforts within the Department including a centralized identity potential in access management im-

plementation that we anticipate having nine systems deployed onto by the end of this fiscal year and which we plan to expand throughout the Department.

Mr. LANGEVIN. Okay, so that is, I think, my second question. I wanted to know your timeline. What is your timeline for securing DOD financial systems?

Mr. GLENN. Sir, I would have to take that for the record. I would have to go back and look at our corrective action plans and I would prefer to give you a more detailed response, because the IT issues have a number of categories and I can go back and look at the corrective action plan dates and give you the more detailed response on when that we anticipate them being remediated.

[The information referred to can be found in the Appendix on page 53.]

Mr. LANGEVIN. And the Defense Information Systems Agency, DISA, Working Capital Fund received a clean opinion in fiscal year 2020, but it had a previous clean opinion in 2016 before backsliding in 2018 and 2019. Mr. Glenn, how do we know that the agencies aren't making temporary improvements that will fall apart after a year or two?

Mr. GLENN. Probably because of hearings like this, sir, and the annual audit. Getting it audited every year and getting that status check from the auditors and knowing that the Secretary and Deputy Secretary are paying very close attention to the number of clean opinions on the Department and that we are being held accountable for making sure that that number increases each year, I can guarantee you there would be a significant backlash on any entity that lost its opinion.

Mr. LANGEVIN. Okay. Any other thoughts on how we sustain successes that we have made in addition to oversight?

Mr. GLENN. Sir, I think it is keeping up the audit. It is just keeping that annual feedback, getting those NFRs, getting corrective action plans against those NFRs, and holding ourselves accountable for continued progress.

Mr. LANGEVIN. Thank you.

I have a question for Ms. Jenkins. So I am disturbed by the inspector general's findings that the Navy lacks oversight of Trident missile system assets because contractor assets were not recorded in a government-owned system. Can you elaborate on this finding and the timeline towards fixing it?

Ms. JENKINS. Sir, the finding pertained to equipment and parts that make up the Trident missiles, so we do have full accountability of our Trident missiles, their location, and it had to do with some of the parts and pieces at the assembly. We have been working really hard with our contractor over the past 2 years to put the same rigor and discipline over the accountability of these parts and pieces and we are confident that we are going to have that resolved this year.

Mr. LANGEVIN. Well, I hope so, because this is something that is very troubling when I heard this and we need to pay much closer attention to this and nothing can slip through the cracks on that contractor asset portion, especially.

So I have heard personal stories from service members at lower level units that the audit and corrective action plans are incredibly

disruptive events. Mr. Miller, Ms. Jenkins, and Mr. Herrera, can you talk about the audit's impact in readiness at the tactical level?

Mr. MILLER. Sir, this is Wes Miller with Army. I will jump there first. As far as the tactical level in being able to get to the issues as far as inventory and supply management, there is where knowing what we have in the way of preparedness is so critical. Not only as far as with inventory items, but also as far as the assets themselves as far as our tactical equipment, and knowing that we can, in fact, report those the correct way. So that is where I would see a benefit as far as to those individuals at the tactical level as far as having the assurance that the accounting system is keeping up with what they are actually doing and what they have on hand.

The CHAIRMAN. And I do believe the gentleman's time has expired. I say that because I can't find the clock on my computer. The staff is trying to help me.

Mr. LANGEVIN. It did expire, Mr. Chairman.

The CHAIRMAN. Okay, sorry about that. So while I am trying to figure that out, I will get to it, and Mr. Lamborn is recognized for 5 minutes. If for some reason I disappear, Katy, you are just going to have to call on the next person. I am going to try to figure out this clock thing. We have Mr. Lamborn for 5 minutes and then Mr. Courtney, and I will be working on the clock. If it doesn't work out, somebody else is going to have to jump in.

Go ahead, Doug.

Mr. LAMBORN. Mr. Chairman, can you hear me okay?

The CHAIRMAN. Got you loud and clear, yes.

Mr. LAMBORN. Okay. Actually, I am on two web Zoom committees at the same time. I have a markup going simultaneously here so I am a little bit distracted, so for that reason, Mr. Chairman, I am going to pass on questions and let you go to the next questioner.

The CHAIRMAN. Certainly. I think if we are keeping the R/D [Republican/Democratic] thing then I will go to Mr. Wittman. And I did find the clock so, you know, small victories.

Mr. Wittman is recognized for 5 minutes.

And we don't hear you, Rob. You may be muted there.

Mr. WITTMAN. I am sorry, Mr. Chairman. I didn't click the right button, but thanks again.

And, Mr. Glenn, I appreciate you talking about the critical nature of audits and I think it is incredibly important. You know, it is a very complex system we see within the Pentagon, a large number of unknowns, and what we want to do is to be able to take those down to zero on those. But, you know, that is a long process. We want to make sure too that we are keeping in mind the areas where we need to take action.

In your written statement you appeared to implicitly refer to audits of material weaknesses, and listen, we understand that those things are there and that is why I believe there is some action that needs to be taken. And my colleague, Mr. Garamendi, and I introduced the bipartisan Naval Readiness Act and it was aimed at really helping define variables and material deficiencies in an actionable way. In other words, how do we identify that and how do we take actions?

So I wanted to get you to elaborate on the importance of routine inspections on DOD readiness in making sure that is part of this system of audits. So it is not just what is on the balance sheet, it is also, you know, what are we doing to define material readiness and to clearly define where those deficiencies are?

Mr. GLENN. Well, apart from the financial statement—and you mentioned the naval audit readiness. I will probably turn to Alaleh here in a second—one of the neat cultural changes that the audit has driven is you heard me talk about data. It is driving a culture of data and the Department is realizing the power of data.

It started with just a database of audit findings and, obviously, we are at the just over 3,400 now, but also putting corrective actions plans against those findings and having a central database that we can go into, see the issues and status for corrective action, really has unlocked the power of centralized data. So now we have departmental dashboards. And I'm getting to the readiness question, because at the Deputy Secretary and Secretary level there now are dashboards on readiness with various metrics measuring how we are doing.

In terms of capturing the full population of readiness issues, that is probably a little outside the swim lane of the financial statement audit; but within the financial swim lane we have a management's internal control program where we go out and do various assessments. I am very thrilled to say that the audit, last year's audit introduced no new issues. Of course, that takes a little bit of an explanation.

If you are counting material weakness it goes up by one over in the last, over the prior year, but the only reason it went up was because our IG friends expanded one prior year IT material weakness into four categories which had already existed. So I am hoping, very much hoping and believing that we have all the financial issues on the table.

Alaleh, can you speak to the naval readiness aspect of this?

Ms. JENKINS. Yes, sir. As for financial statement audit, one of the areas that the auditors are looking at at the Department is ensuring that we follow our own policies and procedures, because specifically inside the Department of the Navy we focus a lot of time and effort to ensure that we have proper accountability over our assets, material, our gears, people, their condition, their location, so that we have the enterprise visibility. We know what we have, what is available for use, can it sit up, you know, and ensuring that the resources are not going to buy material that we already have on hand.

So I see that as direct support to our overall readiness of the parts and pieces that we have for maintenance of our ships and aircrafts. One of the examples that I like to use is that our logistics community started this naval material accountability campaign since 2018, where we go base to base and count every item that we have on that base. And today, we have identified about $3 billion worth of equipment and property that we were able to put back into the system and make it available for use.

Mr. WITTMAN. Very good.

I want to jump in and follow, Mr. Glenn, with a point that you started with and that is the use of IT in using automation within

our systems. I think there is a tremendous amount of potential there. Instead of doing audits line by line the old-fashioned way, what we are doing with supply chain management systems, what we are doing with digitizing much of what we manage and transact in Department of Defense, seems like to me the digital means is really the way of the future.

So if you would just give us a brief overview of what DOD has done to ensure that our audits, auditors, I should say, are prepared for the digital age.

Mr. GLENN. You are asking me to talk about what our IG friends have done. I am at a bit of a loss. I am anxiously waiting to see that. I know before I came to DOD there was a lot of talk about how the audit community would be using some of the IT resources. I can share that there is two areas where we put in place some emerging technology. Optical character recognition——

Mr. WITTMAN. Thanks. If you will do that—my time has expired. If you can just get that to me aside.

Mr. Chairman, I yield back.

[The information referred to can be found in the Appendix on page 55.]

The CHAIRMAN. Thanks, Rob. I was giving you a few extra seconds just because of the microphone problem up-front, but the time was up.

Mr. WITTMAN. Thanks.

The CHAIRMAN. Mr. Courtney is recognized for 5 minutes.

Mr. COURTNEY. Thank you, Mr. Chairman. And, you know, actually, I just wanted to begin by sort of making sure that all the members know that the forensics of this audit process actually began in the House Armed Services Committee. Adam and Mac Thornberry set up special committee on auditability, which I drew the short straw and was a member of that, which met at 8 o'clock in the morning with gallons of coffee to sort of as a layperson try to understand accounting terminology. But that actually produced language in NDAAs [National Defense Authorization Acts] which responds to this point.

I just think that is important to sort of put on the record, that this is an example where Congress really drove this process and the benefits that we are hearing about this morning. You know, it was a good bipartisan vision by Armed Services.

You know, there is a slide deck on page 50, which actually has a document that is called Ranking Results, which lists the parts of the Department that are unmodified audit opinions versus those with modified opinions, and then there is a numerical ranking of the different agencies. And, Mr. Glenn, I was just wondering, number one, just for the benefit of everyone, what is a modified opinion versus an unmodified opinion and what do those ranking numbers mean in terms of, you know, do people at the bottom have the most work to do to get their audits clean? I mean, is that how a layperson should interpret that chart?

Mr. GLENN. That is an extremely [inaudible] that I would say the people on the bottom just—they may not have as far to go, but they also may not have demonstrated as much progress in addressing the issues they have. The unmodified opinion is clean. It basically

says, yes, we have looked at it, our financial statements are materially accurate.

A modified opinion is your statements are accurate except for 1, 2, 3 issues that they will specifically cite. We are, unfortunately, under a disclaimed audit opinion which basically says there are so many issues that are so pervasive, we cannot give you——

Mr. COURTNEY. Great. Well, thank you. Again, I think it is, you know, particularly, you know, I think these hearings are great to keep the, you know, momentum moving forward, which again originated in the House. But also I think it is good to make sure that we all are on the same baseline in terms of terminology, so.

Mr. GLENN. If I could, I would like to expand on that ranking report and I just want you to say that was a good idea. People on the bottom quartile hate it because there is an extra reporting burden that goes with it, but I promise you we have some very tough conversations with the folks on the bottom of that list who don't want to be there. So it is driving positive impacts.

Mr. COURTNEY. That is great.

Thank you. I yield back.

The CHAIRMAN. Thanks, Joe. And thanks for serving on that committee way back when. We appreciate the work.

Ms. Hartzler is recognized for 5 minutes.

Mrs. HARTZLER. Thank you, Mr. Chairman. Very, very important hearing.

Mr. Glenn, I understand that IT and cybersecurity weaknesses make up a large proportion of the notices of finding recommendations highlighted by the auditors, so what corrective action is the Department implementing to address these cybersecurity concerns?

Mr. GLENN. A number of them. They are about half. Overall, they are about half of our NFRs. Probably the biggest effort is the Identity, Credential, and Access Management [ICAM] system that DISA, Defense Information Security Agency, is implementing. That is what I was talking about earlier that we are piloting nine systems onto that, that should be deployed at the end of this fiscal year.

Also, this Friday, we have a periodic IT functional council meeting where it used to be CMO [chief marketing officer], CIO [chief information officer], and CFO [chief financial officer] partnered up to talk about IT issues, but as you probably know CMO has been dissolved so now it is CIO and CFO linking arms to drive system reductions and drive improvements in IT controls. And, in fact, the top five issues that are not dependent on ICAM, we are specifically focusing on this Friday with senior management and the services to ask ourselves why are there shared accounts? Why is there privileged access that is not necessary? Why do developers have access to the production environment and not just the test environment?

Mrs. HARTZLER. Okay, great. Now I understand that you found that the DOD lacked policies, procedures, controls, and documentation necessary to accurately record and monitor government property in the possession of contractors, and DOD has acknowledged this weakness and formulated a corrective plan or action plan. So can you describe the corrective action plan to the committee and the challenges that you face with contractor property, government property?

Mr. GLENN. Sure. Yes, probably the best example is the strike fighter. Right now we have a material weakness at the departmental level in the strike fighter because while the planes are all accounted for and on the service books and under audit, the parts and equipment—and we are talking about tens of billions of dollars—unfortunately, are not on the Department statements and therefore they are not subject to audit and the audit scrutiny, at least their financial statement audit scrutiny.

The IG and GAO are still free to go in there for—and the Contract Audit Agency are still free to go in there. But what we are doing about it is we are counting all the stuff that is out there that is about three-quarters complete last time I checked. We are moving it to an accountable property system that is in DOD, and not just at our contractors', and we will get it subject to audit procedures. We are going to get the findings, we are going to put corrective action plans against those findings, and we are going to hold ourselves accountable for progress.

Mrs. HARTZLER. Very good. So to the service witnesses, could you expand on what Mr. Glenn has just shared and tell about what you specifically are doing with contractor hold material through the audit effort?

Mr. MILLER. Yes, this is Wes Miller with Army. We have expanded our particular review analysis of the problem. One of the first key items with that we went through initially looking at the number of contracts which we felt were involved there. We expanded those as far as using the character reader as far as contracts and we have expanded that to where now we are looking at contracts that are in the area of 70,000 rather than 7,000.

So we have created that workgroup as far as to understand the magnitude of the problem and how we can get these items that are with the contractors under control, ma'am.

Mrs. HARTZLER. Good.

Ms. JENKINS. Ma'am, this is Alaleh from the Department of the Navy. I will just address that quickly as well, because we have a large amount of property and supplies in the hands of the contractors. We are working with our [inaudible] community to make sure that all of our contracts have the appropriate clauses for property accountability, for one; ensuring that we put in the same work with our contractor community, that they have the same type of discipline imposed as procedures to do proper count; and also reporting to the government a list of the property that they hold for us and make sure that they maintain the property record and subject to audit on an annual basis.

Mrs. HARTZLER. Very good.

Air Force.

Mr. HERRERA. Yes, ma'am. This is Steve Herrera. Hopefully you can hear me?

Mrs. HARTZLER. Yes, I can.

Mr. HERRERA. Thank you. So we are doing a lot of the same things the Army and the Navy are doing. Effectively, we are also working very closely with our contracts to see what kind of systems and processes they have and where possible we are going to leverage those capabilities. Now most of the inventory is also on their

financial statements and they have to report and account for it, so we don't want to reinvent the wheel.

The CHAIRMAN. Thank you. I apologize, but the gentlelady's time has expired.

Ms. Speier is recognized for 5 minutes.

Ms. SPEIER. Mr. Chairman, thank you.

This question is for Ms. Jenkins. The Navy is proposing to cut staff in the Naval Audit Service by two-thirds, which is an astonishing turn of events when you have 26 material weaknesses. Why is that happening and how is that going to improve your ability to do your job?

Ms. JENKINS. Ma'am, the decision on the cut to the Audit Service by no means meant that it was not value, the power of oversight and audit. As a matter of fact, since 2018, when the financial statement audit started, we have expanded the level of resources and effort that has gone into this remediation activities through building our management internal control program, supporting the financial statement audit, and then we have other oversight bodies such as our now IT——

Ms. SPEIER. Excuse me. Ms. Jenkins, are you reducing the Audit Service by two-thirds or not?

Ms. JENKINS. At this point, ma'am, I will take the question for the record to get you the exact number. There is a reduction in our audit, but is based on—that reduction is based on rightsizing the organization to continue to meet their function based on their plan audit and based on the number of audits that they complete on an annual basis. By no means this means that we are taking the functions away from them.

[The information referred to can be found in the Appendix on page 54.]

Ms. SPEIER. Mr. Chairman, I would like for us to look into that further.

Mr. Glenn, there is a lot of old IT systems. Maybe for the record if you could provide us your plans to upgrade or replace them, and I am going to yield the rest of my time to Ms. Slotkin.

[The information referred to can be found in the Appendix on page 54.]

Ms. SLOTKIN. Thanks, Representative Speier.

Mr. Glenn, I guess my question is this. We are all having this debate about the top line of the DOD budget, but we also know that Members of Congress, you know, we don't like when facilities are closed, when locations are closed, when legacy weapons systems are closed. Are you able through the audit process to put a monetary figure on what we traditionally think of pork?

Mr. GLENN. No. It would be a subjective estimate and how would you define pork, and I am not sure how I would be able to answer that with any——

Ms. SLOTKIN. So, for instance, if we had a tank facility in a certain State that was slotted by the Army and recommended by the Army to be shut down, but then, through passionate engagement by my peers, was pushed and urged to stay open, you could certainly put a monetary value on the cost of that facility, correct?

Mr. GLENN. I could put a cost figure on it. Value, I am not sure. I mean, what do you include in the value proposition?

Ms. SLOTKIN. Mm-hmm.

Mr. GLENN. It would be such a nebulous scope of benefit that I would struggle to give you a reliable figure. And some of that would be non-monetary.

Ms. SLOTKIN. Mm-hmm. And tell me a little bit about your process. I am sorry. Just so we understand of getting to this, you said 20-, by the end of the decade, or 2028, you think we will have the clean audit; is that right? Was that your figure?

Mr. GLENN. Yes.

Ms. SLOTKIN. Okay. And I know you have been asked this, but is there anything else we could do to speed that up? Because it is very hard for us to explain to our constituents why the largest chunk of the national budget is unable to be audited. Is there any other things that we could do to speed that up?

Mr. GLENN. Well, we will be sending out the paperwork for incentives here in June. But to answer you directly, not really, not that I haven't mentioned because there is only so much money you can throw at it and there are only so much people you can throw at it and we start to get diminishing marginal returns. And at the heart of this, we really want to make sure that we are using the resources entrusted to us efficiently.

We will be sending up a report also on unfunded priorities with the audit, but there is not going to be anything in there. We are resourced to do this. Unfortunately, it is just going to take time. There are—you are talking about decades of processes and procedures and cultures that have developed that we need to change. And I understand it is hard to sell, "Why does it take 10 years for the Department of Defense to do this," but, all right, you have probably heard us use DHS as the benchmark; it took them 10 years. Our assets are 17 times those of the Department of Homeland Security.

If you look at us on the Global 100 List, Walmart is number one at 500-, I think it is $524 billion. We spent $817 billion last year and we are far more complex than Walmart. We got all the inventory. We have hospitals, police forces we also have to account for—plus we have a whole separate set of——

The CHAIRMAN. Again, I apologize, but the gentlelady's time has expired.

I do just want to follow up on one point that Ms. Slotkin made as we are trying to figure out, as she points out, a lot of, you know, congressional efforts to stop the DOD from stopping spending money, if you will. Okay, you can't get rid of this program, you can't move that asset. And this is I think why the audit is so important.

When we get into those arguments and we get excited, but say, look, if you are insisting on continuing to keep this thing in your district, this is what it is going to cost, typically what members—they get all kind of creative about, "Well, no, actually, it will save money because we will move this over there." And it is all nonsense, but it is nonsense that is hard to contradict because we don't have the audit numbers.

So any progress you can make on that. And the example that occurs to me is, you know, getting rid of old systems, like when we wanted to shut down a B–1 squadron, okay, and then the argument

went into that. If you can give us more concrete figures on, here is what it is going to cost, then we can make a more informed decision and have a clearer argument as we are pushing forward on that.

Because that is the part that always frustrates me, is we get into this big argument about, you know, we are going to save all this money and you think that is the fight, you know, that the member is going to say, no, we need to spend this money, then, like I said, they get creative and come up with some nonsense argument about how it will actually save money to keep spending it. So if we could get the audit it would really help us make the right decisions on that.

Mr. DesJarlais is recognized for 5 minutes. Dr. DesJarlais, I apologize. Go ahead.

Dr. DESJARLAIS. Yes, sir. Caught me a little off guard.

Mr. Glenn, what has the reception been like within the Department for your audit efforts? And I understand that your team has visited over a hundred locations just this year as part of the undertaking and that their audit of inventory and other assets is likely something that is still pretty foreign to a lot of the individuals that you are interacting with in the DOD, so have you encountered any resistance or pushback to your efforts?

Mr. GLENN. The short answer is no. And I know Navy and the Army have had some great results surrounding inventories, so I will let them talk here in a sec. But the short answer is we are finding stuff that we didn't know was in the system. We are finding stuff in the system that we didn't know it was there. And I heard the question earlier about, you know, burdens to the folks at the front lines, but when you are saving more money than you are spending it is a positive return on investment. And it allows you to redirect that funding to higher, other priorities.

So, yeah, just alone, and I will give you one number out of our financial statements. In 2017, we looked [at] our unobligated expired funding. This is money we can no longer use because it is expired and it is unobligated. And I need to be careful here because there is always some amount, and I can't give you a specific number, but you always [have] some level of expired unobligated. But it was 33.6 in 2017 and it is down to 21.2 at the end of last year. And that says to me we are using our funding more efficiently. We are giving it to higher priorities and making sure it actually gets used and spend it on value-added efforts. So that alone clearly makes it worthwhile to me in quantifiable benefits.

I know I am a little bit off the inventory topic, so, Alaleh, can you bring us back with benefits you guys have realized with your inventory efforts?

Ms. JENKINS. Yes, of course. I would say that inside the Department of the Navy we have embraced the audit. One might ask why Navy has so many audit findings and I always say it is a sign of progress because auditors have been to every site. They have been onboard of our ships. And even during the COVID [coronavirus disease] last year, we put in place virtual procedures so they can still continue on testing our inventory.

One of the areas that I say I am always very proud of what we were able to accomplish just year two of the audit, we essentially

did a hundred percent count of all of our real property assets, fence-to-fence, and we were able to establish the baseline. And I always use an example of every year we go after and continue that inventory count what we are identifying in assets that have been demolished, removed, and clean up the records and bringing up dollars, sustainment dollars, that we can put towards other projects that we have and that can sustain that.

In the case of the inventory, we are identifying materials that at the local level we had visibility but it was not in a property system. So we made it available. We were able to fill our open requisitions. We had examples, this goes back a couple years ago, where we had planes at Lemoore waiting on parts and pieces, and by identifying warehouses that have, say, F–18 landing gears that we can know we are able to put that in place and get these planes repaired and up and flying direct alignment to the readiness and real fighting machine.

Dr. DESJARLAIS. Okay.

I wanted to get in one more question. I see I am down to just a minute here. But one frustration from constituents is always the cost overage on bids whether it is an F–35, other weapons systems. And I realize when something is being developed every 10, 15 years, things change, but is there anything that can be done about accountability? In the private sector if you bid a contract, you have some obligation to honor it. It seems like in defense that that is not so much the case.

Is there going to be anything that you can tell us where people will be held a little more accountable of what they say they can do something for and then it ends up costing the taxpayer a lot more?

Mr. GLENN. I think so, sir. That is one of the byproducts of having centralized data and dashboards. You can do analyses on it and you can expose things just from an analytical method that perhaps you couldn't have done before without sending out a specific auditor. I should note that financial statement audits are not specifically designed to detect fraud, but they certainly report it if they find it. And they also don't necessarily ask are we getting the best value for an expenditure. We are really looking to make sure we captured, recorded, and reported that information accurately so that we can do analysis or ask questions and look at things differently in——

The CHAIRMAN. Again, I apologize. The gentleman's time has expired.

Mr. Norcross is recognized for 5 minutes.

Mr. NORCROSS. Thank you, Mr. Chairman. Actually, pick up exactly what we were discussing.

Mr. Glenn, can you define what a clean audit is? Because that doesn't mean money is being spent correctly or the highest priority, it just means that the statements are being fairly presented. Is that your understanding of what a clean audit is?

Mr. GLENN. Yes. There is a lot more to it, but fundamentally, yes.

Mr. NORCROSS. Right, to different phases or particularly the other, you know, other findings. And right now you said where you can't give an opinion it is a disclaimer of an opinion, correct?

Mr. GLENN. Yes.

Mr. NORCROSS. Okay. And that is when we say clean audit, people are going to make the assumption that somehow you are doing it the right way. It just means that the statements accurately reflect what is going on. They can be horrible priorities not spent the right way, like you hear clean audit, don't confuse those two. Because that brings me to the F–35. You were speaking that the parts were not part of the scope, or were you not allowed to go in the Lockheed Martin system and do the count? Because there is a big difference here.

Mr. GLENN. No, we are going in and counting it now. We were running on their controls and systems previously. That will never pass muster for the audit, so we are going in to do accounting for it and putting it in our systems now.

Mr. NORCROSS. And when you say now, this year or next year?

Mr. GLENN. Yes. We hope to have strike fighter equipment balances in the 2021 financials.

Mr. NORCROSS. Are you experiencing any resistance from any of the contractors in turning this over?

Mr. GLENN. I would rather talk to some folks who are closer to the effort, so let me take that back for the record. I will share that progress is a lot slower than I would have hoped.

[The information referred to can be found in the Appendix on page 54.]

Mr. NORCROSS. Thank you. I just want to switch gears here for a moment. Mr. Miller, it states here that the Army has made substantial improvement year over year. Love the Army. Why were you able to do it and we weren't making substantial improvement on the other services? Anything that you can share that the Army is doing that can lead us to the direction of the other services, what they can do to make this go faster?

Mr. MILLER. Yes, sir. Sir, I believe that all services are making the improvements each year. As far as substantial improvement, there have been some areas that we have had some large successes. Within the area of Fund Balance with Treasury, we have made some big improvements over what we previously had so we have a little further to go, but we see that as one particular area that we are receiving a better indication that we are in a go-forward position.

And so I would say another area that we are having is we are having success with education of individuals knowing what the requirements are as far as to perform audits. The systems owners, the process owners are the individuals that really need to know what is expected, what is required for an audit, sir.

Mr. NORCROSS. So there is still question out there on how to even collect the information for the audit; is that what you are suggesting or is this more by a program or particular area? Because, yes, we are into this many years now, and certainly people asking what do I need for an audit seems a little bit——

Mr. MILLER. Yes, sir. The need for the process owners to know what is expected by the auditors is there is still an education factor there, sir.

Mr. NORCROSS. Wow. I yield back. Thank you.

The CHAIRMAN. Thank you. Mr. Johnson is recognized for 5 minutes.

Mr. JOHNSON. Sorry about that, Mr. Chairman. I wasn't expecting that.

Let me ask a question, Mr. Glenn. You are undoubtedly aware of the Department's outsized share of our nation's tangible assets. Obviously, we have all talked about this. We are all concerned about it, watching it closely; 2.1 million service members, 770,000 civilian employees in 4,600 locations. It's a lot to say grace over. And we get it is going to take time. Although it has been said by many of my colleagues already this morning, this is a difficult thing to explain to our constituents, that it takes a decade to do it for this whole audit process.

But our fundamental need to maintain peace through strength is necessary, we all know that, but also very considerably expensive, we know that as well. So it is our duty as lawmakers to make sure these precious limited resources are spent as wisely and effectively as possible and that is why we are applying the pressure that we are. We have to. It is our obligation.

I understand the routine DOD audits like the one we are discussing today aren't necessarily meant to identify waste, fraud, and abuse, necessarily, I guess, but I am curious if you can comment on how the work that is done through these audits leads to better financial management and accountability. In other words, how do I explain to my constituents what the real value is? We are going to wait 10 years for it; what do we get in the end?

Mr. GLENN. All right. I would say there are seven different value propositions. The job of accountants, when I was in college, was to write timely, useful information. We talked about the clean opinion audit earlier and it just says the statements are materially accurate. Which is true, but having a clean opinion on your financial statement says you have processes and procedures to capture, record, and report financial information accurately, and when you do that you get information for decision making.

So the information to get there requires a lot of efficiency in how you capture, record, and report. So I can't tell you how much we are going to save because we are not reconciling and adjusting more than necessary, but I am comfortable with more than a $185 million a year that we are paying our IPA friends. Better data for decision making. What is that going to be worth to you guys when you give us inquiries and we are sitting on a clean opinion and we come back with a financial response, what is that going to be worth, you knowing that that information has undergone an audit or it has come from a process that has been audited and passed? Or what is the value of transparency and accountability to what we are doing with the $3.1 trillion in assets that we have or the $817 billion that we are spending every year? The cybersecurity, when we get rid of that IT material weakness, what is the value of a prevented hack or a prevented system intrusion by a potential adversary?

And the real reason I get so passionate, it is about public trust in government which I think we all know is, unfortunately, very low. And our industry has failed to deliver a clean opinion to the American people, so I don't blame them for at least on the financial front doubting what we tell them financially.

So if we can get—when we get DOD to a clean opinion and we get the U.S. Government to a clean opinion, at least we can feel, or I can feel, we can feel that our industry has done what it can to help boost that percentage. I don't know what the value is, but I am very comfortable it is more than $185 million.

Mr. JOHNSON. Can you provide any examples of recommendations incorporated from previous audits that have led to better financial management in the Department?

Mr. GLENN. Yes. You know, I will just share an email I saw a few months ago. It was from an accountant, a Defense, DFAS, Defense Finance and Accounting Service accountant, and we were talking about our schedule of differences. So every month we have to report our collection of the disbursements to Treasury, and Treasury compares what we report to what they have actually done and they send us a report back, like here is all the stuff that we did that you didn't report or here is the stuff that you reported that we didn't do, and we reconcile it.

And that report, that schedule of differences, and I mentioned it is 99 percent reduced over the prior year. The email said, from this accountant: "Wow, I have never seen this balance so low." And I forget the date, but the days required to reconcile now is significantly less. It is a fraction of what it used to be because we don't have to weed through all that extraneous data.

Mr. JOHNSON. Well, that is good.

I don't know how much time I have left, Mr. Chairman. I would just make one comment and say that we appreciate the complexity of the audit. You know, our frustration, I think, is understandable that it takes a decade. Somebody referenced Walmart earlier and that is a big operation. Not as complex as DOD, but if Walmart or Amazon or one of the other private sector companies needed an audit, I am pretty sure they could get that done in a year or less because their bottom line would be riding on it, and so much more is riding on this.

The CHAIRMAN. The gentleman's time has expired. I apologize the clock is not out in front of you.

But Mr. Carbajal is recognized.

Mr. CARBAJAL. Thank you very much, Mr. Chairman. Let me start off by thanking you for holding this important hearing.

We certainly owe the American taxpayers a transparent discussion about financial accountability within the Department. I was shocked when I first came to Congress to learn that the DOD, the Department had never had a completed clean audit. I was flabbergasted. I was shocked. And I hope that the American people that are watching this hearing know that I and many of my colleagues share great concern about this. This is kind of ridiculous that the United States Government cannot complete a clean audit of the Department of Defense, when you consider all the money we spend for our national security.

So, Mr. Glenn, your testimony highlights the success of the audit, but I would like to ask you about the less positive outcomes so far. What Department-wide material weaknesses has the audit identified that will be the most difficult to remediate in order to achieve a sustainable clean audit opinion?

Mr. GLENN. Well, to answer you directly, sir, the hardest will probably be the material weaknesses that are more accounting issues as opposed to direct warfighter support. It is one thing to say, hey, we need to count all of our inventory because we need to make sure we know what is available to support the warfighters. Everybody gets that. And we have to count our tanks and planes and buildings so we need to know exactly what we have. People get that.

But when it comes to what is the value you put on a tank, how much should you record toward a plane, that is where people—it is more than an accounting issue. We have to find a solution to that if we are going to see that clean opinion and get that seal of approval and those are going to be the tougher ones.

And just that—I am going to, unfortunately, extenuate your point earlier, there are 24 agencies in the executive branch. DOD is the only one who has never had a clean opinion. The other 23 have; 22 of them are clean right now. One of them took a backslide because of the CARES Act and corona, but they made it back. So yes, we are the only executive branch agency without a clean opinion.

Mr. CARBAJAL. Well, thank you. Unfortunate.

Can the rest of the witnesses, the Department witnesses, address that as well?

Mr. MILLER. Sir, one of the particular challenges I see is that of the internal controls behind our systems. There is that particular item as far as making sure that the controls are in place and it reduces the amount of risk that you have throughout the entire community to make sure people are performing the particular functions just as they are supposed to. So internal controls would be where I see the greatest benefit that we will receive as far as when we get the audit opinion.

Mr. HERRERA. Sir, for the Department of the Air Force, our IPA has confirmed throughout they feel like we have done a very good job demonstrating that we have positive control over the inventory entrusted to us, so I think that is very positive.

But to Mr. Glenn's point, of all the systems that we have that are our accounting property systems of record are very, very old and weren't necessarily built from an audit-compliant standpoint. So we continue to do the work that we need to do to value the systems but, for example, a lot of our infrastructure, our real property, is extremely old; selecting the documentation associated with that and making sure that that is properly booked in our APSRs [Accountable Property System of Record] and then feeding it to a financial statement is difficult. It doesn't mean we don't have a good assessment of where the inventory is, where the buildings are, and how much is being maintained. Thank you.

Mr. CARBAJAL. Thank you. I am going to go ahead and reclaim my time back because I have one more question and limited time.

Mr. Glenn, I understand that the estimated time can take up to 10 years to receive an unmodified audit opinion. Is that your expectation?

Mr. GLENN. My best guess, sir.

Mr. CARBAJAL. Help me understand what the next steps are over the next decade to get to that point. I mean, what are the concrete

steps? I know you touched on it a little bit earlier, but what are they?

Mr. GLENN. There is a lot of little ones. We have the Fund Balance with Treasury solved. That is a priority material weakness because if we had a problem there, we have got a problem somewhere else in our financials as well. We have got to get that IT stuff under control just from a national security standpoint, let alone a financial standpoint.

The CHAIRMAN. And I apologize, sir. That was not a 15-second question but that is all you have. So the gentleman's time has expired and Ms. Bice is recognized for 5 minutes.

Mrs. BICE. Thank you, Mr. Chairman. And I want to sort of echo what my colleague from California said. I was surprised to learn that prior to the 2014 NDAA there was no statutory requirement for a DOD full audit and I think the American people would probably be surprised to know that. I am glad that the audit is happening. I am concerned about the timeline, taking another 6 to 8 years for the full and complete audit and I certainly agree with my colleagues on the committee that we need to try to speed that up.

A couple things. First, I want to go back to Chairwoman Speier's comments about the Navy cutting audit staff. Ms. Jenkins, how in the world could the Department of Navy expect to get a clean audit in a timely and efficient manner when you are looking at cutting two-thirds of your audit staff?

Ms. JENKINS. Ma'am, the scope of the naval audit is essentially doing investigation or inspection or audit at the discretion of the Secretary on certain programs. What we are doing, we have a whole new workforce that is really looking at whatever remediation that comes out of that financial statement audit result. So, two separate, complete kind of scope of work.

We are heads-down focused on addressing all the issues that are coming out of the financial statement audit. We have been able to show a steady progress year after year on material weaknesses: three last year, two the year before. We are actually leveraging Nav Audit as a support in sustaining the areas that we have corrected and fixed. So reduction of the Nav Audit, it was to reshape, refocus their staffs, their resources towards some of the high-priority programs at the discretion of the Secretary and that is what their focus is of an internal audit on the Department of the Navy.

Mrs. BICE. Are you suggesting that you don't need those two-thirds staff to be able to speed up the timeline of getting to a clean audit?

Ms. JENKINS. Ma'am, no. They are not serving to organize for the remediation. The Nav Audit does internal audits. What we are getting at a financial statement audit and we have a whole workforce that works on the correcting of those fixes, so complete, separate scope of work. Yes, ma'am.

Mrs. BICE. Thank you for clarifying.

Mr. Glenn, I noticed in the joint testimony that there are hundreds and separate IT systems within the DOD, many of which are dated or obsolete. Seems to me that having an outdated software system is both impractical and it is dangerous from a cybersecurity perspective. As we make investments to modernize the Department of Defense, what steps should we be taking to move away from the

older, outdated software platforms that are currently still in existence?

Mr. GLENN. The steps are we need to look at all the systems that are out there—and it was 294 the last time I checked, so you are right, it is hundreds—look at the functionality they perform and ask ourselves what other systems do this functionality? Do we really need multiple systems doing the same thing? Is there other functionality that is going in there that a particular system captures? And then collectively say, no, you need System A, you need to go to System B, or you need to modernize or you need to get a new system and have a—and get a decommission date. And that is really a struggle getting people to commit, when are you going to let go of your system? When are you going to change your comfort zone and go somewhere else? That really is a challenge. It has been a struggle with every agency I have been at and every part of my career. People hate systems when they are coming in and they love them when you try to take them away.

Mrs. BICE. Yes, and I think my concern is as a member of the new cyber committee recognizing that we have so many outdated or obsolete platforms that are the vulnerabilities within the DOD, we need to be looking at doing that sooner rather than later. Anyone else want to comment on that particular topic?

Mr. Herrera or someone?

Mr. MILLER. Yes. Wes Miller with Army. We are looking at the need to converge our ERPs [enterprise resource planning]. Rather than having three ERPs, we are looking to collapse that to one ERP so that the information will exchange easier between our working capital fund, our supply chain management, as well as the base accounting system.

Mrs. BICE. And if I could just ask one last quick question, do you need additional resources to do that?

Mr. MILLER. Yes, there is going to be an investment for that. We are going through——

The CHAIRMAN. And that answer will have to cover it. The gentlelady's time has expired.

Mrs. BICE. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Sherrill is recognized for 5 minutes.

Ms. SHERRILL. Thank you, Mr. Chairman. And I think that the chair went over some of the benefits, but to all of the witnesses, can you give me an overview of just the broad benefits of an audit of the DOD?

Mr. GLENN. Well, it is going to drive more efficient processes. It is going to drive better data, better transparency, and what we are doing with the assets and resources entrusted us better accountability for what we have, hopefully better public trust once we deliver the clean opinion, better cybersecurity which should translate into prevented intrusions into our systems, and better inventory management knowing what we have, what we need, and only ordering what we——

Ms. SHERRILL. I was glad to see over this audit that serious progress had been made since fiscal year 2019's audit was concluded, particularly in things like the Defense Information System Agency's Working Capital Fund going from a disclaimer to a clean result. As you were doing that, what are the best practices that you

gleaned from that progress and how do you plan to implement them in the upcoming fiscal year?

Mr. GLENN. I believe a short answer is getting the dirty laundry on the table. Open up with your auditors. Tell them up-front where you know you have got issues. Don't make them test it to tell you what you already know. That will give you some credibility so when you go back to your auditors and say, look, I think this area is clean now, we have put in new procedures that allow us to be confident that we are capturing and recording and reporting information accurately, and then using auditor recommendations for issues that still exist to really drive change.

And I think that has been part of the challenge, letting people know it is okay to put the issues on the table because then you can work them together. Either between OSD [Office of the Secretary of Defense] and the components or with the auditors. And not to impair their independence in any way, and know we'll never help you clean up something, but saving them the time and effort to test stuff that you know is already broken and being honest about your issues goes a long way in moving the process forward.

Ms. SHERRILL. And then I think, you know, this is the—we had a brief in the last Congress about the audit and were told, you know, were given about a 10-year timeframe, and now it seems like 2 years later we are given another 10-year timeframe.

Mr. GLENN. Ten years. It is still at 2018. We started in 2018 and we are predicting 2028, so it is still 10 years.

Ms. SHERRILL. It is still 10 years. Okay, that is better to hear. Am I correct in understanding that it took Homeland Security about 10 years to pass the audit?

Mr. GLENN. You are correct.

Ms. SHERRILL. And then this past fiscal year presented challenges that we hadn't expected so we are willing to mitigate the damage from COVID, but it did increase some expenses, new lines of effort, new needs, so what impact do you anticipate the pandemic having on the fiscal year 2021 audit results?

Mr. GLENN. About the same as we had last year. Basically, the travel. Auditors need to inspect and observe certain controls in operation, but they use this example of inventory taking. So we have warehouses full of parts and equipment and supplies. We need to demonstrate to the auditors that our system shows exactly what is on the shelves out in the warehouse and that means counting what is on those shelves and comparing it to the system, make sure the system shows exactly what is out there—and the auditors just weren't always able to do that.

And I have got to be fair and give our IPA and OIG friends—and I say friends because at the end of the day I believe we want the same thing: good internal controls and strong financial management. They really did a great job of finding alternative procedures that they could rely on. It still had an impact, but it really was minimized by their flexibility in scratching their heads and finding ways to make it work.

Ms. SHERRILL. Thank you, and I yield back.

The CHAIRMAN. Thank you.

Mr. Franklin is recognized for 5 minutes.

Mr. FRANKLIN. Thank you, Mr. Chairman. And many of my questions have been answered, but I do want to echo what many others have. I am stunned that a Department that consumes more of our discretionary resources than any other department in the government didn't see fit to just a handful of years ago to decide it was worth auditing where all that money was going, but I am encouraged by the progress.

I did have a couple of, well, specific questions diving into some of the data that was presented to us and this will be for Ms. Jenkins again.

With respect to the Navy, the NFRs, you know, notice of findings and recommendations, I did notice that the Navy has more of those from fiscal year 2019 than all of the other services combined. Is that just a difference in the way that the Navy was conducting its audits or are there just more problems?

And then just kind of half facetiously and then maybe not, is the success of all those findings, was that having anything to do with the decision that it is no longer as high of a priority program and your personnel numbers are being cut?

Ms. JENKINS. Sir, I would say that the number of NFRs, it is a sign of progress for us. As I said, you know, we open up doors and we ask, and embrace audit and we ask the auditors to dig in deep, look at every [inaudible] and every element and, quite frankly, we ask them to give us detailed findings so that we can address them at the lower level of detail.

So the more and more that we are getting insight from them, the more—you know, of course, [inaudible] and the more we get after it. I would say that it is kind of [inaudible] as far as [inaudible] the amount of [inaudible] have been able to accomplish. From the number of just the findings that were resolved, every year over 20 percent of our findings were resolved. But, most importantly, the benefit that we got and the progress that we're showing is with [inaudible]. We got [inaudible] in 2019. We were able to demonstrate 100% accountability of our real property.

The past 3 years—or 2 years, rather, we have closed [inaudible] across all three audits that we have, because we have two for the Navy and then one for the Marine Corps.

And then just that as we were talking about the systems, so one of the large number of our findings are around the business system environment and how complex it is. And we have been able to shut down systems, five of them so far. And we are on target to get on one accounting system for the Navy—or two accounting systems for the Navy, [inaudible] and one for the Marine Corps.

So as I stated previously on the Nav Audit personnel, it is—again, we strive in the organization to match the number of audits with the planned audits that we have. I am not a personnel expert, but my understanding is that those personnel are going to be put in other positions that matches their skill sets. So we are going to be retaining those skill sets. And while we have Nav Audit as an arm of the internal audit function within the Department of the Navy, we have a complete separate workforce that we have expanded over the years the number of our skill sets and expertise that is focused on building the internal controls and all the work

that comes in as a result of the financial statement audit [inaudible].

Mr. FRANKLIN. Okay, thank you.

And this question will be for Mr. Glenn. It appears, you know, the services are doing their respective audits, and I am just wondering as these results are being looked at is there any way to, or are you looking at these from a holistic perspective to see if there are some trends that are being picked up in one service that may not have been picked up on audits in others but would have application to them? Because, obviously, despite the best audits, you are not going to catch everything.

Mr. GLENN. True. You know, the communication across the Department is good. So where one of these is making progress, we are quick to highlight it so others can learn. That has been one of the cultural changes that the audit has brought. It is really more of a collaborative front. A lot of times the services are confronting similar issues, and we hold weekly meetings on Mondays called Financial FinOps, Financial Operations, where we talk about the issues, talk about best practices or ways to solve so that—yes is the short answer, sir.

Mr. FRANKLIN. Okay, thanks. And just one final comment as far as the sense of urgency. You know, we put our minds to it. We decided we wanted to put astronauts on the moon and by the end of the decade, and we did it in less time than what we are talking about getting a clean audit here. So it seems to me that if we really were serious about this, we could focus the energy and resources to get it done sooner. But with that, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you. Before I move on, I had one question I wanted to get and I have to leave in a minute. I will recognize Mr. Kim in just a minute.

You mentioned earlier a reduction in the amount of unobligated balances; basically, money that we had obligated for a particular purpose, that purpose expired and the money is just sort of hanging around. There is also money in the Pentagon that has been obligated for a particular purpose, that purpose hasn't yet expired but they haven't spent it. That is sort of the uncosted balance portion, and that seems like a pretty bizarre concept in general that there is all this money sort of sloshing around the Pentagon that at the moment doesn't have a specific purpose.

So we have got that and that sort of ties into an issue that we deal with all the time and that is the unfunded requirements list combined with the fact that frequently we in Congress will add back in programs that the Pentagon has not funded. As it has been explained to me, the Pentagon knows that we are going to do that so part of the reason that they don't ask for that is they don't want to box themselves in. They know we will do it and they are trying to sort of—they are trying to preserve—and slush fund is an ugly phrase, but—this pot of money that is just sort of hanging out there that they could potentially reprogram.

Is that as big of a problem as it appears to be? I have been working with the NNSA [National Nuclear Security Administration] in particular and I know that they have got about $8 billion in uncosted balances. Meantime, you know, they are crying bloody murder and their budget gets cut by about a billion. You know,

what has the audit found out about all this money, this unobligated money that is sloshing around? Because it seems to me that if you have a bunch of unobligated money, therein, how are you also coming in and saying, oh, but our budget needs to be bigger?

Mr. GLENN. Well, I don't think it's fair to say sloshing around. And thank you for caveating slush fund. There are no slush funds that are hanging out there.

I should note that the obligations that are out there, they are for specific purposes and are supported by specific reasons and needs. The funding that I mentioned earlier, the unobligated expired, like I said, there is always going to be some amount of that. If I obligate a hundred dollars to do something and the contracted bill is at for $98, I have a residual of two dollars.

I can't—I should not leave it there as obligated because the product has been delivered and the financial statement auditors will say that two dollars is not an obligation, de-obligate it, which is the right thing to do. And so if the fund is expired, that two dollars becomes unobligated expired. And that is good financial management. That is good—that is value——

The CHAIRMAN. Where does the two dollars go?

Mr. GLENN. It sits there and eventually goes back to Treasury. It is available for increases to existing obligations, but it is not available for new obligations. So, I hesitate to say sloshing around. It sits there for 5 years just in case it is needed for existing obligations, and then after 5 years it goes back to Treasury.

The CHAIRMAN. Okay. I could pursue that more but I will do that at another time. I think that is a crucial question. In a budget as large as the Pentagon, there is a lot of that money and we ought to figure out how better able to handle it.

Mr. Kim is recognized for 5 minutes.

Mr. KIM. Thank you. Thank you, Mr. Chairman. Thank you, everyone, for joining us here. And, Mr. Glenn, I wanted to just ask you a couple of questions here. I was reading here with interest the testimony that you had and I want to kind of zoom in on the part that you talk about when it comes to use of artificial technology, robotic process, automation, bots, things like that. And it sounded like this was potentially an area of not only efficiency but also potential growth in terms of our ability to understand how we can be better stewards of the taxpayer dollars.

And so I guess I just wanted to get a little bit more of a sense from that from you, you know, I am interested in understanding the strides that the services are making to use artificial intelligence to find, you know, "ghost equipment" or duplicates for accountability purposes or other challenges that you have identified that might be able to be solved through this problem.

And I am also just trying to get a sense of, you know, what scale can this be utilized too within the purposes of what you are doing and DOD as a whole to help with that efficiency? Is this something more on the margins to kind of get to some areas that we have been struggling with and combine some efficiencies, or is there a place where this could potentially be a very central core element to how we not only conduct audits but think about efficiencies within the DOD process?

Mr. GLENN. Okay, thank you. Tell you what, I will give an example of where we are using optical character recognition. And, Wes, I will probably turn to you for robotics because you have got a good story there. There's new accounting standards on leases that if the leases meet certain criteria, they get a special accounting treatment. Well, we have got thousands of leases and probably hundreds of thousands of pages documenting those lease terms. And that is one of those things that is harder to sell to the people at the front lines: "Hey, we need to read these thousands of pages to look for specific criteria to know how to treat these leases in the financial statements." That is just—it is a tough value proposition.

But we have, I mentioned the centralized data, something called advanced analytics, or Advana is the short term. It has something called optical character recognition. And one of the things we're planning to do is we're going to feed these hundreds of thousands of pages of leases through Advana and the optical character recognition capability to look for specific terms. And it will be able to, should be able to, spit out results in minutes about what leases are probably good candidates for the specific accounting treatment.

We are looking for all sorts of opportunities for that. Trust me, we don't want this to be any harder than it needs to be, and bots have saved tens of thousands of hours, people-hours, across the Department, in support the audit and other avenues.

Wes, do you want to add to that?

Mr. MILLER. Yes. Mr. Kim, we have on our staff a data scientist to assist and to advise as far as different types of initiatives that can help as far as to identify inconsistencies within our data. We have used as far as the optical character reading as far as to look at contracts. We are working in the area as far as with bots to identify as far as documentation to be used to support our facility structures and we make sure that we can document those for our auditors so that it speeds up and improves the audit concept.

We have done data comparisons as far as for inventory management where items may be misidentified within the system. We can look for the particular items where we can see that there is a match and where the item is, in fact, accounted for within the system. So these are some of the things that we are doing. We find that it is necessary to have that data scientist with us and to help educate our people as far as the tools that are available.

Mr. KIM. No, look, I appreciate that. That is very helpful. And look, my time is running down and I never like to put the chairman in a position where I ask a question at the very last second and expect an answer.

So what I will just say here is that I have done—I have been connecting with a lot of small tech companies that are doing some very interesting, you know, AI [artificial intelligence] type efforts, you know, along these lines, so this is something I would love to see a conversation on, see if there is any potential ways that we can draw upon, you know, some of these, you know, really interesting firms that are doing this type of work to just try to make sure we are staying more efficient.

So I will make sure we reach on out offline, but just thanks for what you do. Appreciate it. Chairman, back to you.

The CHAIRMAN. Thank you.

Mr. Moore, I believe, has rejoined us. I saw him and then he moved on. Mr. Moore, are you with us?

I swear I saw him and then he disappeared.

I am hesitating here because Mr. Moore is the last questioner that we have here. I see his name. I do not see his picture and he is muted. So rather than having all of us all just sit around here, that is all we have got. If Mr. Moore comes back on while I am doing my concluding comments here then we will take him, but those are the only questions that we have.

I just want to thank our witnesses and thank the members. This is very, very difficult and I know that, you know, as a number of members have indicated and I had the same reaction, basically, what it means is we don't know where we are spending all of our money but there is a lot of it. This is difficult but important. I appreciate you doing that. And now my closing remarks are not going to be closing remarks because Mr. Moore has, in fact, returned to us.

So, Mr. Moore, you will take us to the close here. You are recognized for 5 minutes.

Mr. MOORE. I apologize. We jumped a few. Thank you. So thank you, Chairman. I will bring us to close, then. I want to recognize the witnesses and thank you all for your service carrying out the thankless job and herculean duty of auditing a budget in the hundreds of billions of dollars.

I have two questions that should carry us on to—first one is for Mr. Glenn. My primary concern lies with the recent DOD report stating that nearly 400 separate IT systems are being used to process accounting data, many of which are dated or obsolete. Modernization is a recurrent theme on this committee. I am curious why the DOD has not leveraged the remarkable talent and innovation this country has to offer to improve the way DOD does business.

Can you give some context or explain the DOD efforts to modernize IT systems as they relate to financial management?

Mr. GLENN. Yes. CIO and CFO are linking arms because we very much get that less IT systems equals less IT cost, less cyber vulnerability. We are all kind of talking about change management here. Look, it is not like it is 400 IT systems that only capture financial information. They have financial information and other reasons and value propositions. So it is not as easy as you think to say, "Why don't you just put them all in one financial system," plus there is the comfort zone. I mentioned earlier that people hate new systems and they love the systems that we try to take them away.

And people get comfortable with them and you really have to hold them—you have to tell them exactly where they need to go or how to replace that functionality and you have to hold them accountable for a decommission. And we are doing that. We have quarterly meetings, joining the CIO and CFO and the services and saying, "All right, what systems are out there, where is it people get functionality, where are you going to migrate to and when are you going to do it?"

Mr. MOORE. Excellent. No, you know, in my opening I mentioned herculean effort, so I do understand the difficulty and the nature of this. Can you just briefly address Congress's—what timeline can

we expect on moving data to the cloud that could ultimately help the auditing efforts? If you have any context on that, that would be great to hear.

Mr. GLENN. I will have to take that for the record, sir. It kind of depends on scope. There are a number of cloud efforts across the way and if you would like, I would be happy to let the services talk. But I would have to take that for the record to give you a detailed and quantitative response.

[The information referred to can be found in the Appendix on page 54.]

Mr. MOORE. Okay, understand.

Mr. Herrera, the annual audit highlights the numerous challenges facing DOD's financial management, business systems, and cybersecurity. How does the Department overcome the impact of rapid turnover to maintain focus on auditory challenges?

Mr. HERRERA. Sir, do you mean rapid personnel turnover?

Mr. MOORE. Yes.

Mr. HERRERA. You know, sir, that is an interesting question and then certainly one that I think the entire Department faces. I would say as we went through the pandemic last year, I think we are all incredibly enlightened in what is in the art of possible in terms of how we manage our workflow. So we probably, prior to the pandemic, did very limited telework except for when we had snow days and whatnot in the NCR [National Capital Region].

But we are recognizing that there are opportunities to do substantially more teleworking and whether that is full-time, part-time, or just situational. And frankly, sir, it enables us to have a happier workforce and makes us more competitive in the marketplace for the talent we are all vying for.

Mr. MOORE. Yes, that'll be a consistent theme, at least on my end, of retention efforts and of cost savings that that ultimately does to us, so I do appreciate the concept, you know, the private sector has seen an incredible flexibility over the last year with the disruption of the pandemic. The more we can embrace that in certain ways and just be thoughtful of it is important, so I appreciate those comments.

Mr. HERRERA. No, I am certainly questioning it as a senior financial manager for the Department of the Air Force.

Mr. MOORE. Yes, retention will be a cost savings across the board and definitely worth highlighting and keeping at the forefront. So thank you all for your participation. And, Chairman, I yield back.

The CHAIRMAN. Thank you. And I think those are very important questions. I think software is a big, big part of our problem because, you know, we have such old systems that, you know, they are very difficult decisions. I know within DOD that is a huge problem. So, you know, you have got the old system, you know how to use it, it is not working very well but, you know, it is very expensive to move in a new one and you have got to make sure you move in the right new one. But that is why, in addition, as Mr. Moore pointed out, the cloud is so important.

I am really rather distressed by the delay in the JEDI [Joint Enterprise Defense Infrastructure] program and, yes, I am abundantly aware of the reason for that delay, and it is reasonably close to home here. But I think getting, you know, getting that moving

forward—if DOD could snap their fingers and have better updated software systems tomorrow, I think that would solve about half of this problem. Now I know they can't, but we need to work harder, I think, to get better updated software systems, get rid of the old ones, consolidate, take advantage of new technology.

So we will be very interested and that is going to be a major focus of the committee when we are looking at our funding options. In fact, I would love to find ways to save money on these, you know, what we call legacy programs, which is really not an accurate description. It is more programs that are no longer helping us; you know, whether they were created like 6 months ago or 60 years ago, if they are not helping us achieve our current goals then we have got to move off of them and move on to the others.

And as Ms. Slotkin made clear, one of the biggest impediments in doing that is members wanting to take care of the programs in their district. But I would love to find a patch of those that aren't helping us, get rid of them, and use that money to give us the information systems that we need. That to me is the key transition to getting DOD to where it needs to be. So that is all the comments I have. Mr. Rogers had to leave, so we don't have a ranking member. But I would just say, does anyone else have anything for the good of the order before we adjourn?

Terrific. Well, thank you very much. I appreciate the help. This is not an easy task. And I will say that with each passing year I become, I guess I would say, less bored by this hearing, because I am learning more and more about it so I can follow it enough to be focused. And I certainly understand the importance of it.

So the dedication of members, staff, and DOD are pushing forward on a crucially important and not easy issue, I appreciate everyone involved with that. And with that, we are adjourned.

[Whereupon, at 12:43 p.m., the committee was adjourned.]

A P P E N D I X

APRIL 28, 2021

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

APRIL 28, 2021

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House Armed Services Committee
Hearing on Audit of the Department of Defense
April 28, 2021

Joint Written Statement for the Record, on behalf of All Witnesses, by
Mr. Douglas A. Glenn
Deputy Chief Financial Officer

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

I am joined by my esteemed Military Department colleagues, each serving in the capacity of performing the duties of their respective Assistant Secretary for Financial Management and Comptroller: Mr. Wesley Miller, representing the U.S. Army; Ms. Alaleh Jenkins, representing both the U.S. Navy and U.S. Marine Corps; and Mr. Stephen Herrera representing the U.S. Air Force and U.S. Space Force. We welcome your questions on the status of our respective financial statement audits and greatly appreciate the Committee's continued investment in our journey.

Leaders and financial managers throughout the DoD are embracing our audit responsibilities and, as good stewards of taxpayer dollars working to increase transparency in how we manage the resources entrusted to us. We appreciate your support in holding us accountable for these shared values. We are keenly aware that the DoD is the primary obstacle to the U.S. Government achieving a clean audit opinion—something we would all like to see. Our governance structure is supported by leaders at every level who welcome the scrutiny and understand the value of audit. A strong tone-at-the-top continually reinforces the importance of accountability in support of the mission, people, and resources.

The audit is not just an accounting exercise. It is a top-down and bottom-up review of the DoD enterprise and our ability to accurately and timely account for our resources. Auditors physically verify that assets in our system exist. We receive both quantifiable and non-quantifiable benefits from the audit in the form of improved visibility of our assets to help optimize the warfighter's posture; improved visibility of our financial resources to support decision-making and

investment decisions; and streamlined business processes that support more compliant systems and lead to cost avoidance and operational efficiency. We are committed to integrating audit remediation efforts into our daily business operations, corporate culture, and policies. We are in a cyclical process of collecting auditor feedback and aligning that feedback, or findings, to operational priorities. We remediate the findings by implementing corrective action plans, and then we monitor those results. We will use remediation results to progressively move the Military Departments and the Department as a whole from a disclaimer, to a modified, and finally to a sustained unmodified audit opinion.

We are working closely with other federal agencies and oversight bodies, such as the Department of the Treasury, the Government Accountability Office (GAO), and the Office of Management and Budget; as well as the larger audit community, such as the Federal Accounting Standards Advisory Board, and industry partners such as the American Society of Military Comptrollers and the Association of Government Accountants. We are grateful for the continued cooperation and responsiveness of our DoD Office of Inspector General (DoD OIG) and the many independent public accountants (IPAs) with which we work. The willingness of all of these groups to share feedback and best practices is helping us prioritize and resolve some of our more complex audit issues.

Making Progress

Having just completed our third annual consolidated audit, the Department continues to make steady progress toward not just an unmodified audit opinion but, more importantly, improved financial management and data integrity for decision-making. As a reminder of what is at stake, the DoD employs nearly 3 million service members and civilians. We manage one of the federal government's largest real property portfolios, consisting of more than 603,000 assets located on over 4,600 sites worldwide. Our bases operate like small cities, with law enforcement, hospitals, grocery stores, schools, transportation systems, and housing. We run one of the largest health care systems in the country, supporting more than 9 million people. As a comparison, we manage $310 billion in inventory, nearly seven times the size of Walmart's inventory. And while a typical commercial airline manages between 300 and 1,600 aircraft, we fly roughly 16,000 aircraft. This amounted to $817 billion in gross costs last fiscal year, which would have easily placed DoD at the top of the Global 100 list if government entities were included

Each year, independent public accounting firms conduct more than 24 standalone audits of DoD entities. The DoD OIG oversees the work of these auditors and issues the overarching consolidated audit opinion on the Department as a whole. In fiscal year (FY) 2020, these audits required more than 1,400 auditors, over 100 in-person site visits, despite a COVID environment, and approximately 530 virtual site visits to review DoD business processes and activities.

Eight DoD entities representing 35 percent of DoD's $3.1 trillion in total assets received unmodified (or clean) opinions in FY 2020.[1] Every entity that achieved an unmodified opinion in FY 2019 sustained a clean opinion in FY 2020, while the Defense Information Systems Agency Working Capital Fund joined these ranks for the first time. The Military Retirement Fund and the Defense Finance and Accounting Service Working Capital Fund achieved their 26th and 21st consecutive unmodified opinions, respectively.

Auditors issued more than 3,400 notices of findings and recommendations, or NFRs, during the FY 2020 audits. They also looked to see whether we had successfully closed past findings. As of early April, auditors had validated the successful closure of 23 percent of the prior year findings. We are pleased to note that even though the year was marked by many COVID-19 challenges, our closure rate was on-pace with the closure rate achieved the year before. This tells us our corrective action plans are effectively addressing root causes.

Following the initial FY 2018 audit, DoD emphasized auditor findings as a way to prioritize corrective actions and measure progress. In FY 2020, however, the Department began using material weaknesses to prioritize corrective actions, improve operational value, and strategically move the Department closer to an unmodified opinion. Material weaknesses are issues that, if left unaddressed, have the potential to lead to significant, erroneous reporting and are the specific issues cited in the DoD OIG's audit report that are preventing DoD from achieving an unmodified opinion. The Department's FY 2020 audit report noted 26 Departmental material weaknesses. The auditors found no new material weaknesses at the Department-level, and we successfully downgraded two material weaknesses. This is one reason we can say this year's audit report was better than last year's audit report. In addition to improved opinion counts, material weakness

[1] 44.5 percent received positive opinions inclusive of the modified opinion received by the Medicare-Eligible Retiree Health Care Fund.

reductions, and NFR closures, our collective efforts resulted in an improved rating for "DoD Financial Management" in GAO's 2021 High Risk List.

Driving Change

Most importantly, the audits are driving the cultural changes needed to achieve our business reform goals. Perhaps no better example of the benefit of audit exists than in the improvements we are seeing in our data, which, second to our women and men in uniform, is maybe our most valuable and strategic asset. The audits demand information technology (IT) system improvements and data consolidation that is arming decision-makers with real-time, Department-wide views, and advanced data analytic capabilities. We are now able to use dashboards, metrics, and analytics to support efficiencies, sustain improvements, and harness the power of data for better decision-making.

At the risk of sounding dramatic, the audit is also driving improved national security. Auditors test our processes and procedures for controlling who can access our systems, what levels of access they have, what procedures they can perform, and who can access system coding and configuration capabilities. We already know DoD systems are primary targets for hacks and cyberattacks, both foreign and domestic. The audits test our IT controls and provide us direct and specific feedback on where we must improve security and controls.

Benefiting the Taxpayers

Even with all this good news, it is reasonable to ask, "how does this benefit the taxpayer and is it worth all the money we are spending on the audits?" Annually, we pay the IPAs roughly $185 million for audits and examinations, less than 1 percent of our total annual budgetary resources. This is well within industry standards, and the return on investment is remarkable. The DoD audit is driving efficiency that reduces administrative costs, improves inventory management, and many other benefits.

The Army deployed an automated solution that saved 60,000 labor hours to record approximately 2,000 real property assets transferred to Army. The Navy launched a campaign to locate untracked or excess material, and Navy commands identified more than $3.2 billion in material not visible to the organization that is now available for redeployment. The Air Force developed and deployed the innovative Theater Integrated Combat Munitions System (TICMS). In addition to reducing the Air Force's overall IT footprint and driving modernization by

migrating eight disparate systems into one, TICMS is boosting operational readiness through enhanced accountability of munitions-related assets. This system will save the Air Force system maintenance dollars while better tracking the location and quantity of its munitions.

Embracing technology, such as artificial intelligence and robotic process automation, or "bots," is helping us increase the timeliness and accuracy of our transactions and allowing us to meet increasing audit demands. Over the past year, the Department saw a marked increase in the use of bots across all of our business lines. As of March 2021, DoD had 323 bots deployed across all business lines, 60 percent of which were aligned to financial management processes, with 16 percent directly supporting compliance or audit response activities.

The audit is giving taxpayers improved accountability for the assets entrusted to us, transparency in our use of these assets, and is pushing the DoD and the U.S. Government closer to a clean opinion. We believe the return on investment will continue to grow as audits mature, root causes to problems are addressed, and our data are made more reliable and timely. I am fully confident the DoD audit offers a positive return on investment for American taxpayers.

The Military Departments

Now that we have highlighted our overall audit results, I would like to spend a few minutes on the status of each Military Department and their planned approach for audit over the next few years.

In FY 2020, the Army made significant progress, as evidenced by its audit metrics. The number of auditor findings for IT dropped by 30 percent. It used workflow technology to validate and improve the quality of 50,000 real property asset records. Improved data analytics helped it identify "ghost" general equipment assets, such as tanks and helicopters that should be removed from the system, and machine logic is helping the Army address and reduce unmatched transactions between systems, resulting in better asset management.

The Army has developed an audit roadmap that identifies milestones to remediate material weaknesses. Over the next two years, the Army will focus on remediating Fund Balance with Treasury issues, the most material item on the financial statements. Fund Balance with Treasury is an asset account showing available budget spending authority that must be reconciled monthly with Department of the Treasury records, much as one balances their personal

checkbook to their bank's records. Establishing beginning balances is also a near-term priority and essential to achieving an opinion. The Army's third priority is the completeness of property, plant, and equipment and inventory populations, which ensures they have accountability and supporting documentation for all of their assets and transactions. The Army's ability to provide appropriate evidential matter to the auditors to support the execution of our financial activities continues to improve. Finally, the Army is also working on its longer-term ERP, Enterprise Resource Planning, modernization strategy.

The audit of the Department of the Navy (DON) is premised on optimizing the financial systems environment, enhancing processes, and investing in its workforce. Focusing on these three components directly benefits the DON mission, Sailors, and Marines by strengthening readiness and lethality. Underlying these elements are the FY 2021 priorities Acting Secretary of the Navy Harker issued earlier this year, which focuses on downgrading Navy material weaknesses and developing the right environment to sustain them.

Optimizing the financial systems environment entails the DON consolidating its accounting systems into just one unclassified system for each Service—the Defense Agencies Initiative (DAI) for the Marine Corps and Navy ERP for the Navy—currently planned for October 2021 and October 2022, respectively. This reduces complexity, increases audibility, shrinks operating costs, and minimizes cyber vulnerabilities. The DON is also using bots to automate manual processes.

Data as a strategic asset is a major contributor to the DON's audit effort. A common operating picture, using dashboards for real-time insights, metrics, and analytics, is propelling the DON into a decision-making culture focused on scalable, data-driven analytics to meet pressing business and audit needs. The DON also established a dedicated office to drive change management and improve DON financial data analytics and business intelligence. The DON's Jupiter platform hosts multiple applications that leverage real-time financial execution data to support information at the speed of relevance.

Just as data is a strategic asset, so is the DON workforce. The DON is investing in its workforce through upskilling and employing best practices. Ensuring the workforce has the skillsets necessary to execute or improve processes is critical. A modern, analytical workforce will sustain improvements and provide even greater outcomes for the DON's mission.

At the beginning of FY 2021, the Department of the Air Force established a multi-year audit roadmap and integrated master schedule that collect objective data inputs from across the organization to manage near- and long-term audit goals. These tools add increased transparency, consistency, and accountability in assessing the Air Force's audit progress. Leveraging this matured, data-driven approach, the Air Force is making a conscious decision to prioritize reductions of its most significant material weaknesses over the next 18 months. This includes the reported value of its military equipment (both in production and in use) and the balance of Air Force cash accounts with the Department of the Treasury, which together represent nearly 70 percent of the assets reported on its financial statements. In addition, the Air Force remains focused on establishing the completeness and accuracy of its legal liabilities and implementing a fully compliant management internal control program. These four material weaknesses are targeted for downgrade by the end of FY 2022.

The Fourth Estate

The Fourth Estate, which comprises the other Defense organizations, Defense Agencies, and DoD Field Activities, is also making steady progress. The Defense Logistics Agency had two of its material weaknesses downgraded. Auditors have thus far validated the closure of roughly 30 percent of Fourth Estate prior-year audit findings. The closure rate for IT findings alone rises to 78 percent for Fourth Estate entities audited as part of the consolidated audit. Each entity under standalone audit has developed an audit roadmap with targeted auditability timelines and major milestones, and we are closely monitoring progress.

Of the 25 DoD service provider IPA examinations of system controls (which includes 2 examinations where the Army acts as a service provider), 12 resulted in an unmodified opinion, an increase of 1 over last year. The Defense Finance and Accounting Service, one of our major service providers, is championing financial excellence through transparency of our financial data and helping lead efforts to reconcile our fund balance to the Department of Treasury records. A project to resolve our aged statement of differences—similar to reconciling hundreds of checking accounts each with billions of dollars in them and going back over the last 10 years—has resulted in a 99 percent reduction in total differences from $2.7 billion in December 2018 to $5.9 million in September 2020. Aged balances in our suspense accounts was similarly reduced from $23.4 billion in September 2018 to $439.4 million in September 2020, a 98 percent decrease.

Conclusion

The audit is all encompassing. It acts as a catalyst to drive reform and innovation to best support our mission readiness and lethality. It reinforces accountability to taxpayers, and generates detailed findings and recommendations to further guide corrective actions. The output of our effort is a clean audit opinion, but its effects are even greater--better systems, better data, financial management excellence, an analytical workforce, and improved transparency enabling faster insights so that we can develop focused, sustainable, solutions for the Department's complex problems.

The annual audit regimen has set the Department on an irreversible course in support of business reform, reinforcing accountability to taxpayers, and directly contributing to enhanced military readiness. Ultimately, success is in the hands of the DoD workforce, and our personnel is already realizing the importance and benefits of these audits. By continuing to equip the workforce with the resources and tools it needs to respond to auditor requests and remediate audit findings, the Department will achieve its audit goals of business excellence, and sustain an improved level of business proficiency for the benefit of the warfighter and the American people.

I suspect we all look forward to the day when we hear on the evening news or the drive home, "For the first time in history, the U.S. Government achieved a clean audit opinion." We need hearings like this. We need to be asked hard questions about the assets entrusted to us, and we welcome your continued collaboration and oversight. You and your colleagues have continued to stress the importance of these audits and the need for continued progress. We appreciate the confirmation questions you have posed to nominees that reinforce that message. The DoD IG and GAO have recognized our strong tone-at-the-top and that is due, in part, to you holding us accountable. We look forward to your questions.

Douglas Glenn
Deputy Chief Financial Officer

Mr. Doug Glenn has served as the Deputy Chief Financial Officer (DCFO) in the Office of the Under Secretary of Defense (Comptroller) since December 2020. He is the principal advisor to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, as well as to Defense senior leaders, on all issues involving the amended Chief Financial Officers Act of 1990 (CFO Act) and related financial management reforms. He is responsible for the improvement and sustainment of DoD's financial framework inclusive of policy, systems, audit, and reporting, compliant with government accounting standards, federal regulations and laws, and best practices leading to the effective, efficient, and legal use of DoD resources. His portfolio includes ongoing annual financial audit support and issue remediation, as well as oversight of the Department's internal control programs; improper payment reduction; cost transparency via the Digital Accountability and Transparency Act; cost accounting initiatives; CFO and FM of the Future strategy attainment; CFO data transformation for better decision making; and various other business process reforms to streamline, simplify, and drive DoD financial excellence.

Formerly, Mr. Glenn was the DCFO at the Department of the Interior; Finance Director at the National Aeronautics and Space Administration; and DCFO at the General Services Administration (GSA). His proudest career accomplishments include:

- Removing all material weaknesses at the Department of Interior;
- Reducing GSA's significant deficiencies from six to two;
- Achieving the second best audit and internal control report of all CFO Act agencies;
- Filing a Performance and Accountability Report in record time (six days early);
- Presenting to the Federal Accounting Standards Advisory Board on the future of federal financial reporting);
- Achieving a green rating at GSA for the President's Management Agenda for financial performance, improving from red when he started; and
- Raising awareness of the value that the Government financial industry provides every day.

A native of San Diego, California, Mr. Glenn holds a Bachelor's of Science degree in Finance from the University of Colorado at Boulder. He is a former Certified Public Accountant (CPA) (despite the American Institute of CPAs losing his exam on one occasion) and a former Certified Management Accountant. He has coauthored procedures listed in Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," and portions of the OMB Circular A-123 Implementation Guide. In addition, he co-chaired OMB Circular A-136 committees from 2008 to 2010; served as President of the Washington, D.C., chapter of the Association of Government Accountants (AGA); served as national AGA president 2016 to 2017; and has landed on and been launched off an aircraft carrier at sea (prior to joining the Department of Defense).

Mr. Wesley C. Miller
DASA, Financial Operations and Information Senior Official Performing the Duties of the Assistant Secretary of the Army for Financial Management and Comptroller

Mr. Wesley C. Miller was appointed to the Senior Executive Service in May 2003. He is currently serving as the Senior Official Performing the Duties of the Assistant Secretary of the Army (Financial Management and Comptroller) as of 6 January 2021. In this role he serves as the principal advisor to the Secretary of the Army on all matters related to Financial Management and Comptrollership. He is also responsible for resourcing America's Army through policies and activities, including budget formulation and execution, disbursement and audit compliant financial statements.

Mr. Miller was appointed as the Deputy Assistant Secretary of the Army (Financial Operations and Information), in December 2015 where he was responsible for oversight and integration of all Army policies, programs, systems, and procedures designed to develop, improve and maintain the Army's financial accountability, ability to produce auditable financial statements and internal management control programs.

Mr. Miller was previously assigned as the Director of Resource Management, U.S. Army Corps of Engineers, in April 2006 where he was responsible for planning, developing, coordinating, advising on, and directing all activities of the U.S. Army Corps of Engineers integrated financial management system.

His initial Executive Service position was as the Director, Management and Control Directorate in the Army Budget Office. Other assignments at the Army Budget Office included Executive for Budgeting to the Planning, Programming and Budgeting Committee; Chief Operating Forces Division; and Chief Current Operations Branch. He also served over 29 years as an officer in the United States Army Finance Corps.

CAREER CHRONOLOGY:
Jan 2021– Present: Senior Official Performing the Duties of the Assistant Secretary of the Army (Financial Management and Comptroller)
Dec 2015 – Dec 2020: Deputy Assistant Secretary of the Army, Financial Operations and Information; (Apr 2020 – Aug 2020) served as the Senior Official Performing the Duties of the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller)
Apr 2006 – Nov 2015: Director of Resource Management, U.S. Army Corps of Engineers
Dec 2002 – Mar 2006: Director of Management and Control, Army Budget Office
May 1972 – Jan 2002: U.S. Army Officer (Retired at rank of Colonel)

COLLEGE:
MPA, University of Missouri, Kansas City
BS, Accounting, Eastern Kentucky University

SIGNIFICANT TRAINING:
Department of Defense Financial Management Certification
Industrial College of the Armed Forces
U.S. Army Command and General Staff College
Finance Officer Basic and Advanced Courses

AWARDS AND HONORS:
Certified Defense Financial Manager (with Acquisition)
Interagency Resource Management Individual Award - 2004
DoDIG Joseph H. Sherick Award - 2008
Meritorious Executive Presidential Rank Award - 2008
Meritorious Civilian Service Award
Superior Civilian Service Award
Legion of Merit

Alaleh Jenkins
Performing the Duties of the Assistant Secretary of the Navy
(Financial Management and Comptroller)

Ms. Alaleh Jenkins is performing the duties of the Assistant Secretary of the Navy (ASN) Financial Management and Comptroller (FM&C). In this capacity, she directly oversees the management of the Department of the Navy's (DON) annual budget and supporting processes, while providing independent analysis to her constituent clients. She also spearheads the DON Financial Management Transformation (FMT) as an enterprise-wide initiative that has direct impacts to and requires actions by all commands within the DON, to include the U.S. Navy, U.S. Marine Corps, Defense Finance and Accounting Service, and other Department of Defense Agencies.

Prior to her current assignment, Ms. Jenkins served as the Principal Deputy Assistant Secretary of the Navy (PDASN) for FM&C. In this role, she worked closely with the ASN (FM&C), Deputy Assistant Secretaries of the Navy (DASN), and senior leadership throughout the Navy, providing recommendations on the efficient and effective allocations of assets, consistent with the national security priorities of the President and the Secretary of Defense.

Ms. Jenkins also served as the Deputy Assistant Secretary of the Navy (DASN), Financial Management Operations (FMO), where she was responsible for the DON accounting and financial management matters; her primary responsibility was developing and implementing Department-wide accounting and finance policies and procedures, which supported Department of Defense (DoD) initiatives in these areas.

Ms. Jenkins served as Director, DON Office of the Chief Management Officer. She served as the principal executive to the Under Secretary of the Navy (UNSECNAV) on all matters related to business transformation of the DON with a specific focus on advancing the Department's progress toward auditability.

In December 2014, Ms. Jenkins was appointed to Senior Executive Service while serving as the Assistant Deputy Chief Financial Officer (ADCFO) within the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). She provided direct support to the Deputy Chief Financial Officer on developing and interpreting DoD accounting and finance policy and promoting standard financial management processes and systems, as well as ensuring an enterprise wide audit strategy was properly implemented. While serving in the OUSD (C), Ms. Jenkins served as the Director for Financial Improvement and Audit Readiness (FIAR). In this position, she was responsible for advising the Deputy Chief Financial Officer on all issues related to financial management reform and audit readiness.

Prior to becoming the FIAR Director, Ms. Jenkins served as a client service director with PricewaterhouseCoopers. In this position, she was responsible for assisting DoD clients in the development and implementation of solutions to improve financial practices and prepare for auditability through discovery and remediation, driving change at all organizational levels within the organization.

Ms. Jenkins is a Certified Public Accountant and Certified Defense Financial Manager. She holds a Defense Financial Management Certification, Level 3, and is an accomplished leader with more than twenty years of experience in federal and private sector financial statement audit, business transformation, and large scale and complex financial management engagements. Ms. Jenkins has received various personal awards, including the Office of the Secretary of Defense Medal for Exceptional Civilian Service, the Association of Government Accountants Achievement of the Year Award, and the Federal Accounting Standards Advisory Board Pillar award.

Stephen R. Herrera
Principal Deputy Assistant Secretary of the Air Force
for Financial Management and Comptroller

Stephen R. Herrera, a member of the Senior Executive Service, is the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, Headquarters United States Air Force, the Pentagon, Arlington, Virginia. He oversees the budgeting, cost estimating and financial operations of more than $165 billion in annual resources that support Department of the Air Force priorities in accordance with Congressional, Secretary of Defense and Secretary of the Air Force direction. Additionally, he is responsible for the professional development of more than 12,000 military and civilian members of the Air Force financial management community.

Prior to his current position, Mr. Herrera was the Deputy for Budget, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, Headquarters U.S. Air Force, Arlington, Virginia, where he was responsible for planning and directing Air and Space Force budget formulation and execution of appropriations. He led a staff of civilian and military financial managers who develop, defend and execute funding that supports military operations and Department of the Air Force priorities.

Mr. Herrera began his career with the Air Force as a Palace Acquire intern upon graduation from the University of Texas in San Antonio. He has held various positions within the Air Force in the areas of budget formulation, program integration and resource management.

EDUCATION
1987 Bachelor of Business Administration, Finance, University of Texas, San Antonio
1995 Master of Science, Management, Troy State University, Ala.
1999 Air War College in Seminar, Maxwell Air Force Base, Ala.
2003 Council For Excellence in Government Fellows Program, Washington, D.C.

CAREER CHRONOLOGY
January 1988–January 1990, Budget Analyst, 834th Comptroller Squadron, 1st Special Operations Wing, Hurlburt Field, Fla.
January 1990–April 1991, Budget Analyst, Budget Policy and Control Division, Headquarters Military Airlift Command, Scott Air Force Base, Ill.
April 1991–October 1995, Budget Analyst, Budget Operations Division, Directorate of Financial Management and Comptroller, Headquarters Air Force Special Operations Command, Hurlburt Field, Fla.
October 1995–October 2000, Chief, Budget Support Branch, Directorate of Financial Management and Comptroller, Headquarters AFSOC, Hurlburt Field, Fla.
October 2000–August 2002, Chief, Budget Operations Division, Directorate of Financial Management and Comptroller, Headquarters AFSOC, Hurlburt Field, Fla.
August 2002–March 2004, Deputy Comptroller, Directorate of Financial Management and Comptroller, Headquarters AFSOC, Hurlburt Field, Fla.
March 2004–March 2005, Chief, Financial Analysis, Financial Management Directorate, Air Armament Center, Eglin AFB, Fla.
March 2005–January 2012, Deputy Director of Financial Management, Air Armament Center, Eglin AFB, Fla.
January 2012–January 2013, Deputy and Director for Budget Programs, Office of the Assistant Secretary of the Air Force, Financial Management and Comptroller, Headquarters U.S. Air Force, the Pentagon, Arlington, Va.
January 2013–October 2015, Associate Deputy Assistant Secretary for Financial Operations, Office of the Assistant Secretary of the Air Force, Financial Management and Comptroller, Headquarters U.S. Air Force, the Pentagon, Arlington, Va.
November 2015–November 2018, Executive Director, Headquarters AFSOC, Hurlburt Field, Fla.
November 2018–July 2019, Deputy Director of Staff, Headquarters U.S. Air Force, the Pentagon, Arlington, Va.

July 2019–December 2020, Deputy for Budget, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, Headquarters U.S. Air Force, the Pentagon, Arlington, Va.
December 2020–present, Principal Deputy Assistant Secretary of the Air Force, Financial Management and Comptroller, Headquarters U.S. Air Force, the Pentagon, Arlington, Va.

MAJOR AWARDS AND DECORATIONS

1994 Outstanding Contribution to Financial Management, Air Force Special Operations Command
2003 Outstanding Comptroller, United States Special Operations Command
2004, 2012 and 2017 Air Force Meritorious Civilian Service Award
2005 and 2009 Special Act or Service Award
2010 Air Force Materiel Command Robert D. Stuart Award Winner

OTHER ACHIEVEMENTS

Defense Financial Management Certification, Level III
DAWIA Business, Cost Estimating and Financial Management, Level III
Senior Fellow, Council for Excellence in Government
Certified Defense Financial Manager (Acquisition)

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

APRIL 28, 2021

RESPONSE TO QUESTION SUBMITTED BY MR. LANGEVIN

Mr. GLENN. Fiscal year (FY) 2027 (for full remediation). Threats to DOD information systems and their data can arise from external threats, such as foreign adversaries, and internal or insider threats, such as employees and service providers. To address these threats, the Department has established security measures that include the following:

— A Layered Defense that leverages technology-based protection mechanisms such as cloud-based internet isolation, perimeter defense in the form of DOD Internet Access Points security suites, joint regional security stacks, and end point security solutions, to safeguard its networks against external threats;
— An insider threat program designed to deter, detect, and mitigate risks to high-value data and systems posed by trusted individuals authorized to access them;
— Requiring Federal Risk and Authorization Management Program and/or DOD certification for commercial hosting service organizations; and
— Long-standing collaborative partnerships with other federal agencies and standards organizations to build/enhance cybersecurity tools, incident response services, and assessment capabilities.

While the above measures are not examined during financial statement audits, they do present evidence of their effectiveness, including insider threat controls, as demonstrated by the following:

— Twenty-five DOD-owned systems received favorable opinions from their Service Auditors in FY 2020 (Statement on Standards for Attestation Engagements (SSAE) No. 18), including controls related to access.
— DISA received two unmodified opinions from its Service Auditors (SSAE No. 18), including access controls, for conventional hosting services and MilCloud, covering the infrastructure used to host 101 DOD applications.
— Commercial cloud service providers currently hosting 20 DOD-owned applications relevant to financial reporting have all received unmodified opinions from their Service Auditors (SSAE No. 18), including controls related to access.

However, the DOD financial statement audits conducted over the last three years (FY 2018–FY 2020) resulted in a quarter of all Notices of Findings and Recommendations (NFRs) related to access controls over DOD systems that lead to elevated risk. The Department takes these findings very seriously. The DOD Chief Information Officer (CIO) and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) are actively engaged to address these audit findings. Some are fixable in the short term, while others require a longer term, entity-wide, strategic solution.

Short Term—Status of Corrective Actions to Address High-Priority Access Control NFRs

— Based on a joint analysis of access control-related NFRs, the DOD CIO and USD(C)/CFO issued a policy memo directing corrective actions on specific conditions that present potential for elevated cyber and audit risk. In FY 2020, the Department's auditors closed 27 percent of the high risk conditions that were reported during the FY 2019 audit year. The closure and recurrence status of these specific conditions is captured and reported to executive leadership during regularly scheduled meetings of the Information Technology (IT) Functional Council.
— The DOD CIO is currently reviewing the corrective action plans associated with known high-risk, access-related conditions to assess interim milestone dates and is identifying opportunities to accelerate their remediation.

Long Term—Strategic Measure to Improve Management of End-user Access Rights

— A provisional project plan from the CIO and CFO, extending through FY 2027, was delivered to the Deputy Secretary of Defense. The plan lays out a timeline for implementing Identity, Credential, and Access Management technology solutions for 260 systems relevant to internal controls over financial reporting. According to the CIO and CFO, nine of these systems are currently on-boarding under a pilot, and the plan will be updated with lessons learned from this

effort. Given the complex nature of the DOD operating environment, including the number of users and organizations, this technology is required to manage user access rights and secure these systems. [See page 9.]

RESPONSES TO QUESTIONS SUBMITTED BY MS. SPEIER

Mr. GLENN. Over the last year, the Department continued to rationalize and simplify the defense business system environment by developing and improving methods to track progress, along with providing direction and guidance to the Military Departments and the Fourth Estate. Currently, the Department is tracking 257 audit-relevant systems and is working to consolidate and/or modernize systems to meet audit requirements. In FY 2020, four systems retired as planned; in FY 2021, six audit-relevant systems are on track to be retired. Currently, the consolidated migration plan is tracking 37 target systems to retire in FY 2022 and beyond. Additional details regarding the Department's efforts to rationalize and simplify the Defense business system environments will be reported in the annual Defense Business Systems Audit Remediation Plan, due to Congress in June 2021. [See page 15.]

Ms. JENKINS. The Naval Audit Service organization will be reshaped from a requirement of ~284 to ~120. Our intent is to shape the DON audit workforce to appropriately meet the assigned workload at the Naval Audit Service while aligning and investing in oversight authorities across the DON, to include our Inspector General, law enforcement entities, and management internal control oversight functions. The NAS will be staffed to continue to meet its important and necessary function based on its planned audits and in consideration of the number of audits completed on an annual basis. All functions assigned to the NAS today will remain with the NAS throughout this workforce reshaping. It is important to note the Naval Audit Service has never participated in financial statement audits nor been a part of the workforce that helps to track financial statement audit findings or support financial statement audit remediation. [See page 15.]

RESPONSE TO QUESTION SUBMITTED BY MR. NORCROSS

Mr. GLENN. Currently, we are not experiencing any resistance from the contractors in providing physical assets and inventory. There were contracting delays between the F–35 joint program office (JPO) and Pratt & Whitney which have now been resolved, and the metrics related to Pratt & Whitney inventory status are expected to improve starting in June 2021. The contractors have provided reports for the F–35 contracted inventory team to validate existence of the assets and give the F–35 JPO their independent baseline property record. The inventory team occasionally works on a non-intrusive basis, such as overnight or third shift, so as to not impede any production operations. Working under these agreed-upon constraints has extended the initial planned timeline for inventory efforts. Additionally, there was a travel hold of approximately six months from March through August 2020 due to the COVID–19 pandemic. The inventory team continues to adjust travel and site planning due to localized restrictions and COVID–19 spikes in several supplier site locations, further delaying the inventory timeline. The JPO reports biweekly metrics on prime contractors' progress to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). The metrics as of May 14, 2021, are attached. [See page 19.]

RESPONSE TO QUESTION SUBMITTED BY MR. MOORE

Mr. GLENN. Relative to audit, the DOD is realizing the benefits of data in the cloud today. While the process to fully migrate its Enterprise Resource Planning (ERP) databases and applications to the cloud is still ongoing (through FY 2028), the benefits from an audit point of view are already prevalent. Components' General Ledger (GL) systems are migrating their data to cloud-based platforms, improving auditability and accountability through data standardization and visibility. To date, 2 of 26 GL systems across DOD are either fully operating (or partially operating) on the cloud. In 2017, the DOD began building its cloud-based analytics tool, Advana, to consolidate all its information into a single source of truth. Advana translates and standardizes data from disparate systems and converts it into a usable format for managers, decision makers, and auditors ease of access. OUSD-Comptroller built tools within Advana to:

—Aggregate and reconcile audit populations;

—Enable entities to drill from the financial statements down to GL details;
—Better track and resolve auditor findings;
—Improve funds management; and
—Reduce cash reconciliation differences between the DOD's accounting systems and the funds holder, the Department of the Treasury.

ERP migrations result in instant, large-scale audit improvement from legacy systems by allowing timely data visibility to fully assess audit assertions (existence, completeness, accuracy, valuation, etc.). Enhanced cybersecurity and financial regulatory compliance results in reliable data for the auditors. Concurrent efforts to augment the ERP databases and applications at the component level to the cloud is planned to be completed by FY 2028.

Additional details on Military Department plans on transitioning to the cloud are as follows:

Army Army has three ERPs: General Fund Enterprise Business System (GFEBS), Global Combat Support System–Army (GCSS–A), and Logistics Modernization Program (LMP). GFEBS was migrated to a cloud environment last year. Migration is currently underway for GCSS–A (estimated completion date (ECD) Quarter 1, FY 2022) and LMP (ECD—Quarter 4, FY 2021).

Department of the Navy The Navy ERP database layer was lifted and shifted from the old legacy database by fully migrating to a partially cloud-based solution with over 72,000 users, driving timelier and more informed operational, financial, and budgetary decisions. The DON is actively consolidating the various financial and GL-related systems and processes used within the Navy into that single cloud-based ERP SAP system by FY 2023. These system efforts have resulted in many audit benefits, including but not limited to an improved audit response. This is evidenced by steady year-over-year increases in auditor Prepared by Client timeliness (96 percent, 6 percent improved over FY 2020) and completeness (96 percent, 3% improved over FY 2020). The U.S. Marine Corps is migrating its financial systems and GL capability to Defense Agencies Initiative, which is planned to migrate to a cloud-based Oracle platform by FY 2023.

Air Force The Air Force is targeting a Defense Enterprise Accounting and Management System (DEAMS) migration to cloud hosting by the end of FY 2024. The DEAMS production application is not hosted in a cloud environment. The DEAMS program does leverage cloud hosting for development and support applications. The DEAMS program office plans to begin laying the foundation for a cloud migration under the next contract award in FY 2022, beginning with feasibility studies and risk reduction. Our best estimate of the migration date is the FY 2024 target. [See page 31.]

RESPONSE TO QUESTION SUBMITTED BY MR. WITTMAN

Mr. GLENN. The DOD has initiated multiple initiatives to assure its auditors are prepared for the digital age. These initiatives have gained traction in areas such as audit response, audit reporting, and video communications. Taken together, not only are our auditors prepared for the digital age, but also these efforts have translated into more efficient and cost-effective audits. Here are a few areas in which the Department has excelled in this regard.

Audit Response The DOD has developed a SharePoint-based platform to digitize the majority of its responses to audit requests for the consolidated DOD financial statement audit. The Financial Improvement and Audit Remediation (FIAR) Audit Response Center (ARC) tool is used by OUSD(C) to manage the workflow of audit requests between external auditors and reporting entities. The FIAR ARC tool enables auditors to submit audit requests digitally and OUSD(C) audit liaisons to route the requests to appropriate assignees. The tool serves as a centralized repository for supporting documentation in electronic format that has been submitted to auditors. Automatic email notifications alert reporting entities when a new audit request has been received and alert auditors when a corresponding response has been delivered. OUSD(C) provides recurring training on use of this platform for its auditors, financial management personnel, and audit support teams.

Audit Reporting In recent years, the Department has developed a Notice of Findings and Recommendation (NFR) database. The platform serves as a central repository for all NFRs issued by financial statement auditors. It also requires auditors to map NFRs to material weaknesses. The database includes Qlik dashboards that provide leadership with real-time visibility into the progress that Components are making in developing and implementing corrective action plans (CAPs) in response to identified NFRs and material weaknesses.

Data Analysis Software The DOD Office of Inspector General (OIG) utilizes an IDEA analytics tool to perform common audit procedures, such as searching for duplicate transactions. The DOD OIG data analytics team uses more powerful computers and has staff more familiar with reviewing large data sets and writing code to perform complex algorithms. For example, in 2021 the DOD OIG data analytics team helped DOD OIG auditors standardize $55 billion of disbursement data and compare that data to an $8 billion asset account. This allowed auditors to identify unexpected relationships and better focus the sample.

Video Communications The COVID–19 pandemic required the Department and its auditors to make significant modifications in their approach to the FY 2020 and FY 2021 financial statement audits. The DOD and its auditors have adapted by increasing the usage of virtual tools such as Defense Collaboration Services and Microsoft Teams to perform business process and information systems walkthroughs remotely. Testing for IT, Fund Balance with Treasury, spare engines, military equipment, and other areas have been successfully performed virtually by the Department. Thus far, the pandemic has not resulted in any Components having their audit opinions adversely impacted. This is due in large part to the DOD and its auditors making a successful transition to increased reliance on video and other virtual technologies. [See page 12.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

APRIL 28, 2021

QUESTION SUBMITTED BY MR. MOULTON

Mr. MOULTON. Mr. Glenn, automation and artificial intelligence are becoming increasingly integral to all DOD processes, and accountability is no different. I appreciated your testimony on how automation and AI are serving the auditing process. Have you been able to leverage a workforce already trained in these areas, or are you providing additional data science training? If so, what does that training look like?

Mr. GLENN. The Department of Defense (DOD) realizes how important Artificial Intelligence (AI), automation, and data science are to remain competitive and agile while protecting our Nation's defense. We have leveraged special hiring authorities from the DOD Cyber Excepted Service (CES) to increase our access to AI talent. CES is an enterprise-wide approach for managing civilian cyber professionals and has expanded to include AI and other digital professionals. It offers flexibilities for the recruitment, retention, and development of professionals with specialized experience across the Department. To develop the skills of our current workforce, the Joint Artificial Intelligence Community (JAIC) is leading a series of DOD AI Training Pilot Programs to assess the appropriateness and feasibility of readily available training solutions. In June 2021, the JAIC is launching a 3-month pilot program for DOD Product Managers, and in July 2021, a 5-month pilot program for data scientists will be launched. In turn, the JAIC will leverage outcomes from these pilot programs to inform the development of future DOD AI Education and Training Initiatives. We have also established a baseline for training, consistent training standards, and learning competencies for the data science community. By 2022, we plan to create widely accessible training on various data science topics using online open courses. The Department intends to make these data training and education courses accessible through a program called Advanced Distributed Learning, which enables interoperability and easier access to shared advanced technology training across the Department.

QUESTIONS SUBMITTED BY MRS. BICE

Mrs. BICE. Reports in the press have noted that the Department of the Navy intends to move forward with reducing the size of the Naval Audit Service from its current 290 employees down to 120 employees by the beginning of Fiscal Year 2022. At a time when the Department of Defense is still years away from obtaining a clean audit, this action seems misguided. As you know, the role of the Naval Audit System is also critical to ensuring taxpayer dollars are properly spent and accounted for.

1. In the joint testimony, you state on page 6 that "The audit of the Department of the Navy (DON) is premised on . . . investing in its workforce." How do you explain the incongruence between the testimony which notes the importance of workforce investments and the proposed action to reduce staffing within the Naval Audit System?

2. How will a reduction in staffing within the Naval Audit System impact the timeline for the Department of Defense to achieve a clean audit? If the Navy were to reverse its decision and maintain its current staffing levels, what would be the impact on the timeline to achieving a clean audit for the Department of Defense?

Mr. GLENN. 1. The Department of the Navy (DON) continuously assesses its workforce's skillset, to ensure capabilities keep up with requirements while informing its recruiting and training programs, as it modernizes and transforms its operations. The DON believes investing in its workforce takes many forms, including assigning employees to meet workload demands. I am told that, in light of the many ongoing audit and oversight functions across the DON and to ensure proper personnel resources are allocated to meet workload, the DON determined it could effectively carry out the work assigned to NAS and redeploy personnel to other important work. The DON has held several "Town Halls" with NAS employees to keep them informed and share information on the Civilian Placement Process. According to the DON, this will afford NAS employees the opportunity to broaden their work

experience and enhance their skillset that may be helpful in remediating the financial statement audit findings.

2. I do not see an impact to the timeline for a Departmental clean financial statement audit opinion. While Naval Audit System (NAS) auditors and financial statement auditors have similar capabilities, they more often than not have different roles/functions. NAS auditors have never been used to conduct any part of the DON's annual financial statement audit. Given that we have independent financial statements auditors identifying our internal control deficiencies now, deploying NAS auditors to test the same controls only expends additional effort to tell us what we already know.

Mrs. BICE. Reports in the press have noted that the Department of the Navy intends to move forward with reducing the size of the Naval Audit Service from its current 290 employees down to 120 employees by the beginning of Fiscal Year 2022. At a time when the Department of Defense is still years away from obtaining a clean audit, this action seems misguided. As you know, the role of the Naval Audit System is also critical to ensuring taxpayer dollars are properly spent and accounted for.

1. What impact will a reduction in staffing within the Naval Audit System have on ensuring accountability for taxpayer dollars in carrying out Navy and Marine Corps programs and procurement?

2. What are the roles of the 170 employees that will be laid off? How do those roles support the current audit process that is being done?

3. With a reduction of staff in the Naval Audit Service, would there be an increased need for external private contractors to fulfil the Service's mission? What are the projected costs of relying on private contractors to fulfil the Naval Audit System's missions?

4. In the joint testimony, you state on page 6 that "The audit of the Department of the Navy (DON) is premised on . . . investing in its workforce." How do you explain the incongruence between the testimony which notes the importance of workforce investments and the proposed action to reduce staffing within the Naval Audit System?

Ms. JENKINS. 1. The Department of the Navy (DON) values the importance of independent assessments and audits, especially those that regularly check for program performance or annually review our financial statements. In fact, multiple entities conduct audits across the DON enterprise, including the Naval Audit Service (NAS), the Office of the Naval Inspector General, the Naval Criminal Investigative Service (NCIS), the DON Managers' Internal Control Program, the DON Acquisition Integrity Office, the Department of Defense Office of Inspector General (DOD OIG), DOD OIG-contracted Independent Public Accountant (IPA) firms performing financial statement audits, and the Government Accountability Office. Of note are the annual full financial statement audits, performed by the IPAs, who are hired and overseen by the DOD OIG. The financial statement audit entails reviewing the entire DON operation. Auditors review and assess our enterprise for accountability, compliance of our business and financial operations, processes, internal controls, policies, management oversight programs, systems compliance, cybersecurity, and fraud susceptibility. The rigor of annual financial statement audits is intentional and embraced by the Department, not just because they indicate whether the DON has control over how it is spending taxpayer dollars, but because they serve as a catalyst for our reform efforts, and facilitate improvements and innovation across the DON enterprise. The Department, as required by National Defense Authorization Acts, reports often to Congress on our financial statement audit progress. It is important to note the Naval Audit Service has never participated in these financial statement audits nor been a part of the workforce that helps to track financial statement audit findings or support financial statement audit remediation. The NAS right sizing was based on its planned audits, historical trend looking at past workloads of audits it completed, and assessing and realigning resources to meet DON oversight requirements across the enterprise. Reductions to the NAS budget in no way take away from its assigned work or its oversight responsibility. It is still focused on conducting program performance audits, as directed by the Secretary of the Navy. As a result, we do not anticipate any impact to audits that review Navy and Marine Corps programs and procurement.

2. We do not intend to conduct a reduction in force at the Naval Audit Service; therefore, no personnel are expected to be laid off as a result of this workforce shaping effort. As a preliminary matter, DON intends to retain and realign NAS employees to meet enterprise needs. The NAS conducts program performance audits and attestations of DON activities and provides forensic audit support to NCIS and the Inspector General. This necessary and important work will continue. Our intent is to shape the DON audit workforce to appropriately meet the assigned workload at

the Naval Audit Service while aligning and investing in oversight authorities across the DON, to include our Inspector General, law enforcement entities, and management internal control oversight functions. Using a Civilian Placement Process, we will realign personnel to critical positions within the Department of the Navy for which they are eligible and qualified, retaining our talented audit workforce. This will also afford our employees the opportunity to broaden their work experience and enhance their skills, which may assist with driving necessary remediation efforts to address audit findings, getting the Department closer to achieving a clean audit opinion. With respect to the role of NAS employees supporting our current financial statement audit, it is important to note the Naval Audit Service has never participated in these financial statement audits and the NAS is not assigned responsibility to track financial audit findings or support financial audit remediation. Annual financial statement audits are accomplished by auditors from an independent public accounting firm, hired and overseen by the DOD OIG.

3. The workforce reshaping effort at the Naval Audit Service was done to both carry out the work assigned to the NAS and to balance resources across a multitude of work and functions across the DON. We do not anticipate increasing contractor support to fulfil the NAS mission. The Department of the Navy will continuously review the resource allocations of all DON organizations performing any kind of audit. Should there be a change in the need for additional resources for NAS, we will make those adjustments in the outyears, as part of our regular organizational oversight process.

4. The Department of Navy continuously assesses its workforce's skillset, to ensure capabilities keep up with requirements while informing our recruiting and training programs, as we modernize and transform our operations. Investing in our workforce takes many forms, including assigning employees to meet workload demands. In light of the many ongoing audit and oversight functions across the DON and to ensure proper personnel resources are allocated to meet workload, the DON determined we could effectively carry out the work assigned to NAS and redeploy personnel to other important work. We have held several "Town Halls" with NAS employees to keep them informed as we move through this effort and to share information on the Civilian Placement Process. This will afford NAS employees the opportunity to broaden their work experience and enhance their skillset that may be helpful in remediating the financial statement audit findings.

QUESTION SUBMITTED BY MR. MORELLE

Mr. MORELLE. The Deputy Secretary of Defense in her private capacity last year wrote in a March 2020 "Foreign Affairs" article entitled, "Getting to Less: The Truth About Defense Spending," the following: "Predictably, for example, even though Congress directed the Defense Department to cut $10 billion through administrative efficiencies between 2015 and 2019, the Pentagon failed to substantiate that it had achieved those savings. The reason those efforts rarely succeed is that they merely shift the work being done by civilian employees to others, such as military personnel or defense contractors." How can we avoid encouraging such a situation in the future?

Ms. JENKINS. Transferring duties currently performed by government personnel to contractor personnel must comply with established law and regulations pertaining to outsourcing. NAS staffing adjustments were based on its planned audits, historical trend looking at past workloads of audits it completed, and assessing and realigning resources to meet DON oversight responsibilities across the enterprise. The DON does not anticipate any new outsourcing efforts as a result of these changes.

