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Opening Statement

Todd Russell Platts

June 25th, 2003

Today's hearing is one in a series focusing on audit opinions for Federal agencies that were released last February for FY2002. Twenty-one of the 24 agencies mandated by the CFO Act to audit financials earned an unqualified or "clean" opinion. Agencies that did not earn clean opinions have been invited to testify before the Subcommittee as part of our oversight on financial management. The Department of Defense will be the focus of today's hearing, and I'd like to thank the witnesses for agreeing to testify.

We're all very much aware that the Department of Defense is years away from earning an unqualified or "clean" opinion on its financial statements. The financial management challenges of DOD are unlike those of any other agency – in fact, they are unlike any entity in the world. With an annual budget of \$400 billion, DOD is almost twice as large as the biggest publicly held corporation. It is our country's largest employer. The consolidated statement for DOD encompasses at least twelve stand-alone financials, many of which are larger and more complex than the statements of other CFO Act agencies.

The good news is that DOD has begun a complete restructuring of its financial management and business processes. Once completed, these reforms will result in savings of between \$15 billion and \$30 billion dollars, according to the Business Executives for National Security. In fact, this may well be a conservative estimate. The transformation will take years to complete, but it could become a model for other agencies.

The purpose of today's hearing is not to look back at all of DOD's problems, but rather to focus on the reforms that have begun and, most importantly, to ensure that these reforms will be seen through to completion.

I am aware of the hundreds of studies that have been done on DOD, and I'm also aware of the pressure on the Department to earn a clean opinion. But I want to repeat

what I have said in many of our previous hearings. A clean opinion is not an end in itself. It should come as a benefit of sound financial management.

In order for DOD to accomplish its mission, managers must have access to timely, accurate and reliable financial information. Right now, over 2,300 individual systems process financial information. The infrastructure is hampered by a lack of functional and technical integration. Many of the systems are “home-grown” – built from the ground up to serve a particular purpose and not intended to be integrated. These IT challenges and limitations have proven difficult to overcome.

No one knows these limitations better than the leaders at DOD, and Secretary Rumsfeld has made financial management a high priority. In his speech on September 10, 2001, he said, “Our challenge is to transform not just the way we deter and defend but the way we conduct our daily business. Let’s make no mistake: the modernization of the Department of Defense is a matter of some urgency. In fact, it could be said that it’s a matter of life and death, ultimately, every American’s.”

Changes are underway. The Office of the Comptroller developed the Business Management Modernization Program, and a major contract has been awarded to create a new enterprise architecture that will revolutionize the way things are done at DOD. Our job in this Subcommittee is to provide oversight and support for these new programs so that the work can continue until the job is done.

To a certain extent, there is an irony with regard to DOD in that we have the finest military force in the history of the world, but the business structure is stuck in the middle of the 20th century. What is becoming abundantly clear is that we have no choice but to aggressively reform the financial management and business processes because of the billions and billions of tax dollars at stake.

Today the Subcommittee will hear from Mr. Greg Kutz, Director of Financial Management and Assurance at GAO; Mr. Larry Lanzillotta, Principal Deputy to the Comptroller at the Department of Defense; and Mr. Paul Granetto, Director of Auditing for the DOD Inspector General. Thank you for agreeing to testify today. I look forward to hearing from you.