

Testimony of

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before the

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Subcommittee on Government Management, Organization and Procurement

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Mr. Chairman, Members of the Committee, thank you for the opportunity to appear before you today to discuss the Department's financial management improvement efforts, and to respond to your questions. We are always happy to bring the Committee up-to-date, and to clarify any questions you may have about specific issue areas.

Indeed, with me today are Mr. James Short, Deputy Chief Financial Officer, and Mr. David Fisher, Director of the Business Transformation Agency, who will be pleased to answer questions relating to the specific topics identified in your letter of invitation.

Before we address particular issue areas, however, I would like to discuss what I consider to be the two most important aspects of DoD financial management: First, the size and scope of the challenge we face; and second, the progress the Department has made in meeting that challenge over the last seven years.

First, size: The Department of Defense is not only the largest department in federal government, it is largest and most complex organization in the world – perhaps the largest in the history of the world.

With more than 600,000 facilities in 6,000 locations and 163 countries around the globe, the Department of Defense has more than 5,600 IT systems, 5.2 million inventory items, \$3.6 trillion in Assets and Liabilities, and an operating budget that exceeds half a trillion dollars.

To put that in perspective, consider that the Department's annual base budget is almost 50 percent greater than the annual revenues of Wal-Mart; its assets, three times the size of Wal-Mart, IBM and Exxon Mobil combined. In fact, if the Department of Defense were a country, it would rank 17<sup>th</sup> among the economies of the world.

In a single year, the Department of Defense processes more than 154 million pay transactions – or approximately 22 transactions every second; disperses over \$446 billion to payroll recipients and commercial vendors; manages \$22 billion in foreign military sales; and maintains about 57 million general ledger accounts – which also makes it the world's largest financial entity, and the largest entity ever to be audited end-to-end.

Having said that, the Department's sheer size and complexity is not, in any way, an excuse for not putting every available resource and all of our energy into ensuring that American's' hard-earned tax dollars are wisely spent; quite the contrary. It is, however, the reason why achieving our financial management objectives is not a quick or easy matter.

So that's the first point. The Department of Defense is a huge enterprise that, for decades before the age of networked information, utilized an outmoded collection of financial systems that were not only incompatible with each other, but also with the modern world.

The second point is the substantial progress the Department has made over the last seven years in bringing its financial management processes and systems into the 21<sup>st</sup> century, and preparing the Department for audit.

For example, in 2001, only two DOD entities – the Defense Finance and Accounting Service, and the Military Retirement Fund – were auditable. Today, five Defense entities, whose combined assets and liabilities comprise 15 percent of the Department's total assets and 50 percent of its total liabilities, have clean audit opinions.

Again, to give you a bit of perspective, the combined value of those five entities is larger than the value of the entire Department of Health and Human Services, the next largest federal agency with an unqualified audit opinion.

By the end FY 2009, we expect to receive clean opinions on 37 percent of the Department's total assets, and 88 percent of its total liabilities; and that by 2010, 38 percent of all DoD assets and 89 percent of all liabilities will be audit ready.

In addition, the US Army Corps of Engineers, which accounts for \$49 billion in DoD assets and liabilities, was audited for the first time, and is projected to receive a clean audit in the next fiscal year. So, we have come a tremendous way in a few short years.

Improved financial management is also eliminating material weaknesses, increasing efficiency and productivity, and saving the taxpayers, literally, billions of dollars. For example, financial transformation, combined with a robust metrics program, has produced a dramatic 80 percent improvement in the accuracy and timeliness of information. Electronic invoicing has reduced errors and increased efficiency, raising the number of electronic invoices processed per quarter from 64 percent in 2004 to 82 percent today. Amounts owed the Department from the public dropped 42 percent since December 2005. Paying invoices on time has avoided \$247 million in interest penalties since 2001; and since 2001, 84 percent of all manager-identified internal control weaknesses have been corrected, dropping from 16 to just 19.

In addition, increases in the rate of operations and the elimination of excess capacity has increased productivity at DFAS by 52 percent while also lowering costs to the Services \$317 million since 2001. Inaccurate accounting records, which increase the risk of fraudulent transactions, have been reduced by more than 96 percent; accounts used by base commanders to manage funds now have a 100 percent reconciliation balance with Treasury; and military and civilian pay is now more than 99 percent accurate.

At the Defense Contract Audit Agency, which audits more than 10,000 contractors – including some of the world's largest companies – every year, more than 271,900 audits, covering \$1.9 trillion, were performed from 2001 to 2007. These audits saved taxpayers \$17.6 billion.

Mr. Chairman, these are just a few examples of how the Department of Defense has transformed financial management and put the Department on a clear path to a clean audit. There are many, many more. But the important thing to remember is 1) We have taken the largest and most complex organization in the world; and 2) put in place a solid financial management plan that's

working – increasing efficiency and productivity, providing accountability, and just as importantly, transparency, and saving the taxpayers billions of dollars every year.

Finally, Mr. Chairman, I want you to know that every DoD official – from the Secretary of Defense, to agency heads, to military leaders – is committed to wise stewardship of resources and sustained modernization that supports, not the bureaucracy, but our global defense mission, and the brave men and women who put their lives on the line every day to carry it out.

Mr. Chairman, thank you again for the opportunity to be with you today. We look forward to your questions.