

**House Oversight and Accountability Committee,  
Subcommittee on Government Operations and the Federal Workforce  
Hearing on Department of Defense Financial Management  
September 24, 2024**

**Written Statement for the Record, by  
Mr. Thomas C. Steffens, Senior Advisor**

**OPENING:**

Chairman Sessions, Ranking Member Mfume, and distinguished members, I appreciate the opportunity to testify before you today regarding the Department of Defense's (DoD) financial management practices, challenges, and accomplishments. I most recently served as the Department's Deputy Chief Financial Officer from May 2022 to July of 2024. The Department's financial management practices are ultimately intended to support our Warfighters in executing the National Defense Strategy (NDS).

In response to the expectations of Congress and the American Public, the Department has made significant progress recently in reforming its financial management practices, modernizing its financial management systems, and strengthening the integrity and transparency in its financial reporting. The DoD Strategic Management Plan for Fiscal Years (FY) 2022 – 2026 blueprints the advancement of the NDS' priorities and connects them to our commitments to transparency and accountability. The DoD Financial Management Strategy establishes guiding principles, goals, and objectives for cultivating a skilled financial management workforce; optimizing taxpayer dollars; increasing financial integrity; and optimizing our business systems environment.

Today, I will cover our recent progress with respect to the Department's financial statement audits and the path to comply with the Congressional mandate for receiving an unmodified audit opinion by 31 December 2028. I will also review the status of our financial

systems modernization and rationalization efforts, the importance of continued support of Congress, and progress made in reforming our Planning, Programming, Budgeting, and Execution (PPBE) process. I would like to thank Secretary of Defense (SecDef) Lloyd Austin and Deputy Secretary of Defense (DSD) Dr. Kathleen Hicks for their unwavering support and strong leadership as we work diligently to improve the Department's financial management practices.

## **AUDIT AND SYSTEMS**

### **Annual Financial Statement Audits**

The Department's leadership focus and its investment in its financial management initiatives is accelerating audit progress and improving audit results. In FY 2023, the United States Marine Corps (USMC) became the first military service to receive an unmodified audit opinion. Through this major accomplishment we have also derived numerous lessons learned other reporting entities within the Department can apply to accomplish similar successes. The USMC attained its unmodified opinion by using a systemic, cultural, analytical approach with some creative thinking and critical continuous engagement from senior leadership. The tone at the top was paramount, as exhibited by the messaging from the Commandant of the Marine Corp, General Eric Smith and the Assistant Commandant, General Christopher Mahoney. Audit success became a priority across all functional areas of the USMC, including acquisition, human resources, logistics, and service providers. Again, we thank Secretary Austin and Deputy Secretary Hicks for their leadership in directing DoD -wide support for the Marine Corps' effort while we work to replicate these same success factors across the Department.

Meeting the Department's audit goals and complying with the FY 2024 National Defense Authorization Act (NDAA) mandate of an DoD-wide unmodified financial statement audit opinion by 31 December 2028 requires an acceleration in the Department's strategy for audit. It demands a fresh look at our timelines, dependencies, and challenges and adjustments to risk mitigation and audit progress measurement. As the Department advances toward meeting this Congressional mandate, we continue to aggressively address the critical root causes of scope-limiting material weaknesses so we can further accelerate audit progress.

Our people are the force multiplier of our success. The Department continues to make measurable progress in building a financial management workforce that is adaptable to emerging needs and technology and closes essential skills gaps. In addition to investing in our financial management workforce, the Department is accelerating audit progress by investing in the resources to support analysis, improve data integrity, and reduce the risk and burdens introduced by labor-intensive manual processes. As reported in the July 2024 Financial Improvement and Audit Remediation (FIAR) Report, in FY 2023 the Department invested \$991 million in audit remediation. This investment includes technologies like artificial intelligence and bots to accelerate audit progress and to build a sustainable control environment for the future.

### **FY 2023 Audit Results**

The FY 2023 audits comprised 29 standalone audits and an audit of the DoD-wide consolidated financial statements. Ten reporting entities received unmodified opinions, indicating the auditors concluded the financial statements were fairly presented and free of any material misstatements. One reporting entity received a qualified opinion. A qualified opinion signifies the financial statements are right with noted exceptions. The DoD-wide consolidated

financial statement audit and the 18 remaining standalone audits resulted in a disclaimer of opinion, meaning the auditors did not have enough audit evidence to provide an opinion. Today, favorable audit opinions (unmodified and qualified) cover nearly 52 percent of the Department's \$1.9 trillion in FY 2023 total assets, the most significant portion to date.

### **Secretary of Defense Financial Statement Audit Priorities**

The annual SecDef Financial Statement Audit Priorities have been an essential part of the Department's strategy for audit. By publishing these priorities, the SecDef spotlighted critical areas for concentrated effort Department-wide. This strategy has proven successful, as demonstrated by the substantial progress made toward resolving Fund Balance with Treasury (FBWT) material weaknesses in FY 2023.

Our FBWT is our checkbook with the Department of the Treasury, and critical to managing the Department's cash. In FY 2023, the Department made significant progress in resolving its FBWT material weakness, including:

- Air Force General Fund closed its FBWT material weakness.
- Army Working Capital Fund downgraded its FBWT material weakness to a significant deficiency.
- Navy General Fund downgraded its FBWT material weakness to a significant deficiency.
- USMC downgraded its FBWT material weakness to a control deficiency.

Combined, the above material weakness improvements encompass \$423 billion, or 55 percent of the 30 September 2023 DoD-wide FBWT balance of \$768 billion. These successes have built

confidence among our key stakeholders in the SecDef Financial Statement Audit Priorities as an effective tool to resolve the Department's most challenging financial management issues.

Each year the SecDef re-evaluates audit progress and the status and scope-limiting material weaknesses to identify priority areas where the Department must drive more progress. For each priority area, the Department establishes quantitative goals against which progress can be measured. Executive dashboards show the status of milestones and corrective action plans for the military services and Defense Logistics Agency and is reported quarterly to the DSD. The SecDef Financial Statement Audit Priorities for FY 2024 are:

- Improve Fund Balance with Treasury
- Strengthen Internal Control Environment
- Create a Universe of Transactions
- Optimize Asset Valuations

Using the results from the FY 2024 audits, the SecDef will reevaluate the Financial Statement Audit Priorities for FY 2025 to optimize audit success for the year ahead.

### **Consolidating and Modernizing Financial Systems**

The Department realizes modern, compliant business systems with adequate internal controls is fundamental to improve the integrity in our financial reporting, particularly for asset accountability. As Gene Dodaro, Comptroller General of the United States has advised us on several occasions, the Department's financial system environment must be modernized and simplified to achieve this goal. We continue to assess, upgrade, consolidate and retire the evolving inventory of systems that impact financial reporting through our annual Defense Business Systems Audit Remediation Plan.

The Department has several efforts underway to rationalize and modernize our systems. For example, we are working closely with system owners to improve their compliance with the Federal Financial Management Improvement Act of 1996 and other statutory requirements through an annual certification process. Additionally, OUSD(C) and the DoD Chief Information Officer are working in coordination with DoD Components to track and accelerate system retirements. Since FY 2022, DoD has driven the retirement or consolidation of 34 systems relevant to internal controls over financial reporting. DoD has instituted enterprise performance metrics to drive accelerated retirements and modernization of mission critical systems which ensures accountability at all levels.

These achievements and our ongoing efforts lay the foundation for continued long-term success toward achieving a more simplified, standardized, data-driven target financial system environment. Modernized business systems will enable the Department to not only improve the quality of our financial reporting for audit, but better leverage data critical for management decisions.

### **Support from Congress**

With appreciation, we seek Congress' continued support in advancing the Department's audit progress, including ensuring adequate and consistent funding by requiring budget authority at the top-line level for financial system modernization and audit support and remediation efforts.

Consistent and predictable funding is paramount, not only to financial management and audit success, but to the overall readiness of our warfighters and their equipment. The Department received one full appropriation in the last 14 fiscal years. In the absence of full and on-time appropriations, the Department is funded through a continuing resolution (CR). Over

the course of the last 15 fiscal years, there have been 48 CRs, lasting 1,794 days and equating to nearly five years of the Department's budget execution while under a CR.

To be most effective in our business operations as well as combat readiness, the budget for federal agencies like the Department should be signed into law before the fiscal year begins. In a recent letter to Chairman Cole of the House Committee on Appropriations, Secretary Austin detailed the negative impact of a six-month CR for FY 2025. As Secretary Austin noted, our budget is aligned to our strategy. Without a base budget, the Department is unable to make investments in new technology, equipment, and training for personnel, and has a profound effect on the quality of life of our Service members and their families.

Potential ramifications from a CR include falling behind the pacing challenge of the People's Republic of China, which would present potentially dire consequences to the U.S., our allies, and partners. Thousands of programs and projects throughout the Department would be impeded. Hiring for the military would be damaged and just at a time when we are beginning to meet our recruitment goals. We would also be forced to forego vital investments in the defense industrial base, including submarine and ship building capacity. Under Secretary of Defense (Comptroller) Michael McCord and I join Secretary Austin in urging Congress to take up action immediately.

### **Planning, Programming, Budgeting, and Execution Reform**

Consistently through our shared history, Congress and the Department have collaborated on critical financial management modernizations that were essential to ensure we remained agile in achieving our mission and ensuring the success of our warfighters. Since the 1960s, the PPBE process has been one of the Department's foundational strategic decision support systems. PPBE underpins how the Department supports the NDS, delivers relevant and effective capabilities

when needed, and applies the tools and technology needed to address emerging threats. This process has served the Department well for over 60 years, but continual improvements are essential to remain agile and prepared for the future fight. We have already made tremendous strides and improvements as we continue to modernize.

The Department's PPBE reform agenda has multiple parts. We are focused on our internal processes, making changes where it makes sense. We are using authorities already available to us. The Department has had success achieving flexible changes and approvals from the committees with those existing authorities, including fact of life changes to the budget, adjustments to bills, and programmatic changes mid-budget cycle for emergent needs with and without reprogramming actions. We are working diligently on reform initiatives that add agility and flexibility to shorten the time between budget planning and capability delivery.

Importantly, this year, the Commission on PPBE Reform released 28 overarching recommendations in its final report, which detailed a total of 35 distinct initiatives, and incorporated their 13 initial interim recommendations from 2023. As part of the Department's PPBE reform agenda, Deputy Secretary Hicks endorsed 26 of the 35 distinct reform initiatives for full or partial implementation across DoD. These reforms require careful coordination with Congress, the Office of Management and Budget, the U.S. Department of the Treasury, the Government Accountability Office (GAO), the DoD Office of the Inspector General (DoD OIG), and other key stakeholders.

Although we are committed to advancing these reforms expeditiously, the timeline for their implementation will depend on the outcomes of cross-matrixed discussions and, where necessary, legislative actions. As the implementation plans mature, we reaffirm our commitment to collaborating with Congress and all stakeholders. We recognize that the success of these



reforms depends on sustained cooperation and transparency, and the Department is dedicated to ensuring that our efforts lead to meaningful and lasting improvements in defense resource management and financial management practices.

Our partnership is essential to vesting the Department with the authorities it needs to continue delivering results in a dynamic global environment that can change overnight. The Department values and respects this collaboration and looks forward to continuing to work together to find solutions that enable us to remain competitive against our adversaries, improve financial management practices, and preserve congressional oversight. The Department has made tremendous strides toward modernization and is committed to continuously evaluate the evolving capabilities and technologies required to be agile and prepared for the fight of the future. But we urge Congress to undertake the single most important defense resourcing reform for our generation: a return to predictable and timely resourcing to ensure the federal government can meet our national security needs.

## **CLOSING**

We are grateful for Congress' ongoing support of the NDS and our financial management reform efforts. We will continue to rely on the GAO and the DoD OIG for their independent assessment of the Department's challenges and guidance to achieve future success. I welcome any questions you may have.