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Before the

Subcommittee on  
Readiness and Management Support

COMMITTEE ON  
ARMED SERVICES

## **UNITED STATES SENATE**

HEARING TO RECEIVE TESTIMONY ON  
THE DEPARTMENT OF DEFENSE AUDIT

Wednesday, November 20, 2019

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2 THE DEPARTMENT OF DEFENSE AUDIT

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6 U.S. Senate  
7 Subcommittee on Readiness and  
8 Management Support  
9 Committee on Armed Services  
10 Washington, D.C.  
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12 The subcommittee met, pursuant to notice, at 9:30 a.m.  
13 in Room SR-222, Russell Senate Office Building, Hon. Dan  
14 Sullivan, chairman of the subcommittee, presiding.

15 Members Present: Senators Sullivan [presiding],  
16 Fischer, Ernst, Perdue, Blackburn, Shaheen, Hirono, Kaine,  
17 and Jones.  
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1           OPENING STATEMENT OF HON. DAN SULLIVAN, U.S. SENATOR  
2 FROM ALASKA

3           Senator Sullivan: Good morning. This hearing on the  
4 Subcommittee on Readiness and Management Support will come  
5 to order.

6           Today, this subcommittee meets to receive the testimony  
7 from Deputy Secretary of Defense David Norquist concerning  
8 the Department of Defense's 2018 and 2019 audits. Last  
9 year, when he was serving as the DOD Comptroller, Secretary  
10 Norquist completed the first DOD audit ever. Soon  
11 thereafter, Secretary Norquist was nominated and then  
12 confirmed as Deputy Secretary of Defense, with overwhelming  
13 Senate support from both sides of the aisle. He is a wealth  
14 of knowledge on these issues, and I thank him for being here  
15 today.

16           To a lot of people, aside from my good friend Senator  
17 Perdue, who I'm hopeful will be here a little bit later, the  
18 DOD audit might not come across as the most interesting  
19 topic in the world. However, Ranking Member Kaine and I  
20 take our oversight responsibility seriously and are happy to  
21 have this important and timely hearing.

22           Another responsibility we take seriously has been one  
23 of providing the funding needed to rebuild our military,  
24 with a specific focus on restoring readiness.

25           Conducting an audit of this magnitude is a massive

1 undertaking, as I'm sure we'll hear. In fact, until  
2 Secretary Norquist arrived, it had never happened. The  
3 Pentagon had never completed an audit. Let me repeat that.  
4 In its history, the Department of Defense had never  
5 completed an audit. Kind of remarkable.

6 The FY19 DOD audit is one of the largest audits of any  
7 organization in history. Over the course of this year, this  
8 audit has required more than 1400 auditors and hundreds of  
9 DOD site inspections. These auditors and inspections  
10 evaluated thousands of sample and document items to account  
11 for the roughly \$2.8 trillion in DOD assets. Conducting an  
12 audit of this size is no easy task, but it's a critical  
13 function that DOD must do, and the results reveal issues  
14 that we all must learn from. There is still much, much more  
15 work to be done, but I commend the Secretary for undertaking  
16 this difficult, but important, task.

17 As of last Friday, the Department of Defense completed  
18 its second agency-wide audit. And, while it did not receive  
19 an overall clean opinion, much knowledge was gained from  
20 actually doing the audit. I'm sure we'll hear more, but  
21 over 24 individual audits done across the different  
22 agencies, seven did come back clean.

23 So, why do we take the time to do an audit? In part,  
24 it is to encourage the more responsible use of resources  
25 within the Department, and, from a readiness perspective,

1 the ability to promote real change within the Department.  
2 And, while identifying cyber vulnerabilities in DOD  
3 information technology systems or locating unaccounted-for  
4 equipment or improving the recordkeeping of personnel is not  
5 a glamorous undertaking, it does produce process  
6 improvements and technological upgrades that are long  
7 overdue. These improvements are critical to the DOD's  
8 responsibility that, quote, "It's important to gain full  
9 value from every taxpayer dollar spent on defense, thereby  
10 earning the trust of Congress," unquote. That is from the  
11 2019 National Defense Strategy. In other words, if DOD  
12 wants Congress to continue to fund the military in order to  
13 counter great-power competition, like that from Russia and  
14 China, as laid out in the 2019 NDS, we, in the Congress, and  
15 the American people need to have the confidence that these  
16 dollars are being spent wisely.

17 As Chairman Inhofe regularly states, the NDS has been  
18 preparing our military for a return to strategic competition  
19 and does represent a prime example of bipartisanship for the  
20 support of that strategy and our troops in the Senate. The  
21 NDS explicitly states the audit as a priority towards  
22 driving a better budget discipline for the Department and  
23 achieving our overall national defense goals. I hope this  
24 budget discipline starts with the audit and spreads  
25 throughout the Department to all the financial processes

1 within DOD, including our procurement, acquisition, and  
2 contracting processes that this subcommittee has oversight  
3 of. I look forward to hearing about the progress, some of  
4 the successes, some of the failures.

5 And I know my Ranking Member, Senator Kaine, is also  
6 interested, so I will turn the dais over to him for his  
7 opening remarks.

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1           STATEMENT OF HON. TIM KAINE, U.S. SENATOR FROM  
2 VIRGINIA

3           Senator Kaine: Thank you, Mr. Chairman.

4           And, Secretary Norquist, it's good to have you here.  
5 When I saw the amount of press streaming into the Capitol  
6 this morning, I thought finally the Pentagon audit is going  
7 to get the attention that it has deserved.

8           [Laughter.]

9           Senator Kaine: Apparently, there's other things going  
10 on, on the Hill. But, I do want to welcome you and thank  
11 you for your long record of public service, but also for  
12 your making sure that the auditability of the DOD is a top  
13 priority.

14           The fact that all Federal agencies were mandated to do  
15 audits, really beginning in 1990, and that the DOD has been  
16 the last to get in line is well known, so much so that the  
17 NDAA, in, I believe, 2015, this committee sort of said,  
18 "Okay, you had enough time, you've got to make this happen."  
19 And I was gratified to be part of the committee when we  
20 finally gave the ultimatum. And I'm gratified that, under  
21 your leadership, the DOD is moving to get this done.

22           Last week, the Department announced that it had  
23 officially failed the 2019 audit. That's not surprising. I  
24 think, actually, you would have found a great deal of  
25 skepticism on this committee had the 2019 report said, "Hey,

1 everything's fine." When you start something as complex as  
2 this, if you're not finding areas to improve, failings that  
3 need to be corrected, then you lead policymakers to question  
4 the veracity or the sufficiency of the effort.

5 But, what the report last week showed is that there's  
6 so much more to be done to get warfighters and taxpayers  
7 what they deserve, a fully auditable Pentagon. We had a  
8 witness testify before the full committee recently. I'm  
9 blanking on the witness's name, but she used the phrase  
10 "efficiency for lethality," the idea that the audit should  
11 drive us to not spend on things we shouldn't, reduce  
12 spending on things we shouldn't, as a way of then directing  
13 those resources to more lethality, to a more effective  
14 Department of Defense.

15 So, I hope we can talk about a number of issues today.  
16 What benefits are the military forces already seeing from  
17 the audit and its findings? Benefits in efficiency, but it  
18 was always my hope, as a mayor and Governor, in looking at  
19 audits, to also learn some things that might improve the  
20 effectiveness of operations. I don't think it's just a  
21 number-counting exercise and a -- an exercise that should  
22 lead to saving a dollar here or a dollar there. It should  
23 also lead to greater efficiencies and effectiveness, as  
24 well. And so, I hope we can talk about benefits.

25 How is the process of the audit already helping the

1 Pentagon clean up any data or accounting practices that need  
2 to be improved? What resources are being applied to the  
3 audit? And are there additional resources that need to be  
4 applied so that it can be as effective as possible, moving  
5 forward? And, in your opinion, Secretary Norquist, how long  
6 will it be, realistically, before the DOD will be in a  
7 position where the audits will be clean audits across all  
8 the numerous audits that are done?

9 So, I look forward to working with the committee, with  
10 -- under your leadership, with the Department, to make good  
11 on this promise made so long ago to the American taxpayer  
12 that every aspect of the American Federal Government would  
13 be subject to an audit, and that we would learn from the  
14 audit in a process of continuous improvement so that we can  
15 get better at what we do.

16 Thank you.

17 Senator Sullivan: Thank you, Senator Kaine.

18 And, Mr. Secretary, thanks again for being here. We  
19 look forward to your opening statement. And if you want a  
20 longer written statement, that will be submitted for the  
21 record.

22 The floor is yours.

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1           STATEMENT OF HON. DAVID L. NORQUIST, DEPUTY SECRETARY  
2 OF DEFENSE

3           Mr. Norquist: Thank you, Mr. Chairman.

4           Chairman Sullivan, Ranking Member Kaine, distinguished  
5 members of the committee, thank you for the opportunity to  
6 testify before you today on the Department of Defense  
7 financial statement audit.

8           There are three major questions about the audit I'd  
9 like to briefly address. First, why do we even have an  
10 audit? Second, what are the results of this year's audit?  
11 And third, how does the audit and other reforms benefit  
12 American taxpayers?

13           So, the short answer on why we have an audit is that  
14 DOD is an extraordinarily large and complex organization.  
15 We employ nearly 3 million servicemembers and civilians.  
16 While a typical commercial airline manages between 300 and  
17 1600 aircraft, the military services fly approximately  
18 16,000 aircraft. And we manage 292 billion in inventory,  
19 more than six times the size of Walmart, the world's largest  
20 retail company. Financial statement audits are a proven  
21 commercial solution that uses independent auditors to  
22 effectively assess complex operations. A financial  
23 statement audit is comprehensive, and it includes verifying  
24 the count, location, and condition of our military  
25 equipment, property, material, and supplies. It tests

1 vulnerabilities in our security system of our business  
2 systems, and it validates the accuracy of records and  
3 actions, such as promotions and separations. In short, it  
4 provides the independent feedback that both DOD leadership  
5 and Congress needs.

6 This year, more than 1400 auditors conducted over 600  
7 site visits, with the following results: Consistent with  
8 last year, they reported no evidence of fraud, no  
9 significant issues with the amounts paid to civilian or  
10 military members, and that DOD could account for the  
11 existence and completeness of major military equipment. In  
12 addition, one more organization received a clean opinion:  
13 the Defense Commissary Agency. So, now 7 of the 24 will  
14 have an unmodified or clean opinion this year. And of the  
15 2,377 findings in FY2018, the Department was successful in  
16 closing more than 550, or 23 percent, of the findings. The  
17 audit demonstrates progress, but we have a lot more to do.

18 How does the audit benefit the American taxpayer?  
19 Well, the original and primary purpose in an audit is  
20 transparency. But, at DOD, we have seen how the audit saves  
21 money by improving inventory management, identifying  
22 vulnerabilities in cybersecurity, and providing better data  
23 for decisionmaking. So, let me give two examples:

24 The Navy, at Fleet Logistics Center Jacksonville,  
25 conducted a 10-week assessment, and they identified \$81

1 million worth of active material not tracked in the  
2 inventory system. That was now available for immediate use,  
3 decreasing maintenance time and filling 174 requisitions.  
4 They also eliminated unneeded equipment, freeing up  
5 approximately 200,000 square feet, the equivalent of 4.6  
6 acres.

7 We are already seeing the benefits of better data in  
8 the use of data analytics. For example, the Department uses  
9 the ADVANA tool recently to automate the quarterly review  
10 process of its obligations. This workflow tool eliminated  
11 inefficiencies and provided the analysts the time and the  
12 insights they needed to identify 316 million in high-risk  
13 funds, moving them from a low-priority function to better  
14 use of those before they canceled or expired.

15 The audit is a foundational element of a broader  
16 landscape of business reform in the National Defense  
17 Strategy. We are moving forward on multiple fronts,  
18 improving our enterprise buying power, consolidating IT,  
19 realigning and reforming healthcare, consistent with  
20 congressional direction, reforming how we do background  
21 investigations to make them more effective and less  
22 expensive, and eliminating duplicate and inefficient  
23 business systems, as well as identifying efficiencies in  
24 what we like to call "the fourth estate."

25 I would be remiss if I didn't mention the harmful

1 impacts of the ongoing continuing resolution. And I  
2 recognize I'm preaching to the choir. The Department and  
3 the White House have both expressed the urgent need for  
4 Congress to pass the FY2020 authorization and appropriation  
5 bills. The CR stopgap measures are wasteful to the  
6 taxpayer. They delay storm-damage repairs and the damage  
7 the gains our military has made in readiness and  
8 modernization. Ultimately, a CR is good for the enemy, not  
9 for the men and women of the United States military. The  
10 administration and I urge Congress to come to agreement as  
11 quickly as possible, consistent with the budget deal reached  
12 in the summer.

13 In closing, I'd like to thank President Trump for his  
14 leadership, and the DOD workforce for embracing this complex  
15 and important issue. And I'd also like -- Congress and this  
16 committee, and in particular the committee staff, for your  
17 commitment to this massive undertaking and the role you have  
18 played in making an annual financial statement audit a  
19 regular way of doing business.

20 The Department of Defense is one of the most complex  
21 enterprises in the world. In partnership with this  
22 Congress, we must continually improve our business practices  
23 in order to reduce costs and maintain our competitive edge.  
24 Each of us owes it to the American taxpayer to be as  
25 responsible in spending their money as they were in earning

1 it.

2 Thank you, Mr. Chairman.

3 [The prepared statement of Mr. Norquist follows:]

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1 Senator Sullivan: Thank you, Mr. Secretary.

2 Let me begin just with a kind of very basic question.

3 And I'm not sure you have the answer, since you've only been  
4 in your position, in the Comptroller position, for a couple  
5 of years. But, from your perspective, why was the Pentagon  
6 never audited? You would think, given what you just  
7 mentioned -- how important it is to the country, how large  
8 it is, how complex it is -- that's exactly the kind of  
9 Federal agency that you do want to audit. Why was this the  
10 first time that somebody undertook this daunting task? And,  
11 again, I commend you for doing it.

12 Mr. Norquist: Thank you, Mr. Chairman.

13 So, let me start, just to clarify. The Pentagon has  
14 multiple audits. We have GAO, we have the IG, we others.  
15 They do program audits, particular subjects. The difference  
16 with the financial statement is the sheer breadth and depth  
17 of it. It is an end-to-end audit, on a dramatic scale. So  
18 --

19 Senator Sullivan: What you just did twice.

20 Mr. Norquist: What we just did twice.

21 Senator Sullivan: That had never happened before.

22 Mr. Norquist: That had never happened before.

23 Senator Sullivan: Why?

24 Mr. Norquist: Well, there's a couple of reasons. One  
25 is, it is an extremely hard task that would outlast anyone

1 who started it. And so --

2 Senator Sullivan: Okay, the Pentagon is used to hard  
3 tasks, so --

4 Mr. Norquist: It is.

5 Senator Sullivan: It won World War II, for example.

6 Mr. Norquist: They did. They did.

7 The challenge with the audit is, there was an emphasis  
8 on trying to get ready for it. And this is where I brought  
9 a fundamentally different view from those who had come  
10 before me. They said, "It's too expensive to pay the  
11 auditors. Let's get ourselves ready enough that we could  
12 pass the audit, and then bring the auditors in." My  
13 experience at Homeland Security, where they were under  
14 audit, was that that would be a major mistake.

15 Homeland Security, we didn't have a choice. When I  
16 showed up, the auditors were already there. I found the  
17 auditors and their feedback to be the central piece of  
18 getting us to that clean opinion. So, my view is, the money  
19 we paid the auditors made sure that all the other money we  
20 were spending was going towards valuable things, we were  
21 getting feedback on whether we were being successful.

22 So, even though Defense Department was spending money  
23 on fixing problems, they had no audit baseline by which to  
24 tell you: Were they better from one year to the next? We  
25 have fixed that in this approach. We are carefully

1 measuring those items, precisely for that purpose. And I  
2 think that's the biggest difference, is, I believe that the  
3 auditors are the key step in getting us to the clean  
4 opinion, not something you bring at the end, when you think  
5 you're ready.

6 Senator Sullivan: Okay. Let me dig into that a little  
7 bit more, because the audit did cost a lot of money. I  
8 think the FY19 audit cost close to a billion dollars. So,  
9 if we're doing this annually, which is your goal -- correct?

10 Mr. Norquist: Uh-huh.

11 Senator Sullivan: -- will this eventually pay for  
12 itself, in terms of -- or it already paying for itself?

13 Mr. Norquist: So, let's take that into pieces. So,  
14 before we started the audit, the Department was spending  
15 \$770 million to fix problems. With the audit piece --  
16 there's about 195-200 million dollars we pay the external  
17 auditors. We know, from the experience of the Corps of  
18 Engineers, that, when they went from no opinion to a clean  
19 opinion, their cost of their audit dropped in half. So,  
20 over time, that will -- number will come down as we start to  
21 move from where they have to do detailed sampling to what we  
22 call "test of controls." But, that's a level of funding  
23 that's necessary for transparency. I mean, you think -- 200  
24 million is one-thirtieth of 1 percent of our budget. To be  
25 held accountable, that's fine. We then have to spend

1 certain money on DOD side to support that. Those numbers  
2 will come down, as well.

3 The big number, about half-a-billion dollars, is in the  
4 remediation. And the question there is, Can you show what  
5 you have fixed? In the absence of the audit, it's very  
6 hard. One of the things I learned in my prior jobs is,  
7 self-reporting of fixing problems isn't a very reliable  
8 indicator. I was dependent upon the auditors confirming  
9 that people had, in fact, fixed it. And one of the best  
10 things the auditors show us is, when an organization says  
11 they fixed 10 problems, and the auditor agrees with all 10,  
12 I have great confidence in that organization's ability to go  
13 forward. Another organization claims they've fixed 10, and  
14 the auditor agrees with them on three, I have a problem.  
15 I've got some training I need to do, some people I need to  
16 talk to. That's not going to get them to success. But, you  
17 can't wait till the end of the process to find that. You  
18 need the auditors doing that on a continual basis.

19 So, we have already seen benefits and savings and  
20 return on investment, that I had not expected to see this  
21 early, long before we got to the point where I expected the  
22 cost to come down. But, we can -- I can go on more about  
23 DFAS, but I'll let you wait if --

24 Senator Sullivan: Well, let me just ask another basic  
25 question. So, for those of us who are not auditors, what,

1 exactly, does this entail? You're going to installations,  
2 you have people fanning out over all our military bases,  
3 they're going to supply depots, they're -- what, exactly,  
4 are they doing? They're not counting every rifle and every,  
5 you know, tank. Or are they?

6 Mr. Norquist: No, they can't, because the sheer labor  
7 that would be involved is the problem. What the commercial  
8 practice brings us is best practices, which is -- they will  
9 go up to the highest level of the organization and look into  
10 their databases and say, "Show me everything you think you  
11 own and have in inventory." So, they start there. And then  
12 they pull samples from that and follow it all the way down  
13 to the installation. They went to Fort Wainwright, they  
14 went to Anniston. And they come in with a list and say, "I  
15 need to see -- not just a tank, I need to see this tank,  
16 with this serial number that's supposed to be here." And  
17 when they show up, is it in working condition? Because  
18 that's one of the things they test for, is you're accurate  
19 on working condition. "Do you have proof of ownership? Is  
20 it where it's supposed to be?" They walk through each of  
21 those. And then they look around the base, and they find a  
22 series of items, and they go the other direction, which is,  
23 "Here are 25 things we found on the base. Show us that you,  
24 at the Department level, have them in your system." So, it  
25 goes one direction, and then it comes the other. And what

1 they're looking for is examples of a breakdown, where the  
2 summary is not equal to the parts. But, that's sampling  
3 process across inventory. And then they do the same thing  
4 with pay. "You paid somebody a certain amount. Do you have  
5 the records to back up that that soldier was, in fact,  
6 promoted? Did they, in fact, qualify for hazardous-duty  
7 pay? Do you have the paperwork to support that? And can  
8 you produce it in a timely manner?" That's the process they  
9 go through. It's relatively extensive. But, it's the  
10 standards that we're held to.

11 Senator Sullivan: Great. Thank you. Thank you, Mr.  
12 Secretary. I'm glad you're here to testify. And hopefully,  
13 we're all going to learn from this, and, most importantly,  
14 that the Pentagon in as well -- as well.

15 Senator Kaine.

16 Senator Kaine: Thank you, Mr. Chair.

17 Mr. Secretary, I'm going to start with a question that  
18 is based, not on the audit, but on your role as Deputy  
19 Secretary of Defense, number-two official within the  
20 Pentagon. I was proud to support your nomination.

21 In the last day, there have been a number of articles  
22 that have come out. And I'll just read two headlines as  
23 examples. Business Insider, quote, "The Army Is Prepared to  
24 Move Lieutenant Colonel Alexander Vindman and His Family to  
25 a Safe Location, If Necessary." Reuters, "Army Assessing

1 Impeachment Witness Vindman's Security, U.S. official."  
2 These articles were based on some initial reporting that was  
3 done by the Wall Street Journal. Lieutenant Colonel Vindman  
4 is a Virginian -- resident, like you are. Lieutenant  
5 Colonel Vindman is a patriotic American, like you are. I'm  
6 not going to ask you whether you think it's appropriate to  
7 attack his loyalty, his patriotism, his judgment, or his  
8 character, because I know how you would think about such an  
9 attack. I'm not going to ask you whether you think it's  
10 okay to use the White House social media account or other  
11 White House assets to amplify such an attack, because I know  
12 what you would think about that. But, I do want to ask you  
13 this. In your role as Deputy Secretary of Defense, will you  
14 make sure that members of the military are not punished or  
15 face reprisals for cooperating with Congress?

16 Mr. Norquist: So, we take very seriously our  
17 responsibility to accurately and responsibly respond to  
18 Congress and, to the earlier part of your sentence, as well  
19 to any issues that relate to personal security. So, I'm not  
20 going to comment on any measures we take individuals on  
21 personal security, but we do take it very seriously. And we  
22 expect people to be responsive and truthful in their  
23 dealings with Congress.

24 Senator Kaine: Thank you very much for that. And I  
25 would urge you, at this particular time, to be very diligent

1 in protecting members of our military if they are  
2 cooperating with Congress. I think that your words,  
3 delivered here, should, hopefully, give some assurance and  
4 some confidence to some who are very, very worried. And I  
5 know they're worried, because their families are calling my  
6 office. They're my constituents, and they're nervous about  
7 what might happen to them. Your giving them that assurance  
8 publicly means something to them.

9 Let me ask you this about the audit. A lot of the DOD  
10 programs that have to be audited are classified. So, when  
11 we do the NDAA, we're often, you know, grappling with issues  
12 in this room, even in a closed session, and then there's a  
13 separate classified annex that we have to spend, you know,  
14 in a more classified setting, figuring out our own  
15 responsibilities with those. Talk a little bit about how  
16 the audit approaches classified programs, and how you can do  
17 a real audit, and a meaningful one, while respecting the  
18 classified nature of the information.

19 Mr. Norquist: Thank you.

20 So, the challenge we had at the beginning was how to  
21 deal with classified information. And, in the budget, it's  
22 either -- it's redacted or -- in documents, it's often  
23 redacted, or it's otherwise just protected. We talked with  
24 GAO, who wants to be able to summarize the -- a Federal  
25 Governmentwide audit, and the concern was, "If you do that

1 here, if we have redactions, if we have classified annexes,  
2 you won't be able to do a governmentwide audit." So, what  
3 we looked was, How do we do this in a way that we can keep  
4 it unclassified? And here I'd like to tip my hat to a group  
5 called FASAB. They're the accounting standards group for  
6 the Federal Government. Because we had to go to them and  
7 say, "We need you all to get a security clearance, because  
8 we have to be able to have conversations with you that are  
9 classified. And you have to give us the accounting  
10 standards on how to treat classified information." So, they  
11 did. That was one of the process we went through. They got  
12 security clearances. They, in fact, issue us classified  
13 guidance that allow us -- you know, for example, when NASA  
14 was going to a clean opinion, they went and said, "Hey,  
15 we've got a question about satellites. Do we expense or  
16 depreciate?" And so, we will have those types of things  
17 that are classified. And we will go to them, and they, in  
18 their clearances, will be able to say, "Here's how you  
19 should handle it in a classified" answer that allows us to  
20 present the data in an unclassified report. Our auditors  
21 have security clearances, right up to the highest level.  
22 There's nothing that, because it's classified, is excluded  
23 from the audit. The -- even if it's the serious, most  
24 sensitive items, the IG will test it. So, there is nothing  
25 that's classified that is excluded from the scope of the

1 audit.

2 Senator Kaine: Excellent. Excellent.

3 Let me ask you this. In a public hearing like this, I  
4 think we would like to get some success stories, so it's  
5 less about the findings or the agencies that passed, but do  
6 you have examples of things that you've learned in the audit  
7 process that you've already been able to direct toward this  
8 "efficiency for lethality" construct that the DOD witness  
9 talked about recently at our hearing?

10 Mr. Norquist: We have. And so, let me just walk  
11 through a couple of examples. And if people have others, I  
12 can go on extensively on this issue. But, let me pick the  
13 issue of inventory, and I'll use the Navy as an example.

14 I mentioned how the auditors went down, and then they'd  
15 pull samples and test them backwards. What the Navy started  
16 discovering is warehouses and storage facilities that had  
17 items that had never been loaded into their inventory  
18 system. So, you opened it up, and you find spare parts.  
19 And the spare parts are not where somebody who's trying to  
20 order them can get to them. So, the Navy -- and I will give  
21 credit to Vice Admiral Dixon Smith, the N4, because he was  
22 particularly aggressive in this and would travel to some of  
23 these bases and just say, "Open that up. Open that up."  
24 And they started to, and he's found enough concerns he's  
25 said they're going to take 100 percent. But, even at the

1 bases they have already visited, they've -- which is about  
2 five or six -- they found \$167 million worth of usable  
3 supplies that, when they put them into the system, addressed  
4 unneeded -- unmet demands, things that were on backorder,  
5 other items that now can be put back into the system.  
6 Again, it's -- you have the part, but if somebody can't know  
7 it's there, if the person who ordered it rotates away and  
8 the new one doesn't know that's where it's stored, and, more  
9 importantly, from the Department, the Department doesn't  
10 know it, so the neighboring base doesn't see it, you're out.  
11 So, each one of those is an immediate and direct savings to  
12 the taxpayer.

13 Senator Kaine: My time is expired, but others may want  
14 to get -- hear other examples.

15 Mr. Norquist: Hopefully -- I've got a list. I'm happy  
16 to keep going.

17 Senator Kaine: All right.

18 Thank you, Mr. Secretary.

19 Senator Sullivan: Senator Jones.

20 Senator Jones: Thank you, Mr. Chairman.

21 Mr. Secretary, thank you for being here, and thank you  
22 for the letter of November 15th regarding the Anniston Army  
23 Depot, who passed their audit test with 100 percent.

24 Tell me briefly, if you would, how important are those  
25 audit tests like that? And I'm proud of Anniston, but I

1 assume those --

2 Mr. Norquist: Right.

3 Senator Jones: -- were going on elsewhere, too. So,  
4 what's the importance?

5 Mr. Norquist: Yeah. These are the core of what the  
6 auditor does. So, when they pull samples from above, and  
7 they get -- they come down to a base, they're not testing  
8 everything on the base, but they've got a list of what  
9 they're looking for. And so, at 60 of the places they  
10 showed up, there was 100 percent accuracy. Everything they  
11 looked for, that base had. And so, I sent you a letter  
12 because you had some of them in your State. That's  
13 incredibly valuable. And one of the things that I have  
14 heard when I talk to the auditors is the importance of the  
15 local leadership. When they show up and the commander of  
16 the base meets them and walks them around, they can quickly  
17 see they're likely to have a good result because that  
18 leadership has control and oversight of the process. Now,  
19 we have other places where the samples are not there, so we  
20 have to get there on everyone. But, this is going to get  
21 solved at the local level, and then fixing the systems that  
22 lie between what's accurate at the local level and what we  
23 record at the departmentwide level. So, tremendous success.

24 One of the reasons I sent those letters out is so folks  
25 can -- we don't just want to use sticks. People can go give

1 kudos to those who deserve it. And that will help drive  
2 this process forward.

3 Senator Jones: And as the process goes forward, those  
4 leaders at the various locations are going to get the word  
5 that they did participate and cooperate, and that'll --

6 Mr. Norquist: Right.

7 Senator Jones: -- help everybody.

8 Mr. Norquist: It's also in everyone's evaluation form.

9 Senator Jones: Right.

10 Mr. Norquist: Senior officers and civil servants, the  
11 SES's have the audit as their -- part of their performance  
12 evaluation.

13 Senator Jones: I want to move to an area where Senator  
14 Kaine kind of touched on. Are you familiar with the  
15 Antideficiency Act?

16 Mr. Norquist: I am.

17 Senator Jones: All right. I -- I'm having -- I'm  
18 struggling here with a couple of things. On the one hand, I  
19 hear your testimony. And you and I have talked in my  
20 office, and I just applaud your effort so much. And you've  
21 emphasized the responsibility, and taking seriously your  
22 responsibility, to report to Congress. On the other hand,  
23 I'm also seeing this administration continually thwarting  
24 Congress's oversight capabilities. They're not producing  
25 witnesses, they're not producing documents, just because

1 they don't particularly like the subject matter of the  
2 particular hearing. That's particularly going on in the  
3 House. And then, recently, I read a report this morning  
4 where OMB counsel has stated that, as a legislative branch  
5 of government, the GAO, when they report deficiencies or  
6 violations of the Antideficiency Act, that the  
7 administration, the executive branch agencies, have no  
8 obligation to report that back to Congress. And it just  
9 seems to me that there is a concerted effort with the  
10 administration to just, basically, take those things that  
11 they don't want to report and just ignore the Article 1  
12 branch of the Constitution. And I'm really concerned about  
13 that. Have you seen OMB counsel's opinion? And, if so --  
14 or I'd like to hear your thoughts about that and whether or  
15 not that squares with what you said earlier about your  
16 ability and your earnest, honest efforts to report to  
17 Congress.

18 Mr. Norquist: So, I haven't seen that opinion, and I  
19 don't know whether, as a matter of law, they are correct.  
20 But, I know, as a matter of practice, whenever I had to sign  
21 out one of those, it went to everybody. It went to the  
22 White -- the President, it went to the leader of the House  
23 and the Senate, it went, I believe, to GAO. So, in  
24 practice, I know that, when we have one -- an Antideficiency  
25 Act violation, the notification is broadspread.

1           Senator Jones: Well, I think -- and I appreciate that  
2 -- I think that this is new. And so, I may follow up with  
3 you, because I think that this is changing a practice that  
4 has been in -- a practice for -- across administrations,  
5 including this administration, but now we've come,  
6 apparently, with a counsel who expressed a new version of  
7 that. So, I may follow up to give you a chance to look at  
8 that guidance to see how it might affect the Department of  
9 Defense and your obligations to report to Congress.

10           If I have time -- and I'm not sure -- my timer's not  
11 going, here -- you mentioned the Navy, where you found about  
12 \$81 million of material, I think at the Jacksonville Naval  
13 Air Station, where it just freed up inventory, you were able  
14 to do some things. How important is that? What are the  
15 lessons that you can learn and take away from that  
16 particular episode, where there was, like, \$280 million that  
17 was just really, kind of, unaccounted for -- \$81 million,  
18 when they found it, immediately got to use. So, obviously,  
19 a little concerning to Congress that 280 million bucks at  
20 place can not be accounted for. Tell me a little bit about  
21 what you're trying to implement and how the lessons learn  
22 from that.

23           Mr. Norquist: Sure. So, the issue here is the value  
24 of the inventory. But, our concern is, over time, you know,  
25 people, if they buy inventory, if they store it without

1 putting it into the system, they may know it's there, but  
2 their successor may not, the Department doesn't know it's  
3 there. It's inefficient. It's an inefficient way to use  
4 taxpayer resources. The value of the audit is, that's a  
5 problem, and the auditors will come up every year and poke  
6 them for that problem, and expose it, because the audit  
7 requires that, if we have it, it's in our system and it's  
8 properly recorded. That's why it goes both, "Can you  
9 account for what you have? And do you account for  
10 everything you have?" This is valuable for readiness. This  
11 is valuable for making sure we make the best use of  
12 taxpayers' money.

13 We think that there's a connection between this and  
14 some of the challenges of CRs, which is -- a lot of this  
15 tends to be the type of supplies you might order at year-  
16 end. And so, in the -- it -- the more we can limit that,  
17 the more we can have the discipline over, "When you buy it,  
18 you log it into the system." Right? "You make sure that  
19 it's properly recorded." With the discipline -- and this is  
20 where I get to the value of the audit -- they come every  
21 year. It's not enough to clean out your office once.  
22 They're coming next year. They're coming the year after.  
23 You've got to make this a habit.

24 Senator Jones: So, are you satisfied that the systems  
25 in place are adequate? It's just a question of plugging

1 them in, as opposed to, we need to upgrade the systems?

2 Mr. Norquist: No, we're going to need to upgrade the  
3 systems. In some of the comments I got -- because I met  
4 with each of the auditors, and one of them said, "As you  
5 field your new ERP systems, which are more compliant and  
6 more effective, you need to make better use of technology."  
7 A lot of people are doing this manually, filling out paper  
8 forms and others. If they had tablets, where they could  
9 just do it more directly, they could barcode scan, all of  
10 those reduces the labor, and that increases compliance. And  
11 so, what we're looking for here is places where either  
12 people stop doing it because they didn't have the labor and  
13 it was too hard, where the automation solution speeds that  
14 up. But, it highlights the very value of that. And that's  
15 important.

16 Senator Jones: All right. Well, thank you, Mr.  
17 Secretary. I will follow up with written questions  
18 regarding the OMB guidance.

19 Mr. Norquist: Okay.

20 Senator Jones: Thank you, Mr. Chairman.

21 Senator Sullivan: Senator Hirono.

22 Senator Hirono: Thank you, Mr. Chairman.

23 Considering how long it took for the DOD to undergo an  
24 audit, thank you very much for expressing your firm belief  
25 that audits are very important.

1           And, as you noted, the -- your auditors conducted a  
2 number of site visits, 600 site visits. And two of these  
3 visits were performed at Joint Base Pearl Harbor-Hickam and  
4 the Marine Corps Base Hawaii. And both of these came back  
5 100 percent. And thank you for also noting how important it  
6 is that the local leadership buys in and cooperates with the  
7 audit. So, I do want to give a shout-out to the folks at  
8 Joint Base Pearl Harbor and the Marine Corps Base.

9           Mr. Norquist: Excellent. Thank you for doing that.

10          Senator Hirono: Thank you.

11          One of the areas that were pointed out in the most  
12 recent audit were newly identified high-risk areas involving  
13 privatized housing programs and the F-35 program. And I  
14 won't go into my questions relating to those, but I assume  
15 that you are going to be undergoing the things that you need  
16 to do to bring those programs up to snuff. Because there's  
17 a lot of concern about military housing. It's an ongoing --

18          Mr. Norquist: Absolutely.

19          Senator Hirono: -- issue for us.

20          Senator Kaine touched on this other matter recently  
21 regarding the threats to Alexander Vindman and also your  
22 Deputy Assistant Secretary of Defense, Laura Cooper, who --  
23 I don't know if she's already testified, but she certainly  
24 will be testifying, and not to mention the constant efforts  
25 to out the whistleblower, and, basically, the whistleblower

1 feeling very threatened by everything that is going on. So,  
2 I note that you are doing everything you can to make sure  
3 that Colonel Vindman and Ms. Cooper remain safe. What steps  
4 have you already taken to send a clear message to DOD staff  
5 that their identity, their jobs, and safety will be  
6 protected if they come forward to report abuse or  
7 misconduct?

8 Mr. Norquist: So, this is something that we have as a  
9 matter of practice on all sorts of things. We have IG  
10 reports, we have GAO reports. This is just part of the  
11 culture of how we -- when people come forward, we expect  
12 them to be honest and truthful in their dealings, and we  
13 expect them to be taken care of in doing so. We look for,  
14 and the IG looks, if there's an issue of reprisal, to make  
15 sure that those are held accountable for it. And we also  
16 look for their security. And again, I -- as I mentioned,  
17 I'm not going to go into the measures we take, but if we  
18 think there's a security issue, we either deal with it, we  
19 deal with local authorities. This is -- this -- these are  
20 the types of things that occur in different forums, and we  
21 provide the same standard and approach across them. I just  
22 think it's an important signal that we send in the way we  
23 deal with organizations.

24 Senator Hirono: I think, in this environment, it's  
25 very important for the DOD, from the top, to say that the

1 whistleblowers who come out of the DOD, or anyone who  
2 participates in appropriate proceedings, that they will be  
3 safe. I think it's really important for that message to be  
4 quite obvious and put out there, and I hope that that's what  
5 you will do.

6 On October 22nd, the day before Ms. Cooper was  
7 scheduled to testify before the House in a deposition, you  
8 signed a letter to Ms. Cooper's lawyer prohibiting her from  
9 participating in the impeachment inquiry. And at her  
10 deposition, she was asked whether she was concerned about  
11 the repercussions against her at DOD for testifying, under  
12 subpoena, after receiving your letter. She stated, quote,  
13 "This is a challenging environment, and for a civil servant  
14 who is trying -- who is just trying to fulfill my  
15 obligations, this is a challenge. This is challenging in  
16 both respects." This is quoting Ms. Cooper.

17 In light of House Resolution 660, which lays out the  
18 procedure for public impeachment hearings, will you refrain  
19 from prohibiting any other DOD official from cooperating  
20 with Congress, going forward?

21 Mr. Norquist: So, I did not prohibit her. What I did  
22 was, I forwarded to her the information that we -- I  
23 forwarded to her lawyer the information we had received from  
24 the White House that expressed their views about the  
25 impeachment process. One of the challenges, we wouldn't be

1 able to send a lawyer with her. I wanted her to have that  
2 available information. But, we understand each of the  
3 individuals are making their own decision on how to --

4 Senator Hirono: So, even if you were just forwarding a  
5 letter that came, not out of your department, but it came  
6 out from -- I forget what -- where it emanated, but for you  
7 to send it, it does create a chilling effect. And I think  
8 that -- are you intending to continue to forward these kinds  
9 of letters from the White House or from any other --

10 Mr. Norquist: I don't know of any other individuals --

11 Senator Hirono: -- source?

12 Mr. Norquist: -- being called. My only point is, I  
13 would have felt it inappropriate to not have their lawyer be  
14 aware of this information. And so, that's why we shared it.

15 Senator Hirono: But, you can understand why it --

16 Mr. Norquist: Oh, I understand. I understand the --  
17 that that's --

18 Senator Hirono: -- it comes from the number-two  
19 person.

20 Mr. Norquist: -- which is, if you don't send it, it  
21 you do send it, what do you do? So, what we tried to do is  
22 set the right tone in the letter.

23 Senator Hirono: So, in the letter, did you say, "We're  
24 just forwarding this, we're not going to" --

25 Mr. Norquist: I will check the language, and I will

1 send it to you.

2 [The information referred to follows:]

3 [SUBCOMMITTEE INSERT]

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1 Mr. Norquist: But, I think we tried to be --

2 Senator Hirono: Thank you.

3 Mr. Norquist: -- clear about the nature of it. We try  
4 to be very professional in it, and factual in the way we  
5 handle these.

6 Senator Hirono: Could I just ask one more question? I  
7 have no idea what my time is.

8 But, during his nomination hearing, I asked Secretary  
9 Esper whether he would commit to reinstating Parole in Place  
10 for undocumented family members of Active Duty  
11 servicemembers. And Secretary Esper said that he would,  
12 quote, "look into it, for sure." We are still waiting for  
13 some response on this issue. But, we did receive a response  
14 from Acting Under Secretary of Defense for Personnel and  
15 Readiness, Mr. James Stewart, who deferred comment on the  
16 program to the Department of Homeland Security, but  
17 committed to working closely with DHS on the future of the  
18 policy.

19 Well, you can understand why Active Duty servicemembers  
20 would be very concerned if the administration is going ahead  
21 -- Department of Homeland Security is going ahead and  
22 deporting undocumented members even as they are serving our  
23 country. So, I'd like to know what steps the DOD has taken  
24 to coordinate with DHS, as referred to in this letter from  
25 James Stewart on this issue, and whether DOD has urged DHS

1 to reinstate this program not to deport undocumented family  
2 members of Active Duty personnel.

3 Mr. Norquist: So, Senator, let me take that one for  
4 the record. I don't know the answer to your question.

5 [The information referred to follows:]

6 [SUBCOMMITTEE INSERT]

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1           Senator Hirono: Well, I hope you get the message that  
2 we certainly don't want Active Duty servicemembers' families  
3 to be deported. That is not a good thing, and that program  
4 should be reinstated.

5           Thank you.

6           Senator Sullivan: Senator Ernst.

7           Senator Ernst: Thank you, Mr. Chair.

8           This is a really important hearing, I think, for all of  
9 us. And, Secretary Norquist, thank you for appearing today  
10 and testifying on this often overlooked topic. And Senator  
11 Sullivan and I were having a discussion yesterday, and we're  
12 just so thrilled actually to have some results to be put in  
13 front of us.

14           So, you have done, really, what your predecessors  
15 haven't been able to do, or did not do at the Pentagon,  
16 which is making the audit a priority. And we've had past  
17 Comptrollers and Chief Financial Officers at the Pentagon,  
18 of both political parties, and they have whined, they've  
19 complained, they've dragged their feet on this issue, and  
20 found every last excuse under the sun not to get it done.  
21 And so, we've had Pentagon hearings going on and on and on,  
22 here on the Hill, for decades. So, again, thanks for doing  
23 the hard job and getting this audit done, and not delaying  
24 it further. Despite the disclaimer of opinion from the last  
25 2 years, we are much further along in this progress toward a

1 clean opinion, and I just wanted to make that statement and  
2 thank you very much for your leadership on this topic.

3 Now, the National Defense Strategy makes it clear that  
4 the United States has a very distinct challenge to maintain  
5 its supremacy in the global arena, and this has implications  
6 on our homeland defense, overseas operations, and the  
7 vibrancy of a free and open society. So, before we dive  
8 into these strategic goals, it's good to take a step back  
9 and maybe do a little bit of housekeeping. And so, what I'd  
10 like you to explain, Mr. Secretary, is, In addition to  
11 fiscal responsibility, how do you think the audit's findings  
12 actually fit into the NDS and benefit our operational and  
13 war mission capabilities?

14 Mr. Norquist: Sure. So --

15 Senator Ernst: Why do we need to do this?

16 Mr. Norquist: Absolutely. So, the NDS has three lines  
17 of effort: enhancing lethality, working by, with, and  
18 through allies, and the third one is reform in the way we  
19 defend -- operate for more efficiency. The reason for that  
20 is twofold. One is, we can see the same deficit numbers  
21 everyone else can, and we understand the fiscal limits with  
22 which the Department needs to operate. The second is, we  
23 have a responsibility, regardless of what level of funding  
24 we receive, to make sure that we're using it with the  
25 maximum benefit to lethality. So, that includes both

1 driving inefficiencies out of our business processes, as  
2 well as simply cutting low-priority items and moving it to  
3 high-priority items. You know, some of the things, they're  
4 not bad things, they're just not as essential as others.

5 And so, what the audit is helping us do is not only  
6 identify those inefficiencies where individual systems have  
7 been built that don't talk to each other -- so, if you get  
8 to the point where you only enter the data once, and it  
9 flows through the system, there is a lot of labor savings  
10 and costs that come out of the way you operate, versus  
11 manual entries and transfers where they create data errors.

12 The other part of the National Defense Strategy as you  
13 go through this is, you're trying to improve readiness.  
14 That gets to the issue of the spare parts: Can I get the  
15 spare parts in the people's hands, can I get things through  
16 depot maintenance faster?

17 And the last part is the data analytics. One of the  
18 big leaps in what the private sector's been able to do is to  
19 use terms -- you can use "big data," you can -- "cloud,"  
20 whatever you want to call them -- but, they're able to  
21 manipulate incredibly large sums of data. Well, DOD, we  
22 have tens of billions of transactions. When we get audited,  
23 it goes back to funds Congress appropriate to us 8 or 9  
24 years ago, because those funds are still available for  
25 payment or disbursement. The ability to organize those in a

1 dataset, to search them, to track them, to be able to find  
2 errors, that allows us to adopt some of the best practice  
3 from the private sector on inventory and other things you  
4 can't do when you don't trust your data.

5 Senator Ernst: Yeah.

6 Mr. Norquist: And so, I think those types of reforms,  
7 we -- we can't adopt private-sector best practices unless we  
8 can get to the quality of the data they have so that we can  
9 rely on it.

10 Senator Ernst: Yes. And thank you. The -- kind of  
11 along that quality-versus-quantity issue, the DOD has closed  
12 22 percent of the Notice of Findings and Recommendations  
13 from the Fiscal Year '18 --

14 Mr. Norquist: Correct.

15 Senator Ernst: -- Audit. And -- but the number has  
16 actually increased. And so, do we -- should we interpret  
17 that as "the system is working," or should we be worried  
18 that we're not making enough progress?

19 Mr. Norquist: So, the first answer is, the system is  
20 working. There were, I think, 200 more auditors this year  
21 than last year. One of the things that we took as a lesson  
22 learned from my time at Homeland was, we set up these  
23 contracts -- normally, an auditor, when they think you're  
24 not going to pass, they stop working. They say, "You have a  
25 disclaimer. We're done." We worked with our IG, who's been

1 a tremendous help in this whole process, and the contracts  
2 basically say, "Keep auditing. Even if you think we're  
3 going to fail, keep auditing. We want as many problems as  
4 you can find." And so, the thing I tell everyone inside the  
5 building is, when the auditors find, I think, 1300  
6 additional findings, those were always there. Right? The  
7 more clearly they identify them, the sooner we can make sure  
8 we have corrective action plans to address them. So, I  
9 expect, for the first couple of years, they will find more.  
10 We will keep closing them. We will get better and more  
11 efficient. At a certain point, they will have been able to  
12 fully go through it, and those numbers will come down. But,  
13 I see this as exactly what we're paying them for and what I  
14 hope we would get out of them.

15 Senator Ernst: Well -- and my time is expiring, so I  
16 just want to say, again, thanks for your leadership on this  
17 issue. It is such a bureaucratic beast, and trying to sort  
18 through that, boil it down, you've been able to take this  
19 on, and we, as Congress, truly do appreciate your effort.  
20 So, thank you very much, Mr. Secretary.

21 Thank you, Mr. Chair.

22 Senator Sullivan: Thank you, Senator Ernst.

23 Senator Shaheen.

24 Senator Shaheen: Well, thank you.

25 I would add my appreciation to what you've heard from

1 my colleagues about the work that you're doing.

2 You talked about the list of examples of successes  
3 based -- that you've already uncovered as the result of the  
4 audit. At some point, it would be helpful for us to get  
5 more of that list so that we can share that with others and  
6 let people know what's been successful, to date, about the  
7 audit.

8 I want to go back to your early comment, though, about  
9 the CR, and preaching to the choir about the CR, because I  
10 do agree you're preaching to the choir, but I also think  
11 there doesn't seem to be a universal appreciation in  
12 Congress and in the administration for what the impact of a  
13 continuing resolution for the remainder of this year would  
14 be. And at what point -- are you concerned that that might  
15 trigger the budget cap so it would kick us back into  
16 sequestration? Can you just talk about what the impacts are  
17 that you see if we are not able to get appropriations bills  
18 through?

19 Mr. Norquist: Sure. So, let me take them -- first,  
20 the CR, and then I'll go to sequestration.

21 The CR is designed to be destructive. It is --

22 Senator Shaheen: Right.

23 Mr. Norquist: -- designed in order to get you not to  
24 want to do it. So, the first thing it says is, no new-  
25 starts. So, if we have ammunition that we would like to buy

1 more of that the Congress -- the House, the Senate, the  
2 Republicans and Democrats have all agreed, "You need more,"  
3 we get to 1 October, and we say, "Let's not start buying it  
4 yet. Let's wait to place that order." We have research  
5 technologies, artificial intelligence, our hypersonic  
6 missiles. Republicans, Democrats, House and Senate all  
7 agree, "Let's give the Chinese a 3-more-month headstart.  
8 Let's make it harder for our people to keep up in that  
9 technology race by letting this drag out." And then, the  
10 last part is, you've got families in training that  
11 constantly get disrupted because they don't -- we may  
12 believe that there's a deal at the top-line, but they don't  
13 know what that means to the installation. And so, in good  
14 fiscal sense, they withhold the money, they delay training,  
15 they minimize what they are going to do, and then sometime  
16 in December or in a previous year's March, we then hand them  
17 all of that money and say, "Now do it in 6 months." Well,  
18 they can't get back their October training exercise, they  
19 can't recover the time lost. And then we start having the  
20 challenges with inventory and others. So, it is a misuse of  
21 taxpayers' money to manage it in this way.

22 The sequestration is even worse, because the  
23 sequestration is just a catastrophic cut that undermines  
24 everything. And again, they don't know whether you're going  
25 there, so they have to be very cautious about how they spend

1 money. But, you'd have problems making payroll under  
2 sequestration. You'd have -- you know, we could wait, but  
3 then we take an even cut in everything else. And then  
4 you've completely lost readiness. And for anyone who has  
5 ship maintenance in their district -- and they know the  
6 importance of the ships coming in on time, the maintenance  
7 happening on time -- you can't recover. The ship depot --  
8 the ship facility can't take twice as many ships the next  
9 year. If they don't come in on time, you've lost it. And  
10 so, this is something we need to avoid. This is something  
11 we need to minimize the length, if at all possible.

12 Senator Shaheen: Thank you. I certainly agree, 100  
13 percent.

14 I want to ask about another issue that's outside of the  
15 audit, but it goes to your current role. And that is, as  
16 you're aware, I'm sure, there are a number of -- virtually  
17 all military facilities have an issue with PFAS chemicals.  
18 Secretary Esper, to his credit, appointed a task force, the  
19 day he got sworn in, to address that on military  
20 installations. My understanding is that the Navy is very  
21 close to a breakthrough on finding a replacement for the  
22 element in firefighting foam that would be equally  
23 effective. Can you give us any update on that? And, if  
24 not, can you take that for the record?

25 Mr. Norquist: So, let me take the particular question

1 of how close they are to the record.

2 [The information referred to follows:]

3 [SUBCOMMITTEE INSERT]

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1           Mr. Norquist: I know this is an area very important to  
2 us. We have been researching alternatives. I think we  
3 spent \$22 million on that. But, we'll continue, because we  
4 need a foam that protects armed service members when they're  
5 in high-risk areas, but we also need it to be one that's  
6 environmentally safe. And so, we will definitely get you  
7 the answer on how they stand.

8           As you pointed out, this is a high-priority area for  
9 the Secretary. He's got the task force working on 40  
10 different actions. But, this is something -- we're getting  
11 to that solution -- is ultimately the right -- the best  
12 place to end up.

13          Senator Shaheen: Good. Thank you.

14          And finally, in June, the Department released new  
15 standards for defense contractors called the Cybersecurity  
16 Maturity Model Certification, the CMMC, program. And I  
17 appreciate the need for this program, to ensure that there  
18 is cybersecurity in place for our contractors. But, can you  
19 talk about the extent to which the -- Defense is working  
20 with those contractors? Because one of the things that  
21 we've heard from some of the businesses that we work with is  
22 that they're very concerned about the timeframe within which  
23 they have to comply with those standards, and also with the  
24 assistance. For the big folks, it's not an issue as much as  
25 for some of the smaller people who subcontract or who work

1 with Defense, who don't have the capacity and the assistance  
2 that they need in order to comply. Can you talk about  
3 what's happening on that?

4 Mr. Norquist: Sure. For those who are unfamiliar with  
5 this, one of the issues we have is vulnerabilities in our  
6 supply chain in the businesses we deal with. And so, other  
7 countries tend to attack their networks to try and extract  
8 important data. CMMC is a set of standards that they're  
9 expected -- and, much like a financial statement audit, they  
10 would hire a firm to come in and check their controls and be  
11 able to verify the quality. Part of the intent of this is  
12 to recognize that the larger firms are going to have an  
13 easier time. We need to work with the small businesses. In  
14 some cases, like when we have requirements that a firm has a  
15 SCIF, they are able to hire a firm that -- whose SCIF they  
16 have access to so that they can work with folks who can set  
17 up a network that meets this compliance. So, if you have a  
18 very small firm, you don't try and build your own network.  
19 You just subscribe to one that's already certified. Now you  
20 know you can count on it, and that firm then just provides  
21 it to you as part of their IT services. But, this is  
22 something that I know the CIO and the Under Secretary for  
23 A&S are going to work very closely with the small business  
24 community. We need them, most of all, to get up to that  
25 standards, and we don't want this to be a barrier to entry.

1           Senator Shaheen: Right. We don't want to lose all of  
2 the innovation that's coming out of the --

3           Mr. Norquist: No, that's where a lot of the innovation  
4 is coming from. You're absolutely right, Senator.

5           Senator Shaheen: Thank you.

6           Thank you, Mr. Chairman.

7           Senator Sullivan: Senator Ernst.

8           Senator Ernst: Thank you, Mr. Chair.

9           And, Mr. Secretary, along similar lines, but a little  
10 different question, focusing on the purchase of unsecure  
11 commercial items. And, back in August, I had sent a letter  
12 to you highlighting the threat that was posed by commercial  
13 off-the-shelf computers and other types of electronic  
14 equipment, specifically those that have been made in  
15 communist China and those that present those cybersecurity  
16 risks. And so, I appreciate the letter that you sent back  
17 in reply, which discussed the ways in which the Department  
18 is addressing those types of vulnerabilities, but perhaps  
19 you could, maybe, just give us a quick update now on the  
20 progress that the Department has actually made in that area.

21           Mr. Norquist: Sure. So, one of the challenges you  
22 have in buying, particularly, electronics is -- it's one  
23 thing to say this is a large Chinese-made product and it  
24 shouldn't be in the system. But, then you start buying  
25 other ones, and you start discovering components that were

1 made -- the company that provides it to you is a U.S.-based  
2 company, but all of a sudden there are components inside it.  
3 So, this is where the Department has to do careful analysis  
4 of what it's buying. So, we look at the threat  
5 intelligence, we look at their supply chains, and we test  
6 the products for its adherence to security standards. In  
7 some cases, we do penetration testing, red-teaming. But, we  
8 need to understand those supply chains to understand where  
9 are the places where we can't afford to have them bringing  
10 in those types of parts, because it creates a vulnerability.  
11 And working with those firms directly on -- in some cases,  
12 you can improve it if you take out the middleman, you buy  
13 directly from the vendor. But, in other cases, you have to  
14 understand if that vendor is assembling parts that includes  
15 pieces. Now, some of those pieces aren't a risk, others  
16 are. And that's where we have to work very carefully. And  
17 that's the process that we're putting in, both in -- again,  
18 in cooperation between our CIO and our Under Secretary for  
19 Acquisition.

20 Senator Ernst: Do you know, is the Department still  
21 purchasing equipment that possibly could have been  
22 manufactured in areas of concern?

23 Mr. Norquist: Let me take that for the record so I  
24 know how far along in this we are.

25 [The information referred to follows:]

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1 Senator Ernst: Okay. Wonderful.

2 Thank you very much, Mr. Chair.

3 Senator Sullivan: Senator Kaine.

4 Senator Kaine: Thank you.

5 Mr. Secretary, what I said in my opening comments, that  
6 I wanted to try to get your opinion about when it might be  
7 reasonable to expect -- as we work through the process of  
8 these annual audits and then, you know, engage in corrective  
9 activities, when might it be reasonable for the committee to  
10 expect that the Department would have a completely clean set  
11 of audits?

12 Mr. Norquist: So, here's the trajectory you should  
13 expect. We have 24 organizations. I would expect, every  
14 year, to see movement forward, another one getting a clean  
15 opinion, people moving to modified. Within 5 or so years,  
16 I'd expect you to see the majority of them with a clean  
17 opinion. The Department itself won't get a clean opinion  
18 till the very last one falls. And so, in Homeland, it took  
19 them 10 years to get a clean opinion. Five of those were  
20 waiting on the Coast Guard. Everyone else got to a clean  
21 opinion, and there was 5 years. And then, for several  
22 years, it was just Coast Guard property. Everything else  
23 was okay.

24 So, you'll start to see the number come down. I found  
25 it very helpful, by the way, because, in the hearings, the

1 Coast Guard used to get that as an opening question, when  
2 they were the one left out, as to, "Why are you holding it  
3 up?" That helped focus everybody's attention. But, that  
4 will -- you'll see that over time. You'll see different  
5 parts get to a clean opinion. You'll see the number of  
6 problems going down. You'll see some where they have only a  
7 single issue holding them up. That's very helpful for  
8 focusing it. I don't know how it takes to get to the last  
9 one, because it's really who's the slowest and takes the  
10 longest, and that will be the final pin to drop.

11 Senator Kaine: Thank you.

12 And, Mr. Chair, I would just like to ask to be  
13 introduced in the record -- in response to Senator Hirono's  
14 questions, Secretary Norquist talked about the letter that  
15 he sent to -- under -- over his signature, to Daniel Levin,  
16 who is the attorney for Laura Cooper, and there was a  
17 reference to that letter. The letter is about a page-and-a-  
18 half long, and the operative paragraph is the penultimate  
19 one, which reads, in relevant part, quote, "This letter  
20 informs you and Ms. Cooper of the administrationwide  
21 direction that executive personnel," quote, "'cannot  
22 participate in the impeachment inquiry under these  
23 circumstances,'" close quote, period. I would like to  
24 introduce this for the record. And I'm going to have some  
25 additional followup via QFR about this letter.

1 Senator Sullivan: Without objection.

2 [The information referred to follows:]

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1           Senator Sullivan: Mr. Secretary, let me ask a couple  
2 of other questions.

3           You mentioned that certain base commanders were very  
4 open and willing to work, were -- did you run into some  
5 obstinance or resistance from other commanders? And are --  
6 was there a correlation between that and the -- maybe not  
7 scoring so well? Or was the word out from the leadership in  
8 the Pentagon to make sure there was good cooperation here?

9           Mr. Norquist: So, I think it's gotten better from year  
10 to year. I -- the auditors were the ones who gave me the  
11 feedback, and they said the more they're engaged, the more  
12 likely that you are to see the results. It's a question of  
13 them focusing on the items in the process and what they need  
14 to be accountable for.

15           But, here was the big surprise for the audit. I'd --  
16 one of the concerns we had, going in, from those of you  
17 advocating for audit and those of us pushing it, is the risk  
18 that it would be seen as a paperwork drill, "You come, you  
19 audit me, and all you're doing to check is a bunch of paper  
20 and whether it -- my bills match my invoices. This is just  
21 an admin drill." The issue over inventory, things that had  
22 direct benefit to readiness, this quickly turned around the  
23 views of the military that we dealt with to understand is --  
24 wasn't about paperwork, this was about readiness, this was  
25 about being able to do their mission. So, I never ended up

1 getting the pushback that I was afraid I was going to see  
2 and that everyone -- until you started it, everyone just  
3 assumed was going to be the natural outcome of the audit.  
4 So, I think we've seen a change. I think we've seen that  
5 level of emphasis. Some places are stronger than others,  
6 but I think we're going to continue to see it grow.

7 Senator Sullivan: Let me ask, related to that topic --  
8 you know, some of the media, which I'm glad they covered it,  
9 but, not surprisingly, the headlines were a little alarming.  
10 There was a Reuters piece, a couple of days ago, "Pentagon  
11 Gets Failing Grade in its Second Audit." And then, a  
12 Bloomberg piece, just -- well, yesterday, I think --  
13 headline, "Air Force's Inventory Listed Wrong Sites for 79  
14 Nuclear Missiles." So -- "misidentification of 79 active  
15 Minuteman II nuclear-armed missiles, almost a fifth of the  
16 fleet." So, that's pretty alarming.

17 Can you talk to some of these headlines, and  
18 particularly the one with regard to 79, quote, "missing  
19 nuclear missiles"?

20 Mr. Norquist: Right. So, these types of --

21 Senator Sullivan: Were they really missing? I'm a  
22 little bit concerned, if that was the case.

23 Mr. Norquist: So, the proper title would have been,  
24 "79 Uninstalled Missile Motors," because they aren't actual  
25 ICBMs and missiles. They are the motors that are used in

1 them. And when they are pulled out and put into maintenance  
2 in the supply system, there was an issue in the accuracy of  
3 the supply system, because it's manual, tracking whether  
4 they were still on the base, and whether they were at the  
5 depot. But, I don't think "uninstalled missile motors in  
6 maintenance" has the same drama as the title that you read.

7 This comes up in the audit. You know, occasionally,  
8 you'll have some story that references the Department and  
9 trillions of dollars, even though that number is orders of  
10 magnitude larger than our budget. There are these types of  
11 misunderstandings of what the auditors -- again, remember,  
12 these are -- these audit reports are written by accountants.  
13 And so, they are written with a level of detail that makes  
14 sense to somebody of that background. But, to others, these  
15 stories come out, and you try and translate it, and you get  
16 it wrong. So, part of my job is, when these come up,  
17 explaining, "No, our missiles are in the ground. We know  
18 where they are. They don't tend to move that often, for the  
19 ICBMs. So, 79 would not have been relocated. But, this is  
20 missile motors." And the answer is, it's still a problem,  
21 we still have to get inaccuracy of our missile motors, but  
22 it's not the -- it's a regular supply issue and inaccuracy  
23 from a manually updated database.

24 Senator Sullivan: Okay. So, on that headline, still  
25 useful, and it -- obviously, keeping track of the missile

1 motors is important, but it wasn't as if there was --

2 Mr. Norquist: Correct.

3 Senator Sullivan: -- a loss of the --

4 Mr. Norquist: Correct. And they did a --

5 Senator Sullivan: We knew where these ICBMs were.

6 Mr. Norquist: Right. And the auditors did a site  
7 visit at F.E. Warren, and they gave it 100 percent thumbs-  
8 up. I met with them and asked them what issues. They  
9 didn't even bring this one up. They just talked about  
10 supply issues, in general.

11 Senator Sullivan: And "failing grade"? That's  
12 accurate. Was it --

13 Mr. Norquist: On the overall audit?

14 Senator Sullivan: Yes.

15 Mr. Norquist: Yeah, we didn't pass. I mean -- well,  
16 let me -- in fairness, seven organizations did, and the  
17 leaders of those should get credit, because many of them  
18 started those audits before anybody else in the Department.  
19 The -- some of the funds, having clean opinions for 5 or 10  
20 years. That was sheer will by the leadership of that  
21 organization, because there was not a pull signal from the  
22 Department level for many of those. So, credit to those who  
23 got it. But, we've still got another, you know --

24 Senator Sullivan: Let me ask a more parochial  
25 question, from my perspective. You said you were at Fort

1 Wainwright in Alaska. What were the findings there?

2 Positive? Negative? Any good examples or things that need  
3 to be improved upon?

4 Mr. Norquist: Sure. So, it's a great example of the  
5 test they did. So, they went to Fort Wainwright, and they  
6 had a list of 108 items that they wanted to find. And these  
7 were everything from rotary-wing aircraft to coms gear. And  
8 then they look around and they picked 25 items they found,  
9 and then they went back to the database and said, "Can you  
10 show me these 25?" They had 95.5-percent pass rate. There  
11 were six things. Examples included: the serial number  
12 didn't match. Okay, well, then we can't be certain this is  
13 the same item. You have an item, but the serial doesn't  
14 match. Or the item was there, but it wasn't recorded in the  
15 system. Okay, you've got a missing piece entry. Six is  
16 somewhat small, but, again, this is a sample, so the  
17 question becomes, What -- if you extrapolate that? But, it  
18 was 95.5-percent pass rate. But, that's a good example of  
19 the visits they did around the country. And I think it's  
20 the type of thing where that feedback is helpful, because  
21 the local commander can figure out why, "Why do I have these  
22 six areas?" And then they can determine, "Is it in other  
23 areas, as well? Do I have -- if they came back and pulled a  
24 different sample, would I be 100 percent or would I still  
25 have the same errors?" And then they have, you know, 6 to 9

1 months to work on it before the auditors potentially sample  
2 them again.

3 Senator Sullivan: Great. Thank you.

4 Senator Perdue.

5 Senator Perdue: Well, first of all, I want to thank  
6 you for your perseverance in here. You and the Ranking  
7 Member Kaine have been warriors on this for years.

8 And I want to thank you, Secretary, for giving us our  
9 first audit in the history of the United States. And I know  
10 it's a laborious process. I know it's expensive, to start  
11 with, to do your first one. I just have a couple of quick  
12 questions.

13 When you look at the number -- or the cost of this  
14 first exercise, pretty substantial, as you might imagine.  
15 This is our third-largest expense -- item on our expense  
16 sheet, second only to Social Security and Medicare. But,  
17 it's only a few -- it's only a little bit larger than some  
18 of our larger corporations. And so, they do this routinely,  
19 and it doesn't cost them a billion dollars to do this. So,  
20 my question is, Over time, do you see a possibility, number  
21 one, that we can get to the answers, here, quicker, now that  
22 we've got a start at it, we can get to clean -- a clean  
23 report? And then, what's the quantitative -- I know we've  
24 talked about some of the subjective benefits of this,  
25 obvious -- that are obvious, but how do we quantify that? I

1 mean, it seems to me -- you've mentioned, in a private  
2 conversation, that you've pretty much already paid for this,  
3 in many regards, quantitatively. Can you just tell the  
4 committee and get that on the record for us?

5 Mr. Norquist: Sure. So, you talked about the cost.  
6 So, let's break it into the three parts.

7 There's the amount we pay to the public accounting  
8 firms --

9 Senator Perdue: Right.

10 Mr. Norquist: -- about 195 million. Compared to our  
11 size, not dramatically different than some of the other  
12 large firms.

13 Senator Perdue: It's about right.

14 Mr. Norquist: From the Corps of Engineers, their  
15 experience has been, though, that, as the audits move from  
16 these heavy sampling to reliance on controls, those costs  
17 will come down. So, we expect to see the amount we pay the  
18 auditors go down.

19 We have a similar amount, about 250 million, that we  
20 spend either in labor of Federal employees or in the  
21 contract support that we use to support the audit. Some of  
22 that will come down. Some of that's just the cost of doing  
23 business correctly.

24 When you look at what DFAS spends to process, they have  
25 very good data over how much they spend fixing errors.

1 Their cost will go down by at least 400 million when they  
2 start getting clean data, which will fully cover the cost of  
3 the audit and the cost of our side of support.

4 Senator Perdue: The clean data is a byproduct of an  
5 audit process.

6 Mr. Norquist: It absolutely is. And the -- and you  
7 think about the labor we spend when a transaction comes  
8 through that's unclear. Somebody has to research, they've  
9 got to figure out why the codes are wrong --

10 Senator Perdue: Right.

11 Mr. Norquist: -- which is an automatic -- when the  
12 whole thing flies through without a touch. Right? And  
13 you're all set.

14 The second half of that is the money we spend on fixing  
15 problems. And again, we're doing this to comply with our  
16 standards and with the law, so we were spending that money  
17 in the past, and we are spending now. The difference is, we  
18 didn't have the audit to tell us if it was right.

19 So, I'll just pick a system example. You're fielding a  
20 new accounting system. In the past, you'd field it, and  
21 then you'd start discovering it didn't post right, it didn't  
22 do what you want to. The person fielding it now knows the  
23 auditors are going to show every year and test that system,  
24 so you're not going to be done with your implementation  
25 before the auditor's given you a list of problems. And the

1 program manager's thinking, "Am I paying you to make this  
2 system work?" So, that level of discipline benefits the  
3 taxpayer through these fieldings to get it to the right  
4 level.

5 What I was surprised by was, when you look at the money  
6 that the Navy has saved, the 167 million, when you look at  
7 the 316 million that the Department was able to use data  
8 analytics to recover as we did our budget scrubs, that's the  
9 cost of what we're spending on the audit, and then some.  
10 So, in terms of paying the auditors, we're already  
11 recovering that.

12 Senator Perdue: Right.

13 Mr. Norquist: Now we're just living off the benefit of  
14 all of their findings, making sure the rest of the money we  
15 spend is better, that our processes get better, and that we  
16 bring discipline to the system. So, I had originally  
17 expected that this would be a savings some years out. And I  
18 know the patience with, "Just wait, it will pass." But, we  
19 are seeing that benefit now, and we are seeing the benefit  
20 to the taxpayer immediately.

21 Senator Perdue: Can I ask one more, real quick?

22 I know you've talked about continuing resolutions since  
23 you've taken this job. And we now know, because the SECNAV,  
24 Secretary Richardson, has actually talked to us  
25 quantitatively about that, and now the service heads --

1 Secretaries have also done that across the board. We now  
2 know that it costs upwards of couple-hundred-billion dollars  
3 over 10 years, in terms of these -- the CR practice that  
4 we've been under for the last 45 years. Only four times in  
5 the last 45 years have we actually funded the government on  
6 time. And that means no need for a continuing resolution at  
7 the beginning of the year. In the last decade, all but one  
8 year, we've -- the first quarter has been under a continuing  
9 resolution.

10 Now, this current debate that we'll have tomorrow, if  
11 we have a vote on the next continuing resolution, will be  
12 the 188th continuing resolution. Can you describe to us how  
13 the audit interacts with our growing awareness of how this  
14 insidious thing called a continuing resolution just  
15 devastates the military? It doesn't sound so onerous to me,  
16 as a business guy, coming -- you're going to spend no more  
17 than last year? That doesn't sound so bad. But, because it  
18 ties the hands of the military at the line-item level, seems  
19 to me we're building in tremendous intrinsic costs there  
20 just because of our lack of doing the job here in Congress.  
21 And I know you agree with that. How would the audit help us  
22 identify, expose those wasteful efforts? Like, \$4 billion  
23 right now we're spending today, we're spending against \$4  
24 billion of programs that the DOD has already said are  
25 obsolete, we don't want to spend those anymore, but we're

1 obliged to under the continuing resolution law.

2 Mr. Norquist: So, you think of a contract where you're  
3 buying some supply. Normally, you might place the order at  
4 the beginning of the year for the entire year. And instead,  
5 you're going to take that, and somebody's going to make an  
6 order that covers the first 6 weeks. And then, after your  
7 contracting action, they have to do all the normal  
8 paperwork, they've got to load it in the system, and then,  
9 when the CR is extended, they do another contract for  
10 another 4 or 6 weeks. We keep breaking this contract into  
11 multiple parts, increasing the amount of manual labor that  
12 you have to do, increasing the chance for data error, making  
13 it much harder on the vendor to deliver the quantity at the  
14 right cost. And so, what the audit will show you is just  
15 the volume of transactions you have artificially generated,  
16 the amount of additional work. We see the consequences with  
17 some of these inventory issues at year-end, where we held  
18 back money for 3-6 months, and then we push it forward and  
19 expect people to move out and be able to execute it with the  
20 3 to 6 months left.

21 Senator Perdue: We're holding excess inventory in  
22 anticipation of 3 months or more that we can't use.

23 Mr. Norquist: Or at the very end of the year, it's the  
24 one thing I can order. Right? So, I order the inventory,  
25 but it's a rush, because I didn't get it in a normal

1 sequence like I did, so I put it on the shelf. I'll get  
2 around to loading it into the inventory system later. Life  
3 gets busy --

4 You know, part of -- the other part is, the people  
5 doing the audit are the ones most affected by the CR. It's  
6 the acquisition community, it's the financial -- all these  
7 folks who are now spending their time over here, we want  
8 over on the other side, getting the data and getting the  
9 process right.

10 So, it's very disruptive, and the audit highlights  
11 that. And then, the whole effect on the mission side, on  
12 the families, on the deployments, those are a pretty serious  
13 problem.

14 Senator Perdue: Thank you.

15 Thank you, Mr. Chair.

16 Senator Sullivan: Senator Blackburn.

17 Senator Blackburn: Thank you, Mr. Chairman.

18 And, Mr. Secretary, thank you for being with us today.

19 I'll have tell you, going back to my freshman year in  
20 the House in 2003, we started working on the management  
21 initiative, the DOD audit processes, trying to simplify this  
22 and get everybody into a system where data would be  
23 interoperable, you would be able to put a lot of this online  
24 at that point. Now we want it all in the Cloud. But, what  
25 has frustrated me, and, I think, what continues to frustrate

1 some of our men and women in uniform, is that you take two  
2 steps forward, you take a couple of steps back, and you end  
3 up not making as much progress as you would like to see  
4 made.

5 So, with our interests in Tennessee -- Fort Campbell,  
6 Millington Air Naval Station, Arnold Air, our National Guard  
7 presence, the full-time National Guard Intel Unit -- as I  
8 talk with these men and women, one of the things that  
9 continues to come up is having a standardized process,  
10 having best practices, and being able to look, not just at  
11 what is immediately in front of you, but looking out --  
12 further out. And as -- Senator Perdue just talked about the  
13 necessity for having budget authority and not running on a  
14 CR. That's a big part of that. And we realize that. But,  
15 also, I think the -- what comes back to being an issue with  
16 DOD is the fact that they just can't seem to get ahead of  
17 this process and get those best practices in place.

18 So, what I'd like to hear from you is, if you've got a  
19 system in place to really incentivize identification of cost  
20 savings by DOD employees, if that would help. And also,  
21 what about a best-practices database? Is that something  
22 that, as you go through this and you pull this data, and you  
23 go in and research this, are you building a best-practices  
24 database that is going to be available systemwide? And  
25 then, the third thing I would say is, leveraging leaders

1 from the private sector who can really come in, based on  
2 their experience, and help you streamline processes and  
3 optimize operations for the Department. Because right now  
4 -- and this is one of the problems, I think, that our units  
5 have when they're deployed, is the number of hoops they have  
6 to jump through to get authority or something that they need  
7 in a timely manner.

8 So, as you look, holistically, at this and what you  
9 intend to glean from it, if you'll just answer those, it  
10 would be helpful.

11 Mr. Norquist: Sure. So, it's in -- one of the  
12 important things is how the audit puts a spotlight on some  
13 of those problems. And one of the things that we have set  
14 up at the Department is, we have three forums that include  
15 the headquarters, but also Army, Navy, and Air Force. One  
16 of them focuses on the IT aspects of the audit; another, on  
17 the logistics, which is a lot of the issue you're talking  
18 about; and the third is on financial management. And part  
19 of the answer is, we're all going to find the same problem.  
20 So, when we have the right fix, when we have a solution that  
21 is usable across it -- and so, for example, the Army is  
22 experimenting with -- it's a series of codes called a BOT, a  
23 micro-thing -- but, what it does is, it's software that,  
24 when you depart, runs through the accounts and looks for  
25 every place you had a login account, and turns it off

1 instead of waiting for six different organizations to get  
2 the paperwork to go in and turn off your access. That  
3 works. Everybody can adopt it. The similar thing we're  
4 looking at is, How do I make sure somebody doesn't login as  
5 one user in one account, still login as another, and yet --  
6 we're trying to design a control that prevents somebody from  
7 doing both of those functions. So, all of those are best  
8 practices. We have a forum that shares those.

9       You talk about being in the private sector. Secretary  
10 Spencer, at the Navy, bought in private-sector overview of  
11 how you do aircraft maintenance and has been looking through  
12 and adopting some of the best practices on the Navy aircraft  
13 in order to fix the depot issues, the supply issues they  
14 have been facing. And so, when they have those, they then  
15 share them with the other services. But, each of these  
16 answers, there's a lot of analogy to what we do, even though  
17 we're different, in the private sector. And the more we can  
18 -- we used to call it, you know, best practices in  
19 government. I think it used to be called plagiarism when I  
20 was in college. But, you take their ideas, and you use  
21 them, and you use it to drive efficiency in the process.

22       Senator Blackburn: Thank you.

23       I yield back.

24       Senator Sullivan: Thank you, Senator Blackburn.

25       Senator Perdue.

1           Senator Perdue: Well, thank you for accommodating. I  
2 just have one more.

3           I -- we could do this all day, Mr. Secretary, but  
4 you've got a job to do, and we do, too.

5           But, this is so impactful. We're talking about big  
6 dollars here, \$160 billion that we spent. Where do we go  
7 from here? And what do you think we're going to identify?  
8 And if you don't -- if you're not ready to quantify this  
9 today, I totally understand that. But, the purpose -- one  
10 of the purposes of an audit is to look at operational  
11 effectiveness and best practices Senator Blackburn just  
12 mentioned. But, I'm looking at the top-line. This is our,  
13 sort of, first deep-dive look at the broad base of the DOD.  
14 And, when you look at the impacts of CRs and other things,  
15 given the NDS, what do you think the potential is going to  
16 be for some rationalization of this lost cause?

17           For example -- and I will just highlight this quickly  
18 -- we spend about 14 percent of the total money on overhead.  
19 Now, that's up from about 2 percent in about the Vietnam  
20 era. So, it's 2 percent to 14. I'd like to know how --  
21 what that increase is. That should be part of the audit  
22 process, as well. Then we allocate the balance -- a third,  
23 a third, a third -- which is not consistent with the NDS.  
24 And I would hope that the audit, in getting more efficacy  
25 about where the money is spent and how that's decided, will

1 give us some flexibility in how to address that.

2 So, my question, sir, is, Where do we go from here?  
3 What's the next step this year? And what do you hope to  
4 improve after the first audit? And then, secondarily, what  
5 do you think the rationalization potential could be in DOD?  
6 And I'm -- and if you're not ready to quantify a number  
7 there, I would totally understand. But, at least  
8 directionally give us some idea of what you're thinking.

9 Mr. Norquist: Sure. So, I think the next big step --  
10 I mean, in the small steps, we're going to keep identifying  
11 the errors, we're going to close them -- the next big step  
12 is to take advantage of the data we have. Part of it is, we  
13 used to do transactions in blocks, thousands of transactions  
14 as a single entry. Can't do that and pass an audit. So,  
15 we're doing individual transactions. The advantage of that  
16 is, you can now search on them. So, whereas, before,  
17 somebody looking at a budget would see they had \$100  
18 million, they've spent 50; they can now click on that and  
19 get every single transaction that makes that up. Well, now  
20 if you want to get after overhead, if you want to get after  
21 some of those other expenses, you can go through the --  
22 through those transactions and sort out, Is this overhead,  
23 as in logistics support and maintenance and essential  
24 things, or is this overhead, as in I hired a consultant?  
25 Right? And am I getting something? So, that level of

1 transaction-level data.

2 Part of what I want to push for is, we should be able  
3 to have a meeting in the Pentagon that looks like what you'd  
4 have in a business company, where all the business units are  
5 there and you've got a report from your CFO, that there's no  
6 discussion about the report. It is an accurate summary of  
7 the financial activities of each of the organization. We're  
8 now going to have a discussion about what it means. Right?  
9 If you don't trust the data, you can't get there. But, if  
10 you start having this transaction level, we can bring it up.

11 We use, in Defense, something called PPBE -- you know,  
12 "planning, program, budget, execution." It doesn't have a  
13 backloop -- right? -- where you go and you say, And here's  
14 what we did and how it's -- how it comes back. So, we may  
15 end up changing that to PPBA, where we go from budgeting to  
16 the accountability, which is, Did you do with the money,  
17 what did you get for it? Before I do programming for the  
18 next 5 years, how do I take that information back into the  
19 system? And this is moving accounting from being a note at  
20 the end that we send a report to somebody to -- and again,  
21 the audit report is just to somebody, but it's the data that  
22 produces it that can come back to the leadership in a usable  
23 format. And this is what private-sector companies are able  
24 to do, because they trust their data. And that's what we  
25 want to be able to get to from how you manage an entity.

1           Senator Perdue: Well, of all the people who come to  
2 the Hill and testify, I have to tell you, you have  
3 consistently been a straight shooter, and I so much  
4 appreciate that. Thanks for all you're doing over there.

5           Thank you, Mr. Chair, for --

6           Senator Sullivan: Thank you, Senator Perdue.

7           And I want to thank the Secretary, as well.

8           I want to thank my colleagues. You're looking -- three  
9 of the leaders in the Senate on these audit and budget  
10 issues for the Pentagon -- Senator Ernst, Senator Blackburn,  
11 Senator Perdue. So, thank you, to them.

12           And, you know, Mr. Secretary, you did raise the issue  
13 of the CR, and heard bipartisan concern here today, which I  
14 think is important, how you described it. There is a way to  
15 deal with it, which is to allow us to get on the Defense  
16 appropriations bill and have my colleagues on the other side  
17 stop filibustering from getting on that, and we can just  
18 vote on it. That would certainly help. That's what we're  
19 trying to do. So, to the bipartisan concern, there's a  
20 simple answer: Let's get on the bill and vote on the  
21 Defense approps bill that came out of the Appropriations  
22 Committee with a strong bipartisan support. But, we'll  
23 continue to press that. I certainly will.

24           Well, I want to thank you, again.

25           And members are requested to submit any additional

1 questions for the record by Friday at noon.

2 Mr. Secretary, I appreciate and respectfully ask that  
3 you promptly respond to any of these additional questions  
4 from any of the members of this committee.

5 With that, we are adjourned.

6 [Whereupon, at 10:49 a.m., the hearing was adjourned.]

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