

**Advance Policy Questions for Michael McCord**  
**Nominee to be Under Secretary of Defense (Comptroller)**

**Defense Reforms**

**The Goldwater-Nichols Department of Defense Reorganization Act of 1986 and the Special Operations reforms have strengthened the warfighting readiness of our Armed Forces. They have enhanced civilian control and clearly delineated the operational chain of command and the responsibilities and authorities of the combatant commanders, and the role of the Chairman of the Joint Chiefs of Staff. They have also clarified the responsibility of the Military Departments to recruit, organize, train, equip, and maintain forces for assignment to the combatant commanders.**

**Do you see the need for modifications of any Goldwater-Nichols Act provisions?**

Currently, I do not see the need for modifications. I believe the Goldwater-Nichols Act reforms have been and are effective and continue to serve us well. If confirmed, I will continue to assess any need to recommend changes to the Act.

**If so, what areas do you believe might be appropriate to address in these modifications?**

I do not believe any modifications are presently required.

**Relationships**

**What is your understanding of the relationship between the Under Secretary of Defense (Comptroller) and each of the following?**

**The Secretary of Defense**

The Under Secretary of Defense (Comptroller) is the principal assistant and advisor to the Secretary on fiscal and budgetary matters. If confirmed, I will continue to support the Secretary in any aspect of the responsibilities of the Comptroller that the Secretary may prescribe.

**The Deputy Secretary of Defense**

My relationship with the Deputy Secretary of Defense will be based on the role as described above. During my time as the Department's Deputy Comptroller, the Comptroller and I have worked closely with the Deputy Secretary on budget and management issues and I would expect that will continue. If confirmed, I would support the Deputy Secretary in any matter within the purview of the Comptroller that the Deputy Secretary may prescribe.

### **The other Under Secretaries of Defense**

If confirmed, I will continue to work closely with the Under Secretaries, to carry out the policies and guidance of the Secretary and Deputy Secretary.

### **The Assistant Secretaries of Defense**

My relationship with the Assistant Secretaries of Defense and other senior officials of the Office of the Secretary of Defense would be similar to that described above in relation to the other Under Secretaries of Defense. In most cases I would expect to deal with the Assistant Secretaries through the Under Secretaries to whom they report. In those cases where the Assistant Secretary reports directly to the Secretary, as is the case with the Assistant Secretary of Defense for Legislative Affairs, I would expect to continue the excellent direct working relationships that both I and the incumbent Comptroller have had.

### **The Chairman of the Joint Chiefs of Staff**

The Chairman of the Joint Chiefs of Staff is the principal military advisor to the President, the National Security Council, and the Secretary of Defense. If confirmed, I will continue to work closely with the Chairman and Vice Chairman of the Joint Chiefs of Staff, both directly and frequently through their Director for Force Structure, Resources, and Assessment on any matter pertaining to resourcing our forces and military operations and financial management.

### **The Secretaries of the Military Departments**

If confirmed, I will continue to work closely with the Secretaries of the Military Departments on a wide range of resource allocation, budget execution, and other financial management issues. I will ensure that they are aware of the President's and the Secretary of Defense's policies and priorities and assist them in implementing Departmental policies and programs as they may relate to their specific Services.

### **The heads of the defense agencies**

If confirmed, I will continue to work closely with the heads of the defense agencies in any matter pertaining to resources and financial management. I will ensure that they are aware of the President's and the Secretary of Defense's policies and priorities and assist them in implementing Departmental policies and programs as they may relate to the specific agency.

### **The Assistant Secretaries for Financial Management of the Military Departments**

The Department's Comptroller and I work very closely with the Assistant Secretaries for Financial Management of the military departments in the development and execution of budgetary matters, fiscal policy, and initiatives of the President and the Secretary of Defense. If confirmed, I will continue to work closely with the Assistant Secretaries in contributing to the successful development and implementation of effective DoD policies and programs and management of the defense budget.

### **The General Counsel of the Department of Defense**

The Office of the Under Secretary of Defense (Comptroller) works closely with the Department's Office of the General Counsel on a daily basis. I will, if confirmed, continue to consult and coordinate with the General Counsel on all legal matters, and specifically, matters related to fiscal and budgetary issues that may have legal implications.

### **The Inspector General**

If confirmed, I consider it my responsibility to support the Department of Defense Inspector General (DoDIG) in carrying out his or her duties as set forth in the Inspector General Act.

### **The Director, Office of Cost Assessment and Program Evaluation**

If confirmed, I will continue to coordinate and work closely with the Director for Cost, Assessment and Program Evaluation in meeting his or her duties and in providing advice, assessments, and options to the Secretary or Deputy Secretary. I will continue to work with the Director to ensure that a robust and successful program/budget review is conducted and that our programs are aligned with and managed in accordance with their guidance.

### **The Deputy Chief Management Officer**

If confirmed, I will continue to work to improve the management of the Department's complex operations and organization. In particular, I will work with the Deputy Chief Management Officer on monitoring the Department's progress on implementing efficiency measures directed by the President, the Secretary, and the Congress, and on improving the systems that provide management information, particularly financial management information, and the development of appropriate metrics in those areas.

### **The Director, Office of Management and Budget**

If confirmed, I will continue the near near-daily interaction with the Office of Management and Budget on the preparation and execution of the Department's budgets,

and the advancement of both the Administration's and the Department's management priorities.

### **The Comptroller General**

If confirmed, I will continue to review the recommendations of the Comptroller General and the Government Accountability Office regarding DoD financial matters and, as required, support actions to improve the Department's processes.

### **Duties of the Comptroller**

**The duties of the Comptroller of the Department of Defense are set forth in Section 135 of Title 10, United States Code, and in DOD Directive 5118.3. Among the duties prescribed in statute are advising and assisting the Secretary of Defense in supervising and directing the preparation of budget estimates of the Department of Defense, establishing and supervising Department of Defense accounting policies, and supervising the expenditure of Department of Defense funds.**

**Assuming you are confirmed, what duties do you expect that Secretary Hagel will prescribe for you?**

To provide the Secretary and Deputy Secretary expert and timely advice on all issues related to the budgetary and financial management of the Department.

To ensure that the men and women serving within the Department for their Nation, to include the members of our Armed Forces, our federal civilian employees and the contractors that support them, especially those engaged in overseas contingency operations, have the resources they need to meet national security objectives.

To ensure that funds are obligated and expended in accordance with laws and regulations that govern such funds and to exercise the fiduciary responsibilities vested in us by the American taxpayers to provide the best possible value for their tax dollars.

To be responsible for and accurately manage funds that have been authorized and appropriated to the Department by the Congress.

**What background and experience do you possess that you believe qualifies you to perform the duties of the Comptroller?**

I believe that my experience as the Principal Deputy Under Secretary of Defense (Comptroller) for the past five years demonstrates my qualification for this position. I am intimately familiar with the budgetary and financial issues that pertain to the Department.

Including my 5 years as the Department's Deputy Comptroller, I have over 29 years of experience in defense budget and financial management analysis. This includes:

21 years as a Professional Staff member of the Senate Armed Services Committee overseeing the DoD budget and providing expert analysis on issues such as funding overseas contingency operations, the fiscal impact of legislation, reprogramming of funds to meet emerging needs, questions of fiscal law and financial management, the analysis of alternative courses of action with respect to specific programs, and knowledge of the federal budget process.

Two years at the Congressional Budget Office analyzing military pay and benefits, including military retirement, and force structure costs.

Service on the staff of the House Budget Committee working topline funding issues pertaining to both defense and veterans issues, which enhances my understanding of benefit issues and the areas of interaction between the two Departments, as well as the analysis of the cost of contingency operations and the overall federal budget process.

**Do you believe that there are any steps that you need to take to enhance your expertise to perform these duties?**

Although I have been with the Department over the past five years as the Principal Under Secretary of Defense (Comptroller), the vast breadth of the Department's programs and policies require me to constantly enhance my expertise as they relate to the Department's budget and financial management issues.

**Do you expect Secretary Hagel to make any changes in the duties of the Comptroller as set out in DOD Directive 5118.3?**

There are several initiatives Secretary Hagel is implementing to reduce size and increase the efficiency of the Office of the Secretary of Defense. I believe it is possible roles and responsibilities within the Department of Defense may be modified once these initiatives are fully implemented, but at this time I do not anticipate any significant change in the duties of the Comptroller or our office or Defense agencies.

## **Chief Financial Officer**

**DOD Directive 5118.3 designates the Comptroller as the Chief Financial Officer of the Department of Defense.**

**Does Secretary Hagel intend to continue to designate you, if confirmed as the Comptroller, as the Chief Financial Officer of the Department of Defense?**

I have no information that Secretary Hagel would do otherwise if I am confirmed.

**If so, what would be your major responsibilities as Chief Financial Officer?**

As specified by DoD Directive 5118.03 dated April 20, 2012, the Chief Financial Officer shall:

Oversee all financial management activities relating to the programs and operations of DoD;

Oversee the development and maintenance of integrated DoD accounting and financial management systems, including financial reporting and management controls, which comply with law;

Direct, manage, and provide policy guidance and oversight of DoD financial management personnel, activities, and operations;

Monitor the financial execution of the DoD budget for actual obligations, expenditures, and costs incurred;

Review, the fees, royalties, rents, and other charges imposed by the DoD for services and things of value it provides and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.

## **Major Challenges**

**In your view, what are the major challenges confronting the next Under Secretary of Defense (Comptroller)/Chief Financial Officer?**

The Comptroller's major and recurring challenge is to prepare and manage defense budgets and work with the Congress to provide the Department the necessary resources to accomplish our national security objectives. Although the Department is transitioning from a wartime posture, it does so in an uncertain strategic environment. The Department will continue to require substantial resources to maintain the warfighting readiness of our Armed Forces, and to carry out a broad range of missions at the direction of the President and the Secretary of Defense on behalf of the nation.

Providing our operational commanders with the resources and flexibility they need to carry out their directed missions. As the world security situation continues to grow in complexity and move at increasing speeds, I am concerned that our current executive and legislative processes may not be agile enough to keep pace. I intend to work with the defense committees to seek the additional flexibility I believe we need to ensure that we can meet our nation's security needs in the 21<sup>st</sup> century, while respecting and preserving appropriate oversight on behalf of the taxpayers.

Continuing to improve our financial management and the financial information available to DoD managers, providing them with the information they need to help identify areas where they can help make defense spending as efficient as possible.

Maintaining a trained and capable financial management workforce in the face of significant challenges in recruiting, retaining, and training a skilled workforce in the face of the sequestration, hiring freezes, furloughs, and pay freezes the federal workforce has experienced over the last several years.

**If confirmed, what plans do you have for addressing these challenges?**

If confirmed, I will work closely with other senior officials in DoD, our Comptroller staff, the military departments and Defense agencies, the Office of Management and Budget, and Congress to develop policies to meet these challenges.

I will also provide my commitment, leadership, and support to our staff in the immediate office of the Comptroller, the Defense Finance and Accounting Service, and the Defense Contract Audit Agency in meeting these priorities.

I will ensure that we maintain our progress on the centerpiece of our financial management improvement efforts, which is achieving auditable financial statements.

An important part of our efforts to maintain or enhance the quality of our financial management workforce will be to continue the strong start we have made in implementing the course-based certification program for Defense financial managers that was authorized by Congress in the FY 2012 defense authorization bill.

**Authorization for National Defense Programs**

**Do you believe that an authorization pursuant to section 114 of Title 10, U.S. Code, is necessary before funds for operation and maintenance, procurement, research and development, and military construction may be made available for obligation by the Department of Defense?**

The Department is committed to work with the Armed Services and Appropriations committees to resolve any matter relating to the authorization or appropriation of the Department's activities. If confirmed, I will continue to respect the prerogatives of the Department's oversight committees, and will work closely with the committees to achieve a consensus necessary to meet our defense needs.

### **Contracting for Services**

**Over the last decade, DOD's spending on contract services has more than doubled. As a result, the Department now spends more for the purchase of services than it does for products (including major weapon systems). When he was USD(AT&L), former-Deputy Secretary of Defense Ashton Carter testified that "the low-hanging fruit really is [in contract services]. There's a lot of money. There has been a very, very high rate of growth over the last decade, in services. They have grown faster than everything else . . . So, there's a lot we can do. I think great savings can be had there, across the Services' spend. It's essential that we look there, because that's half the money."**

**Do you believe that the cuts made to contract services have fully addressed the issues of waste and inefficiency in this area, or are further reductions possible?**

The funding reductions the Department has already made in contract services are a good start. These reductions are the result of several initiatives undertaken across the Department. We have gained efficiencies by improving requirements definition, negotiating lower labor and overhead rates, increasing competition, improving our purchasing processes, and by aggressively reviewing services contracts. Further reductions are possible as we reduce the military force structure and continue to implement process and system improvements to actively manage contracted services.

**What additional steps would you take, if confirmed, to control the Department's spending on contract services?**

I support the efforts we are taking to improve our visibility into, and accountability for, contracted services. This improved data will help ensure appropriate utilization, cost effectiveness, and alignment to mission for contracted services and provide the information we need to target specific areas for improvement. We face the prospect of a prolonged period of constrained resources that will force us to continue to get the most bang for the buck in this area, among others.



## **Chief Management Officer**

**The positions of Chief Management Officer of the Department of Defense and Deputy Chief Management Officer of the Department of Defense were established by section 904 of the National Defense Authorization Act for Fiscal Year 2008. In accordance with section 904, the purpose of these new positions is to improve the overall efficiency and effectiveness of the business operations of the Department of Defense and to achieve an integrated management system for business support areas within the Department of Defense.**

**Do you believe that a comprehensive, integrated, enterprise-wide architecture and transition plan is essential to the successful transformation of DOD's business systems?**

Yes. The Department's Business Enterprise Architecture and the Enterprise Transition Plan are key elements in the successful modernization and integration of our business systems. They are critical in ensuring an interoperable business systems environment that effectively supports our business operations.

**Do you believe that the Department needs senior leadership from a Chief Management Officer and a Deputy Chief Management Officer to cut across stovepipes and ensure the implementation of a comprehensive, integrated, enterprise-wide architecture for its business systems?**

Yes. The Chief Management Officer and the Office of the Deputy Chief Management Officer play a vital and significant role within the Department. Responsible for looking holistically at the Department's business operations, they are able to bring a cross-functional, end-to-end perspective to the management of the Department's business operations.

**If confirmed, what role do you expect to play in working with the Chief Management Officer and the Deputy Chief Management Officer to improve the business operations of the Department of Defense?**

If confirmed, I will continue to work closely with the Chief Management Officer and Deputy Chief Management Officer, and the Under Secretaries of the Military Departments, in ensuring unified, standardized and integrated business processes and systems. Additionally, I will work closely with the Deputy Chief Management Officer as the co-chair of the Financial Improvement and Audit Readiness Governance Board to ensure we meet our financial improvement goals.

**What responsibilities, if any, that may have formerly been performed by the Comptroller do you believe have been, will be, or should be reassigned to the Chief Management Officer or the Deputy Chief Management Officer of the Department of Defense?**

During my time as the Department's Deputy Comptroller, the Department's first Deputy Chief Management Officer was confirmed. Our office worked with hers to reconcile and clarify our responsibilities and we updated our governing directives to that effect fairly recently. Therefore I do not believe that any further changes are required, but if confirmed, I will assess the roles and responsibilities of the Office of the Comptroller and make recommendations for any changes required.

## **Audit Readiness**

**Former-Secretary Panetta stated: "While we have reasonable controls over much of our budgetary information, it is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less."**

### **What is your understanding of the efforts and progress that have been made in DOD toward the goal of being able to produce a clean audit?**

DoD is making real progress toward a clean audit. The large trust funds for retiree benefits and the revolving funds for several Defense Agencies have received positive audit results. The U.S. Army Corps of Engineers earned a clean audit opinion, as did the U.S. Marine Corps' Schedule of Budgetary Activity.

There is, however, a substantial amount of work still to do, including efforts to address some of the most challenging problems. Under the leadership of our Comptroller, Robert Hale, the Department implemented a new strategy to achieve a clean audit that focuses improvement efforts on the financial information most used to manage, and that strategy is yielding very positive results throughout DOD. We expect most of the Department to undergo a financial audit of the Schedule of Budgetary Activity in FY 2015. If confirmed, I will pursue appropriate actions to ensure continued progress toward meeting clean audit goals.

### **Do you believe the Department will meet the statutory goal and achieve an auditable Statement of Budgetary Resources by the end of fiscal year 2014 or are additional steps necessary? If so, what are those steps?**

The Department is making steady progress toward achieving a clean audit opinion. We intend to validate our audit readiness for budgetary accounts by the end of FY 2014. Using the Marine Corps model, this will allow us to begin an audit of the Schedule of Budgetary Activities during FY 2015. This represents a crucial step towards an auditable Statement of Budgetary Resources. While it is too soon to know for sure, I expect most budget statements to be audit ready. For those elements that are not ready, appropriate actions will be taken to achieve this state at the earliest possible opportunity. If

confirmed, I will ensure that we clearly communicate our status in our regular status reports and staff briefings.

**Do you believe the Department will meet the statutory goal and achieve an auditable financial statement by the end of fiscal year 2017 or are additional steps needed? If so, what are those steps?**

I believe that we have made significant progress and, if confirmed, I will continue the current approach that has supported this progress. We are committed to achieving audit readiness for all aspects of our business by the end of fiscal year 2017, supporting an audit of all required financial statements during FY 2018 as described in this year's defense authorization bill. I believe that we are on track to meet this commitment, and if confirmed, I will ensure that we sustain this effort. While much work remains, we have a clear understanding of the breadth of work that is required.

**Do you believe the Department meets the statutory goal “to ensure a full audit is performed on the financial statements of the Department of Defense...” for Fiscal Year 2018 and that audit will be completed by September 30, 2018, or are additional steps needed? If so what are those steps?**

We are committed to performing a full scope financial audit of the entire Department in FY 2018. Based on experience within DoD as well as in non-defense agencies, this initial full scope audit will likely continue well into FY 2019.

**Do you believe the Department will meet the statutory goal to submit to Congress the results of the audit to be completed by September 30, 2018, or are additional steps needed? If so, what are those steps?**

The results from our initial FY 2018 full-scope audit will be submitted by the DoD Inspector General when audit work is completed in FY 2019. While I am hopeful those results will be positive, experience of other federal agencies as well as our own experience in auditing the Marine Corps and other entities, is that achieving an unqualified opinion the first year under audit is rare.

**Do you believe in order to meet the statutory goal to conduct a full audit that the Department will have to place a monetary value on all of its property?**

Yes, under current Government audit standards, the Department will need to value all of its property that is above the appropriate capitalization thresholds. Depending on the type of property, this information may not always be useful. Current accounting standards allow us some flexibility to minimize the cost of valuing property, particularly when this information is not used.

**Do you believe that the Department can achieve a clean audit opinion through better accounting and auditing, or is the systematic improvement of the Department's business systems and processes a prerequisite?**

Strengthening the Department's business systems and processes has been and is essential to achieving audit readiness. This includes timely and accurate accounting. The business operations of the Department are complex, often decentralized and not necessarily set up to support audit standards. We have found that we can achieve audit readiness by emphasizing controls in our existing systems, but sustaining audit readiness and supporting cost effective audits will require us to continue to improve and modernize our business systems and processes so that they can be relied upon by financial auditors.

**When do you believe the Department can achieve a clean audit?**

We expect most of the Department's components to be prepared to undergo an audit of the Schedule of Budgetary Activity during FY 2015. Using the Marine Corps experience and considering relative size, we anticipate clean audits for these smaller audits within several years. Building on this foundation, I believe the entire Department should be ready to undergo a full scope financial audit beginning in FY 2018. Experience of other federal agencies as well as our own experience in auditing the Marine Corps and other entities, is that achieving a clean opinion can take several years.

**The FIAR Plan**

**The Department's Financial Improvement and Audit Readiness (FIAR) plan is organized into five waves that focus on audit readiness of the Statement of Budgetary Resources (SBR) (waves 1 and 2), the existence and completeness of assets (wave 3), and a full financial statement audit (waves 4 and 5).**

To provide clarification, the Department's Financial Improvement and Audit Readiness (FIAR) plan is organized into four waves that focus on audit readiness of Appropriations Received and the Statement of Budgetary Resources (SBR) (waves 1 and 2, respectively), the existence and completeness of mission-critical assets (wave 3), and a full financial statement audit (wave 4).

**If confirmed, what steps, if any, would you take to ensure the implementation of specific detailed plans for achieving a full audit through waves 4 and 5?**

The Department is very close to completing the required work on the first 2 waves and is on track to complete Wave 3 (Existence and Completeness of property) by June of 2016. Because of our intense focus on audit readiness of budgetary accounts, we have just provided the initial guidance for developing detailed plans for Wave 4—full financial statement audit. If confirmed I will ensure that these plans are completed and executed

across the Department. Our progress on the auditability of our budgetary execution will provide the transaction-based foundation for full statement audits.

**What is your understanding of the roles and responsibilities of the military-department Chief Management Officers (CMOs) in implementing the FIAR plan through their individual financial improvement plans (FIPs)?**

One of the key roles the Under Secretaries of the Military Departments, as CMOs, play in their organizations is integrating and coordinating efforts between the functional communities (e.g., Logistics or Personnel) to improve their business operations. This is particularly true when it comes to financial improvement. The Military Department CMOs ensure that all parts of the organization recognize their vital role in achieving audit readiness, since most financial transactions originate as the result of business events in the functional communities' operations, and work together to implement their FIPs. Additionally, the Military Department DCMOs sit on the FIAR Governance Board to help the Department maintain effective governance of the audit readiness process.

**What steps, if any, do you believe are needed to clarify those roles and responsibilities?**

I believe that the role of the Military Department CMOs is clear. As the Under Secretaries of their organizations, they have the authority and responsibility necessary to ensure progress in implementing their FIPs and hold their functional communities, including the financial management community, accountable.

**Do you believe that performance measurement and monitoring mechanisms need to be improved?**

Our current ability to link financial information to other measures of performance is not as robust as it should be. As part of our business systems modernization effort, we are improving our capability in this area.

**If confirmed, what steps would you take to sustain the commitment of the Department's top leadership to the long-term goal of transforming the Department's financial management?**

Secretary Hagel has made improving financial information and audit readiness a Department-wide, all-hands responsibility, and if confirmed, I will do everything I can to support his leadership on this issue. I believe DoD leaders understand that audit success supports mission success and have embraced the need to transform financial management. We have made great progress in helping those outside the financial community understand how stronger controls will also improve the quality of their financial information and enhance their decision-making ability. I think we have made substantial progress in all aspects of financial management to include sustaining a professional work force through a strong certification program.

**Do you think that having the Deputy Secretary of Defense “dual-hatted” as the CMO is consistent with the prioritization and sustained day-to-day focus needed for the success of the Department’s financial improvement efforts?**

Yes. Dual-hatting the Deputy Secretary of Defense as the CMO is a critical component in ensuring that the Department’s financial improvement efforts are both sustained over time and given the priority needed to be successful. The seniority and cross-cutting nature of the position of CMO/Deputy Secretary of Defense ensures that financial improvement issues can be elevated to a position with the authority necessary to drive change across all Components within the Defense enterprise.

### **Incremental Funding vs. Full Funding**

**Do you believe the Department of Defense should continue to adhere to the long-standing practice of fully funding the purchases of major capital assets, including ships and aircraft, in the year the decision to purchase the asset is made, or do you believe incremental funding of such purchases is justified in some cases?**

I agree with the longstanding Office of Management and Budget policy on fully funding end items in one fiscal year. However, there are circumstances where incremental funding of large assets, such as nuclear aircraft carriers and complex military construction facilities, which often take several fiscal years to complete, can be appropriate. In these limited situations, and with proper management oversight, incremental funding would not lead to inefficient delivery of the item being financed over two or more fiscal years. Such decisions should be made on a case-by-case basis after careful analysis.

**If you believe a change in policy is warranted, please explain how you believe such changes would benefit the Department and the taxpayer.**

Currently, I do not see the need for a change in policy, or a need for new legislation. The use of incremental funding for Procurement and Military Construction projects should be limited, and justified case-by-case.

### **FY15 Investment Fund**

**It has been reported that the Department’s FY15 budget request will include an outline of how it would spend an additional \$26 billion above the FY15 discretionary limit set in the Bipartisan Budget Act (BBA). The reports describe the additional \$26 billion as an “investment fund.”**

**How was this wedge of additional spending created? That is, was the wedge created after the FY15 program was drafted or was the FY15 program drafted at a higher level and then program budgets reduced so the Department's budget would conform to the discretionary cap in the BBA?**

I cannot discuss the specifics of the FY 2015 budget request at this time. The Administration will release the budget on March 4, 2014. The Department has sought to prepare a budget that meets the President's strategic national security guidance within the FY2015 discretionary spending limits in the BBA. Given the uncertainty of the fiscal climate difficult choices will have to be made.

**How does the wedge differ from the Secretary of Defense-screened compilation of the Services "Unfunded Priority Lists" of prior years?**

As noted above, I cannot provide details on the FY 2015 budget request at this time.

### **Budgeting Beyond FY15**

**It has been reported that DOD budget projections in the out-years (beyond FY15) may exceed the BCA caps currently in law.**

**What are the principal risks and possible consequences facing the Department in basing its FY15 program on the assumption that out-year budgets will exceed the current out-year BCA caps?**

I cannot comment on the FY 2015 budget request at this time. The Department is very concerned about our ability to execute the Defense Strategy if constrained to budgets at the BCA cap levels over the long term, so there is a risk associated with reducing our forces and capabilities down to that level. There is a different kind of risk in building a program that more fully supports our strategy but requires additional resources, should those additional resources not be provided.

### **Sequester and Readiness**

**The FY13 sequester reduced DOD's funding by \$37 billion. The Services were directed to minimize FY13 sequester impacts on readiness.**

**What steps did the Department take to protect readiness?**

The Department did what it could to protect readiness, and sought to protect training and other key readiness enablers to the extent we could given the discretion we have in our operations and maintenance accounts. However, given the across-the-board formulaic nature of sequestration and the sheer mathematical imperative to cut \$37 billion in less

than a full fiscal year, we were not able to completely protect readiness. The primary step we took to protect readiness was to shield our operations in and in support of Afghanistan from sequestration to the maximum extent possible by shifting those burdens to the rest of the force where possible.

The FY 2013 sequester resulted in significant reductions to training events, including fewer rotations through the National Training Center, significant reductions in flying hours, and decreases in Navy operations. The Department made sure to support our deployed forces and ensured our next-to-deploy units were ready to go. Due to increased costs being experienced in Afghanistan, the Department had to reprogram significant funds, with the strong support of our defense committees, to ensure support to the deployed troops was adequately funded.

Sequestration resulted in substantial reductions in both facility and equipment maintenance activities. Hiring freezes and travel limitations were imposed. Most troubling to us was the necessity to furlough a large portion of our civilian work force, which could have long-term as well as short-term impacts on our readiness and capability.

The Department accommodated the sequestration funding limitations in part by deferring some requirements from FY 2013 to FY 2014. Our hope is the funding made available in the FY 2014 Consolidated Appropriations Act will enable a gradual recovery from the readiness degradation experienced in FY 2013.

**Within the operation and maintenance accounts, what steps were taken to protect operating accounts and activities?**

Given the formulaic nature of sequestration, there is very little the Department could do to protect any of the accounts. In the operating accounts, priority was given to supporting deployed forces, treating wounded warriors, and sustaining family support programs. Beyond those activities, reductions in virtually all other operating account-funded activities such as peacetime training, facilities maintenance, depot maintenance, and base operations had to be implemented in order to accommodate the sequestration funding reductions.

**The Ryan/Murray Bipartisan Budget-Conference Agreement reduced the impact of sequester on Defense by \$22 billion in FY14 and \$9 billion in FY15. As a result, the Department remains subject over \$30 billion in cuts in FY14 and \$45 billion in cuts in FY15. Under these constraints, how does the Department intend to continue to take steps to protect readiness?**

The additional \$22 billion above the Budget Control Act cap level of funding provided in the Consolidated Appropriations Act for FY 2014 does provide an opportunity to begin a limited recovery from the readiness problems in FY 2013. While our FY 2014 budget was not built to recover from a sequester we did not anticipate in FY 2013, the services



and other components will use that topline relief provided by the Bipartisan Budget Act to recover readiness where possible. However, readiness is a function of time and available trained personnel and other factors beyond funding, so there will still be continued challenges to achieve the level of training required to improve readiness. Priority will continue to be given to supporting deployed forces and taking care of our wounded warriors.

The Department will also continue the implementation of efficiencies where possible to reduce support costs. The Department appreciates the additional funding that was provided and will seek to maintain readiness at the highest possible level.

**Does the Department intend to protect readiness in its base budget request or does it intend to request readiness resources through an additional “investment fund” request that lies outside of the prescribed BCA caps?**

The Department seeks to fund our essential readiness activities in our base budget. Because there are so many activities that enable readiness directly or indirectly, not all of which can be fully funded given constrained resources, it will probably always be possible to enhance readiness through additional investments if additional resources can be provided.

## **Strategic Reviews**

**What is your understanding and evaluation of the DOD’s processes for strategic assessment, analysis, decision making, and reporting for each of the following strategic reviews?**

**The Quadrennial Defense Review (QDR) (section 118 of title 10, United States Code);**

The QDR is required by law and asks the Department to take a long-term look at the Defense Strategy and related issues. It is important that the Department periodically conduct an intensive review and assessment of the future national security environment and highlight the required priorities. The QDR is an important tool to inform the critical decisions that need to be made concerning future resource levels.

**The National Military Strategy (section 153 of title 10, United States Code);**

Section 153 directs the Chairman of the Joint Chiefs of Staff to assist the President and Secretary of Defense in assessing the strategic and military risks in executing missions under the National Military Strategy (NMS). It is extremely important for the civilian leadership of the Department to get the best military advice possible on the military force’s ability meet the goals and objectives addressed in our strategy.

**Global Defense Posture Review (section 2687a of title 10, United States Code);**

The Global Defense Posture Review provides an analysis and recommendations concerning the current global defense posture strategy and the status of key overseas posture realignments. The current Asia-Pacific pivot has engendered an intensive look at the changes needed to realign our global posture to the new priorities. My view is that this review, led primarily by the Under Secretary of Defense (Policy) and the Chairman of the Joint Chiefs of Staff, provides a disciplined way to focus reviews of this nature and can be used to inform future resource decisions.

**The Quadrennial Roles and Missions Review (section 118b of title 10, United States Code).**

The QRM is required by law and the next one is due in 2016. The Department is in a very dynamic situation. As we complete the mission in Afghanistan and adjust to the current fiscal climate, I think it will be important to assess future roles and missions. The QRM provides an opportunity to assess the impact of the on-going changes and what they mean for the roles and missions of all the Services. That said, as Comptroller I would not expect to be directly involved in this review.

**If confirmed, what recommendations would you make, if any, to change title 10, United States Code, that would update, improve, or make these reviews more useful to the Department and to Congress?**

We are in a period of enormous strategic uncertainty and fiscal pressure. We should use all the tools available to inform the difficult decisions that will need to be made over the next few years. The Department's leadership appreciates the need to conduct robust reviews to inform our decisions. I do not think any statutory changes are needed at this time to assist us in these efforts.

**If confirmed, what recommendations would you make, if any, to improve DOD's processes for strategic assessment, analysis, policy formulation, and decision making relative to each review above?**

Given the dynamic world security situation and our constrained and uncertain funding situation, the Department of Defense needs to periodically re-evaluate our plans, our program, and our budgets to meet our evolving challenges. Because we have to carry out so many essential missions for the nation and have so many stakeholders, it is a complex and difficult process to revise our strategy, plans, and resource decisions. We will need a combination of all the above reviews, and more, to arrive at informed decisions going forward. If confirmed, I will work with all the Defense communities to ensure we make fact-based decisions in an inclusive, participatory manner.

**The law requires the QDR to identify the budget plan that would be required to provide sufficient resources to execute successfully the full range of missions called for in that national defense strategy at a low-to-moderate level of risk, and any additional resources (beyond those programmed in the current future-years defense program) required to achieve such a level of risk. The law also requires the QDR to make recommendations that are not constrained to comply with and are fully independent of the budget submitted to Congress by the President.**

**What is your understanding and assessment of the Department's QDR analysis and decision making processes to address these two requirements?**

The QDR should do an assessment of all the factors impacting the national security strategy and outline a program that allows us to best meet our multiple goals with acceptable risk. I will provide my resource-informed advice and counsel in the development of the QDR.

**In your view, is there analytical and/or practical value in a defense strategy that is unconstrained by or independent of the current budget request or fiscal environment?**

The Defense Department must be mindful of fiscal realities. It would not be useful to develop a national military strategy that is unaffordable. Like any other enterprise, the Department must be realistic in its assessment of available resources.

### **Funding for Overseas Contingency Operations in FY14**

**The FY14 Consolidated Appropriations Act provided \$160 billion for base operation and maintenance funding which was \$15 billion below the request. The Act funded slightly more than \$9 billion of the base O&M request with OCO appropriations. In total, net of all changes, the Act provided \$68 billion for OCO O&M which was \$6 billion above the request.**

**Did the realignment of funding comport with OMB criteria for what constitutes an OCO item?**

The FY 2014 Consolidated Appropriations Act did fund readiness-related activities in the Overseas Contingency Operations budget. The Department will use this funding to begin the recovery from the readiness reductions experienced in FY 2013. I am not aware of an OMB assessment of this Act for compliance with existing criteria.

**Did the realignment of funds from base to OCO distort actual base requirements?**

The realignment of funds will make it more difficult to make year-to-year comparisons. The need to reduce funding by approximately \$30 billion below our FY 2014 request

level due to the BCA caps, as amended by the BBA, and the uncertainty and late enactment of those changes, constituted the major difference between our request and final enacted appropriations.

### **Future Funding for Overseas Contingency Operations**

**With the end of a U.S. military role in Iraq, and the forthcoming end to U.S. combat operations in Afghanistan, when do you anticipate it will be possible to end the requirement for a separate budget request for overseas contingency operations?**

The future of our separate overseas contingency operations (OCO) budget can and should be examined once the timing and circumstances of our enduring presence in Afghanistan becomes clear. Sufficient funding needs to be provided until all forces have redeployed from the theater and the retrograde of the equipment is complete. The Department has also emphasized that it will take at least 2-3 years subsequent to the end of major combat operations to repair and replace the equipment degraded, damaged, or destroyed as a result of combat operations. The OCO budgets have gone down significantly in recent years, but we must be cautious not to end funding prematurely before the mission is complete in all its phases.

### **Phasing of Military Construction Projects**

**In some cases, the Department has proposed phasing, as opposed to incrementing, some large military construction projects over multiple fiscal years even when each distinct phase does not satisfy the overall requirement of the Department. For example, the Army has proposed construction of a Command and Control Facility at Fort Shafter, Hawaii, over five distinct phases. It has been shown that phasing large military construction projects, rather than requesting a single authorization for the complete facility and then seeking incremental authorization of appropriations over multiple fiscal years, can result cost growth of 10 percent or more if all phases are executed independently.**

**Do you believe phasing, as opposed to incrementing, large military construction projects is appropriate? If so, when?**

It is the Administration's policy that military construction projects should normally be fully funded. I am supportive of the policy. Phasing requires that each phase of a large military construction effort be a complete and usable segment of the facility. When those segments have different time sensitivities, phasing can help the Department to better balance competing critical requirements by not tying up limited budgetary resources ahead of the actual need for a segment. For example, in the case of the Command and Control Facility at Fort Shafter, Hawaii, the military construction effort replaces over 10

separate World War II facilities, which are dispersed across the installation. The personnel occupying those dispersed, aging facilities will move into the newly constructed segments as they are completed, while continuing operations.

**Do you believe phasing of large military construction projects can be justified even when it results in cost growth for the complete facility? If so, how?**

The phasing of a military construction effort allows more flexibility to respond to any changes to the requirement over time, provides more flexibility to future Administrations to address their priorities, and provides more opportunity for oversight by the Department and the Congressional Committees. That said, our policy is to fully fund our construction projects unless there is a compelling reason to do otherwise.

While the full funding of military construction projects is the Administration's policy, as previously noted, there is an exception process to also allow for incremental funding of projects that have a very high cost and demonstrated major national security impact. Sometimes, incrementally funding a project can be a better fit for very large, complex military construction efforts or when the project is time sensitive, as incrementally funded projects are not subject to new start prohibitions under a continuing resolution and can continue with little or no disruption. For example, the Department is incrementally funding a very large and complex hospital replacement project at Landstuhl, Germany.

### **Base Realignment and Closure**

**The Department of Defense has requested another Base Realignment and Closure (BRAC) round.**

**Do you believe another BRAC round is necessary? If so, why?**

Yes. It has been nearly a decade since the last base closure round in 2005, and much has changed in that time. Furthermore, the funding caps in the Budget Control Act of 2011 mean the Department faces a period of constrained resources through at least 2021. Decreasing budgets mean force structure reductions are needed, which is a primary reason why we must eliminate excess infrastructure to avoid wasting resources maintaining unnecessary facilities – resources that that could be much better spent on readiness and modernization.

**It has been noted repeatedly that the 2005 BRAC round resulted in major and unanticipated implementation costs and saved far less money than originally estimated.**

The 2005 BRAC round was an anomaly – the only round conducted while our force structure was growing. It focused on transformation, jointness, and relocating forces from overseas to the United States. Additionally, during the implementation phase, Congress added extra requirements to medical facilities that added to the program cost.

**What is your understanding of why such cost growth and lower realized savings have occurred?**

There were two types of BRAC in 2005: a “Transformation” BRAC that had implementation costs of \$29 billion and resulted in a small portion of the savings, and an “Efficiency” BRAC that cost \$6 billion and had an annual payback of \$3 billion, accounting for most of the \$4 billion total recurring savings from that round. The movement of Army brigades from Europe to the United States in that round is an example of a transformation move that had substantial costs.

**How do you believe such issues could be addressed in a future BRAC round?**

Our intent is to conduct a future BRAC round similar to the 1993 or 1995 rounds in which DoD cut excess capacity and achieved a relatively quick payback.

**Repeal of COLA Reduction for Certain Military Pensions**

**The Bipartisan Budget Act included a provision that reduces the cost of living adjustment (COLA) made annually to military retired pay to 1 percent below the annual rise in the Consumer Price Index for working-age military retirees. The Consolidated Appropriations Act amended that provision to exclude disability retirees and their survivors. Deputy Secretary Fox and Admiral Winnefeld testified that the Services will save \$500 million per year in their discretionary budgets owing to reduced contributions to the Military Retirement Fund as a result of this change.**

**Will the Services realize any of these savings in 2014?**

No. The actuarial valuation and determination processes detailed in Chapter 74 of Title 10 U.S.C., do not allow for adjustments to the normal cost contribution accrual percentages after the start of a fiscal year (FY). Therefore, since the Bipartisan Budget Act was not enacted prior to the start of FY 2014, the earliest adjustments to the Department's normal cost contribution accrual rates can be made is at the beginning of FY 2015.

**If Congress were to repeal the COLA reduction for working age military retirees but desire to retain the discretionary budget savings the reduction affords, would the security caps under the Budget Control Act have to be raised by \$500 million per year?**

If Congress repealed the COLA reduction for working age military retirees, the Department would have to fund an additional \$500 million contribution to the Military

Retirement Fund. These funds would have to come from other DoD programs to remain within the BBA cap unless Congress provided relief from that cap.

**Would repealing the COLA reduction affect the additional budget authority provided by the Bipartisan Budget Act to the Department for fiscal years 2014 and 2015?**

If the COLA reduction were simply repealed, the BBA caps would be unaffected. However, the Department would lose the accrual savings described above and thus have fewer resources available to devote to other needs within the BBA caps.

**Rising Costs of Medical Care**

**The President's Budget Request for the Department's Unified Medical Program has grown from \$19 billion in fiscal year 2001 to \$49.4 billion in fiscal year 2014. In recent years, the Department has attempted to address this growth through fee increases for military retirees, while also attempting to identify and implement other means to ensure the viability of the military health system in the future.**

**What is your assessment of the long-term impact of rising medical costs on future Department of Defense plans?**

Health care consumes nearly 10% of the Department's budget and could grow considerably over the next decade, putting even more pressure on our ability to invest in enhanced war fighting capability. I realize the healthcare benefit is a key component of retention for our men and women, so I will continue to work closely with other senior military and civilian leaders in the Department to find reasonable and responsible ways to stem this growth.

**What additional cost saving measures has the Department considered other than raising enrollment fees and pharmacy co-pays?**

Controlling health care costs is a priority for the Department. A continual emphasis is placed on achieving savings and efficiencies within the operational environment of the Military Health System (MHS). This has been a success story, with roughly \$3 billion in savings per year achieved through programs like Federal Ceiling Pricing (a discount drug program), implementing the Outpatient Prospective Payment system (a transition to more favorable Medicare rates for private hospitals), medical supply chain optimization and standardization, and increased efforts to detect fraud, waste, and abuse from fraudulent providers and institutions.

## **Congressional Oversight**

**In order to exercise its legislative and oversight responsibilities, it is important that this Committee and other appropriate committees of the Congress are able to receive testimony, briefings, and other communications of information.**

**Do you agree, if confirmed for this high position, to appear before this Committee and other appropriate committees of the Congress?**

Yes.

**Do you agree, if confirmed, to appear before this Committee, or designated members of this Committee, and provide information, subject to appropriate and necessary security protection, with respect to your responsibilities as the Under Secretary of Defense (Comptroller)?**

Yes.

**Do you agree to ensure that testimony, briefings and other communications of information are provided to this Committee and its staff and other appropriate Committees?**

Yes.

**Do you agree to provide documents, including copies of electronic forms of communication, in a timely manner when requested by a duly constituted Committee, or to consult with the Committee regarding the basis of any good faith delay or denial in providing such documents?**

Yes.