

**SECRETARY OF DEFENSE LEON E. PANETTA
OPENING STATEMENT
HOUSE ARMED SERVICES COMMITTEE
THURSDAY, OCTOBER 13, 2011**

Chairman McKeon, Congressman Smith, members of this committee, it is an honor for me to appear before you for the first time as Secretary of Defense. I'd also like to join you in recognizing General Dempsey, a brilliant soldier and leader who I'm delighted to have alongside me in his new capacity as Chairman of the Joint Chiefs of Staff.

On behalf of the men and women of the Department of Defense, I want to thank the members of this committee for your determination to join me in doing everything possible to ensure that they succeed in their mission of protecting America. I really do believe that Congress must be a full partner in our efforts to protect the country. In that spirit, I've had the opportunity to consult with many of you about the challenges that the Department faces, and I will continue to do so.

I'd also like to thank you for convening this series of hearings on "The Future of National Defense and the U.S. Military Ten Years After 9/11," and for giving me the opportunity to be here today to add my perspective to this discussion.

September 11th was a defining moment for our country, and for the military. We have been at war for ten years, putting a heavy burden on our men and women in uniform to defend our nation and our interests. More than 6,200 have given their lives, and more than 46,000 have been wounded, in the wars since 9/11. The conflicts have brought untold stresses and strains on our service members, and on their families. But despite it all, we have built the finest, most-experienced, battle-hardened all-volunteer force in our nation's history.

These ten years of conflict have transformed the military, with our men and women in uniform showing their adaptability and versatility in the face of a new combination of threats and operating environments. Our forces have become more lethal, and more capable of conducting effective counterterrorism and counterinsurgency operations. New or enhanced capabilities, including the growth of special operations forces, unmanned aerial systems, counter-IED technologies, and the extraordinary fusion between military and intelligence, have provided the key tools we need to succeed on these 21st century battlefields. And make no mistake, we are succeeding. Ten years after 9/11, we have significantly rolled back al-Qaeda and are closer than ever to achieving our strategic objectives in Afghanistan and Iraq, although significant challenges remain to ensuring stability and security in these conflict zones.

These conflicts are nearing a turning point – and so too is the military as a whole. As the current mission in Iraq ends, as we continue to transition security responsibility in Afghanistan, and as we near our goal of dismantling al-Qaeda, the Department is also facing a new fiscal reality at home. As part of the debt ceiling agreement reached in August, the Department must find more than \$450 billion in savings over the next decade. Our challenge is taking a force that has been involved in a decade of war, and ensuring that we build the military we need to defend our country for the next decade even at a time of fiscal austerity.

We have a strong military, but one that has been stressed by a decade of fighting, squeezed by rising personnel costs, and is in need of modernization given the focus the past decade on capabilities for the current wars. Meanwhile, we face an international security environment that is growing in complexity and uncertainty. We continue to deal with the threat of violent extremism. States like Iran and North Korea continue to pursue nuclear capabilities.

Rising powers are rapidly modernizing their militaries and investing in capabilities to deny our forces freedom of action in vital regions such as the Asia-Pacific. We also face the prospect of cyber attackers who could inflict great damage on our nation's infrastructure while operating with relative anonymity and distance.

We need to build a force that can confront this growing array of threats even as we meet our fiscal responsibilities. We should also recognize, however, that the military has to constantly adapt to meet changing security demands and threats – and that is what we will continue to do even in the face of serious budget constraints. That will require setting clear strategic priorities, and making tough decisions. Working closely with the Service Chiefs, Service Secretaries and Combatant Commanders, I intend to make these decisions based on the following guidelines:

- First, we must maintain the very best military in the world – a force capable of deterring conflict, projecting power, and winning wars. After all, America has a special role in the world – we are looked to for our leadership, values and strength.
- Second, we must avoid a hollow force and maintain a military that, even if smaller, will be ready, agile and deployable.
- Third, we must take a balanced approach and look to all areas of the budget for potential savings – from efficiencies that trim duplication and bureaucratic overhead, to improving competition and management in operating and investment programs, to tightening personnel costs, and re-evaluating modernization efforts.
- Finally, we cannot break faith with our men and women in uniform – the all volunteer force is central to a strong military and central to our nation's future.

If we follow these four principles, I'm confident that we can meet our national security responsibilities and do our part to help this country get its fiscal house in order. This will not be achieved without making difficult choices, but those choices are essential if we are not to hollow out the force and meet the threats we confront.

To achieve the required budget savings, the Department also must work even harder to overhaul the way it does business, and an essential part of this effort will be improving the quality of financial information and moving towards auditable financial statements. Today DoD is one of only two major agencies that has never had a clean audit opinion on its financial statements. While the Department's systems do tell us where we are spending taxpayer funds, we do not yet have the details and controls necessary to pass an audit. This is inexcusable and must change. In order to achieve fiscal discipline, we need to have the strongest possible financial controls in place.

The Department has made significant progress toward meeting the Congressional deadline for audit ready financial statements by 2017, with a focus on first improving the categories of information that are most relevant to managing the budget. But I want us to do better – and we will.

Today I am announcing that I have directed the Department to cut in half the time it will take to achieve audit readiness for the Statement of Budgetary Resources, so that in 2014 we will have the ability to conduct a full budget audit. This focused approach prioritizes the information that we use in managing the Department, and will give our financial managers the key tools they need to track spending, identify waste, and improve the way the Pentagon does business as soon as possible.

I have also directed increased emphasis on accountability and a full review of the Department's financial controls, with improvements put in place where needed. I have directed the DoD Comptroller to revise the current plan within 60 days to meet these new goals, and still

achieve the requirement of overall audit readiness by 2017. We owe it to the taxpayers to be transparent and accountable for how we spend their dollars, and under this plan we will move closer to fulfilling that responsibility.

The Department is changing the way it does business and taking on a significant share of our country's efforts to achieve fiscal discipline. We will do so while building the agile, deployable force we need to confront the wide range of threats we face. But I want to close by cautioning strongly against further cuts to defense, particularly with the mechanism that's been built into the debt ceiling agreement called sequester. This mechanism would force additional cuts to defense of about \$500 billion, or roughly \$1 trillion in total – cuts that in my view would do catastrophic damage to our military, hollowing out the force and degrading its ability to protect the country. I know you share my concern about both the extent of such cuts and the process of sequester. It is a blind formula that makes cuts across the board, hampers our ability to align resources with strategy, and risks hollowing out the force.

I do not believe we have to make a choice between fiscal security and national security. But in order to succeed in this effort, I am going to need your support – to do everything possible to prevent further damaging cuts, and to help us implement a coherent strategy-driven program and budget that we will identify in the months ahead as critical to preserving the best military in the world. I pledge to continue to work with you closely as we confront these challenges and thank you once again for your tireless efforts to build a stronger military for our country.

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