

Amendment #3111

Importance of Audit the Pentagon Act – Talking Points

This bill, the Audit the Pentagon Act, is intended to sharpen the teeth of the Appropriations and Accountability Clause in the Constitution, Article 1, Section 9, Clause 7, which says,

“No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and **a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.**”

The Constitution gives the power of the purse to Congress, and it does so with a clear and absolute prohibition on spending - “No Money” unless Congress acts and an all-encompassing requirement for accountability - “all public Money” shall be accounted for. **This is Congress’s most important check on the executive branch in the Constitution’s entire scheme of checks and balances.**¹ Congress cannot know that the executive branch is obeying the first part of the appropriations clause (spending) of the Constitution without confidence in the second (accountability).

Failure by the Pentagon to comply with existing federal financial management laws is against the very spirit of the Constitution – our Founding Fathers demanded that those spending taxpayer dollars are accountable to taxpayers.

The Pentagon’s financial management problems are intimately related to the problems of waste at the Pentagon. Currently program managers, Congressional members and staff, and senior leadership at the Pentagon cannot consistently and reliably identify what their programs are now costing, will cost in the future, or even what they really cost in the past.

Unreliable financial management information makes it impossible to link the consequences of past decisions to the defense budget now before Congress. It is not possible to measure whether or not the internal activities of the Defense Department are meeting the military requirements set for it.

We in Congress see the result of this mismanagement in the dozens of Government Accountability Office reports and Department of Defense Inspector General reports that come out each year. In fact, the Government Accountability Office (GAO) has designated the Department of Defense as “**high risk**” for fraud and said that DOD cannot ensure basic accountability of taxpayer funds **every year since 1995. This is why the Audit the Pentagon bill is needed today.**

Department of Defense Inspector General and GAO Findings

In a depressing and little-noticed report, the Defense Department Inspector General reported the following in its “Summary of DOD Office of the Inspector General Audits of Financial Management:”²

- The financial management systems DOD has put in place to control and monitor the money flow “**prevent DOD from collecting and reporting financial information ... that is accurate, reliable, and timely.**”
- **DOD frequently enters “unsupported” amounts in its books** and uses those imaginary figures to make the books balance. Inventory records are not reviewed and adjusted; unreliable and inaccurate data are used to report inventories, and **purchases are made based on those distorted inventory reports.**
- **DOD managers do not know how much money is in their accounts at the Treasury, nor when they spend more than Congress appropriates to them. Nor does DOD “record, report, collect, and reconcile” funds received from other agencies or the public, and DOD tracks neither buyer nor seller amounts when conducting transactions with other agencies.**
- “The cost and depreciation of the DOD general property, plant, and equipment are not reliably reportedthe value of DOD property and material in the possession of contractors is not reliably reported.”
- **DOD does not know for sure who owes it money, nor how much.**

Past efforts to try to get the Pentagon to do the right thing by passing laws with no teeth has not worked. The Pentagon ignores the laws and then suffers no consequences.

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Waste at the Pentagon and throughout the Department of Defense

These recent examples are not from the 1980s with the \$500 hammer and toilet seat. **They are from an Inspector General report last year:**

- The Army paid \$644 for a spur gear that cost Defense Logistics Agency \$12.
- The Army paid over \$1600 for a roller assembly that cost the Defense Logistics Agency \$7.
- The Army spent hundreds of millions on spare parts that were sitting unused in the Department of Defense's inventory.³
- The Department of Defense is spending billions trying to upgrade its legacy financial systems with new commercial systems. The very systems that are supposed to help with cost overruns are themselves suffering from cost overruns to the tune of \$8 billion and 12 years of schedule delays!⁴

Who suffers when the Department of Defense can't get its financial systems to work? **In some cases, the troops defending our nation do.**

A recent hearing and audit showed that the Army can't reliably provide documentation on the accuracy of its payroll for soldiers based on the older legacy financial IT systems. **A retired Army soldier testified at the joint hearing on how "pay problems are considered a normal part of Army life"** and described how he had problems with pay throughout his 28 years of service to our **nation including filling out tax paperwork in a warzone because of the Army's financial systems.**

The witness from the Government Accountability Office stated that these issues are not unique to the Army and occur in the Navy and Air Force too.

Another symptom of the poor financial management at the Department of Defense is that as the defense budget has grown over time, our forces have shrunk. Former Secretary of Defense Robert Gates noted in a recent speech that current naval ships are three times as expensive as their equivalents during the 1980s and we have fewer of them.⁵

The Government Accountability Office (GAO) found that cost growth from 2001 to 2011 in major weapon systems amounted to over \$300 billion.

Our current Secretary of Defense Leon Panetta knows that this is a problem. In a memo to virtually the entire Pentagon he said that in order to streamline overhead, eliminate waste, and improve our business practices, **“we must improve financial information and move toward auditable financial statements.”**

Secretary Panetta agrees that the Pentagon must audit the Pentagon to “comply with the law, and to reassure the public that we are good stewards of their funds.”

Why? the reason is simple; the Pentagon doesn't know how it spends its money. In a strict financial accountability sense, it doesn't even know if the money is spent. This incomprehensible condition has been documented in hundreds of reports over three decades from both the Government Accountability Office (GAO) and the Department's own Inspector General (DOD IG).

Unlike every other major federal department, the Pentagon continues to fail at their requirement and responsibility to report to Congress and the American people that it can show where the hundreds of billions of dollars of taxpayer money goes.

This is why the Audit the Pentagon Act is needed today!

Short Summary/Most important parts of Audit the Pentagon

- Findings: Unlike the rest of the federal government, the Department of Defense has never fully complied with several laws on financial management.
- There is finally an incentive in the law for the Pentagon for meeting its audit schedule and getting a clean audit opinion
 - Pentagon will have increased authority to reprogram funds without congressional approval. (notification is still required)
 - Pentagon will have some report requirements ended and will tell Congress which reports are obsolete now that it has to do with regard to financial management
- There are consequences for military services that fail to follow the law
 - No new major weapon system can progress past research and development
 - Creation of a Chief Management Officer empowered to fix the Pentagon's finances and IT problems
 - Defense Finance and Accounting Service is transferred to Treasury – who does payments for the rest of the federal government

¹ Corwin, Edward, The Constitution and What It Means Today, 14th Edition, October 1, 1978, page 134.

² <http://www.dodig.mil/audit/reports/fy10/10-002.pdf>.

³ DOD IG Report of Boeing Spare Parts Contracts (May 2011)

⁴ DOD IG Report: Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DOD's Auditability Goals, July 13, 2012, <http://www.dodig.mil/Audit/reports/fy12/DODIG-2012-111.pdf>.

⁵ Gates, Robert, "Navy League Sea-Air Space Exposition, Remarks as Delivered", Gaylord Convention Center, National Harbor, Maryland, Monday May 3, 2010, <http://www.defense.gov/speeches/speech.aspx?speechid=1460>.