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(Original Signature of Member)

115TH CONGRESS
1ST SESSION

H. R. _____

To reduce by one-half of one percent the discretionary budget authority of the Department of Defense for a fiscal year if the financial statement of the Department of Defense for the previous fiscal year does not receive a qualified or unqualified audit opinion by an external independent auditor, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Ms. LEE introduced the following bill; which was referred to the Committee
on _____

A BILL

To reduce by one-half of one percent the discretionary budget authority of the Department of Defense for a fiscal year if the financial statement of the Department of Defense for the previous fiscal year does not receive a qualified or unqualified audit opinion by an external independent auditor, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Audit the Pentagon
3 Act of 2017”.

4 **SEC. 2. PURPOSES.**

5 The purposes of this Act are as follows:

6 (1) To strengthen American national security
7 by ensuring that—

8 (A) military planning, operations, weapons
9 development, and a long-term national security
10 strategy are connected to sound financial con-
11 trols; and

12 (B) defense dollars are spent efficiently.

13 (2) To instill a culture of accountability at the
14 Department of Defense that supports the vast ma-
15 jority of dedicated members of the Armed Forces
16 and civilian employees of the Department who want
17 to ensure proper accounting and prevent waste,
18 fraud, and abuse.

19 **SEC. 3. FINDINGS.**

20 Congress finds the following:

21 (1) The 2016 Financial Report of the United
22 States Government found that, the Department of
23 Defense again had a disclaimer because it lacked
24 any auditable reporting or accounting available for
25 independent review. The Department of Defense is

1 the only covered major agency that has always had
2 such disclaimers and has never had a clean audit.

3 (2) The financial management of the Depart-
4 ment of Defense has been on the “High-Risk” list
5 of the Government Accountability Office (GAO)
6 since 1995 because it has never achieved an unquali-
7 fied audit opinion. The GAO’s 2015 High Risk Re-
8 port found that “The Department of Defense
9 (DOD) is responsible for more than half of the fed-
10 eral government’s discretionary spending. Significant
11 financial and related business management systems
12 and control weaknesses have adversely affected
13 DOD’s ability to control costs; ensure basic account-
14 ability; anticipate future costs and claims on the
15 budget; measure performance; maintain funds con-
16 trol; prevent and detect fraud, waste, and abuse; ad-
17 dress pressing management issues; and prepare
18 auditable financial statements. Without accurate,
19 timely, and useful financial information, DOD is se-
20 verely hampered in making sound decisions affecting
21 the department’s operations.”.

22 (3) At a September 2010 hearing of the Senate,
23 the Government Accountability Office stated that
24 past expenditures by the Department of Defense of
25 \$5,800,000,000 to improve financial information,

1 and billions of dollars more of anticipated expendi-
2 tures on new information technology systems for
3 that purpose, may not suffice to achieve full audit
4 readiness of the financial statement of the Depart-
5 ment.

6 (4) Section 9 of article I of the Constitution of
7 the United States requires all agencies of the Fed-
8 eral Government, including the Department of De-
9 fense, to publish “a regular statement and account
10 of the receipts and expenditures of all public
11 money”.

12 (5) Section 303(d) of the Chief Financial Offi-
13 cers Act of 1990 (Public Law 101–576) required
14 that financial statements be prepared and independ-
15 ently audited for the Department of the Army by
16 March 31, 1992, and for the Department of the Air
17 Force by March 31, 1993. Neither the Department
18 of the Army nor the Department of the Air Force
19 has complied.

20 (6) Section 3515 of title 31, United States
21 Code, originally required the agencies of the Federal
22 Government, including the Department of Defense,
23 to present auditable financial statements beginning
24 not later than March 1, 1997. The Department of
25 Defense has not complied with this law.

1 (7) The Federal Financial Management Im-
2 provement Act of 1996 (31 U.S.C. 3512 note) re-
3 quires financial systems acquired by the Federal
4 Government, including the Department of Defense,
5 to be able to provide information to leaders to man-
6 age and control the cost of government. The Depart-
7 ment has not complied with this law.

8 (8) In 2005, the Department of Defense cre-
9 ated a Financial Improvement and Audit Readiness
10 (FIAR) Plan, overseen by a directorate within the
11 office of the Under Secretary of Defense (Comp-
12 troller), to improve Department business processes
13 with the goal of producing timely, reliable, and accu-
14 rate financial information that could generate an
15 audit-ready annual financial statement.

16 (9) Then Secretary of Defense Ashton Carter
17 said in a statement to the Defense Subcommittee of
18 the Committee on Appropriations of the House of
19 Representatives on February 25, 2016 “I cannot ask
20 for more taxpayer dollars for defense without being
21 candid about the fact that not every defense dollar
22 is spent as wisely or responsibly as it could be, and
23 also being determined to change that and make our
24 department more accountable.”.

1 (10) Then Secretary of Defense Robert M.
2 Gates said in a speech on May 24, 2011: “The cur-
3 rent apparatus for managing people and money
4 across the DoD enterprise is woefully inadequate.
5 The agencies, field activities, joint headquarters, and
6 support staff functions of the department operate as
7 a semi-feudal system--an amalgam of fiefdoms with-
8 out centralized mechanisms to allocate resources,
9 track expenditures, and measure results relative to
10 the department’s overall priorities.”.

11 (11) The accounting problems of the Depart-
12 ment of Defense result in widespread errors in pay
13 that can be difficult to correct. Such payroll errors
14 can impose hardship on members of the Armed
15 Forces and their families.

16 **SEC. 4. DEPARTMENT OF DEFENSE SPENDING REDUC-**
17 **TIONS IN ABSENCE OF SUBMITTED FINAN-**
18 **CIAL STATEMENTS OR FAILURE TO ACHIEVE**
19 **UNQUALIFIED OR QUALIFIED INDEPENDENT**
20 **AUDIT OPINION.**

21 (a) DEFINITIONS.—In this section:

22 (1) The terms “financial statement” and “ex-
23 ternal independent auditor” have the meanings given
24 those terms in section 3521(e) of title 31, United
25 States Code.

1 (2) The term “qualified”, with respect to the
2 audit status of a financial statement, includes the
3 characterization modified.

4 (3) The term “unqualified”, with respect to the
5 audit status of a financial statement, includes the
6 characterizations clean and unmodified.

7 (b) REDUCTION TO ENCOURAGE FINANCIAL AC-
8 COUNTABILITY.—If, by March 2 of a fiscal year, the De-
9 partment of Defense has not submitted a financial state-
10 ment for the previous fiscal year, or if, by such date, such
11 financial statement has been submitted but has not re-
12 ceived either an unqualified or a qualified audit opinion
13 by an independent external auditor, the discretionary
14 budget authority available for the Department of Defense
15 shall be reduced by .5 percent.

16 (c) APPLICATION OF REDUCTION.—Consistent with
17 applicable laws, the Secretary of Defense shall apply any
18 reduction under subsection (b)—

19 (1) proportionately to each Department of De-
20 fense account (other than an account listed in sub-
21 section (e) or an account for which a waiver is made
22 under subsection (f)); and

23 (2) in a manner that minimizes any adverse ef-
24 fect on national security.

1 (d) DEFICIT REDUCTION.—An amount equal to the
2 total amount of any reduction under subsection (b) shall
3 be retained in the general fund of the Treasury for the
4 purposes of deficit reduction.

5 (e) ACCOUNTS EXCLUDED.—The following accounts
6 are excluded from any reductions under subsection (b):

7 (1) Military personnel, reserve personnel, and
8 National Guard personnel accounts of the Depart-
9 ment of Defense.

10 (2) The Defense Health Program account of
11 the Department of Defense.

12 (f) WAIVER.—The President may waive subsection
13 (b) with respect to an account if the President certifies
14 that applying the subsection to that account would harm
15 national security or members of the Armed Forces who
16 are deployed in combat zones.

17 (g) REPORT.—Not later than 60 days after a reduc-
18 tion takes effect under subsection (c), the Director of the
19 Office of Management and Budget shall submit to Con-
20 gress a report specifying each Department of Defense sub-
21 ject to reduction and the amount of the reduction.

22 **SEC. 5. REPORT ON DEPARTMENT OF DEFENSE REPORT-**
23 **ING REQUIREMENTS.**

24 Not later than 180 days after the date of the enact-
25 ment of this Act, the Under Secretary of Defense (Comp-

1 troller) shall submit to Congress a report setting forth a
2 list of each report of the Department of Defense required
3 by law to be submitted to Congress which, in the opinion
4 of the Under Secretary, interferes with the capacity of the
5 Department to achieve an audit of the financial state-
6 ments of the Department with an unqualified opinion.

7 **SEC. 6. SENSE OF CONGRESS.**

8 It is the sense of Congress that—

9 (1) as the overall defense budget is cut, con-
10 gressional defense committees and the Department
11 of Defense should not endanger the Armed Forces
12 by reducing wounded warrior accounts or vital pro-
13 tection (such as body armor) for members of the
14 Armed Forces serving in harm's way;

15 (2) the valuation of legacy assets by the De-
16 partment of Defense should be simplified without
17 compromising essential controls or generally accept-
18 ed government auditing standards; and

19 (3) nothing in this Act should be construed to
20 require or permit the declassification of accounting
21 details about classified defense programs, and, as re-
22 quired by law, the Department of Defense should en-
23 sure financial accountability in such programs using
24 proven practices, including using auditors with secu-
25 rity clearances.