"Beyond the Budget: Addressing Financial Accountability in the Department of Defense"
Committee on Oversight and Accountability
Thursday, July 13, 2023
Rep. Gerald E. Connolly (VA-11)

The Department of Defense (DOD) operates a vast budget, for example, it spent more on travel in 2022 ($8.7 billion) than the entire budget of the Legislative Branch ($7.7 billion); however, it has also historically eluded meaningful oversight. While the DOD's mission is to "ensure our nation's security," the agency cannot do so at the cost of fully neglecting its responsibility to be transparent and accountable to the taxpayers who fund its capabilities.

In fiscal year (FY) 1996, Congress began requiring agencies that qualified pursuant to the Chief Financial Officers Act, including the DOD, to prepare annual agency-wide financial statements and have the agency's affiliated Office of Inspector General (OIG) audit those statements. The DOD, however, did not assert audit readiness because it failed to have the necessary financial management systems and processes to prepare reliable financial statements to fully comply with this requirement until FY 2018. Since then, the DOD has been audited every year since and has yet to pass once – that's five consecutive audits which showed very little improvement over time. Furthermore, the Department estimates it will not be able to pass an audit until 2028 at the earliest.

In comparison to every other federal department which has satisfied audit requirements since 2013, at least three of the last five of the DOD audits resulted in a "Disclaimer of Opinion." This finding means that the auditors were unable to access enough accounting records to form an assessment. In March 2023, the Government Accountability Office (GAO) confirmed the DOD's business and financial systems were key impediments to achieving a successful audit. Achieving audibility requires both modernized legacy information technology (IT) and a shift in culture surrounding accountability. Furthermore, exemptions for the DOD from accountability measures, such as Federal Information Technology Acquisition Reform Act (FITARA) oversight, sit at the nexus of both these problems standing in the way of a clean audit.

To address the DOD's audit issue, Congress must modernize the DOD's IT legacy systems and data reliability and recruit an agile workforce. Modernization will address issues such as misreported assets, unreliable financial data, and decades old legacy systems unprepared to meet the needs of the 21st century. Furthermore, the DOD must ensure it is staffed with the skills and capabilities to support the DOD's modernized financial management systems. In March 2023, GAO recommended that the DOD take a more strategic approach to workforce planning, such as ensuring the appropriate mix of federal and contract workers with skills to support each financial management system and integrating automated processes to reduce tedious manual tasks. Hand in hand, these changes can result in cost savings and allow personnel to focus on more complex activities necessary for achieving a clean audit.

Lastly, Congress must also hold the DOD accountable to create and implement cultural and institutional changes. While the DOD has often sought oversight exemption for security reasons, this Committee can not turn a blind eye to its operations. Both ends can be balanced correctly and responsibly. As the Ranking Member of the Cybersecurity, Information Technology, and Government Innovation Subcommittee I am committed to this imperative. The Subcommittee must hold its sixteenth consecutive FITARA hearing to carry on our legacy of federal IT oversight. The Scorecard publicly holds the DOD accountable to completing a number of GAO recommendations including improving risk management of federal IT assets, employing incremental development to implement its financial management systems or

modernizing its critical legacy accounting systems, and raising up the Chief Information Officer to a level of authority so they can communicate as a peer to the Chief Financial Officer. Furthermore, the DOD's failed audits call into question as to whether the DOD is rightfully exempt from several FITARA statutes. While auditability is important, IT is what undergirds everything and makes things work. Modernized IT, supported by leadership, not only fixes issues but prevents the creation of future problems.