

United States Senate  
WASHINGTON, DC 20510

August 22, 2024

**VIA ELECTRONIC TRANSMISSION**

The Honorable Lloyd Austin  
Secretary  
U.S. Department of Defense

Dear Secretary Austin:

Department of Defense (DOD) spending comprises nearly half of the federal government's discretionary spending and its physical assets make up over 70 percent of the government's physical assets.<sup>1</sup> In FY 2024, President Biden requested \$842 billion for defense spending in his annual budget. Of that amount, \$58.5 billion was for information technology (IT), including DOD financial systems.<sup>2</sup> Although the Secretary of Defense is statutorily required to complete annual oversight and certifications for all defense business systems,<sup>3</sup> and despite these vast resources, DOD remains the only major agency that has never accurately tracked or reported its finances or physical assets.<sup>4</sup> This failure is unacceptable, unlawful, and undermines the intent of the Chief Financial Officers Act of 1990 (CFO Act), the Federal Financial Management Improvement Act of 1996 (FFMIA), and a Constitutional responsibility to provide a regular accounting of public expenditures.<sup>5</sup>

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<sup>1</sup> Government Accountability Office, *FINANCIAL MANAGEMENT – DOD Needs to Improve System Oversight* (GAO-23-104539), at 7 (Mar. 7, 2023), <https://www.gao.gov/assets/d23104539.pdf>.

<sup>2</sup> Statement, Lloyd J. Austin, Secretary of Defense, Department of Defense Releases the President's Fiscal Year 2024 Defense Budget (Mar. 13, 2023), <https://www.defense.gov/News/Releases/Release/Article/3326875/department-of-defense-releases-the-presidents-fiscal-year-2024-defense-budget>; *see also* Ryan Nelson, *Where DoD IT priorities remain as the second half of fiscal 2024 begins*, WASHINGTON TECHNOLOGY (Apr. 19, 2024) <https://www.washingtontechnology.com/opinion/2024/04/where-dod-it-priorities-remain-second-half-fiscal-2024begins/395911/#:~:text=The%20DoD's%20requested%20Information%20Technology,approximately%207percent%20of%20its%20resources>; *see also* *Id.* at 6 (DOD financial systems are comprised of financial management, human resource management, logistics, supply chain management, property management, and acquisition management systems).

<sup>3</sup> 10 U.S.C. § 2222 (In order to proceed into development, the Secretary of Defense must certify defense business systems (including financial systems) meet the following five criteria: "(1) Business process reengineering, (2) Business enterprise architecture, (3) Requirements plan, (4) Acquisition strategy, and (5) Auditability.").

<sup>4</sup> *Supra* note 1 at 7, 16 (These recommendations are related to "(1) improving business systems acquisition management, (2) improving business systems investment management, and (3) leveraging DOD's federated business enterprise architecture.").

<sup>5</sup> 31 U.S.C. §§ 901-903, Pub. L. No. 101-576 (1990), 104 Stat. 2842; 31 U.S.C. § 3512, Pub. L. No. 104-208 (1996), 110 Stat. 3009-314, 3009-389 (The CFO Act calls for the modernization of federal financial management systems so that agencies can generate auditable financial statements and the FFMIA built on these requirements.); U.S. Const. art. I, § 9, cl. 7.

Specifically, on March 7, 2023, the Government Accountability Office (GAO) published a report titled, *FINANCIAL MANAGEMENT – DOD Needs to Improve System Oversight*, in which it reported DOD systems have ineffective processes, controls, and monitoring.<sup>6</sup> GAO stated that DOD’s business systems, “remain a key impediment to the department’s efforts to achieve a clean audit opinion.”<sup>7</sup> The report also found that portions of DOD’s modernization efforts do “little to make meaningful improvements” and DOD’s failure to implement statutory requirements is “limiting its efforts” to achieve more efficient systems.<sup>8</sup>

DOD guidance and lack of leadership is reportedly part of the problem. Specifically, GAO reported DOD does not have fully developed guidance or reliable data for its financial systems.<sup>9</sup> Further, DOD guidance does not describe how systems can demonstrate, or decision makers can certify, compliance with statutory requirements.<sup>10</sup> Instead, GAO found DOD has excluded over half its financial systems from meeting these statutory requirements.<sup>11</sup> GAO also noted that DOD data on financial systems was “internally inconsistent or missing.”<sup>12</sup> For example, it noted nine systems improperly classified as “legacy systems” and 58 systems improperly exempted from auditing requirements.<sup>13</sup> GAO concluded that a lack of sustained DOD leadership has hindered the department’s ability to exercise consistent oversight over its financial systems.<sup>14</sup>

Additionally, GAO identified the DOD lacks a trained workforce in budget and accounting management.<sup>15</sup> While DOD has taken steps to improve its workforce, GAO found the department lacks a strategic approach to workforce planning.<sup>16</sup> Alarmingly, DOD does not assess the skills needed to execute programs, inventory knowledge of existing staff, or forecast knowledge and skills needed over time.<sup>17</sup> According to GAO, until DOD remedies these issues, it likely will not have sufficient information to assess and cultivate its workforce needs.<sup>18</sup>

While the GAO’s report is recent and highlights current shortcomings, DOD’s failure in this arena is not new. According to GAO, DOD’s financial systems have long been “overly

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<sup>6</sup> *Supra* note 1 at 7.

<sup>7</sup> *Id.* at 45.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 21.

<sup>10</sup> *Id.* at 10; see *Defense Business Systems Investment Management Guidance, Version 4.1*, DEPARTMENT OF DEFENSE (June 26, 2018),

<https://dam.defense.gov/Portals/47/Documents/Governance/Defense%20Business%20Systems%20Investment%20Management%20Process%20Guidance,%20Version%204.1.pdf>.

<sup>11</sup> *Supra* note 1 at 29-30.

<sup>12</sup> *Id.* at 33.

<sup>13</sup> *Id.* at 33.

<sup>14</sup> *Id.* at 37.

<sup>15</sup> *Id.* at 38.

<sup>16</sup> *Id.* at 41.

<sup>17</sup> *Id.* at 42.

<sup>18</sup> *Id.* at 44-45.

complex and error prone.”<sup>19</sup> In fact, since 1995, GAO has placed DOD financial management on its “High Risk List” and issued at least 309 recommendations on this matter.<sup>20</sup> For nearly four decades, I’ve raised concerns regarding DOD’s wasteful spending practices and outdated, ineffective financial management systems.<sup>21</sup> In the 1990s and 2000s, I pressed DOD on its wasteful spending of toilet seats and misuse of Pentagon-issued credit cards.<sup>22</sup> On November 3, 2015, I wrote to DOD regarding wasteful spending after it spent over \$42 million to build one gas station in Afghanistan.<sup>23</sup> I also wrote to GAO on July 12, 2018, and requested an independent review regarding why DOD has failed to acquire modern financial IT systems and for several years investigated TransDigm’s price gouging at the taxpayers’ expense.<sup>24</sup> More recently, on April 22, 2024, I wrote a letter to DOD raising concerns regarding the use of Government Purchase Cards (GPCs) during COVID-19, which resulted in millions of dollars in purchases being incorrectly classified as COVID-19 expenses.<sup>25</sup> However, after these many years and inquiries, DOD has failed to do its job to ensure taxpayer money isn’t subject to waste, fraud, and abuse.

Throwing more taxpayer dollars at this issue will not solve the problem. Since the passage of the CFO Act, DOD has poured billions of dollars each year into improving its FM

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<sup>19</sup> *Id.* at 7. (Systems are not standardized across departments and multiple systems are used to perform the same tasks).

<sup>20</sup> *Id.*; see also Government Accountability Office, *HIGH RISK SERIES – Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP), at 142 (March 2, 2021), <https://www.gao.gov/assets/gao-21-119sp.pdf>.

<sup>21</sup> *Air Force Cost for Toilet Cover is Criticized*, L.A. TIMES (July 27, 1990), <https://www.latimes.com/archives/la-xpm-1990-07-27-fi-875-story.html>; Press Release, Sen. Charles E. Grassley, Grassley Continues Fight Against Abuse of Pentagon-Issued Credit Cards (Mar. 12, 2002), <https://www.grassley.senate.gov/news/news-releases/grassley-continues-fight-against-abuse-pentagon-issued-credit-cards>; Press Release, Sen. Charles E. Grassley, Grassley Presses Defense Secretary On \$43 Million Gas Station In Afghanistan (Nov. 3, 2015), <https://www.grassley.senate.gov/news/news-releases/grassley-presses-defense-secretary-43-million-gas-station-afghanistan>; Press Release, Sen. Charles E. Grassley, Grassley Receives Response From GAO on DOD Mismanagement (Sept. 30, 2020), <https://www.grassley.senate.gov/news/news-releases/grassley-receives-response-gao-DOD-financial-mismanagement>.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> Letter from Sen. Michael B. Enzi, Chairman, Senate Budget Committee, Sen. Bernard Sanders, Ranking Member, Senate Budget Committee, Sen. Charles E. Grassley, and Sen. Ron Wyden, to the Honorable Gene L. Dodaro, Comptroller General of the United States (July 12, 2018), <https://www.grassley.senate.gov/imo/media/doc/Financial%20IT%20Systems%20Study%20Letter.pdf>; see also Press Release, Sen. Chuck Grassley, *Grassley Receives Response From GAO On DOD Financial Mismanagement* (Sept. 30, 2020), <https://www.grassley.senate.gov/news/news-releases/grassley-receives-response-gao-DOD-financial-mismanagement>; see also Press Release, Sen. Chuck Grassley, *Grassley Presses Acting Secretary of Defense on Price Gouging at Pentagon* (May 15, 2019), <https://www.grassley.senate.gov/news/news-releases/grassley-presses-acting-secretary-defense-price-gouging-pentagon>; see also Press Release, Sen. Chuck Grassley, *Grassley Continues Pushing DOD for Answers on TransDigm Contracts* (Oct. 7, 2019), <https://www.grassley.senate.gov/news/news-releases/grassley-continues-pushing-dod-answers-transdigm-contracts>.

<sup>25</sup> Letter from Sen. Charles E. Grassley, Ranking Member, Senate Budget Committee, to the Honorable Lloyd J. Austin III, Secretary, Department of Defense (April 22, 2024), <https://www.grassley.senate.gov/news/news-releases/grassley-to-the-pentagon-these-kinds-of-purchases-are-a-slap-in-the-face-to-the-taxpayer>.

systems.<sup>26</sup> However, DOD has failed to use this investment to produce a sufficient accounting.<sup>27</sup> This is a leadership problem, not a funding problem.

As a result of the March 2023 report, GAO made nine recommendations, seven of which DOD concurred with and two DOD partially concurred with.<sup>28</sup> As of the date of this letter, according to GAO all recommendations remain open.<sup>29</sup> It is crucial that DOD implement these recommendations to achieve a more efficient financial system and clean audit opinion. Accordingly, please answer the following questions no later than September 5, 2024:

1. What steps has DOD taken, or plans to take, to close the open recommendations from the March 7, 2023, GAO Report? Provide all records.<sup>30</sup>
2. What is the greatest challenge DOD currently faces in its effort to modernize its financial management systems and achieve a clean audit opinion?
3. When does DOD project it will have the capacity to achieve a clean audit opinion?
4. What alternatives or additions did DOD consider, or is it currently considering, to its financial management plan?<sup>31</sup>
5. Has DOD considered a fresh approach for bringing accounting systems up to required legal standards? Has DOD considered the assembly of a team of experts from private industry and the government to design a modern, fully integrated DoD-wide system that would be capable of producing clean audit opinions in the near term? If not, why not?
6. Has DOD considered relying on outside expertise to modernize its financial management systems or achieve a clean audit opinion? Would integration with outside services or providers improve DOD financial systems? Provide all records.

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<sup>26</sup> See Government Accountability Office, *DOD Financial Management: Improving Systems Planning and Oversight Could Improve Auditability* (GAO-23-106817) (Sept. 12. 2023), <https://www.gao.gov/assets/gao-23-106817.pdf>.

<sup>27</sup> *Id.*

<sup>28</sup> *Supra* note 1 at 46-47.

<sup>29</sup> *Supra* note 1, <https://www.gao.gov/products/gao-23-104539#:~:text=Effective%20oversight%20of%20systems%20is%20essential%20to%20moving,quality%20information%2C%20sustaining%20leadership%20commitment%2C%20and%20managing%20risk> (DOD has partially addressed three of the recommendations).

<sup>30</sup> “Records” include any written, recorded, or graphic material of any kind, including letters, memoranda, reports, notes, electronic data (emails, email attachments, and any other electronically created or stored information), calendar entries, inter-office communications, meeting minutes, phone/voice mail or recordings/records of verbal communications, and drafts (whether they resulted in final documents).

<sup>31</sup> See Department of Defense, *Financial Management Strategy FY 22-26*, DEPARTMENT OF DEFENSE, [https://comptroller.defense.gov/Portals/45/Documents/DODFMStrategy/DOD\\_FM\\_Strategy.pdf](https://comptroller.defense.gov/Portals/45/Documents/DODFMStrategy/DOD_FM_Strategy.pdf).

7. What specific steps is DOD taking to hiring a sufficient and capable accounting workforce?

Thank you for your prompt review and responses. If you have any questions, please contact Tucker Akin on my Committee staff at (202) 224-0642.

Sincerely,



Charles E. Grassley  
Ranking Member  
Committee on the Budget