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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

July 25, 2025

VIA ELECTRONIC TRANSMISSION

Ms. Bryn Woollacott MacDonnell
 Performing the Duties of the Under Secretary of Defense (Comptroller)
 Department of Defense

Dear Ms. MacDonnell

For years, I've raised concerns about the inability of the Department of Defense (DOD) and military services to earn clean opinions on annual financial audits.¹ So far, just one of the military services, the United States Marine Corps, has succeeded and did so only through brute force manual labor.²

The DOD's audit record is disgraceful and unacceptable. This issue has persisted for decades and undermines the integrity of federal financial reporting.³ Aggressive oversight and corrective action are mandatory now.

Pursuant to the *Chief Financial Officers (CFO) Act of 1990*, the DOD is required to produce auditable financial statements annually, implement strong internal controls, acquire integrated systems, and ensure accountability and transparency for all its expenditures.⁴ Despite being subject to the *CFO Act* for over three decades, the DOD remains the only major federal agency that has yet to receive a clean opinion.⁵ It is ignoring the law and doesn't seem to care.

The DOD's unblemished string of audit failures was manifested once again on November 15, 2024, when it earned its seventh consecutive audit failure since it undertook its first full financial audit in 2018.⁶ According to reports, the DOD was unable to account for its annual budget of \$824 billion.⁷ Further, in its

¹ Letter from Sen. Chuck Grassley to Sec'y of Def. Chuck Hagel, *Re: Defense Finance and Accounting Service Inspector General Report* (Nov. 20, 2013), <https://www.grassley.senate.gov/imo/media/doc/Defense-Oversight-11-21-13-letter-to-Hagel-Rymer-on-DFAS-IG-Report.pdf>; Press Release, Sen. Chuck Grassley, *Grassley Reports Possible Audit Misconduct at Defense Department* (Nov. 22, 2013), <https://www.grassley.senate.gov/news/news-releases/grassley-reports-possible-audit-misconduct-defense-department>; Press Release, Sens. Bernie Sanders, Chuck Grassley & Ron Wyden, *Sander's Grassley and Wyden Decry Pentagon's Wasteful Spending and Inability to Pass an Audit* (Mar. 7, 2023), <https://www.grassley.senate.gov/news/news-releases/sanders-grassley-and-wyden-decry-pentagons-wasteful-spending-and-inability-to-pass-an-audit>; Letter from Sen. Chuck Grassley to Sec'y of Def. Lloyd Austin, *Re: Financial Management Systems and Audits* (Aug. 22, 2024), https://www.grassley.senate.gov/imo/media/doc/grassley_to_dod_-_financial_management_systems_and_audits.pdf; Press Release, Sen. Chuck Grassley, *Grassley "Raises Cain" over the Pentagon's Long-Time Financial Mismanagement* (Jan. 30, 2025), <https://www.grassley.senate.gov/news/remarks/grassley-raises-cain-over-the-pentagons-long-time-financial-mismanagement>.

² Jen Judson, *Marine Corps Passes Second Straight Audit as Other Services Lag Behind*, Defense News (Feb. 4, 2025), <https://www.defensenews.com/naval/2025/02/04/marine-corps-passes-second-straight-audit-as-other-services-lag-behind>.

³ U.S. Dep't of Def., Off. of Inspector Gen., *Understanding the Results of the Audit of the FY 2024 DOD Financial Statements* at 23 (Feb. 28, 2025), <https://oversight.house.gov/wp-content/uploads/2025/04/DoD-OIG-Report-Part-1-Understanding-the-Results-of-the-Audit-of-the-FY-2024-DoD-Financial-Statements.pdf>; House Comm. on Oversight & Accountability, Subcomm. on Government Operations, *Hearing Wrap Up: DOD Must Obtain Clean Audit to Protect Taxpayer Dollars, Ensure Military Readiness* (April 29, 2025), <https://oversight.house.gov/release/hearing-wrap-up-dod-must-obtain-clean-audit-to-protect-taxpayer-dollars-ensure-military-readiness/#:~:text=However%2C%20as%20of%20fiscal%20year,financial%20management%20and%20system%20weaknesses.%E2%80%9D>.

⁴ Chief Financial Officers Act of 1990, Pub.L. 101-576, Nov. 15, 1990, 104 Stat. 2838 (1990), including Section 902.

⁵ U.S. Dep't of Def., Off. of Inspector Gen., *Understanding the Results of the Audit of the FY 2024 DOD Financial Statements* at 23 (Feb. 28, 2025), <https://oversight.house.gov/wp-content/uploads/2025/04/DoD-OIG-Report-Part-1-Understanding-the-Results-of-the-Audit-of-the-FY-2024-DoD-Financial-Statements.pdf>; U.S. Gov't Accountability Off., *DOD Financial Management: Efforts to Address Auditability and Systems Challenges need to Continue*, (GAO-23-106941) (July 13, 2023), <https://www.gao.gov/products/gao-23-106941>.

⁶ U.S. Dep't of Def., Off. of Inspector General, *Understanding the Results of the Audit of the FY 2024 DOD Financial Statements* at 23 (Feb. 28, 2025), <https://oversight.house.gov/wp-content/uploads/2025/04/DoD-OIG-Report-Part-1-Understanding-the-Results-of-the-Audit-of-the-FY-2024-DoD-Financial-Statements.pdf>; Adam Zaki, *Pentagon Fails 7th Audit in a Row, but CFO says Progress is Being Made*, CFO (Nov. 19, 2024), <https://www.cfo.com/news/pentagon-fails-7th-audit-in-a-row-michael-mccord-cfo-dod-pentagon/733313/>.

⁷ Adam Zaki, *Pentagon Fails 7th Audit in a Row, but CFO says Progress is Being Made*, CFO (Nov. 19, 2024), <https://www.cfo.com/news/pentagon-fails-7th-audit-in-a-row-michael-mccord-cfo-dod-pentagon/733313/>.

Fiscal Year (FY) 2024 audit, the DOD could not verify approximately 61% of its \$4.1 trillion in assets.⁸ Only nine of 28 standalone components received clean opinions, with the remainder cited for material weaknesses and serious internal control deficiencies.⁹ The persistent lack of financial accountability raises concerns about vulnerability to waste, fraud, and abuse, particularly in light of the DOD's vast budget, which totals nearly half of all discretionary federal spending.¹⁰ Additionally, my oversight has shown that DOD's failure to establish effective internal controls has led to the theft of taxpayer dollars.¹¹ The Government Accountability Office (GAO) previously identified key areas of defense spending as "high risk," meaning the GAO sees defense spending as vulnerable to waste, fraud, and abuse due to mismanagement of taxpayer funds.¹² Put simply, the DOD is not safeguarding the taxpayers' money.

The term "Universe of Transactions" (UOTs) has been part of DOD financial audit terminology for years, but it was introduced without much explanation or clarification. Now, suddenly, it's spotlighted in a recent GAO report as the epicenter of audit failures.¹³ That GAO report sheds light on the seemingly insoluble DOD financial audit dilemma.¹⁴ In a few sentences, it provides a clear, understandable reason why the DOD can't earn clean opinions on annual financial audits. The inability to determine and manage the UOTs is, indeed, a main driver behind audit failures.¹⁵ The GAO appears to have given the DOD Office of Inspector General (DOD OIG) credit for identifying a key to unlocking one of the doors to clean opinions, and it's a showstopper: "[a]ccording to the DOD OIG, a significant hurdle to making progress on DOD's financial statement auditability is DOD's inability to produce a complete, accurate, and reconcilable universe of transactions. A complete universe of transactions is a record of every financial event, or transaction, that affects the financial statement balance for a given fiscal year, such as transactions related to DOD's inventory, property, and payroll."¹⁶ The DOD does not have control of the money at the transaction level. The total number of the DOD transactions, and therefore scope of the UOTs, is unknown.¹⁷

The DOD's antiquated and complex IT systems cannot compile the UOTs, which has led to piecemeal efforts and manual labor to identify some sense of DOD's transactions across many accounting systems. Getting control of transactions is elementary financial management 101. An article recently posted by the DOD itself highlights comments made by yourself regarding the importance of this matter.¹⁸ The article quotes you with the following, "[t]he first day we came in, [the audit] was one of the first topics the [S]ecretary and I discussed, and he actually put out a memo with guidance for milestones each fiscal year that the [D]epartment is

⁸ Don McGregor, *The DoD Audit Conundrum: Accountability Over Accounting*, RealClearDefense (May 13, 2025),

https://www.realcleardefense.com/articles/2025/05/13/the_dod_audit_conundrum_accountability_over_accounting_1109852.html.

⁹ U.S. Dep't of Def. Off. of Inspector Gen., *Independent Auditor's Reports on the Department of Defense FY 2024 and FY 2023 Financial Statements* at 50 (Nov. 15, 2024), https://comptroller.defense.gov/Portals/45/Documents/afr/fy2024/DoD_FY24_Agency_Financial_Report.pdf; Office of the Under Sec'y of Def. (Comptroller), *Fiscal Year 2024 Financial Statement Audits Fact Sheet* at 1 (Nov. 15, 2024), <https://media.defense.gov/2024/Nov/15/2003584851/-1/-1/0/FISCAL-YEAR-2024-DEPARTMENT-OF-DEFENSE-FINANCIAL-STATEMENT-AUDIT-FACT-SHEET.PDF>; U.S. Dep't of Def., Off. of Inspector Gen., *Understanding the Results of the Audit of the FY 2024 DOD Financial Statements* (Feb. 28, 2025), <https://oversight.house.gov/wp-content/uploads/2025/04/DoD-OIG-Report-Part-1-Understanding-the-Results-of-the-Audit-of-the-FY-2024-DoD-Financial-Statements.pdf>.

¹⁰ U.S. Gov't Accountability Off., *FINANCIAL MANAGEMENT – DOD Needs to Improve System Oversight*, (GAO-23-104539), at 7 (Mar. 7, 2023), <https://www.gao.gov/assets/d23104539.pdf>; U.S. Gov't Accountability Off., *DOD Fraud Risk Management: DOD Should Expeditiously and Effectively Implement Fraud Risk Management Leading Practices*, (GAO-25-108500), at 2 (June 4, 2025), <https://www.gao.gov/assets/gao-25-108500.pdf>.

¹¹ Letter from Sen. Chuck Grassley to Sec'y of Def. Lloyd Austin, *Re: Financial Management Systems and Audits* (Aug. 22, 2024), https://www.grassley.senate.gov/imo/media/doc/grassley_to_dod_-_financial_management_systems_and_audits.pdf; Sen. Chuck Grassley, *Grassley "Raises Cain" over the Pentagon's Long-Time Financial Mismanagement* (Jan. 30, 2025), <https://www.grassley.senate.gov/news/remarks/grassley-raises-cain-over-the-pentagons-long-time-financial-mismanagement>

¹² U.S. Gov't Accountability Off., *DOD Fraud Risk Management: DOD Should Expeditiously and Effectively Implement Fraud Risk Management Leading Practices*, (GAO-25-108500) (June 4, 2025), <https://www.gao.gov/products/gao-25-108500>.

¹³ U.S. Gov't Accountability Off., *DOD Financial Management: Accelerated Timelines Needed to Address Longstanding Issues and Fraud Risk*, (GAO-25-108191) (April 29, 2025), <https://www.gao.gov/assets/gao-25-108191.pdf>.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ C. Todd Lopez, *DOD Will Pass Audit by 2028, Comptroller Confirms*, U.S. Department of Defense (June 18, 2025), <https://www.defense.gov/News/News-Stories/Article/Article/4221071/dod-will-pass-audit-by-2028-comptroller-confirms>.

going to [meet in order] to achieve the financial audit by 2028 or sooner – as he has challenged us to do.”¹⁹
Until this problem of identifying the UOTs is solved, there will be no clean opinion.

Given the importance of ensuring that the DOD and all its components are doing everything possible to provide a reliable accounting of tax dollars spent, I am requesting answers to the following questions no later than August 8, 2025:

1. Does the DOD have comprehensive and accurate accounting of the UOTs? If not, how is the DOD defining its UOTs and how long will it take to get an accurate accounting of them?
2. What steps has DOD taken to fully account for its UOTs?
3. How many systems does the DOD operate to identify its UOTs? Please provide a list of each system.
4. How many DOD transactions occurred and are properly documented in FY24? Please identify sources of transaction data.
5. Executive Order 14249, dated March 25, 2025, reports that Non-Treasury Disbursing Offices (NTDO) made 181 million payments in FY 2024 valued at \$1.5 trillion. How many of those were made by the DOD? Were these counted in the DOD’s UOTs totals? To what extent do NTDO disbursement impact the DOD’s UOTs count? Are they recorded in Treasury records?
6. Of the UOTs, please provide a comprehensive list of those that constitute “high-risk,” as defined by GAO.²⁰

As CFO, you are responsible for bringing the Department’s accounting systems up to required standards and ensuring that they support credible financial statements. I am counting on you to get the job done.

Your cooperation and prompt attention to this matter would be appreciated. If you have any questions, please contact Tucker Akin on my Committee staff at (202) 224-5225.

Sincerely,



Charles E. Grassley
Chairman
Committee on the Judiciary

¹⁹ *Id.*
²⁰ U.S. Gov’t Accountability Off., *High Risk List*, <https://www.gao.gov/high-risk-list> (“GAO’s list, updated at the start of each new Congress, of programs and operations with serious vulnerabilities to waste, fraud, abuse, or mismanagement, or in need of transformation.”).