

United States Senate

WASHINGTON, DC 20510

March 14, 2022

Commissioner Steven Cortese
Commissioner Susan A. Davis
Commissioner Eric Fanning
Commissioner Robert F. Hale
Commissioner Ellen M. Lord
Commissioner Jamie M. Morin
Commissioner Jennifer Santos
Commissioner Arun A. Seraphin
Commissioner Raj Shah
Commissioner Peter Levine
Commissioner Lisa Disbrow
Commissioner David Norquist
Commissioner Johnathan Burks

Commission on Planning, Programming, Budgeting, and Execution Reform

Dear Commissioners:

Thank you for agreeing to serve on the Commission on Planning, Programming, Budgeting, and Execution Reform. We urge you to help bring discipline and accountability to the Department of Defense's 60-year old budget and programming process. It is our hope that, as experts with deep professional experience in these processes, you will provide insightful analysis and strong recommendations to Congress.

As you know, an interim report must be submitted to Congress and the Secretary of Defense by February 6, 2023, and a final report by September 1, 2023. To meet these short timelines, we urge you to move forward immediately to address what is the Commission's most important and threshold objective—improving the reliability and effectiveness of DOD's financial management systems.

The Government Accountability Office (GAO) has consistently placed DOD Financial Management on its High-Risk List for 26 years. The most recent High Risk List report of 2021 notes that while the Department's spending makes up more than 50 percent of the federal government's discretionary spending and its physical assets represent more than 70 percent of

the federal government’s physical assets, it remains the only major agency that has *never been able to accurately account for and report on its spending or physical assets*.¹

DOD’s financial management failings are not just a reporting or “paperwork failure”; the Department’s control deficiencies adversely affect the efficiency and effectiveness of its entire operations.

Until DOD has effective internal controls and can produce auditable financial statements, it will continue to lack the fundamental information it needs to achieve its mission most efficiently and effectively. Congress recognized the critical need to address DOD’s financial management systems as part of the Commission’s PPBE reform efforts, and thus directed the Commission to:

“[c]onduct a comprehensive assessment of the efficacy and efficiency of all phases and aspects of the planning, programming, budgeting, and execution process, which shall include an assessment of . . . the financial management systems of the Department of Defense, including policies, procedures, past and planned investments, and recommendations related to replacing, modifying, and improving such systems to ensure that such systems and related processes of the Department result in—
(i) effective internal controls;
(ii) the ability to achieve auditable financial statements; and
(iii) the ability to meet other financial management and operational needs”²

As the Commission proceeds to develop its recommendations related to financial management systems, we urge you to use your authority to retain outside experts and consultants to create a Financial Management Tiger Team with expertise in financial management systems and information technology. This Financial Management Tiger Team should identify the steps needed to bring the Department’s finance and accounting systems up to required standards by doing a “deep dive”—reviewing the Department’s financial management systems including policies, procedures, and past and planned investments, and evaluating which systems work, which should be replaced or modified, and what changes are needed to establish effective internal controls and better position DOD to start earning clean opinions on its financial statements.

Additionally, we encourage the Financial Management Tiger Team to take advantage of the extensive analysis and recommendations on these issues developed over many years by GAO. We are confident the subject matter experts at GAO will be willing to consult with the Commission and the Financial Management Tiger Team. The team should also use the years of findings by DOD’s Office of Inspector General (DOD OIG), which, as you know, is statutorily

¹ GAO, *High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, DC: March 2, 2021), Appendix II, at 142-161.

² National Defense Authorization Act for Fiscal Year 2022, Pub. L. No. 117-81, div. A, § 1004(f)(2)(E) (Dec. 27, 2021).

required to audit DOD's Basic Financial Statements.

At our request, GAO recently conducted an analysis of deficiencies in the DOD information systems used to report its spending and assets³--deficiencies that are a key factor in DOD's overall financial management deficiencies. Among other things, GAO found that DOD lacks sufficiently detailed plans for migrating key military service legacy accounting systems to new systems and that DOD does not know how much it spends on the systems supporting its financial statements because it has no way to reliably identify these systems in its systems inventory and budget data. GAO made a series of recommendations to DOD to address these shortcomings, including that until the Department addresses other key fundamental deficiencies, it should stop investing in new financial management systems except those essential to maintain functionality and system security.⁴

Year after year the DOD OIG continues to find disturbingly similar deficiencies regarding the Department's financial management systems. In its most recent annual Independent Auditor's Reports on DOD's Fiscal Year 2020 and 2021 Basic Financial Statements,⁵ for example, the DOD OIG presented extensive detail supporting its disclaimer of opinion on DOD's Financial Statements because it was unable to obtain sufficient, appropriate audit evidence on which to base audit opinions on the statements. The DOD OIG concluded that DOD's Basic Financial Statements "may contain undetected misstatements that are both material and pervasive", identified 28 material weaknesses and four significant deficiencies related to DOD's internal controls over its financial reporting, and identified seven instances of non-compliance with laws and regulations.

Further, under the Federal Financial Management Improvement Act, the DOD OIG reported that DOD's systems are unable to record financial transactions in compliance with federal financial management systems requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level. This, despite the fact that former Secretary of Defense Donald Rumsfeld stated in 2001 that the Department could not track trillions of dollars' worth of transactions. Clearly, the problem persists.

As the Commission begins its important work on these issues, please ensure that lines of communication between the Commission, the Department, and Congress remain open, and

³ GAO, *Financial Management: DOD Needs to Implement Comprehensive Plans to Improve Its Systems Environment*, GAO-20-252 (Washington, DC: Sept. 30, 2020).

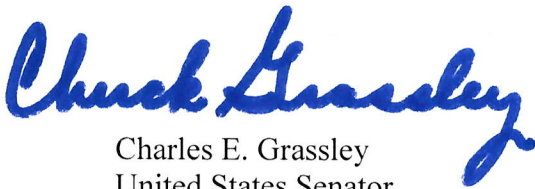
⁴ Additional recent GAO reporting that will inform the Commission's work on these matters includes GAO, *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses identified in Financial Statement Audits*, GAO-21-157 (Washington, DC: October 13, 2020); *Defense Real Property: DOD-Wide Strategy Needed to Address Control Issues and Improve Reliability of Records*, GAO-20-615 (Washington, DC: Sept. 9, 2020); *Air Force: Enhanced Enterprise Risk Management and Internal Control Assessments Could Improve Accountability over Mission-Critical Assets*, GAO-20-332 (Washington, DC: June 18, 2020); and *Department of Defense: Actions Needed to Reduce Accounting Adjustments*, GAO-20-96 (Washington, DC: Jan. 10, 2020).

⁵ DOD Office of Inspector General, *Independent Auditor's Reports on the DOD FY2020 and FY2021 Basic Financial Statements, Project No.D2021-D000FE-0043.000, Report No. DODIG-2022-037*, in *DOD, Agency Financial Report, Fiscal Year 2021* (Nov. 15, 2021), at 65-95.

consider consulting with GAO, DOD OIG, and relevant Congressional committees.

It is imperative that the Department's financial management systems comply with applicable requirements and guidance, address financial statement findings by auditors, and provide the reliable, useful, and timely information needed to support DOD's financial management operational needs. Unless the underlying financial management systems are addressed, any efforts to reform the Planning, Programming, Budget, and Execution processes at the DOD would be a waste of time and money.

Sincerely,



Charles E. Grassley
United States Senator



Bernard Sanders
United States Senator

cc: The Honorable Charles E. Schumer, Majority Leader, United States Senate
The Honorable Nancy Pelosi, Speaker, House of Representatives
The Honorable Jack Reed, Chair, Committee on Armed Services, United States Senate
The Honorable James M. Inhofe, Ranking Member, Committee on Armed Services,
United States Senate
The Honorable Adam Smith, Chair, Committee on Armed Services, House of
Representatives
The Honorable Mike Rogers, Ranking Member, Committee on Armed Services, House
of Representatives
The Honorable Patrick Leahy, Chairman, Committee on Appropriations, United States
Senate
The Honorable Richard Shelby, Vice Chairman, Committee on Appropriations, United
States Senate
The Honorable Rosa L. DeLauro, Chair, Committee on Appropriations, House of
Representatives
The Honorable Gene L. Dodaro, Comptroller General of the United States
The Honorable Sean W. O'Donnell, Acting Inspector General, U.S. Department of
Defense, and Inspector General, U.S. Environmental Protection Agency