



Fact Sheet: Auditing the Department of Defense

The Problem

In 2022, the U.S. Department of Defense (DOD) had a larger budget than Russia, China, the United Kingdom, Germany, and France combined.¹ Despite its sheer size and importance, it has never managed to pass a financial audit. This failure is compounded by the agency's archaic financial management system, which in 2023 prevented 63% of its components from accounting for their share of its \$3.8 trillion in assets.² The DOD's financial problems will only be exacerbated further by the recently approved House defense budget of \$883.7 billion, a topline dollar figure that continues to balloon year after year.³

Since the 1990s, most federal agencies have been statutorily required to have their financial statements audited, with the DOD conducting its first audit back in 2018.⁴ The Pentagon's deficiency in sharing financial data so auditors can do their jobs has left numerous independent auditors feeling stymied. It is in the best interest of the DOD to obtain sufficient financial evidence to provide the basis for an audit opinion. As the DOD inspector general reported in 2023, forecasting future demand for Army spare parts was only 20% accurate on average, and the number of spare parts DOD does not need nor predict for use is in the hundreds of millions of dollars.⁵

The Government Accountability Office (GAO) has stated that auditing the DOD can help improve its financial systems and recordkeeping.⁶ DOD audits have resulted in short- and long-term benefits such as identifying billions of dollars of "assets that DOD did not know existed," as well as saving millions of dollars in filling requisitions with items inventoried through audits.⁷ An example of why auditing is so critical for military readiness can be found in the 2022 Navy audit, which uncovered \$4.4 billion in previously untracked inventory.⁸ That same year, the Air Force also corrected approximately \$5.2 billion in historical variances on its equipment and accumulated depreciation general ledger accounts.⁹

¹ Lawler, Dave, "U.S. Spent more on military in 2022 than next 10 countries combined," *Axios*, April 24, 2023, <https://www.axios.com/2023/04/24/global-military-spending-2022-us-china-russia-list>.

² Gledhill, Julia, "Pentagon can't account for 63% of nearly \$4 trillion in assets," *Responsible Statecraft*, December 4, 2023, <https://responsiblestatecraft.org/pentagon-audit-2666415734/>.

³ Senate Committee on Armed Services, "Summary of the Fiscal Year 2024 National Defense Authorization Act," *United States Senate Committee on Armed Services*, https://www.armed-services.senate.gov/imo/media/doc/fy24_ndaa_conference_executive_summary1.pdf, accessed November 1, 2024.

⁴ Mitchell, Ellen, "Pentagon Fails its sixth audit in a row," *The Hill*, November 16, 2023, <https://thehill.com/policy/defense/4313887-pentagon-fails-sixth-audit-in-a-row/>.

⁵ Gledhill, "Pentagon can't account" [see note 2]; Inspector General, U.S. Department of Defense, *Audit of the Reliability of Army Spare Parts Forecasts Submitted to the Defense Logistics Agency*, DODIG-2023-123 (September 20, 2023), i, <https://media.defense.gov/2023/Sep/21/2003305897/-1/-1/1/DODIG-2023-123.PDF>.

⁶ Government Accountability Office, "GAO Highlights: DOD Financial Management," May 2023, <https://www.gao.gov/assets/gao-23-105784-highlights.pdf>.

⁷ Government Accountability Office, "GAO Highlights," [see note 6].

⁸ Office of Chuck Grassley, "Grassley, Sanders Make Bipartisan Push To Audit The Pentagon And Curb Wasteful Spending," Press Release, June 21, 2023, <https://www.grassley.senate.gov/news/news-releases/grassley-sanders-make-bipartisan-push-to-audit-the-pentagon-and-curb-wasteful-spending>.

⁹ U.S. Senate Committee on Health, Education, Labor and Pensions, "News: New GAO Report Commissioned By Senator Bernie Sanders Finds DOD Fails to Take Basic Steps to Combat Fraud Despite Spending More Taxpayer

The Solution

Ensuring safeguards for a clean financial audit will allow Congress and the public to understand and identify wasteful spending within the DOD. In our testimony for the House Committee on Oversight and Accountability, we made it clear that the Defense Department is not currently positioned to pass an audit. It's time for Congress to step in and force the issue.¹⁰ Fortunately, both the House and the Senate are currently considering bipartisan bills that would require a clean audit from the Pentagon. To avoid waste and address bloating in the defense budget, as well as to maintain and ensure military readiness, the Pentagon must be required to better manage and track its assets and pass a clean agency audit.

Congress can use the “power of the purse” to ensure the DOD changes its financial management practices by penalizing the agency for failing to pass an audit. To that end, Congress should

- refuse to increase funding for DOD components that fail to complete a clean audit; and
- support legislation that would penalize DOD components for that failure. Levying financial penalties against DOD will give the audit requirement teeth and incentivize the department to take it seriously.

Additional Context

Two bipartisan bills have been introduced in Congress to help ensure the DOD completes a clean audit. They are:

- **Audit the Pentagon Act of 2023 (H.R. 2961 and S. 2054):** This bill would require any DOD component that fails to complete a clean audit to return 0.5% of its budget to the Treasury for that fiscal year and 1% for any subsequent fiscal year.¹¹ However, the bill would allow the president to waive these reductions and would exclude reductions to accounts related to military personnel, reserve personnel, National Guard personnel, and military health care programs. The bill has 11 bipartisan co-sponsors in the Senate and 28 bipartisan co-sponsors in the House.
- **H.R. 7603:** This bill would direct the Secretary of Defense to “ensure that the audit of the financial statements of the Department of Defense for fiscal year 2024 is conducted using technology that uses artificial intelligence.”¹² Utilizing technology that employs artificial intelligence could help advance DOD systems and assist in passing future audits. The bill was referred to the House Armed Services and Appropriations Committees.

Contact

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Money Than All Other Agencies Combined,” Press Release, February 29, 2024, <https://www.help.senate.gov/chair/newsroom/press/news-new-gao-report-commissioned-by-senator-bernie-sanders-finds-dod-fails-to-take-basic-steps-to-combat-fraud-despite-spending-more-taxpayer-money-than-all-other-agencies-combined>.

¹⁰ “Tracking Progress: Examining the Department of Defense’s Financial Management Practices”: Hearing before the House Committee on Oversight and Accountability Subcommittee on Government Operations and the Federal Workforce, 118th Cong. (September 24, 2024) (testimony of Greg Williams, director, POGO’s Center for Defense Information), <https://www.pogo.org/testimonies/its-time-for-congress-to-challenge-years-of-failed-pentagon-audits>.

¹¹ H.R. 2961, Audit the Pentagon Act of 2023, 118th Cong., (2023), <https://www.congress.gov/bill/118th-congress/house-bill/2961>; S. 2054, Audit the Pentagon Act of 2023, 118th Cong., (2023), <https://www.congress.gov/bill/118th-congress/senate-bill/2054>.

¹² H.R. 7601, To direct the Secretary of Defense to ensure that the audit of the financial statements of the Department of Defense for fiscal year 2024 is conducted using technology that uses artificial intelligence, and for other purposes, 118th Cong., (2024), <https://www.congress.gov/bill/118th-congress/house-bill/7603/>.