AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

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July 12, 2021

Honorable Jack Reed
Chairman
Senate Armed Services Committee
228 Russell Senate Office Building
Washington, D.C. 20510

Honorable Jim Inhofe
Ranking Member
Senate Armed Services Committee
228 Russell Senate Office Building
Washington, D.C. 20510

Dear Chairman Reed and Ranking Member Inhofe,

On behalf of the American Federation of Government Employees, AFL-CIO, (AFGE) which represents more than 700,000 federal employees who serve the American people in 70 different agencies, including approximately 300,000 in the Department of Defense (DoD), we appreciate your support of a strong national defense and your recognition of the importance of a professional, apolitical civil service supporting our uniformed warfighters. We are writing to you to express our concerns on two bills referred to your Committee and which may be considered for inclusion in this year's National Defense Authorization Act for Fiscal Year 2022 markup.

We strongly oppose S 1707, "Audit the Pentagon Act of 2021," which arbitrarily reduces by one percent the funds otherwise appropriated for any department, agency, or element that has "not achieved an unqualified opinion" on its financial statements. In FY 2020, Independent Public Accounting (IPA) firms conducted 24 standalone audits of DoD reporting entities, of which eight received unqualified opinions, one received a modified (or qualified) opinion and the remaining 15 reporting entities, as well as the overall DoD consolidated audit, received a disclaimer of opinion. The DoD budget estimates it will spend $1.281 billion on the financial audit, and during hearings, as well as in the budget document itself, there appears to be more discussion dedicated to the financial audit than more pressing problems of national security.

The audits solely relate to the development of a balance sheet of assets and liabilities for a sovereign entity funded with Congressional appropriations on an annual cash basis rather than on an accrual basis. There is no bona fide private market for most of the services and assets being assigned a "value" on a consolidated balance sheet for governmental sovereign entities, making the entire enterprise lacking in economic substance. The Department conceivably could still receive an unqualified audit opinion and be wasting billions of dollars or have mission failures.

More attention and hearings have been afforded to the financial audit than to the findings of the National Commission on Military Aviation Safety (NCMAS) issued in December 2021, which had more directly pertinent recommendations to the Department's missions and readiness. The title of the NCMAS report says it all: "224 Lives, $11.6 Billion, 186 Aircraft," and the commission found a Personnel Tempo (PERSTEMPO) problem with military aviators spending 95 percent of their time on administrative tasks rather than flying because of arbitrary reductions of support staff.[1] That kind of issue is not going to be identified or remedied by applying accrual accounting concepts to the Department but instead directly relates to improving the measurement of the Department's readiness in its Defense Readiness Reporting System. Indeed, implementing the arbitrary reductions mandated by the "Audit the Pentagon Act" would likely lead to DoD programmatic and civilian reductions further exacerbating the very problem the NCMAS identified -- the military being diverted from their training and operational missions to perform the non-military essential functions formerly performed by civilian employees.

Similarly, the failure of the Department to validate, prioritize and challenge contract services spending in its programming processes mean, according to several Government Accountability Office (GAO) audits, that neither the Department nor Congress have a good handle on whether this spending is being wasted, and this comprises at least one quarter of DoD's budget. Moreover, the Department's continued failure to validate, prioritize and compete its requirements for service contracts in the programming and budgeting processes mean that the arbitrary reductions mandated by this bill would likely lead to more contracting-out. The GAO has documented this effect on numerous occasions, first with Section 955 of the Fiscal Year 2013 NDAA reductions, and most recently in the USD (Intelligence and Security) as a result of the continued use of the civilian personnel caps from the 1986 Goldwater-Nichols era.[2]

Accordingly, focusing more directly on reforming the Planning, Programming, Budgeting, and Execution System of the Department, in place since the McNamara era, would be a more value-added effort than wasting annually $1.2 billion on mis-applying private sector accrual accounting principles in an appropriated fund setting.

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[1] National Security Commission on Military Aviation Safety, "224 Lives, $11.6 Billion, 186 Aircraft" (Dec 2020), p. 47-48.

[2] See, e.g., GAO-21-295; GAO-16-172; GAO-17-128; GAO-16-119, GAO-21-267R; Indeed, the current Deputy Secretary of Defense in her private capacity summarized these results in a March 2020 "Foreign Affairs" essay: "Predictably, for example, even though Congress directed the Defense Department to cut $10 billion through administrative efficiencies between 2015 and 2019, the Pentagon failed to substantiate that it had achieved those savings. The reason these efforts rarely succeed is that they merely shift the work being done by civilians to others, such as military personnel or defense contractors." Kathleen Hicks, "Getting To Less: The Truth About Defense Spending," Foreign Affairs (March 2020). P. 56.

AFGE also opposes the further expansion of public-private talent exchanges in S. 1197, "QUANTUM for National Security Act of 2021," until there is a requirement for enhanced *public* financial disclosure for individuals appointed to positions in the Department from the private sector. These disclosures need to be public so that news media and non-governmental organizations have access to and are able to assess any financial conflicts of interest when private sector appointees work in the government under this program. Alternatively, implementation of this exchanges should be deferred until Congress asks for an independent study by the Administrative Conference of the United States on the types of safeguards and conflicts to be addressed by enhanced public financial disclosure for individuals appointed to positions in the Department under this program.

Should your staff have any questions, our subject matter experts on these issues are John Anderson, john.anderson@afge.org at 703-943-9438 or Richard Loeb, Richard.Loeb@afge.org at 202-639-6466.

Sincerely yours,

Everett B. Kelley

Everett Kelley
National President

cc: HASC