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S. 3487

To provide for auditable financial statements for the Department of Defense, and for other purposes.

IN THE SENATE OF THE UNITED STATES

AUGUST 2, 2012

Mr. COBURN (for himself, Mr. MANCHIN, Ms. AYOTTE, Mrs. MCCASKILL, Mr. CORNYN, Mr. GRASSLEY, Mr. JOHNSON of Wisconsin, and Mr. PAUL) introduced the following bill; which was read twice and referred to the Committee on Armed Services

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A BILL

To provide for auditable financial statements for the Department of Defense, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Audit the Pentagon Act of 2012''.

SEC. 2. FINDINGS.

Congress makes the following findings:

(1) Section 9 of Article 1 of the Constitution of the United States requires all agencies of the Fed-

eral Government, including the Department of Defense, to publish ''a regular statement and account of the receipts and expenditures of all public money''.

(2) Section 3515 of title 31, United States Code, requires the agencies of the Federal Government, including the Department of Defense, to present auditable financial statements beginning not later than March 1, 1997. The Department has not complied with this law.

(3) The Federal Financial Management Improvement Act of 1996 (31 U.S.C. 3512 note) requires financial systems acquired by the Federal Government, including the Department of Defense, to be able to provide information to leaders to manage and control the cost of government. The Department has not complied with this law.

(4) The financial management of the Department of Defense has been on the ''High-Risk'' list of Government Accountability Office, which means that the Department is not consistently able to ''control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; [and] prevent and detect fraud, waste, and abuse''.

(5) The National Defense Authorization Act for Fiscal Year 2002 (Public Law 107–107) requires the Secretary of Defense to report to Congress annually on the reliability of the financial statements of the Department of Defense, to minimize resources spent on producing unreliable financial statements, and to use resources saved to improve financial management policies, procedures, and internal controls.

(6) In 2005, the Department of Defense created a Financial Improvement and Audit Readiness (FIAR) Plan, overseen by a directorate within the office of the Under Secretary of Defense (Comptroller), to improve Department business processes with the goal of producing timely, reliable, and accurate financial information that could generate an audit-ready annual financial statement. In December 2005, that directorate, known as the FIAR Directorate, issued the first of a series of semiannual reports on the status of the Financial Improvement and Audit Readiness Plan.

(7) The National Defense Authorization Act for Fiscal Year 2010 (Public Law 111–84) requires regular status reports on the Financial Improvement and Audit Readiness Plan described in paragraph (6), and codified as a statutory requirement the goal

of the Plan in ensuring that Department of Defense financial statements are validated as ready for audit not later than September 30, 2017.

(8) At a September 2010 hearing of the Senate, the Government Accountability Office stated that past expenditures by the Department of Defense of $5,800,000,000 to improve financial information, and billions of dollars more of anticipated expenditures on new information technology systems for that purpose, may not suffice to achieve full audit readiness of the financial statement of the Department. At that hearing, the Government Accountability Office could not predict when the Department would achieve full audit readiness of such statements.

SEC. 3. AUDIT READINESS OF THE FINANCIAL STATEMENTS OF THE DEPARTMENT OF DEFENSE.

(a) INCLUSION OF STATEMENT OF BUDGET RESOURCES WITHIN FIAR PLAN.—Subsection (a)(2)(A) of section 1003 of the National Defense Authorization Act for Fiscal Year 2010 (Public Law 111–84; 123 Stat. 2439; 10 U.S.C. 2222 note) is amended—

(1) in clause (i), by striking ''and'' at the end;

(2) by redesignating clause (ii) as clause (iv); and

(3) by inserting after clause (i) the following new clauses:

"(ii) ensuring that a complete and validated statement of budgetary resources of the Department of Defense is ready by not later than September 30, 2014;

"(iii) ensuring that the full set of consolidated financial statements of the Department for the fiscal year ending September 30, 2017, and each fiscal year thereafter, are ready in a timely manner and in preparation for an audit, including submitting the reports not later than November 15, 2017, and each year thereafter, in order to seek an audit opinion on its financial statements; and".

(b) DEFINITION OF VALIDATED AS READY FOR AUDIT.—Such section is further amended by adding at the end the following new subsection:

"(d) VALIDATED AS READY FOR AUDIT DEFINED.—In this section, the term 'validated as ready for audit' means the following:

"(1) In the case of the financial statements of a military department, that the audit agencies of the military department have reviewed such statements

and determined, in writing, that such statements are ready for audit.

"(2) In the case of the financial statements of a Defense Agency, that the audit agencies of the Defense Agency have reviewed such statements and determined, in writing, that such statements are ready for audit.".

SEC. 4. CESSATION OF APPLICABILITY OF REPORTING REQUIREMENTS REGARDING THE FINANCIAL STATEMENTS OF THE DEPARTMENT OF DEFENSE.

(a) CESSATION OF APPLICABILITY.—

(1) MILITARY DEPARTMENTS.—The financial statements of a military department shall cease to be covered by the reporting requirements specified in subsection (b) upon the issuance of an unqualified audit opinion on such financial statements.

(2) DEPARTMENT OF DEFENSE.—The reporting requirements specified in subsection (b) shall cease to be effective when an unqualified audit opinion is issued on the financial statements of the Department of Defense, including each of the military departments and the Defense Agencies.

(b) REPORTING REQUIREMENTS.—The reporting requirements specified in this subsection are the following:

(1) The requirement for semi-annual reports in section 1003(b) of the National Defense Authorization Act for Fiscal Year 2010 (Public Law 111–84; 123 Stat. 2440; 10 U.S.C. 2222 note).

(2) The requirement for annual reports in section 1008(a) of the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107–107; 115 Stat. 1204; 10 U.S.C. 113 note).

SEC. 5. REPORT ON DEPARTMENT OF DEFENSE REPORTING REQUIREMENTS MADE OBSOLETE BY OR AFFECTING AUDITS WITH UNQUALIFIED OPINIONS.

Not later than 180 days after the date of the enactment of this Act, the Under Secretary of Defense (Comptroller) shall submit to Congress a report setting forth the following:

(1) A list of each report of the Department of Defense required by law to be submitted to Congress which, in the opinion of the Under Secretary, would no longer be necessary if the financial statements of the Department of Defense were audited with an unqualified opinion.

(2) A list of each report of the Department required by law to be submitted to Congress which, in the opinion of the Under Secretary, interferes with

the capacity of the Department to achieve an audit of the financial statements of the Department with an unqualified opinion.

SEC. 6. ENHANCED REPROGRAMMING AUTHORITY FOLLOWING ACHIEVEMENT BY MILITARY DEPARTMENTS OF AUDIT WITH UNQUALIFIED OPINION OF STATEMENT OF BUDGETARY RESOURCES FOR FISCAL YEARS AFTER FISCAL YEAR 2013.

(a) IN GENERAL.—Subject to section 9(a)(1), if a military department obtains an audit with an unqualified opinion on its statement of budgetary resources for any fiscal year after fiscal year 2013, the thresholds for reprogramming of funds without prior notice to Congress for the succeeding fiscal year shall be deemed to be the thresholds as follows:

(1) In the case of an increase or decrease to the program base amount for a procurement program, $60,000,000.

(2) In the case of an increase or decrease to the program base amount for a research program, $30,000,000.

(3) In the case of an increase or decrease to the amount for a budget activity for operation and maintenance, $45,000,000.

(4) In the case of an increase or decrease to the amount for a budget activity for military personnel, $30,000,000.

(b) CONSTRUCTION.—Nothing in this section shall be construed to alter or revise any requirement (other than a threshold amount) for notice to Congress on reprogrammings covered by subsection (a) under any other provision of law.

(c) DEFINITIONS.—In this section, the terms ''program base amount'', ''procurement program'', ''research program'', and ''budget activity'' have the meanings given such terms in chapter 6 of volume 3 of the Financial Management Regulation of the Department of Defense (DoD 7000.14R), dated March 2011, or any successor document.

SEC. 7. AVAILABILITY OF EXPIRING FUNDS FOLLOWING ACHIEVEMENT BY MILITARY DEPARTMENTS OF AUDIT WITH UNQUALIFIED OPINION OF STATEMENT OF BUDGETARY RESOURCES FOR FISCAL YEARS AFTER FISCAL YEAR 2013.

(a) IN GENERAL.—Subject to section 9(a)(1), if a military department obtains an audit with an unqualified opinion on its statement of budgetary resources for a fiscal year after fiscal year 2013 (in this section referred to as a ''covered fiscal year''), the amount described in sub-

section (b) shall be available for the purposes specified in subsection (c) at the end of such covered fiscal year without fiscal year limitation.

(b) AVAILABLE AMOUNT.—The amount described in this subsection is the amount equal to five percent of the aggregate amount of unobligated appropriations available to the military department concerned for a covered fiscal year that would otherwise expire at the end of such covered fiscal year by law.

(c) PURPOSES.—

(1) IN GENERAL.—Except as provided in paragraph (2) and subject to paragraph (3), amounts available under subsection (a) shall, at the election of the Secretary of the military department concerned, be available for purposes as follows:

(A) Payment in accordance with applicable law of bonuses authorized by law (including awards authorized by subchapter I of chapter 45 of title 5, United States Code) for civilian employees of the military department, including employees determined to have made beneficial contributions to the achievement of the mission of the military department.

(B) Procurement of weapons and weapon systems.

(C) Military education and training programs and activities of the military department.

(2) EXCLUSION.—Amounts available under subsection (a) shall not be available for purposes as follows:

(A) Research, development, test, and evaluation.

(B) Military construction.

(3) LIMITATIONS ON BONUSES.—

(A) LIMITATION ON BONUS AMOUNT.—The amount of the bonus payable to a civilian employee of a military department under paragraph (1)(A) in any year may not exceed the amount equal to 25 percent of the base pay of the employee in such year.

(B) LIMITATION ON AGGREGATE AMOUNT OF BONUSES.—The total amount of bonuses payable to civilian employees of a military department under paragraph (1)(A) in any year may not exceed $5,000,000.

(C) CONSTRUCTION.—Nothing in paragraph (1)(A) may be construed to authorize or provide for the payment of a bonus to an officer or employee of a contractor of the Department of Defense.

(d) TRANSFERS.—

(1) IN GENERAL.—Notwithstanding any other provision of law, the Secretary of a military department may transfer amounts described in subsection (b) that are available under subsection (a) among accounts of the military department for purposes of exercising the authority in subsection (a) with respect to such amounts. Amounts so transferred shall be merged with amounts in the account or fund to which transferred and shall be available under the same terms and conditions as the amounts with which merged for the purposes specified in subsection (c).

(2) NO NEW APPROPRIATION.—A transfer under paragraph (1) shall not be treated as a new appropriation of the amount so transferred.

(e) REPORTS.—

(1) ANNUAL REPORTS.—The Secretary of Defense shall submit to Congress each year (at the same time the budget of the President for a fiscal year is submitted to Congress in such year pursuant to section 1105 of title 31, United States Code) a report on the exercise of the authority under this section during the previous fiscal year. Each report

under this subsection shall include, for the fiscal year covered by such report, the following:

(A) The amounts transferred under subsection (d), including the total amount transferred and the amounts transferred to each account to which transferred.

(B) The purposes, and amounts, for which amounts transferred were used.

(2) NOTICE ON PROCUREMENT.—Not later than 30 days before using amounts available under subsection (a) for the procurement of weapons or a weapon system, the Secretary of the military department concerned shall submit to Congress a report, in writing, on the use of such amounts for that purpose. Each report shall include a statement of the weapons or weapon system to be procured and the amount to be used for such procurement.

SEC. 8. FAILURE TO OBTAIN AUDITS WITH UNQUALIFIED OPINION OF FISCAL YEAR 2014 STATEMENT OF BUDGETARY RESOURCES OF THE DEPARTMENT OF DEFENSE.

(a) IN GENERAL.—If the Department of Defense fails to obtain an audit with an unqualified opinion on its statement of budgetary resources for fiscal year 2014, the

following shall take effect, effective as of the date of the issuance of the opinion on such audit:

(1) ADDITIONAL QUALIFICATIONS AND DUTIES OF USD (COMPTROLLER).—

(A) QUALIFICATIONS.—Any individual nominated for appointment to the position of Under Secretary of Defense (Comptroller) under section 135 of title 10, United States Code, shall be an individual who has served—

(i) as the chief financial officer of a Federal or State agency that has received an audit with an unqualified opinion on such agency's financial statements during the time of such individual's service; or

(ii) as the chief financial officer of a public company that has received an audit with an unqualified opinion on such company's financial statements during the time of such individual's service.

(B) DUTIES AND POWERS.—The duties and powers of the individual serving as Under Secretary of Defense (Comptroller) shall include, in addition to the duties and powers specified in section 135(c) of title 10, United States Code, such duties and powers with re-

spect to the financial management of the Department of Defense as the Deputy Secretary of Defense (acting in the capacity of Chief Management Officer of the Department of Defense) or a successor official in the Department of Defense (acting in such capacity) may prescribe.

(2) ADDITIONAL QUALIFICATIONS AND RESPONSIBILITIES OF ASA FOR FINANCIAL MANAGEMENT.—

(A) QUALIFICATIONS.—Any individual nominated for appointment to the position of Assistant Secretary of the Army for Financial Management under section 3016 of title 10, United States Code, shall be an individual who has served—

(i) as the chief financial officer of a Federal or State agency that has received an audit with an unqualified opinion on such agency's financial statements during the time of such individual's service; or

(ii) as the chief financial officer of a public company that has received an audit with an unqualified opinion on such company's financial statements during the time of such individual's service.

(B) RESPONSIBILITIES.—The responsibilities of the individual serving as Assistant Secretary of the Army for Financial Management shall include, in addition to the responsibilities specified in section 3016(b)(4) of title 10, United States Code, such responsibilities as the Deputy Secretary of Defense (acting in the capacity of Chief Management Officer of the Department of Defense) or a successor official in the Department of Defense (acting in such capacity) may prescribe.

(3) ADDITIONAL QUALIFICATIONS AND RESPONSIBILITIES OF ASN FOR FINANCIAL MANAGEMENT.—

(A) QUALIFICATIONS.—Any individual nominated for appointment to the position of Assistant Secretary of the Navy for Financial Management under section 5016 of title 10, United States Code, shall be an individual who has served—

(i) as the chief financial officer of a Federal or State agency that has received an audit with an unqualified opinion on such agency's financial statements during the time of such individual's service; or

(ii) as the chief financial officer of a public company that has received an audit with an unqualified opinion on such company's financial statements during the time of such individual's service.

(B) RESPONSIBILITIES.—The responsibilities of the individual serving as Assistant Secretary of the Navy for Financial Management shall include, in addition to the responsibilities specified in section 5016(b)(4) of title 10, United States Code, such responsibilities as the Deputy Secretary of Defense (acting in the capacity of Chief Management Officer of the Department of Defense) or a successor official in the Department of Defense (acting in such capacity) may prescribe.

(4) ADDITIONAL QUALIFICATIONS AND RESPONSIBILITIES OF ASAF FOR FINANCIAL MANAGEMENT.—

(A) QUALIFICATIONS.—Any individual nominated for appointment to the position of Assistant Secretary of the Air Force for Financial Management under section 8016 of title 10, United States Code, shall be an individual who has served—

(i) as the chief financial officer of a Federal or State agency that has received an audit with an unqualified opinion on such agency's financial statements during the time of such individual's service; or

(ii) as the chief financial officer of a public company that has received an audit with an unqualified opinion on such company's financial statements during the time of such individual's service.

(B) RESPONSIBILITIES.—The responsibilities of the individual serving as Assistant Secretary of the Air Force for Financial Management shall include, in addition to the responsibilities specified in section 8016(b)(4) of title 10, United States Code, such responsibilities as the Deputy Secretary of Defense (acting in the capacity of Chief Management Officer of the Department of Defense) or a successor official in the Department of Defense (acting in such capacity) may prescribe.

(b) PUBLIC COMPANY DEFINED.—In this section, the term ''public company'' has the meaning given the term ''issuer'' in section 2(a)(7) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(a)(7)).

SEC. 9. FAILURE TO OBTAIN AUDITS WITH UNQUALIFIED OPINION OF FISCAL YEAR 2017 FINANCIAL STATEMENTS OF THE DEPARTMENT OF DEFENSE.

(a) MILITARY DEPARTMENTS.—

(1) CESSATION OF AUTHORITIES ON REPROGRAMMING AND AVAILABILITY OF FUNDS.—If a military department fails to obtain an audit with an unqualified opinion on its financial statements for fiscal year 2017, effective as of the date of the issuance of the opinion on such audit, the authorities in sections 6 and 7 shall cease to be available to the military department for fiscal year 2017 or any fiscal year thereafter.

(2) PROHIBITION ON EXPENDITURE OF FUNDS FOR CERTAIN MDAPS PAST MILESTONE B.—

(A) PROHIBITION.—If a military department fails to obtain an audit with an unqualified opinion on its financial statements for fiscal year 2017, effective as of the date of the issuance of the opinion on such audit, amounts may not be expended by the military department for a weapon or weapon system or platform being acquired as a major defense acquisition program for any activity beyond Milestone B approval unless such program has already

achieved Milestone B approval of the date of the issuance of the opinion on such audit.

(B) DEFINITIONS.—In this paragraph:

(i) The term ''major defense acquisition program'' has the meaning given that term in section 2430 of title 10, United States Code.

(ii) The term ''Milestone B approval'' has the meaning given that term in section 2366(e)(7) of title 10, United States Code.

(b) DEPARTMENT OF DEFENSE.—If the Department of Defense fails to obtain an audit with an unqualified opinion on its financial statements for fiscal year 2017, the following shall take effect, effective as of the date of the issuance of the opinion on such audit:

(1) REORGANIZATION OF RESPONSIBILITIES OF CHIEF MANAGEMENT OFFICER.—

(A) POSITION OF CHIEF MANAGEMENT OFFICER.—Section 132a of title 10, United States Code, is amended to read as follows:

''§ 132a. Chief Management Officer

''(a) IN GENERAL.—(1) There is a Chief Management Officer of the Department of Defense, appointed from civilian life by the President, by and with the advice and consent of the Senate.

"(2) Any individual nominated for appointment as Chief Management Officer shall be an individual who has—

"(A) extensive executive level leadership and management experience in the public or private sector;

"(B) strong leadership skills;

"(C) a demonstrated ability to manage large and complex organizations; and

"(D) a proven record in achieving positive operational results.

"(b) POWERS AND DUTIES.—The Chief Management Officer shall perform such duties and exercise such powers as the Secretary of Defense may prescribe.

"(c) SERVICE AS CHIEF MANAGEMENT OFFICER.—(1) The Chief Management Officer is the Chief Management Officer of the Department of Defense.

"(2) In serving as the Chief Management Officer of the Department of Defense, the Chief Management Officer shall be responsible for the management and administration of the Department of Defense with respect to the following:

"(A) The expenditure of funds, accounting, and finance.

"(B) Procurement, including procurement of any enterprise resource planning (ERP) system and any information technology (IT) system that is a financial feeder system, human resources system, or logistics system.

"(C) Facilities, property, nonmilitary equipment, and other resources.

"(D) Strategic planning, and annual performance planning, and identification and tracking of performance measures.

"(E) Internal audits and management analyses of the programs and activities of the Department, including the Defense Contract Audit Agency.

"(F) Such other areas or matters as the Secretary of Defense may designate.

"(3) The head of the Defense Contract Audit Agency shall be under the supervision of, and shall report directly to, the Chief Management Officer.

"(d) PRECEDENCE.—The Chief Management Officer takes precedence in the Department of Defense after the Secretary of Defense and the Deputy Secretary of Defense.".

(B) CONFORMING AMENDMENTS.—

(i) Section 131(b) of title 10, United States Code, is amended—

(I) by striking paragraph (3);

(II) by redesignating paragraph (2) as paragraph (3); and

(III) by inserting after paragraph (1) the following new paragraph (2):

''(2) The Chief Management Officer of the Department of Defense.''.

(ii) Section 132 of such title is amended—

(I) by striking subsection (c); and

(II) by redesignating subsections (d) and (e) as subsections (c) and (d), respectively.

(iii) Section 133(e)(1) of such title is amended by striking ''and the Deputy Secretary of Defense'' and inserting '', the Deputy Secretary of Defense, and the Chief Management Officer of the Department of Defense''.

(iv) Such title is further amended by inserting ''the Chief Management Officer of the Department of Defense,'' after ''the Deputy Secretary of Defense,'' each place it appears in the provisions as follows:

(I) Section 133(e)(2).

(II) Section 134(c).

(v) Section 137a(d) of such title is amended by striking ''the Secretaries of the military departments,'' and all that follows and inserting ''the Chief Management Officer of the Department of Defense, the Secretaries of the military departments, and the Under Secretaries of Defense.''.

(vi) Section 138(d) of such title is amended by striking ''the Secretaries of the military departments,'' and all that follows through the period and inserting ''the Chief Management Officer of the Department of Defense, the Secretaries of the military departments, the Under Secretaries of Defense, and the Director of Defense Research and Engineering.''.

(C) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 4 of such title is amended by striking the item relating to section 132a and inserting the following new item:

''132a. Chief Management Officer.''.

(D) EXECUTIVE SCHEDULE.—Section 5313 of title 5, United States Code, is amended by adding at the end the following:

''Chief Management Officer of the Department of Defense.''.

(E) REFERENCE IN LAW.—Any reference in any provision of law to the Chief Management Officer of the Department of Defense shall be deemed to refer to the Chief Management Officer of the Department of Defense under section 132a of title 10, United States Code (as amended by this paragraph).

(2) JURISDICTION OF DFAS.—

(A) TRANSFER TO DEPARTMENT OF THE TREASURY.—Jurisdiction of the Defense Finance and Accounting Service (DFAS) is transferred from the Department of Defense to the Department of the Treasury.

(B) ADMINISTRATION.—The Secretary of the Treasury shall administer the Defense Finance and Accounting Service following transfer under this paragraph through the Financial Management Service of the Department of the Treasury.

(C) MEMORANDUM OF UNDERSTANDING.—The Secretary of Defense and the Secretary of the Treasury shall jointly enter into a memorandum of understanding regarding the transfer of jurisdiction of the Defense Finance and Accounting Service under this paragraph. The memorandum of understanding shall provide for the transfer of the personnel and other resources of the Service to the Department of the Treasury and for the assumption of responsibility for such personnel and resources by the Department of the Treasury.

(D) CONSTRUCTION.—Nothing in this paragraph shall be construed as terminating, altering, or revising any responsibilities or authorities of the Defense Finance and Accounting Service (other than responsibilities and authorities in connection with the exercise of jurisdiction of the Service following transfer under this paragraph).

SEC. 10. ENTERPRISE RESOURCE PLANNING.

The Secretary of Defense shall amend the acquisition guidance of the Department of Defense to provide for the following:

(1) The Defense Business System Management Committee may not approve procurement of any Enterprise Resource Planning (ERP) business system that is independently estimated to take longer than three years to procure from initial obligation of funds to full deployment and sustainment.

(2) Any contract for the acquisition of an Enterprise Resource Planning business system shall include a provision authorizing termination of the contract at no cost to the Government if procurement of the system takes longer than three years from initial obligation of funds to full deployment and sustainment.

(3) The Deputy Secretary of Defense (acting in the capacity of Chief Management Officer of the Department of Defense) or a successor official in the Department of Defense (acting in such capacity) shall have the authority to replace any program manager (whether in a military department or a Defense Agency) for the procurement of an Enterprise Resource Planning business system if procurement of the system takes longer than three years from initial obligation of funds to full deployment and sustainment.

(4) Any integrator contract for the implementation of an Enterprise Resource Planning business system shall only be awarded to companies that have a history of successful implementation of other Enterprise Resource Planning business systems for the Federal Government (whether with the Department of Defense or another department or agency of the Federal Government), including meeting cost and schedule goals.

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