SEC. 10. DEPARTMENT OF DEFENSE SPENDING REDUCTIONS IN ABSENCE OF SUBMITTED FINANCIAL STATEMENTS OR FAILURE TO ACHIEVE UNQUALIFIED OR QUALIFIED INDEPENDENT AUDIT OPINION.

(a) APPLICABILITY.—

(1) IN GENERAL.—Subject to paragraph (2), this section applies to the Department of Defense, including military departments and Defense Agencies thereof.

(2) SEPARATE APPLICABILITY.—If a military department or Defense Agency is identified by the Director of the Office of Management and Budget as required to have its own audited financial statement under section 3515 of title 31, United States Code, that military department and Defense Agency shall be treated separately from the Department of Defense for purposes of application of this section.
(b) DEFINITIONS.—In this section:

(1) The terms “financial statement” and “external independent auditor” have the meanings given those terms in section 3521(e) of title 31, United States Code.

(3) The term “unqualified”, with respect to the audit status of a financial statement, includes the characterizations clean and unmodified.

(2) The term “qualified”, with respect to the audit status of a financial statement, includes the characterization modified.

(c) ADJUSTMENTS FOR FINANCIAL ACCOUNTABILITY.—

(1) IN GENERAL.—On March 2 of each fiscal year, the discretionary budget authority available for the Department of Defense (or a military department or Defense Agency covered by subsection (a)(2)) for such fiscal year shall be adjusted as provided in paragraph (2).

(2) ADJUSTMENT.—If the Department of Defense (or a military department or Defense Agency covered by subsection (a)(2)) has not submitted a financial statement for the previous fiscal year, or if such financial statement has not received either an unqualified or a qualified audit opinion by an inde-
pendent external auditor, the discretionary budget authority available for the Department of Defense, the military department, or the Defense Agency (as the case may be) shall be reduced by .5 percent, with the reduction applied proportionately to each account (other than an account listed in subsection (d) or an account for which a waiver is made under subsection (e)).

(3) MINIMIZES NATIONAL SECURITY EFFECTS.—Consistent with applicable laws, the Secretary of Defense may make any reduction under paragraph (2) in a manner that minimizes any effect on national security.

(4) DEFICIT REDUCTION.—An amount equal to the total amount of any reduction under paragraph (2) shall be retained in the general fund of the Treasury for the purposes of deficit reduction.

(d) ACCOUNTS EXCLUDED.—The following accounts are excluded from any reductions referred to in subsection (e)(2):

(1) Military personnel, reserve personnel, and National Guard personnel accounts of the Department of Defense.

(2) The Defense Health Program account of the Department of Defense.
(e) WAIVER.—The President may waive subsection (c)(2) with respect to an account if the President certifies that applying the subsection to that account would harm national security or members of the Armed Forces who are deployed in combat zones.

(f) REPORT.—Not later than 60 days after an adjustment under subsection (c), the Director of the Office of Management and Budget shall submit to Congress a report describing the amount and account of each adjustment.