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April 2014

# DOD FINANCIAL MANAGEMENT

Actions Under Way  
Need to Be  
Successfully  
Completed to Address  
Long-standing Funds  
Control Weaknesses

# GAO Highlights

Highlights of [GAO-14-94](#), a report to congressional requesters

## Why GAO Did This Study

GAO, the DOD Inspector General (IG), and others have reported on DOD's inability to provide effective control over the use of public funds (i.e., funds control). Funds control requires obligations and expenditures to comply with applicable law. Funds control weaknesses have prevented DOD from reporting reliable financial information, including information on the use of public funds, results of operations, and financial statements, and put DOD at risk of overobligating and overexpending its appropriations in violation of the Antideficiency Act (ADA).

GAO was asked to review the status of DOD's efforts to address its funds control weaknesses. GAO's objectives were to determine the (1) extent of reported weaknesses in DOD's funds control and their effect and (2) status of DOD's corrective actions to address known weaknesses. GAO analyzed 333 GAO, DOD IG, and military department audit reports; DOD reports of ADA violations; and selected DOD financial reports. GAO also examined DOD actions to address audit findings and ADA violations, including actions under DOD's FIAR Plan, and discussed corrective actions on funds control weaknesses with DOD and military department auditors and financial managers.

## What GAO Recommends

GAO is not making recommendations in this report because DOD already has numerous actions under way to address funds control weaknesses. DOD stated that it appreciates GAO's review and that past deficiencies have informed actions it has under way to address its funds control weaknesses.

View [GAO-14-94](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

April 2014

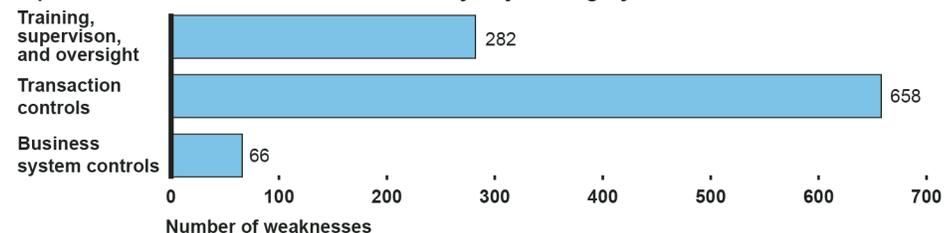
## DOD FINANCIAL MANAGEMENT

### Actions Under Way Need to Be Successfully Completed to Address Long-standing Funds Control Weaknesses

## What GAO Found

GAO's analysis of 333 reports related to Department of Defense (DOD) funds control, issued in fiscal years 2007 through 2013, identified over 1,000 funds control weaknesses related to (1) training, supervision, and management oversight; (2) proper authorization, recording, documentation, and reporting of transactions; and (3) business system compliance with federal laws and accounting standards. Many of the reports GAO reviewed included multiple findings.

#### Reported DOD Funds Control Weaknesses by Major Category



Source: GAO analysis.

GAO found that these weaknesses led DOD to make program and operational decisions based on unreliable data and impaired DOD's ability to improve its financial management. Fundamental weaknesses in funds control significantly impaired DOD's ability to (1) properly use resources, (2) produce reliable financial reports on the results of operations, and (3) meet its audit readiness goals.

DOD has actions under way to address its department-wide funds control weaknesses. These actions, several of which are targeted for completion in 2017, include

- a DOD Financial Manager Certification Program intended to establish a framework to guide training and development of DOD's 54,000 financial management personnel at the staff, supervisory, and leadership levels;
- transaction control testing and corrective action plans under its Financial Improvement and Audit Readiness (FIAR) Plan for reporting on the use of budgetary resources with regard to categories of transactions, such as fund balances, outlays, military and civilian payroll, and contract pay; and
- testing under the FIAR Plan of material DOD component business system controls and service-provider systems and processes as well as military department actions to address enterprise resource planning system design and implementation issues.

DOD leadership says it is committed to achieving effective fund controls to support financial accountability and reliable information for day-to-day management decision making and auditable financial statements. However, because some of the corrective actions on long-standing funds control weaknesses are not expected to be completed until 2017, these weaknesses, until fully resolved, will continue to adversely affect DOD's ability to achieve its goals for financial accountability, including the ability to produce consistent, reliable, and sustainable financial information for day-to-day decision making. Sustained leadership commitment will be critical to achieving success.

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# Contents

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Letter		1
	Background	6
	Pervasive Funds Control Weaknesses Impair the Effectiveness of DOD's Financial Management Operations	11
	DOD Has Actions Under Way to Address Many DOD-Wide Funds Control Weaknesses, but Effective Implementation Will Be Critical	34
	Concluding Observations	45
	Agency Comments	45
Appendix I	Scope and Methodology	48
Appendix II	Details of Reported DOD Funds Control Weaknesses by Category	52
Appendix III	Comments from the Department of Defense	54
Appendix IV	GAO Contact and Staff Acknowledgments	55
Tables		
	Table 1: Reported DOD Adjustments to Reconcile Its Fiscal Year 2013 Fund Balance to Treasury Records	30
	Table 2: DOD Suspense Account Balances for Fiscal Year-End 2010 through Fiscal Year-End 2013	31
	Table 3: DOD Financial Management Certification Program Training Requirements by Level	37
	Table 4: Number, Type, and Time Frame of GAO, Department of Defense, Defense Inspector General, and Military Service Reports Reviewed	49
Figures		
	Figure 1: Comparison of DOD's Requested Fiscal Year 2014 Discretionary Budget Authority with That of Other Federal Agencies	6

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Figure 2: Reported DOD Funds Control Weaknesses by Major Category	12
Figure 3: Military Service ADA and Other Fiscal Law Violations Reported by DOD (Fiscal Year 2007 through Fiscal Year 2012)	28
Figure 4: DOD Timeline for Validation of Corrective Actions on Transaction Controls by Statement of Budgetary Resources Assessable Unit	39
Figure 5: Timeline for Validation of Audit Readiness for DOD Service-Provider Operating System Controls	41
Figure 6: Reported DOD Funds Control Weaknesses by Major Category, Nature of Finding, and Reporting Agency	53

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## Abbreviations

ADA	Antideficiency Act
CPE	Continuing Professional Education
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DDRS	Defense Departmental Reporting System
DEAMS	Defense Enterprise Accounting and Management System
DERF	Defense Emergency Response Fund
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
ERP	enterprise resource planning
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FISCAM	<i>Federal Information System Controls Audit Manual</i>
FMFIA	Federal Managers' Financial Integrity Act
FMR	<i>Financial Management Regulation</i>
GAAP	U.S. generally accepted accounting principles
GFEBBS	General Fund Enterprise Business System
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
LMP	Logistics Modernization Program
NASBA	National Association of State Boards of Accounting
NDAA	National Defense Authorization Act
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
SFIS	Standard Financial Information Structure
SSAE	<i>Statement on Standards for Attestation Engagements</i>
USSGL	<i>U.S. Standard General Ledger</i>

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April 29, 2014

The Honorable Thomas R. Carper  
Chairman  
The Honorable Tom Coburn, M.D.  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Claire McCaskill  
Chairman  
Subcommittee on Financial and Contracting Oversight  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable K. Michael Conaway  
House of Representatives

In a time of fiscal and budgetary constraints, federal agencies need to make the best use of their allotted funds and demonstrate careful stewardship in their reporting to Congress and the public. The Department of Defense (DOD) is one of the largest and most complex organizations in the world. With over \$1 trillion in total budgetary resources, DOD has reported that it obligates an average of \$2 billion to \$3 billion daily and makes hundreds of thousands of payments, such as payroll, travel, utility, and contract payments, including payments in war zones. DOD's worldwide operations span a wide range of defense organizations and business functions and rely on over 2,200 business

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systems, including accounting systems and acquisition, logistics, and personnel systems that feed financial data to accounting systems.<sup>1</sup>

For years, we, the DOD Inspector General (IG), and others have reported on DOD's inability to provide effective control over the public funds it is responsible for or to reliably report on its obligation and outlay of those funds. In September 2011, we testified that DOD's weak internal control environment for funds control hindered its ability to ensure that transactions were accurately recorded, sufficiently supported, and properly executed by trained personnel subject to effective supervision.<sup>2</sup> DOD's funds control weaknesses have prevented it from reporting reliable financial information, including information on budget execution and results of operations. Funds control weaknesses have also resulted in violations of the Antideficiency Act (ADA), specifically through overobligating or overexpending available budgetary resources.<sup>3</sup> Like other executive agencies, DOD is required by the ADA to prescribe by regulation a system of administrative control of funds, designed to restrict obligations or expenditures to the applicable legal limitations on their amount, and to enable the head of the agency to fix responsibility for any

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<sup>1</sup>DOD excludes from its business systems those designated as national security systems under section 2222(j) of Title 10, United States Code. National security systems are information systems where the function, operation, or use involves intelligence activities, cryptologic (secure communication) activities related to national security, command and control of military forces, equipment that is an integral part of a weapon or weapon system or is critical to the direct fulfillment of military or intelligence missions (unless used for routine administrative and business applications), or is protected at all times by classification procedures in the interest of national defense or foreign relations, as authorized by law or executive order.

<sup>2</sup>GAO, *DOD Financial Management: Weaknesses in Controls over the Use of Public Funds and Related Improper Payments*, [GAO-11-950T](#) (Washington, D.C.: Sept. 22, 2011).

<sup>3</sup>31 U.S.C. §§ 1341-42, 1349-52, 1511-19. Budgetary resources are amounts available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations) and unobligated balances of budgetary resources provided in previous years.

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obligation or expenditure exceeding these limits.<sup>4</sup> These regulations are commonly referred to as “funds control regulations.”<sup>5</sup>

DOD has acknowledged that long-standing weaknesses in its internal controls, business systems, and processes have prevented auditors from determining the reliability of its financial statements, including information on budgeted spending, which is reported in DOD’s Statement of Budgetary Resources (SBR) and information on the cost of operations, which is reported in DOD’s Statement of Net Cost.<sup>6</sup> The Financial Improvement and Audit Readiness (FIAR) Plan, which was first prepared in 2005, is DOD’s strategic plan and management tool for guiding, monitoring, and reporting on the department’s financial management improvement efforts. As such, the plan communicates incremental progress in addressing the department’s financial management weaknesses and achieving financial statement auditability (i.e., audit readiness).

The National Defense Authorization Act (NDAA) for Fiscal Year 2010 mandated that the FIAR Plan include the specific actions to be taken to correct the financial management deficiencies that impair the department’s ability to prepare timely, reliable, and complete financial management information.<sup>7</sup> In May 2010, the DOD Comptroller issued the FIAR Guidance to implement the FIAR Plan. The FIAR Guidance provides a standardized methodology for DOD components to follow for achieving financial management improvements and auditability. The FIAR Guidance requires DOD components to identify and prioritize their

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<sup>4</sup>31 U.S.C. § 1514(a). DOD’s regulations carrying out this requirement are in the DOD *Financial Management Regulation* (FMR), 7000.14R, vol. 14, ch. 1, “Administrative Control of Funds” (January 2009). DOD’s FMR is issued under the authority of DOD Instruction 7000.14, *Department of Defense Financial Management Policy and Procedures* (rev. Sept. 17, 2008). The DOD FMR directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and nonappropriated working capital, revolving, and trust fund activities.

<sup>5</sup>Office of Management and Budget, *Preparation, Submission, and Execution of the Budget*, Circular No. A-11, Section 150.1 (Aug. 3, 2012).

<sup>6</sup>Because DOD does not have appropriate cost accounting systems, it uses obligation and expenditure data to calculate costs. The reliability of this information is impaired not only because obligation data do not represent costs, but also because DOD obligation data are unreliable.

<sup>7</sup>Pub. L. No. 111-84, §1003(a)(2) (Oct. 28, 2009).

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business processes into assessable units, and then prepare a Financial Improvement Plan for each assessable unit in accordance with the FIAR Guidance.<sup>8</sup> The FIAR Guidance also addresses the need for adequate transaction controls for each assessable unit, including proper authorization, accurate recording, adequate support, and accurate and timely reporting of obligation and disbursement transactions. These transaction controls are key to effective funds control.

You asked us to review DOD's internal control over its use of public funds. Our objectives were to determine the (1) extent of reported weaknesses in DOD's funds control and their effect and (2) status of DOD's corrective actions to address known weaknesses. To address our first objective, we reviewed issues identified in our prior reports on DOD funds control and reports on DOD funds control issued by the DOD IG from fiscal years 2007 through 2012 and military department auditors from fiscal year 2010 through March 2012.<sup>9</sup> We also reviewed all of DOD's reports to Congress on ADA violations for fiscal years 2007 through 2012 that were also sent to GAO, the military departments' annual reports on evaluation of their funds control processes and processing of ADA violations for 2011 and 2012, and DOD and military department fiscal year 2011 and 2012 Statements of Assurance under the law commonly known as the Federal Managers' Financial Integrity Act (FMFIA),<sup>10</sup> and Agency Financial Reports<sup>11</sup> for fiscal years 2011 through 2012. We analyzed internal control weaknesses identified in these reports to determine the effect of funds control weaknesses with regard to the proper use of resources, reliable financial reporting on operations, and the success of audit readiness efforts. In addition, we reviewed DOD ADA reports, FIAR Plan Status Reports, and DOD and military department

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<sup>8</sup>DOD defines an assessable unit as any part of the financial statements, such as a line item or a class of assets, a class of transactions, or a process or a system that helps produce the financial statements.

<sup>9</sup>DOD has three military departments: the Department of the Army, Department of the Navy, and Department of the Air Force. The Department of the Navy includes two military services: the Navy and the Marine Corps. Accordingly, the Naval Audit Service performs audits of both the Navy and the Marine Corps.

<sup>10</sup>31 U.S.C. § 3512(c), (d).

<sup>11</sup>DOD's Agency Financial Reports provide an overview of the department's financial information and performance goals and objectives. Additional information, such as the department's reporting on improper payments, is in addendum A of the financial reports.

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Agency Financial Reports for fiscal year 2013 to determine if the identified weaknesses continued to exist.

To address our second objective, we reviewed DOD corrective actions under DOD's FIAR Plan and actions being taken outside of the FIAR Plan, such as efforts to develop and implement enterprise resource planning (ERP) systems.<sup>12</sup> We met with DOD IG and military department audit managers and reviewed auditor data on the status of military department actions to address funds control-related audit recommendations. We also met with DOD and military department financial managers, including managers responsible for audit readiness, to discuss their efforts to resolve findings of funds control weaknesses as well as corrective actions on related material weaknesses disclosed in their annual evaluations of funds control and annual Statements of Assurance regarding the effectiveness of internal controls, including controls over financial reporting.<sup>13</sup> We assessed the DOD IG's audit quality procedures for assuring the reliability of support for reporting findings and recommendations and the status of corrective actions to address auditor recommendations.<sup>14</sup> Our analysis of over 300 audit and financial reports on DOD financial management operations issued over the last 7 years identified over 1,000 funds control weaknesses. Based on our review of DOD's audit quality procedures and our comparison of auditor reports and DOD disclosures of financial management weaknesses, we determined the reported data and information to be reliable for the purposes of our work.

We conducted this performance audit from November 2011 to April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

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<sup>12</sup>An ERP system is an automated system using commercial off-the-shelf software consisting of multiple, integrated functional modules that perform a variety of business-related tasks, such as general ledger accounting, payroll, and supply chain management.

<sup>13</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>14</sup>Department of Defense, *DOD Audit Manual*, Manual 7600.07-M, enc. 11 (Feb. 13, 2009).

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sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides further details of our scope and methodology.

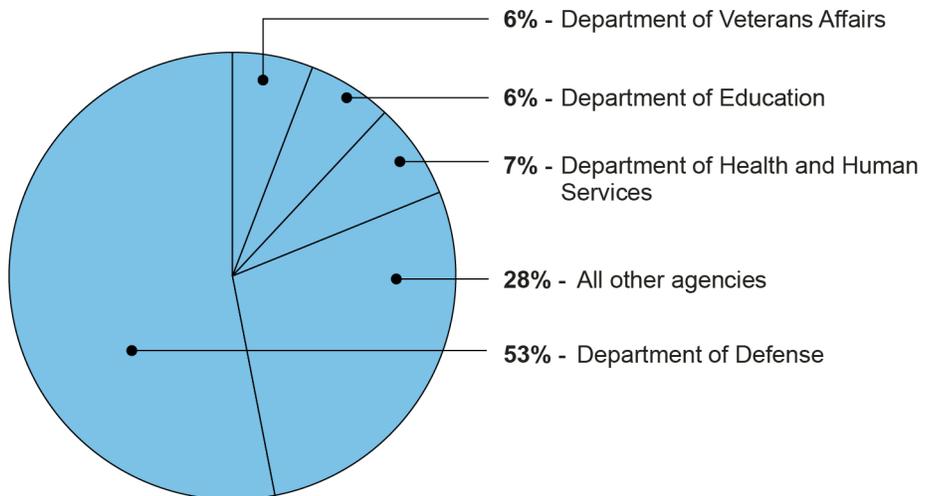
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## Background

DOD's mission is to provide the military forces needed to deter war and protect the security of the United States. As shown in figure 1, the discretionary budget authority requested by DOD for fiscal year 2014 comprises about 53 percent of the budget request for discretionary programs throughout the federal government.<sup>15</sup> DOD's approximately \$606 billion in requested fiscal year 2014 funding includes \$526.6 billion in spending authority for departmental operations and \$79.4 billion to support overseas contingency operations, such as those in Afghanistan.

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**Figure 1: Comparison of DOD's Requested Fiscal Year 2014 Discretionary Budget Authority with That of Other Federal Agencies**



Source: GAO analysis of Historical Tables, *Budget of the United States Government, Fiscal Year 2014*.

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<sup>15</sup>Budget authority is authority provided by federal law to enter into financial obligations that will result in immediate or future outlays involving federal government funds. The basic forms of budget authority include (1) appropriations, (2) borrowing authority, (3) contract authority, and (4) authority to obligate and expend offsetting receipts and collections. "Discretionary" refers to the level of budget authority (other than those which fund mandatory programs) that is provided in and controlled by appropriation acts.

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## Legal Framework for Internal Control

The Budget and Accounting Procedures Act of 1950<sup>16</sup> and FMFIA placed primary responsibility for establishing and maintaining internal control on the heads of federal agencies. FMFIA requires executive agencies to establish internal controls that reasonably ensure that obligations and costs comply with applicable law; that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and that revenues and expenditures applicable to agency operations are recorded and accounted for properly.<sup>17</sup> Those internal controls that pertain to the obligation, disbursement, and receipt of agency funds, as well as the recording of those transactions, are referred to in this report as funds control. Internal control is an integral component of an organization's management that when properly implemented and operating effectively, provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with laws and regulations.<sup>18</sup> Within this broad framework, DOD must design and implement effective controls, including funds control, and internal control over financial reporting. Auditors of DOD's financial statements are to assess the effectiveness of these controls as part of a financial statement audit.

Because budgetary information is widely and regularly used for management decision making on programs and operations, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, commonly referred to as the DOD Comptroller, designated the SBR as DOD's first priority for improving its financial management and achieving audit readiness. The financial information in the SBR is predominantly derived from a federal entity's budgetary accounts, which are used by the entity to account for and track the use of public funds in accordance with

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<sup>16</sup>Pub. L. No. 81-784, § 113, 64 Stat. 832, 836 (Sept. 12, 1950), *codified as amended at* 31 U.S.C. § 3512(b).

<sup>17</sup>31 U.S.C. § 3512(c)(1)(A)-(C).

<sup>18</sup>The concept of reasonable assurance recognizes that no matter how well-designed and well-operated, internal control cannot provide absolute assurance that an entity's objectives will be met. Management should design and implement internal control based on the related costs and benefits.

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budgetary accounting rules.<sup>19</sup> The SBR provides information about budgetary resources made available to an agency as well as the status of those resources at a specific point in time. According to the Office of Management and Budget (OMB), the SBR was added as a basic federal financial statement so that the underlying budgetary accounting information could be audited and would, therefore, be more reliable for routine management use and budgetary reporting, including reporting in the President's Budget.

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## Statutory Requirements for Funds Control

As noted above, one of the objectives of internal control generally, and funds control in particular, is to ensure compliance with applicable law. Executive agencies' use of federal funds is governed by fiscal statutes that establish specific funds control requirements. Many of these laws have been codified in Title 31 of the United States Code, particularly in chapters 13, 15, and 33. These chapters contain the laws known commonly as the ADA, the Recording statute,<sup>20</sup> the Miscellaneous Receipts statute,<sup>21</sup> the Purpose statute,<sup>22</sup> and the Bona Fide Needs statute,<sup>23</sup> as well as the provisions establishing the procedures and officials responsible for the disbursement of federal funds<sup>24</sup> and the provisions that govern the closing of appropriations accounts known as the Account Closing Statute.<sup>25</sup> Many other government-wide and agency-specific provisions of permanent law govern the use of federal funds,

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<sup>19</sup>Budgetary accounting rules are incorporated into generally accepted accounting principles (GAAP) for the federal government. For additional information on the two methods of tracking the use of public funds, see app. III to GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005).

<sup>20</sup>31 U.S.C. § 1501(a) (establishes the basic rules for when to record an obligation).

<sup>21</sup>31 U.S.C. § 3302(b) (absent statutory authority to do otherwise, any funds received by an agency must be deposited in the general fund of the Treasury).

<sup>22</sup>31 U.S.C. § 1301(a) (appropriations shall be applied only to the objects for which the appropriations were made, except as otherwise provided by law).

<sup>23</sup>31 U.S.C. § 1502(a) (in general, appropriations may only be used for needs arising within the period of their availability for obligation).

<sup>24</sup>31 U.S.C. §§ 3321-36.

<sup>25</sup>31 U.S.C. §§ 1551-58.

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such as the Adequacy of Appropriations Act<sup>26</sup> and limitations on DOD incurring obligations for business system modernization,<sup>27</sup> as do the provisions of annual appropriations acts. Appropriations acts prescribe the purpose, amount, and time for which appropriations are available for obligation and expenditure, and they often include additional permanent and temporary fiscal guidance.

The ADA, in particular, is central to Congress's ability to uphold its constitutional power of the purse, to hold executive branch officials accountable for proper use of budgetary resources, and to ensure proper stewardship and transparency of the use of public funds. As noted above, the act requires heads of federal agencies to establish by regulation a system of administrative controls over obligations and expenditures, commonly referred to as funds control regulations. The act also includes certain prohibitions, such as prohibiting federal officers and employees from authorizing or making obligations or expenditures in excess of the

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<sup>26</sup>41 U.S.C. § 6301 (in general, bars any contract or purchase on behalf of the government unless it is authorized by law or is under an appropriation adequate to its fulfillment).

<sup>27</sup>10 U.S.C. § 2222.

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amount available in an apportionment or reapportionment,<sup>28</sup> an appropriation or fund,<sup>29</sup> or an allotment<sup>30</sup> unless authorized by law.

Once it is determined that there has been a violation, the ADA requires the agency head to report immediately to the President and Congress all relevant facts and a statement of actions taken, and transmit a copy of the report to the Comptroller General. The ADA also provides for possible administrative and criminal penalties for employees responsible for violations.

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<sup>28</sup>An apportionment is a plan, approved by OMB for executive branch agencies, to spend budgetary resources provided by one of the annual appropriation acts, a supplemental appropriations act, a continuing resolution, or a permanent law. The apportionment identifies amounts available for obligation and expenditure and specifies and limits the time periods, programs, activities, projects, objects, or any combination thereof. A reapportionment is a revision of a previous apportionment of budgetary resources for an appropriation or fund account. Agencies usually submit requests for reapportionment to OMB as soon as a change becomes necessary because of changes in amounts available, program requirements, or cost factors.

<sup>29</sup>An appropriation is a basic form of budget authority to incur obligations and to make payments from the Treasury for specific purposes. Appropriations do not represent cash actually set aside in the Treasury. Instead, they represent amounts that agencies may obligate during the period of time specified in the respective appropriation acts. A fund is a group of accounts, other than trust funds, that are designated to collect and disburse moneys for a specific purpose. Federal funds include general funds (accounts holding money not allocated by law to any other fund account), special funds (accounts earmarked by law for a specific purpose), public enterprise funds (accounts for business-type activity transactions), and intergovernmental funds (which facilitate financing transactions primarily within and between federal agencies). A trust fund is a type of account, designated by law, for accounting for receipts and expenditures of receipts dedicated to specific purposes. The Federal Highways Trust Fund is an example.

<sup>30</sup>An allotment is an authorization by an agency head or another authorized employee to subordinates to incur obligations within a specified amount. The amount allotted by an agency cannot exceed the amount apportioned by OMB.

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## Pervasive Funds Control Weaknesses Impair the Effectiveness of DOD's Financial Management Operations

Our analysis of over 300 audit and financial reports on DOD financial management operations issued over the last 7 years identified over 1,000 funds control weaknesses. We grouped these weaknesses into three major categories: (1) inadequate training, supervision, and management oversight; (2) ineffective transaction controls; and (3) inadequate business systems. In fiscal year 2013, the DOD Comptroller and DOD auditors continued to report funds control weaknesses and ADA violations related to these same areas. For example, in its November 2013 Agency Financial Report, DOD self-reported 16 material weaknesses in financial reporting, noting that it had no assurance of the effectiveness of the related controls. These weaknesses place DOD at risk of making program and operational decisions based on unreliable data and impair DOD's ability to improve its financial management operations and achieve the department's audit readiness goals. The long-standing, pervasive nature of funds control weaknesses poses a significant impediment to reliable financial management operations, including proper use of resources and achieving financial audit readiness as well as accountability and stewardship of taxpayer funds entrusted to DOD management. As discussed later in this report, DOD has numerous corrective actions under way to address these weaknesses, including actions related to its audit readiness efforts as well as efforts to address findings in auditor and ADA reports.

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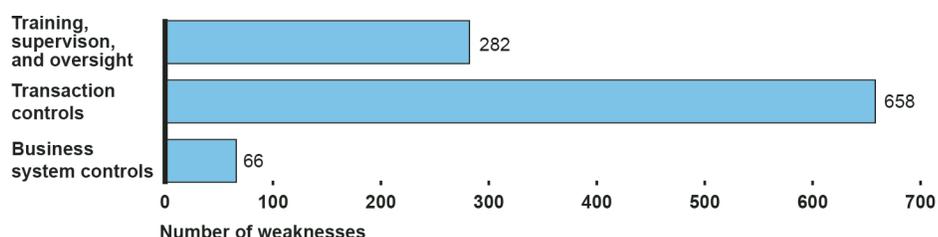
## Auditors and DOD Management Continue to Report Pervasive Funds Control Weaknesses

Our analysis identified long-standing weaknesses across DOD components related to the following three areas:

- (1) Inadequate training, supervision, and management oversight of budgetary processes and controls. Training assures that personnel have the skills to carry out their assigned duties. Supervision is day-to-day guidance by a supervisor and management oversight involves assuring adequate supervisory guidance and training as well as overall monitoring of the subject matter area.
- (2) Inadequate transaction controls. These controls cover proper authorization and recording of budgetary transactions, such as obligations and disbursements (outlays); maintaining adequate supporting documentation; and proper and timely reporting of transactions, related summaries, and financial reports.
- (3) Ineffective business systems. This category refers to business systems that do not have effective controls for recording, supporting, and reporting financial transactions, including budgetary transactions, and

therefore, do not provide adequate controls over financial reporting on the results of operations and do not assure compliance with laws, such as the Federal Financial Management Improvement Act of 1996 (FFMIA) and the ADA.<sup>31</sup> Figure 2 summarizes 1,006 reported funds control weaknesses that span DOD budgetary accounting, funds control, and financial reporting by three categories.

**Figure 2: Reported DOD Funds Control Weaknesses by Major Category**



Source: GAO analysis.

Examples of findings related to the three major categories of funds control weaknesses follow. Many of the funds control reports identified more than one weakness. See appendix II for additional details on these findings.

**Training, supervision, and management oversight.** In its November 2013 FIAR Plan Status Report, DOD continued to identify unqualified or inexperienced personnel, not only at the working level but also in senior-level positions, as a risk to achieving sound financial management operations and auditability. *Standards for Internal Control in the Federal Government* states that effective management of an organization’s workforce is essential to achieving positive results and is an important part of internal control.<sup>32</sup> Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved. In addition, deficiencies found during ongoing monitoring should be communicated to the individual responsible and to at least one level of management above that individual. Serious matters should be reported to

<sup>31</sup>Pub. L. No. 104-208, div. A, title VIII, § 803, 110 Stat. 3009, 3009-390 (Sept. 30, 1996). DOD’s financial management systems are required by FFMIA to comply with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level.

<sup>32</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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top management. To help address skill needs, the NDAA for Fiscal Year 2012 authorized the DOD Comptroller to develop a financial management training and certification program.<sup>33</sup> FIAR Plan Status Reports continue to identify the need for knowledgeable and qualified personnel as critical to achieving DOD's financial improvement and audit readiness goals. DOD's November 2013 FIAR Plan Status Report also identified a risk associated with identified control weaknesses not being corrected. DOD reported that the DOD Comptroller was formalizing a process and establishing a tracking system to closely monitor actions on independent auditor findings and recommendations resulting from financial audit readiness testing. Federal internal control standards also state that internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

The following examples illustrate long-standing and persistent funds control weaknesses in the area of training, supervision, and management oversight that we and others have identified in the past. As discussed later in this report, DOD has corrective actions under way through audit readiness efforts under the FIAR Plan and through other efforts related to improving training.

- In 2012, we reported<sup>34</sup> that the training on the Army's General Fund Enterprise Business System (GFEBS)<sup>35</sup> and the Air Force's Defense

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<sup>33</sup>Pub. L. No. 112-81, § 1051 (Dec. 31, 2011), *codified at* 10 U.S.C. § 1599d.

<sup>34</sup>GAO, *DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals*, [GAO-12-134](#) (Washington, D.C.: Feb. 28, 2012).

<sup>35</sup>GFEBS, initiated by the Army in October 2004, is intended to support the Army's standardized financial management and accounting practices for the Army's general fund, with the exception of the Army Corps of Engineers, which will continue to use its existing financial system, the Corps of Engineers Financial Management System. The Army estimates that when fully implemented, GFEBS will be used to control and account for about \$140 billion in annual spending. An agency's general fund accounts are those accounts in the Treasury holding all federal money administered by an agency that is not allocated by law to any other fund account.

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Enterprise Accounting and Management System (DEAMS)<sup>36</sup> focused on a systems overview and how the systems were supposed to operate. While this was beneficial in identifying how GFEBs and DEAMS were different from the existing legacy systems, the training focused too much on concepts rather than the skills needed for users to perform their day-to-day operations. Without personnel with adequate skill sets and training to properly use the new systems, DOD staff members will not be positioned to control the use of funds for which they are responsible. We made five recommendations to the Secretary of Defense to ensure the correction of system problems prior to further system deployment, including user training. DOD concurred with four and partially concurred with one of the recommendations and described its efforts to address them. With regard to the partial concurrence, DOD stated that based on the nature of an identified system deficiency, it will determine whether to defer system implementation until it is corrected.

- In March 2010, Navy auditors reported that the Navy provided insufficient supervision of personnel responsible for documenting receipt and acceptance of goods and services and for processing invoices. As a result, Navy commands had incomplete documentation with which to validate the accuracy of 53 invoices valued at \$231,555 for 19 contracts at three Navy Fleet Readiness Centers.<sup>37</sup> Without effective supervision to ensure that sufficient documentation exists prior to payment, the reliability of Navy invoice payments (disbursements) is at risk. In addition, not properly managing the invoice process increases the risk of improper or fraudulent payments.
- In June 2010, Air Force auditors reported on their audit of the Air Force's tri-annual review process, stating that the service experienced significant recurring difficulties in identifying and deobligating

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<sup>36</sup>DEAMS was initiated in August 2003 and is intended to provide the Air Force with the entire spectrum of financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipts and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund. According to Air Force officials, when DEAMS is fully operational, it is expected to maintain control and accountability for about \$160 billion in annual spending.

<sup>37</sup>Naval Audit Service, *Invoice Management at Fleet Readiness Centers*, N2010-0015 (Washington, D.C.: Mar. 10, 2010).

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unnneeded obligation amounts.<sup>38</sup> From fiscal years 2006 through 2010, Air Force audit reports identified a 42-percent error rate for periodic review to monitor and adjust obligations as required by DOD policy. The DOD *Financial Management Regulation* (FMR) requires component organizations to perform tri-annual reviews to monitor commitment and obligation transactions for timeliness, accuracy, and completeness.<sup>39</sup> Specifically, reviewers are required to review and determine the validity of commitments and obligations that have had no activity (expenditures or adjustments) for 120 days and deobligate any unnneeded amounts of unliquidated obligations. Financial managers are required to implement effective internal controls to ensure timely completion of tri-annual reviews and any identified corrective actions. However, Air Force Audit Agency reviews have reported that the Tri-annual Review Program did not identify millions of dollars of unsupported obligations that could have been used for other mission requirements.<sup>40</sup>

- In July 2010, the DOD IG reported that the Army mismanaged \$110 million of its Defense Emergency Response Fund (DERF) funding.<sup>41</sup> According to the DOD IG report, when the Army spent its DERF emergency supplemental appropriations for items such as unrelated building repairs, furniture, and spare parts, instead of DOD needs arising from the terrorist attacks of September 11, 2001, it potentially violated the Purpose Statute (appropriations are applied to the objects for which they were made) and the Bona Fide Needs Rule (appropriations may only be used for needs arising within the period of their availability). The DOD IG report stated that the potential ADA violations occurred because the Army commands involved did not

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<sup>38</sup>Deobligating refers to the process of adjusting unnneeded obligations by decreasing or eliminating amounts previously obligated to the extent that obligated amounts are not needed to cover expenditures.

<sup>39</sup>DOD, FMR, vol. 3, ch. 8, "Standards for Recording and Reviewing Commitments and Obligations," § 0804 (September 2009). DOD's FMR defines the tri-annual review process as an internal control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged.

<sup>40</sup>Air Force Audit Agency, *Tri-annual Review Program Implementation*, F2010-0008-FB3000 (Washington, D.C.: June 29, 2010), and *Air National Guard Tri-annual Review Process*, F2010-0007-FB3000 (Washington, D.C.: Apr. 6, 2010).

<sup>41</sup>Department of Defense Inspector General, *Management of Emergency Supplemental Appropriations at Selected Department of the Army Commands in Response to the Terrorist Attacks*, D-2010-072 (Arlington, VA: July 12, 2010).

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follow DOD policies and procedures to ensure that appropriated funds were expended for their intended purposes. The DOD IG made recommendations directed at improving related training and monitoring activities to ensure compliance with legal requirements and DOD policies.

**Transaction controls.** Auditors have reported on DOD's inability to provide effective funds control and report reliable financial information, including budgetary information for many years.<sup>42</sup> DOD's challenges in properly recording and adequately supporting its obligations and disbursements have impaired its ability to track and control the use of public funds. *Standards for Internal Control in the Federal Government* states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.<sup>43</sup> All transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. Federal internal control standards further state that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. According to DOD's FMR, obligations and expenditures are required to be recorded accurately and promptly, even if the recording results in a negative amount at the appropriation, fund, or other accounting level.<sup>44</sup> However, we, the DOD IG, and military department auditors have reported long-standing weaknesses in DOD's controls for proper authorization and recording, adequate support, and accurate reporting of budgetary transactions. In addition, we and the DOD IG have reported that DOD has not been able to locate support for transactions in order to satisfy audit requirements.

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<sup>42</sup>For example, see GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: February 2011), and Department of Defense Inspector General, *Independent Auditor's Report on the Department of Defense FY 2013 and FY 2012 Financial Statements*, DODIG-2014-024 (Alexandria, VA: Dec. 16, 2013).

<sup>43</sup>[GAO/AIMD-00-21.3.1](#).

<sup>44</sup>DOD, FMR, vol. 14, ch. 2, "Antideficiency Act Violations," § 020203 (November 2010). DOD's guidance also describes common types of violations, including exceeding statutory thresholds for the use of certain funds for certain purposes, such as operations and maintenance funds for military construction and procurement activities, which cannot be corrected by adjusting DOD's accounts to charge the correct appropriation because sufficient funds were not available at the time of erroneous obligation or are no longer available.

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The following examples demonstrate the persistent nature of DOD's funds control weaknesses related to ineffective transaction controls that we and others have identified in the past. As discussed later in this report, DOD has corrective actions under way to address its transaction control weaknesses, particularly in regard to its audit readiness efforts.

- In March 2012, we reported that the Army was unable to locate supporting documentation for a sample of 250 active duty military payroll accounts.<sup>45</sup> In March 2011, we worked with Army Human Resources Command, Army Finance Command, and Defense Finance and Accounting Service (DFAS) Indianapolis officials to obtain source documents that supported basic pay, allowances (such as allowances for housing costs), and entitlements (special pay related to type of duty, such as hazardous duty pay). After various offices were unable to provide supporting documentation, we suggested that the Army focus on the first 20 pay account sample items. When the Army continued to have difficulty locating supporting documentation, we suggested that the Army focus on the first 5 sample items. As of the end of September 2011, 6 months after receiving our initial sample request, the Army and DFAS were able to provide complete documentation for 2 of our 250 sample items, partial support for 3 sample items, and no support for the remaining 245 sample items. We recommended that the Secretary of the Army require personnel and pay-related documents that support military payroll transactions to be centrally located, retained in each service member's Official Military Personnel File, or otherwise readily accessible; and that the Army's Human Resources Command periodically review and confirm that service member Official Military Personnel File records are consistent and complete to support annual financial audit requirements. The Army concurred with our recommendations and is taking actions to address them.
- In December 2011, Navy auditors reported<sup>46</sup> that Marine Corps authorizing officials approved travel expense disbursements that were not supported by receipts or were not allowable under the related guidance because Defense Travel System travel administrator

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<sup>45</sup>GAO, *DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*, [GAO-12-406](#) (Washington, D.C.: Mar. 22, 2012).

<sup>46</sup>Naval Audit Service, *Defense Travel System – Marine Corps*, N2012-0010 (Washington, D.C.: Dec. 21, 2011).

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functions (1) allowed complete access to the system by preparers and reviewers of vouchers and (2) were not separated from travel voucher review and approval functions, as required by DOD guidance.<sup>47</sup> As a result, employees received reimbursement for unsupported travel expenses of \$15,208 and unallowable expenses of \$3,385.

- In January 2010, Army auditors reported significant weaknesses in transaction controls over disbursing functions at Multi-National Division-South.<sup>48</sup> Army auditors reported that 16 out of 62 voucher packages<sup>49</sup> reviewed (26 percent) contained missing or inaccurate documentation, such as a certified voucher or invoice, contract or deliverables information for the first and the final payment, and the name of the government official documenting receipt and acceptance of goods and services. Army auditors also found inaccurate reporting of dollar values, differences in payee names on the voucher and the related supporting documentation, and inaccurate paying office and mailing address information. Army auditors concluded that the Army did not have (1) adequate controls over its vendor payments to ensure that payment authorizations and disbursements were accurate and that funds were obligated and available before disbursement or (2) reasonable assurance that vendor payments valued at over \$1.5 million were valid or fully supported. Further, Army auditors reported that insufficient controls in high-risk areas leave the Army vulnerable to fraud, waste, and misuse and could result in duplicate payments, disbursements that are not matched to obligations, disbursements that exceed recorded obligations, or possible ADA violations.

**Ineffective business systems.** DOD spends billions of dollars each year to acquire modern systems that it considers fundamental to achieving its business transformation goals. In February 2013, we reported that while DOD's capability and performance relative to business systems

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<sup>47</sup>DOD, FMR, vol. 9, ch. 2, "Defense Travel System," § 020301 (August 2011).

<sup>48</sup>Army Audit Agency, *Audit of Controls Over Vendor Payments – Southwest Asia (Phase II)*, A-2010-0012-ALL (Alexandria, VA: Jan. 5, 2010). Upon the completion of its tour in 2008, the Army's 10th Mountain Division (Light Infantry) became part of Coalition Forces operations and was designated the Multi-National Division-South, overseeing provinces that encompass almost the entire southern portion of Iraq.

<sup>49</sup>A voucher package contains the supporting documentation for each payment.

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modernization has improved, significant challenges remain.<sup>50</sup> The department has not fully defined and established business systems modernization management controls, which are vital to ensuring that it can effectively and efficiently manage an undertaking with the size, complexity, and significance of its business systems modernization and minimize the associated risks. We designated this area as high risk in 1995 and since then have made about 250 recommendations aimed at strengthening DOD's institutional approach to modernization and reducing the risk associated with key investments. While DOD has made progress toward implementing key institutional modernization management controls in response to statutory provisions and our recommendations, progress has been slow and DOD has been limited in its ability to demonstrate results. Further, we, the DOD IG, and military department auditors identified business system design and development weaknesses affecting funds control, such as noncompliance with DOD's Standard Financial Information Structure (SFIS),<sup>51</sup> Business System Architecture,<sup>52</sup> and the *U.S. Standard General Ledger* (USSGL).<sup>53</sup> The following examples illustrate the scope of DOD's long-standing problems in the area based on prior GAO, DOD, and DOD IG findings. DOD is working to modernize its financial management systems and related business processes, as discussed later.

- Army Logistics Modernization Program (LMP). In April 2010, we reported that the Army's LMP, which is intended to replace aging Army systems used to manage inventory and depot repair operations and support financial management and reporting, would require at

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<sup>50</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

<sup>51</sup>SFIS is DOD's comprehensive "common business language" that supports department-wide information and data requirements for budgeting, financial accounting, cost and performance management, and external reporting purposes.

<sup>52</sup>An enterprise architecture, or modernization blueprint, provides a clear and comprehensive picture of an entity, whether it is an organization (e.g., federal department or agency) or a functional or mission area that cuts across more than one organization (e.g., financial management). This picture consists of snapshots of the enterprise's current or "as-is" operational and technological environment and its target or "to-be" environment, and contains a capital investment road map for transitioning from the current to the target environment. These snapshots consist of "views," which are basically one or more architecture products that provide conceptual or logical representations of the enterprise.

<sup>53</sup>The USSGL provides a uniform Chart of Accounts and technical guidance to be used in standardizing federal agency accounting practices. The Department of the Treasury issues USSGL Implementation Guidance.

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least two additional deployments because problems with data quality, training, and metrics to measure success of LMP implementation had not been resolved.<sup>54</sup> We recommended that the Army (1) improve testing activities to obtain reasonable assurance that the data used by LMP can support the LMP processes, (2) improve training for LMP users, and (3) establish performance metrics to enable the Army to assess whether the deployment sites are able to use LMP as intended. The Army concurred with our recommendations and noted actions under way to address them. In November 2010, we reported that the Army had implemented data audits and new testing activities to improve data accuracy, but data issues that could impede LMP functionality persisted.<sup>55</sup> For example, we reported that it was unclear whether (1) the system would provide all the software functionality needed to conduct operations, (2) data maintained in the system were sufficiently accurate, and (3) the Army would achieve all the expected benefits from its investment in the system. We recommended that within 90 days of the beginning of its third deployment, the Army periodically report to Congress on the progress of LMP, including its progress in ensuring that the data used in LMP can support the system, timelines for the delivery of software necessary to achieve full benefits, and the costs and time frames of its mitigation strategies. DOD concurred with our recommendation stating that the Army would comply with the reporting timetable and conditions in our recommendation. While DOD concurred with our recommendation, as of our last update in November 2013, it had not yet provided any such reports to Congress.<sup>56</sup>

In May 2012, the DOD IG reported that after spending about \$1.8 billion, Army managers had not accomplished the reengineering needed to integrate the LMP procure-to-pay functions<sup>57</sup> to comply with DOD Business Enterprise Architecture requirements and correct

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<sup>54</sup>GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, [GAO-10-461](#) (Washington, D.C.: Apr. 30, 2010).

<sup>55</sup>GAO, *Defense Logistics: Additional Oversight and Reporting for the Army Logistics Modernization Program Are Needed*, [GAO-11-139](#) (Washington, D.C.: Nov. 18, 2010).

<sup>56</sup>GAO, *Defense Logistics: Army Should Track Financial Benefits Realized from Its Logistics Modernization Program*, [GAO-14-51](#) (Washington, D.C.: Nov. 13, 2013).

<sup>57</sup>Procure-to-pay refers to the end-to-end procurement process from initiation of an acquisition to final payment.

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material weaknesses.<sup>58</sup> According to DOD IG auditors, as of August 31, 2011, LMP activities reported more than \$10.6 billion in abnormal obligated balances.<sup>59</sup> In addition, the DOD IG reported that (1) LMP did not record the actual invoice numbers from the vendors, (2) LMP incorrectly recorded the interface date with the pay entitlement system instead of the dates for invoice receipt and receipt of goods and services, and (3) its invoice and receiving report transaction screens did not identify the corresponding disbursement voucher information. Because more than one disbursement generally liquidated an obligation, LMP needed to link the various invoices and receiving reports to the corresponding disbursement vouchers. The absence of actual invoice numbers, accurate dates, and disbursement voucher information prevented Army activities from using LMP to detect duplicate payments and validate that payments complied with the Prompt Payment Act.<sup>60</sup> According to DOD's November 2012 FIAR Plan Status Report, the Army's abnormal obligated balances decreased during fiscal year 2012, but disbursements that could not be matched to a recorded obligation increased.<sup>61</sup>

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<sup>58</sup>Department of Defense Inspector General, *Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses*, DODIG-2012-087 (Alexandria, VA: May 29, 2012).

<sup>59</sup>A general ledger account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts. An abnormal general ledger account balance is an accounting irregularity caused by the incorrect posting of transactions or by an operational issue such as overobligation of an appropriation. In its FIAR Plan metrics, DOD defines an abnormal balance as an appropriation with a negative balance that occurred when expenditures exceeded the appropriated amount and the problem was not resolved within 3 months.

<sup>60</sup>31 U.S.C. §§ 3901-3907. Generally, the Prompt Payment Act requires agencies to add interest penalties to payments made to business concerns after the contractually established payment date, or 30 days after the date they receive a proper invoice, if the contract specifies no due date.

<sup>61</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Financial Improvement and Audit Readiness (FIAR) Plan Status Report* (November 2012).

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- Navy ERP.<sup>62</sup> In February 2012, the DOD IG reported that the Navy approved deployment of its ERP general ledger system without ensuring that it complied with DOD's SFIS and the USSGL.<sup>63</sup> As a result, the Navy spent \$870 million to develop and implement a system that may not produce accurate and reliable financial information. The DOD IG reported that this is a significant weakness because when fully deployed, the system is intended to manage 54 percent of the Navy's total obligational authority, which was \$155.9 billion for fiscal year 2013.
  - Air Force DEAMS. In September 2012, the DOD IG reported that the Air Force's DEAMS lacked critical functional capabilities needed to generate accurate and reliable financial management information.<sup>64</sup> According to the DOD IG, this weakness occurred because DEAMS managers did not maintain an adequate general ledger chart of accounts, and because DOD and Air Force management initially decided not to report financial data directly to the Defense Departmental Reporting System (DDRS) for financial reporting purposes until the fourth quarter of fiscal year 2016. Further, we recently reported that the Air Force did not meet best practices in developing a schedule for the DEAMS program.<sup>65</sup> This raises questions about the credibility of the deadline for acquiring and implementing DEAMS to provide needed functionality for financial improvement and audit readiness. We recommended that the Air Force update the cost estimate as necessary after implementing our

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<sup>62</sup>The Navy ERP system, initiated in August 2004, is intended to standardize the acquisition, financial, program management, maintenance, procurement, plant and wholesale supply, and workforce management capabilities of the Navy. The Navy ERP is expected to replace 96 legacy systems. According to Navy officials, on an annual basis, the Navy ERP is intended to control and account for \$82.5 billion of total appropriations; \$33.8 billion of total inventory; and \$1.1 billion of plant, property, and equipment.

<sup>63</sup>Department of Defense Inspector General, *Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Structure and U.S. Government Standard General Ledger*, D-2012-051 (Alexandria, VA: Feb. 13, 2012).

<sup>64</sup>Department of Defense Inspector General, *An Unreliable Chart of Accounts Affected Auditability of Defense Enterprise Accounting and Management System Financial Data*, DODIG-2012-140 (Alexandria, VA: Sept. 28, 2012).

<sup>65</sup>GAO, *DOD Business System Modernization: Air Force Business System Schedule and Cost Estimates*, [GAO-14-152](#) (Washington, D.C.: Feb. 7, 2014).

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prior recommendation to adopt scheduling best practices.<sup>66</sup> DOD concurred with our recommendation.

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## Effect of Funds Control Weaknesses on DOD Financial Management Operations

Fundamental weaknesses in DOD funds control, including related business systems weaknesses, significantly impair DOD's ability to ensure the (1) proper use of resources, (2) reliability of reports on the results of operations, and (3) success of its financial audit readiness efforts. For example, billions of dollars in DOD-reported improper payments and continuing reports of millions of dollars in ADA violations underscore DOD's inability to assure proper use and accountability of resources provided to carry out its mission and operations. Further, DOD's transaction control weaknesses, including unsupported adjustments (plugs) to reconcile DOD fund balances with the Department of the Treasury's (Treasury) records, and suspense<sup>67</sup> transactions that cannot be identified to a fund account impair accurate accounting for programs and results of operations. As a result, quarterly and annual financial statements, reports on budget execution, and reports on the results of operations, which could have a material effect on budget, spending, and other management decisions as well as determinations of agency compliance with laws and regulations, are unreliable. Military auditors also reported that these weaknesses leave their departments at risk of fraud and improper transactions.

Additionally, funds control weaknesses continue to hinder DOD's ability to achieve its September 2014 SBR audit readiness goal and raise questions about DOD's ability to achieve audit readiness on a full set of

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<sup>66</sup>GAO, *DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed*, [GAO-11-53](#) (Washington, D.C.: Oct. 7, 2010).

<sup>67</sup>A Suspense account is a temporary account or repository, referred to by DOD as a Clearing account, for monetary transactions (cash receipts, cash disbursements, and journal entries that were recorded using invalid appropriation or fund account numbers).

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financial statements by the end of fiscal year 2017.<sup>68</sup> In response to component difficulties in preparing for a full SBR audit, the November 2012 FIAR Plan Status Report and the March 2013 FIAR Guidance included a revision to narrow the scope of initial audits to only current-year budget activity and expenditures on a Schedule of Budgetary Activity.<sup>69</sup> Under this approach, beginning in fiscal year 2015, reporting entities are to undergo an examination of their Schedules of Budgetary Activity reflecting the amount of SBR balances and associated activity related only to funding approved on or after October 1, 2014. As a result, the Schedules of Budgetary Activity will exclude unobligated and unexpended amounts carried over from prior years' funding as well as information on the status and use of such funding in subsequent years (e.g., obligations incurred, outlays). These amounts will remain unaudited. Over the ensuing years, as the unaudited portion of SBR balances and activity related to this funding decline, the audited portion is expected to increase. However, the NDAA for Fiscal Year 2010, as amended by the NDAA for Fiscal Year 2013, requires that the FIAR Plan describe specific actions to be taken and the costs associated with ensuring that DOD's SBR is validated as ready for audit by not later than September 30, 2014. Because the audit of the Schedule of Budgetary Activity is an incremental step building toward an audit-ready SBR, the FIAR Plan does not presently comply with this requirement. Furthermore, all material amounts reported on the SBR will need to be auditable in order to achieve the mandated goal of full financial statement audit readiness by September 30, 2017. It is not clear how this can be accomplished if

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<sup>68</sup>The NDAA for Fiscal Year 2010 mandated that DOD develop and maintain a Financial Improvement and Audit Readiness (FIAR) Plan that among other things, describes the specific financial management improvement actions to be taken and costs associated with ensuring that its department-wide financial statements are validated as audit ready by September 30, 2017. Pub. L. No. 111-84, § 1003(a), (b) (Oct. 28, 2009). In October 2011, the Secretary of Defense directed the department to accelerate audit readiness efforts for key elements of its financial statements. Subsequently, the NDAA for Fiscal Year 2013 amended the legal requirement to add that the FIAR Plan's financial management improvement efforts should also support the goal of validating audit readiness of the department's Statement of Budgetary Resources (SBR) no later than September 30, 2014. Pub. L. No. 112-239, § 1005 (a) (Jan. 2, 2013). Further, the NDAA for Fiscal Year 2014, Pub. L. No. 113-66, § 1003 (Dec. 26, 2013) mandates that a full audit of DOD's financial statements occur for fiscal year 2018, and that it be completed by March 31, 2019.

<sup>69</sup>DOD's FIAR Plan Status Reports describe the status of FIAR Plan implementation and, as required by the NDAA for Fiscal Year 2010, are submitted to Congress semi-annually by May 15 and November 15.

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activity related to funding provided prior to October 1, 2014, remains unaudited.

## Proper Use of Resources

DOD does not know the accuracy or validity of billions of dollars it spends annually to carry out its mission and operations. For example, our work and the work of the DOD IG has shown that DOD does not have a valid methodology for estimating its annual improper payments, and it does not have assurance that its obligations and expenditures comply with applicable law, including the ADA. As a result, management decisions are being made using incomplete and unreliable data. The following examples from our past work and the past work of others illustrate the effect of these weaknesses.

- We and the DOD IG have reported weaknesses in DOD's payment controls, including weaknesses in its process for assessing the risk of improper payments and reporting estimates of the magnitude of improper payments. In September 2011, we testified that in its Agency Financial Report for fiscal year 2010, DOD reported that it made an estimated \$1 billion in improper payments under five of its programs.<sup>70</sup> However, this estimate was incomplete because DOD did not include estimates from its commercial payment programs, which account for approximately one-third of the value of DOD-reported payments. In May 2013, we reported that DOD's fiscal year 2011 Agency Financial Report included commercial payment programs in its improper payment estimates, totaling over \$1.1 billion.<sup>71</sup> However, we found that DOD's improper payment estimates were neither reliable nor statistically valid. We also found that DOD did not conduct a risk assessment for fiscal year 2011 in accordance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA).<sup>72</sup> Further, although DOD had a corrective action plan for fiscal year 2011 to address problems with the reliability of its improper payment estimates, the plan did not include the required risk assessment. We concluded that DOD's lack of a risk assessment made it difficult for the department to fully identify underlying reasons

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<sup>70</sup>[GAO-11-950T](#).

<sup>71</sup>GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, [GAO-13-227](#) (Washington, D.C.: May 13, 2013).

<sup>72</sup>Pub. L. No. 111-204 (July 22, 2010).

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or root causes of improper payments in order to develop a comprehensive, effective corrective action plan. Additionally, DOD did not conduct recovery audits nor did it determine that such audits would not be cost effective, as required by IPERA. Finally, the department did not have procedures to ensure that improper payment and recovery audit reporting in its fiscal year 2011 Agency Financial Report was complete, accurate, and compliant.

DOD has taken some actions to reduce improper payments, such as reporting a statistical estimate for DFAS commercial payments and issuing revised FMR guidance on improper payments and recovery audits.<sup>73</sup> Further, in addendum A to DOD's Fiscal Year 2013 Agency Financial Report, the DOD IG reported that the department had taken many corrective actions to improve identification of its improper payments; however, more work is needed to improve controls over payments processed throughout the department.<sup>74</sup> For example, the DOD IG reported that improper payments are often the result of unreliable data, a lack of adequate internal controls, or both, which increases the likelihood of fraud. As a result, DOD continues to lack assurance that billions of dollars of annual payments are disbursed correctly. The DOD IG also reported that the department's inadequate financial systems and controls hamper its ability to make proper payments, and that the pace of operations and volume of department spending create additional risk of improper payments. These challenges have hindered the department's ability to detect and recover improper payments. As stated in our May 2013 report, until the department takes action to correct the deficiencies in underlying transaction controls and deficiencies we have found in the past related to identifying, estimating, reducing, recovering, and reporting improper payments and thereby fulfills legislative requirements and implements related guidance, DOD remains at risk of continuing to make improper payments and wasting taxpayer funds. We made 10 recommendations to improve DOD's processes to identify, estimate, reduce, recover, and report on improper payments. DOD concurred with 9 and partially concurred with 1 of the recommendations and described its plans to address them.

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<sup>73</sup>DOD, FMR, vol. 4, ch. 14, "Improper Payments" (October 2012).

<sup>74</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Department of Defense Agency Financial Report for Fiscal Year 2013*, p. A-7.

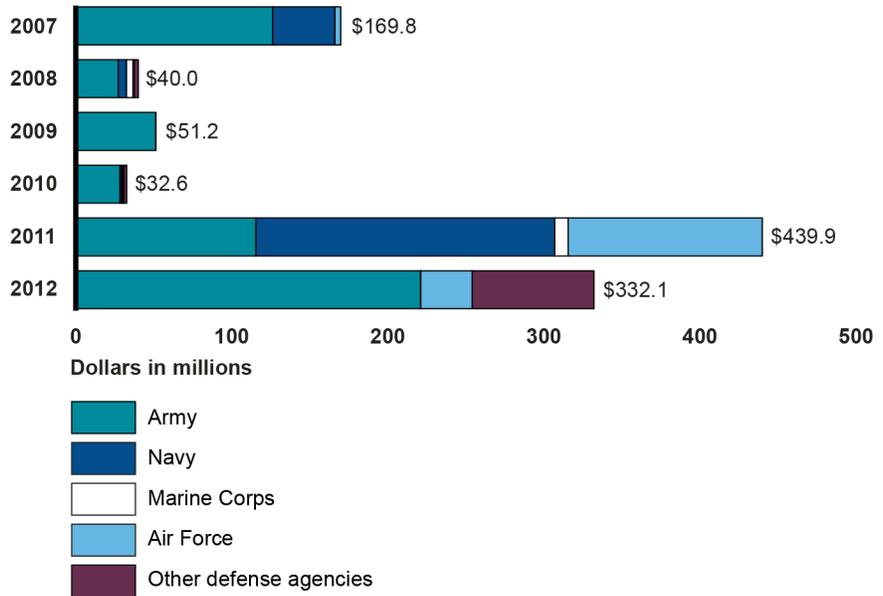
- 
- Continuing reports of ADA violations underscore DOD's inability to assure that obligations and expenditures are properly recorded and do not exceed statutory levels of control.<sup>75</sup> The ADA requires, among other things, that no officer or employee of DOD incur obligations or make expenditures in excess of the amounts made available by appropriation, by apportionment, or by further subdivision according to the agency's funds control regulations. According to copies of ADA violation reports sent to GAO, DOD reported 75 ADA violations from fiscal year 2007 through fiscal year 2012, totaling nearly \$1.1 billion. We received reports of two additional ADA violations in 2013 totaling \$148.6 million. However, the number of violations and dollar amounts reported may not be complete because of weaknesses in DOD's funds control and monitoring processes that may not have allowed all violations to be identified or reported. For example, DOD IG reports issued in fiscal years 2007 through 2012 (see fig. 3) identified \$5.5 billion in potential ADA violations that required further investigation to determine whether an ADA violation had, in fact, occurred, or if adjustments could be made to avoid a violation. Further, while DOD's FMR limits the time from identification to reporting of ADA violations to 15 months,<sup>76</sup> our analysis identified several examples of time spans for investigations of potential ADA violations taking several additional months to several years before determinations of actual violations were reported. For example, as of September 30, 2013, 3 of the DOD IG-reported potential violations totaling \$713.1 million could not be fully corrected and have resulted in \$108.8 million in actual, reported ADA violations. To the extent that ADA violations are not identified, corrected, and reported, DOD management decisions are being made based on incomplete and unreliable data.

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<sup>75</sup>Our analysis of DOD reports of ADA violations sent to us determined that DOD categorizes violations of various fiscal laws and violations of the ADA collectively as ADA violations. For example, DOD has reported violations of the Purpose Statute as ADA violations. In some cases, reports of ADA violations included both ADA and other fiscal law violations.

<sup>76</sup>DOD, FMR, vol. 14, ch. 7, "Antideficiency Act Report," § 070102 (November 2010).

**Figure 3: Military Service ADA and Other Fiscal Law Violations Reported by DOD (Fiscal Year 2007 through Fiscal Year 2012)**



Source: GAO analysis of unaudited DOD-reported Antideficiency Act violations.

Our analysis of DOD’s reports of ADA violations determined that the increases in violations reported in fiscal years 2011 and 2012 relate primarily to the military services’ use of “bulk” (estimated) amounts used to record obligation transactions for permanent change-of-station moves and significant increases in bonuses paid from their respective Military Personnel appropriations. These violations are specific to the ADA with regard to prohibiting federal officers and employees from authorizing or making obligations or expenditures in excess of available amounts. The use of estimated obligations requires periodic monitoring and reconciliation of estimated obligations to the related disbursement transactions and the recording of appropriate adjustments to the estimated obligations based on actual disbursement amounts; however, these ADA violations occurred largely because the military services did not have adequate procedures for monitoring and reconciling disbursements to bulk obligations. During fiscal year 2011, the Navy and the Air Force reported violations related to permanent change-of-station moves totaling \$183 million and \$87.5 million, respectively. In fiscal year 2012, after an extended investigation, the Army reported a related violation of \$155 million. Additionally, the reason for the Army’s large spike in fiscal year 2011 violations related primarily to \$100.2 million in

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## Reliability of Reports on Results of Operations and Budget Execution

transportation services that were also recorded using bulk obligations. Our recent coordination with the DOD IG and the military departments on the status of corrective actions indicated that the military departments continue to be at risk of ADA violations related to using estimated bulk obligations because they have not yet corrected process weaknesses that prevent them from recording transaction-level obligations for these activities and estimating methodologies are not automatically adjusted for changes in fuel costs and increases in other costs, such as insurance.

DOD has stated that its major financial decisions are based on budgetary data (e.g., the status of funds received, obligated, and expended). The department's ability to improve its budgetary accounting has historically been hindered by its reliance on fundamentally flawed financial management systems and processes and transaction control weaknesses. In its November 2013 Agency Financial Report, DOD self-reported 16 material weaknesses in financial reporting, noting that it has no assurance of the effectiveness of the related controls. These weaknesses affect reporting on budgetary transactions and balances, including budget authority, fund balance, outlays, and categories of transactions, such as civilian pay, military pay, and contract payments, among other areas. As a result, reports on budget execution and reports on the results of operations that could have a material effect on budget, spending, and other management decisions are unreliable.

The following examples illustrate the effect of transaction control and system weaknesses on DOD's operational and budgetary reporting.

- DOD continues to make billions of dollars of unsupported, forced adjustments, or "plugs," to reconcile its fund balances with Treasury's records. In the federal government, an agency's Fund Balance with Treasury (FBWT) accounts are similar in concept to corporate bank accounts. The difference is that instead of a cash balance, FBWT represents unexpended spending authority in appropriation accounts. Similar to bank accounts, the funds in DOD's appropriation accounts must be reduced or increased as the department spends money or receives collections that it is authorized to retain for its own use. For fiscal year 2012, DOD agencies reported making \$9.2 billion in unsupported reconciling adjustments to agree their fund balances with Treasury's records. As shown in table 1, DOD's unsupported reconciling adjustments to agree its fund balances to Treasury records grew to \$9.6 billion in fiscal year 2013.

**Table 1: Reported DOD Adjustments to Reconcile Its Fiscal Year 2013 Fund Balance to Treasury Records**

Dollars in billions

<b>Fund balances</b>	<b>Army</b>	<b>Navy</b>	<b>Air Force</b>	<b>Defense agencies</b>	<b>DOD-wide</b>
Fund balance per Treasury	\$136.4	\$144.2	\$103.1	\$108.6	<b>\$492.3</b>
Fund balance per agency	132.4	142.7	101.0	106.6	<b>482.7</b>
<b>Reconciling adjustment</b>	<b>\$4.0</b>	<b>\$1.5</b>	<b>\$2.1</b>	<b>\$2.0</b>	<b>\$9.6</b>

Source: GAO analysis of unaudited Balance Sheet Fund Balance with Treasury data in DOD and military department Agency Financial Reports for Fiscal Year 2013.

Note: Reconciling adjustments are generally reported at the summary level as a net amount, or plug. When net amounts are reported, collections and adjustments are offset against disbursements. Reporting net amounts can significantly understate the magnitude and impact of transaction errors.

- Over the years, DOD has recorded billions of dollars of disbursement and collection transactions in suspense accounts because the proper appropriation accounts could not be identified and charged, generally because of a coding error. Accordingly, Treasury does not accept DOD reporting of suspense transactions, and suspense transactions are not included in DOD component FBWT reconciliations. It is important that DOD accurately and promptly charge transactions to appropriation accounts since these accounts provide the department with legal authority to incur and pay obligations for goods and services. Table 2 shows DOD-reported suspense balances for fiscal years 2010 through 2012. Reported suspense account balances could be understated because of DOD’s process for complying with Treasury’s rule for clearing suspense amounts within 60 days. For example, as we previously reported, during our audit of the Navy and Marine Corps FBWT reconciliation processes,<sup>77</sup> we observed the transfer of unresolved suspense disbursement transactions to canceled accounts and the transfer of unresolved collection transactions to Miscellaneous Receipts of the Treasury without supporting documentation to show the adjustments were proper. We also identified subsequent accounting entries that moved these transactions back to the suspense accounts. When we asked DFAS personnel about this pattern, they explained that they transfer transactions from suspense to these accounts to comply with Treasury’s 60-day rule for clearing (i.e., resolving) them. DFAS personnel told us they later transfer the transactions back into

<sup>77</sup> GAO, *DOD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury*, [GAO-12-132](#) (Washington, D.C.: Dec. 20, 2011).

suspense to restart the clock on the 60-day period for resolving them. Consequently, it is not possible to determine the number and significance of these unsupported transactions, and DOD does not know the balance of budget authority that is truly available in its appropriation and fund accounts. Further, this practice runs contrary to Treasury's requirements, which is to fully resolve these transactions within a reasonable time frame.

**Table 2: DOD Suspense Account Balances for Fiscal Year-End 2010 through Fiscal Year-End 2013**

Absolute value, dollars in billions<sup>a</sup>

Fiscal year-end	Army	Navy	Air Force	Defense agencies	Total
2013	\$0.68	0.73	0.56	0.22	<b>\$2.19</b>
2012	\$1.44	0.59	0.57	0.08	<b>\$2.68</b>
2011	\$0.92	0.65	0.52	0.26	<b>\$2.35</b>
2010	\$0.29	0.48	0.42	0.14	<b>\$1.33</b>

Source: GAO analysis of unaudited DOD-wide data reported by DFAS.

<sup>a</sup>When absolute amounts are reported, collections and adjustments are added to disbursements.

## Financial Audit Readiness Efforts

Funds control weaknesses continue to hinder DOD's ability to achieve successful audits of its financial statements and raise questions about its ability to achieve the department's goals of validating SBR audit readiness by the end of fiscal year 2014 and undergoing an audit on a full set of financial statements for fiscal year 2018. The DOD Comptroller represented to the DOD IG that DOD's Fiscal Year 2012 and Fiscal Year 2013 Consolidated Financial Statements did not substantially conform to U.S. generally accepted accounting principles (GAAP) and that DOD financial management and business systems that report financial data were unable to adequately support material amounts on the financial statements as of September 30, 2012, and September 30, 2013. Accordingly, the DOD IG reported disclaimers of opinion in its efforts to audit DOD's consolidated financial statements. DOD's FIAR Plan Status Reports continue to identify unqualified or inexperienced personnel and information system control weaknesses as significant risks to audit readiness. In addition, military department and DOD service-provider efforts have not yet resolved continuing transaction control weaknesses related to proper recording, adequate supporting documentation, and accurate and timely reporting in order to correct material weaknesses that impede DOD's audit readiness efforts. As a result, DOD has not yet asserted audit readiness for most military department SBR assessable units.

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The following examples illustrate the effect of additional funds control and system weaknesses on DOD's financial audit readiness efforts that we and others have identified in our previous work.

- In December 2012, we reported on the status of DOD efforts to address audit backlogs needed to close certain aging contracts and ensure that DOD deobligates and uses unspent funds before they are canceled.<sup>78</sup> Contract closeout backlogs also can contribute to overstatements in reported contract obligations because of the lack of support for obligated amounts that should have been, but were not, deobligated. For fiscal years 2007 through 2011, DOD reported obligations of more than \$1.8 trillion on contracts for acquiring goods and services needed to support its mission.<sup>79</sup> As of the end of fiscal year 2011, DOD reported it had a large backlog of contracts—numbering in the hundreds of thousands—that have not been closed within the time frames required by federal regulations.<sup>80</sup> The Defense Contract Audit Agency (DCAA) is addressing DOD's contract closeout backlog through an initiative to reduce the backlog of incurred cost audits,<sup>81</sup> which will ultimately allow the Defense Contract Management Agency (DCMA) and others to make final adjustments to obligated balances on completed contracts and close the contracts.<sup>82</sup> In addition, while DCMA is attempting to accelerate efforts to close contracts that are physically complete, the success of its efforts depends on DCAA's ability to complete annual incurred cost audits in a timely manner and the reliability of information on contract statuses. We also reported that at the local level, seven out of the nine contracting offices we spoke with collected some information about their overage contracts, such as the total number of contracts in the

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<sup>78</sup>GAO, *Defense Contracting: DOD Initiative to Address Audit Backlog Shows Promise, but Additional Management Attention Needed to Close Aging Contracts*, [GAO-13-131](#) (Washington, D.C.: Dec. 18, 2012).

<sup>79</sup>DOD unaudited contract obligations reported in the Federal Procurement Data System-Next Generation.

<sup>80</sup>See *Federal Acquisition Regulation*, 48 C.F.R. § 4.804-1.

<sup>81</sup>Incurring cost audits are conducted on a contractor's annual proposal that includes all costs incurred on certain types of contracts in that fiscal year. DCAA performs these audits to ensure that the costs that contractors incur and propose for settlement are permissible under government regulations.

<sup>82</sup>DCMA performs contract administration services for DOD.

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backlog and the type of contracts, but the offices generally were unable to provide us with detailed information as to where the contracts were in the closeout process, such as the number awaiting a DCAA incurred cost audit. We recommended that DCAA develop a plan to assess its incurred cost audit initiative and that DCMA improve data on over-age contracts. We also recommended that the military departments develop contract closeout data and establish performance measures. DOD concurred with the recommendations and identified ongoing and planned actions to address them.

- In a series of reports, the DOD IG reported that DOD managers did not take the steps needed to ensure that four component ERPs (GFEBs, LMP, Navy ERP, and DEAMS) had the capability to record and track transaction data.<sup>83</sup> Instead of recording transactions in the ERPs, such as budget authority, obligations, collections, and disbursements (at the time of the related events), DOD managers relied on DFAS to record journal vouchers (adjusting entries) in DDRS and used other offline electronic processes, such as spreadsheets, to record accounting entries in the four ERPs. According to the DOD IG, because most funds control accounting is not being managed in the accounting and business information systems, DOD continues to build its budget execution reports and SBRs using budgetary status data that cannot be traced to actual transaction data within any official accounting system.<sup>84</sup> This weakness impairs the reliability of DOD's budgetary reports, including periodic reports to Congress. In addition, the DOD IG reported that the lack of effective oversight of the development and implementation of system access templates left LMP data at risk of unauthorized and fraudulent use. The DOD IG also reported the lack of support for feeder system transactions

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<sup>83</sup>Department of Defense Inspector General, *An Unreliable Chart of Accounts Affects Auditability of Defense Enterprise Accounting and Management System Financial Data*, DODIG-2012-140 (Alexandria, VA: Sept. 28, 2012); *Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses*, DODIG-2012-087 (Alexandria, VA: May 29, 2012); *General Fund Enterprise Business System Did Not Provide Required Financial Information*, D-2012-066 (Alexandria, VA: Mar. 26, 2012); *Navy Enterprise Resource Planning System Does Not Comply with the Standard Financial Information Structure and U.S. Government Standards General Ledger*, DODIG-2012-051 (Alexandria, VA: Feb. 13, 2012); and *Insufficient Governance Over Logistics Modernization Program System Development*, D-2011-015 (Arlington, VA: Nov. 2, 2010).

<sup>84</sup>Department of Defense Inspector General, *Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund*, DODIG-2012-096 (Alexandria, VA: May 31, 2012).

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imported in Defense Departmental Reporting System-Budgetary that if not corrected, will hinder DOD's audit readiness efforts. The DOD IG is continuing to monitor DOD's actions to resolve these system weaknesses.

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## DOD Has Actions Under Way to Address Many DOD-Wide Funds Control Weaknesses, but Effective Implementation Will Be Critical

DOD is addressing corrective actions on funds control weaknesses through audit readiness efforts under the FIAR Plan and related FIAR Guidance, through other efforts mainly related to improving training and business system controls, and through efforts to address findings in auditor and ADA reports. Many of these actions have not been fully implemented so their effectiveness is yet to be determined. Because several critical DOD-wide corrective actions to improve financial management and address open audit recommendations are targeted for completion in 2017, funds control issues are likely to persist during this time. The following discussion highlights DOD actions under way to address funds control weaknesses related to (1) training, supervision, and management oversight; (2) transaction controls; and (3) business systems.

**Training, supervision, and management oversight.** A key principle for effective workforce planning is that an agency needs to define the critical skills and competencies that it will require in the future to meet its strategic program goals.<sup>85</sup> Once an agency has identified critical skills and competencies, it can develop strategies to address gaps in the number of personnel, needed skills and competencies, and deployment of the workforce. FIAR Plan Status Reports continue to identify the need for knowledgeable and qualified personnel as critical to achieving DOD's financial improvement and audit readiness goals. Currently, FIAR training, which focuses on audit readiness efforts, and military department financial management training are not tied to mission-critical financial management competencies, staff experience and proficiency levels, or identified skill gaps.

DOD is addressing financial management workforce competencies and training through complementary efforts by (1) the Office of the Under Secretary of Defense for Personnel and Readiness (DOD Personnel and Readiness) to develop a strategic civilian workforce plan that includes

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<sup>85</sup>GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

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financial management,<sup>86</sup> pursuant to requirements in the NDAA for Fiscal Year 2010, as amended,<sup>87</sup> and (2) the DOD Comptroller to develop and implement a Financial Management Certification Program, pursuant to requirements in the NDAA for Fiscal Year 2012.<sup>88</sup> Financial management personnel are expected to possess the competencies that are relevant to and needed for their assigned positions. These competencies include fundamentals of accounting, accounting analysis, budget execution, financial reporting, and audit planning and management, among others. DOD Personnel and Readiness is currently working on a department-wide competency assessment tool that will be used by the department, including the financial management functional community, to capture information related to competencies, such as proficiency level, importance, and criticality, and to identify any gaps in support of the Comptroller's financial management certification program.

For example, as of March 2012, the Office of Personnel and Readiness, Strategic Human Capital Planning Program Office, had identified 32 mission-critical occupations, including four financial management occupations: accounting, auditing, budget analysis, and financial administration. The Program Office currently assesses skills or staffing gaps, which relate to unfilled positions by occupation, by analyzing the differences between the number of positions by occupational series that DOD was authorized to fill and the number of occupational positions that are currently filled. DOD is working toward completing its gap assessments by 2015.

In support of the new certification program, the DOD Comptroller has identified 23 mission-critical financial management competencies and five levels of proficiency for each competency. The new Financial Manager Certification Program will require training in three areas: (1) selected financial management competencies at the proficiency level commensurate with the required certification level for that position; (2) leadership competencies as defined by the DOD Leadership

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<sup>86</sup>The details of DOD's financial management workforce assessment are contained in the *Fiscal Year 2010 Department of Defense Strategic Workforce Plan*, appendix B-15, Financial Management.

<sup>87</sup>See Pub. L. No. 111-84, § 1108(a)(1), (Oct. 28, 2009), *codified as amended at* 10 U.S.C. § 115b.

<sup>88</sup>Pub. L. No. 112-81, § 1051, (Dec. 31, 2011), *codified at* 10 U.S.C. § 1599d.

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Continuum;<sup>89</sup> and (3) other technical training in key areas, such as how to respond to an audit, fiscal law, and ethics. Training on fiscal law would cover funds control and ADA requirements.

The certification program includes three levels of certification covering staff, supervisors, and management, with requirements for initial hours of training, continuing-education, and experience. (See table 3.) While DOD's Certification Program requirements do not specify that the recommendations for attaining bachelor's and master's degrees are specific to degrees in financial management-related areas, the Certification Program is designed to accept college courses in financial management as fulfilling certain of the certification program course requirements. If effectively implemented, these three levels of certification could help address training, supervision, and management oversight weaknesses. Employees will have 2 years to complete courses, training, and professional development requirements for the certification level required for their assigned positions. DOD's Financial Manager Certification Program received National Association of State Boards of Accounting (NASBA) approval in March 2013.<sup>90</sup>

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<sup>89</sup>Department of Defense, *Growing Civilian Leaders*, DOD Instruction 1430.16 (Nov. 19, 2009), is the department's policy for periodically assessing workforce competencies and providing appropriate learning opportunities. The DOD Civilian Leadership Continuum depicts the progression of competencies needed as a DOD civilian rises through the leadership ranks, from fundamental competencies required of all leaders to strategic capabilities required of the most senior leaders.

<sup>90</sup>NASBA approves Continuing Professional Education (CPE) Sponsors after a review of each sponsor's system of quality control to ensure that it is in conformity with the joint NASBA/American Institute of Certified Public Accountants Statements on Auditing Standards for CPE requirements.

**Table 3: DOD Financial Management Certification Program Training Requirements by Level**

Certification level	Course hours		Minimum required experience	Recommended additional experience
	Initial course hours	Continuing education and training units		
1 – Staff	46	40 every 2 years	2 years DOD financial management	None
2 – Supervisors	71	60 every 2 years	4 years financial management with 2 years at DOD	One 3-month developmental assignment Work towards bachelor's degree Complete one DOD-approved test-based certification program
3 – Management	81	80 every 2 years	8 years financial management with 2 years at DOD One 3-month developmental assignment	Work towards a master's degree Complete one DOD-approved test-based certification program

Source: Office of Under Secretary of Defense (Comptroller), Human Capital and Resource Management.

The DOD Comptroller initiated the pilot for the certification program in July 2012, which was completed at the end of March 2013. Phased implementation began in June 2013, and the current target date for full implementation is the end of fiscal year 2014. The Certification Program is to be mandatory for DOD's approximately 54,000 civilian and military financial management personnel.

Effective implementation of the certification program is critical to ensure that financial management personnel obtain the needed skills to make effective improvements in financial management, including improved funds control and audit readiness as well as appropriate supervision and management oversight.

**Transaction controls.** DOD officials are addressing transaction control weaknesses under the department's FIAR Plan efforts. In December 2011, the DOD Comptroller updated the FIAR Guidance to identify key SBR-related transaction control objectives within military department assessable units related to the funds control and budget execution processes. These key transaction controls include proper authorization and recording, adequate supporting documentation, and accurate reporting of obligation and disbursement transactions. DOD components are testing these key transaction controls for each assessable unit, including civilian pay, military pay, contract pay, and net outlays as

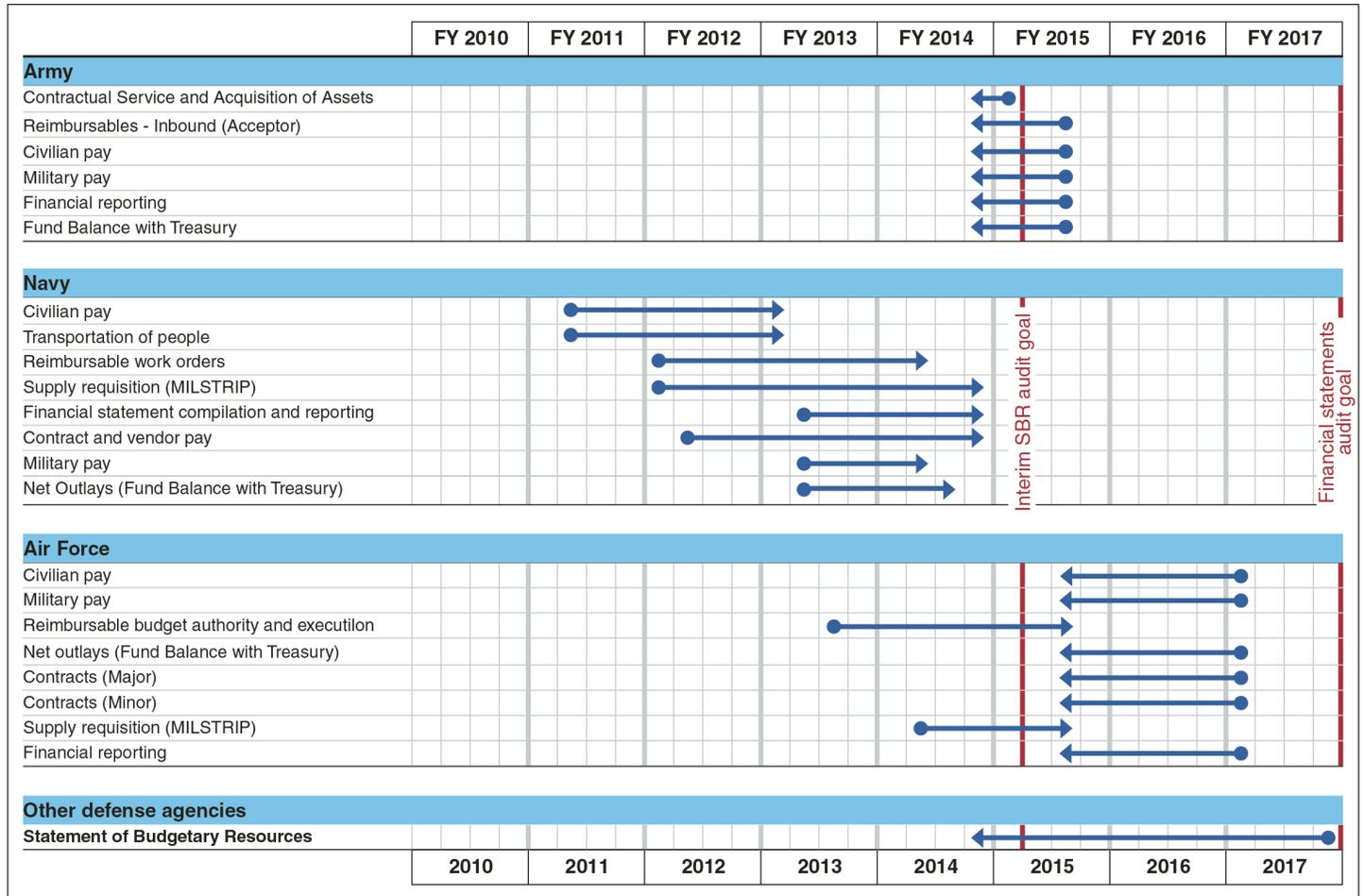
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reflected in FBWT, as a basis for determining whether they can achieve audit readiness for the SBR by September 2014.<sup>91</sup> Once the military departments deem their transaction support and other controls to be effective for a particular assessable unit of the SBR, they will assert audit readiness for that assessable unit and request an audit by an independent public accountant to validate their audit readiness assertion. Figure 4 shows the SBR audit readiness milestone dates for the military departments and other defense agencies as of the November 2013 FIAR Plan Status Report. While DOD has made progress toward financial audit readiness, milestone dates for the Navy have slipped and SBR milestone dates for the Army and the defense agencies have been compressed, making it questionable that corrective actions for these DOD components will be completed by September 2014 for all assessable units. Further, the Air Force has revised its milestone dates for achieving SBR audit readiness to the third quarter of fiscal year 2015. With a reported \$187.8 billion in fiscal year 2013 General Fund budgetary resources, the Air Force is material to DOD's SBR and if the Air Force cannot meet DOD's September 2014 SBR audit readiness goal, DOD will not be able to meet this goal. This, in turn, raises concerns about DOD's ability to undergo an audit on a full set of financial statements for fiscal year 2018.

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<sup>91</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Financial Improvement and Audit Readiness (FIAR) Plan Status Report* (November 2013).

**Figure 4: DOD Timeline for Validation of Corrective Actions on Transaction Controls by Statement of Budgetary Resources Assessable Unit**



● November 2010 baseline or when first reported  
 ←●●→ Change in milestone from DOD's November 2010 Financial Improvement and Audit Readiness Plan baseline  
 MILSTRIP - Military Standard Requisitioning and Issue Procedures

Source: GAO analysis of DOD's November 2013 FIAR Plan Status Report.

DOD uses service providers to improve efficiency and standardize business operations in various functional areas, including accounting, personnel and payroll, logistics, contracting, and system operations and hosting support. DOD service providers and their business systems are

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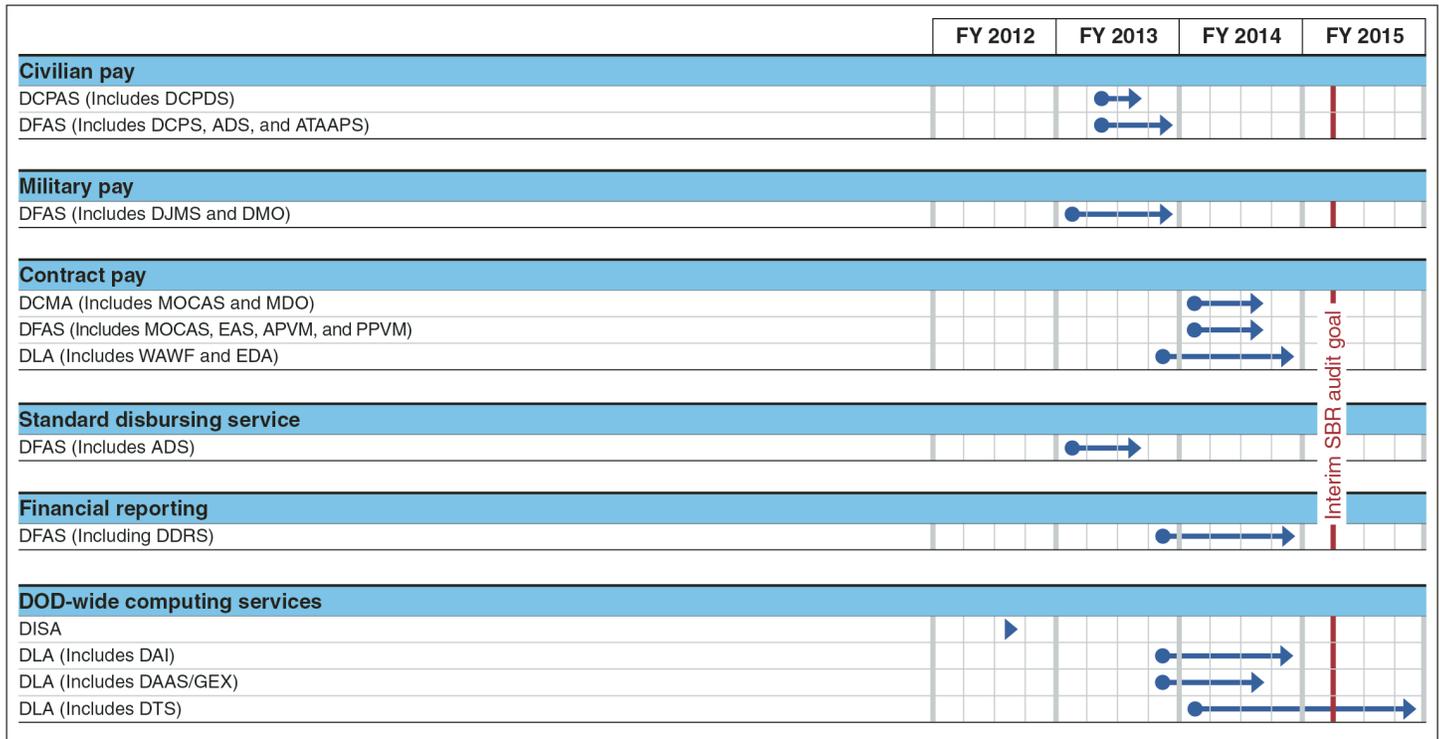
fundamental to reliable accounting and reporting and financial audit readiness. The FIAR Guidance<sup>92</sup> requires DOD service providers, such as DFAS, the Defense Logistics Agency, the Defense Information Systems Agency, and DCMA, to obtain an examination of their operating controls, including system controls, under Statements on Standards for Attestation Engagements (SSAE) No.16, when their controls are likely to be relevant to reporting entities' internal controls over financial reporting.<sup>93</sup> DOD service providers plan to use the results of their SSAE No. 16 examinations as a basis for improving their operating processes and controls. Figure 5 shows the service providers and the operating systems supporting business functions that are targeted for SSAE No. 16 examinations under FIAR and the related milestone dates for audit readiness assertions and their validation.

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<sup>92</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer *Financial Improvement and Audit Readiness (FIAR) Plan Status Report* (November 2013).

<sup>93</sup>SSAE No. 16, *Reporting on Controls at a Service Organization*, replaced *Statements on Auditing Standards* No. 70 as the authoritative guidance for reporting on service organizations. SSAE No. 16 was formally issued in April 2010 with an effective date of June 15, 2011.

**Figure 5: Timeline for Validation of Audit Readiness for DOD Service-Provider Operating System Controls**



● Audit readiness assertion  
 ● → Validation of audit readiness assertion

**Business functions, service providers, and relevant systems:**

**Civilian Pay**

Defense Civilian Personnel Advisory Service (DCPAS):  
 Defense Civilian Personnel Data System (DCPDS)

DFAS:  
 Defense Civilian Pay System (DCPS)  
 Automated Disbursing System (ADS)  
 Automated Time, Attendance, and Production System (ATAAPS)

**Military Pay**

DFAS:  
 Defense Joint Military System (DJMS)  
 Defense Military Pay Office (DMO)

**Contract Pay**

DCMA:  
 Mechanization of Contract Administration Services (MOCAS)  
 Modification/Delivery Order (MDO)

**Contract Pay**

DFAS:  
 Mechanization of Contract Administration Services (MOCAS)  
 Entitlement Accounting System (EAS)  
 Accounting Prevalidation Module (APVM)  
 Pay Prevalidation Module (PPVM)  
 DLA:  
 Wide Area Work Flow (WAWF)  
 Electronic Document Access (EDA)

**Standard Disbursing Service**

DFAS:  
 Automated Disbursing System (ADS)

**Financial Reporting**

DFAS:  
 Defense Departmental Reporting System (DDRS)

**DOD-Wide Computing Services**

DISA:  
 Note: DISA's hosting services have had SAS 70/SSAE-16 examinations since 2005. Received an unqualified opinion in June 2012.  
 DLA:  
 Defense Agency Initiative (DAI)  
 Defense Activity Addressing System/Global Exchange (DAAS/GEX)  
 Defense Travel System (DTS)  
 Enterprise Fund Distribution (EFD)

Source: GAO analysis of DOD's November 2013 FIAR Plan Status Report.

In August 2013, we reported that DOD did not have an effective process for identifying audit-readiness risks, including risks associated with its reliance on service providers for much of its components' financial data,

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and it needed better department-wide documentation retention policies.<sup>94</sup> Effective service-provider controls are critical to ensuring improvements in DOD funds control.

With regard to corrective actions related to ADA violations associated with military personnel appropriations, significant process improvements related to proper recording of transactions are needed and according to the military departments, the time frame for completing corrective actions depends on implementation of their respective integrated personnel and payroll systems, referred to by DOD as IPPS, for military payroll—in late 2016 and 2017.

**Business systems.** In February 2012, we reported that DOD, in an attempt to modernize and develop an effective standardized financial management process throughout the department, had initiated various efforts to implement new ERP financial management systems and associated business processes.<sup>95</sup> We further reported that based upon data provided by DOD, 6 of the 10 ERPs DOD had identified as critical to transforming its business operations had experienced schedule delays ranging from 2 to 12 years, and 5 had incurred cost increases totaling an estimated \$6.9 billion. In its Summary of Challenges discussed in addendum A to DOD's fiscal year 2013 Agency Financial Report, the DOD IG reported that timely and effective implementation of the ERPs is critical for DOD to achieve its financial improvement efforts and audit readiness goals.<sup>96</sup> However, the DOD IG reported that not all of the ERP systems will be implemented by the department's September 2014 goal for validating audit readiness for the SBR or its goal for undergoing an audit on a full set of financial statements for fiscal year 2018. Moreover, without fully deployed ERPs, the department will be challenged to produce reliable financial data and auditable financial statements without resorting to extreme efforts, such as data calls or manual workarounds, to provide financial data on a recurring basis. The DOD IG also reported that the department has not reengineered its business processes to the extent necessary; instead, it has often customized commercial ERPs to

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<sup>94</sup>GAO, *DOD Financial Management: Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements*, [GAO-13-123](#) (Washington, D.C.: Aug. 2, 2013).

<sup>95</sup>[GAO-12-134](#).

<sup>96</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *United States Department of Defense, Agency Financial Report, Fiscal Year 2013*, pp. A-4 and A-5.

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accommodate existing processes, creating the need for system interfaces and weakening controls built into the ERP systems.

In the March 2013 FIAR Guidance, DOD reported that material internal control weaknesses were classified in DOD's Agency Financial Report by the financial statement line item or type of activity affected by the weakness. DOD's fiscal year 2013 Agency Financial Report lists 16 material weaknesses over financial reporting and relates these weaknesses to ERP systems and end-to-end business processes.<sup>97</sup> DOD reported one overall material weakness related to financial systems. Together, these 17 material weaknesses impact military pay, civilian pay, FBWT, contracts, and military supply requisitions. We and the DOD IG have reported that DOD component ERPs lack the functionality needed to support reliable financial reporting, including accurate and complete USSGL and DOD-wide SFIS information and data requirements and the ability to record budgetary data at the transaction level. DOD has stated that several of the department's ERPs have been or will be implemented to support the 2018 financial statement audit goal. However, in its summary of management and performance challenges included in DOD's fiscal year 2012 Agency Financial Report, the DOD IG stated that because of schedule delays ranging up to 13 years, DOD will continue using outdated legacy systems and poorly developed and implemented ERP systems, increasing the risks that (1) the SBR will not be audit ready by September 30, 2014, and (2) DOD may not be able to produce reliable financial data and auditable financial statements without resorting to "heroic efforts, such as data calls and manual workarounds." In DOD's fiscal year 2013 Agency Financial Report, the DOD IG reiterated this concern and noted that the department has not reengineered its business processes to the extent necessary, stating that instead it has often customized commercial ERPs to accommodate existing processes.

In addition, the FIAR Plan requires the military departments and DOD service providers to use GAO's *Federal Information System Controls Audit Manual* (FISCAM) reviews to test business system general and application controls for material systems, including general ledger accounting systems and selected feeder systems, as part of their audit

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<sup>97</sup>Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Department of Defense Agency Financial Report, Fiscal Year 2012*, pp. A-32, A-46, and A-47.

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readiness efforts.<sup>98</sup> FISCAM provides a methodology for performing information system control audits of federal and other governmental entities in accordance with professional standards. FISCAM focuses on evaluating the effectiveness of general<sup>99</sup> and application controls.<sup>100</sup> The November 2013 FIAR Guidance provides a detailed description of DOD's audit readiness requirements related to financial system controls. The Guidance states that the FIAR Directorate has identified the FISCAM control activities and techniques needed to address the key internal controls over financial management reporting risk and includes a link to them. The Guidance further states that DOD reporting entities have ultimate responsibility for information technology controls for those systems through which their transactions flow and will need to communicate and coordinate audit readiness efforts with service providers. The shared understanding between the reporting entity and the service provider is required to be documented in a service-level agreement or memorandum of understanding. According to DOD's November 2013 FIAR Plan Status Report, the military departments plan to complete their FISCAM general and application control tests as follows:

- The Army plans to achieve relevant FISCAM general and application-level control objectives for material systems supporting its SBR assessable units, including GFEBS, by June 2014.

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<sup>98</sup>GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](#) (Washington, D.C.: February 2009).

<sup>99</sup>General system controls are intended to provide reasonable assurance of security management (periodic evaluation and testing of the effectiveness of information security policies, procedures, and practices); access controls (access to data, equipment, and facilities is reasonable); configuration management (changes to information system resources are authorized and systems are configured and operated securely and as intended); segregation of duties (incompatible duties and responsibilities are effectively separated); and contingency planning (protects information resources and minimizes the risk of unplanned interruptions and provides for recovery of critical operations should interruptions occur).

<sup>100</sup>Application controls are intended to provide reasonable assurance of completeness (all transactions that occurred are input into the system, processed only once, and properly included in output); accuracy (transactions are properly recorded, with correct data and amounts, in the proper period, are processed accurately, and produce reliable results); validity (all recorded transactions actually occurred, relate to the organization, are authentic, and were properly approved, and output contains only valid data); confidentiality (application data and reports and other output are protected against unauthorized access); and availability (application data and reports and other relevant business information are readily available to users when needed).

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- The Navy planned to complete relevant FISCAM general and application control objectives for Navy ERP in February 2014 and plans to achieve a relevant review or perform a self-assessment of material legacy systems and selected feeder systems by September 2014.
  - The Air Force plans to achieve relevant FISCAM general and application control objectives for material systems supporting its SBR between November 2012 and June 2014. Air Force audit readiness efforts will rely on manual controls and legacy system improvements because its ERP general ledger system—DEAMS—will not be fully deployed until sometime after 2017.

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## Concluding Observations

DOD has committed significant resources to improving funds controls for achieving sound financial management operations and audit readiness. While DOD expects that these improvements, once realized, will also strengthen the department's controls in support of proper use of resources, reliable reporting on the results of operations and budget execution, and financial audit readiness, the department continues to face pervasive, long-standing internal control and business system challenges that not only impair its control over funds entrusted to it, but also pose continuing challenges to achieving reliable financial reporting. DOD leadership remains committed to achieving financial accountability and reliable information for day-to-day management decision making as well as financial audit readiness. However, corrective actions are not expected to be completed for several years on long-standing funds control weaknesses related to (1) training, supervision, and management oversight; (2) proper authorization, recording, documenting, and reporting of budgetary transactions; and (3) business systems controls. As a result, these weaknesses will continue to adversely affect DOD's ability to achieve its goals for effective funds controls, including reductions in ADA violations, financial accountability, and reliable financial reporting. In addition, to the extent that DOD and its components continue to rely on data calls or manual work-arounds to achieve auditability of the SBR and other financial statements, it is unlikely that DOD will be able to produce consistent, reliable, and sustainable financial information for day-to-day decision making.

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## Agency Comments

We received written comments on a draft of this report from DOD's Deputy Chief Financial Officer (CFO) on April 14, 2014, stating that the department appreciates our review of past reports as the identified deficiencies have informed DOD's current corrective actions. The Deputy

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CFO expressed the department's commitment to building a stronger business environment with regard to people, processes, and systems and noted progress in each of the three weakness areas discussed in this report, including (1) enrollment of 22,300 financial managers in the new DOD Financial Management Certification Program; (2) audit readiness assertions within several organizations, supported in part by transaction control testing; and (3) ongoing efforts to review financial and financial feeder systems for data reliability. Effective implementation of outstanding recommendations from past reports will better position the department to minimize the occurrence of ADA violations. DOD's comments are reprinted in appendix III.

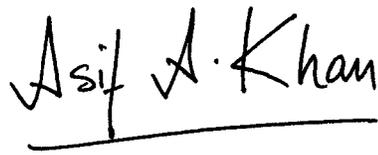
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We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Armed Services, the Senate Committee on Appropriations, the House Committee on Oversight and Government Reform, the House Committee on Armed Services, and the House Committee on Appropriations. We also are sending copies to the Secretary of Defense; the Under Secretary of Defense (Acquisition, Technology and Logistics); the Under Secretary of Defense (Personnel and Readiness); the Under Secretary of Defense (Comptroller) and Chief Financial Officer; the Deputy Chief Financial Officer; the Director for Financial Improvement and Audit Readiness; the FIAR Governance Board; the Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; the Director of the Defense Finance and Accounting Service; the Director of the Office of Management and Budget; and other interested parties.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, Secretary of Defense, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Asif A. Khan". The signature is written in a cursive style and is positioned above a solid horizontal line.

Asif A. Khan  
Director, Financial Management and Assurance

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# Appendix I: Scope and Methodology

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To determine the extent of long-standing funds control weaknesses, we analyzed 333 audit and financial reports on the Department of Defense's (DOD) financial management operations issued over the last 7 years—including 190 DOD audit reports, 30 GAO reports, 36 DOD financial reports, and 77 DOD reports of Antideficiency Act (ADA) violations provided to GAO and identified over 1,000 funds control weaknesses. Our reports and DOD Inspector General (IG) reports covered fiscal years 2007 through 2012 and the military department audit reports covered fiscal years 2010 through the first half of fiscal year 2012. We assessed the DOD IG's audit quality assurance procedures for assuring the reliability of data and findings presented in auditor reports.<sup>1</sup> We also reviewed the military departments' January 2012 Annual Evaluations of Funds Control Processes and Processing of ADA Violations and their Annual Financial Reports and Statements of Assurance for fiscal years 2011 and 2012. In addition, we reviewed all DOD reports of ADA violations sent to GAO in fiscal years 2007 through 2013. (See table 4.) To determine whether reported weaknesses continued, we reviewed fiscal year 2013 reports of ADA violations sent to GAO and DOD IG reports of potential ADA violations; recent auditor reports; DOD financial management reports, including DOD and military department Agency Financial Reports; 2013 Financial Improvement and Audit Readiness (FIAR) Plan Status Reports; and FIAR Guidance. While these documents are included in the 333 reports of funds control weaknesses, the related findings are not included in the 1,006 weaknesses identified through fiscal year 2012.

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<sup>1</sup>Department of Defense, *DOD Audit Manual*, DOD Manual 7600.07-M, enc. 11 (Feb. 13, 2009).

**Table 4: Number, Type, and Time Frame of GAO, Department of Defense, Defense Inspector General, and Military Service Reports Reviewed**

Agency	Number of reports	Type of report	Time frame
GAO	30	GAO products related to DOD budgetary funds control	Fiscal years 2007 through 2012
DOD Comptroller	75	Reports of ADA violations	Fiscal years 2007 through 2012
	2		Fiscal year 2013
DOD Comptroller	3	Statement of Assurance	Fiscal years 2011 through 2013
DOD Comptroller	3	Agency Financial Report	Fiscal years 2011 through 2013
DOD Comptroller	7	DOD Financial Improvement and Audit Readiness Plans and Status Reports	November 2010 through November 2013
DOD IG	57	Audits that identified potential ADA violations	Fiscal years 2007 through 2012
DOD IG	29	Audit reports on budgetary fund controls	Fiscal years 2010 through 2012
Military departments	9	Statements of Assurance	Fiscal years 2011 through 2013
Military departments	9	Agency Financial Report	Fiscal years 2011 through 2013
Military departments	5	Annual evaluations of funds control processes <sup>a</sup>	January 2011 and 2012
Army Audit Agency	22	Audit reports on budgetary fund controls	Fiscal year 2010 through March 2012
Naval Audit Service – Navy	38	Audit reports on budgetary fund controls	Fiscal year 2010 through March 2012
Naval Audit Service – Marine Corps	6	Audit reports on budgetary fund controls	Fiscal year 2010 through March 2012
Air Force Audit Agency	38	Audit reports on budgetary fund controls	Fiscal year 2010 through March 2012
<b>Total reports</b>	<b>333</b>		

Source: GAO analysis.

<sup>a</sup>The Army did not provide its January 2011 report.

To determine the effect of reported weaknesses, we considered problems associated with (1) proper use of resources; (2) accurate accounting and support for transactions (primarily obligations and disbursements) with regard to reports on program and project statuses, results of operations, and budget execution; and (3) financial audit readiness. We also

reviewed DOD reports of ADA violations reported in fiscal years 2007 through 2012 to identify DOD's reported causes of the violations and the corrective actions noted in these reports.<sup>2</sup> To frame our discussion of identified funds control weaknesses and DOD-reported corrective actions, we grouped the identified weaknesses into three categories that are consistent with those identified in DOD and GAO reports. Many of the reports on funds control weaknesses identified more than one weakness. The three categories relate to the following areas:

- (1) Inadequate training, supervision, and management oversight. Supervision is day-to-day guidance by a supervisor and management oversight involves assuring adequate supervisory guidance and training as well as overall monitoring of the subject matter area.
- (2) Ineffective transaction controls. These controls cover proper authorization and recording of budgetary transactions, such as obligations and disbursements (outlays); maintaining adequate supporting documentation for the transactions; and proper and timely reporting of transactions and related summaries and financial reports.
- (3) Ineffective business systems. This category refers to business systems that do not have effective controls for recording, supporting, and reporting financial transactions, including budgetary transactions, and therefore, do not provide adequate controls over financial reporting on the results of operations and do not assure compliance with laws and regulations.

To determine the status of DOD's corrective actions to address identified funds control weaknesses, we reviewed corrective action statuses in response to mandates in National Defense Authorization Acts related to financial management competencies, skill gaps, and training; corrective actions on transaction-level accounting and financial reporting under DOD's FIAR Plan; the status of actions to address business system weaknesses; and actions to address DOD ADA violations and DOD IG

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<sup>2</sup>The ADA requires agencies violating its proscriptions to report to the President and the Congress all relevant facts and a statement of actions taken, and to transmit a copy of each report to GAO. Our analysis included the compilation and categorization of the unaudited information from such reports. We did not do any further analysis regarding the underlying facts or the legal conclusions discussed therein. Summaries of all the ADA reports received by GAO are available at <http://www.gao.gov/legal/lawresources/antideficiencyrpts.html>.

and military department audit recommendations. We met with DOD IG and military department audit officials to obtain information on open audit recommendations and discuss recurring findings of funds control weaknesses and their effect on reliable financial reporting. In addition, we met with DOD and military department financial managers and audit readiness officials to discuss their efforts to resolve findings of funds control weaknesses, including material weaknesses related to financial reporting disclosed in DOD annual Agency Financial Reports, as well as how funds control is being addressed in Statement of Budgetary Resources audit readiness initiatives and the status of those initiatives.<sup>3</sup> We analyzed DOD's FIAR Plan Status Reports and FIAR Guidance and military department audit readiness plans from November 2010 through November 2013 to identify and evaluate audit readiness efforts related to funds control. Based on our review of DOD's audit quality procedures and our comparison of auditor reports and DOD disclosures of financial management weaknesses, we determined the reported data and information to be reliable for the purposes of our work.

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<sup>3</sup>A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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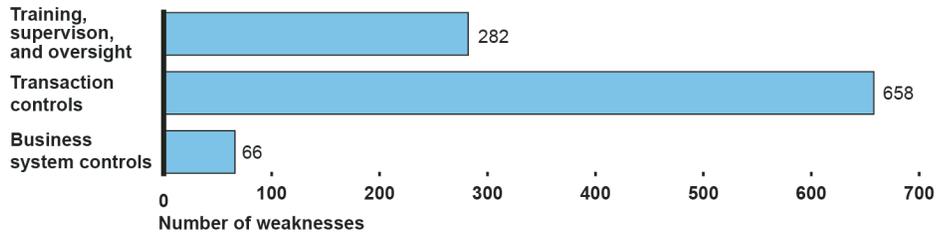
# Appendix II: Details of Reported DOD Funds Control Weaknesses by Category

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As shown in figure 6, we identified over 1,000 separately reported funds control weaknesses. We noted but did not count Department of Defense (DOD) financial management reports that discussed weaknesses identified in audit reports. We grouped funds control weaknesses identified in our reports analysis into three categories: (1) inadequate training, supervision, and management oversight; (2) ineffective transaction controls; and (3) inadequate business systems. These categories are consistent with those identified in DOD and GAO reports.

Appendix II: Details of Reported DOD Funds Control Weaknesses by Category

Figure 6: Reported DOD Funds Control Weaknesses by Major Category, Nature of Finding, and Reporting Agency



Funds control weaknesses	DOD Antideficiency Act (ADA) violation reports	DOD Inspector General potential ADA violation reports	DOD Inspector General audit reports	GAO audit reports	Military department audit reports				Total
					Army	Air Force	Navy	Subtotal	
<b>(1) Inadequate training, supervision, and management oversight</b>									
Inadequate training in fiscal law or budgetary regulations	36	7	2	10	7	10	7	24	79
Inadequate supervision, monitoring, and oversight	16	92	23	18	13	22	19	54	203
<b>Subtotal</b>	<b>52</b>	<b>99</b>	<b>25</b>	<b>28</b>	<b>20</b>	<b>32</b>	<b>26</b>	<b>78</b>	<b>282</b>
<b>(2) Inadequate transaction controls</b>									
Inadequate policies and procedures for budgetary accounting	53	48	40	22	8	29	9	46	209
Improper authorization and approval of transactions	19	44	5	2	3	2	15	20	90
Improper recording of transactions	9	54	42	29	19	3	20	42	176
Inadequate supporting documentation	-----	69	30	20	11	16	37	64	183
<b>Subtotal</b>	<b>81</b>	<b>215</b>	<b>117</b>	<b>73</b>	<b>41</b>	<b>50</b>	<b>81</b>	<b>172</b>	<b>658</b>
<b>(3) Ineffective business systems</b>									
Noncompliance with Federal Financial Management Improvement Act	4	4	26	15	3	11	3	17	66
<b>Total</b>	<b>137</b>	<b>318</b>	<b>168</b>	<b>116</b>	<b>64</b>	<b>93</b>	<b>110</b>	<b>267</b>	<b>1,006</b>

Source: GAO analysis.

# Appendix III: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

Mr. Asif Khan  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

APR 14 2014

Dear Mr. Khan,

We have reviewed your report, GAO-14-94, "Actions Under Way Need to be Successfully Completed to Address Long-standing Funds Control Weaknesses." While it recommends no new actions, our commitment to building a stronger business environment via our people, processes, and systems remains paramount. As you point out, we have actions underway to comprehensively address funds control weaknesses. They are producing results, specifically:

- The newly implemented DoD Financial Management Certification Program has already enrolled 22,300 financial managers and certified over 30. The program's framework includes regular training in fiscal law and audit fundamentals.
- We have begun broadly asserting audit readiness within several organizations, supported in part by transaction control testing. To date, 22 percent of our budgetary resources have an audit opinion or are asserted as audit-ready. Many spending streams have received a review under an examination by an independent public accounting firm.
- We are reviewing financial and financial feeder systems for reliance under financial audit conditions, to include Enterprise Resource Planning and legacy systems. Several key service provider systems have a positive assessment under Statements on Standards for Attestation Engagements Number 16 criteria.

Other outcomes associated with these improvement efforts include the incidence of Antideficiency Act violations (the most serious potential risk), which remains very small compared to the size of DoD's budget authority. Further, we have dramatically reduced the number of overaged cases, ending Fiscal Year 2013 with only one case. We appreciate your team's review of past reports, as past deficiencies continue to inform our current corrective actions. We particularly appreciate your acknowledgement that our ongoing initiatives are targeting the right areas.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton  
Deputy Chief Financial Officer

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Asif A. Khan, (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Gayle L. Fischer (Assistant Director), Lisa Brownson, Francine DeVecchio, Maxine Hattery, Donald D. Holzinger, Jason Kelly, Jason Kirwan, Gregory Marchand (Assistant General Counsel), Sheila D. M. Miller, Marc Molino, Heather Rasmussen, and Robert Sharpe made key contributions to this report.

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