

Highlights of [GAO-11-932T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Department of Defense (DOD) has initiated several efforts over the years to address its long-standing financial management weaknesses and ultimately achieve unqualified (clean) opinions on its financial statements. In 2005, the DOD Comptroller first issued the Financial Improvement and Audit Readiness (FIAR) Plan for improving financial management and reporting. In May 2010, the DOD Comptroller issued the FIAR Guidance to provide standardized guidance to DOD components for developing Financial Improvement Plans (FIP) to implement the FIAR Plan.

GAO's testimony focuses on (1) progress made by the DOD Comptroller in developing and issuing the FIAR Guidance, (2) challenges faced by DOD components in implementing the FIAR Guidance, and (3) improvements needed in DOD's oversight and monitoring of FIAR implementation efforts.

This statement is based on four audits that were undertaken at the request of this subcommittee and other congressional requesters to evaluate the progress DOD is making in implementing its FIAR Plan and FIAR Guidance. GAO addresses findings and recommendations from two reports being issued this week ([GAO-11-830](#) and [GAO-11-851](#)) and preliminary information from two ongoing audits. Each audit demonstrates some of the challenges DOD faces in improving its financial management and achieving the goal of auditable financial statements by 2017.

View [GAO-11-932T](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Ongoing Challenges in Implementing the Financial Improvement and Audit Readiness Plan

What GAO Found

In a report issued this week, GAO concluded that the FIAR Guidance provides a reasonable methodology for the DOD components to follow in developing and implementing their FIPs. It details the roles and responsibilities of the DOD components, and prescribes a standard, systematic process components should follow to assess processes, controls, and systems, and identify and correct weaknesses in order to achieve auditability. The FIAR Guidance also requires the components to prepare and implement corrective action plans for resolving the deficiencies identified during testing and to document the results, which is consistent with federal internal control standards and related guidance.

DOD's ability to achieve audit readiness is dependent on the components' ability to effectively develop and implement FIPs in compliance with the FIAR Guidance. However, GAO's review of various DOD component efforts to achieve audit readiness found that the components experienced challenges in implementing the FIAR Guidance. Specifically:

- The Navy and the Air Force had not adequately developed the two FIPs that GAO reviewed in accordance with the FIAR Guidance. As a result, they did not conduct sufficient control and substantive testing, and reached conclusions that were not supported by the testing results.
- Auditors of the Marine Corps' Statement of Budgetary Resources (SBR) issued a disclaimer of opinion because the Marine Corps did not provide timely and relevant supporting documentation for accounting transactions and also reported that internal control weaknesses should be addressed.
- GAO's preliminary work on the Navy's and Marine Corps' Fund Balance with Treasury (FBWT) reconciliation processes identified issues with their ability to reconcile FBWT—a key step in preparing the SBR.
- Based on preliminary results, GAO identified issues in the implementation of two enterprise resource planning (ERP) systems by the Army and the Air Force. DOD has acknowledged that effective implementation of integrated systems is crucial to achieving departmentwide audit readiness.

Although DOD and its military components had established organizational structures for monitoring and oversight of audit readiness efforts, GAO found that oversight responsibilities were not effectively carried out, resulting in the ineffective implementation of FIPs and unsupported conclusions of audit readiness. For the two FIPs that GAO reviewed, neither the designated officials nor the executive committees took sufficient action to ensure that the FIPs complied with the FIAR Guidance. Effective oversight would also help ensure that lessons learned from recent efforts would be disseminated throughout the department so that others could avoid similar problems. For example, the Marine Corps' SBR audit effort provide valuable lessons that, if effectively communicated and implemented, can provide a roadmap to help other DOD components achieve audit readiness. GAO recommends actions for components to comply with the FIAR Guidance, for the Marine Corps to develop appropriate corrective action plans, and for DOD to ensure that the services consider lessons learned. DOD concurred with GAO's recommendations related to implementing the component FIPs and with three of four recommendations related to the Marine Corps SBR. Further details on DOD's comments can be found in GAO's reports.