



Highlights of [GAO-10-1059T](#), 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

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving its pervasive and long-standing financial management and related business operations and systems problems. DOD is required by various statutes to (1) improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and (2) produce audited financial statements.

DOD has initiated numerous efforts over the years to improve the department's financial management operations and ultimately achieve unqualified (clean) opinions on the reliability of reported financial information.

The Subcommittee has asked GAO to provide its perspective on DOD's current efforts to address its financial management weaknesses and achieve auditability, including the status of its Enterprise Resource Planning (ERP) system implementations.

GAO's testimony is based on its prior work related to DOD's financial improvement and audit readiness strategy and related activities, including its ERP implementation efforts.

View [GAO-10-1059T](#) or [key components](#). For more information, contact Asif A. Khan at (202) 512-9095 or khana@gao.gov.

DEPARTMENT OF DEFENSE

Financial Management Improvement and Audit Readiness Efforts Continue To Evolve

What GAO Found

DOD has initiated numerous efforts over the years to address its financial management weaknesses and achieve audit readiness. In 2005, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan to define the department's strategy and methodology for improving financial management operations and controls, and reporting its progress. In 2009, DOD Comptroller directed that the department's FIAR efforts be focused on improving processes and controls supporting information most often used to manage operations, while continuing to work toward achieving financial statement auditability. To support these objectives, DOD established two priority focus areas: budget information and information pertaining to mission-critical assets. In 2010, DOD revised its FIAR strategy, governance framework, and methodology to support the DOD Comptroller's direction and priorities and to comply with fiscal year 2010 defense authorizing legislation, which incorporated GAO recommendations intended to improve the FIAR Plan as a strategic plan.

Based on what GAO has seen to date, DOD's revised FIAR Plan strategy and methodology reflects a reasonable approach. Moreover, GAO supports prioritizing focus areas for improvement and is hopeful that a consistent focus provided through shared FIAR priorities will increase incremental progress toward improved financial management operations. However, developing sound plans and methodology, and getting leaders and organizations in place is only a start. DOD needs to define specific roles and responsibilities for the Chief Management Officers (CMO)—including when and how the CMOs are expected to become involved in problem resolution and in ensuring cross-functional area commitment to financial improvement activities.

A key element of the FIAR strategy is successful implementation of the ERPs. According to DOD, as of December 2009, it had invested approximately \$5.8 billion to develop and implement these ERPs and will invest additional billions before these efforts are complete. However, as GAO has previously reported inadequate requirements management, systems testing, ineffective oversight over business system investments, and other challenges have hindered the department's efforts to implement these systems on schedule and within cost.

Whether DOD's FIAR strategy will ultimately lead to improved financial management capabilities and audit readiness depends on DOD leadership and oversight to help achieve successful implementation. Sustained effort and commitment at the department and component levels will be needed to address weaknesses and produce financial management information that is timely, reliable, and useful for managers throughout DOD. GAO will continue to monitor DOD's progress and provide feedback on the status of DOD's financial management improvement efforts.