**Highlights**

**Why GAO Did This Study**
Since 1997, DOD has been required to prepare audited financial statements. However, long-standing and pervasive financial management weaknesses have precluded DOD from being audit ready. The National Defense Authorization Act (NDAA) for Fiscal Year 2010 mandated that DOD develop and maintain a plan that addresses the actions needed to ensure that its consolidated financial statements are audit ready by September 30, 2017.

The Senate report accompanying the NDAA for Fiscal Year 2015 included a proposal for GAO to review DOD’s plans to achieve audit readiness with respect to its PP&E. This report addresses the reported status of DOD’s and the military services’ (1) audit readiness assertions for PP&E asset accountability and (2) plans for valuing PP&E assets. GAO reviewed the FIAR Plan Status Reports and Guidance, documentation of assertions of audit readiness, and federal accounting standards and proposed changes, and interviewed DOD officials.

**What GAO Found**
The Department of Defense (DOD), reporting about $630 billion total Property, Plant, and Equipment (PP&E) net of accumulated depreciation as of September 30, 2015, is responsible for over 70 percent of the U.S. government’s reported PP&E. However, as GAO and others have previously reported—and made recommendations to address—DOD’s accountability over and ability to value its PP&E assets has for years been challenged by poorly designed internal controls, processes, and systems. These challenges are highlighted by DOD’s inability to prepare auditable financial statements.

The military services have asserted audit readiness regarding PP&E accountability for some categories of PP&E. However, they have not yet asserted audit readiness for certain key categories of PP&E, including land, government-furnished equipment, and internal-use software. In addition, the Marine Corps (a component of the Navy) has not yet asserted audit readiness for any of its PP&E. While the services have set target dates for asserting audit readiness for these remaining assets, almost all of the target dates have been delayed in some cases by multiple years, increasing the risk that DOD may not complete audit readiness efforts by the target date of September 30, 2017.

DOD reports its audit readiness status and progress in its semiannual Financial Improvement and Audit Readiness (FIAR) Plan Status Report. However, the Status Report does not provide clear visibility for Congress and other decision makers regarding the extent to which DOD has addressed deficiencies in the related internal controls. For example, the military services have asserted audit readiness regarding PP&E accountability for some individually large-value and high-visibility equipment, such as ships and aircraft. However, the Status Report does not reflect that the services have often asserted audit readiness without evaluating or correcting the underlying internal control deficiencies. Similarly, DOD identified a number of deficiencies, referred to as dealbreakers, that it reports to be so severe that they could prevent the services from demonstrating audit readiness or succeeding in audits—such as the inability to produce a complete list of items the services own. However, DOD’s Status Report does not provide adequate visibility over actions taken and progress made toward correcting those dealbreakers. Without greater visibility of DOD’s audit readiness status and progress in its FIAR Plan Status Report, Congress and other decision makers may not have sufficient information to assess DOD’s current audit readiness status and the improvements that still need to be made.

Regarding valuation, DOD is in the early stages of developing specific methodologies and procedures to value its existing PP&E assets. DOD estimates that it needs to value over 440,000 real property assets and several hundred thousand individual pieces of equipment. Proposed changes to federal accounting standards would provide DOD more options for estimating the value of its existing assets. However, DOD reported that previously identified systems and control deficiencies impair its ability to properly account for the actual costs of newly acquired assets, and identified fixing such deficiencies as a priority in the FIAR Plan.

**What GAO Recommends**
To help provide better visibility of DOD’s financial management status and efforts, GAO recommends that DOD expand its semiannual FIAR Plan Status Report to include (1) audit assertions that have been made without correcting internal control deficiencies along with actions and plans to remediate the deficiencies and (2) details of military services’ actions taken and progress made toward correcting the underlying deficiencies for reported dealbreakers. DOD agreed with these recommendations.

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