



Highlights of [GAO-10-695](#), a report to congressional committees

## Why GAO Did This Study

Major defense acquisition programs (MDAP) are used to acquire, modernize, or extend the service life of the Department of Defense's (DOD) most expensive assets, primarily military equipment. The Weapon Systems Acquisition Reform Act of 2009 (P.L. 111-23), section 304(b), directed us to perform a review of weaknesses in DOD's operations that affect the reliability of financial information for assets acquired through MDAP. To do so, GAO identified and reviewed previously reported weaknesses that impair DOD's ability to provide reliable cost information for military equipment acquired through MDAPs, and determined what actions DOD has taken to address them. GAO searched databases of audit reports issued during calendar years 2005 through 2009 to identify previously reported weaknesses. Using applicable criteria, GAO assessed whether the actions taken by DOD adequately addressed these weaknesses.

## What GAO Recommends

GAO is making 11 recommendations intended to strengthen actions DOD has taken to begin improving its ability to identify, aggregate, and account for the cost of military equipment acquired through MDAPs. Specifically, our recommendations focused on the need to define departmentwide cost accounting requirements and develop the process and system capabilities needed to support cost accounting and management. DOD concurred with our recommendations.

[View GAO-10-695 or key components.](#)  
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## DEPARTMENT OF DEFENSE

### Additional Actions Needed to Improve Financial Management of Military Equipment

#### What GAO Found

GAO found that weaknesses that impaired the department's ability to identify, aggregate, and account for the full cost of military equipment it acquires comprised seven major categories. Specifically, DOD had not (1) maintained support for the existence, completeness, and cost of recorded assets; (2) structured its contracts at the level of detail needed to allocate costs to contract deliverables; (3) provided guidance to help ensure consistency for asset accounting; (4) implemented monitoring controls to help ensure compliance with department policies; (5) defined departmentwide cost accounting requirements; (6) developed departmentwide cost accounting capabilities; and (7) integrated its systems.

Although the department has acknowledged that it is primarily focused on verifying the reliability of information, other than cost, recorded in its property accountability systems, DOD has begun actions to address these weaknesses and improve its capability to identify, aggregate, and account for the full cost of its military equipment. For example, DOD is requiring that acquisition contracts be structured in a manner that facilitates application of the appropriate accounting treatment for contract costs, including the identification of costs that should be captured as part of the full cost of a deliverable. In addition, it has also begun to require that all contract deliverables that meet defined criteria be assigned a unique item identifier to facilitate asset tracking and aggregation of costs, and that electronic contract-related documentation, such as the invoice and receipt/acceptance documents, be maintained in a central data repository to ensure the availability of supporting documentation. Moreover, the department has begun to identify cost accounting data elements within its Standard Financial Information Structure (SFIS) and requires that its business-related Enterprise Resource Planning (ERP) systems support this structure. These efforts are intended to improve data sharing and integration between business areas.

DOD acknowledged that the actions taken to date do not yet provide the department with the capabilities it needs to identify, aggregate, and account for the full cost of its military equipment. For example, DOD has begun to develop ERPs but has not yet defined the cost accounting requirements to be used to evaluate if these ERPs will provide the functionality needed to support cost accounting and management. DOD stated that additional actions, sustained management focus, and the involvement of many functional groups across DOD are needed before weaknesses that impair its ability to account for the full cost of the military equipment it acquires are addressed. Until DOD defines its cost accounting requirements and completes the other actions it has taken (e.g., defining data elements in SFIS) to support cost accounting and management, DOD is at risk of not meeting its financial management objective to report the full cost of its military equipment. DOD has stated that until these actions are completed it will continue to rely on its military equipment valuation (MEV) methodology to estimate the cost of its military equipment for financial reporting purposes.