



Highlights of [GAO-11-950T](#), testimony before the Panel on Defense Financial Management and Auditability Reform, Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) is required to design and implement effective internal controls, including controls over its use of public funds (“funds controls”) and controls over its payment processes (“payment controls”). As a steward of the public’s resources, DOD is responsible and accountable for (1) using public funds efficiently and effectively and for the purposes and within the time frames and amounts prescribed by law, (2) making payments to the right parties in the correct amount within allowable time frames and recouping any improper payments, and (3) accurately recording and reporting on its transactions and use of public funds.

GAO’s testimony focuses on (1) challenges DOD faces in its funds control, and their effect on the reliability of DOD’s financial information, especially the budgetary information in DOD’s Statement of Budgetary Resources and (2) weaknesses in DOD’s payment controls that put the department at risk of making improper payments.

This statement is based on our prior work (see Related GAO Products) and reports issued by the department’s Inspector General (DOD IG). The panel requested that GAO provide its perspective on the status of DOD’s process for identifying and reporting on improper payments, examples of Antideficiency Act violations within DOD along with the causes of these violations, and the effect of problem disbursements on DOD’s ability to report reliable information on its financial statements.

View [GAO-11-950T](#). For more information, contact Asif Khan at (202) 512-9869 or khana@gao.gov.

September 22, 2011

DOD FINANCIAL MANAGEMENT

Weaknesses in Controls over the Use of Public Funds and Related Improper Payments

What GAO Found

For years, GAO and DOD IG have reported on DOD’s inability to provide effective funds control and report reliable financial information, including budgetary information. In 2008, GAO reported that DOD’s complex and inefficient payment processes, nonintegrated business systems, and weak internal controls impair its ability to maintain proper funds control, putting DOD at risk of overobligating or overspending its appropriations. Specifically, DOD’s weak internal control environment has hindered its ability to ensure that transactions are accurately recorded, sufficiently supported, and properly executed by trained personnel subject to effective supervision. Funds control weaknesses place DOD at risk of violating the Antideficiency Act (ADA), specifically through overobligations and overexpenditures. DOD reported ADA violations from fiscal year 2007 through September 15, 2011, with a total dollar amount of \$927.4 million.

DOD has identified payment transactions and related accounting steps as “problem disbursements.” Problem disbursements include unmatched disbursements (UMD) that represent disbursements that have been paid by an accounting office but that have not been matched to the correct obligation records. DOD reports that it has reduced overaged UMDs from \$666.5 million to \$109.6 million between second quarter of fiscal year 2009 to the same time in fiscal year 2011. These and other weaknesses have prevented DOD from reporting reliable financial information, including budgetary information in an auditable Statement of Budgetary Resources. Although DOD has dedicated significant resources to remediate its identified weaknesses, it faces significant challenges to address those persistent weaknesses.

DOD reported for fiscal year 2010 that it made an estimated \$1 billion in improper payments. However, this estimate is incomplete because DOD did not include estimates from its commercial payment programs, which account for approximately one-third of the value of DOD payments. Further, both GAO and the DOD IG have reported on weaknesses in DOD’s payment controls, including weaknesses in its process for assessing the risk of improper payments and reporting estimated amounts of them. DOD’s problem disbursements continue to be a concern and are a contributing factor to the department’s funds control issues. The department’s weak controls over payments increase the risk of inaccurate cost information and improper payments. Given DOD’s stated goal of achieving audit readiness on its consolidated financial statements by the end of fiscal year 2017, it will be critical that the department continue to ensure that steady progress is being made. Moreover, for DOD to move forward, it will be important that the department resolve its problems with multiple, disparate nonintegrated systems to ensure that whatever systems solutions are chosen will provide the underlying foundation for auditable financial statements.