

GAO Highlights

Highlights of [GAO-17-85](#), a report to congressional committees

Why GAO Did This Study

DOD remains on GAO's High-Risk List because of its long-standing financial management deficiencies. These deficiencies negatively affect DOD's audit readiness and its ability to make sound mission and operational decisions. The Army, Navy, and Air Force underwent their first Budgetary Schedule audits for fiscal year 2015.

This report, developed in connection with fulfilling GAO's mandate to audit the U.S. government's consolidated financial statements, examines (1) the results of the audits of the fiscal year 2015 Budgetary Schedules for the Army, Navy, and Air Force; (2) the extent to which each military service designed a process to address financial management-related audit findings and recommendations; and (3) the extent to which DOD has designed a department-wide process to monitor and report on audit readiness remediation efforts. GAO reviewed IPA reports and documentation from the military services and DOD Comptroller and interviewed cognizant officials.

What GAO Recommends

GAO is making a total of eight recommendations to the Army, the Navy, the Air Force, and DOD to improve processes for tracking and monitoring financial management-related audit findings and recommendations. The military services concurred with the five recommendations to them, while DOD concurred with one and partially concurred with two of the recommendations directed to it. GAO continues to believe that the recommendations are valid, as discussed in the report.

View [GAO-17-85](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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DOD FINANCIAL MANAGEMENT

Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies

What GAO Found

The Schedules of Budgetary Activity (Budgetary Schedules) for the Army, Navy, and Air Force for fiscal year 2015 reflected current year budget activity as an interim step toward producing an auditable Statement of Budgetary Resources that will reflect multiyear budget activity. All three of the independent public accountants (IPA) contracted to audit these fiscal year 2015 Budgetary Schedules issued disclaimers, meaning that the IPAs were unable to express an opinion because of a lack of sufficient evidence to support the amounts presented. The IPAs for all three military services also identified material weaknesses in internal control and collectively issued a total of over 700 findings and recommendations. These weaknesses included, among other things, the military services' inability to reasonably assure that the Budgetary Schedules reflected all of the relevant financial transactions that occurred and that documentation was available to support such transactions. Army, Navy, and Air Force management generally concurred with these findings and stated that they would develop and implement corrective actions to address the IPAs' recommendations.

Office of Management and Budget (OMB) guidance and the Department of Defense's (DOD) Financial Improvement and Audit Readiness (FIAR) Guidance include the following steps for addressing these and other financial management-related findings and recommendations reported by external auditors: (1) identify and track them, (2) prioritize them, (3) develop corrective action plans (CAP) to remediate them, and (4) monitor the implementation status of the CAPs. GAO found that the remediation processes designed by each military service had deficiencies in one or more of these areas. For example, each military service's policies and procedures lacked sufficient controls to reasonably assure that they identified and tracked the complete universe of open findings and recommendations related to financial management. Without identifying and tracking the complete universe of unresolved deficiencies, the military services cannot provide reasonable assurance that the deficiencies will be addressed in a timely manner, which can ultimately affect the reliability of financial information and the auditability of their financial statements.

The DOD Comptroller has established several elements of a department-wide audit readiness remediation process, but it does not have comprehensive information on the status of CAPs throughout the department needed to fully monitor and report on the progress being made to resolve financial management-related deficiencies. Specifically, (1) the DOD Comptroller does not obtain complete, detailed information on all CAPs from the military services related to the department's critical capabilities to be able to fully assess progress and (2) reports to external stakeholders such as the Congress on the status of audit readiness do not provide comprehensive information. A lack of comprehensive information on the CAPs limits the ability of DOD and Congress to evaluate DOD's progress toward achieving audit readiness, especially given the short amount of time remaining before the statutory deadline to submit to Congress the results of an audit of the department-wide financial statements for fiscal year 2018.