



January 2023

# DOD FINANCIAL MANAGEMENT

## Greater Attention and Accountability Needed over Government- Furnished Property

# GAO Highlights

Highlights of [GAO-23-105198](#), a report to congressional committees

## Why GAO Did This Study

DOD's lack of accountability over government property in the possession of contractors has been reported by auditors for decades. This long-standing issue affects the accounting and reporting of GFP and is one of the reasons DOD is unable to produce auditable financial statements. DOD estimated the value of its GFP at over \$220 billion; however, that amount is likely significantly understated.

This report, developed in connection with fulfilling GAO's mandate to audit the U.S. government's consolidated financial statements, examines the (1) challenges DOD has encountered in department-wide efforts to address weaknesses related to its accounting for GFP and (2) extent to which DOD has developed a department-wide strategy to address the GFP-related material weakness.

GAO reviewed relevant audit reports, memorandums issued by DOD management, DOD strategy documents, and Council meeting documents; interviewed officials; and analyzed military department reports.

## What GAO Recommends

GAO is making three recommendations, specifically, for DOD to (1) document and implement a process for memorandum distribution and for reviewing components' compliance, (2) document procedures for how the Council and related oversight groups will function, and (3) develop a comprehensive strategy to clearly articulate the detailed DOD-wide efforts to address the GFP material weakness. DOD concurred with one and partially concurred with two of GAO's recommendations.

View [GAO-23-105198](#). For more information, contact Kristen A. Kocielek at (202) 512-2989 or [kocielekk@gao.gov](mailto:kocielekk@gao.gov).

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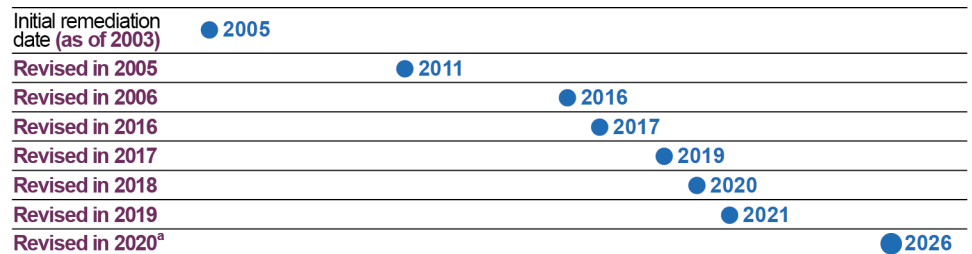
## DOD FINANCIAL MANAGEMENT

### Greater Attention and Accountability Needed over Government-Furnished Property

## What GAO Found

For years, the Department of Defense (DOD) has struggled to accurately account for government property in the possession of contractors, known as government-furnished property (GFP). DOD has repeatedly revised its planned dates to address a GFP-related material weakness since auditors first reported it in 2001.

#### Department of Defense's Revisions to Remediation Dates for Addressing the Government-Furnished Property (GFP) Material Weakness



Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-105198

DOD management has issued multiple memorandums to remediate the long-standing GFP-related material weakness, including a May 2019 memorandum that directed DOD components to establish a baseline of GFP assets. However, GAO found that DOD did not achieve its stated objective for the May 2019 memorandum as a result of challenges with (1) an inefficient and incomplete initial memorandum distribution process, (2) confusion among department officials over memorandum terminology, (3) components' logistical struggles to identify and provide requested data, and (4) a lack of effective management review of the components' progress. Additionally, GAO identified challenges with the Property Functional Council (Council), which DOD established in part to oversee efforts to address the material weakness. For example, the Council did not routinely discuss GFP or the May 2019 memorandum, and did not consistently meet or include all key participants when it did. Without documented processes and procedures for GFP-related memorandum guidance and the Council's operations, DOD increases the risk that it will continue to encounter challenges with its efforts to remediate the GFP-related material weakness.

While DOD has taken steps to address the GFP-related material weakness, GAO found that department-wide efforts have not been comprehensive and sufficiently detailed. Developing a comprehensive department-wide strategy, separate from DOD's overarching financial management strategy, would assist the department in identifying root causes of deficiencies with common solutions across the departments, and clearly defining detailed procedures for achieving tasks and meeting target dates. Without such a strategy, DOD is at an increased risk that its efforts to remediate the GFP material weakness will continue to be insufficient and that it will continue to miss or push back target remediation dates.

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## Abbreviations

AFR	agency financial report
AI	administrative instruction
APSR	accountable property systems of record
DOD	Department of Defense
DODI	Department of Defense Instruction
DODM	Department of Defense Manual
DTM	directive-type memorandum
FIAR	Financial Improvement and Audit Remediation
GFP	government-furnished property
NFR	notice of findings and recommendations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OUSD (A&S)	Office of the Under Secretary of Defense for Acquisition and Sustainment
OUSD (AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
OUSD (Comptroller)	Office of the Under Secretary of Defense (Comptroller)
PFC	Property Functional Council
WHS	Washington Headquarters Services

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January 17, 2023

Congressional Committees

The Department of Defense (DOD) reported \$3.2 trillion in assets in its most recent Agency Financial Report (AFR), which accounts for approximately 65 percent of the federal government’s total assets. That amount includes assets in DOD’s physical custody as well as assets held by contractors on DOD’s behalf, also referred to as government-furnished property (GFP). Federal regulations define GFP as property in the possession of, or directly acquired by, the government and subsequently furnished to the contractor for performance of a contract.<sup>1</sup> These GFP assets include property furnished for repairs, maintenance, overhaul, or modification of military equipment. Specifically, contractors can possess assets such as ammunition, missiles, torpedoes, component parts for these end-items, and equipment for specific uses associated with these items.

In 2014, DOD estimated the value of its GFP at over \$220 billion; however, that amount is likely significantly understated. For example, in fiscal year 2016, we reported that the Army indicated the actual number of these GFP assets is unknown and that actual quantities may be greatly different than the Army’s documented property records reflect.<sup>2</sup>

DOD’s financial statement auditors have reported a material weakness related to GFP.<sup>3</sup> The material weakness cited issues such as DOD’s inability to reconcile GFP balances and substantiate existence and completeness of GFP assets, as well as a lack of policies and procedures

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<sup>1</sup>In accordance with federal regulation, DOD provides contractors with government property necessary to complete contract work on behalf of an agency.

<sup>2</sup>GAO, *DOD Financial Management – Greater Visibility Needed to Better Assess Audit Readiness for Property, Plant, and Equipment*, [GAO-16-383](#) (Washington, D.C.: May 2016).

<sup>3</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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to properly report GFP in its financial statements. DOD's lack of accountability over government property in the possession of contractors has been reported by auditors as far back as 1981. These long-standing issues affect the accounting for and reporting of GFP and are one of the reasons DOD is unable to produce auditable financial statements. DOD is the only major federal agency that has been unable to receive an audit opinion on its department-wide financial statements, which is one of the three major impediments preventing us from expressing an opinion on the accrual-based consolidated financial statements of the U.S. government.<sup>4</sup>

In response to the continued weaknesses reported in the fiscal year 2018 financial statement audit, the Acting Secretary of Defense issued the *Fiscal Year 2019 Financial Statement Audit Priorities*. The document detailed goals and priorities of corrective actions to provide the greatest value to DOD operations and identified addressing the GFP weaknesses as a priority for DOD. Following this, the Office of the Under Secretary of Defense (Acquisition and Sustainment) (OUSD (A&S)) issued the *Fiscal Year 2019 Audit Priorities: Government Property in Possession of Contractors* memorandum on May 11, 2019. This memorandum provided amplified guidance to the components to ensure the accurate and complete accountability of government property in the possession of contractors. The DOD Office of Inspector General (OIG), DOD's financial statement auditor, reported that without accurate accounting records for GFP, DOD could understate these assets and potentially make unnecessary purchases or overstate its GFP and be unprepared to meet future needs.<sup>5</sup>

We performed this audit in connection with the statutory requirement for GAO to audit the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies, including DOD.<sup>6</sup> This report examines the (1) challenges DOD has encountered in department-wide efforts to address weaknesses related to its accounting for GFP in the financial statements and (2) extent

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<sup>4</sup>The other two impediments are the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and weaknesses in the federal government's process for preparing the consolidated financial statements.

<sup>5</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the FY 2021 DOD Financial Statements* (Alexandria, Va.: May 18, 2022).

<sup>6</sup>The Secretary of the Treasury, in coordination with the Director of Office of Management and Budget, is required to annually prepare and submit audited financial statements for the executive branch of the U.S. government to the President and Congress. GAO is required to audit these statements. 31 U.S.C. § 331(e).

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to which DOD has developed a department-wide strategy to address the GFP-related material weakness reported by its financial statement auditor.

For the first objective, we used publicly available information, such as DOD AFRs and memorandums, and relevant GAO and DOD OIG reports to identify DOD's weaknesses related to GFP and its efforts to address them. We requested all initial and quarterly reports that the military departments—the Army, Navy, and Air Force—submitted, and assessed whether they were consistent with relevant requirements. We also inquired about any documented quality assurance procedures implemented by OUSD (A&S). In addition, we interviewed DOD officials to identify any potential challenges or obstacles related to the military departments' efforts to comply with the May 2019 memorandum. Additionally, we reviewed DOD's Property Functional Council's meeting schedules, minutes, agendas, and participant lists for the period of July 2018 through September 2021 to assess the level of participation by key officials and the consistency of GFP-related discussions.

For the second objective, we reviewed DOD's strategy documents related to remediating the GFP material weakness, as well as DOD's annual Financial Improvement and Audit Remediation reports that detail the status of efforts to address financial audit-related deficiencies at a high level. In addition, we interviewed officials from OUSD (A&S) and OUSD (Comptroller) to further understand the DOD-wide efforts to address the GFP-related material weakness.

We conducted this performance audit from April 2021 to January 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

### GFP-Related Material Weaknesses Identified by DOD's Financial Statement Auditors and DOD's Initial Remediation Efforts

DOD's auditors first reported a material weakness over GFP in fiscal year 2001. Auditors identified issues with unreliable reporting and recognition in accordance with DOD regulations and federal standards.<sup>7</sup> In fiscal year 2003, DOD began developing policies and processes to correct the GFP material weakness with an expected implementation date by the end of fiscal year 2005. To improve accountability, accuracy, and reliability, DOD initiated a joint online government property system to record GFP that provided access to both agency officials and contractors. As stated in its fiscal year 2005 AFR, DOD planned for initial data loads in the system to begin in fiscal year 2006 with an anticipated material weakness remediation date of fiscal year 2011. By fiscal year 2006, the remediation date changed to the end of fiscal year 2016.

In fiscal year 2008, DOD completed a policy and reporting process for contractors with GFP. The policy and reporting process was intended to provide appropriate information for financial statement reporting and required entities to maintain information on all property furnished to contractors. DOD structured the policies and procedures to capture and report information necessary to comply with federal accounting standards, but by the end of fiscal year 2009, DOD could not fully implement the policy due to system limitations. During fiscal years 2010 through 2013, DOD continued to report that it had not fully implemented the policy due to the system limitations, and again maintained a revised fiscal year 2016 remediation date.

In fiscal year 2014, DOD stated that components would report quarterly on the progress in establishing accountable records for all GFP, correcting policy deficiencies, and ensuring controls were in place when furnishing property in contracts. During fiscal year 2015, DOD reported that it established a GFP working group, which would provide oversight for the components' quarterly reporting efforts.

In fiscal year 2016, DOD directed the components to continue to report quarterly on the process to establish accountable records for GFP assets, correct policy deficiencies, and ensure proper controls are in place. DOD pushed the remediation date for addressing the material weakness to fiscal year 2017. DOD also added an initiative to develop measures for

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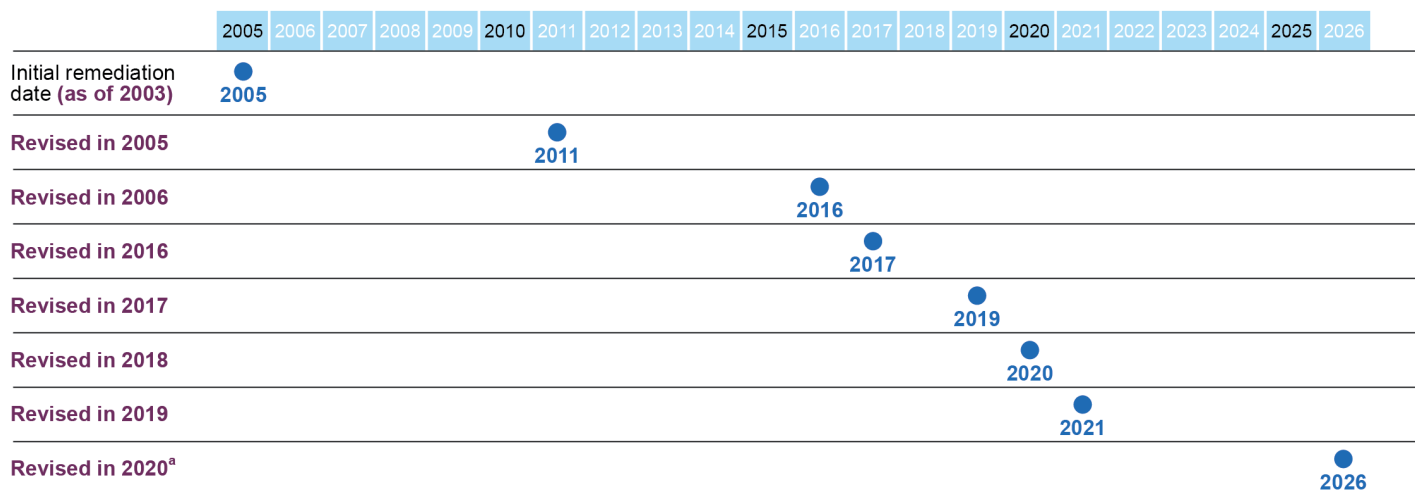
<sup>7</sup>Statement of Federal Financial Accounting Concepts 5 defines recognition as the process of formally recording or incorporating an element into the financial statements of an entity.



the components to follow in their efforts to properly account for GFP assets. DOD designed this initiative to ensure accountability and accurate financial reporting of GFP by analyzing DOD’s business processes. Additionally, DOD designed the initiative to identify opportunities to share electronic data and validate current records through existence and completeness testing.

DOD added government-owned, contractor-managed assets and government-furnished material inventories not accounted for in DOD accountable property systems to one of its corrective action plans. In fiscal year 2017, DOD revised the material weakness remediation date to the end of fiscal year 2019. As a result of delays in the implementation and adoption of automated GFP reporting solutions, DOD has continued to revise the remediation date. In fiscal year 2020, DOD reported the target GFP material weakness remediation date to be fiscal year 2026, as illustrated in figure 1.

**Figure 1: Department of Defense’s Revisions to Remediation Dates for Addressing the Government-Furnished Property (GFP) Material Weakness**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-105198

<sup>a</sup>In fiscal year (FY) 2021, DOD continued to report a remediation date of FY 2026 to correct the material weakness related to GFP.

During the fiscal year 2021 DOD-wide financial statement audit, the DOD OIG continued to report a GFP material weakness. According to the DOD OIG, DOD’s lack of policies, procedures, controls, and supporting documentation over the acquisition, disposal, tracking, and inventory processes of government property in the possession of contractors

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prevented DOD from substantiating the existence and completeness of GFP. In addition, the material weakness related to DOD's inventory and related property mentioned DOD's inability to properly manage and account for inventory held by government contractors.

In its *Understanding the Results of the Audit of the FY 2021 DOD Financial Statements*, the DOD OIG reported that DOD had not made significant progress in remediating its GFP-related deficiencies because it relies too heavily on its contractors to maintain inventory records on its behalf. In addition, the OIG also reported that DOD does not always verify that contractor's inventory records are complete and accurate.

Auditors identified similar issues in the military departments' financial statement audits from fiscal years 2018 through 2021. For example:

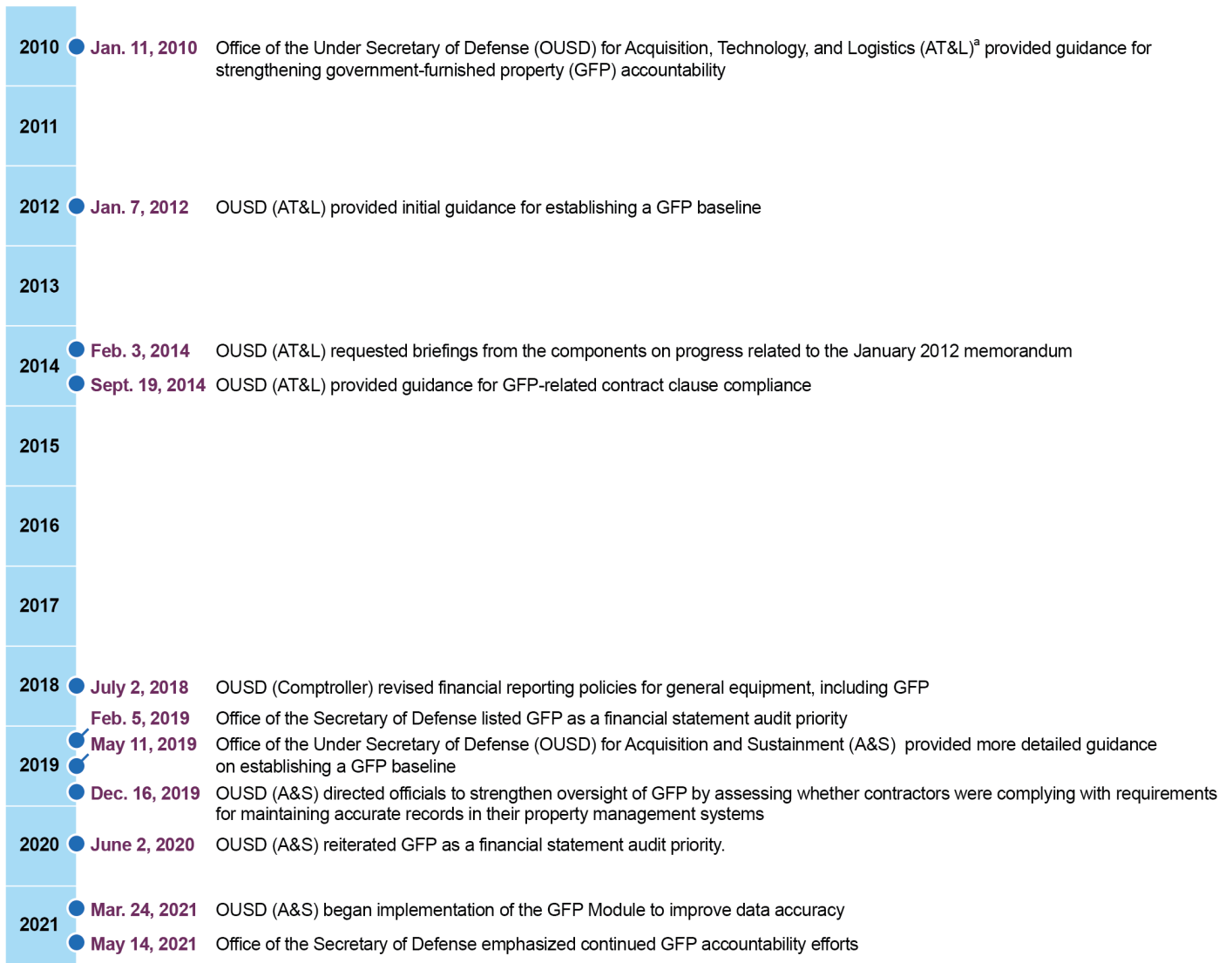
- Auditors noted that Army management did not (1) reconcile assets held by contractors to accounting systems, or (2) resolve differences between contractor confirmations of the assets they possess with the Army's accounting systems.
- Auditors continued to report deficiencies related to the Navy's accountability over its GFP. In one example, although the Navy's accounting records showed eight guided missile fin assemblies at a contractor's site, a physical count revealed only two at the site.
- Auditors identified irreconcilable differences between the Air Force's records and those of Air Force's contractors, such as duplicate inventory records, incorrect inventory locations, and incorrect inventory quantities.

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## DOD-Wide Memorandums to Address the GFP Weakness

DOD management issued memorandums to outline many of the initial remediation efforts for the GFP-related deficiencies identified by auditors. DOD's goal for the memorandums was to identify solutions for accurate reporting of GFP balances in DOD's financial statements, in accordance with generally accepted accounting principles. As shown in figure 2, DOD first issued a memorandum in 2010 and continued through fiscal year 2021.

**Figure 2: Department of Defense Memorandums on Remediating the Government-Furnished Property Material Weakness, 2010–2021**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-105198

<sup>a</sup>Prior to the establishment of OUSD (A&S) in February 2018, the primary responsibilities currently exercised by that office were carried out by the OUSD (AT&L).

The numerous memorandums issued by DOD management since 2010 included guidance related to strengthening accountability and management of GFP by

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- updating relevant policies,
  - developing a plan to standardize business processes related to GFP,
  - developing a methodology for establishing and validating a baseline of GFP by reconciling contractor inventory data with DOD component property records,
  - directing components to brief DOD management on progress toward establishing accountability over GFP through quarterly GFP working group meetings, and
  - reiterating that the remediation of GFP-related deficiencies identified during the financial statement audits is a top priority of management.

In February 2019, the Acting Secretary of Defense issued the *Fiscal Year 2019 Financial Statement Audit Priorities*. The memorandum detailed goals and priorities of corrective actions to provide the greatest value to DOD operations and identified addressing the GFP weaknesses as a priority for DOD. The Secretary of Defense directed the OUSD (A&S) to lead the effort and establish a GFP baseline. On May 11, 2019, in response to the Secretary of Defense's 2019 audit priority, OUSD (A&S) issued a memorandum with specific guidance for DOD components to establish a GFP baseline. The memorandum provided templates, and required the components to report data within 30 days of the memorandum signature date, then again 60 days after the signature date, and quarterly thereafter.

While DOD management has issued subsequent memorandums related to addressing the GFP material weakness, the May 2019 memorandum continues to be the most detailed guidance used by the military departments in establishing a GFP baseline. However, despite these various memorandums, at the conclusion of the fiscal year 2021 audit, the DOD OIG stated that DOD had not made significant progress in remediating its GFP material weakness because it relied too heavily on its contractors to maintain inventory records on its behalf. Additionally, the OIG reported that DOD did not always verify contractor's inventory records were complete and accurate.

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## DOD Has Faced Challenges with GFP-Related Memorandum Guidance and Oversight as It Attempts to Address Financial Audit Findings

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### DOD Has Not Achieved Its Objectives for GFP Memorandums and Guidance Issued since 2010

For many years, DOD has struggled to accurately account for its GFP and, as a result, has experienced challenges in attempting to address audit findings to resolve its related DOD-wide GFP material weakness. As previously mentioned, DOD management has issued at least 11 memorandums since 2010 with the intent of resolving the GFP material weakness. However, over a decade later, DOD has not made sufficient progress to resolve the material weakness.

To illustrate, OUSD for Acquisition, Technology, and Logistics (AT&L) January 2012 memorandum titled, *Standard Equipment Data Elements for Government Furnished Property Baseline Establishment*, was addressed to various assistant secretaries of defense, various directors of defense agencies and DOD field activities, and the Deputy Chief Financial Officer.<sup>8</sup> The memorandum directed the departments to submit a plan within 90 days that included a detailed project plan for how they would implement the methodology. Two key steps in the memorandum methodology required the departments to (1) perform an analysis to reconcile GFP to the applicable contracts and (2) update and reconcile data in the accountable property systems of record (APSR) with the GFP they identified in the first step. However, almost a decade later, those two steps, both critical for establishing accountability for GFP, are still incomplete. DOD management continues to issue memorandums aimed at accomplishing the same objective.

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<sup>8</sup>Prior to the establishment of OUSD (A&S) in February 2018, the primary responsibilities currently exercised by that office were carried out by the OUSD (AT&L).

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The Secretary of Defense's February 2019 memorandum listing audit priorities included a directive for remediating the long-standing, DOD-wide material weakness for GFP by fiscal year-end 2019. This memorandum directed the OUSD (A&S) to provide specific guidance to the military departments so they could establish GFP baselines by reconciling the GFP listed in contracts to their property records. This directive to establish a GFP baseline was largely the same as the baseline outlined in the memorandum that OUSD (AT&L) issued 7 years earlier in 2012. In response, OUSD (A&S) issued the May 2019 memorandum that, as previously stated, included guidance for establishing a GFP baseline.

More than half of the 11 memorandums issued by DOD management since 2010 aimed at remediating the material weakness over GFP—including the May 2019 memorandum—were developed, disseminated, and managed directly by OUSD (A&S), or its predecessor Office, rather than through a central process. DOD often uses its Washington Headquarters Services (WHS) and the Correspondence and Task Management System to issue certain types of memorandums.<sup>9</sup> WHS's memorandum issuance process includes steps such as a standardized distribution process and a requirement to coordinate with relevant offices before issuance.<sup>10</sup> However, the process used by OUSD (A&S) to issue memorandums did not always include these steps. OUSD (A&S) officials stated that they did not use the formal WHS correspondence process because they would have been unable to meet the initial 30-day reporting requirement in the memorandum if that process was used.

We found that OUSD (A&S) faced challenges and did not achieve its stated objective with the May 2019 memorandum, which was to establish a baseline of GFP assets, because it lacks a documented process for developing and distributing the memorandums it issues outside of the WHS process. Specifically, OUSD (A&S) experienced challenges with (1) an inefficient and incomplete initial distribution of the memorandum, which

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<sup>9</sup>WHS is the lead agent for processing, controlling, disseminating, and archiving official classified and unclassified correspondence addressed to and sent by the Secretary of Defense and the Deputy Secretaries of Defense. WHS also oversees the related Correspondence and Task Management System in accordance with Department of Defense-Instruction (DODI) 5045.01. Directive-type memorandums issued through WHS are officially numbered and posted on its website at Directive-Type Memorandums, accessed July 7, 2022, <https://www.esd.whs.mil/DD/DoD-Issuances/DTM/>.

<sup>10</sup>WHS's issuance program includes specific requirements for processing the documents that establish and implement DOD policy, called DOD issuances. Issuance types include instructions (DODI), directives (DDDD), manuals (DODM), directive-type memorandums (DTM), and administrative instructions (AI).

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led to missed deadlines; (2) confusion among department officials over memorandum terminology; (3) departments' logistical struggles to identify and provide the data requested; and (4) a lack of effective management review of the military departments' progress.

### Initial Distribution Challenges

We found that OUSD (A&S)'s distribution of the memorandum was inefficient and incomplete because the memorandum was not specifically addressed to the officials at the departments who would be responsible for implementing the guidance. OUSD (A&S) officials stated that the memorandum's success was dependent on participation and collaboration among three key communities: acquisition, logistics, and financial management. However, we found that OUSD (A&S) did not specifically address the memorandum to those three essential communities. Instead, the office broadly addressed the memorandum to the under secretaries of the military departments, the directors of the defense agencies, and the directors of the DOD field activities. As a result, the individual military departments had to make their own determinations as to who should receive the memorandum, which led to inefficient and incomplete communication of the guidance.

For example, officials at one military department we interviewed stated that the memorandum distribution process was a problem because the memorandum was initially only distributed to the financial management community. This delayed distribution to the logistics and acquisition areas, which contributed to the department missing its first reporting deadline. Officials at another military department stated that they missed their initial reporting deadline because officials from the key communities did not receive the memorandum until sometime in June 2019. These delays contributed to the departments' inability to achieve OUSD (A&S)'s initial reporting deadline of 30 days after memorandum issuance.

### Departments' Confusion over Terminology

Confusion among military department officials over the terminology used in the memorandum also hampered its successful implementation. For example, the guidance in the May 2019 memorandum called for a review of all sustainment contracts that require contractors to hold or manage government property. However, we found that military department officials did not initially understand what OUSD (A&S) meant by "sustainment" contracts. For example, since the memorandum did not provide a definition of a sustainment contract, officials from one military department were confused as to whether sustainment contracts would include repair contracts. This lack of clarity in defining a sustainment contract significantly slowed compliance with the memorandum because officials

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first needed to reach agreement on a common definition within the department.

Officials from another military department stated that they found the memorandum to be unclear in multiple areas. For example, in addition to not being clear as to what OUSD (A&S) meant by “sustainment” contracts, the officials were unsure how they should handle different types of sustainment contracts based on contract dates. The memorandum delineated two sets of guidance based on (1) whether a contract was a sustainment contract, and (2) whether a contract was awarded before or after December 28, 2017. Some military department officials found the memo confusing and were unsure whether non-sustainment contracts entered into after December 28, 2017, were included in the memorandum’s scope.

In addition, we found that the military departments were confused by the quarterly reporting requirement in the memorandum, as well as the term “new contracts.” OUSD (A&S) intended for the reporting periods to be calendar year quarters starting with the first 3 months after July 11, 2019. However, some of the military departments assumed reporting periods would coincide with fiscal year quarters. In addition, for the “new contracts” reporting requirement in the memorandum, OUSD (A&S) intended for the departments to report the contracts they identified and reviewed between reporting quarters, and planned to use that metric to track GFP baseline progress between quarters. However, some of the departments interpreted “new contracts” to mean contracts newly entered into since the end of the last quarterly reporting period.

## Departments’ Logistical Challenges

In addition, we found that the military departments experienced logistical challenges in identifying the information requested in the May 2019 memorandum. For example, military department officials stated that there was no reliable, automated way to query contract data for GFP quickly and therefore all sustainment contracts had to be reviewed manually, which was labor intensive and time-consuming. Officials at one military department stated that they had at least 5,600 contracts to review manually to determine if they were included in the scope of the memorandum.

We found that some of the logistical challenges experienced by the military departments were due in part to OUSD (A&S)’s lack of a documented process for developing and distributing memorandums that would include procedures to solicit and incorporate input from departments. Specifically, if OUSD (A&S) had solicited input from the



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military departments in advance, it could have made necessary revisions to reflect realistic reporting requirements and time frames in the memorandum. For example, although OUSD (A&S) officials acknowledged that implementing the guidance in the May 2019 memorandum would require a manual contract review, they did not adequately plan for how the military departments would accomplish that within the initial 30-day reporting deadline. An official at one military department stated that the process of compiling the data requested by OUSD (A&S) was so time and labor intensive that, more than 2 years later, the department is still unsure whether it has identified all of the applicable contracts.

#### Lack of Management Review

In addition, we found that neither OUSD (A&S) nor OUSD (Comptroller) reviewed the military departments' compliance with the May 2019 memorandum requirements, which would allow them to gauge progress, because there was no documented process in place to do so. Specifically, DOD management lacked a documented review process for determining whether the data submitted by the departments was complete, accurate, and timely. For example, we found that the data submissions provided to us by OUSD (Comptroller) and OUSD (A&S) for the period June 2019 through June 2021 did not appear to be complete or submitted timely. We found that one military department submitted templates that were entirely blank for its first data submission.

In addition, we found that none of the departments met the initial 30-day deadline or the following 60-day deadline. However, neither OUSD (A&S) nor OUSD (Comptroller) consistently communicated these issues to the military departments. Missed deadlines and confusion about the definition of quarterly led to the quarterly reporting requirement not being enforced. OUSD (A&S) and OUSD (Comptroller) instead requested data as needed to prepare for various meetings.

Moreover, we found that some of the data we reviewed did not appear consistent from reporting period to reporting period.<sup>11</sup> For example, the initial data submitted by one military department on June 25, 2019, indicated that GFP from 9,960 contracts had been identified and reconciled to an APSR. However, the next round of data submitted by that department in January of 2020 indicated that GFP from only 7,466

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<sup>11</sup>In general, we were unable to determine the accuracy of the reporting data provided by the military departments.

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contracts had been reconciled to an APSR. OUSD (A&S) did not communicate this discrepancy to the military department or pursue it.

In another example, one of the military departments submitted a reporting template in May of 2020 that appeared to report inconsistent data regarding the number of contracts that had been reviewed to establish the baseline, and the number of contracts that included GFP that had been reconciled to an APSR. OUSD (A&S) officials stated that they did not follow up on errors or potential issues with the data submitted by departments because they relied on the departments to provide reliable data.

*Standards for Internal Control in the Federal Government* states that agency management should design control activities to achieve objectives and respond to risks.<sup>12</sup> In addition, these standards state that management should implement control activities through policies. Management at various levels implements control activities through policies that document responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Without a documented process for developing and distributing GFP-related memorandums and a written plan for management review of department compliance, OUSD (A&S) will likely continue to encounter challenges in achieving the objectives for its memorandum guidance. This in turn could negatively affect DOD's efforts to establish accountability over GFP and remediate the GFP-related material weakness.

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## DOD Did Not Consistently Oversee GFP-Related Issues

DOD established an oversight group to address its financial audit-related deficiencies. However, we found that DOD management did not adequately plan for the group to oversee deficiencies specific to GFP. In 2018, DOD management established the Property Functional Council (PFC) to support the remediation of property-related audit issues causing material weaknesses. The PFC, which originated as a joint venture between OUSD (Comptroller) and OUSD (A&S), provides oversight and direction for remediation efforts related to at least seven material weakness audit areas, including GFP. The PFC consists of leaders within the financial and functional communities who are responsible for making

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<sup>12</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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key decisions and driving changes within their respective areas to address specific audit challenges.

When DOD created the PFC, its stated objective for the group was to “facilitate communication and decision making on DOD-wide property related issues.” Thus, when OUSD (A&S) issued the May 2019 memorandum, it designated the PFC to provide oversight for implementing the new guidance. To do so, the PFC was structured to meet quarterly and make decisions that would be communicated from the council members to the personnel responsible for implementing those decisions. However, we found that the PFC did not effectively oversee efforts to implement the May 2019 memorandum, which contributed to the unsuccessful implementation of that guidance.

The lack of a written plan or procedures for how the PFC should operate, such as a written charter with associated goals and objectives, contributed to the PFC’s lack of effective oversight. Specifically, we found that the PFC had inconsistent meeting schedules, did not routinely discuss GFP or the May 2019 memorandum, and did not consistently include all key participants at meetings. This led to ineffective communication and inconsistent follow-through on action items by the PFC, which resulted in a lack of timely and effective decision-making. For example, the PFC planned for departments to brief the PFC on the results of the May 2019 memorandum effort. However, we found that the PFC did not consistently inquire about the status of these efforts and therefore was unaware of the challenges and obstacles the departments encountered in meeting the memorandum’s requirements.

#### Inconsistent Meeting Schedules and GFP-Related Discussions

Based on our analysis of the PFC’s meeting schedule, minutes, and briefing slides, we found that the PFC did not maintain a consistent meeting schedule and did not routinely discuss GFP in the meetings that occurred. For example, although the PFC originated in July of 2018 and was designed to meet on a quarterly basis, we found that the PFC did not adhere to a quarterly meeting schedule. For the period of July 2018 through September 2021, the PFC met only eight times. Additionally, when the PFC did hold a meeting, it did not routinely discuss GFP remediation efforts. During the same period mentioned above, the PFC specifically discussed the May 2019 memorandum only once. In addition, we found that there were two separate yearlong periods where GFP was not discussed at all. (See table 1.)

**Table 1: Property Functional Council (PFC) Meeting Dates and Government Furnished Property (GFP) Discussions, 2018–2021**

<b>PFC meeting date</b>	<b>May 2019 memorandum discussed?</b>	<b>GFP material weakness discussed?</b>
July 18, 2018 (first meeting)	Not applicable	No
August 2019	Yes	Yes
October 2019	No	Yes
February 2020	No	Yes
May 2020	No	No
February 2021	No	No
June 2021	No	Yes
September 2021	No	Yes

Source: GAO analysis of Department of Defense (DOD) information. | GAO-23-105198

### Lack of Consistent Participation at Meetings

In addition to the PFC maintaining an inconsistent meeting schedule and holding infrequent discussions of GFP at meetings, key participants—including officials from DOD-wide offices and the military departments—did not consistently attend the PFC meetings. DOD officials stated that successful collaboration among DOD’s acquisition and sustainment, logistics, and financial management communities was critical to resolve the GFP material weakness. However, according to agency officials and based on our review of the attendance recorded in the PFC meeting minutes, after the October 2019 meeting, OUSD (A&S) officials were not consistently invited to PFC meetings, nor did they consistently attend.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks.<sup>13</sup> Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives. In addition, the standards state that management should remediate identified internal control deficiencies on a timely basis. Either the oversight body or management oversees the prompt remediation of deficiencies. Without a written plan for how the PFC will operate, DOD management cannot be assured that its oversight activities are functioning as intended, and is at increased risk that it will continue to experience challenges and delays that hinder remediation of the GFP-related material weakness reported by its auditor.

<sup>13</sup>[GAO-14-704G](#).

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## DOD Has Taken Some Actions to Address the GFP Material Weakness, but Lacks a Comprehensive Department-Wide Strategy

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### DOD Has Taken Initial Steps to Address the GFP Material Weakness

In addition to issuing various memorandums, including the May 2019 memorandum, DOD has attempted to make progress in addressing the DOD-wide GFP material weakness. For example, it included discussion of GFP remediation in its overarching strategies, such as its most recent financial management strategy.<sup>14</sup> Additionally, DOD issues annual Financial Improvement and Audit Remediation (FIAR) reports,<sup>15</sup> which summarize the results of the prior 4 years of the military departments' financial statement audits and include a status of corrective actions and associated road maps.<sup>16</sup> The ultimate objective of these efforts, according

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<sup>14</sup>Department of Defense, *Financial Management Strategy, Fiscal Years 2022 – 2026* (Washington, D.C.: March 2022).

<sup>15</sup>Department of Defense, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Financial Improvement and Audit Remediation (FIAR) Report* (Washington, D.C.: June 2022).

<sup>16</sup>The National Defense Authorization Act for Fiscal Year 2010 required DOD to develop and maintain the Financial Improvement and Audit Readiness Plan, along with submitting semiannual reports. The plan was to be prepared by the Chief Management Officer of DOD, in consultation with OUSD (Comptroller) and to include, among other things, interim goals with the objective of ensuring DOD's financial statements were ready for audit. According to the related report from the Committee on Armed Services of the House of Representatives, the plan was intended to assist DOD in improving its internal controls over financial reporting and make compliance with financial management and audit readiness standards a top priority for DOD. However, the National Defense Authorization Act for Fiscal Year 2018 repealed the requirement for the plan and semiannual reports, replacing it with a requirement, codified as amended at 10 U.S.C. § 240b, for the new annual Financial Improvement and Audit Remediation Report.

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to DOD, is to facilitate unmodified (“clean”) audit opinions on financial statements for DOD and its military departments.<sup>17</sup>

In its most recent financial management strategy covering fiscal years 2022 through 2026, DOD stated that it plans to achieve a clean audit opinion by, in part, providing a DOD-wide vision to its financial management community that includes goals and initiatives to address audit findings across various functional areas, including GFP. This document is intended as a high-level strategy and does not include comprehensive and detailed information on specific remediation efforts, root cause analysis of deficiencies identified, or planned corrective action dates related to the GFP material weakness.

DOD’s FIAR report also provides a high-level overview of how DOD intends to address the deficiencies identified during the financial statement audits, to include GFP related deficiencies. The FIAR report states that each reporting entity under audit with a disclaimer of opinion, such as the military departments, should maintain an audit road map. DOD indicated that it uses these audit road maps to align strategies for material weakness remediation across the department, identify timelines, prioritize focus areas, and ensure monitoring of progress and resources. The audit road maps detail corrective action completion dates by fiscal year and financial statement line item or audit focus area.

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### DOD’s Efforts to Address the Material Weakness Are Not Comprehensive

Despite the initial steps that DOD has taken to address the GFP material weakness, its efforts have not been comprehensive, and planned remediation dates have not been met. For example, as discussed above, the financial management strategy discusses GFP issues at a high level and does not include comprehensive and detailed information on specific remediation efforts, root cause analysis of deficiencies identified, or planned corrective action dates related to the GFP material weakness.

Additionally, in the 2022 FIAR report, DOD reported that addressing the GFP material weakness continued to be an audit priority, and that it would monitor progress in achieving its objectives. However, the report did not specify what progress had been made with respect to resolving the GFP material weakness other than summarizing the status of GFP-related

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<sup>17</sup>In an unmodified opinion on the financial statements, the auditor concludes that the financial statements are presented fairly, in all material respects, as of the specified date in accordance with U.S. GAAP (AU-C 700.18).

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notices of findings and recommendations (NFR).<sup>18</sup> Moreover, the 2022 FIAR report did not specify what work remained to be done, or whether the previously established remediation date of fiscal year 2026 was still considered to be feasible.

Additionally, DOD and its military departments did not develop a complete population of audit road maps. Specifically, only two of the three military departments prepared GFP-specific road maps. In addition, we found that the audit road maps (1) were not designed to clearly address how the causes of the GFP-related deficiencies that led to the material weakness will be remediated, (2) lacked an element of monitoring or reassessment of whether the specific remediation efforts are effectively targeting root causes and achieving their desired results, and (3) did not always include specific planned corrective action dates.

DOD officials stated that GFP material weakness remediation dates are determined based upon issues identified during the military departments' financial statement audits. The departments develop updated remediation dates as part of their corrective actions plans. Despite this process and the efforts described above, the same issues identified by auditors in 2001 remain today, and the remediation dates for correcting the underlying issues that contribute to the GFP material weakness continue to be pushed back.

We determined that DOD's failure to meet its remediation dates is due in part to the lack of a documented comprehensive strategy that clearly describes detailed procedures to address the material weakness DOD-wide. Such a strategy would be separate from the financial management strategy and FIAR Reports. Developing and implementing a comprehensive strategy involves DOD clearly defining what is to be done, who is to do it, how it will be done; and identifying feasible target dates for achievement. While DOD has prepared a financial management strategy and FIAR reports, as described above, these efforts have not been sufficient to provide for measureable progress in addressing the GFP material weakness.

Further, the military departments have not consistently developed or coordinated the audit road maps with each other. We found that each of the military departments is independently developing corrective action

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<sup>18</sup>NFRs include one or more findings and discuss deficiencies that auditors identified during the financial statement audit along with a corresponding recommendation(s) for addressing the deficiencies.

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plans to address the control deficiencies identified during their respective financial statement audits without applying common solutions. In addition, it was unclear how the various GFP-related memorandums issued by DOD management related to these other efforts and formed a cohesive, comprehensive approach.

DOD officials recognize that remediation efforts, sometimes requiring DOD-wide solutions, could take years to be fully implemented. However, defining remediation efforts in various documents without a comprehensive strategy across the department increases the risk that the various individual efforts will be ineffective and inefficient. Further, a comprehensive DOD-wide strategy, separate from the financial management strategy, would provide a more effective approach to resolve control deficiencies, such as those related to GFP, that are determined to be department-wide. It could aid in developing solutions that could be implemented by more than one military service, and thus enhance efficiency and consistency across DOD.

The Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,<sup>19</sup> states that correcting control deficiencies is an integral part of management accountability and must be considered a priority by the agency. Additionally, OMB Circular A-123 instructs agencies to perform cause analysis of identified deficiencies to ensure that subsequent strategies and plans address the causes of the problem and not just the symptoms. In addition, *Standards for Internal Control in the Federal Government* states that management should remediate identified internal control deficiencies on a timely basis. Either the oversight body or management oversees the prompt remediation of deficiencies.

A documented comprehensive DOD-wide strategy would (1) identify root causes of deficiencies with common solutions across the military departments, where applicable; (2) clearly describe detailed procedures for achieving tasks and meeting target dates to address the GFP material weakness; and (3) identify feasible time frames and resources needed to develop and implement these procedures. Without such a strategy, DOD is at an increased risk that its efforts to remediate the GFP material

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<sup>19</sup>Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (July 15, 2016).



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weakness will continue to be insufficient and target remediation dates will continue to be missed or pushed back.

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## Conclusions

As we and other auditors have previously reported, serious control issues preclude DOD from having accurate and complete GFP records and, therefore, reliable and auditable GFP-related financial information. As a result, DOD financial statement auditors continue to identify a material weakness related to DOD's accounting for its GFP. DOD and the military departments have taken some steps to mitigate the DOD-wide GFP material weakness. Despite these efforts, DOD has made minimal progress in the past 2 decades to remediate the identified deficiencies.

Implementing a process for developing and distributing any DOD-wide, GFP-related memorandums and guidance, outside of memorandums issued by WHS, would help ensure that the military departments are efficiently and effectively implementing the associated requirements. In addition, developing written procedures, such as in a charter, for how the PFC will operate will help ensure that oversight of department-wide remediation efforts related to the GFP material weakness is timely and effective. Finally, a comprehensive department-wide strategy for remediating the GFP material weakness would better position DOD to develop effective and efficient action plans and achievable corrective action dates. This, in turn, would help DOD make meaningful progress in addressing the GFP material weakness, and ultimately help to ensure that DOD has reliable and auditable financial information.

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## Recommendations for Executive Action

We are making the following three recommendations to DOD:

The Secretary of Defense should ensure that the Under Secretary for Defense (Acquisition and Sustainment), in collaboration with the Under Secretary of Defense (Comptroller), documents and implements a process for (1) developing and distributing DOD-wide GFP-related guidance in the form of memorandums, including procedures to obtain and incorporate input from military departments, and (2) reviewing military departments' compliance with this guidance. (Recommendation 1)

The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller), in collaboration with the Under Secretary of Defense (Acquisition and Sustainment), documents specific written procedures, such as in a charter, for how the PFC and other related oversight groups will function. The procedures should (1) establish expectations for meeting frequency; (2) establish the group's specific goals and objectives, including expectations for regularly assessing the

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effectiveness and timeliness of remediation efforts; and (3) identify key participants. (Recommendation 2)

The Secretary of Defense should ensure that the Under Secretary of Defense (Acquisition and Sustainment), in collaboration with the Under Secretary of Defense (Comptroller), develops and documents a comprehensive strategy, separate from the financial management strategy, to clearly articulate the detailed DOD-wide efforts to address the GFP material weakness. The comprehensive strategy should document (1) steps to identify and address root causes of deficiencies, (2) an overall planned remediation date with specific interim target dates based on an analysis of feasible time frames, and (3) steps to reassess actions after significant target dates so that plans can be adjusted as needed. (Recommendation 3)

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix I, DOD concurred with one of our three recommendations and partially concurred with the other two recommendations. DOD also provided technical comments, which we incorporated as appropriate.

DOD concurred with recommendation 2 and cited actions it will take to address it. We believe that if implemented effectively, these actions will address this recommendation.

DOD partially concurred with recommendation 1 to document and implement a process for developing and distributing DOD-wide GFP-related guidance in the form of memorandums, including procedures to obtain and incorporate input from military departments, and to review the military departments' compliance with such guidance. In its written comments, DOD stated that a policy currently exists for developing and distributing guidance and that there is little benefit to creating additional policy specific to GFP. DOD further stated that it would take action to ensure adherence to the existing guidance. DOD acknowledged that components struggled with internal distribution of the May 2019 OUSD (A&S) memorandum, and noted that DOD did not obtain timely or consistent responses. As a result, DOD stated that for similar future requests for military department information, it would require the departments to establish a point of contact for follow-up and compliance.

While we acknowledge that DOD's current policy provides guidance in the form of memorandum templates and formatting directions, it does not include key elements of our recommendation. Specifically, DOD's current

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policy does not include steps for distributing guidance to help ensure that key communities within the military departments—acquisition, logistics, and financial management—consistently and timely receive GFP memorandum guidance. DOD’s existing policy also lacks procedures for management to obtain and incorporate input from the military departments when preparing similar memorandum guidance. Additionally, DOD’s current policy lacks procedures for management to review the military departments’ compliance with this type of memorandum guidance. Until DOD documents and implements a process that includes these activities, efforts to establish a GFP baseline could remain inefficient and ineffective. Therefore, we continue to believe that this recommendation is warranted.

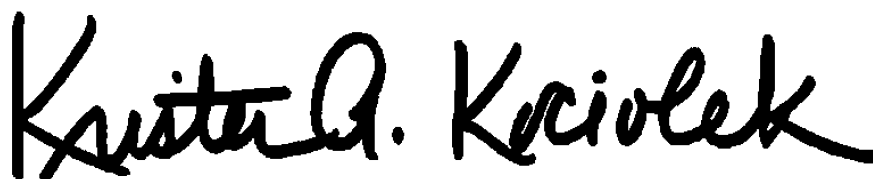
DOD also partially concurred with recommendation 3. Specifically, in its written comments, DOD stated that it agrees with the recommendation to develop and document a comprehensive strategy to clearly articulate the detailed DOD-wide efforts to remediate the GFP material weakness. However, DOD stated that the lead for this effort should be the Under Secretary of Defense for Acquisition and Sustainment, in collaboration with the Under Secretary of Defense (Comptroller). We believe that as long as both offices collaborate on this effort, DOD can meet the intent of our recommendation. Therefore, we clarified our recommendation to address DOD’s comment.

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We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Under Secretary of Defense (Acquisition and Sustainment); and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-2989 or [kociolek@gao.gov](mailto:kociolek@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Kristen A. Kociolek". The signature is written in a cursive, flowing style.

Kristen A. Kociolek  
Director, Financial Management and Assurance

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# Appendix I: Comments from the Department of Defense



ACQUISITION  
AND SUSTAINMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

Ms. Kristen Kociolek  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-23-105198, "DOD FINANCIAL MANAGEMENT: Greater Attention and Accountability Needed Over Government-Furnished Property," dated October 25, 2022 (GAO Code 105198).

The Department acknowledges receipt of the draft report and the Department's responses to Recommendations 1, 2, and 3 are enclosed.

My point of contact is primary action officer, Ms. Carol Brown at 571-232-6599 or via email at [carol.a.brown160.civ@mail.mil](mailto:carol.a.brown160.civ@mail.mil).

Sincerely,

**TENAGLIA.JOHN.M.1154945926** Digitally signed by  
TENAGLIA.JOHN.M.1154945926  
Date: 2022.12.11 17:17:51 -05'00'

John M. Tenaglia  
Principal Director,  
Defense Pricing and Contracting

Enclosure:  
As stated

**Enclosure**

**GAO DRAFT REPORT DATED OCTOBER 25, 2022  
GAO-23-105198 (GAO CODE 105198)**

**“DOD FINANCIAL MANAGEMENT: GREATER ATTENTION AND  
ACCOUNTABILITY NEEDED OVER GOVERNMENT-FURNISHED PROPERTY”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** The Secretary of Defense should ensure the Under Secretary for Defense for Acquisition and Sustainment (USD(A&S)), in collaboration with the Under Secretary of Defense (Comptroller) (C), documents and implements a process for (1) developing and distributing DOD-wide Government Furnished Property (GFP)-related guidance in the form of memorandums, including procedures to obtain and incorporate input from military departments, and (2) reviewing military departments' compliance with this guidance.

**DoD RESPONSE:** Partially concur. DoD Policy for developing and distributing guidance already exists in DoD Manual (DoDM) 5110.04, Vol. 1, “Manual for Written Material: Correspondence Management,” dated June 16, 2020. OUSD(A&S) and OUSD(C) do not believe there is benefit to creating additional policy specific to Government Furnished Property (GFP). However, OUSD(A&S) and OUSD(C) will take action to ensure adherence to the existing guidance. As described in the draft report (pgs. 10-14), the Components struggled with internal distribution of a May 2019 OUSD(A&S) memo for establishing a GFP baseline and OSD did not obtain timely or consistent responses. Going forward, in similar requests for information tasked to the Components, OSD will include a requirement for Components to establish a point of contact for follow-up and compliance.

**RECOMMENDATION 2:** The Secretary of Defense should ensure USD(C), in collaboration with USD(A&S), documents specific written procedures, such as in a charter, for how the Property Functional Council (PFC) and other related oversight groups will function. The procedures should (1) establish expectations for meeting frequency, (2) establish the group's specific goals and objectives, including expectations for regularly assessing the effectiveness and timeliness of remediation efforts, and (3) identify key participants.

**DoD RESPONSE:** Concur. USD(C) and USD(A&S) will collaborate to develop specific written procedures, such as a charter, for how the PFC and other related oversight groups will function.

**RECOMMENDATION 3:** The Secretary of Defense should ensure USD(C), in collaboration with USD(A&S), develops and documents a comprehensive strategy, separate from the Financial Management Strategy, to clearly articulate the detailed DoD-wide efforts to address the GFP material weakness. The comprehensive strategy should document (1) steps to identify and address root causes of deficiencies, (2) an overall planned remediation date with specific interim target dates based on an analysis of feasible timeframes, and (3) steps to reassess actions after significant target dates so that plans can be adjusted as needed.

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**Appendix I: Comments from the Department of  
Defense**

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**Enclosure**

**DoD RESPONSE:** Partially concur. The Department agrees with the recommendation to develop and document a comprehensive strategy to clearly articulate the detailed DoD-wide efforts to address the GFP material weakness; however, the lead should be USD(A&S) in collaboration with USD(C), as the controlling policies (DoD Instruction (DoDI) 4161.02, DoDI 5000.64, and DoDM 4140.01 Vol. 11) belong to USD(A&S).



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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Kristen A. Kocielek, (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Christopher Spain (Assistant Director), James Haynes (Analyst in Charge), Jody Ecie, Jason Kelly, Jessica L'Or, and Anne Thomas made key contributions to this report.

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