

Highlights of [GAO-11-864T](#), a testimony before the Panel on DOD Financial Management, Committee on Armed Services, U.S. House of Representatives

Why GAO Did This Study

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving serious problems in its financial management and related business operations and systems. DOD is required by various statutes to (1) improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and (2) produce audited financial statements.

Over the years, DOD has initiated numerous efforts to improve the department's financial management operations and achieve an unqualified (clean) opinion on the reliability of its reported financial information. These efforts have fallen short of sustained improvement in financial management or financial statement auditability.

The Panel requested that GAO provide its perspective on the status of DOD's financial management weaknesses and its efforts to resolve them; the challenges DOD continues to face in improving its financial management and operations; and the status of its efforts to implement automated business systems as a critical element of DOD's Financial Improvement and Audit Readiness strategy.

View [GAO-11-864T](#) or key components. For more information, contact Asif A.Khan at (202) 512-9095 or khana@gao.gov.

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DOD FINANCIAL MANAGEMENT

Numerous Challenges Must Be Addressed to Achieve Auditability

What GAO Found

DOD financial management has been on GAO's high-risk list since 1995 and, despite several reform initiatives, remains on the list today. Pervasive deficiencies in financial management processes, systems, and controls, and the resulting lack of data reliability, continue to impair management's ability to assess the resources needed for DOD operations; track and control costs; ensure basic accountability; anticipate future costs; measure performance; maintain funds control; and reduce the risk of loss from fraud, waste, and abuse. DOD spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, supply chain, support infrastructure, and weapon systems acquisition. These operations are directly impacted by the problems in financial management. In addition, the long-standing financial management weaknesses have precluded DOD from being able to undergo the scrutiny of a financial statement audit.

DOD's past strategies for improving financial management were ineffective, but recent initiatives are encouraging. In 2005, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan for improving financial management and reporting. In 2009, the DOD Comptroller directed that FIAR efforts focus on financial information in two priority areas: budget and mission-critical assets. The FIAR Plan also has a new phased approach that comprises five waves of concerted improvement activities. The first three waves focus on the two priority areas, and the last two on working toward full auditability. The plan is being implemented largely through the Army, Navy, and Air Force military departments and the Defense Logistics Agency, lending increased importance to the committed leadership in these components.

Improving the department's financial management operations and thereby providing DOD management and Congress more accurate and reliable information on the results of its business operations will not be an easy task. It is critical that current initiatives related to improving the efficiency and effectiveness of financial management that have the support of the DOD's Deputy Chief Management Officer and Comptroller continue with sustained leadership and monitoring.

Absent continued momentum and necessary future investments, current initiatives may falter. Below are some of the key challenges that DOD must address for its financial management to improve to the point where DOD is able to produce auditable financial statements:

- committed and sustained leadership,
- effective plan to correct internal control weaknesses,
- competent financial management workforce,
- accountability and effective oversight,
- well-defined enterprise architecture, and
- successful implementation of the enterprise resource planning systems.