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DOD FINANCIAL MANAGEMENT

Efforts to Address Auditability and Systems Challenges Need to Continue

Statement of Asif A. Khan, Director, Financial
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Accessible Version

GAO Highlights

Highlights of [GAO-23-106941](#), a testimony before the Subcommittees on National Security, the Border, and Foreign Affairs, and Government Operations and the Federal Workforce, Committee on Oversight and Accountability, House of Representatives

Why GAO Did This Study

Since 1995, GAO has designated DOD's financial management and business systems modernization as high risk because of pervasive deficiencies in the department's financial management systems, business processes, internal controls, and financial reporting. While DOD's capacity for modernizing its business systems has improved over time, significant challenges remain. These high-risk areas continue to be obstacles to DOD's efforts to achieve a clean audit opinion.

This testimony discusses (1) the status of DOD's audits, and benefits of the audits; (2) DOD's efforts to improve and oversee its business and financial systems; and (3) DOD's plans to address audit findings and achieve a clean opinion.

This testimony is based on prior GAO work from 2020 through 2023 related to DOD's financial management systems environment and efforts to obtain a clean audit opinion on its financial statements. Details on GAO's methodology can be found in each of the reports cited in this statement.

What GAO Recommends

Four GAO reports included a total of 24 recommendations that could help DOD address previously identified challenges discussed in this statement. DOD has implemented three of these recommendations. GAO will continue to monitor DOD's implementation of the remaining recommendations.

View [GAO-23-106941](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

July 13, 2023

DOD FINANCIAL MANAGEMENT

Efforts to Address Auditability and Systems Challenges Need to Continue

What GAO Found

The Department of Defense (DOD) has been undergoing full-scope consolidated financial statement audits since fiscal year 2018. Although some smaller DOD components have been auditable, through fiscal year 2022, audits at the consolidated level and for many DOD components have resulted in disclaimers of opinion. This means that auditors were unable to obtain sufficient, appropriate evidence to provide a basis for an audit opinion. Auditors have issued thousands of notices of findings and recommendations and identified material weaknesses.

GAO's prior work discussed how the financial statement audit has value far beyond the audit opinion, including helping to identify vulnerabilities and ways to improve operations. DOD audits have resulted in short- and long-term benefits. For example, as DOD reported in its June 2020 Financial Information and Audit Remediation report, the Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment. The Navy subsequently used those items to fill over 12,000 requisitions, which otherwise would have cost \$50 million.

For more than 30 years, DOD has initiated a variety of efforts and undergone several organizational responsibility changes to help modernize its systems. However, in previous reviews GAO identified that these efforts and changes have not been fully successful to date. For example, in September 2020, GAO reported that DOD had a financial management systems strategy that did not fully address all the requirements for a comprehensive and effective IT strategic plan. Specifically, DOD did not include measures for tracking progress in achieving the strategy's goals. GAO recommended that DOD establish

- performance measures, including targets and time frames, and how it plans to measure values and verify and validate those values and
- a specific time frame for developing an enterprise roadmap to implement its strategy and ensure that it is developed.

DOD remains the only major federal agency that has never been able to achieve an unmodified (clean) audit opinion. Ongoing problems with its business and financial systems are key impediments to this effort, including outdated legacy systems. DOD management recognizes the risk legacy systems pose to its operations and related accounting, and is in the process of identifying, retiring, and replacing legacy systems.

DOD has also taken steps to address auditor-identified problems and work toward achieving a clean audit opinion, including developing audit priority areas, a financial management strategy, corrective action plans, and audit roadmaps. However, GAO's past work found that these plans lack details that are important to remediate material weaknesses. DOD lacks a comprehensive plan to establish a clear department-wide vision for how to achieve a clean audit opinion.

Addressing the challenges GAO and others have identified would help move DOD in the right direction to improve and oversee its systems and address audit findings. These are important steps toward achieving its goals for improved financial management and a clean audit opinion.

Chairmen Grothman and Sessions, Ranking Members Garcia and Mfume, and Members of the Subcommittees:

Thank you for the opportunity to discuss the Department of Defense's (DOD) financial management auditability and systems oversight.

DOD is responsible for about half of the federal government's discretionary spending and about 15 percent of its total spending.¹ However, DOD remains the only major federal agency that has never been able to receive an unmodified audit opinion (also referred to as a clean audit opinion) on its financial statements. A clean audit opinion results when auditors find that the financial statements are presented fairly in accordance with U.S. generally accepted accounting principles.

Obtaining a clean audit opinion is important for DOD in order to demonstrate that its financial statements and underlying financial management information used for decision-making (for example, inventory and property record(s) and detailed obligation and cost information) are reliable. Addressing the weaknesses discussed in this testimony will enable Congress and the public to more accurately assess how DOD spends its money. The audit process also identifies vulnerabilities in IT systems, helps identify and prevent wasteful practices, and helps DOD to improve its operations.

Due to pervasive deficiencies in the department's financial management systems, business processes, internal controls, and financial reporting, DOD's business systems modernization and financial management efforts have been on GAO's High Risk List since 1995.² This list, updated at the start of each new Congress, is of programs and operations that are vulnerable to waste, fraud, abuse, or mismanagement or are in need of transformation. The problems in financial management directly affect other business operations, including the high-risk areas of contract management, business systems modernization, financial management,

¹Discretionary spending refers to outlays from budget authority that appropriation acts provide and control, unlike mandatory spending, such as that for Medicare and other entitlement programs. For fiscal year 2022, DOD reported that it received appropriations of \$1,019.5 billion, approximately \$242.9 billion of which is considered mandatory; the remaining \$776.6 billion is discretionary.

²GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

DOD's approach to business transformation, and weapon systems acquisition.

We have reported that continuing weaknesses in these business operations result in billions of dollars of wasted resources, reduced efficiency, ineffective performance, and inadequate accountability. DOD spends billions of dollars each year to acquire modernized systems, including ones that address key areas such as personnel, financial management, health care, and logistics. While the department's capacity for modernizing its business systems has improved over time, significant challenges remain. These high-risk areas continue to be obstacles to DOD's efforts to achieve a clean audit opinion.

In response to the annual financial audits, department leadership continues to make improvements through corrective actions toward a clean financial statement audit opinion. DOD is working toward modernizing its financial management processes and operations, retiring noncompliant IT systems, and seeking to improve the quality of information in its financial systems available for decision-making.

My testimony today provides information on DOD's efforts to improve its financial management and business practices. Specifically, I will summarize our prior work addressing (1) the status of DOD's audits, and benefits of the audits; (2) DOD's efforts to improve and oversee its business and financial systems; and (3) DOD's plans to address audit findings and achieve a clean audit opinion.

This testimony is based on our body of work issued from September 2020 through May 2023 addressing DOD's financial management. To conduct our prior work, we reviewed relevant laws, reviewed DOD and DOD Office of Inspector General (OIG) documentation, analyzed data related to DOD's material weaknesses, assessed DOD's corrective action plans (CAP) and roadmaps, and interviewed DOD officials.³ We also evaluated DOD's data on its systems' compliance with statutory requirements aimed at improving the department's ability to obtain a clean audit opinion. More

³A 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.

detailed information on our objectives, scope, and methodology can be found in the issued reports.⁴

We conducted the work on which this testimony is based 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.

Background

DOD is the largest department in the U.S. government. It employs 2.1 million military service members and more than 770,000 civilian employees at more than 4,860 DOD sites located in all 50 states, the District of Columbia, seven U.S. territories, and more than 40 foreign countries. The President's budget submission for the department for fiscal year 2023 requested \$773 billion. In addition, DOD's fiscal year 2023 budget request called for including \$57.9 billion for IT and cyberspace activities and \$9.1 billion for business system investments.⁵

For fiscal year 2022, 20 of the 24 agencies subject to the Chief Financial Officers Act of 1990 (CFO Act) received clean audit opinions on their financial statements, although some of them took several years to overcome challenges. The Department of Homeland Security (DHS), for example, received its first clean audit opinion on its financial statements

⁴GAO, *Financial Management: DOD Needs to Implement Comprehensive Plans to Improve Its Systems Environment*, [GAO-20-252](#) (Washington, D.C.: Sept. 30, 2020); *DOD Financial Management: Continued Efforts Needed to Correct Material Weakness Identified in Financial Statement Audits*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020); *Financial Management: DOD Needs to Improve System Oversight*, [GAO-23-104539](#) (Washington, D.C.: Mar. 7, 2023); and *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements*, [GAO-23-105784](#) (Washington, D.C.: May 15, 2023).

⁵Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview: United States Department of Defense Fiscal Year 2023 Budget Request* (April 2022).

for fiscal year 2013, 8 years after becoming a CFO Act agency.⁶ DHS faced challenges similar to those DOD experiences in achieving a clean audit opinion, including business and operational issues, use of outdated systems, and the lack of a strategy to achieve its audit goals.

However, compared with DHS and other CFO Act agencies, DOD is a much larger organization in both budget and size, with a more complex mission and operations. As we have previously reported, DOD did not originally design the systems environment that supports its business functions, including financial management, to support auditable financial reporting. Over the years, this systems environment has become overly complex and error prone, characterized by (1) little standardization across DOD, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) personnel having to enter data manually into multiple systems.⁷

The department's sheer size and complexity contribute to the many challenges it faces in resolving pervasive, complex, and long-standing financial management and related business operations and systems problems.

Congress has passed legislation over the years to help ensure that DOD and other federal agencies improve their financial management processes. Over the last several decades, DOD has made efforts to comply with these legal requirements. However, those efforts have met with limited success.

For example, the CFO Act required DOD to prepare financial statements for certain components, and in 1991, DOD began submitting the Department of the Army's financial statements to the DOD OIG for audit. Audits of DOD-wide financial statements were required beginning with fiscal year 1996. However, all of these audits resulted in disclaimers of opinion. A provision in the in fiscal year 2002 National Defense Authorization Act (NDAA) limited the scope of audit efforts on DOD financial statements until DOD determined the statements to be reliable.

⁶The Department of Homeland Security Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (2004), incorporated this new agency into a series of existing financial management laws and required DHS to get an audit opinion on its financial statements and its internal controls over financial reporting.

⁷[GAO-20-252](#).

Beginning with that law and continuing through fiscal year 2018, the annual NDAA's frequently included requirements and due dates for DOD audit readiness efforts, including

- establishing reporting requirements to assist in monitoring financial improvement efforts,
- requiring specific financial statement audits, and
- establishing audit readiness milestones.

Full-scope audits of DOD statements began again, as required by the NDAA for fiscal year 2014, with fiscal year 2018. These audits, too, have resulted in disclaimers of opinion.⁸

Despite years of the department's efforts, financial auditors have identified thousands of deficiencies that remain outstanding. Given the magnitude of deficiencies, DOD's ability to effectively oversee and monitor efforts to address underlying deficiencies is essential.

DOD Has Not Achieved a Clean Audit Opinion as of September 30, 2022

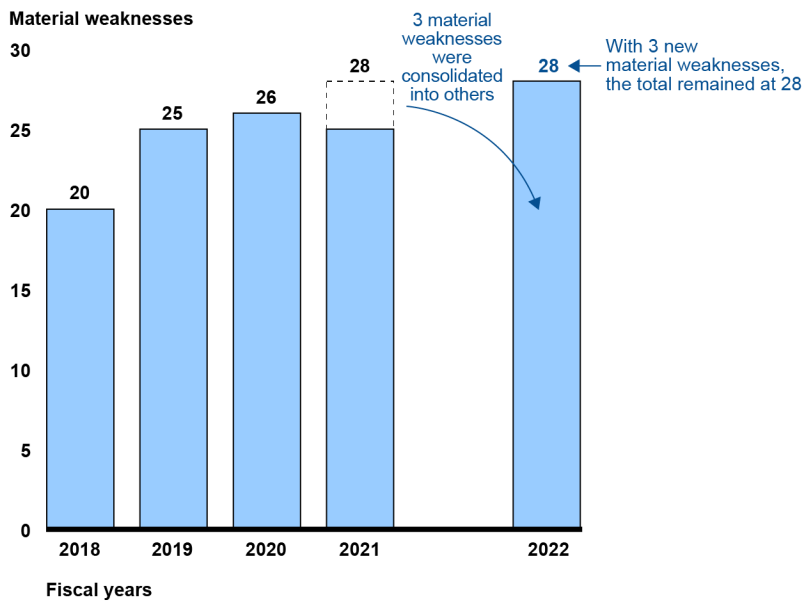
DOD began undergoing full-scope consolidated financial statement audits, as required under the 2014 NDAA, in fiscal year 2018. Although some smaller DOD components have been auditable, through fiscal year 2022, audits at the consolidated level and for many DOD components have resulted in disclaimers of opinion. This means that DOD auditors were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Issues and risks that hinder DOD's ability to achieve a clean audit opinion include material weaknesses auditors identified, declining remediation rates for thousands of auditor-issued notices of findings and recommendations (NFR), and ongoing deficiencies with DOD's financial management systems.

⁸Major DOD components included in the DOD-wide audits include the Departments of the Air Force, Army, and Navy, all three of which have received disclaimers of opinion through fiscal year 2022.

Material Weaknesses

As audit testing has expanded since fiscal year 2018, the number of material weaknesses auditors reported has increased from 20 in 2018 to 28 in fiscal year 2022.⁹ (See fig. 1.)

Figure 1: DOD Material Weaknesses Auditors Identified



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-106941

Text of Figure 1: DOD Material Weaknesses Auditors Identified

Year	Material Weaknesses
2018	20
2019	25
2020	26
2021	28
2022	28

Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-106941

⁹In fiscal year 2022, DOD OIG split the “Financial Management Systems and Information Technology” material weakness to allow for more targeted and actionable efforts. This split increased DOD’s fiscal year 2020 IT material weaknesses from one to four.

The fiscal year 2022 U.S. government consolidated financial statements reported that auditors of the 24 agencies subject to the CFO Act identified 50 material weaknesses in total, 28 of which were associated with DOD.¹⁰

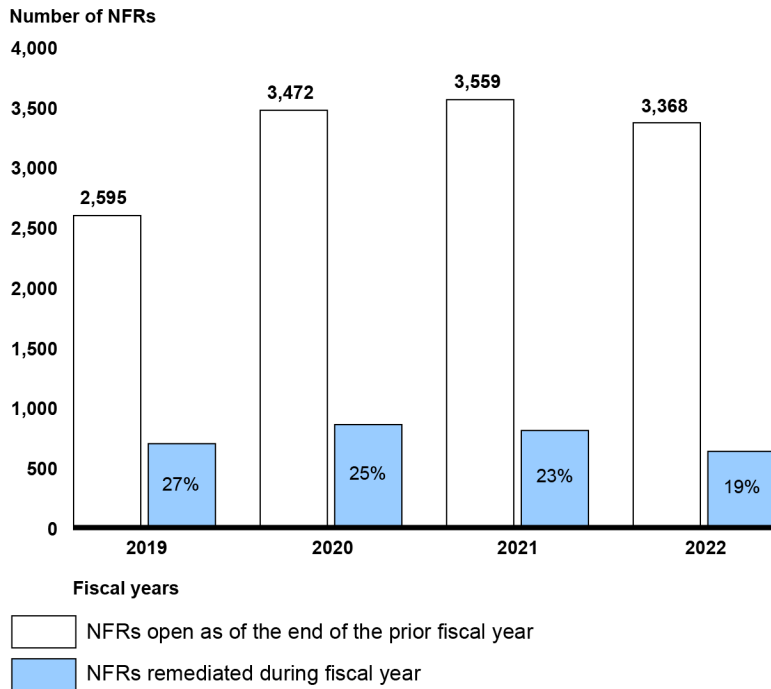
NFR Remediation Rates

Annual NFR remediation rates—the rate at which DOD and its components fully address and close auditor-issued NFRs—are measures of DOD’s progress toward achieving a clean opinion. While DOD officials indicated that they wanted to demonstrate progress by closing NFRs, the department’s NFR remediation rate since 2019 has instead declined. According to DOD officials, while they initially were able to address and close less-complex issues identified in NFRs, issues that are more complex can take multiple years to address.

In addition to closing NFRs during each fiscal year, auditors issue new NFRs to DOD components. In fiscal year 2018, auditors issued 2,595 NFRs to DOD components. In fiscal year 2019, auditors were able to close 698, or 27 percent, of those NFRs open as of the end of fiscal year 2018. During the fiscal year 2020 audits, auditors closed 857, or 25 percent, of the 3,472 NFRs open as of the end of fiscal year 2019. In fiscal year 2021, auditors closed 808, or 23 percent, of the 3,559 NFRs open as of the end of fiscal year 2020. In fiscal year 2022, auditors closed 634, or 19 percent, of the 3,368 NFRs open as of the end of fiscal year 2021. (See fig. 2.)

¹⁰GAO, *Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government*, [GAO-23-105837](#) (Washington D.C.: Feb. 16, 2023).

Figure 2: Notices of Findings and Recommendations (NFR) Remediation Rate



Source: GAO analysis of the Department of Defense documentation. | GAO-23-106941

Text of Figure 2: Notices of Findings and Recommendations (NFR) Remediation Rate

	2019	2020	2021	2022
NFRs open as of the end of the prior fiscal year	2,595	3,472	3,559	3,368
NFRs remediated during fiscal year	27%	25%	23%	19%

Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-106941

Reported Financial Management System Deficiencies

In January 2020, the DOD OIG reported that the department had wide-ranging weaknesses in its financial management systems that prevented it from collecting and reporting financial and performance information that

was reliable, useful, and timely.¹¹ These long-standing weaknesses continue to affect DOD's ability to achieve a clean audit opinion.¹²

Some of DOD's financial systems were designed and implemented in the 1960s, and were not designed to capture all of the transaction-level details needed for financial management decision-making and current accounting and reporting requirements. These legacy systems were not meant to support financial reporting and maintain an adequate audit trail, and as the DOD OIG has reported, are not compliant with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA)¹³ In past years, DOD has upgraded some legacy financial systems that vendors no longer support and that new technology has surpassed.¹⁴

As we previously reported in September 2020, DOD did not have sufficiently detailed plans for migrating key military department legacy accounting systems to new systems. For example, the Navy developed a plan to migrate its system, but it was missing key elements outlined in the Software Engineering Institute guidance.¹⁵ Neither the Army nor the Air Force had detailed migration plans for their key accounting systems.¹⁶

According to DOD, it seeks to improve its financial management systems and address challenges to achieving a clean audit opinion. As the DOD OIG reported, though, the department will not be able to generate

¹¹Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the DOD FY 2018 Financial Statements* (Alexandria, Va.: Jan. 8, 2019).

¹²[GAO-20-252](#).

¹³Pub. L. No. 104-208, div. A, § 101(f), title VIII, 110 Stat. 3009, 3009-389. FFMIA requires CFO Act agencies, including DOD, to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards, and the *U.S. Standard General Ledger* at the transaction level.

¹⁴DOD defines legacy systems as those systems to be terminated in less than 3 years from the end of the current fiscal year.

¹⁵Software Engineering Institute, *DOD Software Migration Planning*, CMU/SEI-2001-TN-012 (Pittsburgh, Pa.: August 2001). The Software Engineering Institute (SEI) is a nationally recognized, federally funded research and development center established at Carnegie Mellon University in Pittsburgh, Pennsylvania, to address software development issues.

¹⁶[GAO-20-252](#).

reliable, useful, and timely information without replacing legacy financial systems with FFIA-compliant systems. The DOD OIG considers the continued use of legacy systems to be one of the biggest challenges the department faces in obtaining a clean audit opinion.¹⁷

DOD management stated that it recognizes the risk that legacy systems pose to its operations and related accounting, and is in the process of identifying, retiring, and replacing legacy systems. Further, as the DOD OIG reported in September 2022, the department planned to resolve its legacy system material weakness by March 2022.¹⁸ However, as of September 30, 2022, the legacy system issue continues to be a material weakness that DOD reported in its fiscal year 2022 agency financial report.

Benefits of the Audit

The financial statement audit has value far beyond the audit opinion. It can help to identify vulnerabilities and ways to improve operations. As DOD reported, financial audits have resulted in short- and long-term benefits. The audits have increased transparency and visibility of financial management issues and are providing a positive return on investment from value gained through independent auditor insight into the department's business processes. DOD reported that, as a result, it improved its operations and business processes, which should lead to the preparation of reliable financial statements and help the department's mission by providing accurate information for decision-making. Some of the specific benefits DOD noted follow:

- **Identification of unrecorded assets.** In its June 2020 Financial Information and Audit Remediation report, DOD stated that in fiscal year 2020, the Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment that it made available across the service. Subsequently, the Navy used these items to fill over 12,000 requisitions, which otherwise would have cost \$50 million.

¹⁷Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Nov. 15, 2022).

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

- **Greater oversight and efficiency in processing financial transactions.** In fiscal year 2022, the Air Force identified and corrected approximately \$5.2 billion worth of variances in its general ledger for equipment and accumulated depreciation. DOD reported that this increased level of visibility allows for greater control and oversight of financial transactions related to military equipment.¹⁹
- **Better management of obligations.** For fiscal year 2022, DOD reported that it identified \$43 million in contract deobligations, which allowed the department to reprogram the funds to more immediate needs.
- **Improved recording of environmental and disposal liabilities (EDL).** In fiscal year 2018, DOD was unable to develop accurate estimates and account for EDL, and in fiscal year 2019, DOD OIG identified EDL as one of the most significant material weaknesses as a result of expanded audit procedures. The audits have helped and will continue to help DOD inventory all sites and assets and identify and accurately record EDL for future resolution.²⁰

DOD Initiated Efforts to Improve and Oversee Systems, but Challenges Remain

DOD's many business systems include financial management, property management, and acquisition management, which contribute information that supports the department's efforts to prepare financial statements. For more than 30 years, DOD has initiated a variety of efforts and undergone several changes in organizational responsibility in order to help modernize its business and financial systems. However, these efforts and changes have not been fully successful to date. For example, DOD established a process for overseeing its business and financial systems, but it lacked fully developed guidance and reliable data.²¹

¹⁹Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2022).

²⁰In fiscal year 2022, the Navy achieved a material weakness downgrade for EDL. EDL make up 60 percent of the Navy's General Fund liabilities.

²¹[GAO-23-104539](#).

Efforts to Address Problems with Legacy Systems

To address the legacy system deficiency and improve financial management, DOD is in the process of retiring, consolidating, and modernizing its legacy systems. Examples of three DOD system initiatives are described below.

- **Defense Agencies Initiative.** According to the Defense Logistics Agency (DLA), the Defense Agencies Initiative (DAI) is a platform intended to transform the budget, finance, and accounting operations of DOD defense organizations. DAI is DLA's Information Operations program and system. Twenty-nine of DOD components are currently using DAI. We are currently evaluating the Marine Corps' efforts to implement DAI as its primary financial management system.
- **Advana.** Advana is an enterprise data platform used across DOD for advanced analytics. DOD is using it to assist DOD components in building a universe of transactions to support the DOD-wide financial statement audit and link financial and nonfinancial data sources. Advana's capabilities could help address some of DOD's historical issues.
- **Government Invoicing Initiative.** The Department of the Treasury's Government Invoicing Initiative (G-Invoicing) coordinates intradepartmental transactions, provides transparency, and supports more accurate accounting and reporting. DOD components use multiple accounting systems to record and summarize their financial transactions. DOD implementation of G-Invoicing is intended to replace these various systems. G-Invoicing provides a common platform for recording and processing intradepartmental transactions, such as the buying and selling of items between two entities (e.g., Army and Navy) within DOD.

Efforts to Oversee Business and Financial Systems

Effective oversight of systems is essential to DOD's efforts to address its financial management system deficiencies. In September 2020, we reported that DOD had developed a financial management systems strategy that did not fully address all of the requirements for a comprehensive and effective IT strategic plan. Specifically, DOD did not include measures for tracking progress in achieving the strategy's goals.²²

²²[GAO-20-252](#).

DOD also did not have an enterprise roadmap to implement its financial management systems strategy.

We recommended that DOD establish (1) performance measures for DOD's financial management systems strategy, including targets and time frames, and how it plans to measure values and verify and validate those values and (2) a specific time frame for developing an enterprise roadmap to implement DOD's financial management systems strategy and ensure that it is developed.²³ As of July 2023, these recommendations remain open.

In addition, in March 2023 we evaluated the extent to which DOD's oversight of financial systems included key elements, such as establishing oversight processes, using and communicating quality information, sustaining leadership commitment, and managing risk.²⁴ We reported that DOD had taken some steps to address elements of effective oversight, but more remained to be done.

Oversight processes. DOD had established a process for overseeing its business and financial management systems. However, its guidance did not fully describe expectations for documenting or substantiating compliance with requirements. For example, DOD-level guidance did not describe how approval authorities are to determine compliance with the auditability requirement. This placed DOD at risk of making decisions based on a "check-the-box" exercise. (See table 1.)

²³We recommended that the roadmap should document the current and future states at a high level and present a transition plan for moving from the current to the future efficiently and effectively. The roadmap should discuss performance gaps, resource requirements, and planned solutions, and it should map DOD's financial management systems strategy to projects and budget. It should also document the tasks, time frames, and milestones for implementing new solutions and include an inventory of systems.

²⁴[GAO-23-104539](#).

Table 1: Extent to Which DOD, Military Department, and Defense Agency Guidance Addressed Initial Approval and Annual Certification Requirements for Covered Business Systems

Initial approval and annual certification requirement	DOD	Army	Navy	Air Force	Defense Agencies
Business process reengineering	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed
Business enterprise architecture	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed
Requirement plan	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed
Acquisition strategy	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed
Auditability requirement	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed	Partially Addressed

Legend:

- = Fully addressed: Guidance explains how systems are to address and decision makers are to substantiate the initial approval and annual certification requirements.
- ◐ = Partially addressed: Guidance discusses at least one of the initial approval and annual certification requirements, but does not fully describe how systems are to address and decision makers are to substantiate the requirements.
- = Not addressed: Guidance does not discuss the requirements.

Source: GAO analysis of Department of Defense (DOD) documentation. | GAO-23-106941

In addition, DOD did not apply key requirements to systems in sustainment, even though the statute does not provide for such an exclusion.²⁵ By not applying these requirements, DOD may be missing important opportunities for improvement.

Quality information. As part of its oversight, DOD collected data about its business and financial systems' compliance with statutory requirements. However, the reliability of these data is limited. For example, of the 208 systems that DOD identified as relevant to the financial audit, information on 71 of them indicated that the auditability requirement was not applicable; however, a separate database indicated that at least 58 of these 71 were in fact relevant to the audit.

Leadership. DOD had experienced frequent changes to the organizations and entities responsible for overseeing its business and financial systems. For example, the NDAA for fiscal year 2017 established a new Chief Management Officer position, effective February 2018, with broad responsibilities for business operations; the William M.

²⁵Pub. L. No. 108-375, § 332, 118 Stat. at 1851 (2004), as amended in pertinent part by Pub. L. No. 114-92, § 883(a), 129 Stat. at 942 (2015), calls for covered DOD business and financial systems to annually certify that programs meet five statutory requirements.

(Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 subsequently repealed the position.

Managing risk. Officials from across DOD provided their perspectives on risks and challenges facing the department as it sought to modernize its financial system environment. These include legacy systems, system interfaces, and human capital. For example, Army officials cited as a challenge not having a trained workforce with subject-matter expertise in budget and accounting management and IT modernization opportunities.

In the same report, we also found that DOD was not taking a strategic approach to managing the human capital it needs for its financial management systems. For example, the department did not analyze the gaps in capabilities between existing staff and future workforce needs, nor did it formulate strategies for filling expected gaps. We made nine recommendations in March 2023 that DOD take steps to address the gaps described in our report. We will continue to monitor DOD's efforts to implement these recommendations.

DOD Has Taken Steps to Address Audit Findings, but Its Plans Are Not Sufficient to Achieve a Clean Audit Opinion

DOD developed audit priority areas and plans, such as a financial management strategy. However, these plans did not have sufficient details that are important for achieving a clean audit opinion. In addition, the department faced challenges meeting target remediation dates it had previously established, and consistently missed or extended them.

DOD's Efforts Are Steps in the Right Direction, but Its Plans Lack Important Details

To respond to audit findings, DOD developed audit priority areas, a financial management strategy, CAPs, and audit roadmaps. These are important steps toward the department's goals of improving its overall financial management and achieving a clean audit opinion.

Audit Priority Areas

After receiving the results from the fiscal year 2018 audit, the then-Acting Secretary of Defense began using an annual memorandum outlining audit priority areas for DOD. To bring more focused attention on its highest-priority material weaknesses, DOD narrowed its fiscal year 2022 focus to three key, foundational areas:

- improving the Fund Balance with Treasury, an asset account that shows the available budget spending authority of federal agencies;
- strengthening and securing DOD's IT systems environment by establishing user access controls; and
- creating and maintaining a universe of transactions for financial reporting.

Executive dashboards capture progress on the priority areas through performance metrics. Other measures of progress include the percentage of high-priority access control NFRs closed and internal control design and operating effectiveness test rates.

Financial Management Strategy

In March 2022, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) issued the *DOD Financial Management Strategy* (FM Strategy), which includes high-level strategic goals for uniting DOD-wide financial management community efforts through fiscal year 2026. One of the five strategic goals, *increasing the integrity of financial results*, identifies accelerating the path to a clean audit opinion as an objective, and focuses on addressing several key material weaknesses, which is consistent with the audit priorities the Secretary of Defense identified.

However, the FM Strategy's focus is not specific to achieving a clean audit opinion. Rather, it focuses on general DOD-wide priorities for financial management.²⁶ The FM Strategy also does not contain details on how DOD and the military departments will implement the strategic financial management goals noted in the document. Also, it does not include detailed plans for addressing material weaknesses the financial

²⁶[GAO-23-105784](#).

statement auditors have identified. According to DOD, future plans will address how the department plans to achieve its strategic goals and objectives; however, the FM Strategy does not indicate a timeline for when DOD expects to issue such additional plans.

Corrective Action Plans

DOD and its components develop CAPs to address NFRs and material weaknesses. CAPs are the mechanism through which the components address the recommendations from the NFRs that the independent public accountants (IPA) issued. Since fiscal year 2018, DOD's IPAs have issued thousands of NFRs, and department components have developed CAPs to address them.

DOD's CAPs reflect targeted milestones and completion dates. The process of addressing issues identified through the NFRs has evolved since 2018: DOD military departments now consider each material weakness area as a focal point, and develop CAPs to respond to the issues related to the material-weakness area. There is no one-to-one linking of NFRs to CAPs. Entities may develop several CAPs to address conditions on one NFR, or develop one CAP to address several NFRs.

A root-cause analysis is an important part of developing a CAP that effectively addresses the fundamental weakness from which a deficiency is derived. As noted in our prior report, we did not find evidence that DOD was performing root-cause analyses consistently.²⁷ We recommended that DOD provide supporting documentation for performing a root-cause analysis as a part of the CAP process.

DOD agreed with our recommendation and, since issuance of our report, has made improvements regarding root-cause analysis. Specifically, the CAP template now has "root cause" as a required field, and DOD's CAP training discusses root-cause analysis.

Nevertheless, as of January 2023 our recommendation remains open, as we have not received updated CAP guidance from DOD. Without documented root-cause analyses, DOD lacks assurance that its components are taking appropriate actions that will resolve the underlying

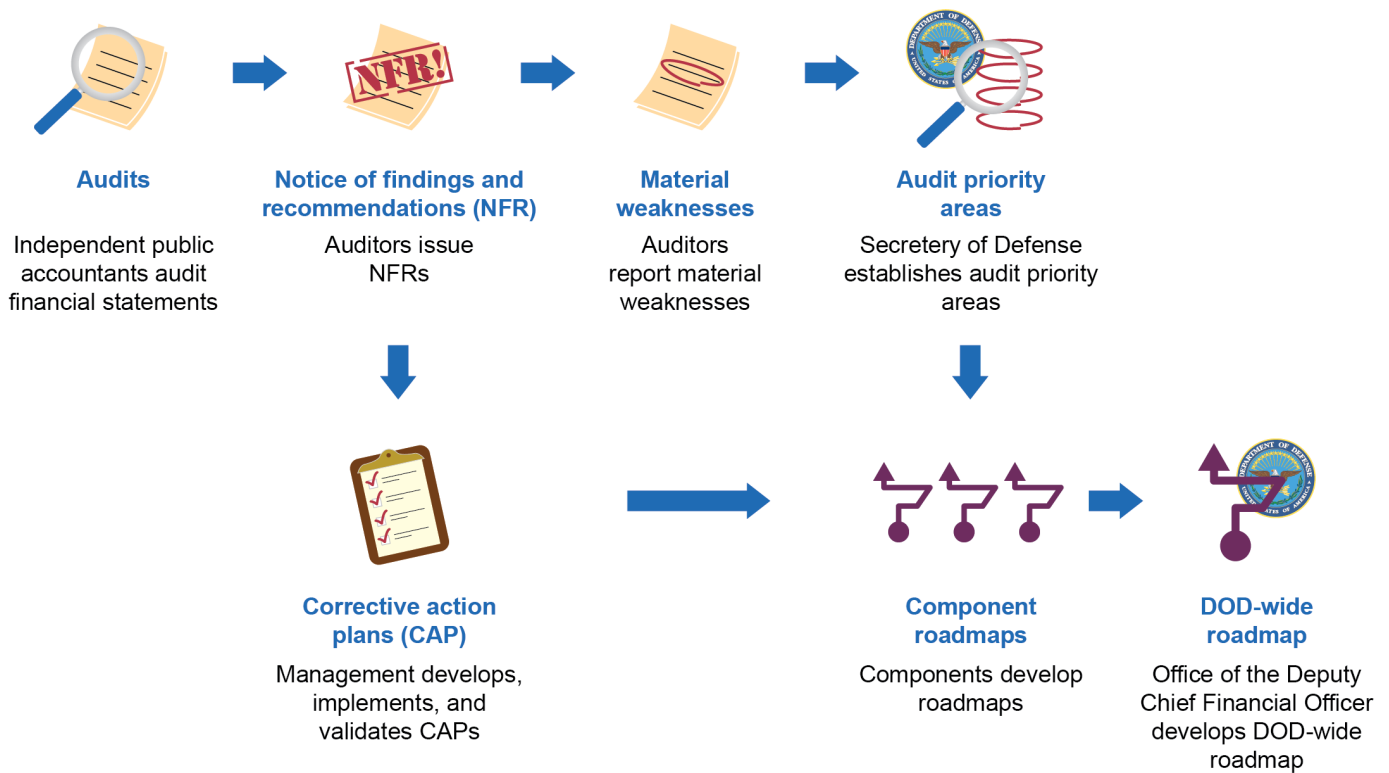
²⁷[GAO-21-157](#).

causes associated with the NFRs and related material weaknesses that collectively prevent the auditability of its financial statements.

Audit Roadmaps

As a tool to measure and monitor progress of the CAPs developed to remediate material weaknesses, DOD established financial statement audit roadmaps in fiscal year 2021. According to the department, the DOD-wide audit roadmap charts a course for remediating its 28 material weaknesses that the DOD OIG identified. According to DOD, this roadmap aligns DOD-wide remediation strategies, identifies timelines for achieving audit opinions for specific material weakness areas, and helps the department monitor progress and resources. (See fig. 3.)

Figure 3: Development of DOD-Wide Roadmap



Source: GAO analysis of the Department of Defense (DOD) information. | GAO-23-106941

Text of Figure 3: Development of DOD-Wide Roadmap

- 1) Dod wide roadmap:
- 2) Audits: Independent public accountants audit financial statements.
- 3) Notice of findings and recommendations (NFR).
 - a) Corrective action: plans (CAP)Management develops, implements, and validates CAPs.
 - b) Component roadmaps: Components develop roadmaps.
 - c) DOD-wide roadmap: Office of the Deputy Chief Financial Officer develops DOD-wide roadmap.
- 4) Audit priority areas: Secretary of Defense establishes audit priority areas.
 - a) Component roadmaps: Components develop roadmaps.
 - b) DOD-wide roadmap: Office of the Deputy Chief Financial Officer develops DOD-wide roadmap

Source: GAO analysis of the Department of Defense (DOD) information. | GAO-23-106941

The Secretary of Defense directs each component under a stand-alone audit that has not already achieved a clean audit opinion to develop a roadmap for doing so. The Office of the Deputy Chief Financial Officer (ODCFO) issued guidance to components on what to include in each roadmap, including the following elements:

- identification of material line items,
- timeline to achieve full remediation of these line items,
- significant milestone activities and related timing to achieve the target timeline, and
- identification of applicable dependencies.

According to the guidance, each DOD component required to create a roadmap should identify activities necessary to achieve a clean audit opinion, and consider the implementation status and complexity of financial and IT issues identified during the audits. ODCFO aggregates, analyzes, and uses the components' audit roadmaps to develop the DOD-wide audit roadmap. The components' audit roadmaps provide

projected remediation dates, and the DOD-wide audit roadmap provides material weakness downgrade dates.²⁸

DOD's audit roadmaps also include target remediation dates, but they lack interim milestone activities and dates. ODCFO's roadmap guidance states that entities should include significant milestone activities and related timing in all roadmaps. However, we found that all DOD-wide and component-level roadmaps lack these significant interim milestone activities and dates. Documenting milestone activities and dates in the roadmaps is important to show the interim steps for reaching overall target remediation goals and dates, and to track DOD's progress in remediating material weaknesses.

Overall, DOD's financial management and audit remediation plans lack sufficient details, including (1) a comprehensive plan with a clear statement of management's vision for how DOD will achieve a clean audit opinion and (2) complete, detailed procedures for addressing material weaknesses across all of the DOD components. Such details would better enable the department to meet its auditability goal. In addition, it is not clear whether it is necessary for DOD to downgrade all or only certain material weaknesses in order to achieve a clean audit opinion, largely because DOD has not developed and documented a comprehensive plan to coordinate its efforts in this area.

DOD Has Consistently Missed or Extended Target Remediation Dates

DOD has faced challenges in meeting target dates it established in CAPs for remediating issues identified in NFRs. Target remediation dates provide a way for management to estimate the time it will take to complete actions and monitor progress. Slipping target remediation dates for the CAPs affects and delays progress for remediating NFRs, and, in turn, delays auditors from downgrading material weaknesses to significant deficiencies, or DOD from fully remediating them by the target dates. As we previously reported, this has occurred at DOD because it consistently lacks identification of deficiencies' root causes.

²⁸An estimated remediation date is a target date for when the material weakness is expected to be resolved. An estimated downgrade date is a target date for when the material weakness is expected to be downgraded to a significant deficiency.

DOD has also not met, and has continually extended, material weakness target remediation dates that it established in its department-wide audit roadmaps. For example, as of October 2020, the fiscal year 2021 Navy audit roadmap listed fiscal year 2027 as year of the expected clean audit opinions for the Navy's general and working capital funds. However, as of December 2021, the fiscal year 2022 Navy audit roadmap updated the target remediation dates for the audit opinions to fiscal year 2028.

These dates have remained unmet or been extended in part because DOD developed its current department-wide roadmap without considering key factors for how it and its components will achieve auditability goals. Specifically, OUSD(C) did not document the consideration of the dependencies that the military departments' roadmaps identified that they would need to resolve before it could remediate material weaknesses. These dependencies have inherent uncertainties for achievement and timing, and affect the timely remediation of corrective actions.

OUSD(C) also set target downgrade dates for material weaknesses based on information from the military departments without reviewing support for the target remediation dates provided. In addition, OUSD(C) did not have monitoring procedures in place to reasonably assure consistent and accurate support for the tracking, recording, and reporting of target remediation dates presented in all component-level roadmaps to be included in the DOD-wide roadmap.

Additionally, the department did not base the estimated downgrade dates in the DOD-wide roadmap on an analysis of whether the estimated target remediation dates in component-level roadmaps are feasible. This analysis would consider dependencies, as discussed above, and factors such as NFR assessment, corrective action completeness, and resource consideration.

Moreover, although the military departments had corrective action plans in place, they were unable to meet target remediation dates in their audit roadmaps, in part because ODCFO did not issue detailed guidance to help them develop appropriate and supportable timelines. ODCFO's guidance consisted of a brief email to components listing the information that each roadmap should include, but did not provide additional detailed guidance to help components, including the military departments, develop the timelines. Without additional guidance from DOD management, it will be difficult for components to plan their audit remediation activities and to appropriately set and meet realistic goals.

In closing, DOD's efforts to improve and oversee its systems and address audit findings are important steps toward the department achieving its goals for improved financial management and a clean audit opinion. However, DOD has not fully addressed key elements for overseeing its systems. Although DOD has a process to help ensure that systems address key auditability requirements, the key guidance that DOD and the military departments have developed to inform decision makers as they make initial approval and annual certification decisions is limited. The lack of detailed guidance puts DOD at risk of making decisions based on a "check-the-box" exercise that does little to make meaningful improvements.

Additionally, DOD's current plans for addressing audit findings lack important information that would help it to remediate material weaknesses and achieve a clean audit opinion. As we previously reported, CAPs that DOD developed did not always indicate whether it had performed a root-cause analysis. DOD has also consistently missed and extended its target dates for remediating issues identified in CAPs and audit roadmaps, which affects its progress in downgrading or fully remediating material weaknesses.

GAO will continue to monitor the progress of and provide feedback on the status of DOD's financial management improvement efforts. As a final point, I want to emphasize the value of sustained congressional interest in the department's financial management improvement efforts, as these subcommittees' leadership has demonstrated.

Chairmen Grothman and Sessions, Ranking Members Garcia and Mfume, and Members of the Subcommittees, this concludes my testimony. I would be pleased to answer any questions.

GAO Contact and Staff Acknowledgments

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