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Highlights

DOD FINANCIAL MANAGEMENT

Challenges in Attaining Audit Readiness and Improving Business Processes and Systems

Why GAO Did This Study

Over the years, the Department of Defense (DOD) has initiated several efforts intended to improve its financial management operations and ultimately achieve an unqualified (clean) opinion on its financial statements. These efforts have fallen short of sustained improvement in financial management and financial statement auditability.

In this statement, GAO provides its assessment of DOD's progress toward: (1) producing an auditable Statement of Budgetary Resources (SBR) by fiscal year 2014 and a complete set of auditable financial statements by fiscal year 2017, including the development of interim milestones for both aforementioned audit readiness goals; (2) acquiring and implementing new enterprise resource programs and other critical financial management systems; (3) reengineering business processes and instituting needed controls; and (4) implementing a comprehensive business enterprise architecture and transition plan, and improved investment control processes.

This statement is primarily based on GAO's prior work related to the department's efforts to achieve audit readiness, implement modern business systems, and reengineer its business processes. GAO also obtained and compared key milestones in a February 2012 DOD briefing on its updated plans to accelerate achieving SBR auditability with the May 2011 Financial Improvement and Audit Readiness plan but did not independently verify the updated information in the February 2012 briefing.

What GAO Found

GAO's recent work highlights the types of challenges facing the Department of Defense (DOD) as it strives to attain audit readiness and reengineer its business processes and systems. The urgency in addressing these challenges has been increased by the goals of an auditable DOD Statement of Budgetary Resources (SBR) by the end of fiscal year 2014 and a complete set of auditable financial statements by the end of fiscal year 2017. For example, GAO's 2011 reporting highlights difficulties the DOD components experienced in attempting to achieve an auditable SBR. These include:

- the Navy's and the Air Force's premature assertions of audit readiness and missed interim milestones;

- the Army's inability to locate and provide supporting documentation for its military pay;

- the Navy's and Marine Corps' inability to reconcile their Fund Balance with Treasury (FBWT) accounts; and

- the Marine Corps' inability to receive an opinion on both its fiscal years 2010 and 2011 SBRs because it could not provide supporting documentation in a timely manner, and support for transactions was missing or incomplete.

In a February 2012 briefing on its updated plans, DOD accelerated milestones for its components —in some cases, significantly—to accomplish the 2014 SBR goal. For example, the Air Force had planned to validate its audit readiness for many SBR-related items in fiscal year 2016; however, the department's February 2012 accelerated plans show that most of the Air Force's SBR line items will be audit-ready in fiscal years 2013 or 2014. Also, in its February 2012 update DOD shows that 7 of 24 material general fund Defense Agencies and Other Defense Organizations have either already had SBR audits or are ready to have their SBRs audited, which represent important positive steps.

DOD has stated it considers the successful implementation of its enterprise resource planning (ERP) systems critical to transforming its business operations, addressing long-standing weaknesses, and ensuring the department meets its mandated September 30, 2017 auditability goals. However, in 2011, GAO reported that independent assessments of two of these systems—the Army's and Air Force's new general ledger systems—identified operational problems, gaps in capabilities that required manual workarounds, and training that was not focused on system operation. Moreover, users of these systems had difficulties using these systems to perform daily operations. GAO also reported in 2011 on numerous weaknesses in DOD's enterprise architecture and business processes that affect DOD's auditability. For example, while DOD continued to update its corporate enterprise architecture, it had not yet augmented its corporate architecture with complete, coherent subsidiary architectures for DOD components such as the military departments. Also, while DOD and the military departments largely followed DOD's Business Process Reengineering Guidance to assess business system investments, they had not yet performed the key step of validating assessment results. GAO has made prior recommendations to address these issues. DOD has generally agreed with these recommendations and is taking corrective actions in response. GAO has work underway to evaluate DOD's continuing efforts in these areas.

_____ **United States Government Accountability Office**