

GAO Highlights

Highlights of [GAO-14-576T](#), a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Given the federal government's continuing fiscal challenges, it is more important than ever that the Congress, the administration, and federal managers have reliable, useful, and timely financial and performance information to help ensure fiscal responsibility and demonstrate accountability, particularly for the federal government's largest department, the Department of Defense. GAO has previously reported that serious and continuing deficiencies in DOD's financial management make up one of three major impediments to achieving an opinion on the U.S. government's consolidated financial statements.

GAO's statement focuses on (1) the effect of continuing financial management challenges on DOD management and operations and (2) DOD's efforts to improve financial management and its remaining challenges. GAO's statement is primarily based on previously issued reports, including GAO's updates on DOD high-risk areas and its audit reports on DOD's financial management, inventory management and asset visibility, weapon system costs, business transformation, and business system modernization.

What GAO Recommends

GAO has previously made numerous recommendations for improving financial systems and business systems that provide financial information as well as related processes and internal controls. DOD has generally agreed with GAO's recommendations and is taking actions to address many of them.

View [GAO-14-576T](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

May 13, 2014

DOD FINANCIAL MANAGEMENT

Effect of Continuing Weaknesses on Management and Operations and Status of Key Challenges

What GAO Found

Long-standing weaknesses in the Department of Defense's (DOD) financial management adversely affect the economy, efficiency, and effectiveness of its operations. The successful transformation of DOD's financial management processes and operations will allow DOD to routinely generate timely, complete, and reliable financial and other information for day-to-day decision making, including the information needed to effectively (1) manage its assets, (2) assess program performance and make budget decisions, (3) make cost-effective operational choices, and (4) provide accountability over the use of public funds. Examples of the operational impact of DOD's financial management weaknesses include

- the inability to properly account for and report DOD's total assets—about 33 percent of the federal government's reported total assets—including inventory (\$254 billion) and property, plant, and equipment (\$1.3 trillion);
- the inability to accurately estimate the extent of its improper payments because of a flawed estimating methodology, which also limits corrective actions;
- inconsistent and sometimes unreliable reports to the Congress on estimated weapon system operating and support costs, limiting visibility needed for effective oversight of these costs; and
- continuing reports of Antideficiency Act violations—75 such violations reported from fiscal year 2007 through fiscal year 2012, totaling nearly \$1.1 billion—which emphasize DOD's inability to ensure that obligations and expenditures are properly recorded and do not exceed statutory levels of control.

DOD has numerous efforts under way to address its long-standing financial management weaknesses. The Congress has played a major role in many of the corrective actions by mandating them in various fiscal year National Defense Authorization Acts. However, improving the department's financial management operations and thereby providing DOD management and the Congress more accurate and reliable information on the results of its business operations will not be an easy task. Key challenges remain, such as identifying and mitigating risks to achieving the goals of DOD's Financial Improvement and Audit Readiness (FIAR) effort and successfully implementing the FIAR Guidance at the DOD component level, modernizing DOD's business information systems, and improving the financial management workforce.

DOD is monitoring its component agencies' progress toward audit readiness. However, as dates for validating audit readiness approach, DOD has emphasized asserting audit readiness by a certain date instead of making sure that effective processes, systems, and controls are in place, without which it cannot ensure that its components have improved financial management information for day-to-day decision making. While time frames are important to measuring progress, DOD should not lose sight of the ultimate goal of implementing lasting financial management reform to ensure that it can routinely generate reliable financial management and other information critical to decision making and effective operations.