

GAO Highlights

Highlights of [GAO-23-105784](#), a report to congressional committees

Why GAO Did This Study

DOD is responsible for about half of the federal government's discretionary spending. However, DOD remains the only major federal agency that has never been able to receive a clean audit opinion on its financial statements. Since 1995, GAO has designated DOD financial management as high risk because of pervasive deficiencies in its financial management systems, business processes, internal controls, and financial reporting.

House Report 117-88 includes a provision for GAO to review DOD's efforts to achieve a clean audit opinion by 2027. This report examines the (1) status of DOD's efforts to achieve a clean opinion, and benefits of the audits, and (2) extent to which DOD developed plans to address audit findings and achieve a clean opinion.

GAO reviewed relevant DOD and DOD Office of Inspector General reports, as well as memorandums and status reports; interviewed officials; and analyzed NFR data related to DOD's material weaknesses. GAO also assessed DOD and military departments' corrective action plans and roadmaps.

What GAO Recommends

GAO is making five recommendations, including for DOD to develop and document a comprehensive plan to achieve a clean audit opinion and to consider dependencies and analyze the feasibility of remediation dates in roadmaps. DOD concurred with one recommendation, partially concurred with three, and did not concur with one. GAO maintains that all of the recommendations are warranted.

View [GAO-23-105784](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

May 2023

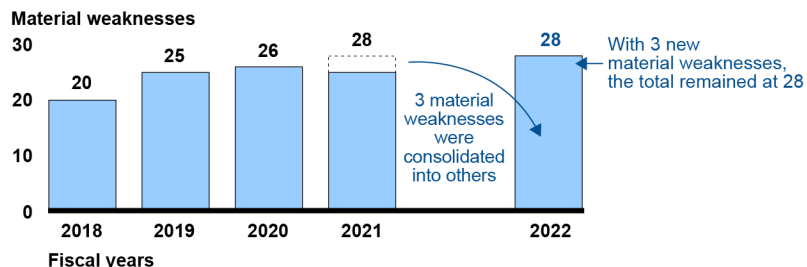
DOD FINANCIAL MANAGEMENT

Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements

What GAO Found

The Department of Defense's (DOD) financial statement audits for fiscal year 2022 and prior years have resulted in disclaimers of opinion—meaning that auditors were unable to obtain sufficient, appropriate evidence to provide a basis for an audit opinion. Fiscal year 2018 was the first year that DOD underwent its full-scope consolidated financial statement audit. For that and each subsequent fiscal year, auditors identified material weaknesses, which are serious deficiencies that affect DOD's financial reporting (see figure). Auditors also issued thousands of notices of findings and recommendations (NFR).

Department of Defense Material Weaknesses Identified by Auditors



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-23-105784

The financial statement audit has value far beyond the audit opinion. It can help to identify vulnerabilities and ways to improve operations. DOD audits have resulted in short- and long-term benefits. The audits helped identify assets that DOD did not know existed. For example, in fiscal year 2020, Navy identified and added nearly \$2.4 billion of unrecorded inventory, operating materials and supplies, and general equipment. These items were subsequently used to fill over 12,000 requisitions, which otherwise would have cost \$50 million in material.

DOD has taken steps to achieve an unmodified (clean) audit opinion—when the auditor finds that financial statements are presented fairly in accordance with U.S. generally accepted accounting principles. These steps include developing audit priority areas, a financial management strategy, corrective action plans, and audit roadmaps. However, GAO found that these DOD plans lack details that are important to achieving a clean audit opinion. For example, DOD's audit roadmaps do not have interim milestone activities and dates to show the steps for reaching overall target remediation goals. Also, DOD's financial management strategy focuses on high-level DOD financial management priorities and is not specific to achieving a clean opinion. A comprehensive plan with a clear DOD-wide vision for how to achieve a clean audit opinion, with detailed procedures for addressing material weaknesses, would help DOD to reach this milestone.

GAO also found that DOD has consistently missed target remediation dates provided in its DOD-wide roadmap. DOD needs to take steps to improve audit roadmaps—including considering dependencies identified by components, analyzing the feasibility of estimated target remediation dates, and reassessing actions as needed. Without these steps, DOD and components will be at increased risk of continuing to miss and extend target remediation dates, further hindering its ability to achieve a clean audit opinion.