

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.

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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.