

Why GAO Did This Study

The Department of Defense (DOD) has been required to prepare audited annual financial statements since 1997 but to date, has not been able to meet this requirement. The National Defense Authorization Act of Fiscal Year 2010 mandated that DOD be prepared to validate [certify] that its consolidated financial statements are audit-ready by September 30, 2017. In May 2010, DOD issued its Financial Improvement and Audit Readiness (FIAR) Guidance to provide a methodology for DOD components to follow to develop and implement their Financial Improvement Plans (FIPs) for achieving audit readiness. The DOD FIP is a framework for planning and tracking the steps and supporting documentation.

GAO was asked to assess the FIP methodology provided in the FIAR Guidance, the development and implementation of selected components' FIPs, and DOD's monitoring and oversight of the FIP process. To do this, GAO analyzed the FIAR Guidance, reviewed two selected FIPs—Navy Civilian Pay and Air Force Military Equipment—and reviewed relevant documentation and interviewed DOD and component officials.

What GAO Recommends

GAO recommends that the Secretary of Defense take various actions to improve the development, implementation, documentation, and oversight of DOD's financial management improvement efforts. DOD generally concurred with the recommendations and commented on actions being taken to implement them.

View [GAO-11-851](#). For more information, contact Asif A. Khan at (202) 512-9095 or Khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Improvement Needed in DOD Components' Implementation of Audit Readiness Effort

What GAO Found

The FIAR Guidance provides a reasonable methodology for DOD components to use in developing and implementing their FIPs. The Guidance details the roles and responsibilities of the DOD components, and prescribes a standard, systematic process to follow to assess processes, controls, and systems. Overall, the procedures required by the FIAR Guidance are consistent with selected procedures for conducting a financial audit, such as testing internal controls and information system controls. The Guidance also requires components to take actions to correct any deficiencies identified during testing and document the results. DOD's ability to achieve departmentwide audit readiness is highly dependent on its military components' ability to effectively develop and implement FIPs in compliance with the FIAR Guidance.

The Navy and Air Force did not adequately develop and implement their respective FIPs for Civilian Pay and Military Equipment in accordance with the FIAR Guidance. GAO found similar deficiencies in both FIPs. For example, internal controls and information systems controls were not sufficiently tested or documented, and conclusions reached were not supported by the testing results. In addition, neither component had fully developed and implemented corrective action plans to address deficiencies identified during implementation of the FIPs. As a result, the FIPs did not provide sufficient support for the Navy's and Air Force's conclusions that Civilian Pay and Military Equipment were ready to be audited.

DOD and its military components have assigned to senior executive committees and designated individuals appropriate oversight roles and responsibilities for their financial improvement efforts. However, neither oversight committees nor Navy and Air Force officials effectively carried out their oversight responsibilities for the two FIPs, which did not support the components' conclusions of audit readiness. However, once the components indicated audit readiness, both the DOD Office of Inspector General and the Undersecretary of Defense (Comptroller) performed reviews and concluded that the FIPs did not comply with the FIAR Guidance and did not demonstrate audit readiness. The lack of adequate oversight results in an ineffective FIP process and can impact the ability of components to meet established milestones. If the components are unable to achieve interim milestones, DOD will need to consider how these factors could affect its ability to achieve departmentwide auditability by the end of fiscal year 2017.