

GAO Highlights

Highlights of [GAO-13-123](#), a report to congressional requesters

Why GAO Did This Study

The National Defense Authorization Act (NDAA) of Fiscal Year 2010 mandated that DOD's consolidated financial statements be validated as audit ready by September 30, 2017. The NDAA for Fiscal Year 2012 further mandated that DOD's General Fund Statement of Budgetary Resources be audit ready by the end of fiscal year 2014. DOD issued the FIAR Plan and related guidance to provide a strategy and methodology for achieving its audit readiness goals. However, substantial risks exist that may impede DOD's ability to implement the FIAR methodology and achieve audit readiness.

GAO was asked to assess DOD's risk management process for implementing its FIAR Plan. This report addresses the extent to which DOD has established an effective process for identifying, analyzing, and mitigating risks that could impede its progress in achieving audit readiness. GAO interviewed DOD and component officials, reviewed relevant documentation, and compared DOD's risk management processes with guiding principles for risk management.

What GAO Recommends

GAO recommends that DOD design and implement policies and procedures for FIAR Plan risk management that fully incorporate the five risk management guiding principles and consider the Navy's and DLA's risk management practices. While DOD did not fully concur, it cited planned actions that are consistent with GAO's recommendations and findings. These are good first steps, but GAO believes additional action is warranted. GAO affirms its recommendations.

View [GAO-13-123](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov

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DOD FINANCIAL MANAGEMENT

Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements

What GAO Found

The Department of Defense (DOD) has taken some actions to manage its department-level risks associated with preparing auditable financial statements through its Financial Improvement and Audit Readiness (FIAR) Plan. However, its actions were not fully in accordance with widely recognized guiding principles for effective risk management, which include (1) identifying risks that could prevent it from achieving its goals, (2) assessing the magnitude of those risks, (3) developing risk mitigation plans, (4) implementing mitigating actions to address the risks, and (5) monitoring the effectiveness of those mitigating actions. DOD did not have documented policies and procedures for following these guiding principles to effectively manage risks to the implementation of the FIAR Plan.

In January 2012, DOD identified six departmentwide risks to FIAR Plan implementation: lack of DOD-wide commitment, insufficient accountability, poorly defined scope and requirements, unqualified or inexperienced personnel, insufficient funding, and information system control weaknesses. DOD officials stated that risks are discussed on an ongoing basis during various FIAR oversight committee meetings; however, the risks they initially identified were not comprehensive, and they did not provide evidence of efforts to identify additional risks. For example, based on prior audits, GAO identified other audit-readiness risks that DOD did not identify, such as the reliance on service providers for much of the components' financial data and the need for better department-wide document retention policies. Risk management guiding principles provide that risk identification is an iterative process in which new risks may evolve or become known as a program progresses throughout its life cycle.

Similarly, DOD's actions to manage its identified risks were not in accordance with the guiding principles. GAO found little evidence that DOD analyzed risks it identified to assess their magnitude or that DOD developed adequate plans for mitigating the risks. DOD's risk mitigation plans, published in its FIAR Plan Status Reports, consisted of brief, high-level summaries that did not include critical management information, such as specific and detailed plans for implementation, assignment of responsibility, milestones, or resource needs. In addition, information about DOD's mitigation efforts was not sufficient for DOD to monitor the extent of progress in mitigating identified risks.

Without effective risk management at the department-wide level to help ensure the success of the FIAR Plan implementation, DOD is at increased risk of not achieving audit readiness initially for its Statement of Budgetary Resources and ultimately for its complete set of financial statements.

GAO identified two DOD components—the Navy and the Defense Logistics Agency (DLA)—that had established practices consistent with risk management guiding principles, such as preparing risk registers, employing analytical techniques to assess risk, and engaging internal and external stakeholders consistently to assess and identify new risks. These components' actions could serve as a starting point for improving department-level risk management.