



## DOD Financial Management: Improving Systems Planning and Oversight Could Improve Auditability

GAO-23-106817, September 2023

DOD is the largest U.S. government department and one of the most complex. In Fiscal Year 2022, it spent more than \$1 trillion. Since the federal law requiring major agencies to conduct financial audits was enacted in 1994, DOD is the only agency to have never received a clean audit opinion. DOD’s financial statements can help account for how its funding is spent, but persistent weaknesses in its financial management practices prevent these statements from being reliable and impede DOD’s ability to manage its resources more efficiently.

### The Big Picture

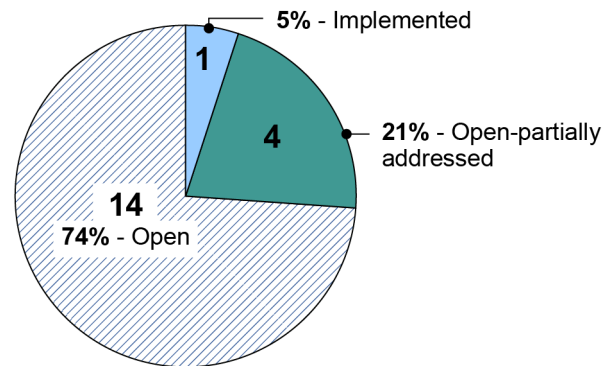
For over 30 years, the Department of Defense (DOD) has spent billions of dollars each year to acquire and modernize financial management, logistics, and other business systems. DOD’s Fiscal Year 2023 IT and cyberspace budget includes \$9.1 billion for business system investments.

The goal of these efforts is to, among other things, improve management of DOD’s business processes, increase efficiency, modernize its supporting systems environment, and achieve a clean audit opinion (i.e. an independent auditor determines that financial statements were presented fairly in accordance with generally accepted accounting principles). A clean audit opinion could help DOD to, among other things, improve its accountability over its extensive resources. For example, DOD reported that the Navy identified more than \$4.4 billion in previously untracked material through inventory cleanup and redeployment programs dating back to 2018.

DOD’s financial management and business systems modernization efforts have been on GAO’s list of high risk programs since 1995. In May 2023, the department’s Inspector General reported that IT remains a material weakness that prevents DOD from achieving a clean audit opinion

In this snapshot, we discuss three reports related to DOD’s modernization efforts. As of August 2023, DOD had not yet fully implemented 18 of the 19 recommendations made in these reports (see figure), including two that we consider high priority. Our priority recommendations warrant attention from heads of key department and agencies.

**Figure: Status of Related GAO Recommendations as of August 2023**



Source: GAO analysis of Department of Defense documentation. | GAO-23-106817

### What GAO’s Work Shows

#### DOD’s Plans for Business and Financial Management Systems

In September 2020, we reported that DOD had a financial management systems strategy that did not fully address requirements for a comprehensive and effective IT strategic plan. In particular, DOD did not include well-defined measures for tracking progress in achieving the strategy’s goals. In addition, we reported that it had not developed an enterprise road map to implement its strategy.

- [We made 6 recommendations](#) for DOD to, among other things, establish and clearly define performance measures and develop a road map to implement its financial management systems strategy.

As of August 2023, DOD had implemented one, partially addressed three, and not addressed two recommendations, including one we consider high priority. The high priority recommendation calls for DOD to limit investments in financial management systems to what is essential until it implements all recommendations associated with this report.

### DOD's Oversight of Its Business and Financial Management Systems

In March 2023, we reported that DOD established a process for overseeing its business and financial management systems. However, the guidance did not fully address how systems are to document compliance with statutory requirements, including documenting compliance with DOD's auditability requirements. This placed DOD at risk of making decisions based on a "check the box" exercise and developing systems that do not support a clean audit opinion.

- **We made 9 recommendations** to DOD and the military departments to, among other things, update guidance for substantiating and documenting compliance.

As of August 2023, the department had partially addressed one recommendation; the other eight remain unaddressed.

### Air Force's Financial Management Systems Deficiencies

In February 2022, we reported that the Air Force did not have a comprehensive strategy for its financial management systems modernization efforts, which impeded the Air Force's ability to address the system-related issues that independent auditors identified.

- **We made 4 recommendations** for the Air Force to, among other things, develop a comprehensive strategy that includes all financial management systems modernization efforts.

As of August 2023, all four recommendations remained unaddressed, including one we consider high priority. This high priority recommendation calls

for the Air Force to develop a migration plan to transition to its target core accounting systems.



Source: metamorworks/stock.adobe.com (image). | GAO-23-106817

### Challenges and Opportunities

The lack of effective planning and oversight of its business and financial management systems are critical challenges as DOD seeks to achieve a clean audit opinion. For example, in March 2023 we reported that DOD faced challenges such as the large number of systems relevant to the audit and systems designed prior to DOD's audit requirements. Addressing the recommendations discussed in this snapshot could improve DOD's ability to overcome its challenges, achieve a clean audit opinion, and modernize its business and financial management systems environment.

Further, by implementing GAO's recommendations, the department has the opportunity to identify financial benefits and improve efficiencies in its operations. For example, we have identified over \$3 billion in benefits associated with DOD's efforts to improve how it manages its business and financial management systems. In addition, improving this systems environment can, among other things, provide accurate information for decision-makers and contribute to the department's ability to support the needs of the warfighter.

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