



Testimony

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DOD FINANCIAL MANAGEMENT

Benefits to Date of Financial Statement Audits and Need to Improve Financial Management Systems

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GAO Highlights

Highlights of [GAO-24-107593](#), a testimony before the Subcommittee on Government Operations and the Federal Workforce, Committee on Oversight and Accountability, House of Representatives

Why GAO Did This Study

DOD is responsible for about half of the federal government’s discretionary spending and about 15 percent of its total spending. It is important for DOD to obtain a clean audit opinion to demonstrate that its financial statements and underlying financial management information are reliable for decision-making. DOD’s financial management and IT systems are both on GAO’s High Risk List because of pervasive weaknesses in the agency’s business operations, finances, and acquisition management.

To help DOD improve its financial management, DOD’s auditors have issued thousands of notices of findings and recommendations and 28 material weaknesses. In response, DOD has identified priority areas and developed a strategy, plans, and roadmaps. These actions are important steps, but DOD has faced challenges in meeting target remediation dates, and DOD’s use of aging legacy financial systems continues to hinder its efforts.

This testimony discusses (1) DOD’s financial management systems, (2) the financial and operational benefits of audits, and (3) DOD’s progress in responding to the deficiencies identified through those audits.

This testimony is based on GAO work from 2020 through 2024 related to DOD’s financial management. Details on GAO’s methodology can be found in each of the reports cited in this statement.

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DOD FINANCIAL MANAGEMENT






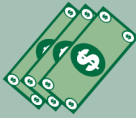


Benefits to Date of Financial Statement Audits and Need to Improve Financial Management Systems

What GAO Found

Several Department of Defense (DOD) components have achieved an unmodified (clean) audit opinion, including most recently the Marine Corps. However, as of fiscal year 2023, DOD remains the only agency to have never received a department-wide clean audit opinion. DOD must overcome challenges related to its financial management systems to achieve this goal.

To date, audits have provided valuable insight into improving the organization’s financial management and accountability over its resources. According to DOD, audits have resulted in both operational and financial benefits (see figure).

Examples of Operational and Financial Benefits of DOD Financial Statement Audits

 <p>Operational benefits</p>	 <p>Improvements to financial systems and data</p> <p>To help standardize data, DOD developed Advana, a platform for advanced analytics, which has helped reconcile fund balances with Treasury and avoid making at least \$5.5 billion in potential improper payments.</p>	 <p>Mitigation of cybersecurity risks</p> <p>In fiscal year 2023, the Air Force reported partially implementing an identity, credential, and access management tool—aligned with a DOD-wide strategy—which will help address cybersecurity risks, such as by enhancing user access controls.</p>
	 <p>Enhanced visibility over assets and inventory</p> <p>In fiscal year 2021, the Navy reported that it had identified more than \$4.3 billion in untracked materials—such as equipment and supplies—which can save on purchase costs by making items available for requisition.</p>	 <p>More efficient processes</p> <p>In fiscal year 2023, DOD reported that the Army had 79 automations in place, including 14 for its financial systems that eliminated the need for 5,600 labor hours that year.</p>
 <p>Financial benefits</p>	 <p>Cost savings and avoidances</p> <p>As of 2024, the Navy has identified 14 legacy systems that it plans to retire, which it estimates will avoid nearly \$103 million in costs.</p>	 <p>Improved ability to use funds</p> <p>In fiscal year 2023, the Air Force reported using machine learning to identify \$653 million in obligations that may be applied in ways that preserve future buying power.</p>

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-107593

To make greater progress DOD needs to take steps to address GAO’s 29 open recommendations associated with challenges DOD faces in meeting target remediation dates, addressing auditor-identified deficiencies, improving system transitions, and addressing its planning, oversight, and data limitations. Addressing these recommendations will help DOD track audit remediation efforts, avoid system transition delays, modernize its financial systems, and achieve a clean audit opinion.

Chairman Sessions, Ranking Member Mfume, and Members of the Subcommittee:

Thank you for the opportunity to discuss the Department of Defense's (DOD) financial statement auditability and systems oversight.

DOD is responsible for about half of the federal government's discretionary spending and about 15 percent of its total spending.¹ Having sound financial management practices and reliable, useful, and timely financial information is critical to support DOD's ability to manage its assets and budgets efficiently and effectively and to DOD's ability to ensure accountability for its extensive resources. However, as of fiscal year 2023, DOD is the only one of the 24 agencies subject to the Chief Financial Officers Act of 1990 (CFO Act) that has never been able to achieve an unmodified or "clean" audit opinion on its financial statements, primarily due to serious financial management and system weaknesses.²

Since 1995, GAO has designated DOD financial management as a high-risk area because of pervasive weaknesses in its financial management systems, business processes, internal controls, corrective action plans, acquisition management, and financial monitoring and reporting.³ DOD business systems, which include financial and other systems that support business functions such as logistics and health care, also have been on GAO's High Risk List since 1995.

In addition, DOD continues to experience systemic shortfalls in implementing cybersecurity measures to safeguard its data environment and address cybersecurity vulnerabilities.⁴ GAO and the DOD Office of

¹Discretionary spending refers to outlays from budget authority that appropriation acts provide and control, unlike mandatory spending, such as that for Medicare and other entitlement programs. For fiscal year 2023, DOD reported that it received appropriations of \$1,093.7 billion, approximately \$242.0 billion of which is considered mandatory; the remaining \$851.7 billion is discretionary.

²Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990). The list of agencies is codified at 31 U.S.C. § 901(b). These agencies are commonly referred to collectively as CFO Act agencies. An auditor expresses an unmodified opinion when the auditor concludes that the financial statements are presented fairly, in accordance with generally accepted accounting principles.

³GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

⁴Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2023* (Washington, D.C.: Nov. 15, 2023).

Inspector General (OIG) have reported that DOD's efforts to improve its system environment, modernize its outdated systems, and become auditable have been insufficient.⁵

Financial statement audits have value far beyond the audit opinions, even in situations where a department or agency is unable to achieve an unmodified, or "clean," audit opinion. According to DOD, financial audits have resulted in short- and long-term financial management improvements. These benefits include cost savings and avoidances, improved use of funds, improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, more efficient processes, and identification of workforce gaps.

Financial statements and underlying management processes provide information about an organization's finances, including its (1) financial position, such as assets (what it owns) and liabilities (what it owes) at any point in time; (2) the results of the organization's operations, such as revenue (what came in) and costs (what went out) for the fiscal year; as well as (3) budgetary results, such as appropriations, obligations, and outlays. To operate as effectively and efficiently as possible, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information. Such reliable financial information is critical to effective decision-making and management of assets and costs. Audits have provided valuable insights to DOD management for use in improving DOD's financial management and accountability over its resources.

In addition to helping DOD improve its business processes by identifying which processes are working well and which are not—thereby affecting operational readiness—the audit findings help identify those parties accountable for delivering reliable financial information. Addressing material weaknesses that the audits identified improves data reliability for decision-making and budget execution and helps DOD improve its operations and gain efficiencies.

⁵See, for example, GAO, *Financial Management: DOD Needs to Implement Comprehensive Plans to Improve Its Systems Environment*, [GAO-20-252](#) (Washington, D.C.: Sept. 30, 2020); *Financial Management: DOD Needs to Improve System Oversight*, [GAO-23-104539](#) (Washington, D.C.: Mar. 7, 2023); and [GAO-23-106203](#). Also see Department of Defense, Office of Inspector General, *Audit of the DOD's Plans to Address Longstanding Issues with Outdated Financial Management Systems*, DODIG-2024-047 (Alexandria, Va.: Jan. 2024).

The audit process also improves DOD's operational readiness by providing reliable information for decision-making and for inventory and property management. This leads to stronger internal controls, better asset and financial visibility, increased transparency, accountability, and streamlined business processes that are sustainable and repeatable. Financial statement audits are essential for reforming DOD's business processes, ensuring performance, reliability, and improved financial responsibility and transparency.

Financial statement auditors have issued thousands of notices of findings and recommendations. In response, DOD has taken steps to achieve a 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 DOD developing audit remediation priority areas, a financial management strategy, corrective action plans, and audit roadmaps. However, GAO has reported that these DOD plans lack details that are important to achieving a clean audit opinion.⁶

My testimony today provides information on DOD's efforts to improve its financial management and business practices. Specifically, I will summarize our prior work addressing (1) DOD's financial management systems, (2) financial and operational benefits of the financial statement audits, and (3) DOD's progress in responding to deficiencies identified through its financial statement audits.

This testimony is based on our body of work issued from September 2020 through September 2024 addressing DOD's financial management, and also summarizes key points from a GAO report being released today and one soon to be released that discuss, among other things, the financial and operational benefits of the audits.⁷ To conduct our prior work, among other things, we reviewed relevant laws, reviewed DOD and DOD OIG documentation, analyzed data related to DOD's material weaknesses,

⁶For example, in *DOD Financial Management: Continued Efforts Needed to Correct Material Weakness Identified in Financial Statement Audits*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020), we reported that DOD and its components did not always prepare corrective action plans in accordance with DOD and other federal government guidance and that data used to assess audit remediation progress may not be reliable. We made five recommendations to address these issues, two of which DOD has fully implemented.

⁷GAO, *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements*, [GAO-23-105784](#) (Washington, D.C.: May 15, 2023); *DOD Financial Management: DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring*, [GAO-24-106890](#) (Washington, D. C.: Sept. 24, 2024); [GAO-21-157](#); [GAO-20-252](#); and [GAO-23-104539](#).

assessed DOD's corrective action plans (CAP) and roadmaps, and interviewed DOD officials. We also evaluated DOD's data on its systems' compliance with statutory requirements aimed at improving DOD's ability to obtain a clean audit opinion. More detailed information on our objectives, scope, and methodology can be found in each of the issued reports cited throughout this statement.

We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Congress has passed legislation to help ensure that DOD and other federal agencies improve their financial management processes. For example, the CFO Act requires agencies to develop and maintain integrated agency accounting and financial management systems. These systems should include internal control to provide for complete, reliable, consistent, and timely information prepared on a uniform basis that responds to agency management's financial information needs.⁸ This in turn will help enable agencies to produce auditable financial statements.

Beginning with the CFO Act, which required DOD to prepare financial statements for certain components, and continuing through fiscal year 2018, Congress has frequently required DOD to undertake more audit readiness efforts. These efforts have included additional reporting to assist in financial improvement, undergoing specific financial statement audits, and establishing audit readiness milestones.⁹ The National Defense Authorization Act for Fiscal Year 2014 included a requirement for

⁸GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, [GAO-20-566](#) (Washington, D.C.: Aug. 6, 2020).

⁹See, for example, CFO Act, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990); Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994); National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, div. A, § 1003(a), 123 Stat. 2190, 2439-40 (Oct. 28, 2009); and National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, § 1005, 126 Stat. 1632, 1904 (Jan. 2, 2013).

full-scope audits of DOD statements to be performed, beginning with fiscal year 2018.¹⁰ These audits have resulted in disclaimers of opinion.¹¹

In a financial statement audit, auditors independently examine and report on whether an agency presents its financial information fairly in accordance with U.S. generally accepted accounting principles. The auditor also reports on internal controls over financial reporting and noncompliance identified by the audit.

Inaccuracies that could mislead about the agency's financial condition are known as material misstatements; pervasive misstatements affect the entire financial statement. Serious deficiencies in internal control over financial reporting are known as material weaknesses, in which there is a reasonable possibility that a material misstatement in the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

In fiscal year 2023, about a third (10 of 29) DOD components or funds under audit received an unmodified (clean) opinion on their financial statements; one received a qualified opinion; and the remaining 18—including the Army, Navy, and Air Force—received disclaimers of opinions (no opinion).¹² The most significant changes to the fiscal year

¹⁰Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*.

¹¹Major DOD components included in the DOD-wide audits include the Departments of the Air Force, Army, and Navy, all three of which have their own audited financial statements and received disclaimers of opinion through fiscal year 2023.

¹²DOD components or funds that received an unmodified opinion in fiscal year 2023 are the Military Retirement Fund, U.S. Army Corps of Engineers—Civil Works, Defense Health Agency—Contract Resource Management, Defense Information Systems Agency Working Capital Fund, Defense Commissary Agency, Defense Finance and Accounting Service Working Capital Fund, Defense Contract Audit Agency, DOD OIG, National Reconnaissance Office, and U.S. Marine Corps General Fund. An auditor expresses a qualified opinion when the auditor concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit, the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, and accordingly does not express an opinion on the financial statements.

2023 audit opinions included the Marine Corps, the first military service to obtain an unmodified opinion.¹³ Though the Marine Corps needs to make process and internal control improvements to address its remaining seven material weaknesses related to internal controls over financial reporting and three material weaknesses associated with IT to minimize the audit effort, it demonstrated that substantial efforts can lead to positive results.

Starting with full-scope audits for fiscal year 2018, financial auditors have identified thousands of deficiencies, many of which remain outstanding. Given the magnitude and complexity of the deficiencies, it is essential that DOD effectively oversees and monitors efforts to address them. Pervasive weaknesses have adversely affected DOD's ability to prepare auditable financial statements, and its inability to achieve a clean financial audit opinion is one of three major impediments preventing GAO from expressing an audit opinion on the U.S. government's consolidated financial statements since fiscal year 1997.¹⁴ Without reliable, useful, and timely financial information, DOD is severely hampered in its ability to make sound budgetary and programmatic decisions, monitor trends, make adjustments to improve performance, reduce operating costs, and maximize the use of resources.

The Secretary of Defense has directed DOD components to prioritize audit remediation efforts in areas of long-standing weaknesses in its business processes, such as establishing strong, sustainable internal controls and improving security of vital systems and data. We have reported that DOD's financial systems are a significant contributor to its challenges to improving how it accounts for and reports its spending and

¹³According to the DOD OIG, the audit opinion was the result of a 2-year audit cycle that began in fiscal year 2022. The auditors used a substantive-based testing approach throughout fiscal year 2022 and fiscal year 2023. Substantive-based approach means that the auditors had to increase the amount of testing necessary to obtain adequate audit evidence because they were unable to rely on the Marine Corps' internal controls over financial transactions due to deficiencies in such controls. This increased testing included examining a larger sample of transactions, account balances, and other adjustments made while preparing financial statements, as well as a more extensive physical count of military equipment, ammunition, and other property.

¹⁴Since fiscal year 1997, when the federal government began preparing consolidated financial statements, the other two impediments preventing us from rendering an audit opinion on the federal government's consolidated financial statements have been (1) the federal government's inability to adequately account for intragovernmental activity and balances between federal agencies and (2) the weaknesses in the federal government's process for preparing the consolidated financial statements. See GAO, *Financial Audit: FY 2023 and FY 2022 Consolidated Financial Statements of the U.S. Government*, [GAO-24-106660](#) (Washington, D.C.: Feb. 15, 2024).

assets.¹⁵ Of the 28 DOD-wide material weaknesses identified in DOD's fiscal year 2023 agency financial report, six were related to financial management systems and IT.¹⁶

The DOD OIG has also highlighted the role of financial systems in DOD's annual audit findings. In May 2023, DOD OIG noted that long-standing IT challenges remain. These challenges prevent DOD from implementing efficient and effective financial management and inhibit progress toward receiving a clean audit opinion. Additionally, DOD OIG reported that when controls over IT systems are ineffective, DOD assumes significant risk to its operations and assets, which includes risking its ability to protect against and rapidly respond to cyber threats across its systems.¹⁷

Further, in January 2024, DOD OIG reported that DOD's list of systems relevant to its internal controls over financial reporting was neither complete nor accurate.¹⁸ DOD OIG also reported on DOD's plans to modernize or replace relevant systems that do not comply substantially with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). DOD OIG found that DOD's plans were not complete and were not aggressive enough to ensure that the systems will comply with FFMIA by DOD's fiscal year 2028 goal.¹⁹

¹⁵GAO, *DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals*, [GAO-12-134](#) (Washington, D.C.: Feb. 28, 2012); *DOD Financial Management: Additional Actions Would Improve Reporting of Joint Strike Fighter Assets*, [GAO-22-105002](#) (Washington, D.C.: May 5, 2022); *DOD Financial Management: Improving Systems Planning and Oversight Could Improve Auditability*, [GAO-23-106817](#) (Washington, D.C.: Sept. 2023); [GAO-20-252](#); and [GAO-23-104539](#).

¹⁶According to DOD OIG, a material weakness represents weaknesses in internal control that result in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statement in a timely manner.

¹⁷Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the Fiscal Year 2022 DOD Financial Statements* (Alexandria, Va.: May 16, 2023).

¹⁸Department of Defense, Office of Inspector General, *Audit of the DOD's Plans to Address Longstanding Issues with Outdated Financial Management Systems*.

¹⁹FFMIA requires the 24 CFO Act agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) the *U.S. Standard General Ledger* at the transaction level. Pub. L. No. 104-208, div. A, §101(f), title VIII, 110 Stat. 3009, 3009-389, reprinted as amended in 31 U.S.C. § 3512 note.

DOD's Financial Management Systems

DOD's use of aging legacy financial systems continues to hinder its efforts to achieve a clean audit opinion. The continued use of legacy financial systems has been an ongoing material weakness, and DOD's financial statement audits have identified significant challenges related to these systems.²⁰ DOD has developed plans for modernizing them, but these plans lack important details.

Aging Systems

DOD faces challenges modernizing its financial and business systems, including its reliance on aging legacy systems. For example, some DOD financial systems date back to the 1960s and are not equipped to meet current accounting and reporting requirements. While DOD continues to face these challenges, the department has taken steps to improve its systems through initiatives like the Defense Agencies Initiative and Government Invoicing.

DOD's use of aging legacy systems has been an ongoing material weakness, and DOD's financial statement audits have identified significant challenges related to these systems.²¹ As we have previously reported, the DOD systems environment that supports its business functions, including financial management, is overly complex and error prone, characterized by (1) little standardization across the department, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) the need for data to be entered manually into multiple systems.²² DOD and its components lacked effective IT internal controls, which limited the auditors' ability to rely on information from the financial-related IT systems.²³

In May 2023, we reported that some of DOD's financial systems were designed and implemented in the 1960s. We found that these systems did not have the capability to capture detailed transaction-level information required for modern accounting and reporting requirements.²⁴ While not generalizable, officials from entities across DOD provided their perspectives on the challenges facing DOD as it attempts to modernize

²⁰DOD defines legacy systems as those systems to be terminated in less than 3 years from the end of the current fiscal year.

²¹[GAO-20-252](#).

²²[GAO-20-252](#).

²³Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the Fiscal Year 2022 DOD Financial Statements*.

²⁴[GAO-23-105784](#).

its financial systems environment.²⁵ Some of the challenges they highlighted included systems designed prior to DOD's audit requirements or that were not designed to be financial management systems, inadequate system interfaces, a lack of trained personnel, and the large number of systems being used.²⁶

GAO reported in March 2023 that these challenges present risks to DOD as it works to modernize its financial systems environment and achieve a clean audit opinion. DOD acknowledged the risks posed by legacy systems and stated that it is working to identify, retire, and replace them. DOD OIG considers the continued use of legacy systems a major challenge to obtaining a clean audit opinion.²⁷

DOD's Plans to Create Modern, Compliant Systems

To improve financial management, DOD has taken steps to modernize its legacy systems, but challenges remain. For example, in fiscal year 2022, the Marine Corps transitioned from a legacy system that it had used for more than 30 years to the Defense Agencies Initiative (DAI) to enhance auditability and meet financial standards. DAI improves internal controls, integrates with other systems, and reduces data-call needs.²⁸

However, we found in June 2024 that the Marine Corps faced challenges transitioning to DAI due to insufficient performance metrics, incomplete cost and schedule estimates, and data migration and change management practices that did not fully consider leading practices.²⁹ These limitations contributed to a delay in system stabilization from the initial planned date of December 2021 to February 2024. As of September 2024, 12 of 14 recommendations remain open that address the challenges the Marine Corps faced, emphasizing the need for accurate planning, comprehensive metrics, and adherence to best practices in data migration and change management. Implementing our

²⁵This includes Office of the Secretary of Defense officials and officials from the Departments of the Army, Air Force, and Navy responsible for managing DOD's portfolios of business and financial management systems, as well as officials representing the eight systems that we selected for review.

²⁶See [GAO-23-104539](#) for additional details about the challenges DOD has reported facing.

²⁷Department of Defense, Office of Inspector General, *Audit of the DOD's Plans to Address Longstanding Issues with Outdated Financial Management Systems*.

²⁸GAO, *DOD Financial Management: Additional Steps Needed to Guide Future Systems Transitions*, [GAO-24-106313](#) (Washington, D.C.: June. 3, 2024).

²⁹[GAO-24-106313](#).

recommendations should help DOD avoid delays when future systems transition to the DAI system.

In January 2024, DOD OIG reported that DOD established four formal plans to modernize and correct its noncompliant systems, aiming for compliance with FFMIA.³⁰ Under FFMIA, agency financial systems must provide accurate, reliable, and timely financial management information in substantial compliance with the federal systems requirements, applicable federal accounting standards, and the *U.S. Standard General Ledger* at the transaction level. However, DOD OIG noted that these plans were incomplete, will not ensure compliance, and will not remediate noncompliance by fiscal year 2028.

In addition, DOD OIG reported that DOD is not timely retiring outdated general ledger systems nor is it integrating feeder system functionalities into modern enterprise resource planning systems. It also reported that DOD does not hold management accountable for integrating and modernizing financial management systems. DOD OIG made 31 recommendations, including creating an ideal end-state document for compliant financial management systems and reevaluating the timeline for modernizing DOD's financial systems to expedite FFMIA compliance.

Benefits of Financial Statement Audits

The value of financial statement audits extends far beyond the audit opinion. Based on DOD information, DOD's financial statement audits and related efforts have resulted in a range of financial and operational benefits. These benefits include cost savings and avoidances, improved use of funds, improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, and more efficient processes.³¹ The audits also result in other benefits, such as the identification of workforce gaps.³²

³⁰Department of Defense, Office of Inspector General, *Audit of the DOD's Plans to Address Longstanding Issues with Outdated Financial Management Systems*, lists DOD's four formal plans for its systems related to financial management: (1) DOD Strategic Management Plan, (2) DOD Financial Management Strategy, (3) Defense Business Systems Audit Remediation Plan, and (4) Financial Management IT Roadmap.

³¹[GAO-24-106890](#).

³²GAO, *DOD Financial Management: Actions Needed to Enhance Workforce Planning*, [GAO-24-105286](#) (forthcoming).

The financial audits of DOD components with disclaimers include additional limited testing in accordance with audit continuation plans.³³ The continued testing provides components with an independent assessment of selected internal controls, processes, and systems related to certain areas material to the financial statements; key financial statement line items; and progress in remediating reported deficiencies.

Cost savings and avoidances. DOD has identified some cost savings and avoidances as a result of its financial statement audits and related remediation efforts, such as modernizing data systems. For example, as of 2024, the Navy has identified 14 legacy systems that it plans to retire, which it estimates will avoid nearly \$103 million in costs.

In addition, DOD has avoided costs related to improper payments through the use of its Advana system. DOD began using Advana—a centralized data and analytics platform—in 2017 when the Office of the Deputy Chief Financial Officer and Defense Finance and Accounting Service started building a universe of transactions to support the DOD-wide financial statement audit.³⁴ DOD and its components are now using Advana to enhance financial data by linking nonfinancial data sources. DOD has reported that Advana’s data model standardizes DOD data to help address some of DOD’s historical issues. In 2023 and 2024, we estimated savings associated with DOD’s ability to identify and avoid making improper payments through its expanded use of this system, estimating that DOD saved at least \$5.5 billion in avoided improper payments that it did not pay from 2020 through June 2023.

Improved use of funds. DOD components have reported that audit remediation efforts have improved their ability to use available funds. DOD receives funding through various appropriations, which are typically

³³Although every financial statement audit starts as a full-scope audit, after the auditors determine they will be unable to obtain sufficient appropriate audit evidence on which to base an opinion, they could stop any detailed testing and perform only those procedures required to issue a disclaimer of opinion. However, for the DOD component audits that the DOD OIG performs and oversees, the auditors continue to perform testing in a limited capacity so that they can make recommendations to improve controls, processes, and other areas material to the financial statements. This is referred to as the audit continuation plan.

³⁴A universe of transactions is a central repository of financial transactions, such as transactions related to DOD’s inventory, property, and payroll. The universe of transactions combines all transactions from multiple accounting systems. A complete and accurate universe of transactions is key to reliable financial statements. DOD has been unable to produce a complete, accurate, and reconcilable universe of transactions.

available to use for new obligations within a limited period of time—from 1 to 5 years.³⁵ In some cases, an agency may obligate funds for a certain purpose but not use the entire amount of obligated funds if, for example, a good or service costs less than originally estimated. When this occurs, the agency must first deobligate the funds before applying them to another appropriate use before the funds expire. In fiscal year 2023, the Air Force reported refining the use of machine learning—a form of artificial intelligence—to conduct cash forecasting in its working capital fund. As a result, the Air Force identified \$653 million in obligations that could be put to higher-priority needs.

Improvements to financial systems and data. To address financial statement audit findings, DOD and its components have taken steps to modernize financial and business systems, resulting in streamlined processes and strengthened internal controls that improved data quality. For example, in fiscal year 2020, the Navy reported continued efforts to migrate all unclassified financial activity to its Enterprise Resource Planning system. According to the Navy, its Enterprise Resource Planning system is a key element in its strategy to streamline processes, retire legacy financial management systems, and obtain a clean audit opinion. The Navy reported that these efforts will help to improve the speed and transparency of data across the enterprise.

In addition, the Navy has implemented a range of actions in response to audit findings that improved the quality of financial data related to environmental liabilities. The Navy has taken steps to improve its cost estimation methodologies for environmental liabilities, including for the decommissioning of nuclear aircraft carriers and mitigation of asbestos. These efforts have resulted in improved calculation methods that are repeatable and can be applied to estimate the cost of similar remediation needs. More accurate estimation of environmental liability costs will also support decision-makers' ability to align resources across competing priorities in the future. For example, accurate estimation can avoid unforeseen costs that may require funds to be drawn from other areas.

³⁵Some military appropriations are no-year appropriations, that is, funds that do not expire. Those that have a time-limited period of availability expire at the end of that time. For example, Military Personnel appropriations expire at the end of the fiscal year for which they were appropriated and become unavailable for new obligations. Unexpended balances are available for 5 years after expiration for limited purposes, such as liquidating obligations incurred during the fiscal year of availability. After the 5-year period has elapsed, all obligated and unobligated balances are canceled, the expired account is closed, and all remaining funds are returned to the General Fund of the Treasury.

Mitigation of cybersecurity risks. To help address cybersecurity risks, DOD has developed its Identity, Credential, and Access Management strategy for implementation across the department. In fiscal year 2023, DOD reported that it had taken steps to support this implementation by issuing two policy updates and two governance memos, establishing a stakeholder governance process, and creating an onboarding schedule for approximately 230 systems.

DOD components also cited related efforts driven by the financial statement audit to mitigate cybersecurity risks. For example, in fiscal year 2023, the Air Force reported that its efforts to implement Identity, Credential, and Access Management will significantly strengthen its cybersecurity risk postures and ability to safeguard data across Air Force systems. According to the Air Force, as of fiscal year 2023, 19 financial management-related systems were in the process of implementing this tool, and the remaining 50 systems will do so in fiscal years 2024 and 2025. In addition, in fiscal year 2023, the Army reported that it implemented an end-user monitoring solution as a compensating control while it is in the process of implementing Identity, Credential, and Access Management. This control is to address information security risks posed by personnel terminations and transfers of system users.

Enhanced visibility over assets and inventory. DOD's financial statement audits have identified billions of dollars' worth of unaccounted-for assets and inventory, including real property, equipment, and other materials. In addition, DOD components have reported actions taken to improve their processes for determining the value of assets and equipment, which is necessary to support accurate financial statements. For example, in fiscal year 2021, the Navy reported that it had identified more than \$4.3 billion in previously untracked material—such as equipment and supplies—because of inventory efforts during fiscal years 2018 through 2021. According to DOD, properly tracking such property in an accountable property system of record can support the Navy's ability to fill open requisition requests without additional purchase costs.

In another instance, in fiscal year 2023, the Air Force Space Systems Command undertook an effort to compile documentation supporting the value for its satellites. According to Air Force officials, the initial contracts for these and other assets did not record cost components in a way that allowed capitalizable costs—those that affect the asset's value—to be easily identified. Officials stated that due to this challenge, significant manual effort had been required to identify and document these costs. As a result of the Air Force's remedial efforts, the value of these satellites

can now be linked to supporting documentation, which officials stated would increase confidence in the accuracy of the present and future reported values for those assets.

Further, in fiscal year 2019, DOD auditors identified a material weakness related to the F-35 Joint Strike Fighter program.³⁶ Joint Strike Fighter—the single largest defense program—is multiservice and multinational. DOD plans to use it through 2088 and to spend more than \$2 trillion in total on acquiring and sustaining it, including development, repairs, and spare parts.³⁷ DOD OIG reported that DOD did not account for and manage Joint Strike Fighter program property or record the property in an accountable property system of record.³⁸ Not having the assets recorded may lead to issues when the F-35 supply chain cannot manage spare part shortages, limiting operational capabilities and risking deployment of aircraft with incompatible parts.³⁹ Addressing this material weakness will help DOD better manage the Joint Strike Fighter program by strengthening accountability in program management, and will materially improve operations that affect the warfighter.

More efficient processes. DOD components have reported undertaking dozens of efforts to improve the efficiency of financial management processes, which can support DOD's operations and help facilitate more efficient financial statement audits in the future. These process efficiencies frequently involve the use of robotic process automations that reduce the need for manual work and can lead to labor hour savings. For example, as of fiscal year 2024, the Navy reported that it has implemented 181 robotic process automation bots across the department,

³⁶Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the Fiscal Year 2019 DOD Financial Statements*.

³⁷The F-35 program is DOD's largest acquisition program in terms of total estimated lifetime acquisition cost. Initiated in November 1996, the F-35 program is a joint, multinational acquisition program intended to develop and field a family of F-35 aircraft for its program participants.

³⁸The Joint Strike Fighter program office's property records consist of items such as spare parts, consumables, special tooling, and other support equipment for maintaining and keeping the aircraft operational.

³⁹In 2019 auditors found the omission of the Joint Strike Fighter program property from the financial statements and the inability to provide documentation supporting the value of the property indicate material failures in controls for recording of joint programs within the DOD.

enabling the reprioritization of 200,000 labor hours that allowed Navy staff to spend more time on data analysis than data collection.

In addition, in fiscal year 2023, DOD reported that the Army had 79 automations in place, including 14 for its financial systems, which eliminated the need for 5,600 labor hours that year. In fiscal year 2022, the Army developed an automated process to identify certain transactions from one of the Army's business systems, increasing the Army's ability to provide key supporting documentation to financial statement auditors. DOD reported that on its first attempt, the bot identified transactions for 96 percent of samples in 1 day, a process that typically takes 5 to 10 days when relying on manual labor. This automation significantly reduced the time and effort needed to support audit samples and facilitated a more in-depth review of the Army's financial transactions, which should continue to yield efficiencies during future audits.

Identification of workforce gaps. Another outcome of the financial statement audit is an opportunity to strengthen the workforce. Independent auditors for the Army, Air Force, and Navy identified challenges in the financial management workforce in fiscal year 2023. The financial management workforce issues reported across all three military departments related to inadequate training and insufficient staffing of relevant qualified personnel. The auditors recommended improvements in training programs to enhance competencies in financial control and transaction recording. The auditors emphasized the need for oversight, succession planning, and contingency strategies for key financial roles. Addressing these deficiencies could help the entities in remediating existing and future material weaknesses and in recruiting and retaining knowledgeable and experienced workforces to improve their future financial management environments. Further, DOD does not know how many financial management contractor staff it has or what they collectively do. These contractor capability unknowns present a major challenge to determining workforce needs.⁴⁰ In addition, in March 2023, we recommended that DOD implement a strategic approach to workforce planning for the staff who support financial management systems. This includes, among other things, analyzing gaps in capabilities between

⁴⁰[GAO-24-105286](#) (forthcoming).

existing staff and future needs and formulating strategies to fill expected gaps.⁴¹

DOD's Responses to Its Financial Statement Audits

DOD's auditors identified many deficiencies in financial management processes and controls and have issued thousands of notices of findings and recommendations (NFR) and 28 material weaknesses, including for weak IT controls. In response, DOD has identified priority areas and developed a strategy, plans, and roadmaps. These actions are important steps, but DOD has faced challenges meeting target remediation dates.⁴² As part of GAO's broad body of defense-related work, we have routinely reported that there is a lack of focus on developing and using interim performance measures to determine progress against plans and the effectiveness of actions taken.

To address findings related to IT systems and noncompliance with FFMIA requirements, DOD has initiated a variety of efforts over the last 30 years to improve and help modernize its business and financial systems. DOD's efforts have resulted in system improvements, but these efforts have not been fully successful to date and put the department at risk of establishing a "check the box" approach. To further its efforts, DOD will require, among other things, improved strategies, oversight, and compliance information.

Audit Findings and Material Weaknesses

Auditors have provided direct, actionable feedback by issuing NFRs that describe weaknesses in DOD's business processes, IT systems, and financial reporting that entities must correct. Auditors group NFRs relating to similar business processes or financial statement line items. Auditors also report material weaknesses, which have a reasonable possibility that could prevent management from detecting and correcting a material misstatement in the financial statements in a timely manner.

NFR Remediation Rates

Annual NFR remediation rates, which measure the rate at which DOD and its components fully address and close auditor-issued NFRs, are indicators of DOD's progress toward achieving a clean audit opinion. While DOD officials expressed a desire to demonstrate progress by closing NFRs, in May 2023, GAO reported that DOD's annual NFR remediation rate had declined from 27 percent in 2019 to 19 percent in

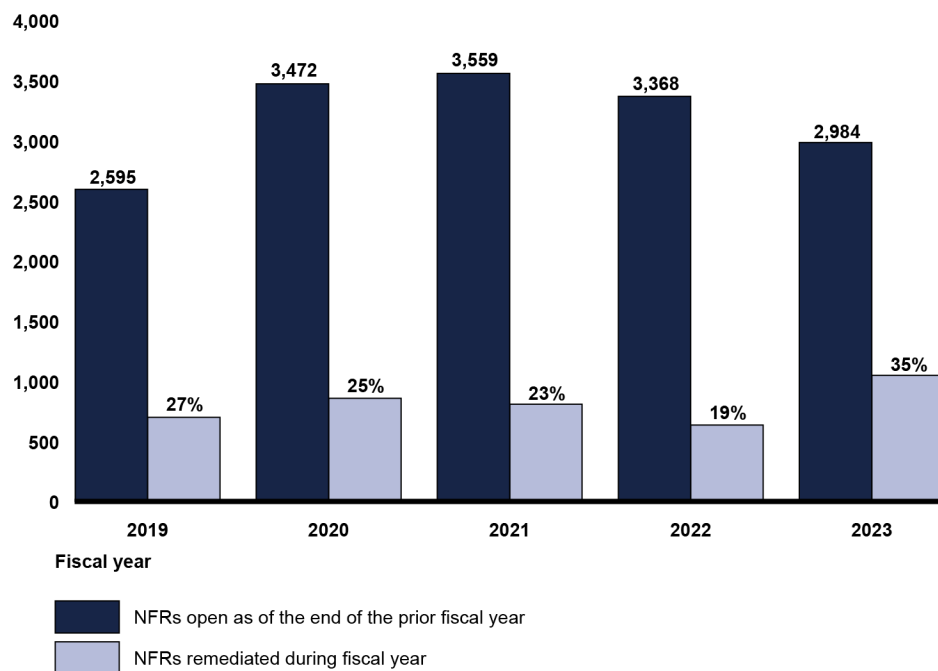
⁴¹See [GAO-23-104539](#). DOD partially concurred with the recommendation and described existing workforce planning and oversight activities. However, DOD did not demonstrate that it took a strategic set of steps to needed to support its financial management systems.

⁴²[GAO-23-105784](#).

2022.⁴³ However, in fiscal year 2023, DOD’s NFR remediation rate increased to 35 percent, almost double from the prior fiscal year.

In fiscal year 2023, auditors closed 1,048 or 35 percent, of the 2,984 NFRs open as of the end of fiscal year 2022 and issued or reissued 2,938 NFRs.⁴⁴ As DOD OIG reported, each year auditors continue to identify new NFRs and reissue a significant number of NFRs from prior years.⁴⁵ Auditors reissue NFRs for consecutive years if the agency does not take corrective action or if a corrective action does not meet the audit criteria. Figure 1 describes DOD’s annual trend in closing NFRs from 2019 through 2023.

Figure 1: Notices of Findings and Recommendations (NFR) Remediation Rate
Number of NFRs



Source: GAO analysis of the Department of Defense documentation. | GAO-24-107593

⁴³[GAO-23-105784](#).

⁴⁴We obtained data from DOD OIG showing the count of NFRs issued to and closed by the reporting entities as of January 2024. These counts may differ from counts reflected by DOD’s NFR database.

⁴⁵NFRs are considered reissued if the weakness or deficiency noted in the NFR was identified during a prior year audit but the DOD component had not yet corrected it.

Material Weaknesses

The number of DOD's material weaknesses increased from 20 in fiscal year 2018 to 28 in fiscal year 2023 due to expanding audit testing since fiscal year 2018 and due to consolidations in how DOD OIG categorizes the material weaknesses. In fiscal year 2023, of the 52 material weaknesses identified across the 24 CFO Act agencies, 28 belonged to DOD, making up a significant portion of the total government-wide material weaknesses that the auditors issued. Of the 28 material weaknesses, issues associated with IT remain a challenge preventing DOD from efficient and effective financial management operations and progress toward receiving a clean audit opinion. More specifically, four material weaknesses are associated with IT and financial management systems: configuration and security management, access controls, segregation of duties, and legacy systems. Resolving these material weaknesses will better position DOD to achieve broader business transformation.

DOD has taken steps to address its material weaknesses. For example, DOD has established working groups to coordinate solutions and maintain progress in areas such as Government Property in the Possession of Contractors, Real Property, General Property, Inventory, Operating Materials and Supplies, Environmental and Disposal Liabilities, and the Joint Strike Fighter Program.⁴⁶ Other efforts have led to DOD components downgrading or closing some material weaknesses. For example, in fiscal year 2023, DOD reported the following:

- The Army Working Capital Fund and the Navy General Fund downgraded their material weaknesses with the Fund Balance with Treasury to significant deficiencies.⁴⁷
- The Air Force General Fund closed its material weakness with the Fund Balance with Treasury.

⁴⁶Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2019).

⁴⁷A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

DOD's Plans Lack Important Details, and DOD Has Consistently Missed or Extended Target Remediation Dates

- Other DOD entities downgraded additional material weaknesses in areas such as oversight, property, and reporting.⁴⁸

As we reported in May 2023, DOD has identified priority areas to be remediated and developed a financial management strategy, corrective action plans, and audit roadmaps.⁴⁹ However, these lack key information that would help DOD achieve its financial management goals and timely remediate audit findings.⁵⁰ Further, DOD has consistently missed or extended target dates for remediating audit findings, hindering its goal of achieving a clean audit opinion.

DOD's plans lack certain important details that are important for achieving a clean audit opinion. DOD's financial management strategy did not specifically focus on achieving a clean audit opinion, but on general DOD-wide priorities for financial management,⁵¹ and lacked details on how DOD and its components will implement the described strategic financial management goals. The strategy also did not include detailed plans for addressing material weaknesses identified by auditors. In addition, corrective action plans lacked specific details and evidence of root-cause analyses needed to effectively address deficiencies, which increases the risk that corrective actions may not address identified deficiencies or may not address them in a timely manner. Additionally, DOD-wide and component-level roadmaps lacked significant interim milestones, impeding tracking and progress and increasing the risk that slippages in remediation schedules will not be timely identified and managed. Further, the estimated timelines for downgrading material weaknesses to significant deficiencies in the DOD-wide roadmap are not based on an analysis of dependencies that could affect these timelines.

DOD has also faced challenges in meeting target dates, including those established in its corrective action plans and for its material weaknesses. For example, DOD has not met and has continually extended material weakness target remediation dates that it established in the DOD-wide

⁴⁸Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2023*.

⁴⁹DOD component management developed audit roadmaps, which depict corrective action completion dates by fiscal year and audit focus area for their respective components. However, the roadmaps are often vague and inconsistent and lack details necessary to understand how the components plan to remediate their individual material weaknesses.

⁵⁰[GAO-23-105784](#).

⁵¹[GAO-23-105784](#).

audit roadmaps. Missed and extended target remediation dates delay both progress and the downgrading of material weaknesses to significant deficiencies.

As a result, in May 2023, we made five recommendations intended to help DOD address these deficiencies. As of July 2024, all five remain open. According to DOD, its future plans will address how it will achieve its strategic goals and objectives, but it has not provided a timeline for when it expects to issue the plans. 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 the department reach its goal of clean audit opinion. Additionally, taking steps to improve how component-level and DOD-wide audit roadmaps are developed and monitored would help DOD and components track milestones and timelines for audit remediation efforts.

Efforts to Oversee Business and Financial Systems

DOD's efforts over the past 30 years to modernize its business and financial systems, including systems responsible for functions such as property management and acquisition management, have not been fully successful. This has been in part due to a lack of developed guidance and reliable data.⁵² In March 2023, we reported that effective oversight of its business and financial systems is essential to moving DOD military departments, and defense agencies in the right direction. Key elements of such oversight include establishing oversight processes, using and communicating quality information, sustaining leadership commitment, and managing risk.

While we found that DOD had initiated efforts to oversee its business and financial systems, we identified areas requiring improvement. DOD had established an oversight process, but its guidance lacked specifics on documenting compliance; it did not give approval authorities clear instructions, risking decisions based on a "check-the-box" approach; and it did not apply key requirements to systems in sustainment, potentially missing improvement opportunities.⁵³ We also found that DOD should improve the reliability of the information it maintained regarding system compliance with statutory requirements associated with achieving a clean audit opinion.

⁵²[GAO-23-104539](#).

⁵³See the DOD business systems certification requirements codified at 10 U.S.C. § 2222(g).

In September 2020, we reported that DOD should improve its financial management systems strategy and develop a comprehensive enterprise roadmap to implement its financial management systems strategy and limit its investments in financial management systems to only what is essential to maintain functioning systems and help ensure system security until it addresses these and other deficiencies.

We made 12 recommendations in total within the two reports we issued in March 2023 and September 2020 to address these planning, oversight, and data limitations. For example, in September 2020, we recommended that DOD establish performance measures for its financial management systems strategy; include targets, time frames, and methods for measuring, verifying, and validating those values; and develop an enterprise roadmap to implement the financial management systems strategy.⁵⁴

As of March 2024, DOD has partially addressed these 12 recommendations, but all 12 remain open. For example, DOD has implemented one metric that defines performance targets and time frames and the data sources used. However, it has not outlined how it intends to verify and validate the measured values. DOD has also developed initial versions of a financial systems roadmap and reported implementing a variety of tools to complement its efforts to develop a roadmap. However, it has not yet developed a reliable roadmap. Further, DOD has not yet demonstrated that it is limiting investments in its financial systems, as we recommended.

DOD has established processes to help ensure that systems address certain auditability needs consistent with statutory requirements. However, the guidance that DOD and the military departments have developed to inform decision-makers as they approve decisions is limited. Specifically, the guidance does not fully address how systems are to document compliance or how decision-makers are to substantiate that systems are complying with requirements.

⁵⁴We recommended that the roadmap should document the current and future states at a high level and present a transition plan for moving from the current to the future environment efficiently and effectively. The roadmap should discuss performance gaps, resource requirements, and planned solutions, and it should map DOD's financial management systems strategy to projects and budget. It should also document the tasks, time frames, and milestones for implementing new solutions and include an inventory of systems.

DOD has developed plans for addressing audit findings, but the plans lack important information that would help the department remediate material weaknesses and achieve a clean audit opinion by targeting root causes. As we previously reported, DOD's corrective actions plans did not always indicate whether it had performed a root-cause analysis. DOD has also consistently missed and extended its target dates for remediating issues identified in corrective actions plans and audit roadmaps, which affects its progress in downgrading or fully remediating material weaknesses.

Remediating these findings requires improving internal controls, systems, and data reliability and changing DOD's long-standing business processes to be sustainable and repeatable. Some of these processes remain ineffective because the corrective actions that DOD and its components take to address auditor findings lack the necessary details that could assist DOD achieve its goals.

Financial statement audits help define and shape DOD's efforts to modernize its financial management operations and achieve accountability for its expenses and assets. Reliable, useful, and timely financial management information is critical to effective decision-making, and reporting, which will ultimately lead to achieving a clean audit opinion. Moreover, addressing financial statement audit findings has inherent benefits, including helping to identify vulnerabilities, improve operations, produce cost savings through informed budgetary decision-making, and helping DOD reach its goals for improved financial management—which, in turn, help the warfighter and DOD's overall operational readiness.

Continuing efforts to improve financial management are crucial to achieve DOD's broader business transformation goals. GAO will continue to monitor the progress of and provide feedback on the status of DOD's financial management improvement efforts. And there is great value in sustained congressional interest in DOD's financial management improvement efforts, as this subcommittee has demonstrated.

Chairman Sessions and Ranking Member Mfume and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.

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Related GAO Products

DOD Financial Management: Action Needed to Enhance Workforce Planning. [GAO-24-105286](#). (Forthcoming.)

DOD Financial Management: DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring. [GAO-24-106890](#). Washington, D. C.: September 24, 2024.

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