

Why GAO Did This Study

Long-standing weaknesses in Department of Defense (DOD) business processes, systems, and controls have hindered efforts to achieve financial audit readiness. Because DOD relies heavily on budget information for day-to-day management decisions, in August 2009, the DOD Comptroller designated the Statement of Budgetary Resources (SBR) as an audit priority. The U.S. Marine Corps was identified as the pilot military service for an SBR audit. GAO was asked to determine (1) the primary reasons the Marine Corps was unable to obtain an opinion on its fiscal year 2010 SBR; (2) the effectiveness and status of the Marine Corps' remediation plan, and (3) military service efforts to leverage Marine Corps SBR audit lessons. GAO reviewed auditor findings and recommendations, evaluated the Marine Corps corrective action plans, and reviewed documentation on military service audit readiness and lessons learned efforts. During its work, GAO met with DOD, Marine Corps, military service, and Defense Finance and Accounting Service (DFAS) officials and the auditors.

What GAO Recommends

GAO makes recommendations to (1) the Marine Corps to develop a risk-based remediation plan and confirm its actions fully respond to auditor recommendations and (2) DOD to direct other military services to consider key lessons learned in their audit readiness plans, as appropriate. DOD concurred with three of four recommendations but said the recommendation for a risk-based plan was too prescriptive. GAO believes this is needed for the long term.

View [GAO-11-830](#) or key components. For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Marine Corps Statement of Budgetary Resources Audit Results and Lessons Learned

What GAO Found

The Marine Corps received a disclaimer of opinion on its Fiscal Year 2010 SBR because it could not provide supporting documentation in a timely manner, and support for transactions was missing or incomplete. Auditors also reported that the Marine Corps did not have adequate processes, systems controls, and controls for accounting and reporting on the use of budgetary resources. Further, the Marine Corps could not provide evidence that reconciliations for key accounts and processes were being performed on a monthly basis. The auditor also identified ineffective controls in key information technology (IT) systems used by the Marine Corps to process financial data. The auditors provided 139 recommendations to correct identified weaknesses.

The Marine Corps developed action items and milestones in response to the auditor's findings. But its remediation plan was focused on near-term outcomes and did not adequately specify key elements, including goals and objectives, actions for addressing those objectives, and associated performance measures. GAO previously reported that it is standard practice to have strategy that includes these features. GAO found that many of the Marine Corps' actions did not address the specific auditor recommendations, and other actions were not adequate to correct underlying problems or root causes. Further, many of the remediation actions would require steps on the part of other DOD components, such as DFAS and the Defense Contract Management Agency. As of July 2011, the Marine Corps reported that actions on 88 of the 139 auditor recommendations were fully implemented. Auditors will assess the effectiveness of these actions as part of the fiscal year 2011 SBR audit effort. However, because many of the actions do not address the underlying internal control weaknesses, the Marine Corps risks continuing disclaimers of opinion.

The Marine Corps' fiscal year 2010 SBR audit results provide valuable lessons on preparing for a first-time financial statement audit. GAO identified five fundamental lessons that are critical to success. Specifically, the Marine Corps' experience demonstrated that prior to asserting financial statement audit readiness, DOD components must

- confirm completeness of populations of transactions and address any abnormal transactions and balances,
- test beginning balances,
- perform key reconciliations,
- provide timely and complete response to audit documentation requests, and
- verify that key IT systems are compliant and auditable.

These issues are addressed in *Internal Control Standards* and audit requirements as well as DOD's Financial Improvement and Audit Readiness Guidance, which the military services are to follow in developing their respective Financial Improvement Plans (FIP). Navy, Army, and Air Force FIP officials stated that they were aware of the Marine Corps lessons. Navy officials stated that they are in the process of updating their audit readiness plan to address all five areas. Army and Air Force officials indicated their plans addressed some but not all of the lessons.