



Highlights of [GAO-03-931T](#), a testimony to the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

Why GAO Did This Study

As seen again in Iraq, the excellence of our military forces is unparalleled. This same level of excellence is not yet evident in the Department of Defense's (DOD) financial management and other business areas, impeding DOD's ability to provide complete, reliable, and timely information to the Congress, DOD managers, and other decision makers. The Subcommittee asked GAO to testify on the status of DOD's financial management and business process reform efforts. Specifically, GAO was asked to provide an overview of the long-standing financial management weaknesses facing DOD and a summary of the underlying causes of DOD's financial management challenges. In addition, GAO's testimony focused on (1) key actions necessary to correct DOD's financial management problems and (2) the progress DOD is making toward business process reform.

www.gao.gov/cgi-bin/getrpt?GAO-03-931T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov.

DEPARTMENT OF DEFENSE

Status of Financial Management Weaknesses and Progress Toward Reform

What GAO Found

Overhauling DOD's financial management represents a major challenge that goes far beyond financial accounting to the very fiber of the department's range of business operations and management culture. Of the 25 areas on GAO's governmentwide "high risk" list, 6 are DOD program areas, and the department shares responsibility for 3 other high-risk areas that are governmentwide in scope. Key financial management weaknesses include the lack of effective and efficient asset management and accountability; unreliable estimates of environmental and disposal liabilities; lack of accurate budget and cost information; nonintegrated and proliferating financial management systems; and fundamental flaws in DOD's overall control environment.

GAO has identified four underlying causes for DOD's inability to resolve its long-standing financial management problems:

- a lack of sustained top-level leadership and management accountability for correcting problems;
- deeply embedded cultural resistance to change, including military service parochialism and stovepiped operations;
- a lack of results-oriented goals and performance measures and monitoring; and
- inadequate incentives for seeking change.

The following are elements that GAO has identified as key to a successful approach to financial management and business process reform:

- addressing financial management challenges as part of a comprehensive, integrated, DOD-wide business reform;
- providing for sustained leadership by the Secretary of Defense and resource control to implement needed financial management reforms;
- establishing clear lines of responsibility, authority, and accountability for such reform tied to the Secretary;
- incorporating results-oriented performance measures and monitoring tied to financial management reforms;
- providing appropriate incentives or consequences for action or inaction;
- establishing and implementing an enterprise architecture to guide and direct financial management modernization investments; and
- ensuring effective executive and congressional oversight and monitoring.

DOD has taken positive steps in many of these key areas. For example, the Secretary of Defense has included improving DOD's financial management as one of his top 10 priorities, and DOD has already taken a number of actions under its Business Transformation Program, including its efforts to develop an enterprise architecture to guide operational and technological changes. However, these are beginning steps and formidable challenges remain in each of the key reform areas.