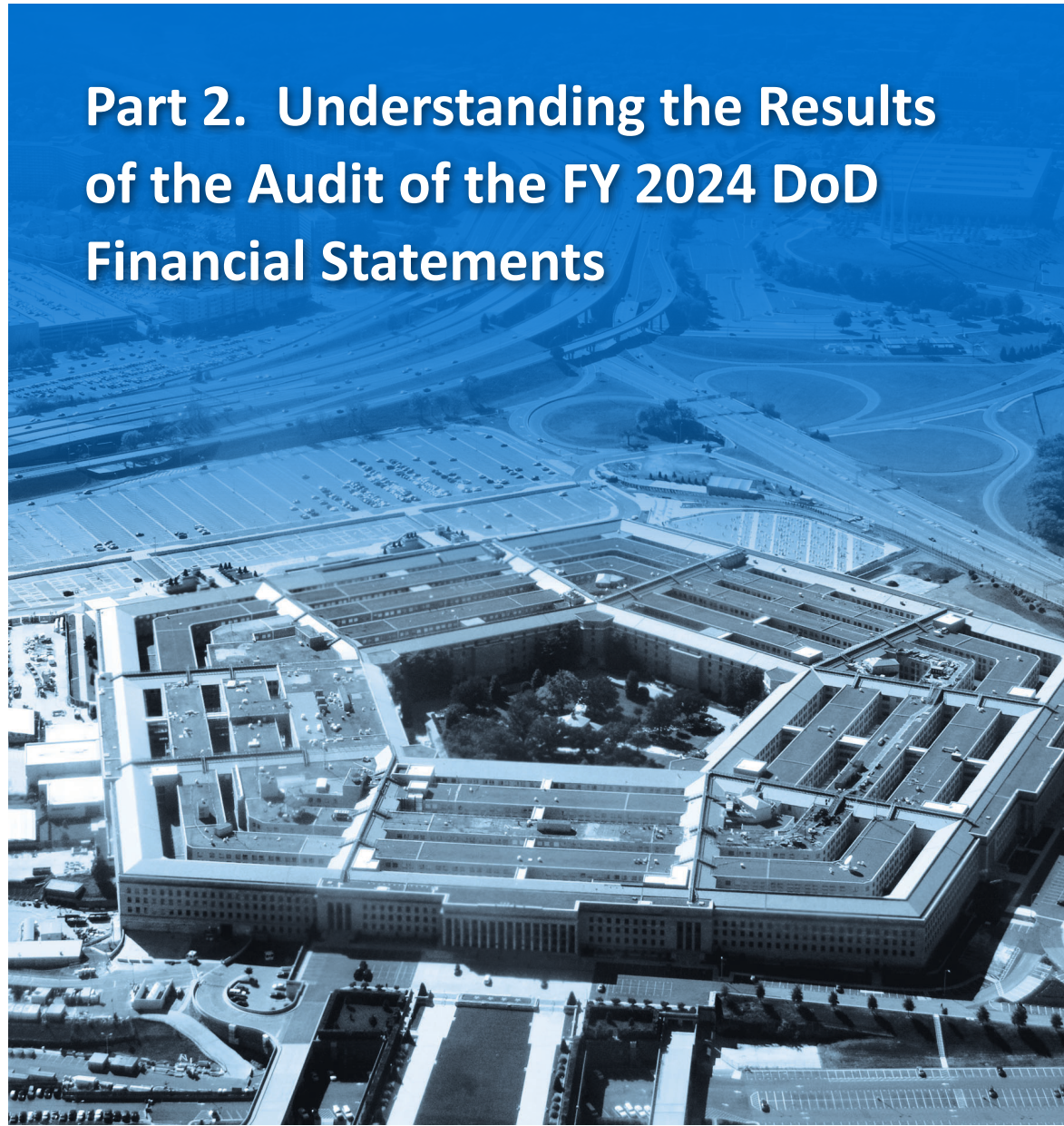




INSPECTOR GENERAL

U.S. Department of Defense

JUNE 17, 2025



Part 2. Understanding the Results of the Audit of the FY 2024 DoD Financial Statements

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

June 17, 2025

On February 28, 2025, the DoD Office of Inspector General (OIG) issued Part 1 of the Understanding the Results of the Audit of the FY 2024 DoD Financial Statements. That report discussed the composition, construction, importance, and usefulness of the DoD financial statements, defined roles and responsibilities of the preparers and auditors, and summarized the DoD's audit results over time. This report provides an overview of the DoD's Agency-Wide material weaknesses that are caused by DoD management's inability to design and implement proper internal controls. These material weaknesses can hinder DoD operational effectiveness and prevent the DoD from achieving an unmodified (clean) audit opinion.

Given the DoD's vital mission and the significant resources required to execute that mission, these material weaknesses are of substantial public importance. Our explanation of the major categories of material weaknesses identifies the key obstacles that the DoD must overcome. We also discuss the importance of collaboration across DoD and non-DoD stakeholders to obtain a clean audit opinion by FY 2028.

Obtaining a clean audit opinion is critically important for the DoD and, due to the DoD's size and budget, essential to the Government-Wide Financial Statements receiving a clean audit opinion. However, the annual financial statement audits have value far beyond the audit opinion. The audits—and accurate financial statements—enable Congress and the public to assess how the DoD spends its money, help the DoD improve its operations, identify vulnerabilities in information technology and other systems, and help to prevent and remediate wasteful practices. The DoD continues to improve, and its continued focus on the 28 material weaknesses discussed in this report should help accelerate its progress toward a clean audit opinion and improve operational decision-making.

A handwritten signature in black ink, reading "Steven A. Stebbins".

Steven A. Stebbins
Acting

Contents

The DoD’s Financial Statement Audit Results and Challenges	1
DoD Agency-Wide Material Weaknesses	3
Obstacle #1: Management Responsibility and Accountability	5
Obstacle #2: Information Technology	9
Obstacle #3: Accounting	14
Conclusion	19
Appendix A. DoD Opinions FYs 1991 – 2024	20
Appendix B. DoD NFRs FYs 2018 – 2024	21
Appendix C. DoD Material Weaknesses FYs 2018 – 2024	22
Appendix D. Descriptions and Status of DoD Agency-Wide FY 2024 Material Weaknesses	23
Acronyms and Abbreviations	26

The DoD's Financial Statement Audit Results and Challenges

The DoD's seventh financial statement audit occurred in FY 2024. The financial statements are a snapshot in time that promote transparency by presenting the DoD's financial health, including the value of what it owned (assets) and what it owed (liabilities). A financial statement audit is a review of an entity's financial statements to verify that the statements: (1) are accurate and complete, and (2) comply with accounting guidance. DoD management consolidates the financial information of more than 60 individual DoD entities into the DoD Agency-Wide financial statements.

Overall, organizations aim to achieve an unmodified (clean) audit opinion, which means that the financial statements comply with accounting guidance and give a true and fair view of an organization's financial information. However, the DoD OIG issued a disclaimer of opinion on the FY 2024 DoD Agency-Wide Financial Statements, meaning that the DoD could not provide sufficient evidence for the auditors to conclude that the financial statements complied with accounting guidance. The DoD reporting entities received:

- 11 unmodified (clean) opinions;
- 1 qualified opinion, meaning a portion of the financial statements did not comply with accounting guidance and has room for improvement; and
- 12 disclaimers of opinion.

Appendix A shows the history of financial statement audit opinions for DoD reporting entities since FY 1991.

The DoD OIG identified 28 material weaknesses in the Audit of the FY 2024 DoD Agency-Wide Financial Statements. A material weakness may mean that the financial statements are unreliable and that management may not prevent, or detect and correct, inaccuracies in a timely manner. The material weaknesses are supported by auditor-issued notices of findings and recommendations (NFRs). Auditors prepare NFRs to inform the DoD of specific issues in its financial reporting processes. The NFRs describe the impact of the issue and the reason for it. The NFRs also make recommendations on how to correct the issue.

As shown in Appendix B, in FY 2024, the DoD OIG and independent public accountants issued 2,912 NFRs.¹ Of those NFRs, 567 were new NFRs that identified issues found during the current audit, and 2,345 NFRs were reissued from the prior year because the DoD Components did not fix the issues identified during FY 2024 or in prior years.²

¹ The NFR count does not include all DoD entity NFRs, as it does not include NFRs from DoD reporting entity audits that the DoD OIG does not oversee or the Defense Security Cooperation Agency Security Assistance Accounts NFRs.

² The NFR count has been updated since the issuance of Part 1. See Appendix B for more detail.

As discussed in Part 1 of the Understanding the Results of the Audit of the FY 2024 DoD Financial Statements, internal controls are the checks and balances an organization uses to ensure that it complies with requirements and achieves its financial reporting objectives.³ DoD management is responsible for maintaining effective internal controls over financial reporting and evaluating the effectiveness of those internal controls, but sound financial management and the implementation of those controls are everyone's business at every level in the DoD.

³ Report No. DODIG-2025-074, "Part 1. Understanding the Results of the Audit of the FY 2024 DoD Financial Statements," February 28, 2025.

DoD Agency-Wide Material Weaknesses

In the FY 2024 audit report, the DoD OIG identified 28 DoD Agency-Wide material weaknesses, which are deficiencies in internal controls that are so significant that they could prevent management from detecting and correcting a material misstatement in the financial statements in a timely manner. As shown in Appendix C, the number of Agency-Wide material weaknesses in FY 2024 remained the same as the FY 2023 report; however, the DoD OIG added a new material weakness due to the DoD's improper implementation of a new accounting standard and closed a material weakness due to corrective actions taken by the DoD. The DoD must remediate many of these deficiencies to achieve a clean audit opinion in FY 2028, as required by the FY 2024 National Defense Authorization Act.

This report divides the DoD's 28 material weaknesses into three obstacles to opinion categories: (1) management responsibility and accountability, (2) information technology (IT), and (3) accounting. Figure 1 provides a definition for each obstacle and provides a visual for how we assigned each material weakness.

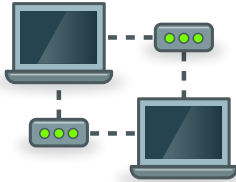
Figure 1. Obstacles to Opinion and Associated Material Weaknesses



Obstacle #1: Management Responsibility and Accountability

The responsibility to account for assets and manage people.

- Inventory and Stockpile Materials
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Real Property
- Government Property in Possession of Contractors
- Joint Strike Fighter Program
- Leases
- Service Organizations
- Component Entity-Level Controls
- DoD-Wide Oversight and Monitoring



Obstacle #2: Information Technology

Hardware, software, storage, networking, and processes that support financial statement information.

- Financial Management Systems Modernization
- Configuration Management
- Security Management
- Access Controls
- Segregation of Duties
- Interface Controls



Obstacle #3: Accounting

Spending government funds and recording and reporting financial information.

- Accounts Payable
- Gross Costs
- Budgetary Resources
- Earned Revenue
- Reconciliation of Net Cost of Operations to Outlays
- Universe of Transactions
- Security Assistance Accounts
- Fund Balance with Treasury
- Environmental and Disposal Liabilities
- Beginning Balances
- Unsupported Accounting Adjustments
- Intragovernmental Transactions and Intradepartmental Eliminations

Source: The DoD OIG.

See Appendix D for a more detailed description of each material weakness. In the following sections, we delve into these obstacles to an opinion and provide specific examples supporting the material weaknesses.

Obstacle #1: Management Responsibility and Accountability

Accountability is critically important. The amount of funds entrusted to the DoD are substantial; therefore, DoD management must demonstrate that what the DoD buys is needed, correctly tracked and reported, and properly used. Management must be held responsible for the decisions, policies, and procedures it implements when using DoD funds. However, the DoD's efforts to achieve a clean financial statement audit opinion were hindered by accountability-related issues that auditors identified, which resulted in 10 accountability-related material weaknesses, 3 in the area of management responsibility and 7 in the area of asset accountability.

- **Management Responsibility** – Involves establishing a strong tone at the top and holding individuals accountable for their decisions and actions by clearly defining expectations and implementation plans, measuring progress, and instilling a sense of responsibility in all stakeholders.
- **Asset Accountability** – Refers to the process of monitoring, tracking, and maintaining oversight over the DoD's assets. This process includes the DoD ensuring that it properly recorded, valued, and reported assets and that DoD management has used assets effectively and efficiently to achieve mission objectives.

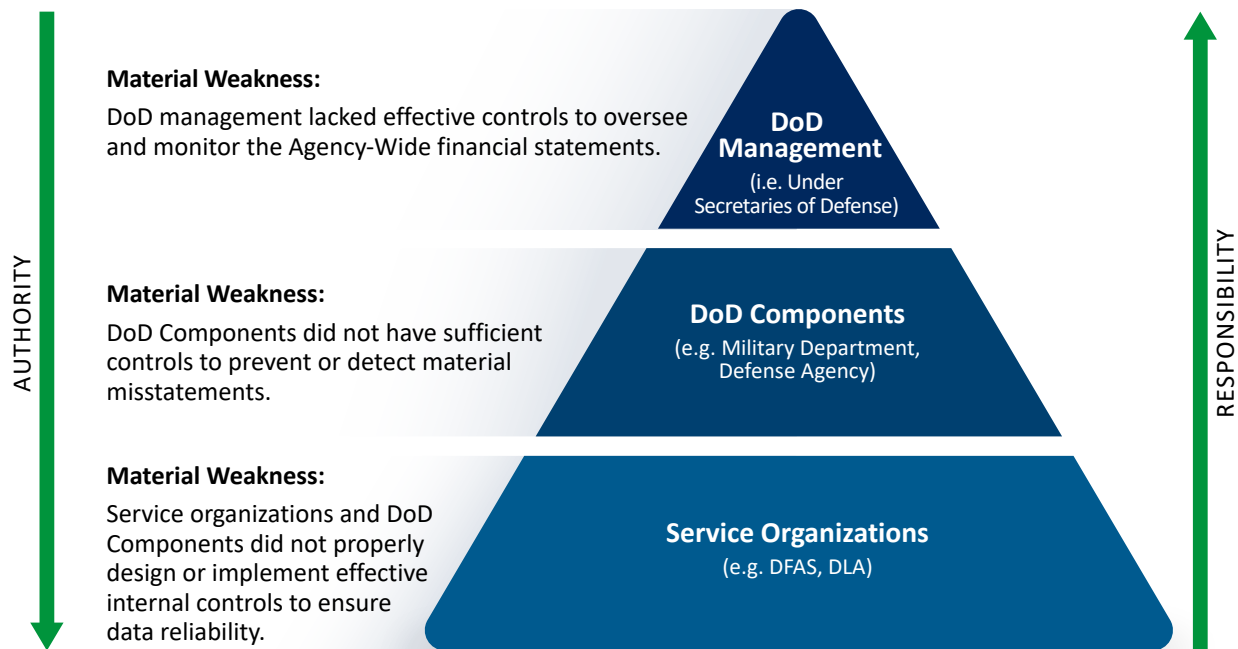
Without sufficient accountability, the DoD remains at an increased risk of including inaccurate and unreliable information in its financial statements, preventing a clean opinion.

Management Responsibility

Management at all levels is responsible and should be held accountable for ensuring the accuracy and integrity of the DoD's financial statements. The DoD's management structure includes three levels: (1) Department-wide management, (2) Component-level management, and (3) service organizations.⁴ Management's responsibilities are carried out through the establishment of a comprehensive set of internal controls over financial reporting. However, as shown in Figure 2, auditors identified material weaknesses in all three levels of the DoD's management structure, leading to uncertainty in the DoD's ability to compile, produce, and report the financial activity of the DoD in its financial statements.

⁴ The DoD uses service organizations to perform critical activities across the DoD, such as financial services and inventory management. For example, the Defense Finance and Accounting Service is a service organization that provides accounting services to the DoD and its Components. In addition, the Defense Logistics Agency provides supplies to Military Services and supports the acquisition of weapons, fuel, repair parts, and other materials.

Figure 2. The DoD's Management Structure and Related Material Weakness



LEGEND

DFAS Defense Finance and Accounting Service

DLA Defense Logistics Agency

Source: The DoD OIG.

For the DoD Management level, we consider the Under Secretaries of Defense as having overall oversight responsibilities for the various activities of the DoD. However, the DoD and its Component management have performed insufficient oversight and monitoring activities, which has led to ineffective corrective action plans, slipped remediation dates, inconsistent reporting, and redundant efforts. In addition, auditors found that DoD management did not adequately monitor the effectiveness of internal controls over the assigned processes performed by service organizations, which impedes the DoD Components from having complete and accurate financial data.

The DoD must develop controls within its management structure that ensure continuous oversight and monitoring of the compilation, production, and reporting of DoD financial information. These controls will improve DoD management's ability to ensure that auditor-identified deficiencies are properly corrected, financial data compiled from DoD Components are complete and reliable, and the DoD Agency-Wide financial statements are accurate and reliable. These assurances are necessary to provide transparency to the President, Congress, and the American taxpayer of the DoD's use of public funds.

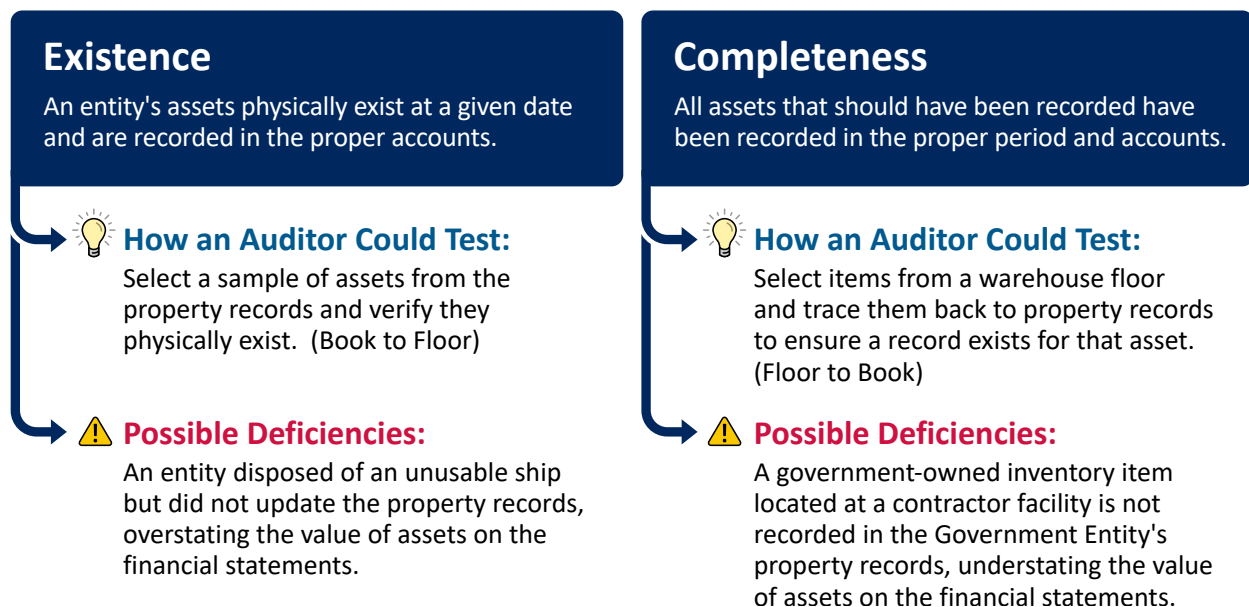
Asset Accountability

Asset accountability includes tracking and reporting physical assets, such as planes, motorized vehicles, ships, buildings, and spare parts. The DoD OIG identified seven asset accountability-related material weaknesses in FY 2024.

- Inventory and Stockpile Materials
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Real Property
- Government Property in the Possession of Contractors (GPIPC)
- Joint Strike Fighter (JSF) Program⁵
- Leases

To account for physical assets, the DoD must establish effective processes and controls that properly track the asset from purchase to disposal. The DoD maintains accountable property systems of record that are designed and intended to track the locations, conditions, and values of assets. During a financial statement audit, auditors test account balances and financial transactions to obtain evidence that the financial statements and related assertions, such as existence and completeness, are free of material misstatement. Figure 3 provides an overview of the existence and completeness assertions as they relate to physical assets.

Figure 3. Testing Existence and Completeness Assertions



Source: The DoD OIG.

⁵ The JSF Program has an estimated total life-cycle cost of \$2 trillion to develop and field the F-35 strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.

However, the DoD's inadequate or lack of internal controls have made it difficult for DoD auditors to ensure the accuracy of asset balances on the DoD and Component financial statements. Figure 4 provides examples of asset accountability control issues that have led to material weaknesses in the DoD's financial statement audits.

Figure 4. Asset Accountability Examples



Source: The DoD OIG.

Addressing its asset accountability challenges will help the DoD maintain effective oversight of its physical assets and ensure that its property records are accurate and complete. These benefits could also lead to significant cost savings and improved mission execution. Asset accountability supports mission readiness and efficiency by providing DoD management with information, including where assets are, who is responsible for them, and what condition the assets are in. These benefits assist in DoD operations and support the integrity of asset valuations on the financial statements, providing transparency, reducing waste, and optimizing asset use. Accurate asset data enable informed decisions about maintenance, replacement, and disposal, leading to better resource allocation and long-term planning, which in turn improves operations in support of Service members and mission readiness.

Obstacle #2: Information Technology

In FY 2024, the DoD OIG identified six IT-related material weaknesses, and auditors issued 1,127 IT NFRs in this category (39 percent of the total NFRs issued). To remediate these material weaknesses, the DoD must ensure that its IT systems are secure and record complete, accurate, and valid transactions for reporting in the DoD Agency-Wide financial statements. For that to happen, the DoD should:

- retire its outdated systems to simplify and modernize its system environment (one related material weakness), and
- develop appropriate controls around the remaining systems (five related material weaknesses).⁶

Currently, with 283 major systems in use, the DoD must make tough decisions about whether to retire and replace its existing systems with newer systems or develop controls to make existing systems compliant with accounting requirements.

Retirement of Outdated Information Systems

Financial Management Systems Modernization is a repeat material weakness due to the DoD's continued use of outdated, insecure systems. Many major DoD financial management systems are redundant, serve a single function, and do not comply with the Federal Financial Management Improvement Act of 1996 (FFMIA).⁷ Of the 283 major DoD systems, management has identified 89 systems to retire. Swiftly and aggressively retiring these 89 systems would resolve at least 228 deficiencies identified in NFRs.

For at least 27 years, the DoD OIG and Government Accountability Office have communicated to DoD management the issues plaguing the DoD's financial systems. In response, DoD management developed plans, strategies, and other efforts to try to correct these issues. However, those efforts have continually fallen short of the DoD's goal of creating a simplified, integrated, and secure system environment.⁸ The efforts failed because DoD management relied upon the DoD Components to correct system issues without validating the results. Recently, the DoD began an exercise to increase oversight and monitoring of its financial systems.

However, the DoD will continue to fail at producing complete, accurate, and valid financial information unless its significant systems are capable of functioning in a manner consistent with the information processing objectives defined in Figure 5.

⁶ The DoD OIG announced an audit that will assess the effectiveness of the DoD's management of data that remains after the retirement of financial management systems (Project No. D2025-D000FV-0070.000).

⁷ The FFMIA requires each Federal agency to implement and maintain financial management systems that comply with Federal requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

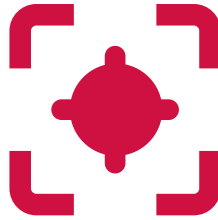
⁸ DoD Financial Management Strategy, FY 22-26, Strategic Goal 4: Simplify and optimize our end-to-end business environment.

Figure 5. Information Processing Objectives and Their Definitions



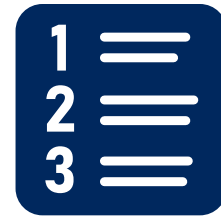
Completeness

Everything that should be recorded is recorded.



Accuracy

The data are recorded properly and in a timely manner.



Validity

Everything recorded actually occurred according to procedures.

Source: The DoD OIG and the Government Accountability Office Federal Information System Controls Audit Manual.

In FY 2024, the DoD OIG issued a separate report about the DoD's financial systems.⁹ The DoD OIG reported that the DoD plans to maintain too many outdated, noncompliant systems for too long, with many systems being years away from retirement. The DoD OIG's recommendations focused on the following areas.

- **Simplify** – Reduce the redundancy of systems by using DoD-wide systems and U.S. Treasury programs. In many cases, the DoD maintains more than 20 systems that perform similar functions.
- **Integrate** – Reduce the use of single business function systems (such as separate accounting, asset management, and logistics systems) by using systems that perform all business functions.
- **Secure** – Address the control deficiencies identified in the remaining systems and thereby securing the DoD's system environment.

In response to these recommendations, the DoD reevaluated its timeline for modernizing its financial management systems. However, on November 15, 2024, the DoD revised its remediation plan to extend the date for correcting system deficiencies from FY 2028 to FY 2031.

Retirement of 89 systems would help the DoD save at least \$760 million each year through FY 2029.

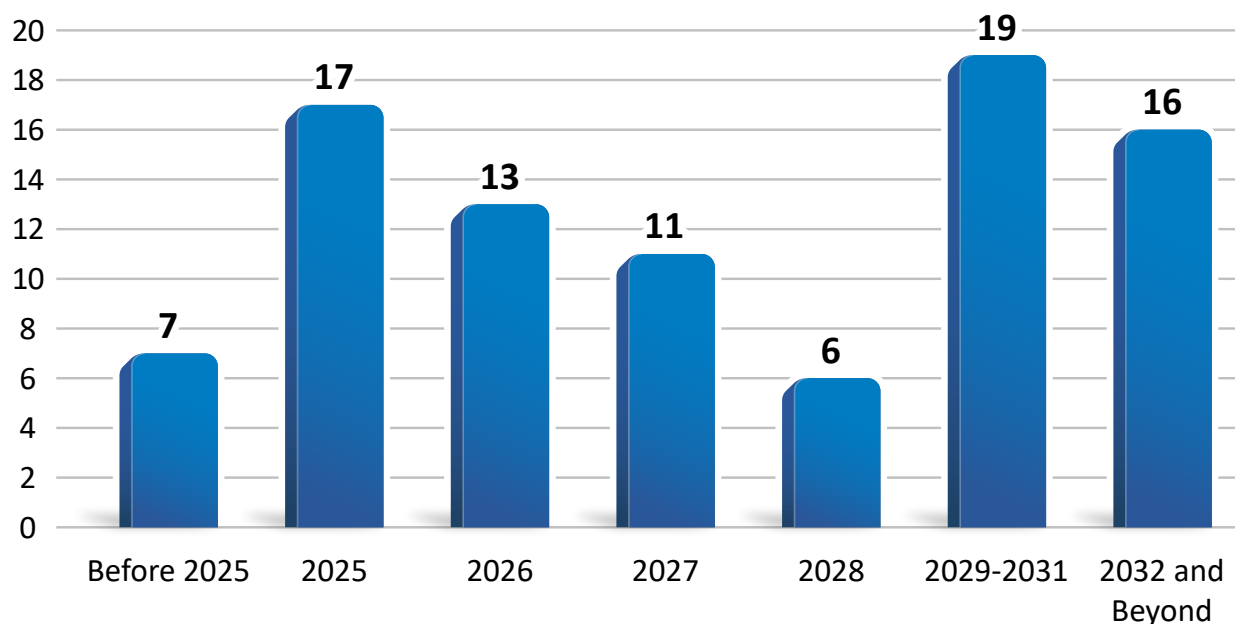
The DoD's remediation plans include the retirement of 89 systems. This would help the DoD progress toward FFMIA compliance and result in savings of at least \$760 million each year through FY 2029.

Figure 6 shows when the DoD plans to retire those 89 systems, 41 of which are not scheduled to retire until after FY 2027. For example, the DoD currently plans to retain one noncompliant system (Army Enterprise Systems Integration

⁹ Report No. DODIG-2024-047, "Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems," January 19, 2024.

Program) for another 11 years until the DoD completes existing retirement and migration plans. This system is the centralized hub that allows the Army's various accounting systems to communicate and had 18 deficiencies identified in FY 2024. While 89 systems await retirement, the DoD would need to develop work-arounds, fix outdated systems scheduled to retire, or accept the risks posed by the deficient systems.

Figure 6. Systems Retiring or Migrating to Another System by Fiscal Year



Note: Data were provided as of September 30, 2024. DoD management did not provide additional information for the seven systems identified as retiring in either FY 2023 or FY 2024.

Source: The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD.

The continued use of poorly designed, outdated systems presents several challenges in the DoD's efforts to achieve a clean audit opinion, including the following challenges.

- The cost to the DoD of performing the audits remains high as auditors must continue to test outdated systems. For example, the DoD began to replace one system in 2005, with an initial estimated replacement in FY 2012. That system is now not scheduled to retire until FY 2031, resulting in 19 years of continued findings and audit expenses.
- The DoD must spend money developing work-arounds to address system inadequacies, which is not a long-term solution. These work-arounds further complicate an already complex, poorly designed control environment.

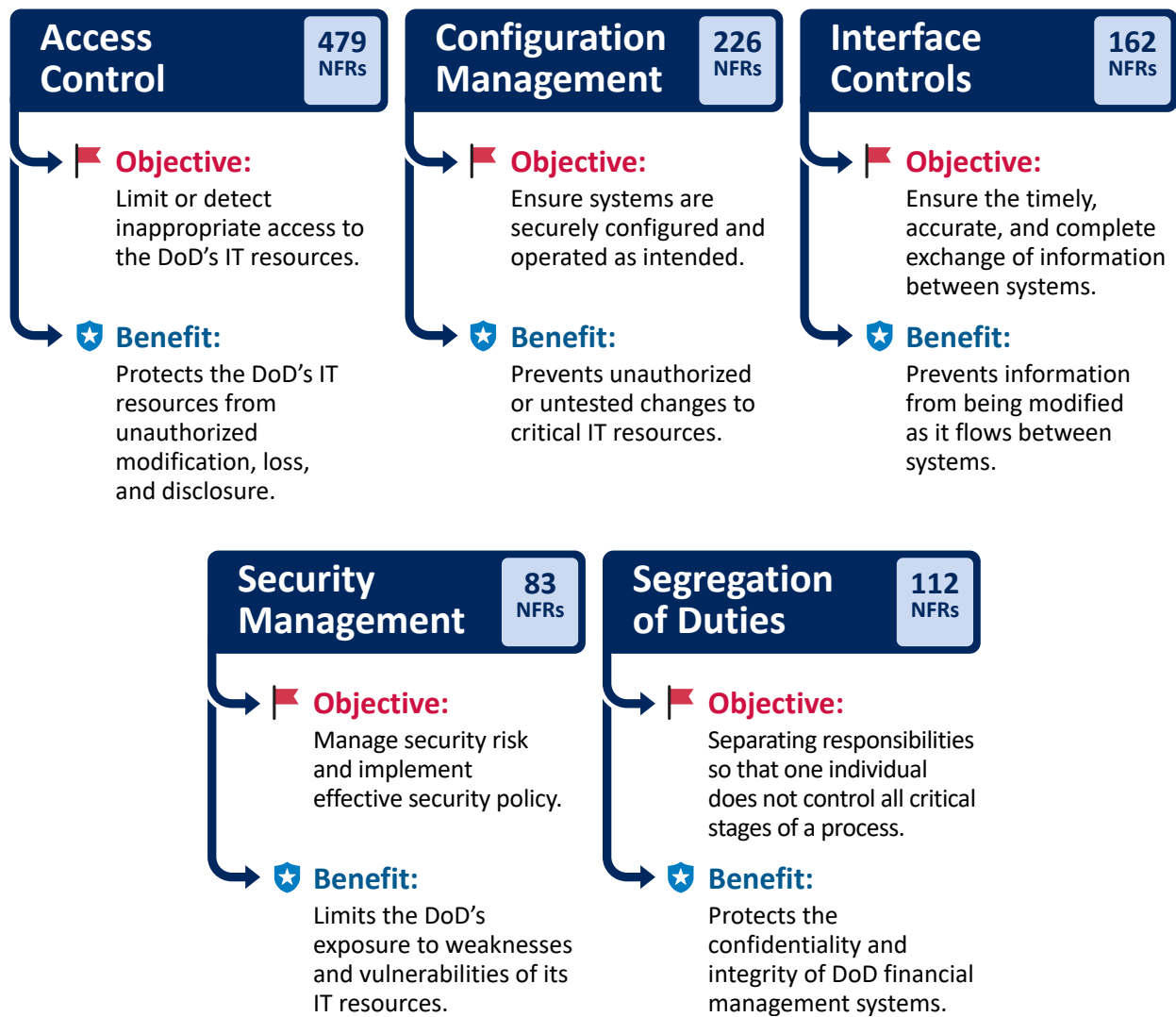
Expediting the retirement of the 89 systems that the DoD has already identified for retirement will reduce the requirement for work-arounds to address deficiencies, prevent the continuation of material weaknesses in IT systems, and increase the likelihood of the DoD producing complete, accurate, and valid financial management information.

Correcting Systems That the DoD Plans to Keep

The DoD must develop and maintain appropriate IT controls for the 194 systems that will remain. The DoD OIG identified five material weaknesses related to poor control design or implementation of IT controls. Those five weaknesses correspond to five control categories that the DoD must implement. Figure 7 provides the objective, benefit, and number of NFRs for those five control categories. When properly implemented, these control categories ensure the:

- completeness, accuracy, and validity of transactions, data, and balances;
- proper management of business process applications, system interfaces, and data management systems to achieve information system processing objectives; and
- protection of the confidentiality, integrity, and availability of DoD information.

Figure 7. The Five DoD IT Material Weaknesses and Their Related Control Categories



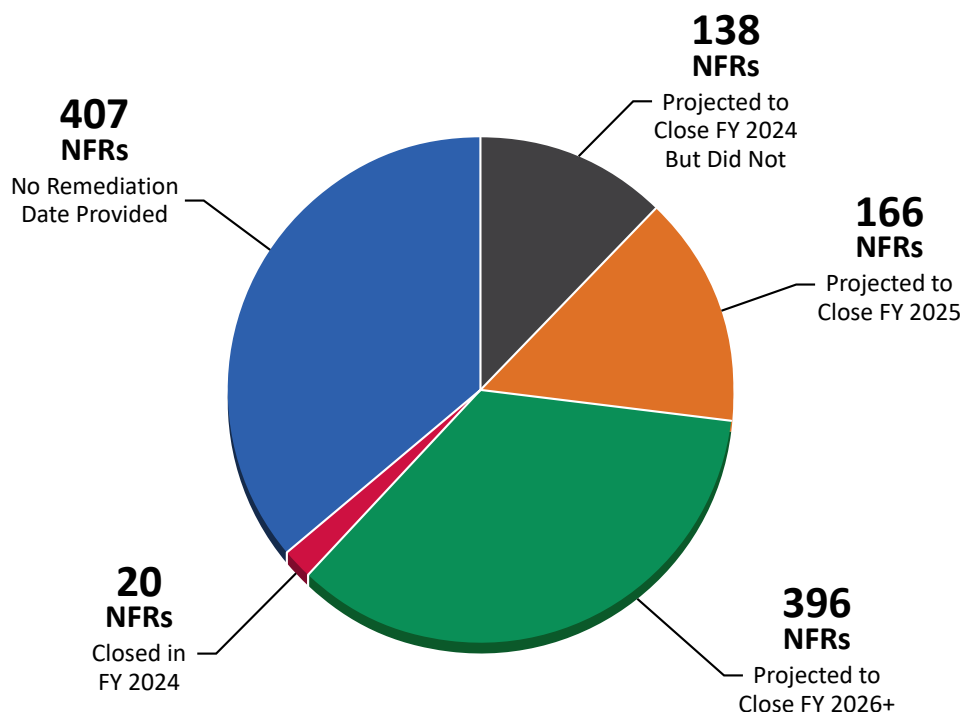
Source: The DoD OIG.

Of the 1,127 IT-related NFRs issued in FY 2024, 1,062 related to the five material weaknesses identified in Figure 7.¹⁰ The DoD's inability to implement a comprehensive set of controls for each system partially caused each of these weaknesses. While the challenge of implementing controls across the DoD's 283 major financial management systems is monumental, the lack of DoD-level accountability through oversight and monitoring of the DoD Components exacerbated the challenge.

One positive step the DoD took in recent years is to involve the DoD Chief Information Officer in the efforts to remediate IT-related material weaknesses. The DoD Chief Information Officer is the principal advisor to the Secretary of Defense on IT and is responsible for issuing and overseeing the implementation of DoD-wide IT policies. The DoD Chief Information Officer's increased involvement has helped the DoD remediate deficiencies in the systems it plans to keep.

With the increase in DoD Chief Information Officer and Component efforts, the DoD remediated 369 IT-related NFRs in FY 2024. The DoD must continue to focus on remediation efforts, as auditors reissued 790 IT-related NFRs that DoD management did not correct in the prior year and issued 337 new IT-related NFRs. Figure 8 identifies the DoD's estimated remediation dates for all IT NFRs.

Figure 8. Remediation Dates for IT NFRs Issued in FY 2024



Source: The DoD OIG.

Prioritizing and expediting the remediation of deficiencies in the systems that the DoD plans to keep will improve the DoD's ability to produce complete, accurate, and valid financial management information.

¹⁰ The remaining 65 IT NFRs are related to other IT issues, such as system modernization, data management, and continuity planning.

Obstacle #3: Accounting

The primary purpose of accounting is to provide users with accurate and useful financial information. The DoD communicates this financial information through its financial statements that reflect the DoD's overall financial position and capture the financial activity associated with its operations. The DoD financial statements provide Congress and the public with transparent, reliable, and trustworthy information regarding the use of funds appropriated to the DoD.

The DoD continues to have difficulty developing and implementing controls to remediate accounting-related issues that auditors identified, which resulted in 12 accounting-related material weaknesses, 5 in the spending process and 7 in the financial reporting process.

- **Spending Process** – Demonstrates how the DoD manages its funds.
- **Financial Reporting Process** – Illustrates how the DoD handles reporting its financial transactions.

The DoD has developed corrective action plans and made addressing accounting-related material weaknesses a priority. However, the DoD still lacks the controls necessary to ensure that financial activity is properly and accurately captured; as a result, the financial statements could be materially misstated, potentially hindering the DoD's ability to achieve a clean audit opinion.

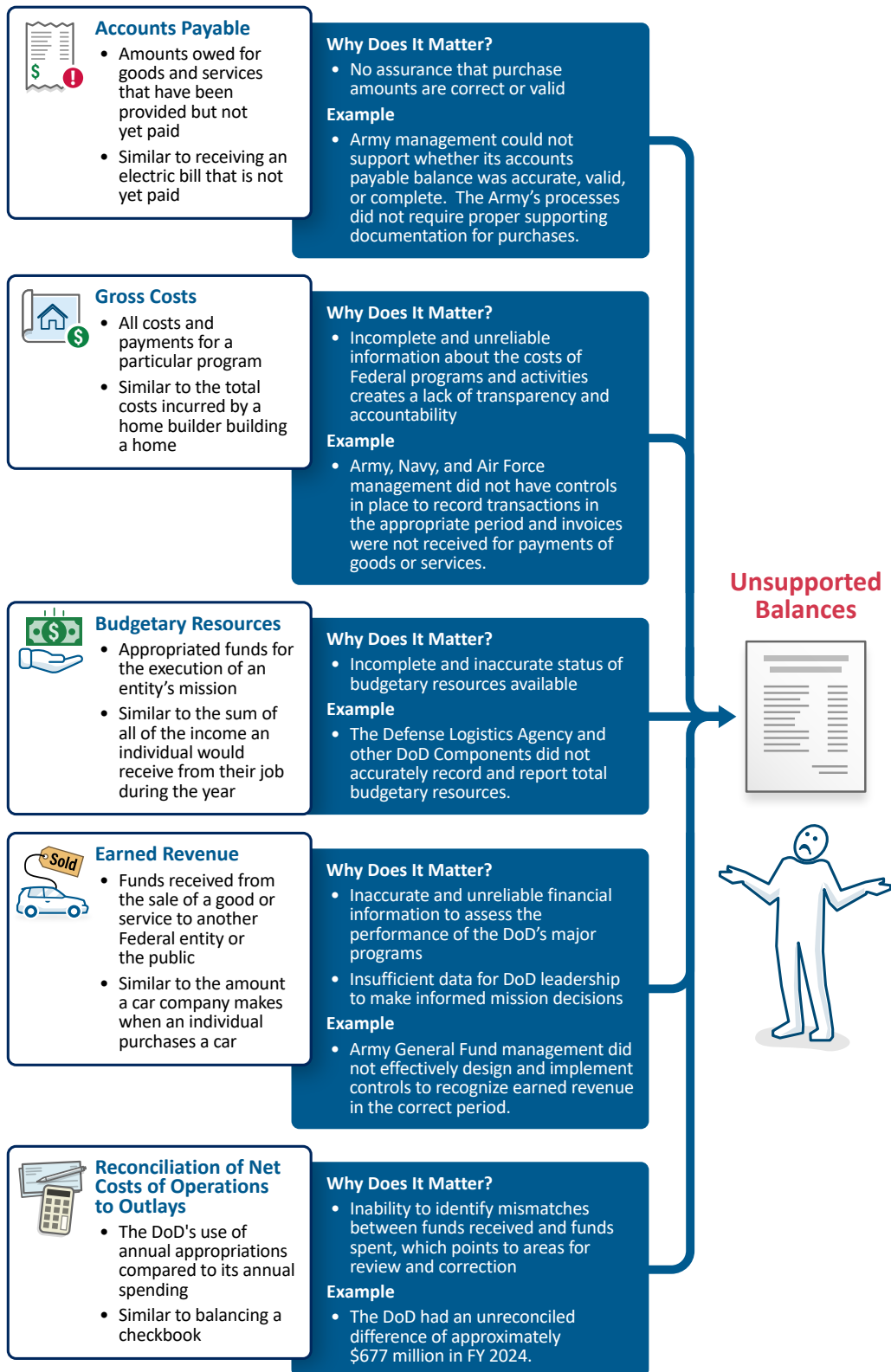
The Spending Process

The DoD receives its funding through appropriations given by Congress or by selling goods or providing services to other DoD and Federal entities to earn revenue, much like a private, not-for-profit business.¹¹ The DoD then uses the funds from appropriations and revenues to purchase goods and services to execute its mission. The DoD must implement proper internal controls within its spending processes to ensure that funds were used for their intended purposes. However, in FY 2024 auditors identified five material weaknesses in the DoD's internal controls over its spending process.

Auditors could not obtain appropriate documentation, conduct tests of transactions, or validate existing payment transactions because the DoD and some of its Components had process control failures and lacked effective internal controls. As a result, auditors could not ensure that balances related to the spending process were accurate, valid, and complete, which created uncertainty that the amounts presented on the DoD and Component financial statements were correct. Figure 9 defines these material weaknesses, explains their importance, and gives specific examples of how the material weaknesses hinder the DoD's ability to produce accurate and transparent financial statements and achieve a clean audit opinion.

¹¹ OMB Circular No. A-136, section II.3.3.4, states, "Earned revenues arise when an entity provides goods and services to the public or another government entity for a price."

Figure 9. Spending Process Material Weaknesses and Examples



Source: The DoD OIG.

The President, Congress, and the American taxpayer have significant interest in gaining an understanding and awareness of how the DoD spends the substantial amount of funds that are entrusted to it. DoD leaders must design and implement systems, controls, and processes that can provide valid and accurate data to better inform operational decisions and help ensure mission readiness. The DoD should implement corrective actions to substantiate the DoD's expenses and revenue, which enables DoD leaders to have accurate information to evaluate and execute mission critical decisions.

The Financial Reporting Process

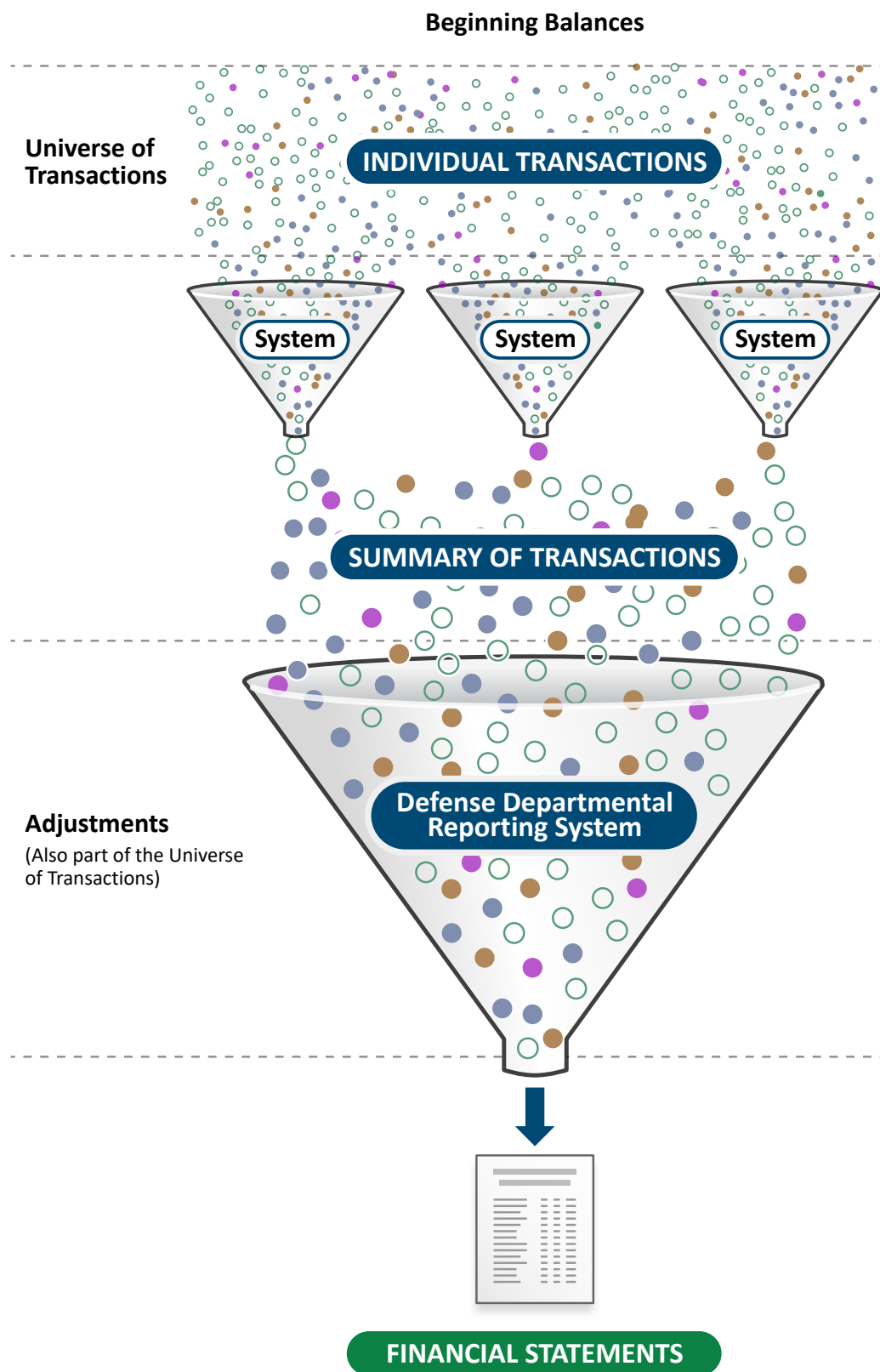
The DoD's financial reporting process involves gathering and recording financial transactions, preparing summaries of transactions, and generating the financial statements, which ultimately provide a comprehensive description of the DoD's financial information for a specific period. Internal controls over financial reporting ensure transactions are properly recorded, processed, and summarized to allow for reliable financial statement preparation.

DoD management must maintain and evaluate the effectiveness of internal controls over financial reporting. However, the DoD OIG identified control issues in the DoD's financial reporting process, resulting in the following seven material weaknesses.

- Universe of Transactions
- Security Assistance Accounts
- Fund Balance with Treasury
- Environmental and Disposal Liabilities
- Beginning Balances
- Unsupported Accounting Adjustments
- Intragovernmental Transactions and Intradepartmental Eliminations

Figure 10 illustrates how transactions flow through the financial reporting process to create the DoD's financial statements, and below we describe specific examples of material weaknesses that demonstrate insufficient controls in the financial reporting process.

Figure 10. The Flow of Transactions to the Financial Statements



Source: The DoD OIG.

As auditors examine the financial statements and the supporting documentation, they are searching for an audit trail that provides evidence and details related to financial transactions. The journey to clean audit opinions starts with the DoD and its Components establishing beginning balances and maintaining detailed universes of transactions. Beginning balances and universes of transactions are critical to an audit because without historical data (beginning balances) and a complete list of detailed transactions (universe of transactions) to support financial statement balances, auditors cannot confirm that financial statement balances are complete and accurate.

In FY 2024, auditors found that the DoD and its Components did not have complete or accurate transaction-level data to support beginning balances or material line items in their financial statements. As each year's closing balance becomes the opening balance for the next year, the problem of supporting balances at the transactional level compounds. Verifying beginning balances is so important, and oftentimes challenging, that the DoD requested that Congress take legislative action to establish beginning balances for the FY 2024 Defense Logistics Agency National Defense Stockpile Transaction Fund audit.¹² This action directly contributed to the Defense Logistics Agency National Defense Stockpile Transaction Fund's ability to prepare its Agency Financial Report and obtain its FY 2024 clean audit opinion.

An act of Congress was required to authorize the recording of beginning balances into official accounting records.

To take the flow of transactions even further, when the DoD standardizes financial information and prepares the financial statements, it processes reconciling adjustments due to errors, timing differences, and yearend closing purposes. Auditors found that in the last 2 quarters of FY 2024, the DoD recorded \$245 billion in accounting adjustments that were not supported or properly approved, which made up 24 percent of the total adjustments for the 2 quarters.¹³ Unsupported accounting adjustments are problematic because they further call into question the integrity of the financial statements and contribute to the risk that the financial statements could be materially misstated.

One of DoD management's main responsibilities includes presenting the DoD financial statements in accordance with Federal accounting standards and reporting requirements. However, when management has ineffective internal controls related to the financial statement reporting process, an increased risk exists that the financial statements contain undetected misstatements that are both material and widespread. The DoD should continue to strengthen its internal controls over these areas and work with its service providers to mitigate these issues throughout the DoD.

¹² Public Law 118-31, Section 1413, "Beginning Balances of the National Defense Stockpile Transactions Fund for Audit Purposes."

¹³ The \$245 billion is the absolute value of the unsupported accounting adjustments.

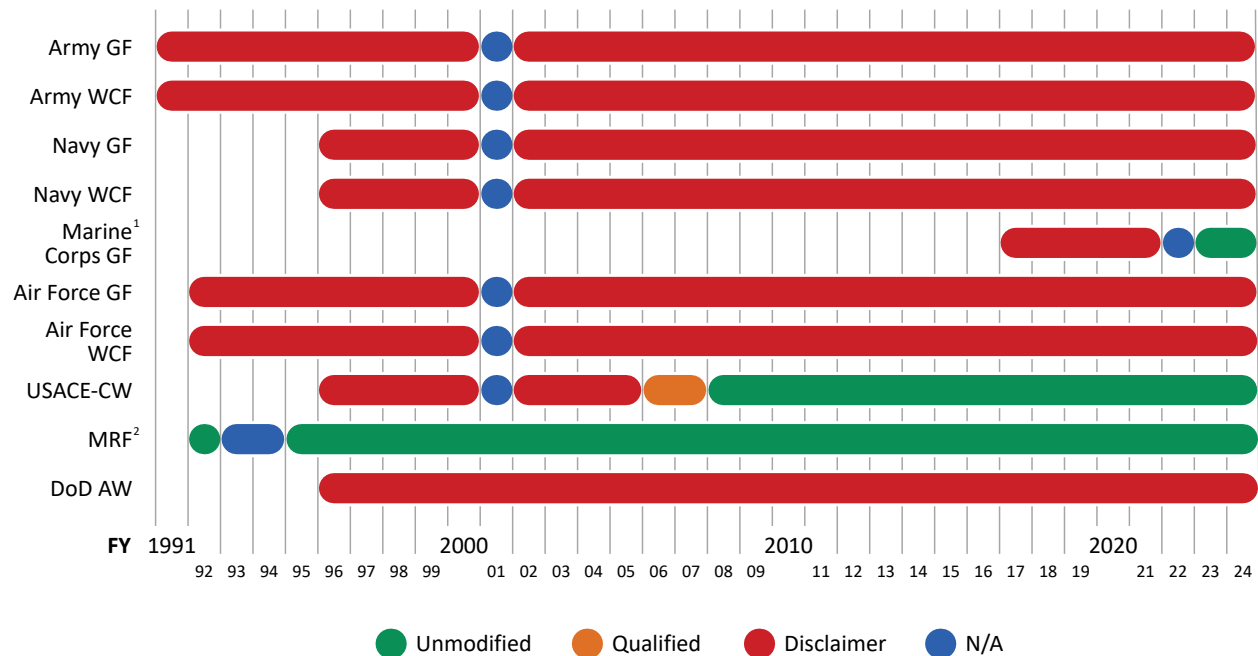
Conclusion

An effective system of internal controls enables an organization to achieve its mission and objectives. The DoD's mission is to provide the military forces needed to deter war and ensure our Nation's security. Strong internal controls that promote transparent financial management support the DoD's mission by enabling it to have reliable financial information. The DoD's internal controls involved in management responsibility and accountability, IT, and accounting are not mutually exclusive. They must be complementary and adapt to ever-changing environments, evolving demands, changing risks, and new priorities. While some internal controls have a bigger impact than others, a comprehensive and complementary control environment is essential to the DoD's efficiency and effectiveness in the execution of its mission.

Financial management is a holistic responsibility and must be a partnership between the DoD's many disciplines to fulfill the National Defense Authorization Act's mandate of achieving a clean audit opinion by December 31, 2028. The DoD must continue to focus on remediating its NFRs and material weaknesses, modernizing the DoD's financial management systems, and strengthening the DoD's internal controls over financial reporting to obtain a favorable audit opinion by FY 2028.

Appendix A

DoD Opinions FYs 1991 – 2024



LEGEND

AW Agency-Wide

GF General Fund

MRF Military Retirement Fund

USACE-CW U.S. Army Corps of Engineers–Civil Works

WCF Working Capital Fund

Note: The chart includes opinions from only those DoD reporting entities whose financial statements are required by OMB Bulletin No. 24-02, “Audit Requirements for Federal Financial Statements,” July 2024. The chart does not include information pertaining to four additional entities required by other statutes. In addition, DoD reporting entities, except for the MRF, did not submit financial statements for audit for FY 2001. Therefore, no audit opinions were issued for that fiscal year.

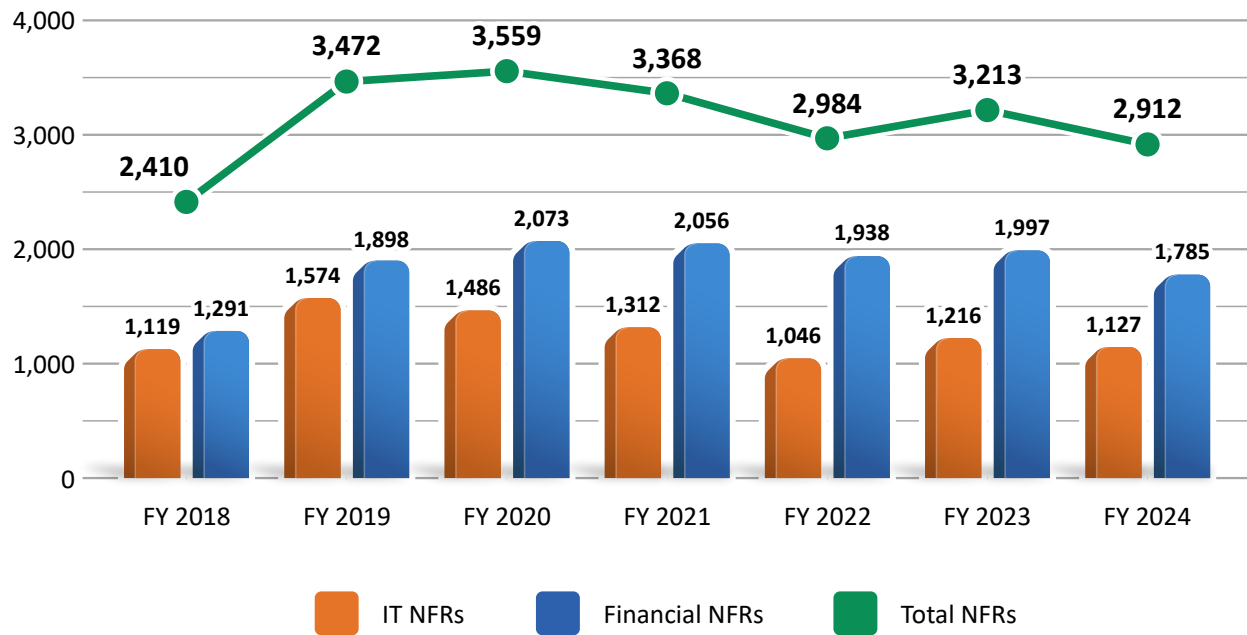
¹ The U.S. Marine Corps GF was consolidated with the Navy GF until FY 2017 and reported at the Department of the Navy GF. Beginning in FY 2017, the U.S. Marine Corps began preparing full financial statements for audit. Office of Management and Budget (OMB) Bulletin No. 22-01, “Audit Requirements for Federal Financial Statements,” August 2022, listed the U.S. Marine Corps as a DoD Component that was required to prepare audited financial statements; however, for FY 2022, the OMB exempted the U.S. Marine Corps from preparing audited financial statements because the U.S. Marine Corps was under a 2-year audit cycle.

² The FY 1993 and FY 1994 MRF Financial Statements were not audited.

Source: The DoD OIG.

Appendix B

DoD NFRs FYs 2018 – 2024

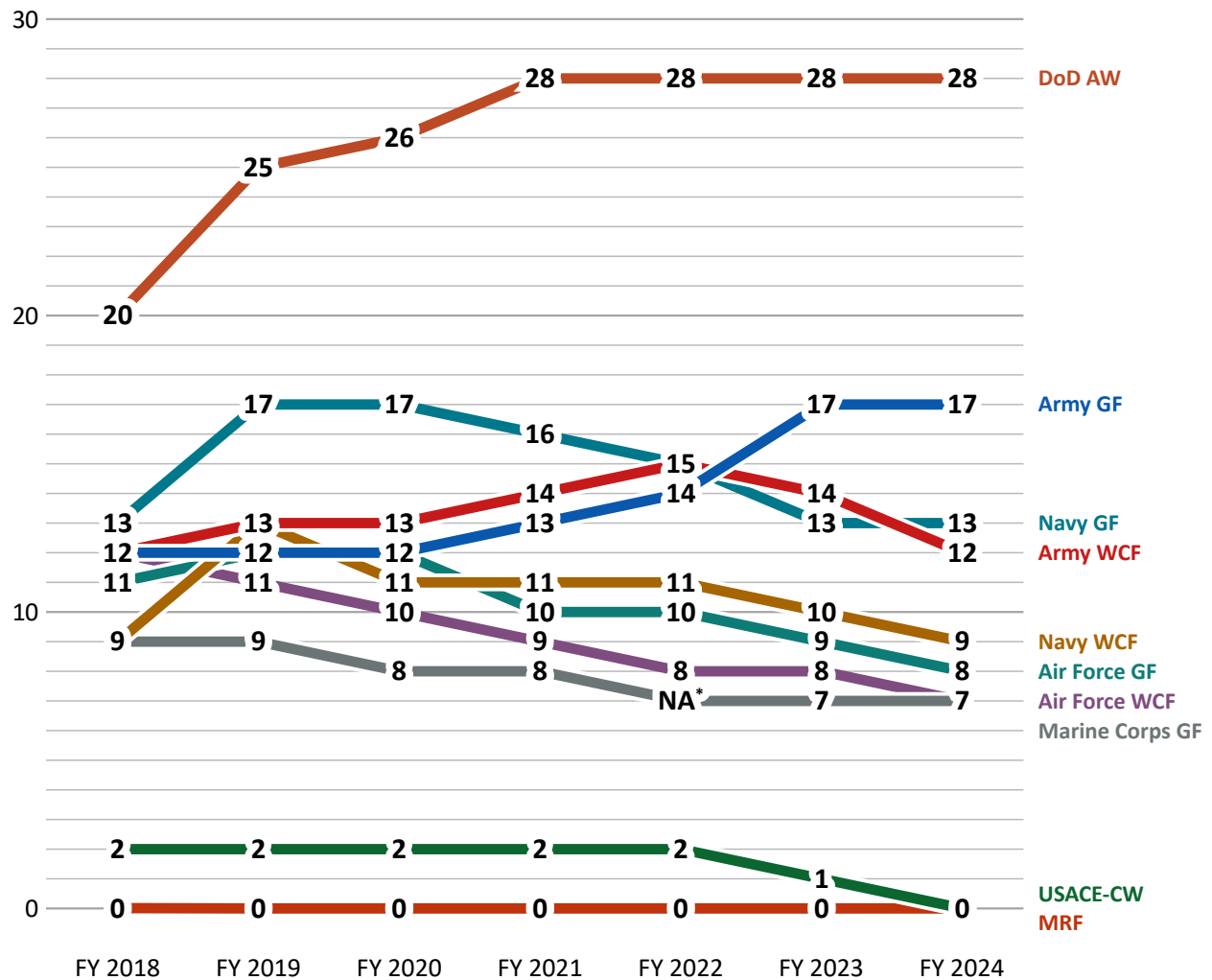


Note: For FY 2024, Part 1 of this report presented 2,848 NFRs issued as of December 20, 2024. Part 2 provides updated NFR counts, including those issued after December 20, 2024. This change includes 33 additional U.S. Marine Corps General Fund and 32 Defense Logistics Agency National Defense Stockpile Transaction Fund NFRs. In addition, the Army Working Capital Fund withdrew one NFR.

Source: The DoD OIG.

Appendix C

DoD Material Weaknesses FYs 2018 – 2024



LEGEND

- AW** Agency-Wide
- GF** General Fund
- MRF** Military Retirement Fund
- USACE-CW** U.S. Army Corps of Engineers–Civil Works
- WCF** Working Capital Fund

Note: The chart includes material weaknesses from only those DoD reporting entities whose financial statements are required by OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024. The chart does not include information pertaining to four additional entities required by other statutes.

* For FY 2022, the OMB exempted the U.S. Marine Corps from preparing audited financial statements because the U.S. Marine Corps was under a 2-year audit cycle.

Source: The DoD OIG

Appendix D

Descriptions and Status of DoD Agency-Wide FY 2024 Material Weaknesses

Material Weakness	Description	FY 2024 Status
Financial Management Systems Modernization	The DoD maintained financial management systems that did not comply with applicable accounting standards. Therefore, the DoD did not maintain compliant systems or produce a complete and accurate list of financial management systems in accordance with the FFMIA.	Repeat
Configuration Management	The DoD lacked necessary configuration management internal controls within financial management systems. This lack of controls contributed to the risk of unauthorized or inappropriate changes to financial management systems.	Repeat
Security Management	The DoD lacked proper security management controls over financial management systems. This lack of controls contributed to increased risk that the confidentiality, integrity, and availability of systems data will not be maintained.	Repeat
Access Controls	The DoD lacked sufficient access controls over financial management systems to ensure proper user access and timely access removal. Insufficient policies, procedures, and processes escalated the likelihood of unauthorized, excessive, or inappropriate system access.	Repeat
Segregation of Duties	The DoD had an absence of proper segregation of duties internal controls over financial management systems. Therefore, this lack of controls could result in unauthorized access to financial data and affect the confidentiality and integrity of financial management systems.	Repeat
Interface Controls	The DoD lacked sufficient interface controls to ensure the timely reconciliation of data and correction of errors. Therefore, the risk exists that financial system data are incomplete or inaccurate.	Repeat
Universe of Transactions	The DoD was unable to provide a full transaction-level population to support line items, and it lacked the necessary documentation required to reconcile trial balance data. As a result, the DoD could not verify the completeness and accuracy of financial statement data, increasing the risk of misstated financial statement amounts.	Repeat
Security Assistance Accounts	The DoD did not report Security Assistance Accounts financial activity in the FY 2024 Agency-Wide Financial Statements, resulting in a material misstatement.	Modified*
Fund Balance with Treasury	The DoD did not perform a complete and accurate Fund Balance with Treasury reconciliation resulting in an increased risk the financial statements may be materially misstated.	Repeat
Inventory and Stockpile Materials	The DoD did not account for or value Inventory and Stockpile Materials in accordance with accounting standards. Therefore, the DoD could not substantiate the existence, completeness, and valuation of Inventory and Stockpile Material accounts on the DoD's Consolidated Balance Sheet.	Repeat

Descriptions and Status of DoD Agency-Wide FY 2024 Material Weaknesses (cont'd)

Material Weakness	Description	FY 2024 Status
Operating Materials and Supplies	The DoD did not follow applicable guidance when accounting for, valuing, or substantiating Operating Materials and Supplies. Therefore, the DoD could not support the existence and completeness of Operating Materials and Supplies reported on the financial statements.	Repeat
General Property, Plant, and Equipment	The DoD did not follow applicable guidance when reporting, valuing, or developing procedures for General Property, Plant, and Equipment. Therefore, the DoD could not substantiate the existence and completeness of General Property, Plant, and Equipment reported on the financial statements.	Repeat
Real Property	The DoD lacked proper internal controls to substantiate the existence, completeness, and valuation of real property. As a result, real property assets were unsupported, and the real property balance reported within General Property, Plant, and Equipment may have been materially misstated.	Repeat
Government Property in the Possession of Contractors	The DoD was unable to reconcile GPIPC amounts to the appropriate accountable property system of record or substantiate the existence, completeness, valuation, presentation, or disclosure of GPIPC reported, which led to the potential misstatement of GPIPC.	Repeat
Joint Strike Fighter Program	The DoD omitted JSF Program assets from its FY 2024 financial statements due to the DoD's inability to obtain accurate and reliable data surrounding JSF Program government property. Due to the omission of this information, the financial statements were materially misstated and incomplete.	Repeat
Accounts Payable	The DoD did not maintain supporting documentation for or ensure the accurate reporting of Accounts Payable liabilities in accordance with applicable accounting standards, which contributed to the increased risk of material misstatement of Accounts Payable reported in the financial statements.	Repeat
Environmental and Disposal Liabilities	The DoD did not follow applicable guidance available on the estimation of Environmental and Disposal Liabilities, including not reporting or documenting present and future costs within Environmental and Disposal Liabilities or sufficiently supporting assessments of environmental sites. Therefore, Environmental and Disposal Liabilities and related balances may have been incompletely or inaccurately reported on the financial statements.	Repeat
Beginning Balances	The DoD and its Components did not have complete and accurate populations at the transaction level for beginning balances for the financial statements, which increased the risk that the financial statements were materially misstated.	Repeat
Unsupported Accounting Adjustments	The DoD lacked internal controls to ensure that accounting adjustments were valid, complete, and accurately recorded in its accounting systems or that they were properly reviewed, approved, and supported. Therefore, the financial statements were at risk of being materially misstated.	Repeat

Descriptions and Status of DoD Agency-Wide FY 2024 Material Weaknesses (cont'd)

Material Weakness	Description	FY 2024 Status
Intragovernmental Transactions and Intradepartmental Eliminations	The DoD did not have effective internal controls to capture all trading partner information necessary for reconciling transactions and elimination entries. Therefore, intragovernmental adjustments and eliminations were incomplete, inaccurate, and unsupported, risking materially misstated balances.	Repeat
Gross Costs	The DoD did not have appropriate procedures or internal controls in place to ensure the accurate recording, reconciliation, or validation of Gross Costs, nor did its financial systems adequately track Gross Costs in accordance with standards. As a result, the DoD did not have reliable financial information, increasing the risk of material misstatement.	Repeat
Earned Revenue	The DoD did not have adequate procedures or internal controls to accurately record Earned Revenue in accordance with standards. As a result, the DoD did not have reliable financial information to properly report earned revenue, possibly misstating the financial statements.	Repeat
Reconciliation of Net Cost of Operations to Outlays	The DoD lacked policies and procedures necessary to reconcile differences between budgetary and proprietary data. As a result, the DoD financial statements may not accurately reflect the DoD's financial position and may be materially misstated.	Repeat
Budgetary Resources	The DoD lacked effective controls to ensure that DoD Components prepared, accounted for, and reconciled their budgetary resources in accordance with standards. The DoD's inability to monitor the status of budgetary resources created potential for Antideficiency Act violations and increased risk that the financial statements may be misstated.	Repeat
Service Organizations	The DoD did not adequately monitor the use of service organizations or implement and assess complementary user entity controls. These control deficiencies increased the risk that the DoD financial statements were misstated.	Repeat
Component Entity-Level Controls	The DoD Components lacked effectively designed and implemented internal controls at the entity level to prevent or detect identified material misstatements, which increased the risk that the financial statements were misstated.	Repeat
DoD-Wide Oversight and Monitoring	The DoD lacked effective controls over the review of financial data reported within the DoD Component Level Accounts and did not oversee financial management activities. As a result, the DoD may be improperly classifying information related to its financial statements, therefore increasing the risk that its financial statement data may be inconsistently reported or incomplete.	Repeat
Leases	The DoD did not implement policies or procedures or identify or disclose all leases in accordance with standards. As a result of the lack of recognition and disclosure, the financial statements may be materially misstated.	New

* In FY 2024, DoD management partially remediated the FY 2023 "Reporting Entity" material weakness. Therefore, the DoD OIG modified and renamed the material weakness "Security Assistance Accounts" for FY 2024.

Source: The DoD OIG.

Acronyms and Abbreviations

FFMIA	Federal Financial Management Improvement Act of 1996
GPIPC	Government Property in the Possession of Contractors
IT	Information Technology
JSF	Joint Strike Fighter
NFR	Notice of Finding and Recommendation
OMB	Office of Management and Budget

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible fraud, waste, and abuse in Government programs. For more information, please visit the Whistleblower webpage at www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/ or contact the Whistleblower Protection Coordinator at Whistleblowerprotectioncoordinator@dodig.mil

**For more information about DoD OIG
reports or activities, please contact us:**

Legislative Affairs Division
703.604.8324

Public Affairs Division
public.affairs@dodig.mil; 703.604.8324



www.dodig.mil

DoD Hotline
www.dodig.mil/hotline





DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
DoD Hotline 1.800.424.9098

