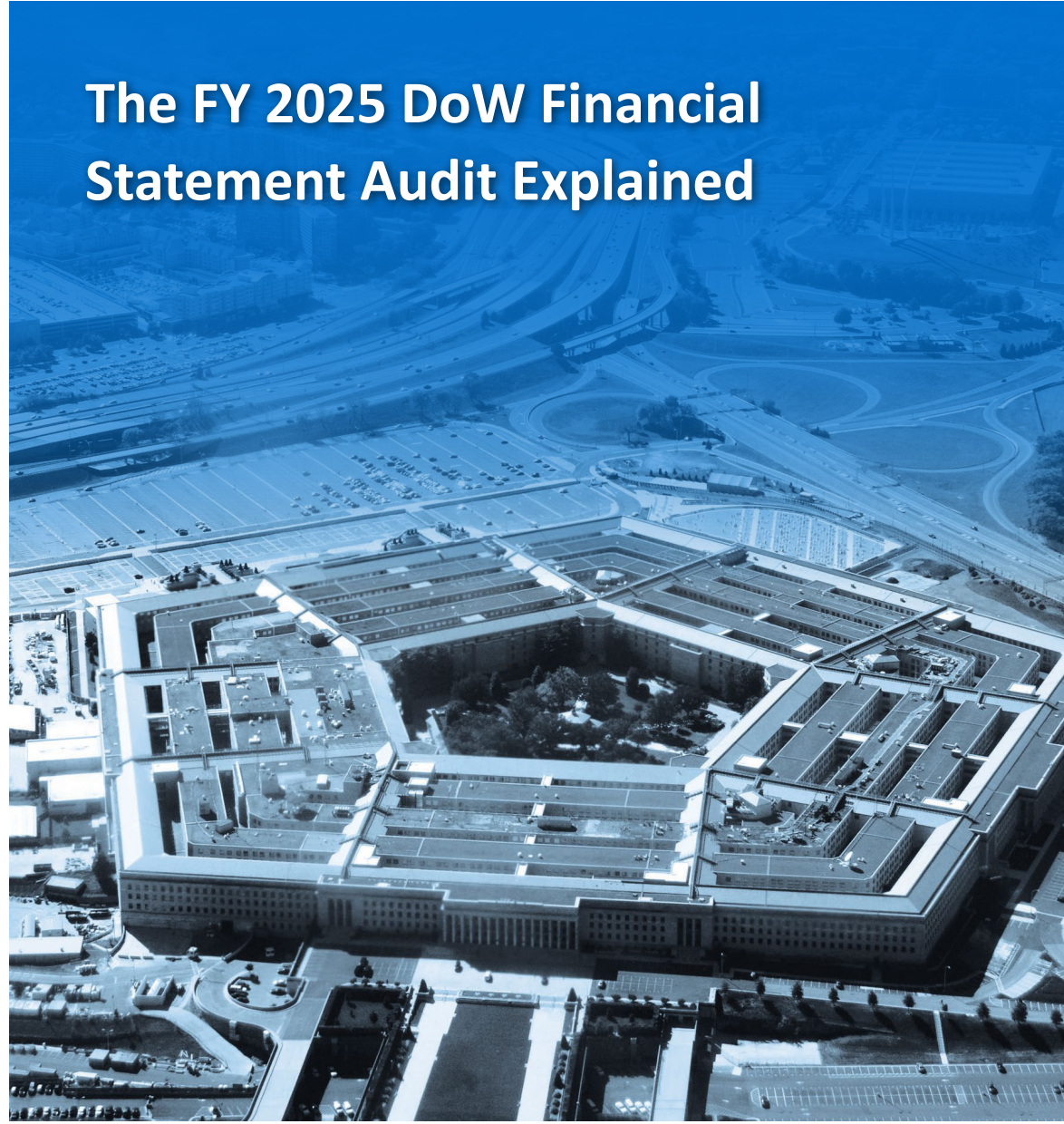




INSPECTOR GENERAL

U.S. Department of War

MAY 11, 2026



The FY 2025 DoW Financial Statement Audit Explained

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY



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May 11, 2026

The Department of War (DoW) prepared its FY 2025 DoW Agency-Wide Financial Statements as required by Congress and the Office of Management and Budget.¹ Sound financial management gives leaders accurate information, protects taxpayer resources, and supports the DoW mission. The DoW OIG reviewed the statements for compliance with accounting standards and advised the Department on resolving identified issues.

The DoW OIG completed its annual audit and, as in prior years, issued a disclaimer of opinion because the DoW and its Components could not provide sufficient reliable evidence to demonstrate that the statements were fairly presented. The audit identified 26 material weaknesses, representing significant deficiencies that increase the risk of undetected errors.

This report summarizes the FY 2025 audit results and identifies the organizations that most contributed to each material weakness. FY 2026 audits remain ongoing and are not addressed in this report.

The DoW has a congressional requirement to achieve a clean audit opinion by December 31, 2028. The Secretary of War indicated that anything less than full achievement of the statutory mandate is unacceptable. This report discusses the DoW's ongoing efforts to meet the congressional requirement and provides an outlook on the future of the DoW's auditability.

Due to its size and impact on the U.S. Government, the DoW must achieve a clean audit opinion before the Government-Wide Financial Statements can receive one. As part of the DoW OIG's statutory responsibilities, we will continue to fully and fairly audit the DoW financial statements, identify deficiencies, and provide clear information to help guide the DoW's corrective actions. The DoW OIG remains committed to this long-term effort to strengthen the DoW's financial health.

Brett A. Mansfield
Deputy Inspector General for Audit

¹ Congress requires the DoW to prepare the Agency-Wide Financial Statements as part of the Chief Financial Officer's Act of 1990, which is implemented by Office of Management and Budget Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements."

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FY 2025 Financial Statement Audit Results

On December 18, 2025, the DoW OIG, as the group auditor of the DoW Agency-Wide Financial Statements, issued its FY 2025 audit report.² More than 1,600 auditors supported this work. Due to the DoW's size and complexity, 22 reporting entities produced their own financial statements that were also audited.³ Those financial statements ultimately contributed to the DoW Agency-Wide Financial Statement audit. In addition, the DoW OIG performed audit procedures for entities without a stand-alone audit as part of the audit of the DoW's consolidated financial statements.⁴

For additional information about the DoW's financial statements, along with the related audit, please visit our website at <https://www.dodig.mil/DoW-Financial-Statement-Audit-Explained/>.

DoW Reporting Entity Audit Results

Of the 22 DoW entities with stand-alone audits in FY 2025, 21 received opinions, and each received the same audit opinion as they did in FY 2024.⁵ Figure 1 presents these opinions, weighted by the total assets that the entity contributed to the DoW's financial statements.

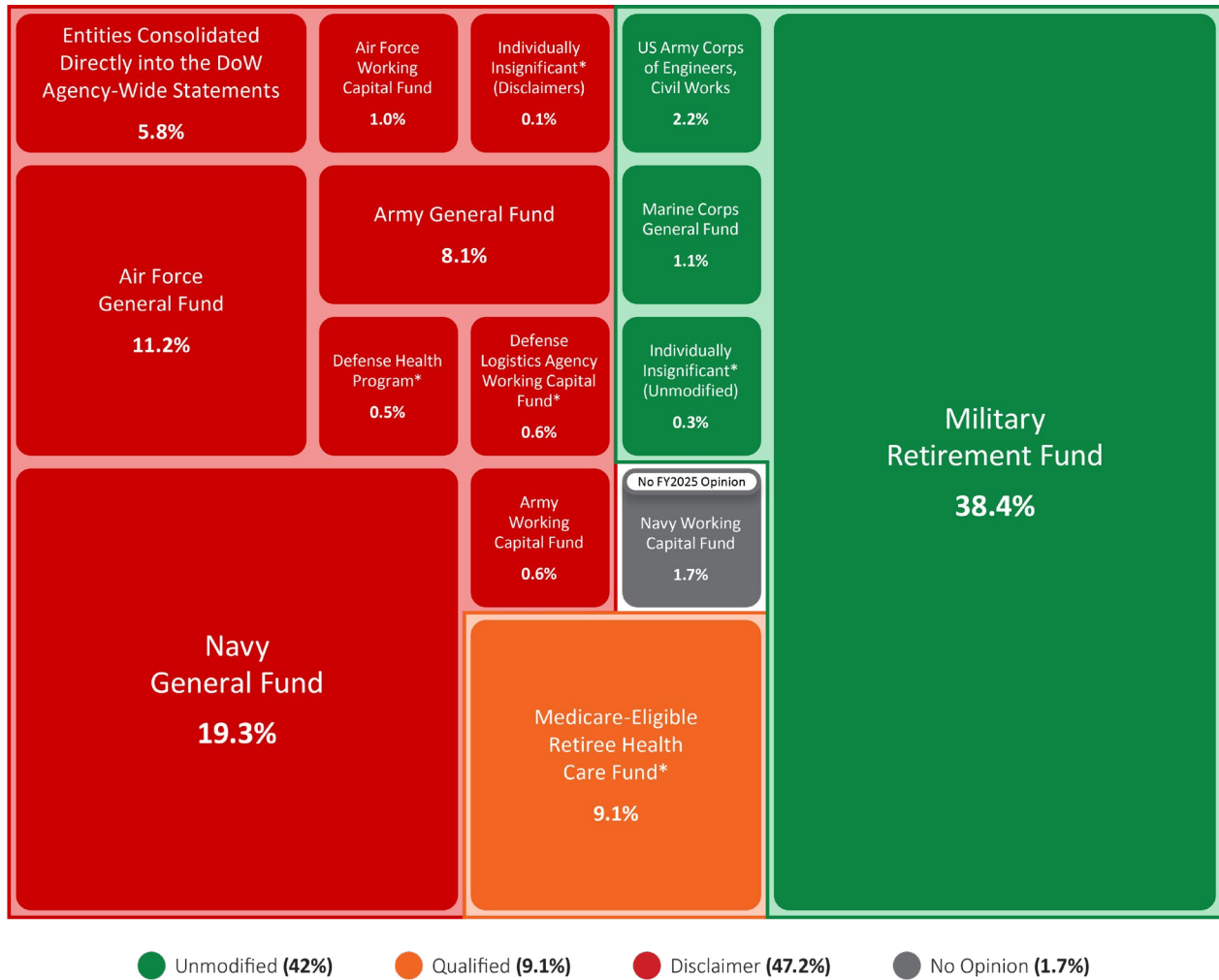
² The DoW OIG is the group auditor for the DoW Agency-Wide Financial Statement audit. A group auditor is responsible for the consolidated financial statements (such as the DoW Agency-Wide Financial Statements), even though a large part of the audit work may have been conducted by Component auditors.

³ A reporting entity is an organization that issues its own financial statements due to a statutory or administrative requirement, such as the Army General Fund and the Defense Logistics Agency General Fund. DoW Components are the organizational entities within the DoW, such as the Department of the Army and Defense Logistics Agency. This report only addresses the 22 unclassified DoW reporting entities.

⁴ A stand-alone audit refers to the audit of an individual entity's financial statements (such as the Army General Fund Financial Statements), which are prepared separately from any consolidated financial statements (such as the DoW Agency-Wide Financial Statements).

⁵ The reporting entity that did not receive the same opinion was the Navy Working Capital Fund. It received a disclaimer of opinion in FY 2024 but did not receive an opinion in FY 2025, which was the first year of a 2-year audit. In the first year, the reporting entity does not receive an opinion to allow auditors additional time to perform testing.

Figure 1. FY 2025 DoW Reporting Entity Financial Statement Audit Results



* The 5 boxes with asterisks represent 13 entities that are required by DoW management—but not by the Office of Management and Budget—to prepare stand-alone financial statements. Of these 13 reporting entities, 8 received clean opinions, 4 received disclaimers of opinion, and 1 received a qualified opinion.

Source: The DoW OIG.

In summary, the 21 reporting entities received:

- 11 clean opinions,
- 1 qualified opinion,⁶ and
- 9 disclaimers of opinion.

Of the 22 DoW entities that produce stand-alone financial statements, 9 are required to do so by the Office of Management and Budget (OMB). Appendix A shows the history of audit opinions for these nine reporting entities, along with the Agency-Wide Financial Statements.

⁶ A qualified opinion indicates that the effect of an actual or possible misstatements of the financial statements under audit was major but isolated to a certain part of the financial statements.

While FY 2025 brought no changes to audit opinions for the reporting entities that received opinions, they have made progress. For example, auditors collectively reported 121 material weaknesses, which was 21 fewer compared to FY 2024.⁷ To support those FY 2025 material weaknesses, auditors issued 2,485 Notices of Findings and Recommendations (NFRs) throughout the audit, which was 427 fewer compared to FY 2024.⁸

FY 2025 DoW Agency-Wide Audit Results

For FY 2025, the DoW OIG issued a disclaimer of opinion on the DoW Agency-Wide Financial Statements. While this is the same result as FY 2024, the DoW did make important progress in several areas in FY 2025.

- **Security Assistance Accounts:** DoW management provided enough documentation to justify excluding these accounts—used to manage and oversee foreign military sales and security assistance provided to foreign countries, the latter of which is primarily funded by the Department of State—from the FY 2025 DoW Agency-Wide Financial Statements. As a result, the DoW OIG closed the related material weakness.
- **Technology Improvements:** DoW management deployed technologies to handle routine tasks, detect errors, and identify outdated or invalid transactions.
- **Identity, Credential, and Access Management:** DoW management implemented its Identity, Credential, and Access Management solution for more than 30 systems. This effort directly supports the correction of multiple DoW-wide information technology (IT) material weaknesses. In addition, DoW management required the Defense Logistics Agency (DLA) to adopt the DoW-wide solution instead of creating its own solution, an action that the DoW estimates will save \$200 to \$250 million over 5 years.

The DoW's Three Major Financial Management Obstacles

The 26 DoW Agency-Wide material weaknesses that the DoW OIG identified in FY 2025 fall into three major obstacle categories:

1. **Management Responsibility and Asset Accountability (10 weaknesses)**
These involve ensuring people, processes, and internal controls are in place to properly track and safeguard the DoW's assets.⁹
2. **Information Technology (6 weaknesses)**
These relate to outdated systems and weak IT controls that limit the Department's ability to generate reliable financial information.

⁷ Appendix B presents the number of material weaknesses by each of the nine OMB-required reporting entities, along with the Agency-Wide totals.

⁸ NFRs inform the DoW and its Components of deficiencies in their financial reporting processes. Appendix C includes summary-level information on NFRs.

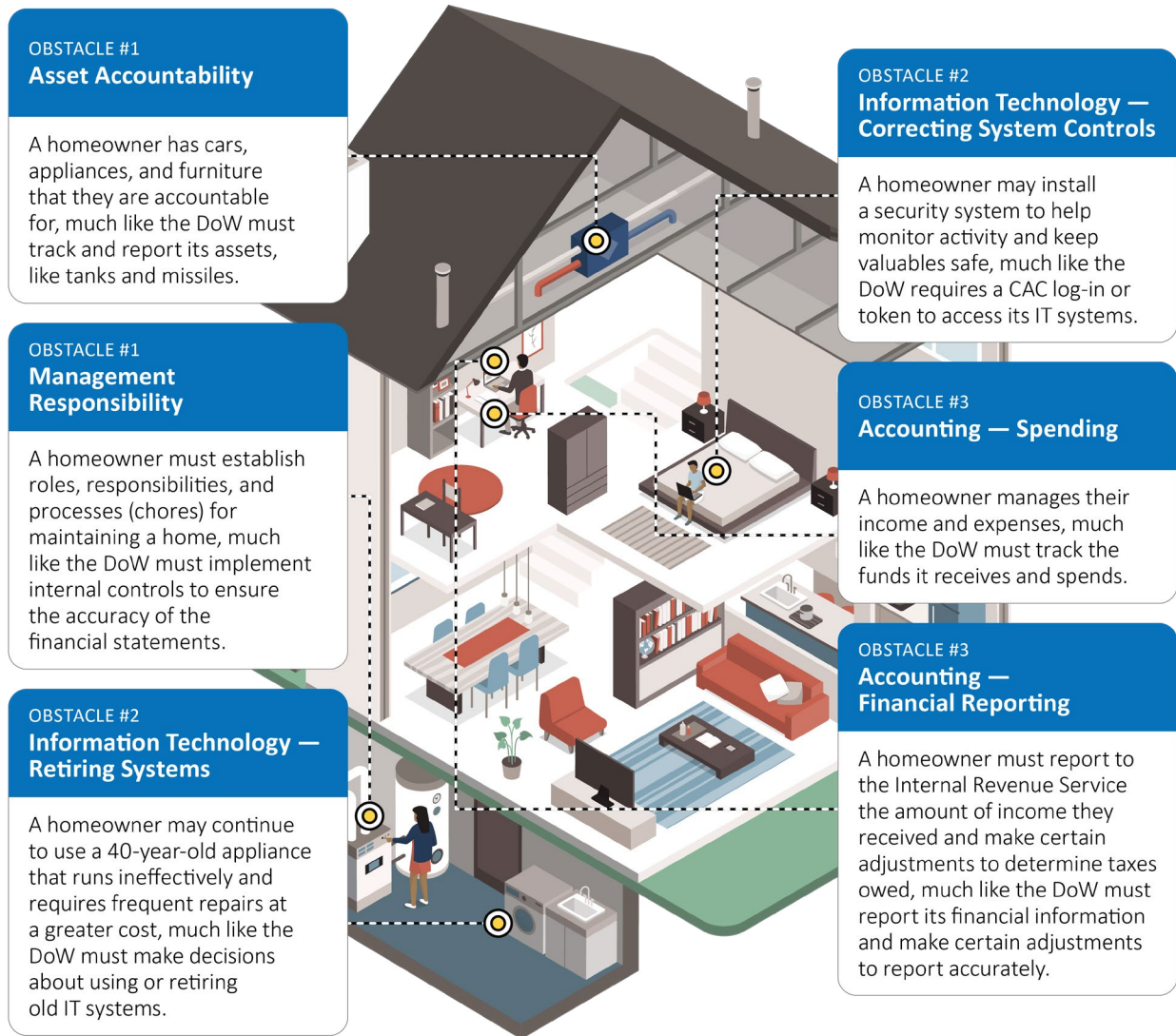
⁹ Internal controls are essential checks and processes that prevent errors from appearing in the financial statements.

3. Accounting (10 weaknesses)

These involve errors in how transactions are recorded, summarized, and reported on the financial statements.

For additional details about the 26 material weaknesses, please visit our website at <https://www.dodig.mil/DoW-Financial-Statement-Audit-Explained/>. To help readers unfamiliar with financial management concepts, Figure 2 uses common household examples to illustrate the kinds of problems the DoW is facing.

Figure 2. Common Household Examples That Illustrate the DoW's Financial Management Obstacles

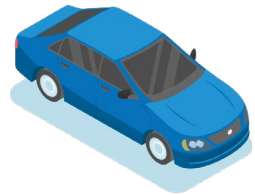


Source: The DoW OIG.

Obstacle #1: Management Responsibility and Asset Accountability

Management responsibility and asset accountability are critically important for ensuring the DoW maintains sound financial management. The \$4.7 trillion in assets the DoW owns and the \$1.3 trillion in appropriations that Congress entrusted to the DoW in the FY 2025 budget are substantial. Ultimately, DoW management is responsible for ensuring what the DoW buys is needed, correctly tracked and reported, and properly used. However, DoW auditors identified material weaknesses in these areas, which hindered the DoW's efforts to achieve a clean audit opinion. This obstacle covers the following two major issues.

- **Management Responsibility** – Involves establishing a culture that fosters sound financial management controls by holding individuals responsible at all organizational levels.
 - A homeowner has responsibilities and processes, such as paying bills on time and maintaining their home. For example, a homeowner may create a chore schedule to ensure household upkeep is divided among each resident to maintain a functioning home.
- **Asset Accountability** – Refers to the process of recording, valuing, monitoring, tracking, and maintaining oversight over the DoW's assets.
 - A homeowner is responsible for knowing what assets they own, where they are, and what condition they are in. For example, a homeowner tracks their car's condition, ensures it is insured and maintained, and reports it appropriately for taxes. As the car ages, they will weigh repair costs against replacement or upgrade cost.



Without effective controls to ensure responsibility and accountability, the DoW is more likely to include inaccurate and unreliable information in its financial statements. Responsibility and accountability improve efficiency and support the DoW's military readiness by ensuring management has accurate information about asset location, custody, and condition.

Management Responsibility

Management at all levels is responsible for ensuring the DoW's financial information is complete, accurate, and reliable. The DoW's financial management structure includes three levels: (1) DoW-level management, (2) Component-level management, and (3) service organizations.¹⁰

¹⁰ The DoW uses service organizations to perform critical activities across the DoW, 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 DoW and its Components. In addition, the DLA provides supplies to DoW Components and supports the acquisition of weapons, fuel, repair parts, and other materials.

Each layer plays a role in maintaining internal controls. However, auditors identified material weaknesses in all three layers, meaning management does not have effective controls in place to ensure reliable financial data. Figure 3 shows how weaknesses across all three management layers affect the reliability of information the DoW uses to produce its financial statements.

Figure 3. The DoW's Management Structure and Related Material Weaknesses



Source: The DoW OIG.

Table 1 identifies the DoW reporting entities that significantly contributed to each of the three management-related material weaknesses.

Table 1. Significant Contributors to the Management-Related Material Weaknesses

Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund ¹				General Fund ²		
		Army	Air Force	Navy ³	DLA	Army	Air Force	Navy
DoW-Wide Oversight and Monitoring ⁴								
Component Entity-Level Controls		X	X	X	X	X	X	X
Service Organizations	X	X		X	X			

¹ A Working Capital Fund is a type of fund that is intended to operate as a self-supporting business entity to fund business-like activities, such as acquiring parts and supplies, maintaining equipment, transporting personnel, and conducting research and development.

² A General Fund consists of assets and liabilities used to finance the daily and long-term operations of the Component.

³ Because the Navy Working Capital Fund is on a 2-year audit cycle, our determination of whether it significantly contributed to the DoW’s material weakness is based on new and reissued FY 2025 NFRs and FY 2024 NFRs that were not remediated in FY 2025.

⁴ This material weakness affects the DoW as a whole.

Source: The DoW OIG.

Internal control weaknesses in each layer of the DoW’s management structure have been longstanding. DoW-level management has not consistently ensured that Component-level financial data are complete and accurate. Meanwhile, Components and service organizations lacked strong controls over their own financial data to ensure the data’s reliability. Together, these control weaknesses increased the risk that the DoW Agency-Wide Financial Statements were materially misstated.

Just as a homeowner is responsible for establishing chores to maintain their home, the DoW must establish clear controls at each layer of management to maintain sound financial data. In the same way a homeowner ensures the accuracy of their financial records by reviewing account statements and limiting bank account access, the DoW must ensure the integrity of its records. To do this, the DoW must continue to remediate material weaknesses related to ensuring that the DoW Agency-Wide Financial Statements are accurate and reliable. Strengthening management responsibility for internal controls is essential to producing financial statements that Government decision-makers can rely on and the public can trust.

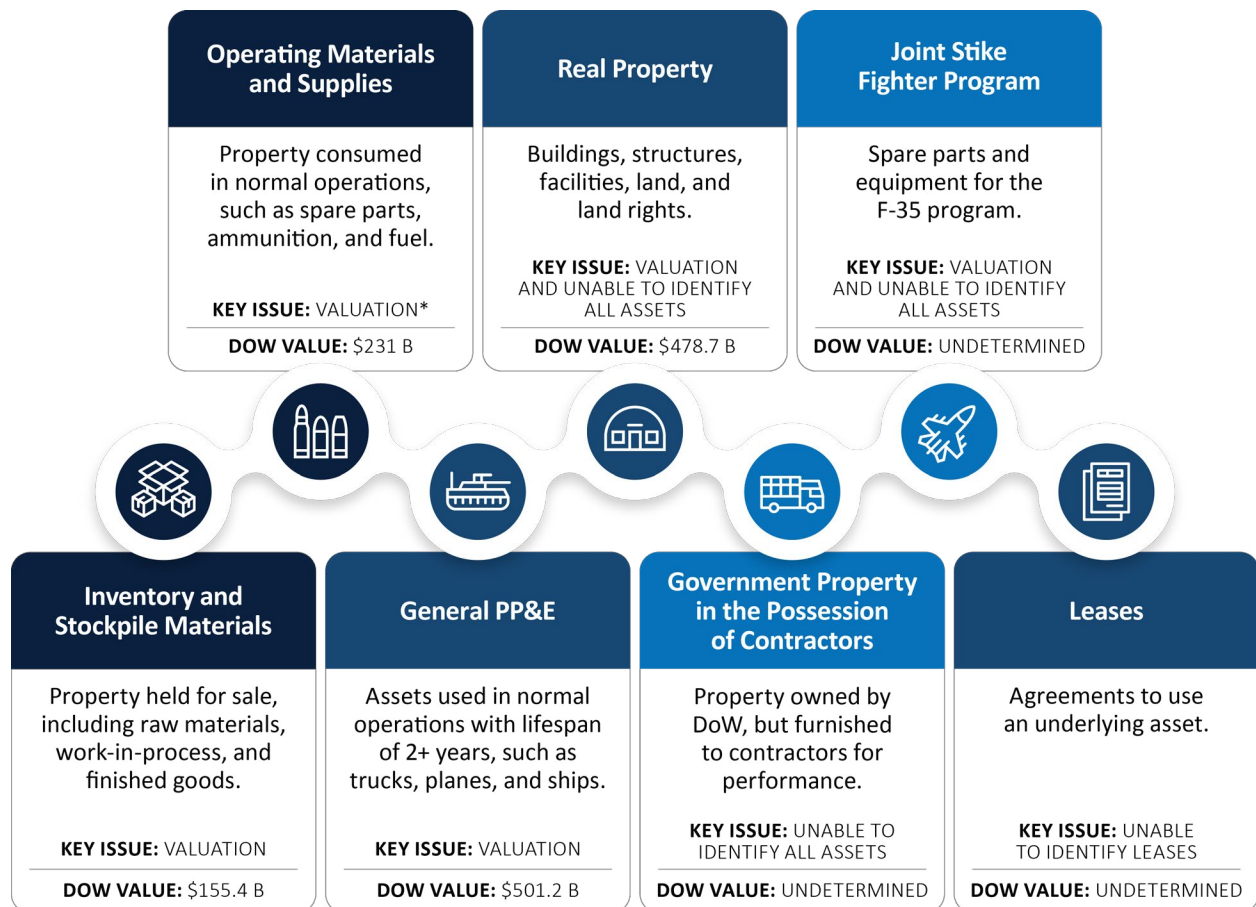
Asset Accountability

Asset accountability refers to properly recording, valuing, tracking, and safeguarding the DoW’s assets—including aircraft, motorized vehicles, ships, buildings, equipment, and spare parts. Accurate asset information helps ensure:

- assets are available and ready when the military needs them;
- spending decisions are based on correct data, such as where assets are, who is responsible for them, and what condition the assets are in;
- waste is reduced; and
- financial statements reflect the correct values of DoW assets.

In FY 2025, the DoW OIG identified seven material weaknesses related to asset accountability. Figure 4 shows the major asset categories, such as General Property, Plant, and Equipment (PP&E), along with the types of problems identified and an approximate value of those assets.

Figure 4. The DoW’s Asset Accountability-Related Material Weaknesses



* Valuation includes the purchase price and all costs incurred to bring the items to their current condition and location, such as transportation and production costs.

Source: The DoW OIG.

Table 2 identifies which DoW reporting entities significantly contributed to each of the seven asset accountability-related material weaknesses.

Table 2. Significant Contributors to the Asset Accountability-Related Material Weaknesses

Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund				General Fund		
		Army	Air Force	Navy ¹	DLA	Army	Air Force	Navy
Inventory and Stockpile Materials		X	X	X	X			
Operating Materials and Supplies						X	X	X
General PP&E		X		X		X		X
Real Property						X	X	X
Government Property in the Possession of Contractors	X	X	X	X		X	X	
Joint Strike Fighter Program ²								
Leases	X	X	X	X	X	X	X	X

¹ See note 3 under Table 1 on page 7 for additional information related to the Navy Working Capital Fund.

² This material weakness affects the DoW as a whole.

Source: The DoW OIG.

To properly account for assets, the DoW must be able to track them from purchase to disposal. The DoW is required to use accountable property systems of record for that purpose. However, auditors found that the systems often lacked the controls needed to ensure accurate recording of items’ locations, conditions, and values. In some cases, the DoW has not entered assets—such as those from the Joint Strike Fighter Program—into the system of record. As a result, the DoW cannot support asset balances on the DoW Agency-Wide and reporting entity financial statements.

A homeowner and the DoW have similar responsibilities for asset accountability. A homeowner keeps track of and manages the items within their home, from food to clothing to appliances. Additionally, a homeowner needs to weigh the cost for repairs and maintenance against the value of replacing a household item. The DoW is responsible for maintaining similar accountability of more than a trillion dollars in assets spread around the world. The DoW must track and manage these assets—such as planes, radar, and weapons—to ensure they can perform their military function. Without accurate records, the DoW risks misplacing assets, mismanaging funds, or reporting inaccurate information.

Obstacle #2: Information Technology

The DoW spends billions of dollars each year to maintain and upgrade its systems. However, many of those systems are outdated, redundant, or not compliant with Federal accounting standards. System limitations have led DoW management to request modifications to multiple accounting standards. DoW management has also asked auditors to perform extra testing as a workaround. These actions raise audit costs and delay long-term improvements, including efforts to fix or replace outdated, redundant, or noncompliant systems. These workarounds are similar to a homeowner continuing to repair appliances installed decades ago instead of replacing them when they become unreliable, unable to meet the family's needs, and expensive to repair.

In FY 2025, the DoW OIG identified six IT-related material weaknesses, supported by 984 IT-related NFRs. These NFRs comprise nearly 40 percent of the total FY 2025 NFRs issued. To address these material weaknesses, the DoW must retire its outdated systems and correct the IT controls of its remaining systems. This obstacle covers the following two major issues.

- **Retiring Outdated Systems** – Refers to DoW systems that no longer meet the DoW's needs and are generally not compliant with applicable regulations, such as the Federal Financial Management Improvement Act of 1996.¹¹
 - A homeowner may continue to use a 40-year-old appliance that runs inefficiently, is ineffective, and requires frequent repairs at greater costs. The homeowner should determine the best replacement based on cost, functionality, need, and available funds.
- **Correcting Remaining Systems' IT Controls** – Refers to the implementation of IT controls that help the DoW enhance the integrity and security of its financial data, which significantly reduces the risk of fraud, misstatements, and errors.
 - A homeowner may better protect a home by installing a home security system. They should ensure the system meets their needs, such as covering all entry points to the house, allowing guest access, or providing mobile alerts.



¹¹ The Federal Financial Management Improvement Act of 1996 requires each Federal agency to implement and maintain financial management systems that produce timely, accurate, and useful information.

Retirement of Outdated Information Systems

The DoW’s IT environment is extremely and unnecessarily complex. It includes 297 major financial management systems. Many are redundant, serve only one function, and do not comply with the Federal Financial Management Improvement Act. As a result of this complexity, the DoW OIG issued a material weakness related to Financial Management System Modernization. DoW management plans to:

- retire 39 systems by the end of FY 2027 and
- retire at least 13 more after FY 2027.

Swiftly retiring those systems would resolve at least 343 known deficiencies. However, even after the DoW retires those systems, it will rely on more than 200 systems to produce its financial statements. Therefore, the DoW must continue working toward a smaller, more unified set of IT systems that are used across the DoW.

Table 3 identifies the DoW reporting entities that significantly contributed to the outdated systems-related material weakness.

Table 3. Significant Contributors to the Outdated Systems-Related Material Weakness

Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund				General Fund		
		Army	Air Force	Navy*	DLA	Army	Air Force	Navy
Financial Management Systems Modernization		X	X	X	X	X	X	X

* See note 3 under Table 1 on page 7 for additional information related to the Navy Working Capital Fund.

Source: The DoW OIG.

The long-term benefits of retiring those outdated systems sooner and modernizing the DoW’s overall systems environment are significant. Retiring outdated systems will help the DoW:

- produce complete, accurate, and reliable financial information;
- improve the efficiency and effectiveness of financial operations; and
- reduce the cost of achieving and maintaining a clean audit opinion.

Like a homeowner who continues to ignore faulty electrical wiring or leaking drainpipes and ultimately faces more costly repairs, the DoW’s continued use of poorly designed, outdated systems undermines its decision-making and hinders its efforts to achieve a clean audit opinion. Specifically, continuing to rely on outdated systems increases the DoW’s costs for:

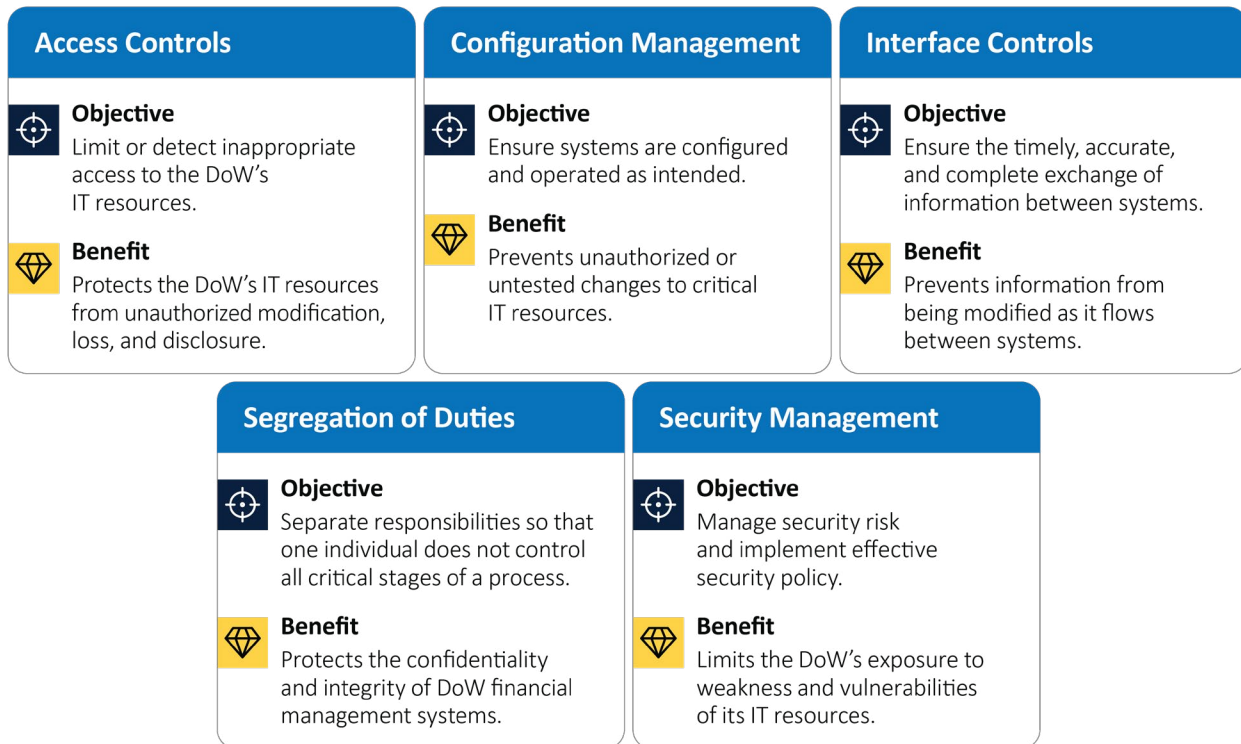
- testing outdated systems,
- continuing to maintain short-term workarounds, and
- performing additional audit procedures to compensate for weak system controls.

Retiring outdated systems and moving their functions to newer or existing systems is a key step toward long-term stability and lower financial management costs.

Correcting Systems That the DoW Plans to Keep

Even after the DoW retires its outdated systems, it will still depend on and have to develop and maintain appropriate IT controls for 245 remaining systems. These systems must have strong and consistent IT controls to ensure accurate, complete, and secure financial information. In FY 2025, the DoW OIG identified five material weaknesses related to poor design or implementation of IT controls. Of the 984 IT-related NFRs, 916 were linked to these weaknesses.¹² Figure 5 summarizes the five IT control weaknesses that affect systems the DoW intends to keep.

Figure 5. A Summary of the Five IT Control-Related Material Weaknesses



Source: The DoW OIG.

¹² The remaining 68 IT NFRs are related to other IT issues, such as system modernization, data management, and continuity planning.

Table 4 identifies the DoW reporting entities that significantly contributed to each of the five IT control-related material weaknesses for enduring systems.

Table 4. Significant Contributors to the IT Control-Related Material Weaknesses

Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund				General Fund		
		Army	Air Force	Navy*	DLA	Army	Air Force	Navy
Access Controls	X	X	X	X	X	X	X	X
Configuration Management	X		X	X	X	X	X	X
Interface Controls			X	X	X		X	X
Segregation of Duties	X		X	X	X	X	X	X
Security Management		X	X		X	X	X	

* See note 3 under Table 1 on page 7 for additional information related to the Navy Working Capital Fund.

Source: The DoW OIG.

IT controls are the foundation of accurate, reliable financial reporting. IT encompasses all the systems, hardware, software, and networks. IT controls determine whether systems properly restrict access, record transactions correctly, interface with other systems, and manage security risks. Just as a homeowner protects their home with a security system, the DoW must protect its systems with the right safeguards. Without them, the risk of fraud, errors, or system failure rises significantly.

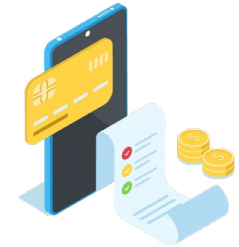
Prioritizing and expediting the remediation of deficiencies in IT systems will:

- improve the DoW’s ability to produce complete, accurate, and valid financial data;
- make audits more efficient; and
- reduce the costs of future audits by giving auditors reliable systems to test.

Obstacle #3: Accounting

Accounting is how the DoW records, summarizes, and reports its financial activity. The DoW continues to have difficulty developing and implementing basic accounting controls, such as maintaining and reviewing a comprehensive list of transactions that affect the financial statements. When accounting processes do not work well, the amounts on the financial statements become unreliable. In FY 2025, auditors identified 10 accounting-related material weaknesses, which fall into the following two areas.

- **Spending Process** – Demonstrates how the DoW manages its funds from the receipt and tracking of budgetary resources, to the spending of those resources to purchase goods and services, and lastly to the reconciliation of that spending to its annual appropriations.
 - A homeowner may create a budget based on their income and expenses, track their spending, and then reconcile to the budget.
- **Financial Reporting Process** – Demonstrates how the DoW handles the procedures that are connected to the process of reporting financial transactions.
 - A homeowner must report to the Internal Revenue Service the amount of income they received and make certain adjustments to determine taxes owed, much like the DoW must report its financial information and make certain adjustments to report accurately.



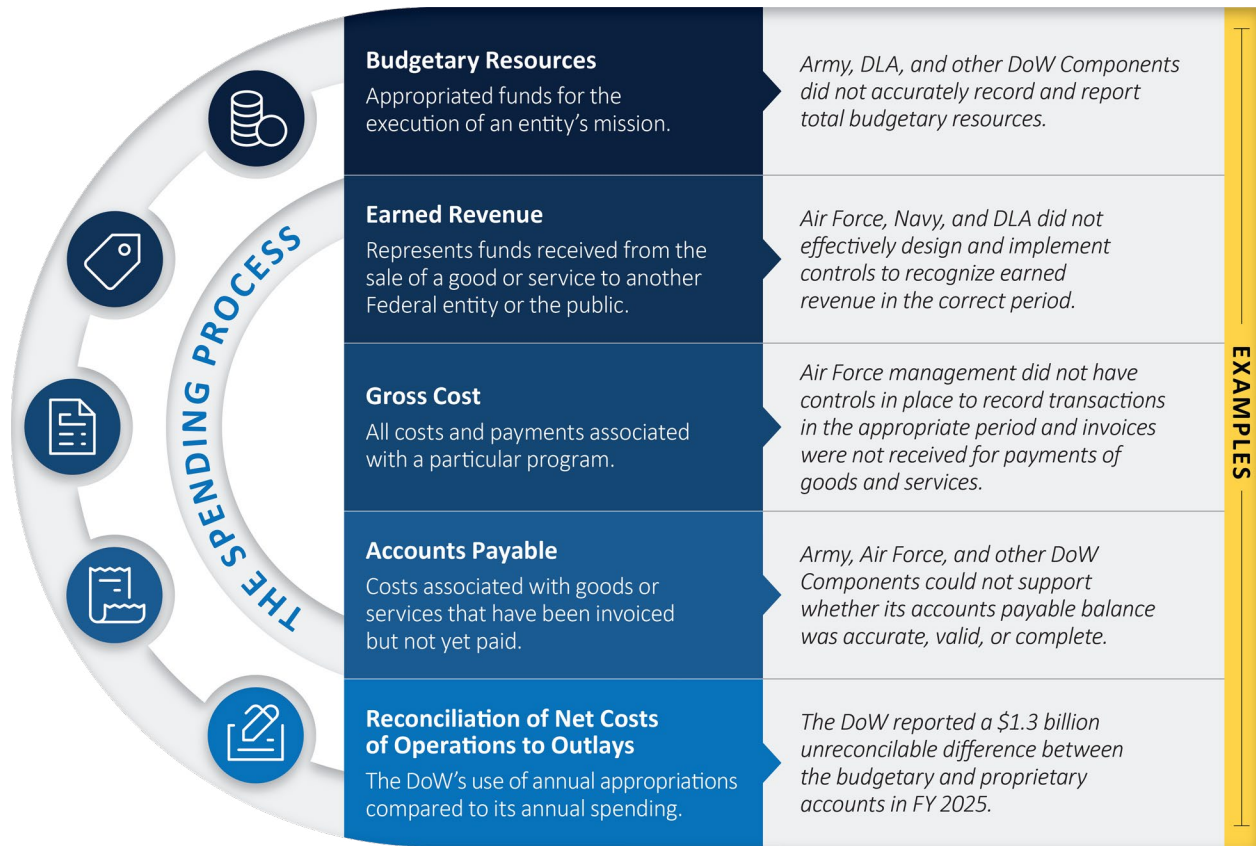
These weaknesses affect everything from how the DoW tracks its budget to how it reports its final amounts at year-end.

The Spending Process

The spending process covers the full cycle of how the DoW receives, uses, and tracks its funds. This process includes receiving appropriations (the DoW's annual budget), earning revenue, purchasing goods and services, and reconciling spending against the budget.

In FY 2025, auditors identified five material weaknesses in this process. Figure 6 summarizes the weaknesses in the spending process and how they relate to the flow of funds through the DoW.

Figure 6. Spending Process Material Weaknesses



Source: The DoW OIG.

Table 5 identifies the DoW reporting entities that significantly contributed to each of the five spending-related material weaknesses.

Table 5. Significant Contributors to the Spending Process-Related Material Weaknesses

Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund				General Fund		
		Army	Air Force	Navy ¹	DLA	Army	Air Force	Navy
Budgetary Resources	X	X	X	X	X	X		X
Earned Revenue		X	X	X	X	X		X
Gross Costs		X	X	X	X	X	X	X
Accounts Payable			X	X	X	X	X	X
Reconciliation of Net Cost of Operations to Outlays ²								

¹ See note 3 under Table 1 on page 7 for additional information related to the Navy Working Capital Fund.

² This material weakness affects the DoW as a whole.

Source: The DoW OIG.

For the DoW to spend funds as intended, its systems and internal controls must reliably track each step in the spending process. However, in FY 2025, auditors found that documentation was often missing, incomplete, or inconsistent. As a result, auditors could not ensure that balances related to the spending process were accurate, valid, and complete, creating uncertainty about the amounts reported on the DoW and reporting entity financial statements.

To better understand the impact of this weakness, consider the situation of a homeowner who must know how much they earn and spend, and whether their checkbook and bank accounts match their receipts. If records are missing or disorganized, the homeowner risks losing track of bills and overspending. The DoW faces the same challenges on a much larger scale. Everyone—from the President and DoW leaders to Congress and the American taxpayer—has a significant interest in gaining an understanding and awareness of how the DoW spends the substantial amount of funds entrusted to it. DoW management is responsible for designing and implementing systems, controls, and processes that can provide valid and accurate data to better inform operational decisions and help ensure mission readiness. Improving controls over the spending process is essential to ensure the DoW uses taxpayer funds as Congress intended.

The Financial Reporting Process

The financial reporting process includes recording individual transactions, summarizing those transactions, making adjustments, and preparing the financial statements. Accurate reporting requires:

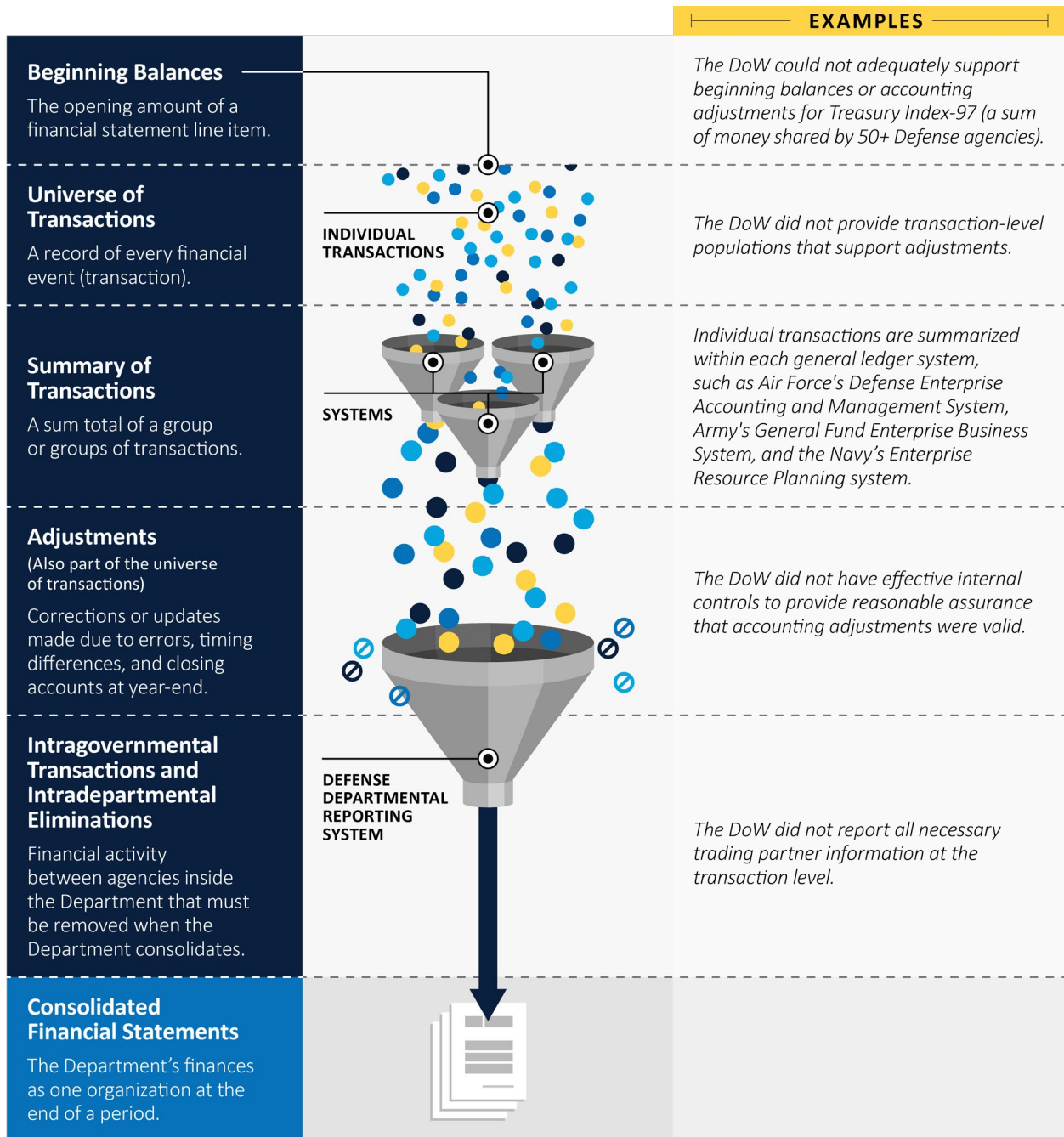
- having reliable historical data (beginning balances),
- maintaining a complete list of transactions (universe of transactions), and
- properly supporting estimates and adjustments.

In FY 2025, auditors identified five material weaknesses in this process.

- **Universe of Transactions** – The complete set of all transactions that fall within the scope of what is audited. A universe of transactions includes every transaction that occurred and could be selected by auditors for testing.
- **Fund Balance with Treasury (FBWT)** – The balance of spending accounts with the U.S. Treasury, like a checking account when an individual is paid and then pays a bill. The DoW’s estimated FBWT balance is \$1 trillion.
- **Environmental and Disposal Liabilities** – The future costs that the Government expects to pay to clean up pollution, restore contaminated sites, or safely dispose of hazardous items. The DoW’s estimated balance is \$108 billion.
- **Intragovernmental Transactions and Intradepartmental Eliminations** – Transactions between two Government or DoW entities that must be handled differently from transactions with non-government organizations when preparing the DoW Agency-Wide Financial Statements.
- **Unsupported Accounting Adjustments** – Changes made to accounting records without the proper documentation to show why the change was needed or correct. In the last two quarters of FY 2025, the DoW’s adjustments totaled more than \$859 billion.

Figure 7 shows how individual transactions flow into the financial statements and where problems in the reporting process can disrupt accuracy.

Figure 7. The Flow of Transactions to the Financial Statements



Source: The DoW OIG.

Table 6 identifies the DoW reporting entities that significantly contributed to each of the five financial reporting-related material weaknesses.

Table 6. Significant Contributors to the Financial Reporting-Related Material Weaknesses

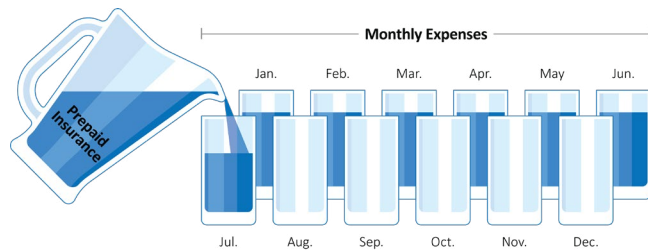
Agency-Wide Material Weakness	Other DoW Components	Working Capital Fund				General Fund		
		Army	Air Force	Navy*	DLA	Army	Air Force	Navy
Universe of Transactions	X		X			X	X	
Fund Balance with Treasury	X				X			
Environmental and Disposal Liabilities						X		
Unsupported Accounting Adjustments	X	X	X	X	X	X	X	X
Intragovernmental Transactions and Intradepartmental Eliminations	X	X	X	X	X	X	X	

* See note 3 under Table 1 on page 7 for additional information related to the Navy Working Capital Fund.

Source: The DoW OIG.

Financial statement balances should be supported by actual transactions. However, estimates are sometimes needed when an event is likely but has not yet occurred. For example, a homeowner must estimate the cost of cleaning up a leaking oil tank before the cleanup happens. Likewise, the DoW must estimate its environmental cleanup costs, such as those related to hazardous waste.

Furthermore, at the end of each reporting period, the DoW does a final round of accounting adjustments to ensure the financial statements are accurate. A good way to think about this is like a homeowner paying a full year of insurance upfront. Even though they paid for the entire year on day one, only one-twelfth of that cost belongs in each month of the year.



The DoW’s adjustments work the same way. The DoW ensures transactions are recorded in the right place and for the right period. That includes fixing earlier entries, matching expenses to the months they truly belong in, and cleaning up transactions between Government entities so both sides agree.

Accounting estimates and adjustments must be accurate and supported by documentation in accordance with accounting standards and regulations, as they affect the final balances on the financial statements. When estimates and adjustments are inaccurate or unsupported, the financial statements become unreliable and cannot be used for sound decision-making.

Conclusion

FY 2025 marked the eighth consecutive disclaimer of opinion on the DoW's financial statements. Auditors issued a disclaimer of opinion because they could not obtain enough appropriate evidence to form a different conclusion.

However, the audit opinion does not fully reflect the DoW's progress this year. Compared to FY 2024, the DoW and its reporting entities received:

- 17.7 percent fewer NFRs and
- 13.9 percent fewer material weaknesses.

Of the total 2,485 NFRs issued in FY 2025, 1,911 were reissued, while 574 were new, showing that many longstanding issues remain.

Just as a homeowner must maintain the structural integrity of a house, the DoW must strengthen the foundation of its financial management. The 26 material weaknesses represent core deficiencies that the DoW cannot overlook if it expects to achieve a clean audit opinion and provide reliable, transparent financial information to Congress and the public.

The DoW's Focus on the Line Items Most Significant to the DoW Opinion

In FY 2026, the DoW is changing its audit approach to focus on the line items that drive the DoW opinion. This change reflects the Department's move toward a risk-based approach that concentrates resources on the most material balances to achieve a clean opinion by December 31, 2028.¹³

In addition, the DoW will have auditors use a substantive audit approach instead of a controls-based audit approach. This does not mean the DoW is abandoning controls. Rather, the DoW will build on the internal controls that are already working while continually improving and maturing its control environment through feedback from the auditors.

The DoW is also investing in technology and process improvements to support timely, accurate financial information. Together, the DoW believes these efforts will create a more efficient and focused audit process that strengthens financial stewardship and improves the reliability of the DoW's consolidated financial reporting.

Historically, the DoW developed stand-alone financial statements for 22 DoW reporting entities. These statements were then consolidated into the DoW Agency-Wide Financial Statements. Auditors focused on testing the internal controls over financial reporting for the DoW and reporting entity financial statements to determine whether they could rely on those controls when forming their audit opinion. Internal controls are the foundation for ensuring the DoW uses taxpayer dollars responsibly, protects government assets, and produces reliable information. They are a system of "checks and balances" for day-to-day management that involve:

- setting expectations for integrity and ethical behavior;
- identifying financial statement risks;
- designing controls—like approvals and reviews—to reduce risks;
- communicating people's responsibilities clearly; and
- monitoring performance and fixing problems quickly.

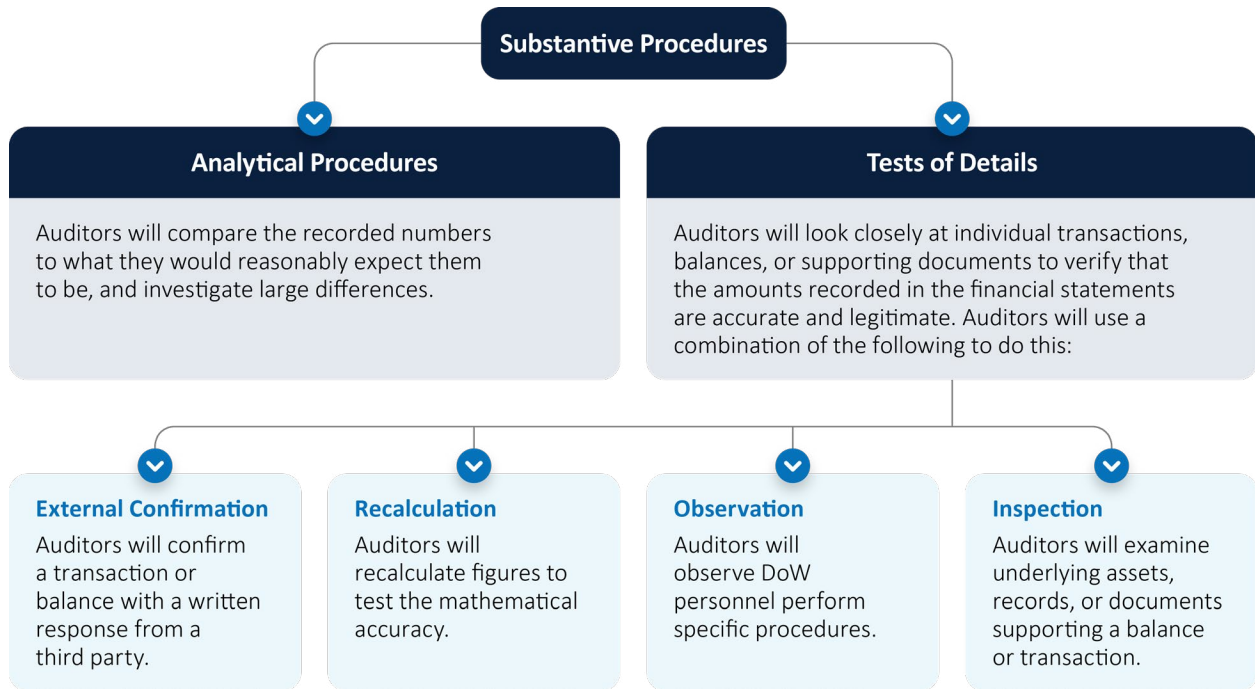
¹³ Public Law 118-31, "National Defense Authorization Act for Fiscal Year 2024," December 22, 2023, required that the Department receive a clean opinion on the financial statements by December 31, 2028.

When auditors identified breakdowns in controls for any of those 22 reporting entities, the auditors issued NFRs and material weaknesses for the DoW and its Components to fix.¹⁴ The DoW and its Components then took actions to fix those material weaknesses, and auditors reviewed those actions to determine whether they were sufficient to close the associated NFRs.

However, in FY 2026, the DoW began simplifying its reporting structure by consolidating the number of reporting entities required to produce stand-alone financial statements from 22 in FY 2025 to 7 in FY 2027. The 15 entities no longer required to produce stand-alone financial statements will still be audited as part of the DoW Agency-Wide Financial Statements.

In conjunction with the updated reporting structure, the auditors will shift to a substantive audit approach. This approach focuses on directly reviewing financial data—such as transactions, balances, and supporting documents—rather than depending on internal control processes. Figure 8 provides an overview of the two types of substantive procedures used by auditors: (1) analytical procedures and (2) tests of details.

Figure 8. Substantive Procedures Overview

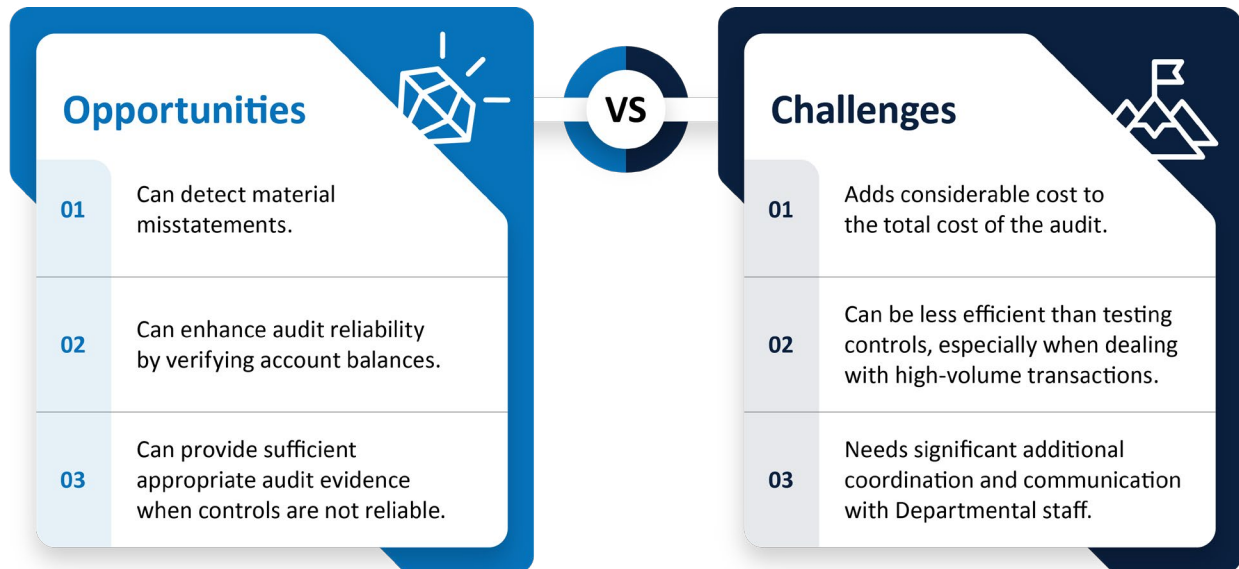


Source: The DoW OIG.

¹⁴ Auditing standards require auditors to obtain an understanding of internal controls. However, there is no requirement that auditors test and rely on internal controls.

DoW management’s decision for auditors to use a substantive audit approach offers the DoW opportunities that will allow it to progress toward a clean audit opinion; however, it also presents challenges that both auditors and DoW management will need to overcome. Figure 9 provides an overview of some of the opportunities and challenges of the DoW’s substantive audit approach.

Figure 9. Opportunities and Challenges of the DoW’s Substantive Audit Approach



Source: The DoW OIG.

The substantive testing procedures will require more resources from both auditors and DoW management. Auditors will need to review more records and visit more sites, and DoW staff will need to provide more documentation and respond to additional follow-up questions. The goal of this significant effort is to enable the auditors to directly test account balances and gather sufficient evidence to form an opinion on the financial statements. However, this effort will not necessarily resolve the outstanding material weaknesses associated with related line items. For example, to support inventory balances using a substantive approach, auditors will travel to all significant DoW installations and count inventory and physically verify inventory location and condition. In a controls-based audit, auditors rely on effective controls and can then review less documentation and physically count smaller sample sizes.

DoW management has decided to focus its FY 2026 efforts on undergoing extensive substantive procedures relating to the following line items.

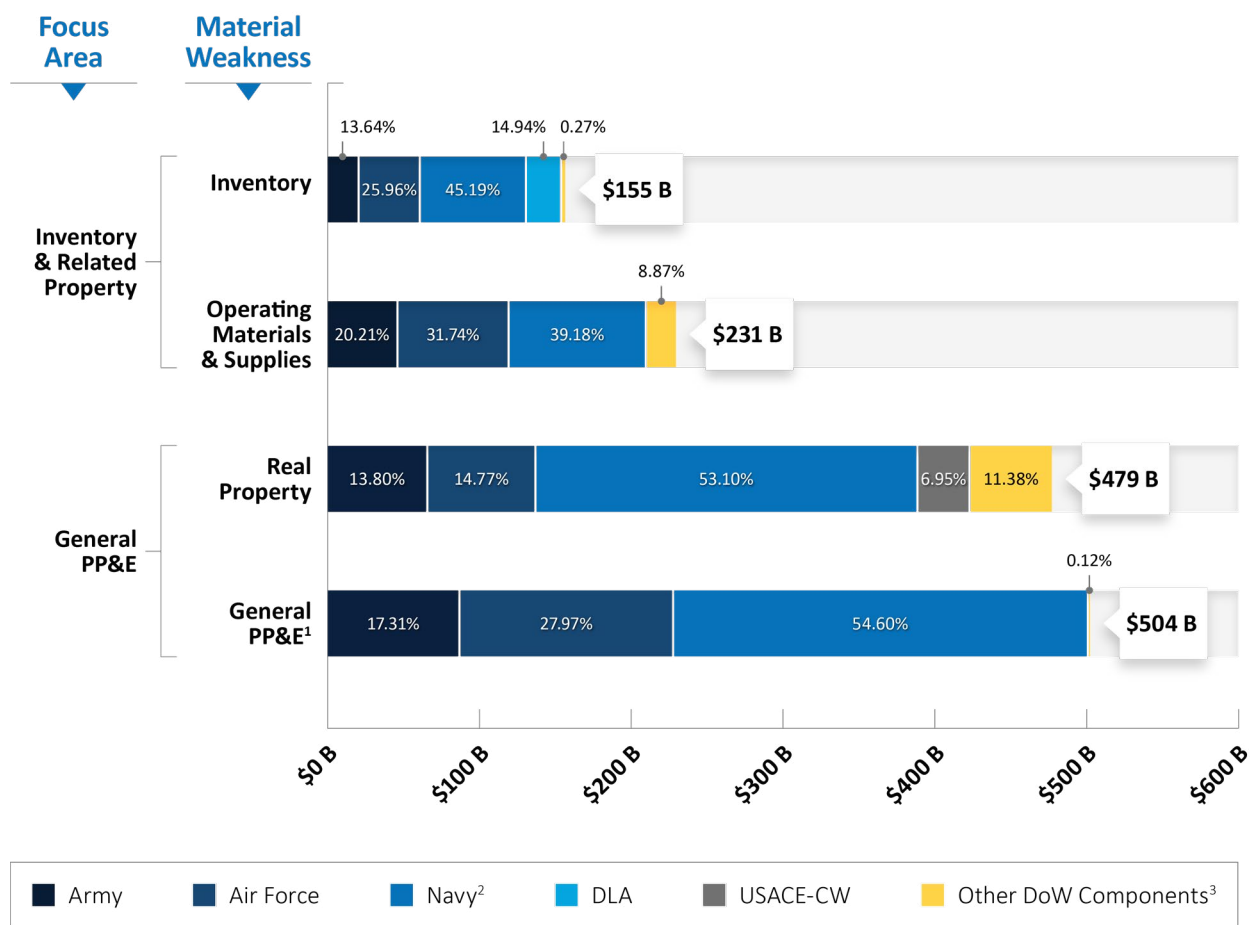
- Inventory and Related Property (Physically Observable Assets)
- General PP&E (Physically Observable Assets)
- FBWT
- Intragovernmental Transactions and Eliminations

Line Items Related to Physically Observable Assets

Physical assets, such as Inventory and Related Property and General PP&E, make up \$1.3 trillion of the DoW’s total assets and are essential to its mission. These assets include items consumed in operations, such as munitions, as well as major physical assets like buildings, infrastructure, vehicles, and other essential equipment.

In FY 2025, auditors identified six material weaknesses related to this area. As they prepare for the FY 2026 substantive testing approach, auditors will devote substantial resources to validating the existence of these assets and valuing the related balances. Figure 10 shows the Components that own significant percentages of the physical asset balances.

Figure 10. Physical Asset Balance Percentage by Component



Note: See the Acronyms and Abbreviations List at the end of this report for full terms of acronyms.

¹ General PP&E balance is the total DoW PP&E balance minus Real Property.

² The Navy Working Capital Fund did not present financial statements in FY 2025; however, the percentages for Inventory include Navy Working Capital balances as of the fourth quarter FY 2025.

³ “Other DoW Components” represents Components that did not have a significant balance in FY 2025.

Source: The DoW OIG.

Inventory and Related Property

The Inventory and Related Property line item includes everything from critical spare parts to stockpile materials and items like ammunition and fuel. In FY 2025, the DoW OIG identified four material weaknesses related to this line item.¹⁵

- **Inventory and Stockpile Materials** – This is property held for sale, including raw materials, work-in-process, and finished goods. The DoW’s estimated value is \$155.4 billion.
- **Government Property in the Possession of Contractors** – This is property owned by the DoW but furnished to contractors for performance. The DoW’s estimated value is included within the overall Inventory and Related Property balance and is not broken out separately.
- **Operating Materials and Supplies** – This is property consumed in normal operations, such as spare parts, ammunition, and fuel. The DoW’s estimated value is \$231 billion.
- **Joint Strike Fighter Program** – This is spare parts and equipment for the F-35 program. The DoW’s estimated value is undetermined as of FY 2025.

Substantive procedures are necessary because the DoW’s current controls are not reliable. As a result of the control issues, the auditors’ FY 2026 significant testing effort will include physically observing assets at bases and contractor sites around the world, verifying the underlying valuation and ownership documentation, and ensuring the data are accurately presented in the financial statements.

General Property, Plant, and Equipment

General PP&E consists of Real Property, General Equipment, and Internal Use Software. Real Property includes buildings, structures, and linear structures.¹⁶ General Equipment includes assets, such as trucks, airplanes, tanks, or ships. Internal Use Software is software that is acquired or developed to meet the DoW’s operational needs.

The DoW had two material weaknesses related to this line item—Real Property and General PP&E.¹⁷ Due to these material weaknesses, DoW auditors will use substantive procedures to obtain evidence that the line item is fairly presented. Similar to the substantive procedures needed for Inventory and Related Property, the auditors’ FY 2026 significant testing for General PP&E will include physically observing assets such as tanks, missiles, and buildings located around the world. Additionally, once the counts are accurate, auditors will focus on reviewing and testing valuation support for the DoW’s General PP&E to ensure the financial statements are accurate and reliable.

¹⁵ Government Property in the Possession of Contractors and Joint Strike Fighter Program assets that DoW should report but currently are not, generally align with Inventory and Related Property; however, some of those assets may need to be reported as General PP&E.

¹⁶ A linear structure is a facility that traverses land such as a runway, road, rail line, pipeline, fence, pavement, or electrical distribution line.

¹⁷ The General PP&E material weakness related to General Equipment and Internal Use Software.

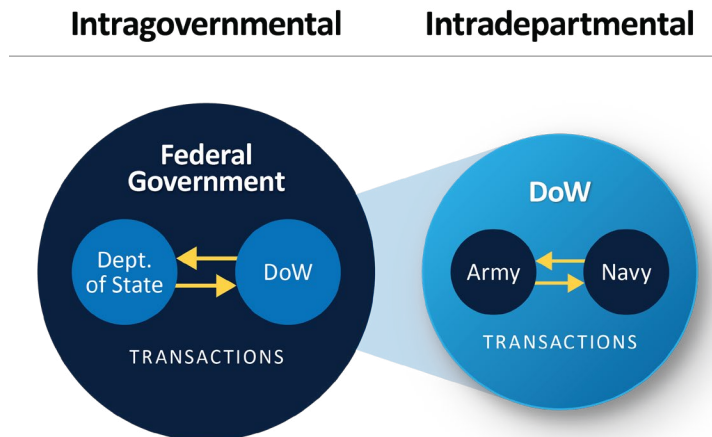
Fund Balance with Treasury

The DoW has spending accounts with the U.S. Treasury, just like an individual has a checking and savings account. The Fund Balance with Treasury (FBWT) is the balance of those accounts at a point in time. Account balances increase with appropriations and collections and decrease with payments, like a checking account when an individual is paid and then pays a bill. In FY 2025, the DoW financial statement audit identified a material weakness related to FBWT. Specifically, the DoW could not support a beginning balance for its shared appropriation used by more than 50 Defense agencies and programs—Treasury Index-97.¹⁸ In short, the DoW has not been able to show that its records match the official balances recorded by the U.S. Treasury, which is a fundamental requirement for accurate financial reporting. As a result of the control issues, the auditors’ goal in the FY 2026 substantive testing effort will be to validate that the DoW’s FBWT accounting records reconcile to the U.S. Treasury by reviewing accounting adjustments and analyzing comprehensive samples of supporting documentation.

Intragovernmental Transactions

Intragovernmental transactions result from Government entities conducting business with each other, such as the DoW and the Department of State. Intradepartmental transactions are business conducted between DoW entities, such as the Army General Fund and the Navy Working Capital Fund. When two DoW reporting entities do business with each other, this activity within the DoW must be removed during financial statement consolidation. Figure 11 provides an overview of intragovernmental and intradepartmental transactions.

Figure 11. Overview of Intragovernmental and Intradepartmental Transactions



Source: The DoW OIG.

¹⁸ Examples of Treasury Index-97 agencies and programs include the Defense Health Program, Defense Logistics Agency Working Capital Fund, Defense Information Systems Agency General Fund, Defense Information Systems Agency Working Capital Fund, and U.S. Transportation Command.

The DoW had one material weakness in FY 2025 related to intragovernmental transactions and intradepartmental eliminations. As a result of the control issues, DoW management plans to use technologies to identify and match intragovernmental transactions, and FY 2026 testing will involve reviewing samples of adjustments used to match records between trading partners. This effort will ensure all intragovernmental and intradepartmental transactions are accounted for at the Department-wide level and properly eliminated for financial presentation.

Conclusion

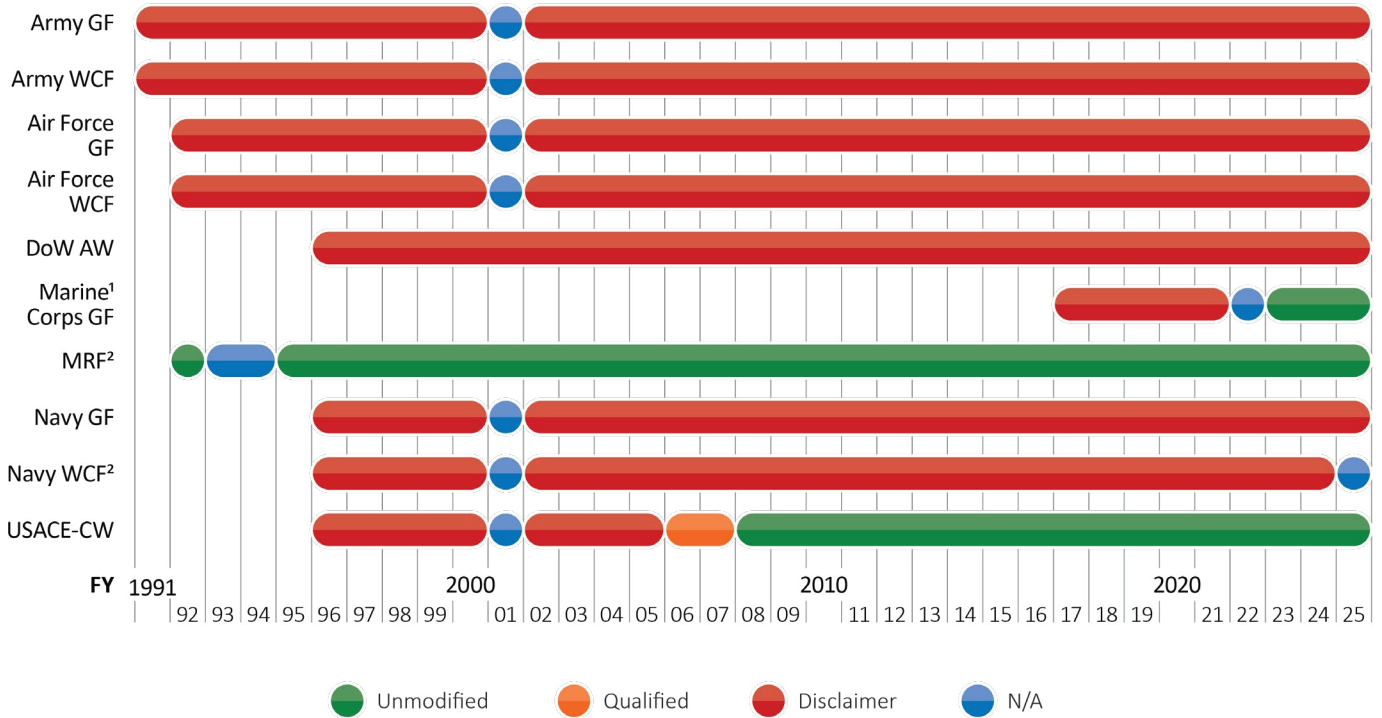
The DoW's emphasis on substantive testing procedures that focus on specific line items will allow auditors to ensure the accuracy of some of the largest account balances without needing the DoW Components to effectively design and implement internal controls. Although these substantive procedures require significant resources and effort, they offer a way to move the DoW toward a clean opinion even as material weaknesses remain. This approach has already proven effective on a smaller scale—most notably in FY 2023, when the U.S. Marine Corps achieved a clean audit opinion and maintained that clean opinion despite having several material weaknesses.

While the DoW has made progress in addressing the weaknesses related to the four focus areas, these issues remain a primary obstacle to a clean audit opinion. Similar to the approach taken with the U.S. Marine Corps' financial statements, the DoW hopes to leverage substantive procedures to be able to obtain a clean opinion by FY 2028.

However, as the DoW undergoes substantive testing, it must recognize the challenges that limit the long-term effectiveness of this approach. To transition toward a more efficient and sustainable audit, the DoW must continue to improve its internal controls. Doing this will streamline financial management and make audit support easier. Internal controls provide essential structure and safeguards that ensure transactions are recorded accurately, assets are protected, errors are detected promptly, and financial information can be trusted. Without strong controls, even well-designed processes can break down, leading to inconsistent reporting, inefficient operations, and increased risk of misstatements. Ultimately, the DoW must build a sustainable financial foundation that supports accountability well into the future.

Appendix A

DoW Opinions FYs 1991 Through 2025



Note: The chart includes opinions from only those DoW reporting entities whose financial statements are required by OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024. In addition, DoW 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.

See the Acronyms and Abbreviations List at the end of this report for full terms of acronyms.

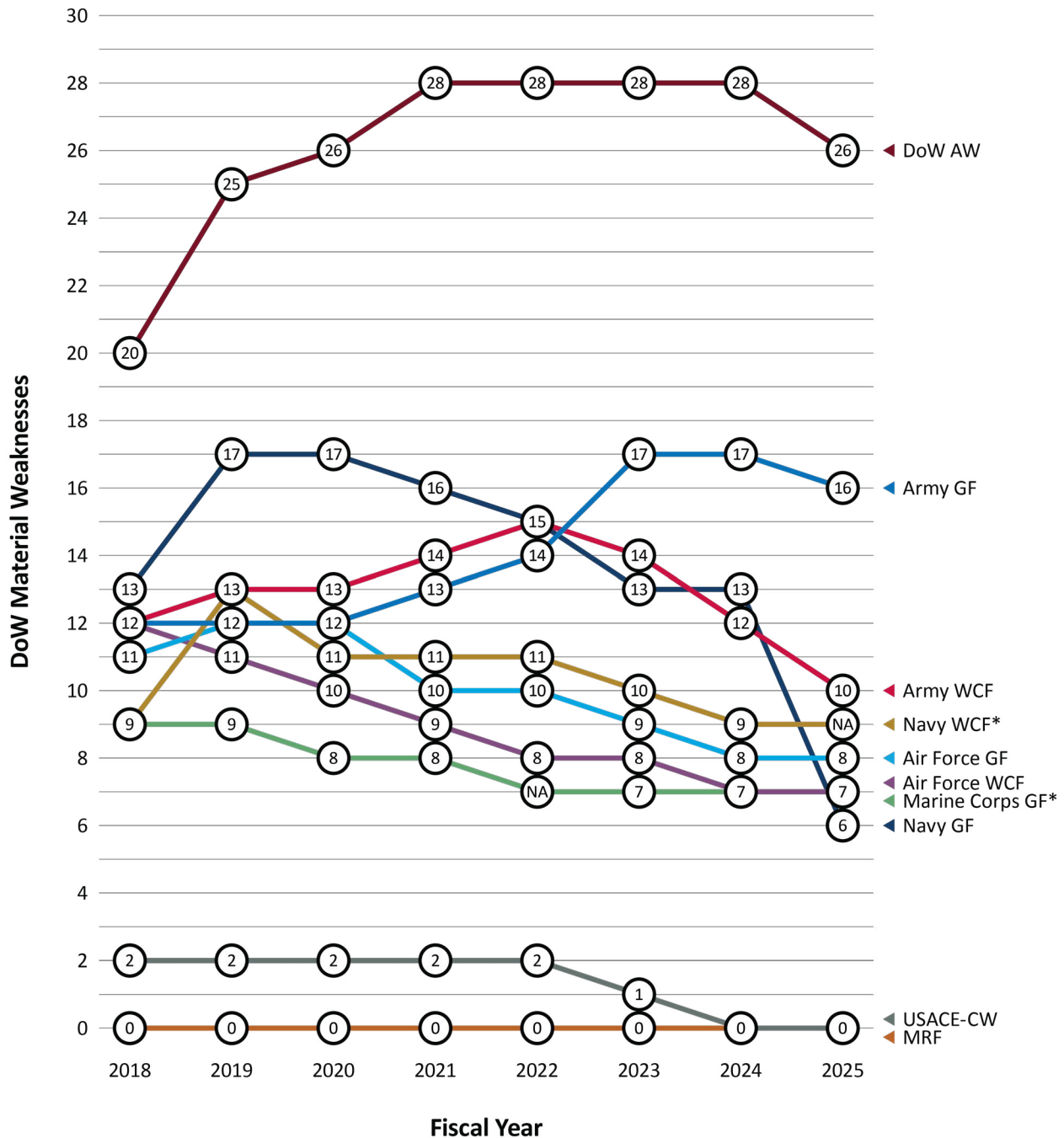
¹ The U.S. Marine Corps was consolidated and reported in the Navy General Fund until FY 2017. Beginning in FY 2017, the U.S. Marine Corps began preparing full financial statements for audit. OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," August 2022, listed the U.S. Marine Corps as a DoW reporting entity 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. In FY 2025, the Navy Working Capital Fund was under a 2-year audit cycle.

Source: The DoW OIG.

Appendix B

DoW Material Weaknesses FYs 2018 Through 2025



Note: The chart includes material weaknesses from only those DoW reporting entities whose financial statements are required by OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024. The other 41 material weaknesses issued to DoW reporting entities in FY 2025 were for entities not required by the OMB.

See the Acronyms and Abbreviations List at the end of this report for full terms of acronyms.

* The OMB exempted the U.S. Marine Corps (FY 2022) and Navy Working Capital Fund (FY 2025) from preparing audited financial statements for the first year of a 2-year audit cycle.

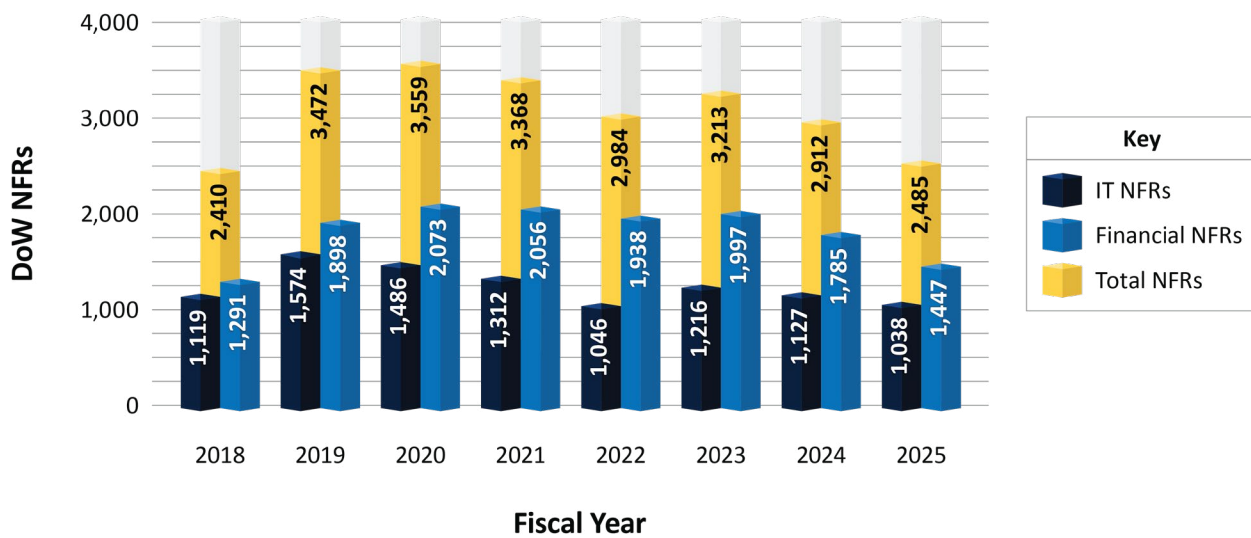
Source: The DoW OIG.

Appendix C

Notices of Findings and Recommendations Issued to the DoW

In FY 2025, auditors issued 2,485 NFRs to the DoW and its Components, which is 427 fewer total NFRs than the prior year. Of the 2,485 FY 2025 NFRs issued, 1,911 were reissued from prior-year NFRs and 574 were new issues identified in FY 2025. Appendix C presents the total number of NFRs issued each year since FY 2018, when Congress mandated that the DoW undergo full financial statement audits. Figure C-1 shows the number of NFRs issued to the DoW and its Components for the 8 years that a full financial statement audit has been required.

Figure C-1. NFRs Issued to the DoW and Its Components for FYs 2018 Through 2025

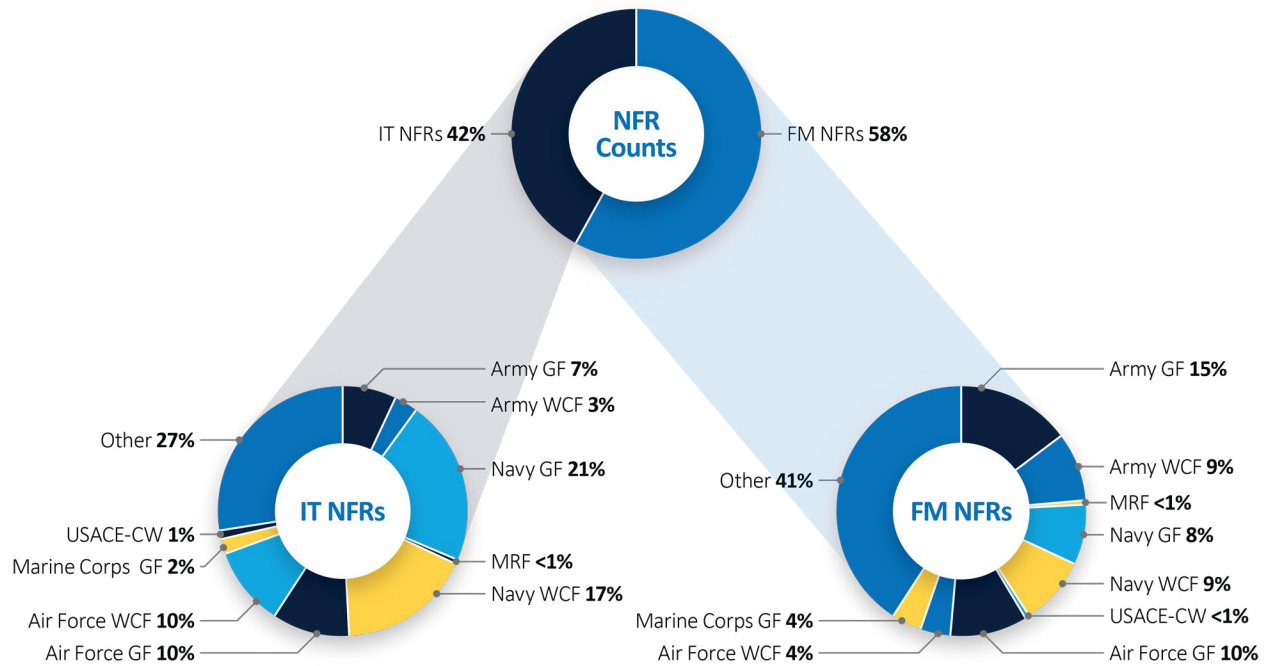


Note: While the FY 2025 NFR counts include all NFRs that relate to the DoW Agency-Wide Financial Statements, prior-year counts include only those NFRs that the DoW OIG created or oversaw being created. In FY 2025, the DoW OIG did not create or oversee the creation of 89 NFRs.

Source: The DoW OIG.

Figure C-2 breaks down the total number of FY 2025 NFRs (2,485) between IT and Financial Management separately issued to each DoW reporting entity.

Figure C-2. Breakdown of NFRs Between IT and Financial Management by DoW Reporting Entity

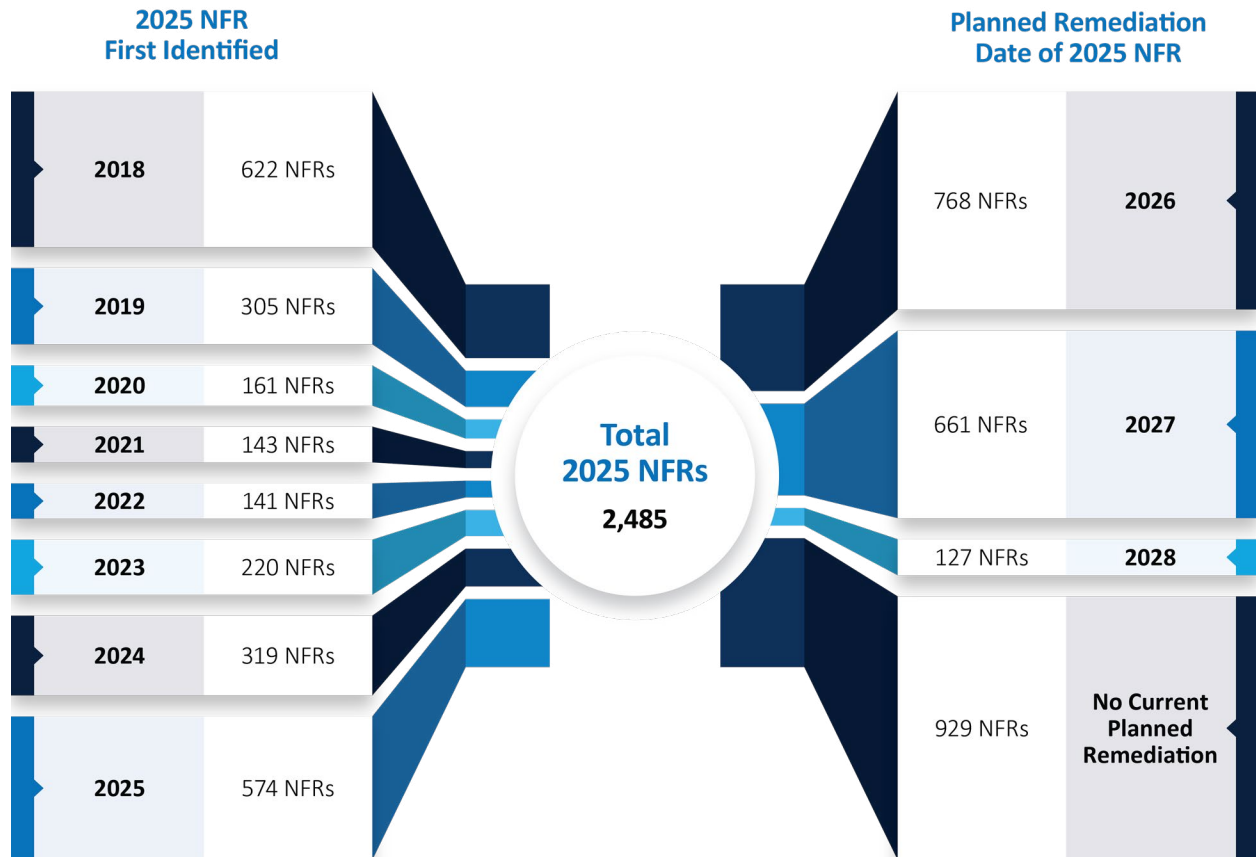


Note: See the Acronyms and Abbreviations List at the end of this report for full terms of acronyms.

Source: The DoW OIG.

Historically, the DoW NFR remediation efforts have not been timely. Figure C-3 summarizes when each FY 2025 NFRs was originally issued and when it will be remediated. As Figure C-3 shows, 622 NFRs have been reissued seven times since they were originally issued in FY 2018, and 929 NFRs do not have dates for when those deficiencies will be remediated. The DoW must continue to focus on remediation efforts to create a financial management environment that creates accurate and reliable information to be included in the financial statements.

Figure C-3. Remediation Dates for NFRs Issued in FY 2025



Source: The DoW OIG.

Acronyms and Abbreviations

DLA	Defense Logistics Agency
FBWT	Fund Balance with Treasury
GF	General Fund
IT	Information Technology
MRF	Military Retirement Fund
NFR	Notice of Findings and Recommendations
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
USACE-CW	U.S. Army Corps of Engineers–Civil Works
WCF	Working Capital Fund



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