Report No. DODIG-2026-032

Inspector General

U.S. Department of Defense

DECEMBER 18, 2025

Independent Auditor's Reports on the DoD FY 2025 Financial Statements

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY

INSPECTOR GENERAL

INTEGRITY EFFICIENCY

DEPARTMENT OF DEFENSE

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

December 18, 2025

MEMORANDUM FOR SECRETARY OF WAR
UNDER SECRETARY OF WAR (COMPTROLLER)/CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF WAR

SUBJECT: Independent Auditor's Reports on the DoD FY 2025 Financial Statements (Project No. D2025-D000FV-0064.000, Report No. DODIG-2026-032)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2025 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Financial Statements as of the fiscal year ended September 30, 2025.

This audit report fulfills the DoD Office of Inspector General (DoD OIG) requirement to audit the DoD Agency-Wide Financial Statements, as outlined in section 3521, title 31, United States Code. It is supported by Component audit reports developed by independent public accounting firms. We participate in the selection of these firms and monitor them, as outlined in section 240, title 10, United States Code.

We conducted our group audit in accordance with generally accepted government auditing standards; Office of Management and Budget Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[1] Our attached Independent Auditor's Reports consist of:

- Report on the Financial Statements;
- Report on Internal Control over Financial Reporting; and
- Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Our audit consolidated the results of: (1) audits of the Military Services and other significant DoD Components, and (2) audit procedures we conducted over balances for DoD Components that were not under audit by an independent public accounting firm.

[1] Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.
Office of Management and Budget Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

Material weaknesses identified at the DoD Component level combined with materials weaknesses identified at the DoD level led to a disclaimer of opinion.

The Report on Internal Control over Financial Reporting includes a description of 26 material weaknesses and 2 significant deficiencies related to the DoD's internal controls over financial reporting.[2] In that report, we consolidated the FY 2024 Beginning Balances material weakness into other FY 2025 financial statement material weaknesses to align with specific deficiencies, such as the Fund Balance with Treasury. This change provides greater specificity and transparency into areas in which the DoD and its Components must improve their financial management. The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements includes a description of five instances of noncompliance.

To foster transparency and provide insight into these reports, the DoD OIG will issue its annual report on understanding the results of the DoD financial statement audit. The report will provide a plain language explanation of the results of the audit and specify the entities that contribute to each material weakness. Additionally, the DoD OIG will add to its website metrics related to the DoD's financial statement audit performance.

Sound financial management is the responsibility of management at every level in the Department. Reliable financial statements provide better information for decision makers and promote responsible stewardship of taxpayer dollars. Effective internal controls help ensure accurate and reliable information for key areas that affect operational readiness, such as the availability of assets and funds.

We appreciate the cooperation and assistance received during the audit and look forward to continuing our work in this critically important area. The Inspector General Act, as amended, requires OIGs to post their reports on their website. Accordingly, this report will be posted at https://www.dodig.mil.

Steven A. Stebbins
Acting

[2] A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

December 18, 2025

Report on the Financial Statements

Disclaimer of Opinion

The DoD Agency-Wide Financial Statements include the Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures in the DoD Agency Financial Report. These statements are referred to as the financial statements in this report. We were engaged to audit the financial statements as of and for the fiscal year ended September 30, 2025, as required by the Chief Financial Officers Act of 1990, and in accordance with Office of Management Budget (OMB) guidance requiring single-year presentation.[1] The resulting audit report fulfills the DoD Office of Inspector General requirement to audit the DoD Agency-Wide Financial Statements, as outlined in section 3521, title 31 United States Code.

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on the accompanying financial statements. Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

Basis for Disclaimer of Opinion

As the group auditor for the DoD Agency Financial Report, the OIG is responsible for performing the audit of the DoD Agency Financial Report and overseeing the financial statement audits of significant DoD Components, such as the Military Services. The OIG used the results from that audit work to form an opinion on the DoD Agency Financial Report.

[1] Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.
Office of Management and Budget, Circular A-136, "Financial Reporting Requirements," July 2025.

Independent public accounting firms that were engaged to perform financial statement audits issued disclaimers of opinion for the following DoD reporting entities.[2]

- Department of the Army General Fund
- Department of the Army Working Capital Fund
- U.S. Navy General Fund
- Department of the Air Force General Fund
- Department of the Air Force Working Capital Fund
- U.S. Transportation Command Transportation Working Capital Fund
- Defense Intelligence Agency
- National Geospatial-Intelligence Agency
- Defense Health Program General Fund
- Defense Information Systems Agency General Fund
- Defense Logistics Agency Working Capital Fund

The DoD reporting entities that received disclaimers of opinion on their financial statements, when combined, account for at least 43 percent of the DoD's total assets and at least 64 percent of the DoD's total budgetary resources. These combined balances are material to the Agency-Wide Financial Statements.

Additionally, we identified the following material misstatements during our audit.

- Building Partner Capacity programs are a means by which the DoD uses its own appropriations to build the capacity and capabilities of partner-nation security forces. To fulfill the missions of these programs, Congress appropriates funding to the DoD.[3] However, the DoD did not accurately report the status of that funding in the Agency-Wide Financial Statements.

---

[2] A DoD Component is a Military Department, Defense agency, DoD field activity, combatant command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency General Fund. As of the date of this audit report, the Agency Financial Reports for the U.S. Marine Corps and Defense Logistics Agency Stockpile Transaction Fund have not been published. In addition, the Department of the Navy Working Capital Fund will not publish an Agency Financial Report in FY 2025, as it is under a 2-year audit cycle. As a result, we were unable to confirm the accuracy or consider amounts or disclosures directly attributed to those reporting entities.

[3] While some Building Partner Capacity programs are funded with non-DoD appropriations, we included only DoD appropriations in the misstatement amounts discussed in this report.

The DoD transferred some of this funding to a trust fund account for the future purchase of goods and services. The DoD recorded the funding as spent when it transferred the funds, instead of when goods or services were purchased for the partner nation. This accounting treatment resulted in an $18.9 billion material misstatement in the amount of Building Partner Capacity funding on the Agency-Wide Financial Statements, which is reported in the DoD-Wide Oversight and Monitoring material weakness in our Report on Internal Control over Financial Reporting.

- The Joint Strike Fighter Program is a multiservice, multinational acquisition to develop and field strike fighter aircraft for the Departments of the Navy and Air Force, the Marine Corps, and international partners. However, DoD management did not account for or report Global Spares Pool assets for the Joint Strike Fighter Program in the Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and Statements of Federal Financial Accounting Standards (SFFAS) 3 and 6.[4] This omission resulted in a material misstatement in the DoD's assets on the Agency-Wide Financial Statements. Because the DoD is unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Global Spares Pool assets for the Joint Strike Fighter Program, we could not quantify the material misstatement in the DoD's assets on the Agency-Wide Financial Statements. We report on this matter in the Joint Strike Fighter Program material weakness identified within our Report on Internal Control over Financial Reporting.

We considered the matters described previously as a scope limitation in forming our conclusions on the financial statements. As a result, our work may not have identified all issues that could affect the financial statements.

Other Matters

DoD management referenced information on websites or other forms of interactive data within the Agency Financial Report. This information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. As a result, this information was not subjected to our audit

---

[4] OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

Federal Accounting Standards Advisory Board (FASAB), SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

FASAB, SFFAS No. 6, "Accounting for Property, Plant, and Equipment, November 1995.

procedures. Accordingly, we do not express an opinion or provide any assurance on the websites, data, or information referred to on these websites, or other forms of interactive data included in the Agency Financial Report.

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing financial statements that conform with generally accepted accounting principles; (2) preparing, measuring, and presenting the Required Supplementary Information, which includes the Management's Discussion and Analysis, in accordance with generally accepted accounting principles; and (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Agency Financial Report

Our responsibility is to express an opinion on the financial statements based on our performance of the audit, and to review the Management's Discussion and Analysis section within the Agency Financial Report in accordance with generally accepted government auditing standards (GAGAS); OMB Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[5] However, because of the significance of matters described in the "Basis for Disclaimer of Opinion" section, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements.

GAGAS requires that we exercise professional judgment and maintain professional skepticism throughout the audit. Additionally, GAGAS requires us to be independent of the DoD and to meet our other ethical responsibilities in accordance with the relevant ethical principles relating to our audit.

Required Supplementary Information

OMB mandates that the Required Supplementary Information, which includes Management's Discussion and Analysis, be presented in the Agency Financial Report to supplement the financial statements. The Required Supplementary Information is the

---

[5] Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.

OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.

Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

responsibility of management and, although not a part of the financial statements, it is required by the OMB and Federal Accounting Standards Advisory Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the Required Supplementary Information in accordance with GAGAS because of managements' inability to provide sufficient, appropriate evidence that led to the disclaimers outlined in the "Basis for Disclaimer of Opinion" section. Accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 24-02, we also issued reports dated December 15, 2025, on our consideration of the DoD's internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing; it is not to provide an opinion on the effectiveness of the DoD's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audit.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

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

December 18, 2025

Report on Internal Control over Financial Reporting

We conducted the audit of the DoD Agency-Wide Financial Statements, as required by the Chief Financial Officers Act of 1990, and in accordance with generally accepted government auditing standards; Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency, Financial Audit Manual.[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal year ended September 30, 2025. Our Report on the Financial Statements, dated December 18, 2025, disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, which indicates we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, abuse, or error; and (2) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982.[2]

Auditors previously communicated the recommendations included in this report to DoD and DoD Component management through notices of findings and recommendations to address identified findings.[3] Additionally, the recommendations included in this report

[1] GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.
GAO/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.
Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

[2] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

[3] A DoD Component is a Military Department, Defense agency, or DoD field activity, such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoD.

are addressed to DoD management as a whole, including functional areas such as the Office of the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War(OUSW[C]/CFO); Office of the DoW Chief Information Officer; and Office of the Under Secretary of War for Acquisition and Sustainment.

Auditor's Responsibilities

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the financial statements, we considered the DoD's internal control over financial reporting when we designed audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations. Additionally, as the group auditor for the DoD consolidated financial statements, we performed audit procedures at the Agency-Wide level and considered the results of the DoD reporting entities' audits to identify material weaknesses and significant deficiencies in internal control over financial reporting.[4] Based on the scope and limitations of our work and the effects of these limitations noted throughout this audit report, we did not design our internal control work to identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner. Descriptions of the 26 material weaknesses we identified through our audit and our recommendations to address them are as follows.

[4] A DoD reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

1. Financial Management Systems Modernization

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the DoD to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (the general ledger) at the transaction level.[5] The DoD uses thousands of systems, hundreds of which are relevant to internal controls over financial reporting. Many of these systems used to report data in the DoD Component and Agency-Wide Financial Statements did not comply with the FFMIA. For example, several general ledger systems that maintain material balances are not scheduled to retire until FY 2031, even though the DoD plans state that the DoD will correct this weakness by FY 2028. The DoD has acknowledged its noncompliance with the FFMIA since FY 2001.

Through our audit procedures, we identified that DoD management did not:

- develop and maintain systems that were FFMIA compliant, or
- have a complete and accurate list of financial management systems.

These conditions occurred because DoD management did not:

- have modernization plans for financial management systems that were aggressive enough to ensure the timely remediation of its FFMIA noncompliance, and the plans did not consistently include the adoption of all capabilities available through the DoD's existing enterprise resource planning systems;[6]
- accurately define a legacy system;[7] or
- coordinate with DoD Components to fully understand business processes to identify all financial management systems that were relevant to internal controls over financial reporting.

---

[5] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

[6] A modern enterprise resource planning system is a system that is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system.

[7] The Office of the Department of War Chief Information Officer defines a legacy system as a system scheduled to be retired in the next 3 years, regardless of how outdated it may be.

As a result, the DoD's failure to modernize the financial management systems environment increased the risk of the DoD not being able to produce accurate, reliable, and timely financial management information or achieve compliance with the FFMIA. This will continue to impede the ability of the DoD and its Components to achieve an unmodified audit opinion.

Recommendations

We recommended that DoD management coordinate with DoD Component management to:

- develop a comprehensive plan with detailed milestones for each DoD system to become FFMIA compliant or be retired and replaced in a timely manner;
- expedite the retirement and replacement of systems that the DoD does not intend to modernize to make the systems FFMIA compliant;
- expedite the modernization of systems that the DoD intends to continue using to make the systems FFMIA compliant;
- update the definition of a legacy system to ensure it encompasses systems that are outdated and need to be modernized or retired, regardless of when the DoD chooses to modernize or retire them;
- document and review all end-to-end business processes to identify all systems that are relevant to internal controls over financial reporting;
- develop a control to ensure the completeness and accuracy of the data used to track systems relevant to financial reporting; and
- continue to oversee and monitor the identification and retirement of noncompliant systems until the DoD is substantially compliant with the FFMIA.

2. Configuration Management

The GAO Federal Information System Controls Audit Manual states that configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. Configuration management controls are designed and implemented to prevent unauthorized or untested changes to critical information system resources and provide reasonable assurance that systems are securely configured and operate as intended.

In addition, configuration management controls are designed and implemented to provide reasonable assurance that software programs and changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration. System owners should authorize, document, test, and independently review system changes. This is done to reasonably assure that changes to applications are approved, work as intended, and do not result in the loss of data or program integrity. Furthermore, the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 establishes mandatory controls to protect information on Federal information systems by identifying and addressing risks related to configuration management controls.[8]

Through our audit procedures, we identified that the DoD's configuration management controls over its financial management systems at the Component level did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- develop, document, and disseminate configuration management plans and procedures to facilitate the implementation of configuration management policies;

- retain records of configuration changes to DoD Component financial management systems;

- monitor and review activities associated with configuration-controlled changes to the DoD Component financial management systems; or

- define, document, approve, and enforce physical and logical configuration access restrictions associated with changes to DoD Component financial management systems.

These conditions occurred because DoD management did not coordinate with Component management to ensure Components developed and implemented comprehensive configuration management control policies, procedures, and processes over the financial management systems affecting the Agency-Wide Financial Statements.

As a result of the lack of proper configuration management controls, the DoD increased the risk of unauthorized or inappropriate changes to the financial management systems. The identified weaknesses increased the risks of financial management systems and

[8] NIST SP 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020.

applications not functioning as intended or reporting data that are incomplete or inaccurate in the Agency Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- review and provide feedback for improving DoD Component configuration management policies and procedures; and

- resolve previously issued Component-level configuration management deficiencies within DoD financial management systems.

3. Security Management

The GAO Federal Information System Controls Audit Manual states that security management is the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Security management programs should provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of the entity's information system controls. Without the DoD's control environment including a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. Furthermore, NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to security management controls.

Through our audit procedures, we identified that the DoD's security management controls at the Component level over its financial management systems did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- develop, document, and periodically review policies and procedures related to their financial management systems; or

- develop and update plans of actions and milestones for systems with identified weaknesses and vulnerabilities.

These conditions occurred because DoD management did not ensure the development and implementation of Component-level security management policies, procedures, and processes over Component financial management systems affecting the Agency-Wide Financial Statements.

As a result, DoD and its Components may not be able to rely on the confidentiality, integrity, and availability of data within financial management systems. The lack of security management controls increased the risk of security incidents that affect DoD financial management systems.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to confirm that each financial management system has a comprehensive set of policies, plans, and procedures at the system level that is required by DoD guidance;
- review and provide feedback for improving DoD Component security management policies and procedures; and
- resolve previously issued Component-level security management deficiencies within DoD financial management systems.

4. Access Controls

The GAO Federal Information System Controls Audit Manual states that access controls limit access or detect inappropriate access to information resources, thereby protecting these resources against unauthorized modification, intentional or unintentional loss, impairment, and disclosure.[9] NIST SP 800-53 provides a framework, required by OMB Circular No. A-130, for the DoD to establish policies and procedures to identify and address risks related to access controls.[10]

[9] GAO-24-107026, "Federal Information System Controls Audit Manual," September 2024.

[10] OMB Circular No. A-130, "Managing Information as a Strategic Resource," July 2016.

Through our audit procedures, we identified that the DoD's controls at the Component level over its financial management systems did not comply with NIST SP 800-53, as it relates to access controls. Specifically, the DoD Components did not consistently:

- review and monitor user access before providing additional system access or determining whether such access remained necessary for a user's job function;
- maintain systems that can generate reports that contain all applicable events, and maintain a consistent frequency of management's review of security events;[11] or
- remove user access from terminated and separated employees from financially significant systems in a consistent and timely manner.

These conditions occurred because DoD management did not:

- coordinate with DoD Components to ensure the development and implementation of sufficient access controls over the financial management systems affecting the Agency-Wide Financial Statements; or
- fully implement a uniform and reliable off-boarding process, such as the Identity, Credential, and Access Management solution, for terminated and separated employees across the DoD.[12]

As a result, the DoD risks allowing users to gain or retain unauthorized, excessive, or otherwise inappropriate access to DoD financial management systems. In addition, without proper event logging and review, the DoD risks being unable to promptly detect, investigate, and address unauthorized activities or errors in its financial management systems. Together, these increased the likelihood that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management work with DoD Component management to:

- ensure the enforcement of access controls related to user account statuses, access reviews, privileged user functions, event logging, and application activity;

---

[11] An event is an observable occurrence in a system. Event types include password changes, failed logons or failed accesses related to systems, security or privacy attribute changes, administrative privilege usage, PIV credential usage, data action changes, query parameters, or external credential usage.

[12] Identity, Credential, and Access Management is a set of systems that are the DoD's solution to centrally monitor, manage, secure, and audit user identity, access, and authorization across DoD Components.

- establish, implement, and monitor a baseline frequency of how often user accounts in financial management systems should be reviewed;
- create a DoD standard to define the time period for revoking a terminated or separated user's access to help facilitate a timely and uniform removal process; and
- monitor the continued implementation of the Identity, Credential, and Access Management solution to ensure it stays on schedule and any challenges are addressed in a timely manner.

5. Segregation of Duties

NIST SP 800-53 states that Segregation of Duties (SoD) addresses the potential for abuse of authorized privileges and helps to reduce the risk of malicious activity without collusion. NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to SoD. Additionally, the GAO Federal Information System Controls Audit Manual states that SoD includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations, thereby preventing unauthorized actions or unauthorized access to assets or records. SoD involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective SoD split responsibilities between two or more individuals or organizational units. In addition, dividing duties this way establishes controls that reduce the likelihood that errors and wrongful acts will go undetected.

Through our audit procedures, we identified that the DoD's controls at the Component level over its financial management systems did not comply with NIST SP 800-53 guidance, as it relates to SoD. Specifically, the DoD Components did not:

- identify and document SoD at an organizational level;
- define system access authorizations to align with segregated duties;
- define and document types of user accounts and account privilege;
- ensure system owners adhered to the least privilege principle within DoD Component financial management systems;[13] or

[13] Least privilege, as defined in the NIST SP800-53, is the principle that a security architecture should be designed so that each entity is granted the minimum system resources and authorizations needed to perform its function.

- review accounts at an organizationally defined frequency for compliance with account management requirements.

These conditions occurred because DoD Components did not develop and implement comprehensive SoD controls over their financial management systems that affect the Agency-Wide Financial Statements.

As a result, DoD financial management system users may have had inappropriate access to critical systems and may have been able to implement changes affecting the DoD financial management systems. This increased the risk of security incidents within the systems. Additionally, there was increased risk of inaccurate, invalid, or unauthorized transactions being processed. Without adhering to the least privilege principle, system users may have compromised the confidentiality and integrity of DoD financial management systems.

Recommendations

We recommended that DoD management work with DoD Component management to:

- ensure the enforcement of SoD controls related to defining incompatible duties, segregating incompatible duties, establishing a minimum frequency of periodic reviews, and employing the least privilege principle;
- review and provide feedback for improving DoD Component SoD policies and procedures, once implemented; and
- resolve previously issued Component-level SoD deficiencies within DoD financial managements systems.

6. Interface Controls

The GAO Federal Information System Controls Audit Manual states that interface controls are those controls over the timely, accurate, and complete exchange of information between systems and applications on an ongoing basis, and complete and accurate migration of clean data during conversion. Interfaces are periodic and recurring, and interface controls may be performed manually or automated and may be scheduled or event driven. NIST SP 800-53 provides a framework, required by OMB Circular No. A-130, for the DoD to establish policies and procedures to identify and address risks related to interface controls.

Through our audit procedures, we identified that the DoD's interface controls at the Component level over its financial management systems did not comply with NIST SP 800-53. Specifically, the DoD Components did not:

- document the minimum requirements for establishing, designing, maintaining, tracking, and terminating information exchanges;
- determine a complete and accurate population of interface edits and validations and identify, review, and remediate errors in a timely manner; or
- maintain a complete and accurate population of interface processing results and errors.

These conditions occurred because DoD management did not coordinate with its Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that included sufficient interface controls to ensure data transmitted to interface files are reconciled, all interface file errors are logged, and errors are resolved in a timely manner.

As a result, DoD management could not validate the completeness and accuracy of its data. Additionally, the DoD-could not determine whether significant edits and validations were operating as intended. Therefore, this increased the risk that the financial management systems reported data that were incomplete or inaccurate in the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to ensure interfaces with financial management systems have proper documentation that captures the minimum requirements, including the interface characteristics, security and privacy requirements, controls, and responsibilities for each system, and the impact level of the information communicated;
- review and provide feedback for improving DoD Component interface control policies and procedures; and
- develop and implement a plan to aggressively and systematically reduce the interfaces it maintains.

7. Universe of Transactions

OMB Bulletin No. 24-02 states that internal control over financial reporting includes ensuring transactions are properly recorded, processed, and summarized to allow for reliable financial statements preparation. In addition, the DoD Financial Management Regulation (FMR) states that DoD Components must maintain internal controls to ensure the data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.[14]

Through our audit procedures, we identified that:

- the DoD did not provide transaction-level populations that support adjustments made to reported balances in the financial statements or that support material line items; or
- some DoD Components did not have sufficient documentation to reconcile data to underlying transaction-level detail. For example, DoD Components performed reconciliations at a summary level, rather than the transaction level, and did not always perform these reconciliations before preparing their financial statements.

These conditions occurred because:

- the DoD did not ensure the controls, policies, and procedures at the DoD Component level were consistently implemented; and
- some DoD Components did not have internal controls, policies, and procedures to maintain sufficient documentation to support a complete universe of transactions (UoT) for material line items within the Agency-Wide Financial Statements.

As a result of the lack of UoTs for material line items, the DoD and some of its Components could not verify the completeness and accuracy of data reported in their respective financial statements; therefore, there is an increased risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

---

[14] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

Recommendations

We recommended that DoD management:

- establish and implement a DoD-wide plan, including establishing policies and procedures, to ensure the availability of a complete UoT that supports material line items within the Agency-Wide Financial Statements;
- include in the DoD-wide plan a strategy to ensure DoD Components develop and implement internal controls to confirm the accuracy and completeness of data reported on their financial statements; and
- coordinate with the DoD Components to design or enhance controls within the existing systems for preparation, recording, and review of general ledger transactions to ensure DoD Components' systems can provide a complete UoT to support their financial statement balances.

8. Fund Balance with Treasury

As of September 30, 2025, the DoD reported a Fund Balance with Treasury (FBWT) balance of $1 trillion. Statement of Federal Financial Accounting Standards (SFFAS) 1 defines FBWT as the aggregate amount of funds in the DoD's accounts with the U.S. Treasury for which the DoD is authorized to make expenditures and pay liabilities.[15] SFFAS 1 and the Treasury Financial Manual require the DoD to reconcile its FBWT and explain any discrepancies between balances reported by the DoD and the Treasury to ensure the integrity and accuracy of the Agency-Wide and Government-Wide Financial Statements.[16] Additionally, the DoD FMR provides guidance to the DoD for reconciling and supporting FBWT beginning balances.[17] The DoD's FBWT is maintained within various U.S. Treasury accounts, or treasury indexes (TIs), including TI-97, which is a shared appropriation used by more than 50 Defense agencies and programs.[18] The Defense Finance and Accounting Service (DFAS), as the DoD's principal accountant, is responsible for working with the DoD Components to reconcile FBWT balances for TI-97 and perform necessary accounting adjustments to ensure the consolidated TI-97 FBWT balance matches the balance reported to the Treasury. The DoD's FBWT

---

[15] FASAB Handbook, SFFAS 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

[16] Department of the Treasury, Bureau of the Fiscal Service, "Treasury Financial Manual," volume 1, part 2, chapter 5100, "Fund Balance with Treasury Accounts."

[17] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 2, Annex 1: "Supporting Fund Balance With Treasury Balances Brought Forward."

[18] In addition to TI-97, the following TIs are also included in the Agency-Wide FBWT: TI-17 (Navy/Marines), TI-21 (Army), TI-57 (Air Force), and TI-96 (U.S. Army Corps of Engineers).

balance should equal the beginning balance for the fiscal year plus or minus disbursements and collections that occurred in the current fiscal year. As of September 30, 2025, the consolidated TI-97 FBWT balance was $223.8 billion, or 22 percent of the total Agency-Wide FBWT balance.[19]

Through our audit procedures, we identified that DoD management and DFAS could not adequately support:

- FBWT beginning balances for TI-97, specifically historical balances from multiple data sources; and
- accounting adjustments that affected TI-97 FBWT balances.

These conditions occurred because DoD management and DFAS did not:

- perform a reconciliation in accordance with the DoD FMR of historical TI-97 FBWT balances; or
- provide sufficient and appropriate documentation to support accounting adjustments that affect TI-97 FBWT balances.

As a result, there is a risk that TI-97 FBWT balances may be incomplete or inaccurate. Therefore, there is a high risk that FBWT balances reported within the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management, in coordination with DFAS:

- perform a reconciliation in accordance with the DoD FMR, volume 4, chapter 2, Annex 1, of all FBWT beginning balance data that affects TI-97 to ensure that the TI-97 FBWT balance is complete and accurate; and
- establish effective internal controls to include proper and sufficient documentation to support accounting adjustments made to TI-97 FBWT balances.

[19] Military Departments general and working capital fund balances are not included in this finding.

9. Inventory and Stockpile Materials

As of September 30, 2025, the DoD reported an Inventory and Stockpile Materials balance of $155.4 billion.[20] SFFAS 3 requires the DoD to value its inventory and stockpile materials on the basis of historical cost or on a basis that reasonably approximates historical cost.[21] SFFAS 48 amends SFFAS 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.[22]

Through our audit procedures, we identified several deficiencies related to the DoD's inventory and stockpile materials practices. Specifically, DoD and its Components did not:

- account for inventory and stockpile materials in accordance with SFFAS 3, or an alternative valuation method allowable by SFFAS 48;
- substantiate the existence, completeness, and valuation of inventory and stockpile materials reported on the Balance Sheet; or
- monitor inventory counts to ensure inventory and stockpile materials activity were reported accurately.

These conditions occurred because the DoD and its Components did not:

- design their control environment and business processes to:
    - consistently and accurately report values of inventory and stockpile materials in accordance with SFFAS 3, or
    - use an alternative valuation method to establish opening balances in accordance with SFFAS 48; and
- have internal controls or follow guidance to maintain key supporting documentation to substantiate the existence, completeness, and valuation of the DoD's inventory.

[20] Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line item on the Balance Sheet.

[21] FASAB Handbook, SFFAS 3, "Accounting for Inventory and Related Property," October 1993.

[22] FASAB Handbook, SFFAS 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

As a result, the DoD could not support a material portion of its inventory and stockpile materials balances. This increased the risk that the balances reported in the Inventory and Related Property line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management implement DoD-wide policies and procedures to ensure that the DoD Components accurately and consistently report the value, disclose assertions, and maintain support for inventory and stockpile materials in accordance with SFFAS 3 and 48.

10. Operating Materials and Supplies

As of September 30, 2025, the DoD reported an Operating Materials and Supplies (OM&S) balance of $231 billion.[23] SFFAS 3 requires the DoD to value OM&S at historical cost or on a basis that reasonably approximates historical cost. SFFAS 48 amends SFFAS 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. Furthermore, SFFAS 3 requires that OM&S be categorized as: (1) held for use; (2) held in reserve for future use; or (3) excess, obsolete, and unserviceable (EOU). Excess OM&S are assets that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S are assets that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are assets that are physically damaged and cannot be consumed in operations. SFFAS 3 also states that EOU OM&S should be valued at their estimated net realizable value.[24]

Through our audit procedures, we identified the following deficiencies related to the DoD's accounting and reporting of OM&S.

- DoD Components did not properly value their OM&S or use an alternative valuation method to make an unreserved assertion to establish opening balances for OM&S, in accordance with SFFAS 3, SFFAS 48, and the DoD FMR, volume 4, chapter 4.[25]

---

[23] Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line item on the Balance Sheet.

[24] Net Realizable Value is the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding, and disposal.

[25] An unreserved assertion is an unconditional statement that one of more line items are presented fairly in accordance with generally accepted accounting principles.

- A DoD Component did not have sufficient controls over the reporting of EOU material on its financial statements. Specifically, the Component did not have:
  - a process to classify assets as EOU material or
  - documentation to support the EOU material reported at net realizable value on its financial statements.

These conditions occurred because the DoD Components did not:

- implement DoD policies or design, document, and implement their own policies and procedures to identify and properly value OM&S inventory, including EOU material, in accordance with SFFAS and DoD FMR standards; or
- ensure their respective accountable property systems of record support valid and accurate valuation of OM&S.

As a result, the lack of controls over OM&S increased the risk that the balances reported in the Inventory and Related Property line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management ensure:

- DoD Components consistently follow SFFAS 48 standards and policies related to the alternative valuation method for opening balances and ensure DoD Components comply with SFFAS 3 standards once the alternative valuation method has been implemented;
- DoD Components' accountable property systems of record, or other appropriate systems, can accurately account for OM&S activity in accordance with SFFAS 3 and 48; and
- DoD Components consistently implement DoD policies and procedures related to accurate identification of EOU OM&S and proper recording of material at its net realizable value.

11. General Property, Plant, and Equipment

General Property, Plant, and Equipment (PP&E) is made up of General Equipment and Internal Use Software. As of September 30, 2025, the DoD reported a General

Equipment and Internal Use Software balance of $501.2 billion.[26] SFFAS 6 requires the DoD to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.[27] SFFAS 10 requires the DoD to value internally developed software on the basis of historical cost or on a basis that reasonably approximates historical cost.[28] SFFAS 50 amends both SFFAS 6 and 10 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the DoD makes an unreserved assertion that its financial statements are presented in accordance with generally accepted accounting principles.[29]

Through our audit procedures, we identified that DoD Components could not:

- provide and maintain appropriate documentation supporting the valuation of a material amount of the General PP&E reported on the Agency-Wide Financial Statements;
- substantiate the existence and completeness of General PP&E reported on DoD Component financial statements; or
- adequately demonstrate that their procedures for managing and reporting General PP&E are designed or operating effectively.

These conditions occurred because DoD Components did not:

- have properly designed or implemented policies, procedures, or controls to maintain key documentation supporting the valuation of General PP&E; or
- have a control environment and business processes that consistently and accurately established the historical acquisition cost of General PP&E in accordance with SFFAS 6 and 10, or the one-time alternative valuation method allowed under SFFAS 50.

As a result, the DoD did not accurately record, report, and value the General PP&E amounts reported in the Agency-Wide Financial Statements; therefore, there is an

[26] General Equipment, Internal Use Software, Real Property, and Leases are all reported in the General PP&E line item on the Balance Sheet.

[27] FASAB Handbook, SFFAS 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

[28] FASAB Handbook, SFFAS 10, "Accounting for Internal Use Software," October 1998, as amended.

[29] FASAB Handbook, SFFAS 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

increased risk that the General PP&E balance in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management:

- implement a DoD-wide process to confirm that DoD Components appropriately and consistently developed policies, procedures, and controls for maintaining key supporting documentation to substantiate the valuation of General PP&E in accordance with SFFAS 6 and SFFAS 10 historical cost reporting requirements; and

- disclose an unreserved assertion for the opening balances of its General PP&E, after the DoD Components have disclosed unreserved assertions on their respective financial statements, as afforded by SFFAS 50.

12. Real Property

As of September 30, 2025, the DoD reported a Real Property balance of $478.7 billion.[30] The DoD FMR states that real property assets consist of buildings, structures, facilities, land, land rights, construction-in-progress, assets under capital lease, and leasehold improvements.[31] The DoD FMR requires DoD Components to properly recognize, account for, and report real property on the appropriate financial statements. Furthermore, the DoD FMR requires that DoD reporting entities ensure real property activity is supported, and the accountable property systems of record that account for real property can be reconciled to the DoD reporting entities' financial statements.

Through our audit procedures, we identified that:

- the DoD did not provide a complete UoT for the real property of all DoD reporting entities,

- DoD Components could not support real property balances reported in their financial statements, and

---

[30] General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

[31] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 24, "Real Property."

- DoD Components could not substantiate the existence and completeness of their real property assets.

These conditions occurred because DoD management did not ensure DoD Components implemented internal controls, policies, and procedures, or had supporting documentation to substantiate the existence, completeness, and valuation of real property assets.

As a result, the DoD's lack of proper internal controls over real property assets increased the risk that the balances reported in the General PP&E line item in the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement internal controls, policies, and procedures to ensure the DoD can maintain an accurate and complete real property balance and ensure consistent implementation of these controls, policies, and procedures at the Component level.

13. Government Property in the Possession of Contractors

According to the Federal Acquisition Regulation, government property is all materials and property owned or leased by the Government, including material and property the Government furnished to contractors for performance of a contract.[32] The DoD is required to: (1) recognize and account for government-furnished materials in accordance with SFFAS 3 and 48, and (2) recognize and account for government-furnished property in accordance with SFFAS 6 and 50.

Through our audit procedures, we identified that:

- DoD Components could not reconcile the Government Property in the Possession of Contractors balances reported on their financial statements to an accountable property system of record; and

- the DoD could not substantiate the existence, completeness, valuation, presentation, and disclosure of Government Property in the Possession of Contractors reported on the consolidated balance sheet.

[32] Federal Acquisition Regulation Part 45, "Government Property."

These conditions occurred because DoD Components:

- did not have the policies, procedures, and internal controls in place to consistently and accurately report Government Property in the Possession of Contractors in an accountable property system of record in accordance with applicable SFFAS, or properly report balances on their financial statements; and
- relied on contractors to account for government-furnished material and property without the policies, procedures, and internal controls in place to provide effective oversight of those contractors that managed material and property on the Government's behalf.

As a result, the DoD could not accurately record and report Government Property in the Possession of Contractors balances on its financial statements; therefore, there is an increased risk that the Agency-Wide Financial Statements may be incomplete and could be materially misstated.

Recommendations

We recommended that DoD management:

- implement DoD-wide policies and procedures for measuring and reporting Government Property in the Possession of Contractors to confirm that DoD Components appropriately and consistently account for it in accordance with SFFAS 3, 6, 48, and 50; and
- develop standard inventory management policies, procedures, and metrics, and develop procedures to ensure the policies and procedures are incorporated consistently across all contracts in which the contractor manages government inventory control points and contractor-managed warehouses.

14. Joint Strike Fighter Program

The Joint Strike Fighter Program, which has an estimated total life-cycle cost of $2 trillion, is a multiservice, multinational acquisition that develops and fields the F-35 strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.[33] OMB Circular No. A-136 states that management is responsible for

[33] Life-cycle cost includes the costs of Acquisition, such as Research, Development, Test, and Evaluation; Procurement; Military Construction; and the costs of Operating and Support/Disposal.

providing complete and reliable information, including the disposition of its assets.[34] SFFAS 3 and 6 require property and equipment to be reported on the Balance Sheet and the Statement of Net Cost.

Through our audit procedures, we determined that the DoD did not account for or report Global Spares Pool assets for the Joint Strike Fighter Program , or accurately record this government property in an accountable property system of record.[35] The DoD could not provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Global Spares Pool assets for the Joint Strike Fighter Program and did not report this government property on its financial statements as of September 30, 2025. This occurred because DoD officials did not use contracting mechanisms to request financial data to support the valuation of government property or implement procedures to account for and manage government property in accordance with SFFAS 3 and 6.

As a result, the omission of the Joint Strike Fighter Program Global Spares Pool assets resulted in a material misstatement on the Agency-Wide Financial Statements.

Recommendation

We recommended that DoD management implement DoD-wide controls to ensure all Joint Strike Fighter Program assets are appropriately and consistently recorded, reported, and valued.

15. Accounts Payable

As of September 30, 2025, the DoD reported an Accounts Payable balance of $49.8 billion. SFFAS 1 defines Accounts Payable as unpaid amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents. In addition, the DoD FMR states that DoD Components must maintain internal controls to ensure data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.[36]

[34] OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

[35] Global Spares Pool assets include spare parts and equipment, not the aircraft and uninstalled aircraft engines.

[36] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

Through our audit procedures, we identified that the DoD did not:

- have sufficient documentation to support the existence of its Accounts Payable balances; or
- record unpaid expense transactions appropriately and accurately in the period in which the transactions occurred.

These conditions occurred because the DoD did not:

- develop and implement internal controls to ensure that the DoD accurately included Accounts Payable amounts in its financial statements and that DoD Components effectively implemented accounting standards; or
- follow SFFAS and DoD policy when reporting Accounts Payable balances on its financial statements. Specifically, DoD Component management did not maintain supporting documentation or ensure they recorded Accounts Payable in the appropriate accounting period for the receipt of goods or services ordered.

As a result, the DoD had an increased risk of unsupported Accounts Payable transactions; therefore, there is increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement a DoD-wide action plan to ensure that accurate Accounts Payable amounts are included in the financial statements and that DoD Components are appropriately and consistently implementing SFFAS 1 and the DoD FMR.

16. Environmental and Disposal Liabilities

As of September 30, 2025, the DoD reported an Environmental and Disposal Liabilities (E&DL) balance of $108 billion. SFFAS 5 defines a liability as a probable future outflow or other sacrifice of resources resulting from past transactions or events.[37] Furthermore, Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[38] SFFAS 6 defines cleanup costs associated with the closure or shutdown of General PP&E as the costs of

[37] FASAB Handbook, SFFAS 5, "Accounting for Liabilities of the Federal Government," December 1995.

[38] Federal Financial Accounting and Auditing Technical Release 2, March 1998.

removing, containing, or disposing hazardous waste.[39] Additionally, the DoD FMR requires environmental liability estimates to include all environmental liability sites in the site universe and that environmental liability estimates "must include all asset-driven cleanup, closure, and/or disposal costs."[40]

Through our audit procedures, we identified that a DoD Component:

- did not include all cleanup, closure, or disposal costs on the E&DL and related balances line items; and
- could not provide supporting records to document completeness of its list of environmental sites.

These conditions existed because the DoD did not ensure a DoD Component followed accounting standards to estimate a complete calculation of E&DL. For example, the DoD Component did not:

- develop a methodology to estimate future environmental disposal costs for General PP&E;
- develop a complete and reasonable estimate across all General PP&E categories; or
- provide sufficient documentation to support that the assessments of contaminated environmental sites were complete.

As a result, the DoD has an increased risk that E&DL and related balances may be incomplete or inaccurate; therefore, the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management implement controls to ensure that DoD Components use a complete population of cleanup, closure, and disposal costs to ensure the E&DL calculation is complete and accurate.

[39] FASAB Handbook, SFFAS 6, "Accounting for Property, Plant, and Equipment," November 1995.

[40] DoD 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 13, "Environmental and Disposal Liabilities."

17. Leases

On April 17, 2018, the Federal Accounting Standards Advisory Board (FASAB) issued SFFAS 54, which revised the financial reporting standards for Federal lease accounting.[41] SFFAS 54 provided a new set of lease accounting standards to recognize lease activities in financial reports and note disclosures. The FASAB deferred the original effective date to reporting periods beginning after September 30, 2023 (the effective date). On September 25, 2020, OUSW[C]/CFO released a memorandum to the DoD Components establishing the financial reporting policy for implementing SFFAS 54 by the effective date.[42]

Through our audit procedures, we determined that the DoD and its Components were not in compliance with SFFAS 54. Specifically, 8 of 16 significant DoD Components we reviewed did not:

- identify all leases and intragovernmental leases;
- determine whether leases were significant to the reporting entity; or
- recognize and disclose lease activity in accordance with SFFAS 54.[43]

This condition occurred because the OUSW(C)/CFO directed the DoD Components to begin implementation efforts to fully comply with SFFAS 54 but never ensured the DoD Components were taking action to implement the requirements of SFFAS 54.

As a result, the Agency-Wide Financial Statements and disclosures in the financial statements are not compliant with SFFAS 54; therefore, the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish, implement, and monitor a process to oversee the DoD Components' implementation and reporting under SFFAS 54 and regularly communicate

---

[41] FASAB Handbook, SFFAS 54, "Leases," April 2018.

[42] OUSD(C)/CFO memorandum, "Implementation of Statement of Financial Accounting Standards 54, Leases (FPM 20-03)," September 25, 2020.

[43] We considered 16 DoD Components to be significant based on certain thresholds compared to our established DoD Agency-Wide audit materiality.

expectations to the DoD Components upon establishing these processes and until implementation is complete; and

- oversee the DoD Components' implementation of SFFAS 54 to ensure they properly report their lease activity on their financial statements.

18. Unsupported Accounting Adjustments

The GAO Standards for Internal Control in the Federal Government (Green Book) requires the DoD to promptly and accurately record transactions.[44] Additionally, the DoD FMR states that DoD Components must ensure all adjustments are researched and traceable to supporting documents as instructed in the Treasury Financial Manual.[45] Supporting documentation is necessary to provide an audit trail. DoD Components record adjustments for various reasons, including instances in which subsidiary records do not reconcile with the general ledger, to correct previously recorded transactions, and to align intragovernmental transactions.

Through our audit procedures, we identified that the DoD did not have effective internal controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded. Many DoD Components recorded accounting adjustments that did not have supporting documentation. In the last two quarters of FY 2025, DoD Components recorded more than 5,665 unsupported accounting adjustments totaling more than $859 billion.

This occurred because detailed support did not always exist to support these adjustments. As a result, there is increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- research and correct the underlying problems that require DFAS to process accounting adjustments as unsupported; and

- establish effective control procedures so that manual and system-generated adjustments contain sufficient supporting documentation to ensure that adjustments are valid, complete, and accurately recorded in its reporting,

---

[44] GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.

[45] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury."

accounting, and general ledger systems, including an audit trail to the source documentation that required the adjustment.

19. Intragovernmental Transactions and Intradepartmental Eliminations

The Treasury Financial Manual explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State. These entities conducting business are called trading partners, one a buyer and one a seller. Intradepartmental transactions are those occurring between a buyer and a seller within the same department, such as the DoD. For example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund are within the same department; therefore, the transactions are eliminated when the DoD financial statements are consolidated. The DoD is required to eliminate intradepartmental balances from its financial statements and report intragovernmental balances on its financial statements. The Treasury eliminates DoD-identified intragovernmental balances from the Government-Wide Financial Statements. For proper eliminations to occur, it is essential that the DoD captures accurate trading partner data for intragovernmental and intradepartmental transactions.

Through our audit procedures, we identified that the DoD:

- did not include proper documentation when recording journal voucher adjustments to reconcile trading partner records; and

- did not record or report all necessary trading partner information at the transaction level in accordance with requirements in the Treasury Financial Manual.

These conditions occurred because the DoD did not have effective controls to properly capture trading partner information at the transaction level or produce the data necessary to reconcile corresponding buyer and seller transactions.

As a result, DoD intragovernmental transaction journal voucher adjustments and intradepartmental eliminations were incomplete, inaccurate, and unsupported; therefore, there is an increased risk that intragovernmental balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- identify which DoD reporting entities can and cannot obtain the necessary trading partner support;
- monitor the implementation of the G-Invoicing system to ensure that the DoD will be able to obtain and provide sufficient details for DoD intragovernmental balances and intradepartmental elimination entries;[46] and
- implement controls to ensure that adjustments and journal vouchers for the reconciliation of trading partner data are supported by transaction-level details.

20. Gross Costs

As of September 30, 3025, the DoD reported a Gross Costs balance of $1.5 trillion. SFFAS 4 states that the DoD should report the full costs of outputs in financial reports and that reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[47] SFFAS 4 defines outputs as the products and services generated from the consumption of an entity's resources. Costs of the products and services may include salaries, materials, supplies, equipment, facilities, utilities, and other costs. Statement of Federal Financial Accounting Concepts (SFFAC) 2 states that the DoD should provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost.[48] SFFAC 2 also states that the Statement of Net Cost should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.

Through our audit procedures, we determined that the DoD and some of its Components did not comply with generally accepted accounting principles and did not have sufficient support for transactions related to Gross Costs.

---

[46] G-invoicing is a Treasury initiative that is being implemented Government-wide, and while not an accounting system, it will be a central repository to support the accounting of Buy/Sell transaction events that offers a data exchange platform for Federal entities to communicate with one another.

[47] FASAB Handbook, SFFAS 4, "Managerial Cost Accounting Standards and Concepts," July 1995, as amended.

[48] FASAB Handbook, SFFAC 2, "Entity and Display," June 1995.

Specifically, some DoD Components did not:

- have adequate controls over Gross Costs processes to reconcile accounts;
- validate that subledger systems reconcile to the amounts reported in the financial statements;
- accurately record Gross Costs transactions, including operating expenses and disbursements;
- record transactions in a timely manner in the correct accounting period or fiscal year;
- have sufficient processes in place to identify, calculate, record, and report other imputed costs; or
- provide sufficient appropriate evidence to support the existence, completeness, and accuracy of Gross Costs.

These conditions occurred because the DoD did not ensure that the Components implemented policies and procedures to properly account for and sufficiently support transactions for Gross Costs amounts included on the Statement of Net Cost.

Without adequate controls to account for, report, and support Gross Costs, DoD management did not have reliable financial information to effectively assess the financial performance of the DoD's major programs. As a result, these deficiencies increased the risk that expense-related transactions are materially misstated on the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement a DoD-wide action plan to assess, oversee, and ensure that DoD Components implement effective internal controls for recording Gross Costs; and
- develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, accuracy, and timeliness of recorded transactions and balances to support the Statement of Net Cost.

21. Earned Revenue

As of September 30, 2025, the DoD reported an Earned Revenue balance of $569.6 billion. SFFAS 7 states that Earned Revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[49]

Through our audit procedures, we identified that the DoD and its Components did not accurately record transactions related to Earned Revenue. In addition, DoD Components did not:

- fully design, implement, and document controls over revenue;
- recognize Earned Revenues from services provided and goods sold, or did not recognize these transactions in the appropriate period in accordance with generally accepted accounting principles; or
- have adequate policies and procedures to address risks and maintain supporting documentation to support the revenue balances on the financial statements and notes.

These conditions occurred because the DoD did not:

- have adequate procedures or internal controls to record transactions related to Earned Revenue; or
- perform adequate oversight and coordination with its Components to ensure they implemented DoD policies, procedures, and controls to properly account for and record Earned Revenue transactions.

Without adequate controls to account for, report, and support Earned Revenue, DoD management did not have reliable financial information to effectively assess the financial performance of the DoD's major programs. Therefore, controls could fail to prevent or detect and correct material misstatements in the Agency-Wide Financial Statements.

[49] FASAB Handbook, SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

Recommendations

We recommended that DoD management coordinate with DoD Component management to:

- develop and implement a DoD-wide action plan to assess, oversee, and ensure that the DoD Components implement effective internal controls to record revenue in a timely manner and produce the Earned Revenue line item on the Statement of Net Cost;
- perform a risk assessment that identifies and analyzes risks relevant to the revenue processes;
- design, document, and implement processes and controls to ensure timely recording of related transactions based on the identified risks; and
- develop, implement, and monitor controls to ensure that supporting documentation is consistently maintained and readily available for inspections for revenue transactions.

22. Reconciliation of Net Cost of Operations to Outlays

SFFAS 7 requires the DoD to reconcile its budgetary and proprietary data.[50] Additionally, OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements.

Through our audit procedures, we identified that:

- DoD Components could not support adjustments made to reconcile budgetary and proprietary data on the Component financial statements; and
- the DoD reported a $1.3 billion unreconcilable difference between the budgetary and proprietary accounts in Note 24, Reconciliation of Net Cost to Net Outlays.

[50] FASAB Handbook, SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

These conditions occurred because:

- DoD Component management did not research, resolve, and reconcile the variances between the budgetary and proprietary data throughout the reporting period for Note 24 to the Component financial statements; and

- DoD management did not ensure DoD Components adequately implemented procedures for preparing complete, accurate, and consistent financial statements and notes disclosures throughout the DoD for Note 24.

As a result, the Agency-Wide Financial Statements and Note 24 does not accurately reflect the financial position of the DoD; therefore, there is increased risk that balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management ensure that DoD Components:

- support and document the research and resolution, in accordance with SFFAS 7, of the variances between budgetary and proprietary data; and

- implement DoD-wide procedures to ensure that the DoD financial statement note disclosures related to Note 24 reconciliations are complete, accurate, and consistent and comply with the requirements in OMB Circular No. A-136.

23. Budgetary Resources

SFFAS 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources (SBR). The statement presents total budgetary resources available to the DoD during the period, and the status and outlays of those resources. The DoD FMR, volume 6B, chapter 7, details policy for formatting the SBR and includes a requirement to format the SBR to align with the Standard Form 132 (SF 132), "Apportionment and Reapportionment Schedule," and Standard Form 133 (SF 133), "Report of Budget Execution and Budgetary Resources," using budget execution guidance published in OMB Circular No. A-11.[51] OMB Circular No. A-123 describes management responsibilities in

[51] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, chapter 7, "Statement of Budgetary Resources."

OMB Circular No. A-11, "Presentation, Submission, and Execution of the Budget," July 2024.

establishing and operating an effective system of internal control, correcting internal control deficiencies, and meeting corrective action plan requirements.[52]

Through our audit procedures, we identified that significant DoD Components and the DoD did not prepare a complete and accurate SBR. Specifically, significant DoD Components did not:

- accurately prepare, report, and support the balances reported in the SBR; or
- design their financial reporting procedures to resolve variances identified in the reconciliation to ensure that they do not reoccur in future accounting periods.

These conditions occurred because the DoD did not have adequate internal controls to ensure that all DoD Components prepared, accounted for, and reconciled their budgetary resources in accordance with the DoD FMR, volume 6B, chapter 7, and OMB Circulars No. A-11 and No. A-123. A few examples follow.

- Some DoD Components did not implement sufficient controls at the Component level to ensure the reporting of budgetary resources was accurate, complete, and supported by data from the Components' financial reporting system.
- DoD management did not design and implement procedures to ensure that the actions taken addressed the root cause of the variances detected on the SF 132 to SF 133 reconciliation and prevent the variances from reoccurring in future accounting periods.

Without adequate controls to account for budgetary resources, there is an increased risk that the DoD and its Components cannot monitor the status of total budgetary resources available and the status of those resources during the reporting period. The inability to monitor the status of budgetary resources creates the potential for violations of the Antideficiency Act, and the Agency-Wide SBR may be materially misstated.

[52] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

Recommendations

We recommended that DoD management develop and implement adequate internal controls and procedures to ensure that DoD Components prepare, account for, and reconcile budgetary resources in accordance with the DoD FMR, volume 6B, chapter 7, and OMB Circulars No. A-11 and No. A-123, including actions to:

- provide adequate oversight of the controls implemented by DoD Components to ensure the reporting of budgetary resources is accurate, complete, and supported by data from the Components' financial reporting system; and
- design and implement procedures that ensure that action taken address the root cause of the variances detected on the SF 132 to SF 133 reconciliation to prevent the variances from reoccurring in future accounting periods.

24. Service Organizations

The Green Book states that management may engage service organizations to perform certain operational processes for the entity. However, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes the service organizations perform. If the processes a service organization provides are significant to a user entity's internal control objectives, then the user entity is responsible for establishing controls that complement the service organization's controls. Service organizations perform critical activities across the DoD, such as inventory management and financial services. For example, DFAS is a service organization that provides accounting services to the DoD and its Components.

Through our audit procedures, we identified that the DoD did not adequately monitor the use of service organizations or the design and implementation of complementary user entity controls (CUECs) at the Component level to ensure compliance with the Green Book and prevent control failures.[53] Specifically, the DoD Components did not fully document, implement, test, and monitor their CUECs.

[53] CUECs are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities, and are necessary to achieve the control objectives stated in management's description of the service organization's systems.

In addition, auditors issued qualified or adverse opinions in 10 of the 28 reports resulting from DoD System and Organization Controls assessments conducted in FY 2025, which means the auditors concluded that service organizations did not properly design or operate a portion of their controls.[54]

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the implementation of a comprehensive set of policies, procedures, and processes with sufficient service organization controls and effective controls to address the CUECs.

As a result, without sufficient CUECs and service organization controls that are operating effectively, the DoD remains at an increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management work with DoD Component management to:

- develop and implement processes to confirm that each Component has completed a comprehensive evaluation of the System and Organization Controls reports to identify the relevant service organizations and develop comprehensive business process documentation to identify relevant CUECs;
- review DoD Component policies and procedures and provide feedback on them to improve the process of identifying, documenting, and testing relevant CUECs; and
- review Component corrective action plans and risk acceptance documentation and provide feedback on implementation.

25. Component Entity-Level Controls

The Federal Managers' Financial Integrity Act of 1982 requires the DoD to establish internal control, and the Green Book defines the standards for internal control in the U.S. Government. The Green Book states that internal control is a process used by management to help an entity achieve its objectives. The Green Book also states that

[54] The DoD typically manages the risks of service organizations through System and Organization Controls reports. These reports discuss the description and suitability of the design and operating effectiveness of those controls.

the five components of internal control—Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring—must be designed, implemented, and operating together for an internal control system to be effective.

Through our audit procedures, we identified that DoD Components had material deficiencies related to two internal control components—Control Activities and Monitoring. According to the Green Book, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Monitoring involves the activities established and used to assess the quality of performance and to resolve findings. Specifically, DoD Components did not:

- have sufficient controls in place to ensure reliable financial reporting and compliance with applicable standards and generally accepted accounting principles; or
- provide documentation that identified and described processes, controls, and their implementation.

These conditions occurred because:

- DoD Components did not have or did not effectively design, implement, and operate internal controls to prevent or detect identified material misstatements; and
- DoD management did not have proper policies and procedures in place to monitor, identify, and resolve internal control deficiencies that could affect DoD Component financial statements.

The DoD could not achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and compliance with generally accepted accounting principles. Ineffective implementation of Component Entity-Level controls increased the risk of both ineffective internal controls and misstatement at the DoD Component financial reporting level. As a result, there was an increased risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- coordinate with DoD Components to design and implement effective control activities that prevent and detect identified risks of material misstatement; and
- ensure monitoring and documenting of internal control procedures by establishing criteria, completing regular reviews, and performing analyses of all relevant controls to demonstrate how the internal controls will prevent or detect and correct material misstatements.

26. DoD-Wide Oversight and Monitoring

The Federal Managers' Financial Integrity Act of 1982 establishes management's responsibility for producing reliable financial reports and ensuring financial transactions are recorded in accordance with generally accepted accounting principles. OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations and to continuously monitor, assess, and improve the effectiveness of those internal controls.[55] The DoD FMR states that DoD management is responsible for directing, managing, and providing policy guidance and oversight of DoD financial management activities, including establishing financial management policies for DoD Components and ensuring compliance with applicable accounting policies and standards throughout the DoD.[56] The DoD FMR also requires that DoD Components ensure the data in their financial statements are exactly the same as the data included in the Defense Departmental Reporting System, which consolidates the data to produce the Agency-Wide Financial Statements.[57]

Through our audit procedures, we identified several deficiencies related to DoD management's oversight and monitoring of the Agency-Wide Financial Statements, including the following deficiencies.

- DoD management lacked sufficient processes and documentation for reporting financial data included in the DoD Component Level Accounts.

---

[55] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

[56] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 1, "Chief Financial Officer of the DoD."

[57] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 3, "Reporting of Outlays, Receipts, and Adjusted Trial Balances," section 3.2.2.

- Component financial statement data included in the Agency-Wide Financial Statements did not always match the data included in component-level audited financial statements.
- As of September 30, 2025, DoD management reported $18.9 billion in DoD-appropriated funds as spent; however, the funds were not spent and were still available for use.

These conditions occurred because DoD management did not:

- design effective internal controls to ensure complete and accurate reporting of financial data within the DoD Component Level Accounts;
- enforce the DoD FMR, volume 6A, chapter 3, which requires that DoD Components ensure their financial statement data are exactly the same as the data included in the Defense Departmental Reporting System;
- have adequate internal controls over identifying DoD Component adjustments made after the Agency-Wide Financial Statements were issued and determining how to account for them in the Agency-Wide Financial Statements; and
- develop a process to accurately account for the status of DoD-appropriated funds for Building Partner Capacity programs.[58]

As a result, the lack of internal controls over financial reporting:

- led to misstatements on the Agency-Wide Financial Statements and increased the risk that the Agency-Wide Financial Statements may be materially misstated; and
- increased the risk that the Government-Wide Financial Statements may be misstated.

In addition, when a DoD Component audit is completed after the Agency-Wide Financial Statements are issued, the DoD OIG cannot use the audit opinion on the Component's financial statements to form its opinion on the Agency-Wide Financial Statements, which could impede the DoD's ability to achieve an unmodified audit opinion on the Agency-Wide Financial Statements.

[58] Building Partner Capacity programs are a means by which the DoD uses its own appropriations to build the capacity and capabilities of partner-nation security forces.

Recommendations

We recommended that DoD management:

- develop, document, and implement adequate internal controls over the DoD Component Level Accounts consolidation entity;
- enforce the DoD FMR, volume 6A, chapter 3;
- require that all adjustments to DoD Component financial statements occur within the Defense Departmental Reporting System;
- starting in FY 2028, ensure the Agency-Wide Financial Statements are finalized after all audit opinions on the Component financial statements are issued; and
- design and implement controls to ensure that the Agency-Wide Financial Statements accurately report all DoD appropriations related to Building Partner Capacity programs and accurately report the current status of those appropriations.

Identified Significant Deficiencies

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A description of the two significant deficiencies we identified through our audit and our recommendations to address them are as follows.

1. Risk Management Framework

The Federal Information Security Modernization Act of 2014 requires the DoD to provide adequate controls over information security considering the risk of not having those controls in place.[59] The Risk Management Framework (RMF) provides a disciplined, structured, and flexible process for managing security risk. The RMF includes information security categorization; control selection, implementation, and assessment; system and common control authorizations; and continuous monitoring.

[59] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

The DoD's RMF process adopts the NIST RMF to comply with Federal Information Security Modernization Act of 2014 requirements and to carry out DoD missions and business functions.[60] Success of the missions and functions depends on protecting the confidentiality, integrity, and availability of information processed, stored, and transmitted by those systems. Executing RMF tasks links essential risk management processes at the system level to risk management processes at the organization level.

Through our audit procedures, we identified that the DoD did not fully implement the RMF for DoD financial management systems. Specifically, the DoD did not fully:

- conduct control assessments,
- conduct system risk assessments, or
- implement continuous monitoring capabilities.

These conditions occurred because DoD management did not coordinate with DoD Components to monitor and ensure the implementation of an RMF.

As a result, DoD Components may not have all the information necessary to assess risks and may not be able to resolve deficiencies that affect internal control over financial reporting. The lack of RMF controls can affect the completeness and accuracy of financial reporting, which increases the risk that the Agency-Wide Financial Statements may be misstated.

Recommendations

We recommended that DoD management develop and implement processes to ensure each DoD Component has:

- implemented adequate control assessment procedures,
- implemented a system-level risk assessment, and
- developed and implemented a continuous monitoring program.

[60] NIST SP 800-37, "RMF for Information Systems and Organizations," December 2018.

2. Accounts Receivable

As of September 30, 2025, the DoD reported a non-Federal Accounts Receivable balance of $15.6 billion.[61] SFFAS 1 requires the DoD to recognize a receivable when the DoD establishes a claim to cash or other assets against other entities, based on either legal provisions, such as a payment due date, or goods or services provided. The DoD FMR states that a receivable must be established when payment is not received in advance or at the time revenue is recognized.[62] In addition, receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to the DoD, that is, in the applicable accounting system during the month the receivables occur. DoD Components must maintain accounting records for receivables so that all transactions affecting the receivables are included in the reporting period of occurrence. Furthermore, the Green Book requires management to design the entity's information system to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks.

Through our audit procedures, we identified that DoD Components did not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. Specifically, DoD Components:

- could not provide an Accounts Receivable subsidiary ledger at the invoice level that reconciles to the general ledger, and
- did not liquidate receivables collected in prior accounting periods in the accounting records.

These conditions occurred because the DoD did not develop or implement effective internal controls to prevent or detect misstatements of non-Federal Accounts Receivable balances. For example:

- DoD Component accounting systems did not have effective controls to record transactions to the correct general ledger accounts, and
- DoD Components did not follow SFFAS and DoD policy when reporting Accounts Receivable balances on the financial statements.

---

[61] Non-Federal Accounts Receivable are amounts that the DoD collects for the U.S. Government or other entities and amounts for which the DoD is not authorized to spend.

[62] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 3, "Receivables."

As a result, there was a significant risk that balances presented in the Agency-Wide Financial Statements may be misstated.

Recommendation

We recommended that DoD management improve its oversight of non-Federal Accounts Receivable balances by ensuring that DoD Components have detailed transactions to support balances, have and regularly review reports, and are implementing SFFAS 1 and the DoD FMR.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The Report on Internal Control over Financial Reporting is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of internal control over financial reporting, not to provide an opinion on the effectiveness of internal control over financial reporting. This report is not suitable for any other purpose.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

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

December 18, 2025

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

We conducted the audit the DoD Agency-Wide Financial Statements, as required by the Chief Financial Officers Act of 1990, and in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget (OMB) Bulletin No. 24-02; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual.[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal year ended September 30, 2025. Our Report on the Financial Statements, dated December 18, 2025, disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, which indicates we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for complying with provisions of applicable laws, regulations, contracts, and grant agreements related to financial reporting and ensuring that the DoD's financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996 (FFMIA).[2]

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws, regulations, contracts, and grant agreements. In connection with our responsibility as the group auditor for the audit of the Agency-Wide Financial Statements, we performed tests at the Agency-Wide level

[1] Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 2024.
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025; Volume 2, June 2024; and Volume 3, August 2025.

[2] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996,"September 1996.

and considered the results of DoD reporting entity audits to determine whether the DoD substantially complied with provisions of applicable laws, regulations, contracts, and grant agreements.[3] We identified instances of noncompliance that could have a direct and material effect on the financial statements, on the determination of financial statement amounts the DoD is required to report under GAGAS and the provisions of OMB Bulletin No. 24-02, and the requirements referred to in Section 803(a) of the FFMIA. However, our engagement objectives did not include providing an opinion on compliance with the provision of applicable laws, regulations, contracts, and grant agreements; accordingly, we do not express such an opinion. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Identified Instances of Noncompliance or Potential Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.[4] It specifies that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and provide a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of suspected ADA violations within 15 months.[5] The DoD reported two ADA cases resulting in multiple violations, totaling $106.9 million, in FY 2025. Additionally, the DoD identified eight ongoing ADA investigations as of September 30, 2025, and had four cases open for more than 15 months.

---

[3] A DoD Component is a Military Department, Defense agency, or DoD field activity such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

[4] Public Law 97-258, "Antideficiency Act," September 1982.

[5] DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process."

We also identified an instance in which a DoD policy and business process could result in an ADA violation. Specifically, the DoD's use of Discontinued Research Packages to write off suspense account and cash management report transactions that lack supporting documentation allows for potential violations of the purpose statute, *bona fide* needs rule, or both. The Government Accountability Office, "Principles of Federal Appropriations Law," states that there are three elements—purpose, time, and amount—that must be present for an obligation or expenditure to be legal.[6] The first element, known as the purpose statute, states that appropriations must only be used for objects for which the appropriations were made. The second element, known as the *bona fide* needs rule, says that appropriated funds can only be used for legitimate needs that arise during the period of availability for those funds. The Discontinued Research Package process may allow transactions to be applied to incorrect appropriations, applied to the wrong period, or both, which could result in ADA violations.

Federal Financial Management Improvement Act of 1996. The FFMIA requires the DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas of FFMIA noncompliance, OMB Circular No. A-136 requires the DoD to identify remediation activities that are planned or underway and to describe target dates and offices responsible for bringing systems into compliance.[7] DoD management identified over 130 systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA; accordingly, we determined that the DoD and its Components did not substantially comply with the FFMIA. In addition, DoD management has not created a strategy for DoD financial management systems relevant to internal controls over financial reporting to either become compliant with the FFMIA or be retired and replaced in a timely manner.

The Federal Managers' Financial Integrity Act of 1982. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.[8] OMB Circular No. A-123, which implements the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and

---

[6] Government Accountability Office, "Principles of Federal Appropriations Law," chapter 3, "Availability of Appropriations: Purpose," Fourth Edition, 2017 (The Red Book).

[7] OMB Circular No. A-136, "Financial Reporting Requirements," July 2025.

[8] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

compliance with provisions of applicable laws and regulations.[9] We identified DoD Components that did not substantially comply with the FMFIA. For example, DoD Components did not perform a complete risk assessment to define all compliance objectives, identify all risks and information, define risk tolerances, analyze risks, and respond to risks identified. In addition, DoD Components did not monitor the effectiveness of their FMFIA internal control assessment programs or implement corrective actions in a timely manner. We also reported multiple material weaknesses related to FMFIA noncompliance in our Report on Internal Control over Financial Reporting.

The Federal Information Security Modernization Act. One of the requirements of the Federal Information Security Modernization Act (FISMA) is for agencies to provide information security controls commensurate with the risk and potential harm of not having those controls.10 The National Institute of Standards and Technology publishes standards and guidelines for Federal entities to implement in their systems.[11] Deviations from these standards and guidelines represent departures from FISMA requirements. We identified that multiple DoD Components did not comply with National Institute of Standards and Technology guidance for their financial management systems and thus did not comply with certain aspects of FISMA. For example, DoD Components did not fully implement security controls, such as policies and procedures for configuration management and security management, managing and monitoring access controls, using proper segregation of duties, or fully implementing Complementary User Entity Controls.

The Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires the DoD to report to the Treasury any nontax debts or claims owed to the U.S. Government that are delinquent for more than 120 days.[12] We identified one DoD Component that may be noncompliant with the Debt Collection Improvement Act. Specifically, the DoD Component could not sufficiently support the validity of recorded debts, which limited the extent of audit procedures that could be performed over Debt Collection Improvement Act requirements.

---

[9] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016.

[10] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

[11] National Institute of Standards and Technology, Special Publication 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020, does not apply to national security systems, subject to exceptions.

[12] Public Law 104-134, "Debt Collection Improvement Act of 1996," as amended by Public Law 113-101, "Digital Accountability and Transparency Act of 2014," May 2014.

Recommendations

This report does not include recommendations to correct identified noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Auditors provided notices of findings and recommendations to management for the DoD and DoD Components to address reported instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements during the audits. In addition, auditors of the DoD reporting entities' financial statements included recommendations within their Reports on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Agency Comments

We provided a draft of this report to the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War (USW[C]/CFO) to provide a formal response; their response follows our audit reports. Government Auditing Standards require the auditor to perform limited procedures on the USW(C)/CFO's response to the findings identified during our engagement and described in the accompanying Agency Financial Report. In the USW(C)/CFO's response, they acknowledged the findings identified and expressed their commitment to resolving critical issues. The USW(C)/CFO's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of compliance with provisions of applicable laws, regulations, contracts, and grant agreements; not to provide an opinion on compliance. This report is not suitable for any other purpose.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF WAR
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

DEC 18 2025

Ms. Lorin T. Venable, CPA
Assistant Inspector General for Audit
Office of Inspector General
Department of War
4800 Mark Center Drive
Alexandria, VA 22350-1500

Dear Ms. Venable:

We have reviewed the audit report and acknowledge the findings and results. The Department of War is committed to resolving its critical issues and achieving an unmodified audit opinion by 2028. This goal reflects our dedication to transparency, accountability, and the responsible stewardship of taxpayer resources. As we look ahead to the upcoming year, we have identified key priorities that will guide our efforts toward this objective:

- Defense Working Capital Fund (DWCF): Our immediate focus is on preparing a combined DWCF Financial Report culminating in an unmodified opinion on the fiscal year 2027 financial statements over a two-year period. This milestone will serve as a critical building block in our broader financial improvement strategy.

- Agency-Wide Annual Financial Report: Building on the success of the DWCF audit, the Department will channel its efforts toward achieving an unmodified opinion on the fiscal year 2028 agency-wide financial statements.

- Implementation of Automation and Artificial Intelligence: To further enhance our financial management capabilities, the Department is implementing automation and artificial intelligence to automate internal controls, streamline processes, and produce accurate financial reports that comply with federal accounting standards. By leveraging these advanced technologies, we will improve efficiency, reduce errors, and ensure the integrity of our financial data.

These efforts will strengthen public trust and ensure our financial operations align with the highest standards of accountability. We are confident that, through the dedication of our team and the integration of innovative technologies, we will achieve these critical milestones. Thank you for your continued partnership and oversight as we work toward these goals.

Jules W Hurst III

Jules W. Hurst III
Performing the Duties of the Under Secretary of War (Comptroller)/Chief Financial Officer

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 | OFFICE OF INSPECTOR GENERAL

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