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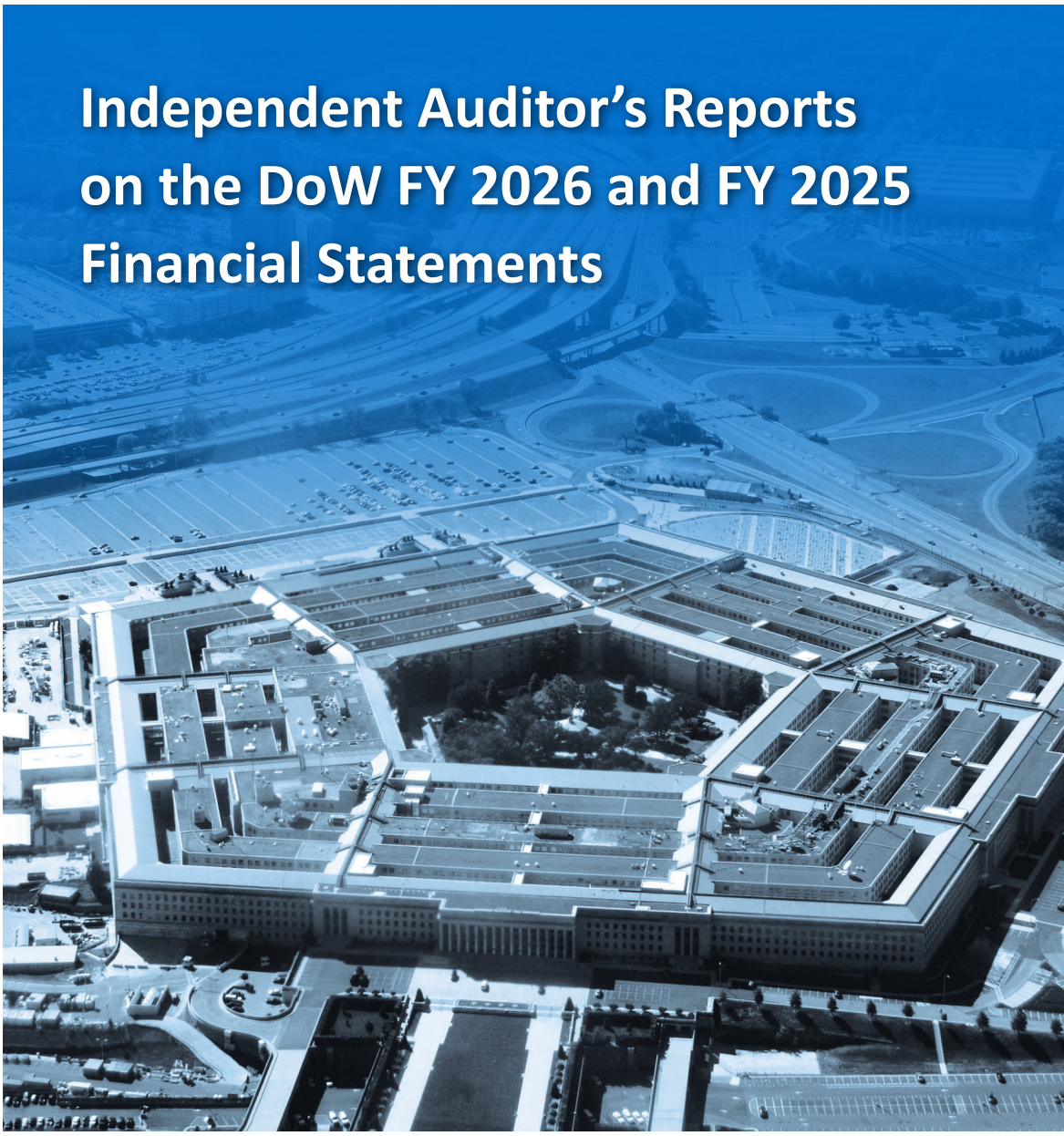
# Inspector General

U.S. Department of War

NOVEMBER 16, 2026



# Independent Auditor's Reports on the DoW FY 2026 and FY 2025 Financial Statements



INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY




Pursuant to Executive Order 14347, "Restoring the United States Department of War," September 5, 2025, the Department of Defense Inspector General (DoD IG) and Office of Inspector General (DoD OIG) use the secondary titles of the Department of War Inspector General (DoW IG) and Office of Inspector General (DoW OIG), respectively. The use of these secondary titles does not in any way affect the primary statutory title or authorities of the DoD IG under The Inspector General Act of 1978, as amended (5 U.S.C. Chapter 4, Inspectors General), or the authorities or responsibilities of the DoD IG or DoD OIG pursuant to any laws, regulations, or policies.

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

November 16, 2026

MEMORANDUM FOR SECRETARY OF WAR
UNDER SECRETARY OF WAR (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOW

SUBJECT: Independent Auditor's Reports on the DoW FY 2026 and FY 2025 Financial Statements (Project No. D2026-D000FV-0021.000, Report No. DOWIG-2027-032)

We are providing the subject Independent Auditor's Reports to be published in the DoW FY 2026 Agency Financial Report. Our reports are issued to accompany the DoW Agency-Wide Financial Statements as of and for the fiscal years ended September 30, 2026, and September 30, 2025. Our reports include a disclaimer of opinion on the Financial Statements, 14 Material Weaknesses in Internal Controls over Financial Reporting, and five instances of non-compliance with laws and regulations. While several audits are still ongoing, as of the date of our audit report components have maintained or improved their FY 2026 opinions, with the Medicare Eligible Retiree Health Care Fund receiving the first clean opinion in its history. We have audited the DoW financial statements since the first year they issued them for FY 1996. While our audit opinion remained the same, the DoW has taken deliberate steps to meet its requirement to achieve an unmodified opinion by December 2028.

On March 20, 2026, the Office of the Under Secretary of War (Comptroller)/Chief Financial Officer of the Department of War and DoW OIG issued a joint memorandum that outlined the future presentation of the DoW financial statements and introduced a revised audit approach.[1] In FY 2026, the DoW and its components moved from preparing 23 Agency Financial Reports to 15. This change simplifies and focuses the Department's approach on the most material entities.[2] By doing so, the DoW OIG increased available audit resources and the Comptroller positioned the Department to accelerate corrective actions ahead of the December 31, 2028 deadline.

As part of its revised audit strategy, the DoW established the Joint Task Force–Audit, a group of DoW civilians, Service members, and private sector subject matter experts, with the authority to direct actions across the Department to achieve a clean audit opinion and address material

[1] Pursuant to Executive Order 14347, "Restoring the United States Department of War," September 5, 2025, the Department of Defense Inspector General (DoD IG) and Office of Inspector General (DoD OIG) use the secondary titles of the Department of War Inspector General (DoW IG) and Office of Inspector General (DoW OIG), respectively. The use of these secondary titles does not in any way affect the primary statutory title or authorities of the DoD IG under the Inspector General Act of 1978, as amended (5 U.S.C. Chapter 4, Inspectors General), or the authorities or responsibilities of the DoD IG or DoD OIG pursuant to any laws, regulations, or policies.

[2] The DoW awarded a contract with an independent public accounting firm for audit services of the DoW OIG Audits of the DoW Agency-Wide Consolidated Financial Statements for FYs 2027 through 2031. The contract expects a completion date of March 31, 2032.

weaknesses. The Secretary also formed an audit committee to monitor the Department's progress toward a clean opinion for FY 2028. The Department is leveraging the task force and the committee to solve cross-cutting issues and drive DoW-wide changes.

In addition, the DoW requested that the audit focus on substantively reviewing individual transactions, balances, and supporting documents to verify that financial statement amounts are accurate and legitimate. This methodology, known as substantive testing, offers the DoW opportunities to further its efforts to achieve a clean audit opinion. To be sure, the DoW is not abandoning controls. Rather, the DoW built on the internal controls that are already working while continually improving and maturing its control environment through feedback from the auditors. The DoW also invested in technology and process improvements to support timely, accurate financial information. Together, the DoW believes these efforts create a more efficient and focused audit process that strengthens financial stewardship and improves the reliability of the DoW's consolidated financial reporting.

To assist with the DoW's strategy for achieving the congressional mandate, the DoW OIG performed specific audit procedures at the Agency-Wide level and considered information from the DoW reporting entities' audits to identify material weaknesses in internal control over financial reporting. Although all the FY 2025 material weaknesses remain open in FY 2026, the DoW OIG consolidated several FY 2025 material weaknesses into broader categories to provide clearer focus on the critical themes that pose the greatest obstacles to the Department's efforts to obtain an unmodified audit opinion. We strategically aligned 14 related material weaknesses with Joint Task Force–Audit areas. This alignment concisely highlights the major impediments at both the component and Agency-Wide level that the DoW faces in achieving a favorable audit opinion.

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.

Platte B. Moring, III

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November 16, 2026

# Report on the Financial Statements

## *Disclaimer of Opinion*

We were engaged to audit the Financial Statements as of and for the fiscal years that ended September 30, 2026, and September 30, 2025, as required by the Chief Financial Officers Act of 1990 and in accordance with Office of Management Budget (OMB) guidance.[1] The resulting audit report fulfills the DoW Office of Inspector General requirement to audit the DoW Agency-Wide Financial Statements, as outlined in 31 U.S.C. § 3521.[2] The DoW 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 DoW Agency Financial Report. We refer to these statements in this report as the financial statements.

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. Therefore, the financial statements may contain undetected misstatements that are both material and pervasive.

## *Basis for Disclaimer of Opinion*

As the group auditor for the DoW Agency Financial Report, the DoW Office of Inspector General was responsible for performing the audit of the DoW Agency Financial Report and overseeing the Financial Statement audits of significant DoW Components, such as the Military Services. For FY 2026, the Office of the Under Secretary of War (Comptroller)/Chief Financial Officer, DoW (OUSW[C]/CFO) reevaluated its strategy for obtaining an unmodified audit opinion. The DoW and its components moved from

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[1] Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.
OMB Circular No. A-136, "Financial Reporting Requirements," May 2026.

[2] Pursuant to Executive Order 14347, "Restoring the United States Department of War," September 5, 2025, the Department of Defense Inspector General (DoD IG) and Office of Inspector General (DoD OIG) use the secondary titles of the Department of War Inspector General (DoW IG) and Office of Inspector General (DoW OIG), respectively. The use of these secondary titles does not in any way affect the primary statutory title or authorities of the DoD IG under the Inspector General Act of 1978, as amended (5 U.S.C. Chapter 4, Inspectors General), or the authorities or responsibilities of the DoD IG or DoD OIG pursuant to any laws, regulations, or policies.

preparing 23 Agency Financial Reports to 15.[3] Also, DoW officials worked with the auditors to focus on testing financial statement balances using substantive procedures instead of conducting tests of internal controls and to limit those procedures to specific DoW focus areas.

Specifically, the OUSW(C)/CFO identified the following focus areas for FY 2026.

- Fund Balance with Treasury
- Inventory and Related Property
- General Property, Plant, and Equipment
- DoD Component Level Accounts
- Intragovernmental Transactions and Eliminations

Based on the Department's new audit strategy, we considered any FY 2025 material weaknesses not related to the focus areas above as uncorrected. The material weaknesses limited the DoW's ability to produce reliable Financial Statements.

In addition, five entities have received extensions for the issuance of their audit reports, and their opinions were not issued as of the date of this report.[4] Because these opinions were unavailable and we could not rely on that work to form an opinion on the DoW Agency-Wide Financial Statements. Because we were restricted from performing procedures necessary to address the above areas, and because alternative procedures were not possible, we were unable to obtain the evidence required to support the financial statements as a whole.

Due to these scope limitations, we were unable to obtain sufficient appropriate audit evidence to determine whether the DoW Agency-Wide Financial Statements as of and for the fiscal years ended September 30, 2026, and September 30, 2025, are free from

[3] The six DoW entities that had the requirement to produce stand-alone entities removed are the Army General Fund, Army Working Capital Fund, Navy General Fund, Defense Logistics Agency Working Capital Fund, Defense Health Program, and U.S. Transportation Command. Additionally, the Air Force General Fund and Air Force Working Capital Fund are in the first year of a two-year audit cycle.

[4] The five DoW entities that received an extension are the Department of Navy Working Capital Fund, U.S. Marine Corps, Defense Logistics Agency National Defense Stockpile Fund, Defense Information Systems Agency General Fund, and DoW Office of Inspector General.

material misstatement. The possible effects of undetected misstatements could be both material and pervasive. Accordingly, we do not express an opinion on the DoW Agency-Wide Financial Statements.

We identified the following material misstatements during our audit.

- DoW management did not report or account for Joint Strike Fighter property in the Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and Statements of Federal Financial Accounting Standards 3 and 6.[5] This omission resulted in a material misstatement in the DoW's assets on the Agency-Wide Financial Statements. Because the DoW did not develop, establish, or implement adequate policies and procedures to account for, manage, and oversee F-35 property in accordance with Federal reporting standards and property accountability requirements, we could not quantify the material misstatement in the DoW's assets on the Agency-Wide Financial Statements. Additionally, contractor proprietary systems and manual processes prevent real-time access to government-owned data. We report on this matter in the Joint Strike Fighter Program material weakness identified in our Report on Internal Control over Financial Reporting.

- Building Partner Capacity programs are a means by which the DoW 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 DoW.[6] However, the DoW did not accurately report the status of that funding in the Agency-Wide Financial Statements. The DoW transferred some of this funding to a trust fund account for the future purchase of goods and services. The DoW 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 a $12.4 billion material misstatement in the amount of Building Partner Capacity funding on the Agency-Wide Financial Statements, which is reported in the Financial Reporting material weakness in our Report on Internal Control over Financial Reporting.

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[5] 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.

OMB Circular No. A-136, "Financial Reporting Requirements," May 2026.

Federal Accounting Standards Advisory Board Statements of Federal Financial Accounting Standards 3, "Accounting for Inventory and Related Property," October 1993.

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

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*

In the Agency Financial Report, DoW management referenced information on websites or other forms of interactive data. 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 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*

DoW 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 because of fraud or error.

## *Auditor's Responsibility for the Audit of the Financial Statements*

Our responsibility is to express an opinion on the financial statements based on our performance of the audit and review the Management's Discussion and Analysis section in the Agency Financial Report in accordance with generally accepted government auditing standards (GAGAS), OMB Bulletin No. 24-02, and the Financial Audit Manual.[7] 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.

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[7] Government Accountability Office Report No. GAO-24-106786, "Government Auditing Standards," February 2024.
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 2026; Volume 2, June 2026; and Volume 3, July 2026.

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

## *Required Supplementary Information*

The 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 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 management's inability to provide sufficient, appropriate evidence that led to the disclaimer 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 November 16, 2026, on our consideration of the DoW'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 and results of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is not to provide an opinion on the effectiveness of the DoW's internal control over financial reporting or on compliance with provisions of applicable laws, regulations, contracts and grant agreements. 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 OUSW(C)/CFO. Its personnel did not provide formal comments; however, they provided technical comments that we incorporated as appropriate.



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November 16, 2026

# Report on Internal Control over Financial Reporting

We conducted the audit of the DoW 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/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 years ended September 30, 2026, and September 30, 2025. Our Report on the Financial Statements, dated November 16, 2026, 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*

DoW 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 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 DoW and DoW Component management through notices of findings and recommendations to address identified findings.[3] Additionally, the recommendations included in this report are addressed to DoW management as a whole, including

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[1] Government Accountability Office Report No. GAO-24-106786, "Government Auditing Standards," February 2024.
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 2026; Volume 2, June 2026; and Volume 3, July 2026.
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 DoW Component is a Military Department or Defense agency such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoW.

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 Under Secretary of War for Acquisition and Sustainment, and Office of the DoW Chief Information Officer.

## *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 DoW'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 DoW'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.

As a part of the Department's revised strategy, many Components either did not issue FY 2026 Agency Financial Reports or plan to issue them after our report date.[4] As the group auditor for the DoW consolidated financial statements, we performed audit procedures at the Agency-Wide level and considered information from the DoW reporting entities' audits to identify material weaknesses in internal control over financial reporting.[5] Because many Components either did not issue FY 2026 Agency Financial Reports or plan to issue them later, our audit procedures to review the results of the DoW reporting entities' audits were limited.

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.

[4] The Army General Fund, Army Working Capital Fund, and Navy General Fund were OMB-required entities, but the Department received special approval for them not to issue financial statements in FY 2026. Additionally, the Air Force General Fund and Air Force Working Capital Fund did not issue financial statements for FY 2026 because they are in the first year of a 2-year audit. The Navy Working Capital Fund and U.S. Marine Corps financial statements will not be issued until March 2027.

[5] A DoW reporting entity is an financial statement entity, such as the Defense Information Systems Agency General Fund.

## *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 on a timely basis. For FY 2026, we consolidated several FY 2025 material weaknesses to provide a clearer list of the critical deficiencies that pose the greatest obstacles to the Department's efforts to obtain an unmodified audit opinion. All of the underlying issues that comprised the FY 2025 material weaknesses remain unresolved. The following table shows how we combined FY 2025 material weaknesses in this report.

**TABLE. CHANGES IN REPORTED MATERIAL WEAKNESSES FROM FY 2025 TO FY 2026**

| FY 2025 Reported Material Weaknesses and Significant Deficiencies | FY 2026 Reported Material Weaknesses |
|---|---|
| Financial Management Systems Modernization | Financial Management Systems Modernization |
| Configuration Management | Information Technology Controls |
| Security Management | |
| Access Controls | |
| Segregation of Duties | |
| Interface Controls | |
| Fund Balance with Treasury | Fund Balance with Treasury |
| Inventory and Stockpile Materials | Inventory |
| Operating Materials and Supplies | Operating Materials and Supplies |
| General Property, Plant, and Equipment | General and Right-To-Use Property, Plant, and Equipment |
| Real Property | |
| Universe of Transactions | |
| Government Property in the Possession of Contractors | Government Property in the Possession of Contractors |
| Joint Strike Fighter Program | Joint Strike Fighter Program |
| Earned Revenue | Accounts Receivable and Revenue |
| Accounts Receivable (SD)* | |
| Intragovernmental Transactions and Intradepartmental Eliminations | Intragovernmental Transactions and Intradepartmental Eliminations |
| Accounts Payable | Accounts Payable and Gross Costs |
| Gross Costs | |
| Environmental and Disposal Liabilities | Environmental and Disposal Liabilities |
| Service Organizations | Component Management Internal Control Program |
| Component Entity-Level Controls | |
| Leases | DoW-Wide Financial Reporting |
| Unsupported Accounting Adjustments | |
| Reconciliation of Net Cost of Operations to Outlays | |
| Budgetary Resources | |
| DoW-Wide Oversight and Monitoring | |

Source: The DoW OIG.

* Accounts Receivable (SD) was a standalone significant deficiency in FY 2025 that was combined with Earned Revenue, resulting in a material weakness in FY 2026.

Descriptions of the 14 material weaknesses we identified through our FY 2026 audit and our recommendations to address them are as follows.

### 1. Financial Management Systems Modernization

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the DoW 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 at the transaction level.[6] The DoW identified 290 systems as relevant to internal controls over financial reporting, of which 158 systems were either noncompliant with the FFMIA or not yet determined to be compliant.[7] The DoW has acknowledged its noncompliance with the FFMIA since FY 2001.

The DoW has made progress throughout the year in addressing previously identified weaknesses. For example, DoW management:

- developed and implemented application tools to document end-to-end processes relevant to financial transactions using DoW management's War Data Platform;[8]
- developed and implemented controls to identify financial and feeder systems that comprise a complete inventory of their financial and business systems; and
- established the Joint Task Force–Audit in June 2026 to, in part, accelerate the elimination of legacy financial systems, which will support the Department in addressing the modernization and standardization of its information technology (IT) environment.

While the Department made progress, it continued to maintain systems that are not FFMIA compliant, including some that it cannot modify to bring into compliance.

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

[7] As of April 2026.

[8] These application tools are designed to align DoW systems with Federal Financial Management Functions, the underlying Federal Activities, and the associated FFMIA requirements.

These conditions occurred because the DoW did not use the full capabilities of its modern enterprise resource planning systems, and management's plans for system modernization included remediation dates that are beyond the December 2028 requirement for a clean audit opinion.[9]

Without a modern IT systems environment, DoW management remains at risk of not being able to produce accurate, reliable, and timely financial management information or achieve FFMIA compliance.

We recommend that the OUSW(C)/CFO and the DoW Chief Information Officer continue to coordinate with DoW Component management to update their modernization plans to include detailed milestones for each DoW system to become either FFMIA compliant or be retired and replaced.

In addition, we recommend that the OUSW(C)/CFO coordinate with DoW Component management, through the Joint Task Force–Audit to:

- expedite the retirement and replacement of outdated systems that the DoW does not intend to modernize and has given FFMIA-compliance waivers;
- expedite the modernization of systems that the DoW intends to keep, to make them FFMIA compliant; and
- continue to identify and retire systems that are not compliant with the FFMIA.

### 2. Information Technology Controls

IT controls protect an organization's operations and assets from a diverse set of threats and risks. These controls are the safeguards or countermeasures employed within a system or an organization to protect the confidentiality, integrity, and availability of the system and its information and to manage information security risk. When designed, implemented, and operating effectively, controls reasonably assure the completeness, accuracy, and validity of transactions, events, and data.

However, we identified deficiencies in the design and operation of IT controls in the following areas:

- Access Controls
- Segregation of Duties
- Configuration Management

[9] 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.

- Security Management
- Interface Controls

Through our audit procedures, we identified that the DoW's IT controls did not comply with National Institute of Standards and Technology Special Publication 800-53 Revision 5, as it relates to the following controls.[10]

**Access Controls:** Access Controls provide reasonable assurance that access to computer resources, such as data, equipment, and facilities, are reasonable and restricted to authorized individuals. Access controls limit or detect inappropriate access to computer resources, protecting resources from unauthorized modification, loss, and disclosure. Access controls require users to authenticate themselves and limit user access to files, resources, and actions within a system.

Auditors identified that the DoW Components did not:

- properly review user access before provisioning additional system access or monitor user access to determine whether such access was necessary in performing the user's job function;

- maintain systems that could generate reports containing all applicable events or consistently review security events; and

- remove user access to systems significant for financial reporting for terminated and separated employees in a consistent, timely manner.

This occurred because DoW Component management did not develop and implement sufficient access controls over the financial management systems affecting the DoW Agency-Wide Financial Statements or fully implement a uniform and reliable process for addressing terminated and separated employees across DoW Components.

Without proper access controls, the DoW has an increased risk that users have unauthorized or otherwise inappropriate access to DoW systems. Unauthorized access could be leveraged to alter the confidentiality, integrity, and availability of data in the system. In addition, without proper event logging and review, DoW management may be unable to detect, investigate, and address unauthorized activities or errors in DoW systems in a timely manner, impacting application data and system integrity for critical systems.

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

We recommend that the DoW Chief Information Officer, in coordination with the OUSW(C)/CFO, work with DoW Component management to:

- ensure DoW Component management enforces processes to properly manage user accounts, review access, log and monitor key activity, apply least-privilege rules, maintain security-supporting backups, and document audit-log reviews;

- establish, implement, and monitor a baseline frequency of how often user accounts in financial management systems should be reviewed and validated;

- establish a DoW-wide time period for revoking a terminated or separated user's access to align with National Institute of Standards and Technology Special Publication 800-53 Revision 5 requirements, to help facilitate a timely and uniform removal process at the Component level; and

- monitor the continued implementation of the Defense Enterprise Identity, Credential, and Access Management solution to ensure it stays on schedule and any challenges are addressed.[11]

**Segregation of Duties:** Segregation of Duties (SoD) addresses the potential for abuse of authorized privileges and helps to reduce the improper alteration of the DoW's financial data. SoD involves separating work responsibilities so that one individual does not control all critical stages of a process. Effective SoD are achieved by splitting responsibilities between two or more individuals or organizational units. Dividing duties also decreases the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other. The implementation of the Defense Enterprise Identity, Credential, and Access Management solution would help in remediating the deficiencies we identified below.

Auditors identified that DoW Components did not:

- identify and document SoD at an organizational level or

- define system access authorizations to support SoD controls.

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

This occurred because DoW Component management did not develop and implement sufficient SoD role matrixes for systems that affect the DoW Agency-Wide Financial Statements.

Without proper SoD within DoW systems, users can perform functions outside of their job responsibilities or without proper monitoring, which increases the risk that inaccurate, invalid, and unauthorized transactions are processed. Ineffective SoD practices increase the risk of fraud, waste, and abuse, which could divert funds away from mission-critical operations.

We recommend that the DoW Chief Information Officer, in coordination with the OUSW(C)/CFO, work with DoW Component management to review current Component SoD policies and procedures and provide feedback for improving these policies and procedures while emphasizing the need to:

- segregate incompatible duties at all levels of DoW financial management systems; and
- establish and implement a list of incompatible roles, duties, and responsibilities for each financial management system.

**Configuration Management:** Configuration management involves the identification and management of changes to the system's design during their 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 operated as intended. In addition, configuration management controls provide reasonable assurance that changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration.

Auditors identified that within their financial management systems DoW Components did not:

- document configuration change controls;
- retain records of configuration changes requiring authorization;
- monitor and review activities associated with configuration changes requiring authorization; or
- define, document, approve, and enforce physical and logical access restrictions associated with changes.

This occurred because DoW Component management did not ensure the development and implementation of a comprehensive set of configuration management control policies, procedures, and processes over the financial management systems affecting the DoW Agency-Wide Financial Statements.

Configuration management deficiencies increase the risk of systems and applications not functioning as intended and reporting data that are incomplete, inconsistent, and inaccurate in the DoW Agency-Wide Financial Statements.

We recommend that the DoW Chief Information Officer, in coordination with the OUSW(C)/CFO, work with DoW Component management to review current DoW Component configuration management policies and procedures for financial management systems and provide feedback for improving these policies and procedures emphasizing:

- frequency of periodic review of configuration controls;
- minimum data retention requirements for configuration management changes;
- review process and approval of configuration changes, including verifying the completeness and effectiveness of those changes, determining the frequency of approvals, and retaining all change documentation; and
- development and implementation of monitoring activities, systems, and tools that review and alert configuration changes in real-time, including monitoring for changes outside of the system control environment.

**Security Management:** Security management programs provide a framework for managing security risks through the development and implementation of effective security policies, assignment of responsibilities, and monitoring the adequacy of the entity's IT controls.

Auditors identified that DoW Components did not:

- implement, periodically review, or update policies and procedures for their financial management systems; or
- develop and update plans of actions and milestones across their systems with identified weaknesses and vulnerabilities.

This occurred because DoW Component management did not ensure the implementation, periodic review, and updating of security management policies,

procedures, and processes over DoW financial management systems affecting the DoW Agency-Wide Financial Statements.

Without proper security management controls, there is an increased risk that the confidentiality, integrity, and availability of data throughout DoW financial management systems may not be properly maintained. As a result, DoW management may not be able to rely on the system data or verify the legitimacy of that data. Additionally, the lack of security management controls increases the risk of security incidents that affect DoW financial and non-financial management systems and could affect operational readiness.

We recommend that the DoW Chief Information Officer, in coordination with the OUSW(C)/CFO, work with DoW Component management to:

- develop and implement processes to confirm that each financial management system has a comprehensive set of policies and procedures that allow system owners to achieve their objectives, address risks, and support the internal control environment; and
- review DoW Component security management policies and procedures and provide feedback on how to improve those policies and procedures to include:
    - periodic reviews and updates to system systems policies and procedures,
    - development and implementation of plans of actions and milestones for each identified deficiency, and
    - development and implementation of plans of actions and milestones monitoring procedures.

**Interface Controls:** 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.

Auditors identified that DoW Components did not:

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

This occurred because DoW Component management did not develop or implement comprehensive policies, procedures, and processes to ensure that: (1) data transmitted to interface files were reconciled, (2) all interface errors were logged, and (3) errors were resolved in a timely manner.

Without proper interface controls, DoW management is unable to validate the completeness and accuracy of the DoW's financial management system data. Additionally, DoW management is unable to detect, investigate, and address errors in DoW systems in a timely manner, impacting the ability to determine whether financially significant interface edits and validations are operating as intended.

We recommend that the DoW Chief Information Officer, in coordination with the OUSW(C)/CFO, work with DoW Component management to:

- develop and implement processes to confirm that each system interface relevant to financial reporting has a comprehensive interface agreement that captures the minimum requirements of documenting the interface characteristics, impact level of the information communicated, and security and privacy requirements, controls, and responsibilities for each system;
- review DoW Component interface control policies and procedures and provide feedback on how to improve those policies and procedures, including:
    - identifying and retaining evidence of all interface errors to ensure that those errors are identified, reviewed, and remediated; and
    - ensuring that data transmitted to interface files are reconciled, all interface errors are logged, and errors are resolved in a timely manner; and
- develop and implement a plan to aggressively and systematically reduce the number of DoW financial management systems, which will reduce the number of interfaces maintained.

### 3. Fund Balance with Treasury

As of September 30, 2026, the DoW reported a Fund Balance with Treasury (FBWT) balance of $959.4 billion. Statement of Federal Financial Accounting Standards (SFFAS) 1 defines FBWT as the aggregate amount of funds in the entity's account with Treasury for which the entity is authorized to make expenditures and pay liabilities.[12] FBWT is an intragovernmental item, except for fiduciary or other non-Federal non-entity FBWT. From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the U.S. Government's resources. However, from the perspective of the U.S. Government as a whole, it is not an asset; and while it represents a commitment to make resources available to Federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-Federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the U.S. Government as a whole to the non-Federal beneficiaries.

Auditors identified the following issues with the FBWT balances reported on the FY 2026 financial statements.

- DoW management and the Defense Finance and Accounting Service (DFAS) were unable to adequately support FBWT balances related to:
    - Base Realignment and Closure (BRAC) balances reported in the DoD Component Level Accounts entity, which resulted in reporting $2.5 billion net in BRAC FBWT balances from 24 data sources as of third quarter FY 2026;[13] and
    - legacy feeder files for the Tier 3 and 4 entities, which resulted in reporting $7.7 billion net in FBWT balances from five legacy feeder files as of third quarter FY 2026.
- DFAS did not ensure ODOBERECLASS feeder file adjustments were properly supported and necessary for financial reporting.[14]

[12] Federal Accounting Standards Advisory Board Handbook, SFFAS 1, "Accounting for Selected Assets and Liabilities," March 1993.

[13] In FY 1990, Congress appropriated the DoW BRAC funding to implement the Defense Secretary's Commission on BRAC that recommended military installations be realigned or closed. Congress appropriated BRAC funds after FY 2001 to cover the costs of environmental restoration and caretaker functions at bases closed under the prior rounds of BRAC.

[14] The ODOBERECLASS feeder file was used to post funding and FBWT adjustments into the Defense Departmental Reporting System.

- TI-97 had an unsupported undistributed balance of $3.9 billion as of third quarter FY 2026.[15]

- DFAS did not ensure the current undistributed FBWT adjustment process was properly documented.

These conditions occurred because:

- DoW management and DFAS have not:

    - developed and implemented policies and procedures to ensure historical ODOBERECLASS and undistributed adjustments were properly prepared and supported,

    - transitioned to using journal vouchers to record FBWT adjustments that were previously recorded within the ODOBERECLASS feeder file,

    - performed a reconciliation of FBWT data sources reporting BRAC and Tier 3 and 4 FBWT balances, most of which are older than 15 years old,

    - performed the analysis required by DoW Financial Management Regulation (FMR) Supplemental, volume 4, section 3.15, to reconcile and support FBWT, beginning balances for the DoD Component Level Accounts entity and Tier 3 and 4 as a whole, or

    - provided sufficient and appropriate documentation to support adjustments that affect the BRAC FBWT balances.[16]

As a result of the deficiencies listed, the FBWT balances for DoD Component Level Accounts and Tier 3 and 4 may be inaccurate, unsupported, and incomplete. These Components' balances represent more than 15 percent ($146.4 billion) of the FBWT reported in the DoW Agency-Wide Financial Statements. As a result, these deficiencies create a significant risk that the FBWT balance reported on the DoW Agency-Wide Financial Statements may be materially misstated.

[15] The undistributed feeder file was used to report undistributed collections and disbursements for TI-97 Components into the Defense Departmental Reporting System.

[16] DoW Regulation 7000.14-R, "DoW Financial Management Regulation," Supplemental, Volume 4, "A Procedural Guide for Accounting Policy," September 2026.

We recommend that the OUSW(C)/CFO continue to use the Joint Task Force–Audit to coordinate with the DFAS Director to:

- perform a reconciliation of all FBWT data related to BRAC that contributes to the DoD Component Level Accounts' FBWT balance to ensure that the balances are complete and accurate;

- perform a reconciliation of all legacy feeder files that contribute to the FBWT balance of the Tier 3 and 4 entities to ensure that the balances are complete and accurate;

- perform the analysis detailed in the DoW FMR Supplemental, volume 4, section 3.15 to determine the beginning balances that contribute to the FBWT beginning balance for the DoD Component Level Accounts entity and Tier 3 and 4 as a whole;

- identify whether any portions of the FBWT beginning balance for the DoD Component Level Accounts entity or Tier 3 and 4 as a whole cannot be supported, and if appropriate, work with DFAS to post a permanent adjustment to balance with the Treasury;

- strengthen processes to ensure ODOBERECLASS feeder file adjustments are fully supported, reviewed, and necessary for financial reporting;

- continue reversal of unnecessary ODOBERECLASS feeder file adjustments and ensure future reversals follow documented procedures;

- strengthen monthly financial reporting processes to ensure the ODOBERECLASS feeder file adjustments are recorded through adjustments rather than feeder files;

- fully retire the ODOBERECLASS feeder file and complete the transition of all related adjustments to journal vouchers once the Defense Departmental Reporting System enhancement is complete; and

- update DFAS standard operating procedures to reflect revised process for undistributed adjustments.

**4. Inventory**

As of September 30, 2026, the DoW reported an Inventory balance of $160.9 billion. Inventory, Net, is included in the Inventory and Related Property, Net line item on the Balance Sheet. SFFAS 3, "Accounting for Inventory and Related Property," is the

governing standard for Federal inventory and requires the DoW to value inventory at historical cost, or on a basis that reasonably approximates historical cost.[17] SFFAS 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," allows the DoW to use a one-time alternative valuation method to establish inventory opening balances.[18]

Auditors for the following DoW Components identified issues with the Inventory, Net balances reported on their financial statements.

- Army Working Capital Fund (WCF) management:
    - did not design and implement sufficient internal controls regarding physical inventory counts and movements of inventory at Army-managed installations;
    - could not produce documentation supporting valuation in accordance with SFFAS 3 and SFFAS 48;
    - did not design, document, or implement controls to determine whether Cost of Goods Sold transactions were recognized correctly;
    - did not have controls in place to reconcile data between the accounting system of record and warehouse management systems;
    - did not have controls in place to monitor temporary or dropped storage locations across plants; and
    - did not have controls in place to track and clear aged due-ins.
- Air Force WCF management:
    - lacked effective design and control activities to prevent and detect material misstatements, and
    - did not have a plan or policy to value its inventory using SFFAS 48 guidance.

[17] Federal Accounting Standards Advisory Board Handbook, SFFAS 3, "Accounting for Inventory and Related Property," October 1993.

[18] Federal Accounting Standards Advisory Board Handbook, SFFAS 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

- Defense Logistics Agency (DLA) WCF management:
    - did not record, track, and ensure proper disposition of items in a timely manner;
    - did not ensure the net realizable value factor was calculated correctly using an appropriate estimation method or model;
    - did not ensure that the population of Excess, Obsolete, Unserviceable inventory that was adjusted to net realizable value was complete and accurate; and
    - did not identify and account for all necessary inventory costs in the calculation of the moving average price, such as purchase; transportation; production; and Preservation, Packaging, Packing, and Marking costs.

These conditions occurred for the following reasons.

- Component management of the Army, Air Force, and DLA did not:
    - establish effective processes to reconcile the warehouse management systems to the Enterprise Resource Planning systems or establish standardized valuation methodologies;
    - monitor and perform uniform physical count procedures across the organization's holdings; or
    - retain sufficient and appropriate audit evidence or perform risk assessments and establish formal error tolerances over counts, Cost of Goods sold, and price adjustments.
- The OUSW(C)/CFO did not monitor or validate the Components' implementation of SFFAS 3 and SFFAS 48 over the Inventory line item. Specifically, it did not enforce consistent inventory valuation, existence and completeness reporting, or monitoring of aged due-ins.

As a result of the deficiencies listed, the Inventory, Net balances for the Army WCF, Air Force WCF, and DLA WCF may be inaccurate, unsupported, and incomplete. These Components' balances represent more than 58 percent ($94.5 billion) of the

Inventory, Net balance ($160.9 billion) reported in the DoW Agency-Wide Financial Statements. Consequently, these deficiencies create a significant risk that the Inventory, Net balance reported on the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, to ensure that the Components holding Inventory, Net balances, specifically the Army WCF, Air Force WCF, and DLA WCF:

- review and test adherence to policies and procedures for recording inventory transactions that substantiate existence, completeness, and valuation and ensure that Inventory and Related Property is valued in accordance with SFFAS 3 and SFFAS 48;
- comply with DoW guidance, including establishing active monitoring of Inventory;
- reconcile data in the Components' Enterprise Resource Planning systems with the local warehouse feeder systems and ensure differences are resolved in a timely manner;
- retain audit evidence that includes proof of internal control execution;
- assess risks and establish error tolerances over physical counts, Cost of Goods Sold, and price adjustments; and
- implement policies for aged due-ins, temporary locations, and monitor transactions for necessary adjustments.

**5. Operating Materials and Supplies**

As of September 30, 2026, the DoW reported an Operating Materials and Supplies (OM&S) balance of $204.0 billion. OM&S is included in the Inventory and Related Property, Net line item on the Balance Sheet. SFFAS 3 defines OM&S as tangible personal property used or consumed during operations. OM&S includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines stored for future use. SFFAS 3 requires the DoW to value OM&S at historical cost, or on a basis that reasonably approximates historical cost. SFFAS 48 allows the DoW to use a one-time alternative valuation method to establish OM&S opening balances. In addition, OMB guidance and the DoW FMR requires management to establish and maintain effective internal controls to ensure accurate accountability and reporting of OM&S assets.

Auditors for the various DoW Components identified issues with the OM&S balances reported on the FY 2026 financial statements. Specifically, auditors identified that management for the Army, Navy, and Air Force General Funds (GFs):

- did not support opening balances in compliance with SFFAS 48 or verify asset values in accordance with SFFAS 3; and
- lacked adequate controls to ensure complete, accurate, and properly reconciled OM&S records on their financial statements.

These conditions occurred because Component management for the Army, Navy, and Air Force lacked:

- controls to ensure complete and accurate OM&S balances;
- policies and procedures to identify and properly value OM&S inventory in accordance with SFFAS 3 and SFFAS 48; and
- sufficient documentation to ensure OM&S balances and transactions were supported and auditable.

As a result of the deficiencies listed, the OM&S balances for the Army GF, Navy GF, and Air Force GF may be inaccurate, unsupported, and incomplete. These Components' balances represent more than 97 percent ($198.1 billion) of the OM&S reported in the DoW Agency-Wide Financial Statements. Consequently, these deficiencies create a significant risk that the OM&S balances reported on the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, or establish a similar working group, to:

- review OM&S-related root causes at the Army, Navy, and Air Force that contribute to incomplete, inaccurate, and unsupported balances, including deficiencies in developing, implementing, and documenting OM&S valuation and accountability processes; and
- identify OM&S best practices from Components that have remediated OM&S findings and share them with Components that still have outstanding findings. This effort should include practices related to implementing SFFAS 3 and SFFAS 48, as well as broader OM&S management and internal control best practices to improve consistency across the DoW.

## 6. General and Right-To-Use Property, Plant, and Equipment

General and Right-to-Use Property, Plant, and Equipment (General PP&E) includes General Equipment, Internal Use Software, and Real Property. As of September 30, 2026, the DoW reported a General PP&E balance of $959.7 billion. The DoW FMR defines General Equipment and Internal Use Software as tangible or intangible assets that have an estimated useful life of at least 2 years and are used in operations rather than sold or consumed. Real Property includes facilities, land, land rights, and leasehold improvements. The DoW FMR requires Components to properly recognize, account for, and report General PP&E on the appropriate financial statements. SFFAS 6 and SFFAS 10 require the DoW to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.[19] SFFAS 50 amends both SFFAS 6 and 10 and allows the DoW 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 DoW makes an unreserved assertion that its financial statements are presented in accordance with generally accepted accounting principles.[20]

Auditors for various DoW Components identified issues with the General PP&E balances reported on the FY 2026 financial statements. Specifically, auditors identified that management for the Army, Navy, and Air Force GFs had deficiencies in:

- timely and accurately recording General PP&E transactions in accountable property systems of record and the general ledger;
- identifying and maintaining complete and accurate populations of General PP&E assets and related transactions; and
- supporting beginning balances of General PP&E assets in accordance with SFFAS 6 and SFFAS 50.

These conditions occurred because Component management for the Army, Navy, and Air Force did not:

- maintain key documentation to properly support the historical value of General PP&E in accordance with SFFAS 6 and SFFAS 10;

[19] Federal Accounting Standards Advisory Board Handbook, SFFAS 6, "Accounting for Property Plant, and Equipment," November 30, 1995.

Federal Accounting Standards Advisory Board Handbook, SFFAS 10, "Accounting for Internal Use Software," October 9, 1998.

[20] Federal Accounting Standards Advisory Board Handbook, SFFAS 50, "Establishing Opening Balances for General, Property, Plant and Equipment," April 4, 2016.

- complete revaluation of opening balances under SFFAS 50; or
- monitor and perform appropriate reconciliations of the accountable property systems of record.

As a result of the deficiencies listed, the General PP&E balances for the Army GF, Navy GF, and Air Force GF may be inaccurate, unsupported, and incomplete. These Components' balances represent more than 65 percent ($620.6 billion) of the General PP&E balance reported in the DoW Agency-Wide Financial Statements. Consequently, these deficiencies create a significant risk that the General PP&E balances reported on the DoW Agency-Wide Financial Statements may be materially misstated. In addition, incomplete or inaccurate accountable property systems of record could negatively affect DoW operations, increasing the risk that assets are misused, underused, or unavailable for mission requirements.

We recommend that the OUSW(C)/CFO continue to use the Joint Task Force–Audit to:

- ensure that DoW Components appropriately and consistently develop policies and procedures for maintaining key supporting documentation to substantiate the existence, completeness, and valuation of General PP&E in accordance with the historical cost reporting requirements under SFFAS 6 and SFFAS 10; and
- assist DoW Components that have not completed the valuation of opening balances for General PP&E in accordance with SFFAS 50, with establishing supportable opening balances and making an unreserved assertion for the applicable financial statement line items.

### 7. Government Property in the Possession of Contractors

Government Property in the Possession of Contractors (GPIPC) assets are not reported as a stand-alone line item on the DoW Agency-Wide Balance Sheet. Instead, GPIPC is reported in either Inventory and Related Property or PP&E line items. As of September 30, 2026, the DoW reported asset values of $365.5 billion and $959.7 billion, respectively, for these line items. The asset values of these line items make them material to the Agency-Wide Balance Sheet for FY 2026. SFFAS 3 and SFFAS 6 require property and equipment to be reported on the Balance Sheet and the Statement of Net Cost. Specifically, the Defense Contract Audit Agency (DCAA) began a DoW Agency-Wide level effort to provide a consistent, defensible validation of GPIPC. Despite ongoing remediation efforts, the DoW has not determined the actual value of GPIPC across the Army, Navy, Air Force, and DLA.

Auditors for the various DoW Components identified the following issues with the GPIPC balances.

- Army WCF, Navy GF, and Air Force GF management did not identify a complete universe of GPIPC.
- Navy GF and DLA WCF management did not ensure GPIPC balances held by contractors could be reconciled to an accountable property system of record.
- Army WCF, Navy GF, Air Force GF, and DLA WCF management did not design or document an understanding of contractor processes and controls for inventory management over GPIPC.

These conditions occurred because Component management for the Army, Navy, Air Force, and DLA lacked:

- comprehensive, standardized policies for recording, reporting, valuing, and overseeing GPIPC;
- complete GPIPC populations and had limited mechanisms to validate completeness of asset listings or reconcile across systems;
- adequate documentation to support asset values, placed in service dates, and transactions; and
- clear responsibilities for tracking and valuing GPIPC assets between contractors, program offices, financial managers, and custodians.

As a result of the deficiencies listed, GPIPC balances for the Army, Navy, Air Force, and DLA may be inaccurate, unsupported, and incomplete. Because these Components' GPIPC balances were material, these deficiencies lead to a risk that the Inventory and Related Property and the General PP&E line-item balances reported on the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit to leverage the DCAA's forthcoming GPIPC testing results to advance progress toward the Department's FY 2028 audit opinion goal. Specifically, we recommend that the Comptroller:

- direct the Joint Task Force–Audit to use the DCAA GPIPC testing results to identify cross-Component GPIPC root causes of deficiencies; and

- ensure timely, sufficient, and coordinated remediation of open GPIPC-related findings and recommendations at the Component level.

## 8. 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 to develop and field the F-35 strike fighter aircraft for the Navy, the Air Force, the Marine Corps, and international partners.[21] As of September 30, 2026, the DoW did not report Joint Strike Fighter Program assets on its financial statements.[22] OMB Circular No. A-136 states that management is responsible for providing complete and reliable information, including the disposition of its assets.[23] SFFAS 3 and SFFAS 6 require property and equipment to be reported on the Balance Sheet and the Statement of Net Cost. Acknowledging this as a focus area, the OUSW(C)/CFO requested that the DCAA work to establish a complete and reliable population of F-35 property. Despite multi-year remediation efforts, the DoW has not yet established an accurate, complete, or financially reportable population of F-35 property, nor implemented an IT environment capable of supporting reliable reporting.

Through our audit procedures, we determined the following.

- The F-35 Joint Program Office (JPO); the OUSW(C)/CFO; and the Office of the Under Secretary of War for Acquisition and Sustainment did not meet property accountability requirements. Specifically, they did not maintain an accurate, complete, and timely population of F-35 property, and the current asset information did not support financial reporting requirements.

- The F-35 JPO and the OUSW(C)/CFO lacked access to timely and reliable contractor-held F-35 property government-owned data.

These conditions occurred because:

- the F-35 JPO; the OUSW(C)/CFO; and the Office of the Under Secretary of War for Acquisition and Sustainment did not develop, establish, or implement adequate policies and procedures to account for, manage, and oversee F-35

[21] 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.

[22] Joint Strike Fighter assets referred to in this section include spare parts and equipment, not the aircraft and uninstalled aircraft engines.

[23] OMB Circular No. A-136, "Financial Reporting Requirements," May 2026.

property in accordance with Federal reporting standards and property accountability requirements;

- the F-35 JPO relied on contract data requirement Lists that did not include an accurate and complete population of F-35 property;
- the F-35 JPO and the OUSW(C)/CFO lacked a mature IT environment that could control and execute automated interface feeds between applicable IT systems containing financial and property data required to maintain the accountable property system of record; and
- contractor proprietary systems and manual processes prevented real-time access to government-owned data.

As a result of the deficiencies listed, the DoW Agency-Wide Consolidated Balance Sheet is materially understated. The F-35 property population is inaccurate and incomplete, preventing the OUSW(C)/CFO from reliably reporting the F-35 property balance in the accountable property system of record and the DoW Agency-Wide Financial Statements. Additionally, without the ability to update the accountable property system of record and other supporting systems with accurate financial and property data, the F-35 JPO will not be able to report F-35 property in accordance with both generally accepted accounting principles and DoW regulations. An incomplete and inaccurate property universe could have a negative operational impact on the F-35 program.

We recommend that the OUSW(C)/CFO, in coordination with the Program Executive Officer and Government Property and Accountability Division Chief of the F-35 JPO, continue to:

- develop and implement policies and procedures to produce and maintain an asset population, including values, of F-35 property that supports financial reporting requirements;
- establish and implement policies and procedures to ensure that all Joint Strike Fighter F-35 property is included in the Contract Data Requirements Lists; and
- establish and implement policies and procedures to ensure the timely receipt, movement, and disposition of F-35 property in applicable IT systems.

Additionally, we recommend that the product support manager for the F-35 JPO, in coordination with the DoW Chief Information Officer and the OUSW(C)/CFO:

- design and implement policies and procedures to establish and maintain a mature IT control environment to execute automated interface feeds between applicable IT systems containing financial and property data.

**9. Accounts Receivable and Revenue**

As of September 30, 2026, the DoW reported Accounts Receivable (AR) of $14.0 billion on its Balance Sheet and Earned Revenue (ER) of $306.2 billion on its Statement of Net Cost. AR represents claims for cash or other assets owed to the Department for goods or services provided, while ER reflects inflows of resources earned through the provision of goods or services. Accurate recognition, recording, and reconciliation of AR and ER are essential to producing reliable financial statements, maintaining transparency, and ensuring the Department is properly reimbursed for services rendered.

Auditors for various DoW Components identified the following issues related to AR and ER balances reported on the FY 2026 financial statements.

- Army GF management did not adequately reconcile, validate, support, or record AR balances and related data, including data used to estimate the allowance for doubtful accounts or fully reconcile revenue and expenses.

- Army WCF management did not maintain sufficient documentation to ensure that revenue was properly recognized and supported or to adequately reconcile revenue and expenses.

- Navy GF management did not recognize revenue when earned, instead recognizing it when reimbursable bills were issued.

- Navy WCF management did not adequately account for AR, the allowance for doubtful accounts, AR write-offs, or revenue, or adequately recognize revenue when earned rather than when bills were issued.

- Air Force WCF management did not support AR balances at the detailed invoice level or update estimated revenue for subsequent changes in estimated costs.

- U.S. Transportation Command WCF management did not fully support opening AR balances, validate AR accrual methodologies, or record AR balances completely or accurately.

- Defense Health Program management did not adequately support or reconcile AR balances and related activity or fully implement allowance for doubtful accounts methodologies.

- DLA WCF management did not sufficiently substantiate, validate, record, or monitor AR and revenue activity; assess its allowance and accrual methodologies and supporting data; or accurately apply approved cost-recovery rates.

These conditions occurred because DoW management lacked:

- adequate documentation and properly designed accounting systems to support AR and ER balances, maintain relevant data, and correctly record AR- and ER-related entries; and

- effectively designed, documented, and implemented control activities to ensure accurate and consistent accounting for AR and ER, including reviews of aged and negative receivables and methodologies used to estimate allowances for uncollectible accounts and ER costs.

As a result of the deficiencies listed, Component balances that represent more than 46 percent ($12.1 billion) of the DoW Agency-Wide AR balance, as well as more than 38 percent ($269.8 billion) of the DoW Agency-Wide ER balance may be inaccurate, unsupported, and incomplete.[24] Consequently, these deficiencies create a significant risk that the AR and ER balances reported in the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, or establish a similar working group, to:

- coordinate with the Army, Navy, Air Force, U.S. Transportation Command, Defense Health Program, and DLA to conduct a comprehensive review of the AR-related root causes, specifically targeting the remediation of weaknesses related to inadequate documentation, inconsistent processes, and insufficient controls for aged and negative receivables and the allowance for uncollectible accounts;

[24] Percentages are calculated using Agency-Wide balances before eliminations are performed.

- coordinate with the Army, Navy, Air Force, and DLA to conduct a comprehensive review of the ER-related root causes, specifically targeting the remediation of weaknesses related to deficiencies in internal controls and inadequate supporting documentation for revenue activity; and

- identify AR and ER best practices within DoW Components that achieved unmodified audit opinions and share those practices with DoW Components that have outstanding AR and ER findings.

### 10. Intragovernmental Transactions and Intradepartmental Eliminations

Intragovernmental transactions (IGTs) are business activities between Federal entities, known as trading partners, and may involve buyers receiving goods or services or sellers providing them. These transactions are either intradepartmental—occurring between entities within the same department, such as the Army WCF and the Navy GF—or intragovernmental, occurring between Federal entities in different departments, such as the DoW and the Department of State. The Treasury Financial Manual and DoW FMR require all DoW consolidated entities to report intragovernmental balances and eliminate appropriate intradepartmental balances during financial reporting to ensure accurate presentation in both the DoW Agency-Wide Financial Statements and the Financial Report of the U.S. Government.[25] Failure to properly eliminate IGTs results in misstated financial balances.

Auditors for the various DoW Components identified the following issues with intragovernmental balances.

- Army GF management lacked controls over intra-entity agreements, buy/sell activity, budgetary accounts, and classification of IGT vs non-IGT transactions.

- Army WCF management had incomplete or ineffective reconciliation controls to identify and resolve trading partner differences and lacked a detailed reconciliation to support trading partner adjustments.

- Navy GF management did not effectively review trading partner adjustments.

- Navy WCF and DLA WCF management lacked adequate review and validation of trading partner balances and related reconciliations, and Navy WCF management did not sufficiently document reconciliation procedures.

[25] Treasury Financial Manual, Volume 1, Chapter 4700 and DoW Regulation 7000.14-R, "DoW Financial Management Regulation," Supplemental, Volume 6, Section 13.0, "General Adjustments, Eliminations, and Reconciliation Requirements for Intragovernmental Balances.

- U.S. Transportation Command WCF management lacked reconciliation procedures for multiple accounting systems and levels.

- Defense Health Program management had inadequate internal control frameworks over buy/sell transactions and related allowances, did not validate receipt/acceptance before payment for IGT activity, and lacked documentation to validate intragovernmental payment activity.

- DLA WCF management had inadequate controls over the existence, valuation, and rights and obligations of intragovernmental accounts receivable.

Additionally, we determined that DoW management could not provide a complete universe of transactions for DoW eliminations and intragovernmental balances contained in the DoW Agency-Wide Financial Statements, and DoW management continued to make unsupported adjustments to intragovernmental balances that were material to the DoW Agency-Wide Financial Statements. Specifically:

- DFAS recorded over $11.7 billion in adjustments to the DoD Component Level Accounts entity to eliminate trading partner activity, and

- DoW Components recorded unsupported adjustments totaling $109.6 billion to eliminate intragovernmental balances in the fourth quarter of FY 2026.[26]

These conditions occurred because IGT data are generated and retained within each individual Component's accounting system. Instead of transmitting individual transactional records, Components aggregate their data and provide it to DFAS at a summary level. Furthermore, multiple DoW Components did not transition to G-Invoicing by October 1, 2025, as required by the Bureau of the Fiscal Service.[27]

In addition, the Department identified the following as root causes for reported adjustments.

- Trading partner details were not captured due to business process and system limitations.

- Trading partner details were not reported through the Defense Departmental Reporting System.

[26] We used the primary indicator code to identify unsupported adjustments used to eliminate intragovernmental balances. Specifically, we identified adjustments with the primary indicator code of "e" in the adjustment log, because this code represents "Intragovernmental Eliminations: The adjustment is required to properly eliminate intra-governmental balances."

[27] G-Invoicing is a Treasury system that Federal agencies use to manage intragovernmental transactions.

- Buyer-side and seller-side trading partner data did not match.
- Validation failures caused by timing disconnects in which Treasury system data were submitted before adjusting entries were finalized in the Defense Departmental Reporting System, and the use of generic trading partner codes.
- Accounting methodology differences, including accrual timing, mischaracterized transactions, and non-reciprocal entries.
- Miscoding and incorrect account use at the Component level.

As a result of the deficiencies listed, the individual DoW Component intragovernmental balances may be inaccurate, unsupported, and incomplete, which leads to a significant risk that balances in the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO continue to use the Joint Task Force–Audit to:

- develop and implement the consolidation of all DoW buy/sell transaction data onto a single platform, automate matching of internal transactions, and embed super intelligence controls between source systems to prevent future errors;
- implement the G-Invoicing system;
- establish and implement a process to ensure a complete universe of transactions can be provided for the DoW-level eliminations and intragovernmental balances;
- oversee Component efforts to reconcile trading partner differences in accordance with guidance; and
- work with DFAS to use a complete universe of transactions to record intragovernmental assets and liabilities, determine accurate amounts for DoW eliminations, and ultimately produce the DoW Agency-Wide Financial Statements.

**11. Accounts Payable and Gross Costs**

As of September 30, 2026, the DoW reported Accounts Payable (AP) of $57.7 billion on its Balance Sheet and Gross Costs (GC) of $1.3 trillion on its Statement of Net Cost. AP represents unpaid amounts the DoW owes for goods and services received, contract progress payments, rents, or goods for which title has transferred to the DoW, while GC encompass direct and indirect expenses, including personnel compensation,

procurement, sustainment, research and development, and administrative activities. DoW Components must maintain internal controls to ensure financial information is accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner. Accurate AP and GC support resource allocation, budget execution, and operational oversight for the DoW.

Auditors for various DoW Components identified the following issues related to AP and GC balances on the FY 2026 financial statements.

- Army GF management did not maintain adequate AP accrual methodologies, reconcile AP populations to the general ledger, validate the receipt and acceptance of goods and services, or accurately record AP-related unmatched transactions. In addition, Army GF management did not accurately record operating expenses and other GC transactions, sufficiently support expense transactions, or record GC-related obligations and adjustments in the appropriate fiscal year.

- Navy GF management did not maintain a complete and accurate AP accrual methodology, post AP transactions in a timely manner and in accordance with Treasury requirements, or sufficiently support AP balances and transactions.

- Navy WCF management did not implement entity-wide processes to calculate AP accruals and monitor outstanding AP balances, sufficiently support the receipt and acceptance of AP-related transactions, or record operating expenses and other GC-related transactions in a timely manner.

- Air Force GF management did not maintain an effective AP accrual process to verify the accuracy and completeness of its AP balance, fully implement reconciliations and analyses for procure-to-pay line items, or sufficiently document procure-to-pay process flows, procedures, and key controls.

- U.S. Transportation Command WCF management did not sufficiently support AP balances, accurately state opening balances, or consistently record, validate, and analyze AP accruals and related variances.

- DLA WCF management did not maintain adequate AP accrual and adjustment methodologies, conduct adequate invoice reviews, sufficiently support AP transactions, or perform lookback analyses for medical supply expense accruals.

These conditions occurred because DoW management lacked:

- effective, documented AP accrual methodologies;

- adequate policies and procedures for the receipt and acceptance of goods and services and the recording of obligations;
- sufficient documentation to support AP balances and expense transactions;
- adequate training and monitoring of personnel responsible for recording obligations and expenses;
- effective processes to identify, analyze, and respond to financial management risks; and
- timely reviews of financial activities and remediation of identified deficiencies.

As a result of the deficiencies listed, Components' balances that represent more than 69 percent ($47.0 billion) of the DoW Agency-Wide AP balance, and more than 24 percent ($412.0 billion) of the DoW Agency-Wide GC balance may be inaccurate, unsupported, and incomplete.[28] Consequently, these deficiencies create a significant risk that the AP and GC balances reported in the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, or establish a similar working group, to:

- coordinate with the Army, Navy, Air Force, U.S. Transportation Command, and DLA to conduct a comprehensive review of the AP-related root causes, specifically targeting the remediation of weaknesses related to inadequate accrual methodologies, documentation weaknesses, and insufficient review and approval of receipt and acceptance evidence;
- coordinate with the Army, Navy, and DLA to review the design and operating effectiveness of internal controls over GC, specifically targeting remediation of weaknesses related to accrual methodologies, account reconciliations, transaction timeliness, financial system usage and navigation, and expense-classification training; and
- identify AP and GC best practices within DoW Components that achieved unmodified audit opinions and share those practices with DoW Components that have outstanding AP and GC findings.

[28] Percentages are calculated using Agency-Wide balances before eliminations are performed.

## 12. Environmental and Disposal Liabilities

As of September 30, 2026, the DoW reported an Environmental and Disposal Liabilities (E&DL) balance of $108.3 billion. Federal Accounting Standards Advisory Board Technical Release 2 defines E&DL as cleanup costs resulting from past transactions or events when a future outflow or other sacrifice of resources is both probable and reasonably estimable.[29] The DoW FMR requires Components to maintain a complete E&DL universe and estimate E&DL using site-specific information such as engineering estimates, comparable sites, contaminants, equipment, parametric methods, or validated cost models. Furthermore, the DoW FMR requires Components to support the reasonableness of the E&DL cost factors used by estimation software and compare prior E&DL estimates with actual results to assess the reliability of the estimation process.

Auditors for various DoW Components identified issues with the E&DL balances reported on the FY 2026 financial statements. Specifically, auditors identified that management for the Army and Air Force GFs did not:

- verify the completeness of E&DL populations or validate E&DL data;
- design or implement reviews of E&DL estimation methodologies, inputs, and assumptions; or
- perform complete retrospective reviews for E&DL estimates or validate the reliability of utilized cost-estimation software.

These conditions occurred because Component management for the Army and Air Force lacked policies and procedures to ensure the completeness and accuracy of E&DL data and the reliability of the underlying estimation methodologies and assumptions.

As a result of the deficiencies listed, the E&DL balances for the Army GF and Air Force GF may be inaccurate, unsupported, and incomplete. These Components' balances represent more than 58 percent ($63.1 billion) of the E&DL reported in the DoW Agency-Wide Financial Statements. Consequently, these deficiencies create a significant risk that the E&DL balance reported on the DoW Agency-Wide Financial Statements may be materially misstated.

[29] Federal Accounting Standards Advisory Board Handbook, "Federal Financial Accounting and Auditing Technical Release 2: Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 1998.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit and the E&DL Working Group, to do the following.

- Review E&DL related root causes at the Army and Air Force contributing to the noncompliance with the DoW FMR, such as deficiencies related to population completeness, estimate inputs, and cost-estimation software. In addition, the working group should validate the corrective actions implemented to resolve the corresponding root causes.

- Identify best practices related to E&DL within Components that have achieved unmodified audit opinions or E&DL Material Weakness or Significant Deficiency downgrades. Share those best practices with the other DoW Components that have outstanding E&DL findings.

### 13. Component Management Internal Control Program

The Federal Managers' Financial Integrity Act of 1982 requires Federal Executive Branch entities to establish internal controls in accordance with standards prescribed by the Comptroller General. The Comptroller General's office and the Government Accountability Office provide the overall framework for establishing and maintaining an effective internal control system.[30] The framework establishes five components of internal control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. These five components must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective.

The Government Accountability Office also states that management may rely on service organizations to perform certain operational processes; however, management remains fully accountable for monitoring the effectiveness of internal control over those outsourced processes. In the DoW, service organizations perform critical activities such as financial services and inventory management. For example, the DLA holds and manages inventory for the Military Departments across the world.

Auditors for various DoW Components identified the following deficiencies in the design or implementation of entity-level controls for each of the five components of internal control.

- Control Environment: Army GF and WCF management did not establish an effective control environment. Navy GF management lacked the organizational

[30] GAO Report No. GAO-25-107721, "Standards for Internal Control in the Federal Government," (the Green Book) May 2025.

infrastructure necessary to comply with Federal accounting standards. Air Force GF and WCF management's framework did not incorporate input from all major commands and headquarters organizations to support financial statement auditability.

- Risk Assessment: Army GF and WCF management did not consistently perform complete risk assessments or document their responses to identified risks for their financial statements and related disclosures. Air Force GF and WCF management did not fully document how leadership participates in evaluating and responding to risks. DLA WCF management did not fully implement an enterprise risk management and internal control program.

- Control Activities: Army GF and WCF management did not consistently design, document, and implement policies, systems, and controls to address Component objectives and risks. Navy GF management lacked current, documented policies, procedures, and controls for most business processes. Air Force GF and WCF management did not have complete financial reporting processes or internal controls to ensure timely, accurate, and complete preparation of financial statements and disclosures.

- Information and Communication: Army GF and WCF management did not consistently identify, obtain, process, or communicate quality information to ensure reliable financial data. Navy GF management lacked a formal process to evaluate transactions or new programs for accounting impacts. Air Force GF management did not assess and communicate the impact of ongoing operations on the financial statements.

- Monitoring: Army GF and WCF management did not consistently monitor the design and effectiveness of key controls. Navy GF management did not fully implement monitoring controls over its financial reporting service provider. Air Force GF and WCF management did not fully establish a process to effectively monitor compliance with accounting guidance. DLA WCF management did not perform sufficient oversight and monitoring of the inputs and outputs of its service providers.

Additionally, the DLA, a service organization for other DoW Components, lacked sufficient internal controls over end-to-end inventory processes, including documenting procurement and movement activities, tracking inventory ownership, validating perpetual inventory systems, and supporting inventory balances.

These conditions occurred because Component management for the Army GF and WCF, Navy GF, Air Force GF and WCF, and DLA WCF did not:

- consistently identify risks and respond to them;
- fully implement Component entity-level controls in their formal internal control program; or
- have an appropriate level of resources to achieve control objectives and train personnel on internal controls.

Furthermore, DLA management lacked adequate reviews related to internal controls as a service provider and did not effectively design, monitor, and implement service-level agreements to address compliance and control gaps for their customers.

As a result of the deficiencies listed, DoW management may not prevent or detect material errors in the DoW Agency-Wide Financial Statements, and the Department may not be positioned to prevent and detect fraud. Consequently, this creates a risk that key financial balances may be inaccurate and unsupported and that the DoW Agency-Wide Financial Statements may be materially misstated.

These deficiencies also have operational impacts. Service provider deficiencies can affect logistics readiness and asset visibility across the global supply chain, impede decision-making related to materiel availability and sustainment planning, and limit leadership's ability to allocate resources effectively.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, or establish a similar working group, to:

- work with DoW Components to establish Department-level governance that assigns each Component a senior accountable official for entity-level controls, including timely oversight of policies, risk assessments, and service provider monitoring;
- direct Components to adopt a standardized Component entity-level control framework (policies, procedures, documentation templates, and monitoring activities), ensuring consistent implementation across GF and WCF environments;

- direct Components to identify appropriate resources to implement and monitor Component entity-level controls, including required training on entity-level controls and focusing on critical key financial reporting risks; and

- identify effective Service Organization practices from Components with a similar material weakness that has been resolved or with no known weaknesses and share them with DoW Components that still have outstanding Service Organization findings.

### 14. DoW-Wide Financial Reporting

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 DoW management to establish and integrate internal controls into the DoW's operations and to continuously monitor, assess, and improve the effectiveness of those internal controls.[31] The DoW FMR states that DoW management is responsible for directing, managing, and providing policy guidance and oversight of DoW financial management activities, including establishing financial management policies for DoW Components and ensuring compliance with applicable accounting policies and standards throughout the DoW. The DoW FMR also requires that DoW 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 DoW Agency-Wide Financial Statements.

Auditors for the various DoW Components determined that DoW management did not have adequate internal controls over the preparation of the DoW Agency-Wide Financial Statements and related note disclosures to ensure information was presented in accordance with applicable Federal financial reporting requirements. Specifically, DoW management and its Components did not perform the following actions.

- Properly recognize and disclose lease activity. Specifically, management for the Army, Navy, Air Force, and Defense Health Program GFs and the Army, Navy, Air Force, U.S. Transportation Command and DLA WCFs did not implement SFFAS 54 requirements to recognize and disclose lease activity.[32]

[31] OMB Circular No. A-123, "Management's Responsibility for Internal Control," March 10, 2026.

[32] Federal Accounting Standards Advisory Board Handbook, SFFAS 54, "Leases," April 2018.

- Fully reconcile Net Cost of Operations to Net Outlays. Specifically, management for the Army and Navy GFs and the Army WCF reported an unreconciled difference on their Reconciliation of Net Cost to Net Outlays footnote in the fourth quarter of FY 2026 that contributed to the $62 billion DoW Agency-Wide unreconciled difference amount.[33]

- Develop or implement controls over the process to report financial data in the DoD Component Level Accounts.

- Ensure audited financial data reported in Component Agency Financial Reports matched Component financial data included in the DoW Agency-Wide Financial Statements.

- Provide reasonable assurance that accounting adjustments made to the DoW Agency-Wide Financial Statements were valid, complete, and accurately recorded. Specifically, in the third and fourth quarters of FY 2026, management for the Navy and Air Force GFs; the Navy, Air Force, and DLA WCFs; and the DoD Component Level Accounts recorded 2,273 unsupported accounting adjustments totaling more than $426 billion.

- Prepare a complete and accurate Statement of Budgetary Resources. For example, management for the Army and Navy GFs and the Army, Navy, and DLA WCFs did not perform complete and accurate budgetary reconciliations or maintain sufficient documentation to support budgetary activity. Additionally, management for the Army GF and WCF did not record complete and accurate budgetary activity.

- Accurately report the status of DoW-appropriated funds in the DoW Agency-Wide Financial Statements. Specifically, DoW transferred funding to a trust fund account for the future purchase of goods and services and recorded the funds as spent when they were transferred instead of when goods or services were purchased. As of September 30, 2026, DoW management reported $12.4 billion in DoW-appropriated funds as spent, even though $12.4 billion remained available.

These conditions occurred because DoW management did not:

- ensure Components implemented SFFAS 54 requirements;

[33] The Department of the Army GF and Navy GF accounted for approximately 80 percent (absolute) of the unreconciled difference reported in the Reconciliation of Net Cost to Net Outlays Footnote for fourth quarter FY 2026.

- have policies or procedures to research, reconcile, and resolve unreconciled variances between budgetary and proprietary data before the issuance of the financial statements and in accordance with SFFAS 7;

- develop or strengthen internal controls to ensure there was an audit trail of financial data reported within the DoD Component Level Accounts;

- require all DoW Component financial statement audits to be finalized—and all Component financial statement adjustments to be included in the DoW Agency-Wide Financial Statements—before the DoW Agency-Wide Financial Statements were finalized;

- establish procedures to account for Component adjustments made after the DoW Agency-Wide Financial Statements were finalized;

- ensure all accounting adjustments that impacted the DoW Agency-Wide Financial Statements were supported by sufficient and appropriate documentation;

- have adequate policies, procedures, oversight and monitoring mechanisms across core budget execution, obligation management, and financial reporting activities; or

- develop a process to accurately account for the status of DoW-appropriated funds for Building Partner Capacity programs.[34]

As a result of the deficiencies listed, the lack of internal controls over financial reporting led to misstatements on the DoW Agency-Wide Financial Statements and increased the risk that the DoW Agency-Wide Financial Statements may be materially misstated.

We recommend that the OUSW(C)/CFO use the Joint Task Force–Audit, or establish a similar working group to:

- ensure Components properly implement SFFAS 54;

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

Federal Accounting Standards Advisory Board Handbook, SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996.

- ensure Components address root causes of noncompliance related to financial reporting, including deficiencies affecting accounting for budgetary resources, reconciling Net Operations to Outlays, and processing of unsupported accounting adjustments;

- develop, document, and implement adequate internal controls over the DoD Component Level Accounts consolidation entity;

- enforce the DoW FMR Supplemental, volume 6;

- require that all adjustments to DoW Component financial statements occur within the Defense Departmental Reporting System;

- ensure the DoW Agency-Wide Financial Statements are not finalized until after all audit opinions on the Component financial statements are issued; and

- design and implement controls to ensure that the DoW Agency-Wide Financial Statements accurately track all DoW appropriations related to Building Partner Capacity programs and accurately report the status of those appropriations.

## *Agency Comments*

We provided a draft of this report to the OUSW(C)/CFO. Its personnel did not provide formal comments; however, they provided technical comments that we incorporated as appropriate.

## *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

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Assistant Inspector General for Audit
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November 16, 2026

# Reports on Compliance with Laws, Regulations, Contracts, and Grant Agreements

We conducted the audit of the DoW 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 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 years ended September 30, 2026, and September 30, 2025. Our Report on the Financial Statements, dated November 16, 2026, 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*

DoW management is responsible for complying with provisions of applicable laws, regulations, contracts, and grant agreements related to financial reporting and ensuring that the DoW'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

[1] Government Accountability Office, GAO-24-106786, "Government Auditing Standards," February 2024.
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 2026; Volume 2, June 2026; and Volume 3, July 2026.

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

Agency-Wide Financial Statements, we performed tests at the Agency-Wide level and considered the results of DoW reporting entity audits to determine whether the DoW 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 DoW 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 DoW and its agents from spending or obligating funds beyond what Congress has appropriated.[4] It also prohibits the DoW from entering into contracts or other obligations before funding is available unless authorized by law. In addition, the DoW may not spend or obligate funds in amounts greater than an apportionment or limits set by regulations.

If a DoW officer or employee violates the ADA, the Chief Financial Officer must immediately report the violation to the President and Congress, including all relevant facts and actions taken in response. The DoW Financial Management Regulation, volume 14, requires the DoW to complete formal investigations of suspected ADA violations within 15 months.[5] In FY 2026 the DoW reported zero ADA cases to the President, Congress, and the Government Accountability Office. However, the DoW Office of General Counsel confirmed two cases older than 15 months involving multiple violations, totaling $98.8 million. The DoW also had five ongoing ADA investigations as of September 30, 2026, including one case older than 15 months.

We also identified a DoW policy and business process that could lead to an ADA violation. Specifically, the DoW's use of Discontinued Research Packages to write off

[3] A DoW Component is a Military Department or Defense Agency such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoW. A reporting entity is the financial statement entity, such as the Defense Information Systems Agency General Fund.

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

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

suspense account and cash management report transactions that lack supporting documentation could violate either the purpose statute, the 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 DoW 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 DoW to identify remediation activities that are planned or underway and to describe target dates and offices responsible for bringing systems into compliance.[7] DoW management identified over 98 systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA; accordingly, we determined that the DoW and its Components did not substantially comply with the FFMIA. While DoW management has made progress in tracking FFMIA compliance, DoW management has not created a comprehensive strategy for DoW 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 DoW management to perform evaluations and report on the adequacy of DoW systems of internal accounting and administrative control.[8] OMB Circular No. A-123, which implements the FMFIA, requires DoW management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.[9] We identified DoW Components that did not substantially comply with the FMFIA. For example, DoW

[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," May 2026.

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

[9] OMB Circular No. A-123, "Management's Responsibility for Internal Control," March 2026.

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, DoW 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 DoW 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, DoW Components did not fully implement security controls, such as policies and procedures for configuration management and security management, managing and monitoring access controls, or using proper segregation of duties.

**The Payment Integrity Information Act of 2019.** The Payment Integrity Information Act of 2019 (Public Law 116-117) (PIIA) requires Federal agencies to identify programs at risk for significant improper payments, report an estimated dollar amount of improper payments for those programs, and report what actions they plan to take to reduce improper payments. During FY 2026, we found that the DoW was not compliant with three of the six PIIA requirements for FY 2025. These programs did not meet one or more requirements, including requirements to:

- prepare sufficient risk assessments for determining the risk of its improper and unknown payments and to adequately assess the risk of all of its programs,
- publish reliable improper payment estimates, and
- report improper and unknown payment estimates of less than 10 percent for required programs.

[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 Organization," December 2020, does not apply to national security systems, subject to exceptions.

## *Recommendations*

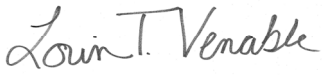
This report does not include recommendations to correct identified noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Auditors provided notices of findings and recommendations to management for the DoW and DoW Components to address reported instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements during the audits.

## *Agency Comments*

We provided a draft of this report to the Office of the Under Secretary of War (Comptroller)/Chief Financial Officer, DoW. Its personnel did not provide formal comments; however, they provided technical comments that we incorporated as appropriate.

## *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, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

## Whistleblower Protection
U.S. Depar tment of W  ar

*Whistleblower Protection safeguards DoW 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*

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