



September 2024

FINANCIAL MANAGEMENT

DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring

GAO Highlights

Highlights of [GAO-24-106890](#), a report to congressional addressees

Why GAO Did This Study

DOD is responsible for about half of the federal government’s discretionary spending. Since fiscal year 2018, DOD has undergone annual full, department-wide financial statement audits, as required by law. While DOD remains the only major federal agency that has never been able to achieve a clean audit opinion, it has made progress toward this goal. In fiscal year 2023, 10 of 29 DOD components or funds received a clean audit opinion, including the Marine Corps, which received a clean audit opinion for the first time. The financial statement audit has value beyond the audit opinion, helping DOD save money, improve inventory management, and provide better data for decision-making.

This report examines (1) financial and operational outcomes that have resulted or are anticipated to result from DOD’s financial statement audits and related remediation efforts, and (2) the extent to which DOD has taken steps to identify outcomes of its financial statement audits and related remediation efforts.

GAO reviewed DOD publications and other documentation; interviewed DOD, Inspector General, and independent public accounting firm officials; analyzed the results of DOD data calls from fiscal years 2019–2023; and performed case studies of selected audit outcomes.

What GAO Recommends

GAO recommends DOD consider opportunities to collect and share additional information on financial and operational outcomes and lessons learned resulting from audit remediation efforts. DOD concurred with GAO’s recommendation.

View [GAO-24-106890](#). For more information, contact Cathleen A. Berrick at (202) 512-3404 or berrickc@gao.gov or Asif A. Khan at (202) 512-9869 or khana@gao.gov.

September 2024

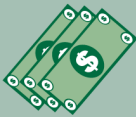







FINANCIAL MANAGEMENT

DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring

What GAO Found

Department of Defense (DOD) financial statement audits have resulted in a range of financial and operational outcomes, and additional outcomes are anticipated. According to DOD information, DOD’s audit remediation efforts have resulted in financial benefits, including cost savings and avoidances, and improved ability to use funds. GAO also found that DOD’s efforts have resulted in operational benefits, including improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, and more efficient processes (see figure).

Examples of Financial and Operational Benefits of DOD Financial Statement Audits

 <p>Financial benefits</p>	 <p>Cost savings and avoidances As of 2024, the Navy has identified fourteen legacy systems that it plans to retire, which it estimates will avoid nearly \$103 million in costs.</p>	 <p>Improved ability to use funds In fiscal year 2023, the Air Force reported using machine learning to identify \$653 million in obligations that may be applied in ways that preserve future buying power.</p>
 <p>Operational benefits</p>	 <p>Improvements to financial systems and data To help standardize data, DOD developed Advana, a platform for advanced analytics, which has helped reconcile fund balances with Treasury and avoid making at least \$5.5 billion in potential improper payments.</p>	 <p>Mitigation of cybersecurity risks In fiscal year 2023, the Air Force reported partially implementing an identity, credential, and access management tool—aligned with a DOD-wide strategy—which will help address cybersecurity risks, such as by enhancing user access controls.</p>
	 <p>Enhanced visibility over assets and inventory In fiscal year 2021, the Navy reported that it had identified more than \$4.3 billion in untracked materials—such as equipment and supplies—which can save on purchase costs by making items available for requisition.</p>	 <p>More efficient processes In fiscal year 2023, DOD reported that the Army had 79 automations in place, including 14 for its financial systems that eliminated the need for 5,600 labor hours that year.</p>

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106890

DOD has taken some steps to collect examples of outcomes resulting from the financial statement audit, but these efforts are limited. For example, since 2019 DOD has conducted data calls to identify audit outcomes, but the data calls request three to five positive outcomes from only selected DOD components and do not collect negative or neutral outcomes. DOD also has not considered all opportunities—such as use of an existing database field—to expand its information collection efforts. By considering opportunities to collect additional information on audit outcomes, DOD could enhance its ability to determine the effectiveness of its corrective actions and share lessons learned across the department.

Contents

Letter		1
	Background	4
	DOD Financial Statement Audits Have Resulted in Financial and Operational Outcomes, which Have Not Been Fully Identified	13
	DOD Has Taken Some Steps to Identify Financial Statement Audit Outcomes, but Its Approach Is Limited	34
	Conclusions	40
	Recommendations for Executive Action	41
	Agency Comments	41
Appendix I	Outcomes Resulting from GAO Recommendations Related to Department of Defense Financial Statement Audits	43
Appendix II	Selected Inspector General and Military Service Audit Agency Recommendations Related to the Financial Statement Audit	50
Appendix III	Objectives, Scope, and Methodology	53
Appendix IV	Additional Examples of Operational Outcomes Resulting from Department of Defense Financial Statement Audits	60
Appendix V	Status of Department of Defense Efforts to Address Audit Notices of Findings and Recommendations and Material Weaknesses	89
Appendix VI	Comments from the Department of Defense	93
Appendix VII	GAO Contacts and Staff Acknowledgments	95

Tables

Table 1: Examples of Financial Statement Audit-Related Cost Savings and Avoidances Identified by Department of Defense (DOD) Components, Fiscal Years 2019–2023	14
Table 2: Examples of Funds that Could Be Used to Meet Other Needs Identified by Department of Defense (DOD) Components, Fiscal Years 2019–2023	15
Table 3: Implemented GAO Recommendations Related to Department of Defense (DOD) Financial Statement Audit Remediation Efforts, Fiscal Years 2019–2023	43
Table 4: Additional Examples of Improvements to Financial Systems and Data Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023	61
Table 5: Additional Examples of Improvements to the Mitigation of Cybersecurity Risks Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023	73
Table 6: Additional Examples of Improvements to Visibility over Assets and Inventory Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023	75
Table 7: Additional Examples of Improvements to Process Efficiency Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023	80
Table 8: Additional Examples of Operational Benefits Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023	84

Figures

Figure 1: DOD Financial Management and Auditability Timeline	7
Figure 2: DOD’s Process for Addressing NFRs Issued by Financial Statement Auditors	11
Figure 3: Case Study on the Marine Corps’ Transition to Defense Agencies Initiative	20
Figure 4: Case Study on the Defense Information Systems Agency’s Improvements to Visibility of Cash on Hand	23
Figure 5: Case Study on the Defense Logistics Agency’s Warehouse Management System	27
Figure 6: Case Study on Army and Air Force Improvements in Tracking Expenses for Ongoing Construction	29
Figure 7: Case Study on the Navy’s Development of Robotic Process Automations	32

Figure 8: Percentage of Notices of Findings and Recommendations That Contribute to DOD Material Weaknesses, by Component, Fiscal Years 2019–2023	90
Figure 9: Notices of Findings and Recommendations (NFR) Remediation Rate, Fiscal Years 2019–2023	91
Figure 10: Notices of Findings and Recommendations (NFR) Closures, Fiscal Years 2022–2023	92

Abbreviations

DOD	Department of Defense
FIAR	Financial Improvement and Audit Remediation
NDAA	National Defense Authorization Act
NFR	notice of findings and recommendations
OIG	Office of Inspector General
ODCFO	Office of the Deputy Chief Financial Officer
OUSD	Office of the Under Secretary of Defense

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September 24, 2024

The Honorable Charles E. Grassley
Ranking Member
Committee on the Budget
United States Senate

The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Ken Calvert
Chairman
The Honorable Betty McCollum
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Department of Defense (DOD) is responsible for about half of the federal government’s discretionary spending, including about \$852 billion in fiscal year 2023. DOD’s financial management and business systems modernization efforts have been on our High Risk List since 1995 due to long-standing issues such as ineffective processes, systems, and controls.¹

Since fiscal year 2018, DOD has undergone annual full financial statement audits—as required by law—that examine the financial activity across all DOD components to determine whether DOD presents its

¹GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C., Apr. 20, 2023). Business systems include financial management systems and feeder data systems that support DOD’s efforts to achieve a clean audit opinion.

financial statements fairly and in accordance with accounting guidance.² Financial statement auditors have issued thousands of notices of findings and recommendations (NFR) and identified material weaknesses that affect DOD's financial reporting and the quality of its financial information used for decision-making.³ As of fiscal year 2023, DOD is the only major federal agency that has never been able to achieve an unmodified or "clean" audit opinion on its financial statements.⁴ However, 10 of 29 DOD components or funds received a clean audit opinion that year. These include the Marine Corps, which for the first time achieved a clean audit opinion for its general fund following a 2-year audit cycle.

The financial statement audit also has value far beyond the audit opinion. Since beginning its full financial statement audits, DOD has noted improvements that have resulted or are anticipated to result from the audit. For example, in 2019 then Deputy Secretary of Defense David Norquist stated before Congress that DOD's financial statement audits save money by improving inventory management, identifying vulnerabilities in cybersecurity, and providing better data for making

²National Defense Authorization Act (NDAA) for Fiscal Year 2018, Pub. L. No. 115-91, § 1002(b) (2017), presently codified at 10 U.S.C. § 240a. During 2002 through 2017, the DOD Office of Inspector General performed limited-scope audits on DOD's agencywide financial statements. While DOD has undergone full financial statement audits since fiscal year 2018, auditors have identified scope limitations that prevent auditors from performing the necessary procedures to draw a conclusion on the financial statements. Under audit continuation plans, the auditors can continue to perform additional limited testing rather than stopping audit activities when a basis for disclaimer of opinion has been reached. This continued testing can provide valuable feedback that enhances department-wide efforts to improve systems, processes, and internal controls.

³Notices of findings and recommendations outline the condition, criteria, cause, effect and recommendations to correct issues identified by auditors in connection with DOD and component financial statement audits. Material weaknesses are deficiencies identified by financial statement auditors that affect DOD's financial reporting such that there is a reasonable possibility that a material misstatement of its financial statements will not be prevented, or detected and corrected, on a timely basis.

⁴Agencies receive a clean audit opinion when the auditor finds that the agency's financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. DOD's agencywide financial statement combines the financial activity of over 60 DOD entities, of which 29 prepare and issue their own stand-alone financial statements to meet certain reporting requirements. These include the general funds and working capital funds of the Department of the Army and Department of the Air Force, the general funds of the U.S. Marine Corps and U.S. Navy, and the working capital fund of the Department of the Navy, among other reporting entities.

decisions, such as how to use available funds.⁵ Similarly, in 2021 Deputy Secretary of Defense Kathleen Hicks stated that DOD’s audit efforts will lead to strengthened internal controls, improved visibility of assets and financial resources, increased transparency and accountability, and streamlined business processes.⁶

We have also previously reported on DOD’s actions to address financial statement audit findings, including financial or operational outcomes resulting from those efforts.⁷ Financial outcomes can include benefits such as cost savings and avoidances. For example, in fiscal year 2020, the Navy avoided \$50 million in costs by repurposing inventory that it discovered while addressing audit findings. Operational outcomes can include benefits such as data system enhancements, process efficiencies, and other actions that improve DOD’s operations. For example, we have reported DOD officials have stated that the audits have been a catalyst for business systems reform and will result in better support for the warfighter.

We performed our work under the authority of the Comptroller General to conduct evaluations on GAO’s initiative in light of congressional interest in DOD’s progress toward achieving an audit opinion and the current and future value and outcomes of DOD’s investments in the audit infrastructure, such as for audit services and remediation. This report examines (1) financial and operational outcomes that have resulted or are anticipated to result from DOD’s financial statement audits and related remediation efforts, and (2) the extent to which DOD has taken steps to identify outcomes of its financial statement audits and related remediation efforts.

⁵*Department of Defense Audit: Hearing Before the Subcomm. on Readiness and Management Support of the Senate Comm. on Armed Services, 116th Cong. 5 (2019)* (testimony of David L. Norquist, Deputy Secretary of Defense).

⁶Kathleen Hicks, Advance Policy Questions for Dr. Kathleen Hicks Nominee for Appointment to be Deputy Secretary of Defense, testimony before the Senate Armed Services Committee, 117th Cong., 1st sess., February 2, 2021.

⁷For example, we have reported on DOD’s audit remediation efforts, associated benefits, and continued challenges in the following products: *GAO, DOD Financial Management: Efforts to Address Auditability and Systems Challenges Need to Continue*, [GAO-23-106941](#) (Washington, D.C.: July 13, 2023); *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD’s Financial Statements*, [GAO-23-105784](#) (Washington, D.C.: May 15, 2023); [GAO-23-106203](#); and *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020).

To conduct this work, we reviewed DOD publications and prior GAO work to identify financial and operational audit outcomes.⁸ We obtained and analyzed the results of audit results data calls conducted by the DOD Office of the Deputy Chief Financial Officer (ODCFO) for fiscal years 2019 through 2023. For selected outcomes reported in the data call submissions, we conducted interviews with military component officials and reviewed DOD documentation to develop illustrative case study examples. We also interviewed current and former DOD and military component officials, including senior accountable officials cognizant of audit remediation efforts across various material weakness areas. We analyzed closed GAO, DOD Office of Inspector General (OIG), and military service audit agency recommendations to identify those related to the DOD financial statement audit and associated financial and operational outcomes, as shown in appendixes I and II. Appendix III provides additional details about our objectives, scope, and methodology.

We conducted this performance audit from June 2023 to September 2024, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Legal Requirements for the Financial Statement Audits and Related DOD Actions

Legislation has been enacted over the years to help DOD and other federal agencies improve their financial management processes. The Government Management Reform Act of 1994, amending a provision originally enacted by the Chief Financial Officers Act of 1990 (CFO Act), required that DOD and other agencies subject to the CFO Act prepare

⁸We reviewed DOD Agency Financial reports and Financial Improvement and Audit Remediation reports issued during fiscal years 2019 through 2023. We also reviewed GAO work, including [GAO-23-106941](#), [GAO-23-105784](#), [GAO-23-106203](#), and [GAO-21-157](#). For the scope of this work, we considered outcomes to include positive, negative, or net-neutral outcomes, including one-time or temporary outcomes; longer-term, enduring outcomes; intangible outcomes, such as changes in organizational culture; and outcomes affecting the warfighter. We considered financial outcomes to include both identified dollar amounts and notional effects relating to cost savings or added costs. We considered operational outcomes to include those occurring in conjunction with financial outcomes or that may be cost-neutral.

annual agencywide financial statements covering the preceding fiscal year, the first of which was due no later than March 1, 1997.⁹

DOD began submitting financial statements for selected components to the DOD OIG for audit beginning in fiscal year 1991 and began submitting agencywide financial statements in fiscal year 1996, in accordance with the Government Management Reform Act of 1994. The National Defense Authorization Act (NDAA) for Fiscal Year 2002 required DOD OIG to perform limited-scope audits on financial statements asserted by DOD officials as unreliable.¹⁰ Specifically, the act allowed DOD OIG to perform only the procedures required by generally accepted government auditing standards, and to audit only the information that DOD management stated was ready for audit. Accordingly, DOD OIG performed limited-scope audits on DOD's agencywide financial statements for fiscal years 2002 through 2017.

The NDAA for Fiscal Year 2014 required the Secretary of Defense to ensure that DOD performed a full audit on its fiscal year 2018 financial statements and submitted the results to Congress no later than March 31, 2019.¹¹ After years of working toward financial statement audit readiness, in fiscal year 2018, DOD underwent its required full consolidated financial statement audit. The DOD OIG issued a disclaimer of opinion on this audit.¹² Auditors reported numerous material weaknesses and issued thousands of NFRs.

The NDAA for Fiscal Year 2018 required the Secretary of Defense to ensure that a full audit is performed on DOD's financial statements for

⁹See Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (1990) and Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (1994). This provision has since been amended to include most other executive agencies. 31 U.S.C. § 3515.

¹⁰National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, tit. X, subtit. A, § 1008, 115 Stat. 1012 (2001).

¹¹National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*.

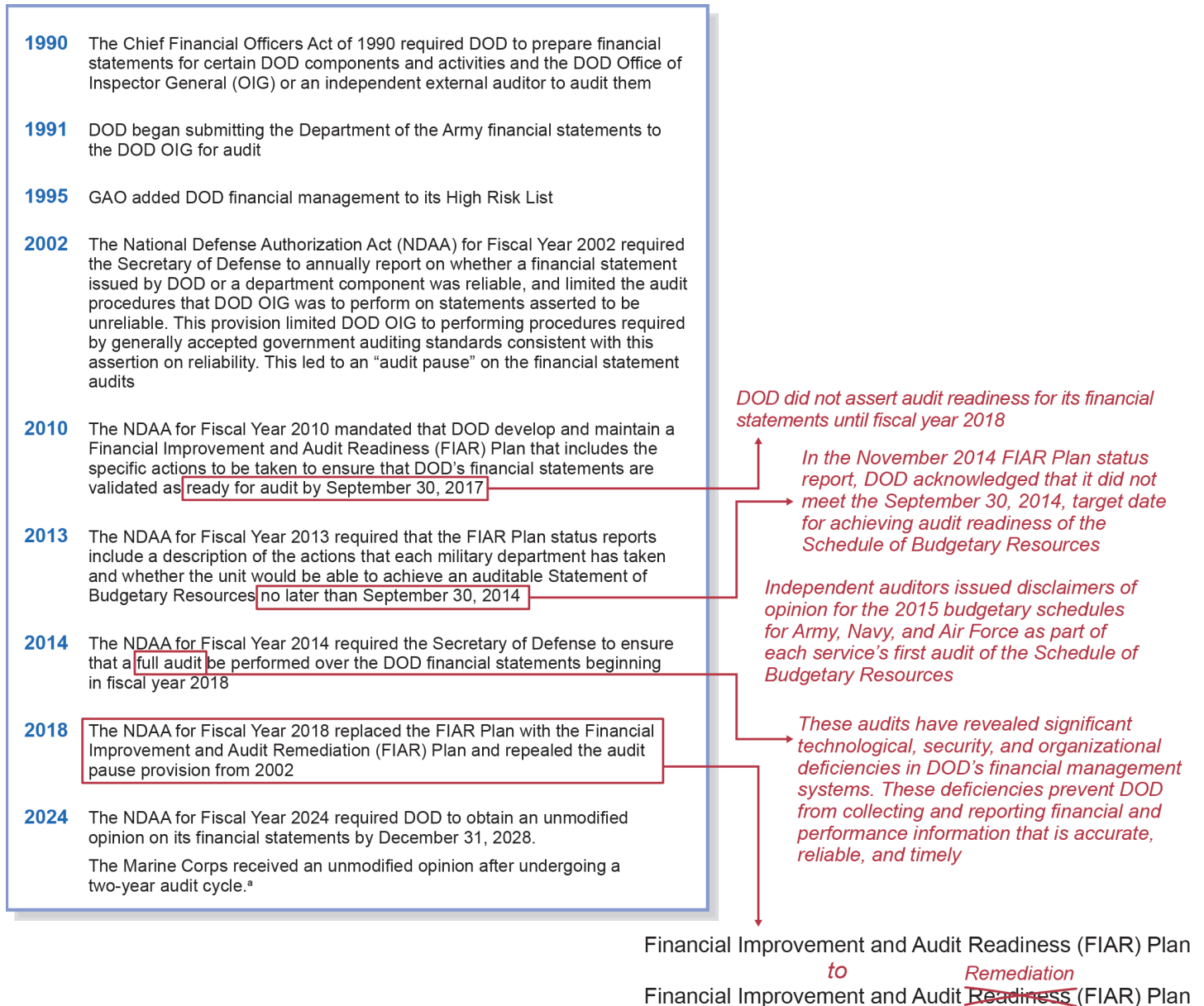
¹²A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive; and, accordingly, the auditor does not express an opinion on the financial statements.

each fiscal year. Further, it took steps to ensure DOD leadership had the tools needed to obtain a clean audit opinion. For example, it required the Office of the Under Secretary of Defense (OUSD) (Comptroller) to develop and maintain a centralized monitoring and reporting process that captures and maintains up-to-date information of audit findings, including information on key corrective action plans.¹³ In addition, it required DOD to publish an annual report, called the Financial Improvement and Audit Remediation (FIAR) Plan, describing the specific actions taken for DOD to prepare reliable, useful, and timely financial management information.

Since 1990, DOD has made efforts to comply with legal requirements to improve its financial management and auditability, as shown in figure 1.

¹³See 10 U.S.C. § 240c.

Figure 1: DOD Financial Management and Auditability Timeline



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-24-106890

^aAccording to the DOD OIG, the Marine Corps audit opinion was the result of a 2-year audit cycle, using a substantive-based testing approach throughout fiscal years 2022 and 2023. Substantive-based approach means that the auditors increased the amount of testing because they were unable to rely solely on the Marine Corps' internal control over financial transactions. The auditors examined a larger sample of transactions, account balances, and other adjustments made while preparing

financial statements and physically counted military equipment, ammunition, and other property—all designed to result in adequate audit evidence.

Note: Years above associated with NDAs correspond to fiscal years.

DOD Financial Statement Audit Roles and Responsibilities

Several entities have roles and responsibilities for ensuring the department annually prepares financial statements and that such financial statements are audited. These entities include DOD OIG, OUSD (Comptroller), the Defense Finance and Accounting Service, audited DOD components, and GAO.

DOD OIG. DOD OIG is the office responsible for managing and completing the audits of the department-wide financial statements that DOD submits annually. To help carry out this responsibility, DOD OIG contracts with independent public accountants to audit certain DOD reporting entities.¹⁴ DOD OIG monitors and oversees the public accountants' work to ensure the audits comply with contract requirements and audit standards.

OUSD (Comptroller). The Secretary of Defense, through OUSD (Comptroller), is responsible for compiling and presenting DOD's agencywide basic financial statements. In addition, OUSD (Comptroller) is responsible for communicating the objectives and importance of the financial statement audits throughout DOD.

In 2005, OUSD (Comptroller) first established the FIAR Directorate to manage, integrate, and implement DOD-wide financial improvement efforts. The FIAR Directorate, within the ODCFO, helps DOD components prepare for financial statement audits by providing guidance and helps address deficiencies resulting from these audits by reviewing corrective action plans.¹⁵ The FIAR Directorate also annually publishes a FIAR

¹⁴The independent public accountants do not stop activities when a basis for the disclaimer of opinion has been reached. Instead, they perform further limited testing according to audit continuation plans. This ongoing testing gives an independent assessment of key internal controls, processes, and systems relevant to financial statements; identifies progress in addressing deficiencies; results in more NFRs; and offers valuable feedback for improving systems, processes, and internal controls department-wide.

¹⁵According to DOD, the FIAR Directorate helps DOD components to be audit ready, remediates audit findings, and works toward achieving post-audit sustainment as well as improving the overall quality of financial information. This directorate is also responsible for developing and issuing detailed financial improvement and audit preparation strategy, plans, and guidance with a positive audit opinion as the desired outcome.

report on the results of the previous fiscal year's financial statement audit.¹⁶

Defense Finance and Accounting Service. The Defense Finance and Accounting Service provides financial management and accounting support to DOD and its components. To prepare the DOD consolidated financial statements, the Defense Finance and Accounting Service standardizes and analyzes financial statement-related data submitted by DOD components. This agency also works with DOD components to prepare component-level financial statements.

Audited components. Over 60 DOD components submit financial information to the Defense Finance and Accounting Service in preparation for the annual DOD financial statement audit. These components include the military departments, defense agencies, and combatant commands.¹⁷ In addition to contributing to the consolidated financial statements, many DOD reporting entities prepare and issue stand-alone financial statements annually to meet federal or DOD reporting requirements.¹⁸ DOD component management is responsible for

- ensuring key processes, systems, and internal controls are effectively designed and implemented to support the component's financial management operations;
- reviewing the component's financial statements and footnotes to ensure the financial information is complete and accurate; and

¹⁶The NDAA for Fiscal Year 2010 mandated that DOD develop and maintain a Financial Improvement and Audit Readiness Plan with specific actions to help ensure the DOD financial statement would be ready for audit by the stated deadline of September 30, 2017. The NDAA for Fiscal Year 2018 replaced this with the Financial Improvement and Audit Remediation Plan.

¹⁷A DOD component is a military department, defense agency, or field activity (entity that performs a supply or service activity to more than one military department), combatant command, or other organizational entity within DOD.

¹⁸A reporting entity is an organization that issues its own financial statements due to a statutory or administrative requirement or by choice, such as the Army General Fund and the Defense Logistics Agency General Fund. Some DOD components do not receive stand-alone audits each fiscal year because they are not considered individually material to the DOD agencywide financial statements; however, those components are included in the consolidated audit of the DOD agencywide financial statements and are material when taken as a whole.

-
- implementing and sustaining corrective actions to address deficiencies identified by auditors.

GAO. We are responsible for conducting the annual audit of the U.S. government's consolidated financial statements, which includes the consolidated financial statement of DOD. In 2024, we issued a disclaimer of opinion on the consolidated financial statements of the U.S. government for fiscal years 2022 and 2023, in part due to the results of DOD's financial statement audits.¹⁹

Process for Addressing Audit Findings

During the financial statement audit, auditors may discover deficiencies in DOD's financial reporting processes and internal controls and issue NFRs, as previously discussed. After receiving an NFR, DOD and component management develop one or more corrective action plans that outline how the finding will be remediated; establish key milestones, including projected implementation and validation dates; and assign responsibility for completing identified tasks.²⁰ Well-developed corrective action plans are key to audit remediation success. Since fiscal year 2018, independent public accountants have issued thousands of NFRs, and DOD components have developed many corrective action plans to address them.

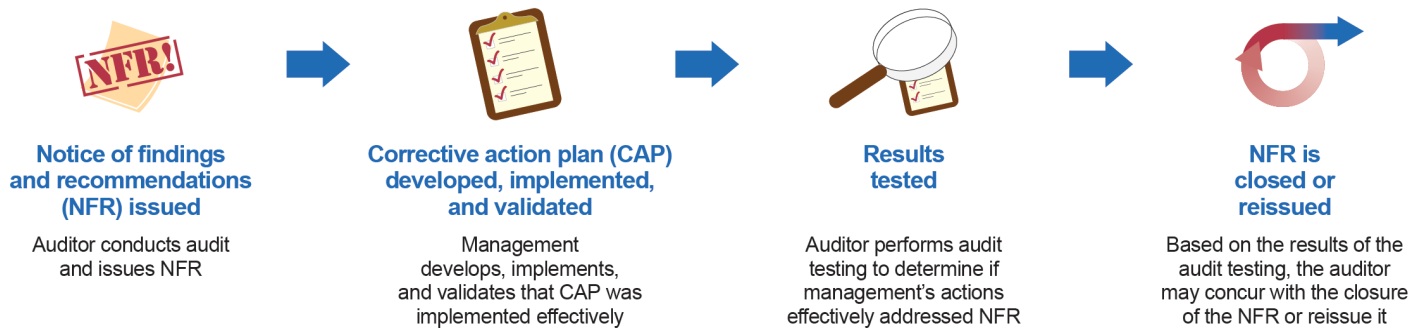
After corrective action plans are developed, DOD management is responsible for implementing the corrective actions and monitoring progress to assess whether sufficient actions have been taken or if additional actions are needed to resolve an NFR. If sufficient actions have been taken, management performs tests to validate their effectiveness. Once management completes its validation, auditors perform audit procedures to determine if the actions effectively addressed the NFR. Based on the audit test results, auditors may concur with the closure of

¹⁹GAO, *Financial Audit: FY 2023 and FY 2022 Consolidated Financial Statements of the U.S. Government*, [GAO-24-106660](#) (Washington, D.C.: Feb. 15, 2024).

²⁰Milestones are quantifiable targets (e.g., completion dates) or qualitative characteristics that help monitor corrective action activities and progress. ODCFO instructs the components to develop corrective action plans that include, at a minimum, the data elements described in the Implementation Guide for OMB Circular A-123. In addition, the FIAR Directorate provides guidance and best practices for developing corrective action plans, including an action plan template to help components meet these instructions.

the NFR if it was effectively addressed or reissue the NFR if it was not effectively addressed (see fig. 2).²¹

Figure 2: DOD’s Process for Addressing NFRs Issued by Financial Statement Auditors



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-24-106890

DOD also uses its corrective action plans to address the material weaknesses identified by the financial statement audit. To do so, DOD established financial statement audit roadmaps in fiscal year 2021 as a tool to measure and monitor progress of the corrective action plans developed to remediate material weaknesses. According to DOD, the DOD-wide audit roadmap charts a course for remediating its material weaknesses. This roadmap aligns DOD-wide remediation strategies, identifies timelines for achieving audit opinions for specific material weakness areas, and is used to monitor progress and resources, according to DOD.²²

Prior GAO Work Related to DOD’s Financial Statement Audits

GAO has conducted work over the years to assess DOD’s progress toward attaining an audit opinion, including its efforts to develop audit remediation and corrective action plans. Most recently, in May 2023, we found that DOD’s audit remediation plans lacked certain details that are important to achieving a clean audit opinion, and that DOD has

²¹NFRs can contribute to material weakness areas identified by the financial statement auditors, and thus reissued NFRs continue to affect the department’s progress in addressing material weaknesses. In addition, financial statement auditors can repeat previously identified material weaknesses or identify new material weaknesses during a financial statement audit for a given year.

²²According to ODCFO officials, the audit roadmap is designed to guide internal and external stakeholders through the department’s preparation, execution, and follow-up stages on the path to achieving the unmodified audit opinion.

consistently missed or extended target remediation dates.²³ To address these issues, we made five recommendations. DOD concurred with one recommendation, partially concurred with three recommendations, and did not concur with one recommendation. DOD has not implemented these recommendations as of September 2024. In this work, we also reported on benefits identified by DOD that have resulted from its audit remediation. These benefits included identification of unrecorded assets, greater oversight and efficiency in processing financial transactions, better management of obligations, and improved recording of environmental and disposal liabilities.

Previously, in October 2020, we found that continued efforts were needed to correct material weaknesses identified in DOD's financial statements.²⁴ For example, we found that DOD and its components did not always prepare corrective action plans in accordance with DOD and other federal government guidance and that data used to assess audit remediation progress may not be reliable. We made five recommendations to address these issues, two of which DOD has fully implemented.²⁵ In this work, we also reported that financial statement audits have value beyond the audit opinion, and that in 2019 DOD had identified audit remediation priorities that were selected because they were expected to provide the greatest potential value to DOD operations and the warfighter.²⁶

²³[GAO-23-105784](#).

²⁴[GAO-21-157](#).

²⁵As of September 2024, DOD concurred with and has implemented our recommendations to (1) update its corrective action plan template to assist components in developing corrective action plans to include the year deficiencies are first identified and (2) update its NFR database with a field to record the year deficiencies are first identified. DOD partially concurred with and has partially addressed our recommendation regarding steps to improve its corrective action plan process. DOD concurred with but has not implemented our recommendation to update guidance regarding documentation of root-cause analysis when needed to address deficiencies identified by auditors. DOD did not concur with and has not implemented our recommendation to include appropriate steps in its monthly NFR database review process to evaluate and follow up on previously identified exceptions to ensure they are resolved in a timely manner.

²⁶Acting Secretary of Defense Memorandum, *Fiscal Year 2019 Financial Statement Audit Priorities* (Feb. 5, 2019).

DOD Financial Statement Audits Have Resulted in Financial and Operational Outcomes, which Have Not Been Fully Identified

DOD's financial statement audit and related remediation efforts have resulted in a range of financial and operational outcomes, and DOD officials anticipate additional outcomes in the future.²⁷ However, these outcomes have not been fully identified. Based on our analysis of DOD information, the department's actions to remediate audit deficiencies have resulted in (1) financial benefits including cost savings and avoidance, as well as an improved ability to use funds, and (2) operational benefits including improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, and more efficient processes.²⁸ At the same time, audit remediation efforts have required upfront investments to fund needed improvements and some benefits entailed tradeoffs, according to DOD officials. DOD officials also told us that some benefits of the audit can be hard to measure.

DOD Has Identified Some Cost Savings and Avoidances and Improved Its Use of Funds

DOD has identified some cost savings and avoidances and improved its ability to use available funds as a result of its financial statement audits and related remediation efforts, such as modernizing data systems and automating manual processes. However, such benefits have not been fully identified. Table 1 shows examples of cost savings and avoidances that we identified from information reported by DOD components during fiscal years 2019 through 2023, as well as DOD's public reporting on audit accomplishments during those years.

²⁷We identified audit outcomes from information reported by DOD components in response to DOD's annual audit results data call during fiscal years 2019 through 2023, DOD's Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023, and our interviews with DOD component officials. For the outcomes presented in this report, we took steps to confirm the information with cognizant officials, but we did not independently verify the outcomes reported by DOD and its components.

²⁸These areas reflect efforts undertaken to address a range of material weaknesses identified by the financial statement audits. DOD OIG has identified certain material weaknesses as "scope limiting," meaning that these material weaknesses prevent auditors from performing the necessary procedures to draw a conclusion on the financial statements. In fiscal year 2022, DOD OIG reported that of the 28 material weaknesses identified at the DOD agencywide level, it considered 16 weaknesses to be scope limiting, which is consolidated into 10 categories: IT; Universe of Transactions; Fund Balance with Treasury; Inventory and Related Property; General Property, Plant, and Equipment, including real property; Reporting Entity; Government Property in the Possession of Contractors; Joint Strike Fighter program; DOD Oversight and Monitoring; and Environmental and Disposal Liabilities.

Table 1: Examples of Financial Statement Audit-Related Cost Savings and Avoidances Identified by Department of Defense (DOD) Components, Fiscal Years 2019–2023

DOD component	Description of remedial action(s) and cost savings or avoidances
Army	<p>In 2022, DOD reported that the Army implemented a Real Property Automated Management Solution that accelerated the physical inventory process and made other improvements. According to DOD, this effort saved approximately \$6 million worth of labor hours, which can be assigned to other priority tasks.</p> <p>DOD reported in fiscal year 2021 that the Army collaborated with the Defense Finance and Accounting Service to clear \$100 million in variances between accounting records and the Department of the Treasury and avoided the expenditure of \$14 million of budget authority, allowing the Army to execute that funding for high-priority operational requirements.</p>
Defense Contract Audit Agency	<p>The Defense Contract Audit Agency reported in fiscal year 2022 that it consolidated offices and reduced square footage by 26,502 square feet, saving over \$727,000 in annual rent.</p>
Defense Finance and Accounting Service	<p>The Defense Finance and Accounting Service reduced 10 legacy data systems in fiscal years 2021 and 2022, resulting in more than \$10 million in savings and streamlining documentation needed for the audit.</p> <p>In fiscal year 2023, DOD reported that the Defense Finance and Accounting Service placed 90 enterprise and tactical robotic process automations—commonly referred to as bots—into production to automate a wide variety of tasks with an estimated annual benefit of over \$6 million.</p>
Defense Logistics Agency	<p>The Defense Logistics Agency has begun implementing a new Warehouse Management System that is anticipated to save the agency approximately \$12 million per year, beginning in 2026.</p>
Navy	<p>During fiscal years 2019–2021, the Navy conducted a complete physical inventory of materials such as supplies and equipment. In fiscal year 2020, DOD reported that items identified through this inventory were used to fill over 12,000 requisitions, totaling nearly \$50 million in materials.</p> <p>In fiscal year 2021, the Navy reported that its use of DOD’s Advana data system has helped it to avoid approximately \$3 million annually in support costs.^a</p> <p>According to 2024 Navy documentation, the Navy has identified 14 legacy systems that it plans to retire, which the Navy documentation showed will result in a cumulative cost avoidance of nearly \$103 million from fiscal years 2020 through 2026.</p>
U.S. Special Operations Command	<p>In fiscal year 2021, the Joint Special Operations Command reduced travel transaction costs as a result of switching to the Defense Travel System, resulting in annual savings of approximately \$425,000.</p> <p>The U.S. Special Operations Command reported in fiscal year 2022 that it made upgrades to an existing audit document repository database, saving the command more than \$1.5 million in planned expenses for the development and procurement of a new system.</p>
U.S. Transportation Command	<p>The U.S. Transportation Command reported that its Surface Deployment and Distribution Command automated several processes, resulting in cost avoidance of over \$174,000 through fiscal year 2023.</p>

Source: GAO analysis of information provided by DOD components or publicly reported by DOD. | GAO-24-106890

Note: The information presented in this table does not represent all cost savings and avoidances resulting from DOD’s financial statement audit; rather, these are cost savings and avoidances reported by DOD components in response to DOD’s annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD’s mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO’s coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

^aAdvana is a centralized data and analytics platform that provides DOD users with common business data, decision support analytics, and data tools.

In addition to cost savings and avoidances, DOD components have reported that audit remediation efforts have improved their ability to use available funds. DOD receives funding through various appropriations, which are typically available to use for new obligations within a limited period of time—between 1 and 5 years.²⁹ In some cases, an agency may obligate funds for a certain purpose but not use the entire amount of obligated funds if, for example, a good or service costs less than originally estimated. When this occurs, the agency must first de-obligate the funds before applying them to another appropriate use before the funds expire. Table 2 shows examples of instances where DOD components identified funds that could be used to meet other needs because of financial statement audit remediation efforts.

Table 2: Examples of Funds that Could Be Used to Meet Other Needs Identified by Department of Defense (DOD) Components, Fiscal Years 2019–2023

DOD component	Description of actions to identify and use available funds
Air Force	In fiscal year 2023, the Air Force reported refining the use of machine learning—a form of artificial intelligence—to conduct cash forecasting in its working capital fund. As a result, the Air Force identified \$653 million in obligations that it is working to use in the form of upward obligation adjustments, preserving future buying power. ^a
Navy	<p>In fiscal year 2021, DOD reported that the Navy used DOD’s Advana system to deploy dashboards for real-time analytics. For example, in fiscal year 2020, the Process to Improve Expenditure Efficiency initiative allowed the Navy to identify and reapply \$687 million in budget authority to critical requirements.</p> <p>In fiscal year 2023, DOD reported that the Navy had expanded its Budget Execution Validation process and Commanders’ Enterprise Resource Management Council, facilitating the Navy’s review of \$17 billion of unliquidated obligations. This action allowed the Navy to identify \$330 million made available for de-obligation, of which \$29 million are active funds that could be used to increase the Navy’s buying power.</p> <p>In fiscal year 2024, the Navy reported that through continuation of its Budget Execution Validation process, it de-obligated an additional \$519 million, of which \$84 million are active funds that were used to fund other priorities and requirements.</p>
National Geospatial Intelligence Agency	In fiscal years 2022 and 2023, the National Geospatial Intelligence Agency reported that it had identified over \$93 million for de-obligation as a result of its reviews of dormant accounts, which it could use to meet more immediate mission-support and mission-critical needs.

Source: GAO analysis of information provided by DOD components or publicly reported by DOD. | GAO-24-106890

²⁹Some military appropriations are no-year appropriations, that is, funds that do not expire. Those that have a time-limited period of availability expire at the end of that time. For example, Military Personnel appropriations expire at the end of the fiscal year for which they were appropriated and become unavailable for new obligations. Unexpended balances are available for 5 years after expiration for limited purposes such as liquidating obligations incurred during the fiscal year of availability. After the 5-year period has elapsed, all obligated and unobligated balances are canceled, the expired account is closed, and all remaining funds are returned to the general fund of the Department of Treasury.

^aExpired, unobligated balances can, in some cases, be used to record previously unrecorded obligations or to make upward adjustments to previously under-recorded obligations, such as contract modifications properly within the scope of the original contract.

Note: The information presented in this table does not represent all instances of cost recovery resulting from DOD's financial statement audit; rather, these are instances of cost recovery reported by DOD components in response to DOD's annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD's mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO's coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

DOD officials told us that savings can be difficult to quantify and that, in many instances, audit-related efforts have required upfront investments, such as for system improvements or contracted staff to support remediation efforts. For example, officials from one DOD component noted increased costs associated with system improvements and contractor support to remediate audit findings related to maintaining accurate records to track government property held by contractors. In addition, officials from three DOD components stated that efforts to address audit findings related to real property have required added costs, such as for additional staff. An official from one of these components stated that these efforts and investments led to improvements in data that support leaders' ability to make informed decisions, such as whether vacant facilities should be repurposed or demolished to avoid maintenance costs.

DOD component officials further stated that such investments may eventually result in future cost savings. For example, an Air Force financial management official stated that once the Air Force completes its transitions from legacy systems to modernized systems, it will achieve future cost savings. In addition, a Marine Corps financial management official stated that the Marine Corps' transition from its legacy financial management system to the Defense Agencies Initiative system (discussed further in this report) should be considered an investment for the future. According to the official, the transition has not resulted in immediate cost savings because of initial implementation costs—such as training and troubleshooting unforeseen issues—but should produce cost savings in later years as the Marine Corps moves from system implementation to sustainment.

Early Retirement of Legacy Systems Could Result in Savings

In 2024, the Department of Defense Office of Inspector General (DOD OIG) reported on DOD's plans to address longstanding issues with outdated financial management systems. According to DOD OIG, DOD's financial management systems are required by statute to meet certain standards for providing accurate, reliable, and timely financial management information, but a number of DOD's systems are not yet compliant with this requirement. DOD has set a goal to become compliant with this requirement by fiscal year 2028. However, DOD OIG found that DOD's plans to meet this goal are not aggressive enough, in part because DOD has not planned to retire some outdated systems in a timely manner. DOD OIG made recommendations that DOD expedite the retirement and replacement of 23 systems, which it estimated could allow DOD to put to better use nearly **\$728 million** in future funding that would be used to support the systems.^a

GAO also previously examined the Air Force's plans to retire one of these systems. Specifically, in 2022, GAO reported that the Air Force was not following leading practices for systems migration, in particular migration from its General Accounting and Finance System – Reengineered to a modernized system. We recommended that the Air Force develop a systems migration plan based on leading migration practices to more timely transition from the General Accounting and Finance System – Reengineered. In May 2024, we estimated that the Air Force could save up to **\$2.4 million** by retiring the system sooner than its scheduled retirement date of fiscal year 2031.

Source: GAO analysis of DODIG-2024-047 and [GAO-22-103636](#). | GAO-24-106890

^aThis estimate is based on budget estimates for funding of the systems between fiscal years 2024 and 2027. All but seven of the 24 systems would continue to be used beyond fiscal year 2027 based on DOD's plans to retire the systems at the time of DOD OIG's evaluation. Costs beyond fiscal year 2027 were not included in DOD OIG's estimate for potential monetary benefits.

DOD Has Identified Some Operational Benefits Resulting from Financial Statement Audit Remediation

DOD has identified a range of operational outcomes resulting from its financial statement audit remediation efforts, but such outcomes have not been fully identified. Based on our analysis of DOD information and interviews with DOD officials, operational outcomes primarily comprise benefits such as improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, and more efficient processes. In limited instances, DOD officials noted tradeoffs associated with remediation efforts, such as the need for expanded procedures to comply with federal financial management requirements, or upfront cost investments, as previously discussed. Below we provide selected examples of outcomes by category; additional outcomes can be found in appendix IV.

Improvements to Financial Systems and Data

DOD's financial statement audits have identified significant challenges related to DOD's financial and business systems and the quality of its financial data. For example, DOD has experienced challenges providing auditors an accurate list of financial transactions due to its large volume of transactions coming from numerous accounting systems. In addition, DOD has struggled with reconciling its fund balances with the Department

of the Treasury. The Secretary of Defense has directed DOD components to prioritize audit remediation progress in these areas.

To address financial statement audit findings, DOD and its components have taken steps to modernize financial and business systems, resulting in streamlined processes and strengthened internal controls that improved data quality. In November 2020, then acting Under Secretary of Defense (Comptroller) and Chief Financial Officer Thomas Harker spoke to the value of these improvements, stating that systems modernization—such as through consolidation—can save the department money and that more accurate financial data help senior leaders make more informed decisions, for example, by having the ability to combine financial data with human resource or logistics information.³⁰

Modernized financial and business systems. DOD uses thousands of IT systems, many of which are unintegrated, to support its operations and business functions, including financial management. However, many of these systems were not designed to support a financial statement audit, and over the years, DOD’s systems environment has grown increasingly complex and error prone due to the age of many of the systems, among other factors. For example, DOD component officials we interviewed stated that the use of legacy systems can present challenges when data must move across multiple systems because the systems use differing data standards. As a result, this can limit components’ ability to compile data across systems as needed to compile an accurate financial statement.

To address these challenges, DOD and its components have taken steps to migrate business data and functions to modern systems. For example:

³⁰Thomas W. Harker, Assistant Secretary of the Navy, Financial Management and Comptroller (Performing the Duties of the Under Secretary of Defense (Comptroller) and Chief Financial Officer), *DOD Outlines Results of Third Annual Department-Wide Audit* (transcript), Nov. 16, 2020.



Advana Has Helped DOD Avoid Making Improper Payments

In 2020, DOD began using its Advana system to identify potential improper payments, and to flag and stop such payments before they are made. This allows technicians to review transactions to determine whether they are improper or meet the criteria to be flagged as improper but are valid and should be paid.

In 2024, we estimated that through its use of Advana, DOD saved at least **\$5.5 billion** in avoided potential improper payments that it did not pay from 2020 until June 2023.

Source: GAO analysis of Department of Defense (DOD) information; GAO (icon). | GAO-24-106890

- In fiscal year 2017, DOD efforts to support the financial statement audit led to the development of Advana, a DOD-wide data platform for multi-domain data, analytics, and artificial intelligence. Advana helps to standardize DOD data, addressing some of DOD's historical systems issues. Advana has also helped support DOD's audit progress by enabling components' ability to reconcile their fund balances with Treasury. For example, in fiscal year 2021, the Department of the Navy reported that the use of Advana supported the Navy and Marine Corps' Fund Balance with Treasury by enabling an approximately 90 percent reduction of the dollar value of unsupported, undistributed journal vouchers for appropriations shared between those military services. DOD component officials we interviewed stated that reconciling their Fund Balance with Treasury helps them ensure that funds are correctly accounted for and that related efforts have led to improvements in financial data.
- In fiscal year 2020, the Navy reported continued efforts to migrate all unclassified financial activity to its Enterprise Resource Planning system. According to the Navy, Enterprise Resource Planning is a key element in its strategy to streamline processes, retire legacy financial management systems, and obtain a clean audit opinion. The Navy reported these efforts will help to improve the speed and transparency of data across the enterprise. Similarly, in fiscal year 2023, U.S. Special Operations Command reported that migrating three of its legacy systems to an Enterprise Resource Planning system will provide benefits including enhanced compliance with laws and regulations.
- In fiscal year 2021, the Defense Health Program reported that it was working to deploy a single financial system, the General Fund Enterprise Business System, to decrease its total accounting system footprint. These efforts can support more accurate financial data and reduce costs. According to a Defense Health Program official, this effort has resulted in the decommissioning of one legacy system, which eliminated the cost of maintaining that system and reconciling its data. The Defense Health Program also has plans to migrate data from two additional legacy systems by February 2025.

In October 2021, the Marine Corps transitioned from its legacy financial management system to the Defense Agencies Initiative, a system being

deployed across the department.³¹ We examined Marine Corps perspectives on the effects of this transition, as discussed in figure 3.

Figure 3: Case Study on the Marine Corps' Transition to Defense Agencies Initiative



**Case Study:
Marine Corps' Transition to Defense Agencies Initiative**

In October 2021, the Marine Corps adopted the Defense Agencies Initiative financial management system to replace a legacy system called the Standard Accounting, Budgeting, and Reporting System. The Marine Corps began using the new system in normal operations in 2024. According to a Marine Corps official, the Marine Corps began employing shortcuts to its legacy system in the 1990s to make it easier to use, which eventually reduced the system's ability to meet accounting standards and hindered management's ability to track and visualize program-level data critical for decision-making.

A Marine Corps official stated that the transition to Defense Agencies Initiative has led to improvements in data accuracy due to the system providing consistent, compliant, and better-structured data. In turn, this improved decision-making. For example, improved financial data in Defense Agencies Initiative enabled the Marine Corps to identify \$20,000 that could be allocated from an overestimated service agreement to support other mission-critical efforts within the same fiscal year.

Conversely, the official noted that the added controls in Defense Agencies Initiative that contribute to data accuracy can also require personnel to take additional steps, such as when making necessary corrections to transactions. For example, under the legacy system, personnel could make immediate changes to a transaction, whereas Defense Agencies Initiative's more stringent controls require personnel to complete multiple steps to make such changes. The official stated this can increase the time and effort needed to address errors, although the outcome is better assurance that the changes are accurately made.

The official further stated that as the Marine Corps integrates more systems into Defense Agencies Initiative, it will be able to develop a more complete view of its financial and operational data. For example, the Marine Corps plans to connect Defense Agencies Initiative with the Marine Corps' accountable property system of record, which will enable more comprehensive monitoring of data such as maintenance costs and facilitate decision-making for when property should be repaired or replaced.

Source: GAO analysis of Department of Defense information; thodonal/stock.adobe.com (photo). | GAO-24-106890

³¹According to DOD, the Defense Agencies Initiative is intended to transform the budget, finance, and accounting operations of most DOD defense agencies to achieve accurate and reliable financial information. In June 2024, we issued a report evaluating certain aspects of the Marine Corps' transition to the Defense Agencies Initiative. We found that DOD and the Marine Corps had partially addressed cost, schedule, and measurement practices for its transition and that its practices for data migration and conversion and change management were not fully consistent with leading practices. GAO, *DOD Financial Management: Additional Steps Needed to Guide Future Systems Transitions*, GAO-24-106313 (Washington, D.C.: June 3, 2024).

Improved financial data quality. DOD and its components conduct a large volume of financial transactions each year, including pay for nearly 3 million service members and civilian employees, payments made to vendors for goods and services, and others. The quality of the data that document these transactions can help ensure that payments are made for goods and services in the right amount to the correct recipient, and that leaders have visibility of how much funding the component has available to meet its needs. This information can also be useful in analyzing spending trends and predicting future needs based on reliable data. For example, Defense Logistics Agency officials stated that improved financial data quality has enabled its financial reporting team to better demonstrate the agency's financial position, improvements resulting from audit remediation, and remaining challenges to overcome.

DOD components reported implementing a range of actions in response to audit findings that improved the quality of financial data. For example:


- In fiscal year 2023, the Air Force reported implementing artificial intelligence capabilities to refine cash forecasting—the process of estimating the flow of cash in and out of an organization over a future period of time—for its working capital fund. This effort compiles data from multiple systems to be reconciled and viewed in a centralized dashboard, providing daily data to increase the visibility over the Air Force working capital fund's cash balances and helping to forecast future cash flow needs. According to the Air Force, this capability has improved its working capital fund's cash solvency and mission support continuity to the warfighter.
- Navy officials we interviewed described steps taken to improve the Navy's cost estimation methodologies for environmental liabilities, including for the decommissioning of nuclear aircraft carriers and mitigation of asbestos. The officials stated these efforts—which required additional staff resources—have resulted in improved calculation methods that are repeatable and can be applied to estimate the cost of similar remediation needs. According to the officials, more accurate estimation of environmental liability costs will also support decision-makers' ability to align resources across competing priorities in the future. For example, accurate estimation can avoid unforeseen costs that may require funds to be drawn from other areas.
- To improve the department's ability to identify and use available funds, the ODCFO required DOD components to review dormant accounts on a quarterly basis. We identified related audit outcomes

reported by three DOD components in fiscal year 2023. Specifically, the Defense Health Agency reported that it had begun successfully using a tool in Advana to review dormant obligations. Separately, the Defense Logistics Agency developed a series of automated reports identifying different types of dormant accounts, such as for undelivered orders and unfilled customer orders, avoiding the need for manual execution of these reports. Finally, according to the National Geospatial-Intelligence Agency, the agency published a governing instruction for its dormant account review, establishing stakeholder roles and key internal controls, which the agency stated is foundational to consistent, efficient, and effective dormant account reviews.

In addition, we examined the Defense Information Systems Agency's process for reviewing dormant accounts, as discussed in figure 4.

Figure 4: Case Study on the Defense Information Systems Agency’s Improvements to Visibility of Cash on Hand

**Case Study:
Defense Information Systems Agency Improved Visibility of Cash on Hand**



The Defense Information Systems Agency is a combat support agency that provides infrastructure for information sharing and communication across the Department of Defense (DOD). An official from the agency told us that, to support this mission, the Defense Information Systems Agency engages with other DOD agencies and private sector vendors to obtain needed goods and services. When a contract is established, a certain amount of money is obligated (set aside) for that contract. An agency or vendor may invoice against a contract over time, and sometimes the contracted goods may be provided, or services rendered, without using all of the money originally set aside for the contract.

According to a Defense Information Services Agency official, as a result of its financial statement audits, the Defense Information Systems Agency instituted a quarterly review of its dormant account balances, which can occur when an invoice has not been received against a contract over a specified period of time. A Defense Information Systems Agency official stated that this has resulted in more consistent monitoring of account balances throughout each quarter to keep accounts current, because the workforce knows dormant account balances will be reviewed quarterly. Additionally, as a result of the process, the Defense Information Systems Agency is better able to monitor the amount of cash it has on hand and determine when money no longer needs to be set aside for a contract.

Officials told us that visibility of cash on hand can affect the Defense Information Systems Agency’s operations beyond the audit. For example, when an unexpected military conflict occurs, the Defense Information System Agency may be called upon to provide support, such as by sending a team member to set up communications. According to Defense Information Systems Agency officials, by improving its visibility over cash on hand, the Defense Information Systems Agency is able to more quickly identify money available to meet unexpected needs.

Source: GAO analysis of Defense Information Systems Agency information; thodonal/stock.adobe.com (photo). | GAO-24-106890

Mitigation of Cybersecurity Risks

DOD’s financial statement audit has uncovered significant security risks associated with the department’s IT. These include DOD components’ lack of effective controls to prevent unauthorized use of or inappropriate modifications to significant financial management and feeder systems.³² For example, in 2019 then Deputy Secretary of Defense David Norquist reported to Congress that the financial statement audit had identified 29 problems related to access controls in the Army’s Logistics Modernization Program—a supply chain management system that supports the

³²Feeder systems are those that develop data required to initiate an accounting or financial transaction but do not perform an accounting operation, such as personnel, property, or logistics systems.

warfighter—and, as a result, the Army was able to correct these problems.³³

To help address cybersecurity risks, including those identified by the financial statement audit, DOD has developed an Identity, Credential, and Access Management strategy for implementation across the department. According to DOD's 2020 Identity, Credential, and Access Management Strategy, DOD components have implemented certain principles of this strategy to protect access to resources they manage. However, decentralized efforts have resulted in system owners choosing implementation approaches that meet local needs, but may not support enterprise objectives, according to DOD. Accordingly, the strategy establishes goals that are focused on establishing measurable and achievable transformation of core Identity, Credential, and Access Management elements across the department.

In fiscal year 2023, DOD reported it had taken steps to support Identity, Credential, and Access Management implementation by issuing two policy updates and two governance memos, establishing a stakeholder governance process, and creating an onboarding schedule for approximately 230 systems. DOD components also cited efforts driven by the financial statement audit to mitigate cybersecurity risks using Identity, Credential, and Access Management and other methods. For example:

- In fiscal year 2023, the Air Force reported that its efforts to implement Identity, Credential, and Access Management will significantly strengthen its cybersecurity risk postures and ability to safeguard data across Air Force systems. According to the Air Force, as of fiscal year 2023, 19 financial management-related systems were in the process of implementing this tool, and the remaining 50 systems will do so in fiscal years 2024 and 2025. According to the Air Force, these improvements will enhance user access controls as cyber threats continue to evolve.
- In fiscal year 2023, the Army reported that it implemented an end user monitoring solution as a compensating control while it is in the process of implementing Identity, Credential, and Access Management. This control will address information security risks posed by personnel terminations and transfers of system users.

³³*Department of Defense Audit: Hearing Before the Subcomm. On Readiness and Management Support of the Senate Comm. on Armed Services, 116th Cong. 6 (2019) (testimony of David L. Norquist, Deputy Secretary of Defense).*

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- In fiscal year 2022, DOD reported that the Department of the Navy deployed the Naval Identity Services Identity, Credential, and Access Management solution and integrated it with Navy Enterprise Resource Planning to automate account provisioning, account removal, and access reviews for over 83,000 users. In fiscal year 2023, DOD reported that the Navy had completed integration of Identity, Credential, and Access Management for two systems and planned integration for an additional three systems during that fiscal year. The Navy reported integration was completed for four additional systems during fiscal year 2024. These actions are expected to improve security and help prevent potential cyberattacks.
 - In fiscal year 2022, the Marine Corps reported that it completed a comprehensive user account review of about 24,000 users of its Global Combat Support System–Marine Corps, validating about 97 percent of those users. According to the Marine Corps, this is a financially significant system that supports both the management of military equipment and operating materials and supplies. For example, in fiscal year 2019, the Marine Corps reported that it had migrated operating materials and supplies other than ammunition from legacy systems into the Global Combat Support System–Marine Corps, improving visibility of these assets. According to the Marine Corps, addressing user access controls for this system is critically important for addressing user access control deficiencies identified by the audit. The Navy reported in fiscal year 2023 that its Identity, Credential, and Access Management integration efforts are underway to improve the access control environment, and the Global Combat Support System–Marine Corps was on schedule to complete certain phases of integration in fiscal year 2024.

Visibility Over Assets and Inventory

DOD's financial statement audits have identified billions of dollars' worth of unaccounted for assets and inventory, including real property, equipment, and other materials. Based on our analysis of DOD information from fiscal years 2019 through 2023, DOD components reported identifying more than \$16 billion worth of previously untracked assets and inventory during its financial statement audit inventory efforts. According to DOD, improved accountability of property has helped the department ensure the equipment it needs for military operations is complete and accurately recorded. In addition, DOD components have reported actions taken to improve their processes for determining the value of assets and equipment, which is necessary to support accurate financial statements.

Ensured accuracy and completeness of inventory. DOD’s financial statement audits have identified that DOD has been unable to substantiate the existence and completeness of inventory reported on its financial statements or did not properly account for or value its inventory. To address these issues, military components have taken steps to improve inventory processes to validate information contained in component property systems. These efforts have included physical inventories to confirm that assets and other property are accurately recorded in systems of record. For example, in 2019 then Deputy Secretary of Defense David Norquist reported to Congress that a physical inventory at one Navy location identified \$81 million worth of material not tracked in the Navy’s property system and that this material could be used to fill 174 requisitions, including 30 identified as high priority.³⁴

DOD components have also reported examples of outcomes resulting from inventory related efforts undertaken to address financial statement audit findings. For example:

- In fiscal year 2021, the Navy reported that it had identified more than \$4.3 billion in previously untracked material—such as equipment and supplies—because of inventory efforts during fiscal years 2018 through 2021. These efforts were carried out at 70 Navy installations worldwide, representing a 99.5 percent completion rate of clean up processes. According to DOD, properly tracking such property in an accountable property system of record can support the Navy’s ability to fill open requisition requests without additional purchase costs. In addition, in fiscal year 2022, the Navy reported that its Naval Supply Systems Command undertook efforts to improve the management of its \$41 billion working capital fund supply management inventory segment. According to the Navy, the initial results of these efforts indicated improvements in the results of testing the existence and completeness of inventory, a key factor assessed by the financial statement audit.
- In fiscal year 2022, the Air Force conducted 29 site visits—including its first to an installation outside the continental United States—to conduct an inventory of more than 196,000 items with a combined value of more than \$2.4 billion. The Air Force reported that the

³⁴*Department of Defense Audit: Hearing Before the Subcomm. On Readiness and Management Support of the Senate Comm. on Armed Services, 116th Cong. 5 (2019) (testimony of David L. Norquist, Deputy Secretary of Defense).*

inventory’s high degree of accuracy (99 percent) supported its ability to make informed decisions that strengthen mission readiness.

- In fiscal years 2022 and 2023, the Army implemented a “responsible party framework” for its inventory, which has improved its ability to identify people to provide accurate information to support property data. An Army official stated that having better inventory data will help the Army, such as by helping commands identify where necessary parts and materials are available when a piece of equipment needs maintenance. According to the official, this should result in future cost savings.

We also examined the Defense Logistics Agency’s implementation of a new system to manage its warehouses, as discussed in figure 5.

Figure 5: Case Study on the Defense Logistics Agency’s Warehouse Management System



Case Study: Defense Logistics Agency’s Warehouse Management System

The Defense Logistics Agency—the Department of Defense’s (DOD) largest logistics combat support agency—operates hundreds of warehouses to store and distribute certain materials needed by military components to support the warfighter. In fiscal year 2022, the agency began implementing the Warehouse Management System to replace a legacy system that it previously used for warehouse management. According to Defense Logistics Agency officials, the legacy system had been subject to a number of financial statement audit findings that could not be readily addressed, in part because the system relied on an outdated programming language.

According to a Defense Logistics Agency official, adopting the Warehouse Management System allowed the agency to save costs that would have been needed to sustain its legacy system, such as hiring specialized developers familiar with the outdated programming language. The official also stated that it was necessary to hire additional staff and provide training to implement the Warehouse Management System, but these costs should not persist once the system is in sustainment.

In addition, Defense Logistics Agency officials stated that implementing the Warehouse Management System has made it easier to engage with its customers—other military components. For example, the Warehouse Management System can integrate and transform data from other systems, including legacy systems that may not meet financial statement audit requirements. Further, the Warehouse Management System is designed to improve asset visibility by maintaining real time and accurate location data, which ensures the Defense Logistics Agency knows where assets are at any point in time. Both capabilities should help the agency manage its warehouse data and assets better so that any transaction or location issues can be resolved quickly, helping the agency provide better support to the warfighter.

Source: GAO analysis of Defense Logistics Agency information; thodonai/stock.adobe.com (photo). | GAO-24-106890

Determined asset and equipment value. In fiscal year 2023, DOD reported over \$800 billion in assets and equipment, including vehicles, weapon systems, and real property, such as buildings, structures, and land. However, its financial statement audits have identified deficiencies in DOD's efforts to determine and record the accurate value of these assets, a process referred to as valuation. For example, according to DOD OIG, financial statement auditors have found that DOD and its components did not have sufficient policies or procedures in place to accurately value and report balances for their assets and equipment.

According to some DOD component officials, accurate valuation of assets and equipment is important not only for the financial statement audit, but also for operations. For example, Air Force financial management officials stated that accuracy of asset records can support more accurate budgeting for maintenance needs, as well as decision-making on whether an asset should be maintained or replaced, based on the recorded value and condition.

DOD components have cited outcomes resulting from efforts to correct these deficiencies. For example:

- In fiscal year 2023, the Air Force Space Systems Command undertook an effort to compile documentation supporting the value for its satellites. According to Air Force officials, the initial contracts for these and other assets did not record cost components in a way that allowed capitalizable costs—those that affect the asset's value—to be easily identified. Officials stated that due to this challenge, significant manual effort had been required to identify and document these costs. As a result of the Air Force's remedial efforts, the value of these satellites can now be linked to supporting documentation, which officials stated would increase confidence in the accuracy of the present and future reported values for those assets.
- The Defense Threat Reduction Agency reported in fiscal year 2023 that it implemented controls to reasonably assure appropriate documentation is received prior to assets being entered into its property system, helping to ensure accurate recording of in-service dates and value.
- The Army reported that in fiscal year 2021, its Installation Management Command identified nearly 7,000 assets as candidates for deconsolidation—splitting the existing records into multiple records for distinct components of the asset—which can provide the Army with more detailed financial data and improve its ability to accurately

prepare for and request its budget. According to the Army, around 350,000 new asset records could be created from the 7,000 assets identified for deconsolidation.

We also examined improvements made by the Army and the Air Force in their processes for tracking expenses for assets under construction, as discussed in figure 6.

Figure 6: Case Study on Army and Air Force Improvements in Tracking Expenses for Ongoing Construction

**Case Study:
Army and Air Force Improvements
in Tracking Expenses for Ongoing Construction**



Since fiscal year 2022, the Army and Air Force reported efforts resulting from implementing new controls and audit procedures as a result of their financial statement audits to ensure the value of all newly constructed assets, such as helicopters, are accurately calculated. When the military builds a new asset, accounting standards require that certain construction costs are included in the asset's value once completed. Accurately recording these construction costs helps ensure that the value of the military's assets is correctly reported on its financial statements.

Army and Air Force officials we interviewed told us about prior challenges accurately capturing the costs of assets that were still under construction. For example, the Army often recorded the initial purchase price of equipment and did not capture additional costs—such as for necessary customizations—as required. Similarly, the Air Force had difficulty distinguishing between capital expenditures—those that should be factored into the asset's value—versus other expenses that did not affect the asset's value.

Both military services reported steps to address these challenges. According to Army officials, the Army met with relevant officials, reviewed contracts, and evaluated their internal controls to develop a standard operating procedure for developing and recording construction costs. According to Air Force officials, the Air Force developed a new tool to streamline and improve the control environment for the Air Force's process to determine the value of equipment, ensuring that the correct costs were considered. The officials further stated that the use of this tool has significantly reduced the workload needed to calculate construction expenses, allowing cost analysts to focus more time on their primary mission of acquiring mission capabilities for the warfighter.

As a result of these actions, the Army and the Air Force have been able to more accurately determine the value of new assets under construction. For example, in fiscal year 2022, the Army reported that it was able to support an initial construction balance for two of the Army's top procurement programs: Blackhawk helicopters and Apache helicopters. The Air Force similarly reported in fiscal year 2023 that it was able to substantiate the recorded values of its military equipment assets under construction, totaling \$13.7 billion. Army and Air Force officials stated that these improvements also help support improved procurement decisions based on better understanding of the costs of the equipment.

Source: GAO analysis of Army and Air Force information; thodonal/stock.adobe.com (photo). | GAO-24-106890

Note: Information in this case study related to the Army pertains to the Army's general fund.

Development of More Efficient Processes

DOD components have reported undertaking dozens of efforts to improve the efficiency of financial management processes, which can support DOD's operations and help facilitate more efficient financial statement audits in the future. These process efficiencies frequently involve the use of robotic process automations that reduce the need for manual work and can lead to labor hour savings. Based on our analysis of DOD information from fiscal years 2019 through 2023, DOD components reported instances of implementing more efficient processes that saved over a million labor hours.

In November 2020, then acting Under Secretary of Defense (Comptroller) and DOD Chief Financial Officer Thomas Harker stated that the use of automation can decrease costs and improve the accuracy of financial data.³⁵ In other instances, the reduction of labor hours needed to perform a process can allow the workforce to prioritize other efforts. For example, financial management officials from the Navy stated that the Navy performed an assessment and identified that its financial management workforce was spending a significant amount of time carrying out repetitive tasks, such as obtaining documents for the financial statement auditors. The officials stated that implementing robotic process automations will enable the workforce to carry out more complex tasks, such as analyzing how best to use available funds. Similarly, Air Force financial management officials stated that automation does not always equate to cost savings, as it often enables the workforce to dedicate efforts to more critical tasks, including for audit remediation.

Examples of automation resulting in reduced or reallocated labor hours, as reported by DOD components, include the following:

- The Navy and the Air Force have undertaken efforts to implement Enterprise, Governance, Risk, and Compliance tools to document internal controls—processes used by management to help an entity achieve its objectives. Such controls are necessary to reasonably assure the accuracy of financial statements and thereby support the financial statement audit. Navy and Air Force officials stated that the Enterprise, Governance, Risk, and Compliance tool has improved the efficiency of several internal controls processes related to financial management. For example, Navy officials stated that the tool has

³⁵Thomas W. Harker, Assistant Secretary of the Navy, Financial Management and Comptroller (Performing the Duties of the Under Secretary of Defense Comptroller and Chief Financial Officer), *DOD Outlines Results of Third Annual Department-Wide Audit* (transcript), Nov. 16, 2020.

been used to automate processes including internal control assessments and the development of the Navy's statement of assurance.³⁶ Similarly, the Air Force reported that the tool enabled process automation that alleviated substantial administrative burden, reallocating at least 142,000 hours annually back to the mission. Navy officials stated that the Enterprise, Governance, Risk, and Compliance tool will allow its leaders and process owners to quickly access summarized data that can provide a snapshot of the health of a business process. Further, when fully implemented, the tool is anticipated to enhance workforce efficiency, according to Navy officials.

- In fiscal year 2023, DOD reported that the Army had 79 automations in place, including 14 for its financial systems, which eliminated the need for 5,600 labor hours that year. In fiscal year 2022, the Army developed an automated process to identify certain transactions from one of the Army's business systems, increasing the Army's ability to provide key supporting documentation to financial statement auditors. On its first attempt, the bot identified transactions for 96 percent of samples in 1 day, a process that typically takes 5 to 10 days when relying on manual labor. This automation significantly reduced the time and effort needed to support audit samples and facilitated a more in-depth review of the Army's financial transactions, which should continue to yield efficiencies during future audits.
- In fiscal year 2021, the Air Force reported efficiencies resulting from its implementation of a process automation that reconciles financial transactions from an accountable property system with the general ledger to ensure the data matches. Specifically, the automation reduced a process that used to take days to less than 5 minutes, saving hundreds of hours per month that can be reinvested in supporting other mission-critical tasks in the future.

We also examined the Navy's implementation of robotic process automations for key business processes, as discussed in figure 7.

³⁶Audited DOD components are required by law and DOD policy to prepare a statement of assurance. This document is an annual report that certifies the level of reasonable assurance as to the overall adequacy and effectiveness of internal controls within the DOD component. Department of Defense Instruction 5010.40, *Managers' Internal Control Program Procedures* (May 30, 2013) (incorporating change 1, effective June 30, 2020).

Figure 7: Case Study on the Navy's Development of Robotic Process Automations

**Case Study:
Navy's Development of Robotic Process Automations**

As of fiscal year 2024, the Navy reported that it has implemented 181 robotic process automation bots across the department, enabling the reprioritization of 200,000 labor hours that allowed the Navy to spend more time on data analysis than on data collection. As a part of the audit process, Navy officials stated that they realized several of the Navy's business processes required significant manual effort and that there were errors in their business processes that could be addressed through automation. The Navy developed robotic process automation bots to improve business operations for sustainable auditability, to increase workforce efficiency, and to address issues in Navy's business processes.

For example, Navy officials stated that unmatched transactions, which occur when a disbursement or collection has been received and accepted, but has not been matched to the correct obligation, required manual processing to identify the error and determine how to resolve it. The Navy developed a bot for the Naval Sea Systems Comptroller Headquarters that processes unmatched collections and reduced the time needed to process each unmatched collection by 98 percent, decreasing the number of unmatched collections overall by 55 percent.

Another bot was developed to mitigate a malfunction in the Defense Travel System where travel vouchers remained open even though the trip was cancelled. This bot automates the reconciliation of unsubmitted travel vouchers older than 45 days, allowing allocated funds to be returned to the general ledger while increasing accuracy and eliminating human error. The Navy reported that, as a result, the Navy was able to clear allocated funds held for 26,800 unsubmitted travel vouchers, totaling over \$48 million. In addition, the Navy reported that they reduced processing time from 15 minutes to 2 minutes per transaction, saving 6,700 labor hours each year.

Navy officials stated that the increased efficiencies gained from robotic process automations have helped minimize the workforce burden associated with financial reporting. Further, the integration of robotic process automations has led the Navy to begin incorporating artificial intelligence and machine learning throughout the department.

Source: GAO analysis of Navy information; thodonal/stock.adobe.com (photo). | GAO-24-106890

DOD Has Identified Additional Audit Benefits that Can Be Hard to Measure

Officials from DOD and its components told us that financial statement audit remediation efforts have yielded additional benefits that are important but can be hard to measure. For example, some benefits resulting from remediation are intangible, such as enhancements to collaboration and bolstered public confidence. In other cases, audit remediation efforts may result in an initial tangible outcome that has enduring intangible effects, such as the implementation of improved policies and procedures.

Military component officials told us that collaboration between components has improved due to financial statement audit remediation

efforts. According to DOD officials, this collaboration and sharing of lessons learned should promote remediation across components. For example:

- Army and Defense Logistics Agency officials told us that, as part of efforts to address the real property material weakness area, their agencies established a memorandum of agreement designed to document the correct processes for reporting leasing arrangements. Army officials stated the Army plans to use this agreement as a template to develop memorandums with other DOD components that lease space from the Army, supporting more efficient future improvement efforts.
- As part of its efforts to remediate its government furnished property material weakness, Air Force officials told us they have attended working groups with officials from the Office of the Secretary of Defense as well as other DOD components. The officials explained that the working groups discuss the status of each component's remediation efforts, common issues that need to be remediated, and lessons learned to improve remediation.

DOD and military component officials reported their remediation efforts have also helped assure the public that they are good stewards of taxpayer dollars. For example:

- Marine Corps officials told us that their efforts to understand the vacancy rate of their real property (land and associated physical structures) have enabled them to better manage their portfolio, such as by finding ways to use vacant property. The officials stated these efforts have supported their ability to demonstrate good stewardship of taxpayer dollars.
- According to Defense Logistics Agency officials, their efforts to improve their ability to develop opening balances for weapon systems have allowed them to better understand the systems' life cycle costs.³⁷ The officials told us this enables the agency to better support acquisition activity, particularly for programs facing a lot of scrutiny—such as support for Ukraine—and demonstrate to Congress and the public a clear picture of tax dollar expenditures.

Benefits of the financial statement audit may also have enduring effects that can be hard to measure, particularly in instances where the initial

³⁷Opening balances are account balances that exist at the beginning of a reporting period. For example, Defense Logistics Agency officials described how an opening balance can correspond to the value of an entity's equipment, such as weapon systems.

benefit is noted only once. For example, during an inventory process, the Navy identified a warehouse that was filled with active materials for assets that the Navy no longer held. The Navy was able to remove the unneeded active materials from its inventory and, in the process, free up a warehouse. The Navy would see an initial savings if it terminated the lease on the warehouse, and those savings would persist following the initial reduction.

Similarly, Defense Information Systems Agency officials told us they developed standard operating procedures and guidance to improve accountability over government property furnished to contractors. The officials said the standard operating procedures added instructions that expanded on Federal Acquisition Regulation rules, such as narrowing reporting time frames to 4 days to help ensure more timely reporting. They further commented that the guidance included a worklist for contracting officers to use at the start of contracts to ensure that the agency and its contractors account for all government furnished property from the outset. Accordingly, while the policies and procedures are a tangible benefit, the officials stated it is hard to measure their overall effect on the Defense Information Systems Agency's ability to account for its government furnished property now and in the future.

DOD Has Taken Some Steps to Identify Financial Statement Audit Outcomes, but Its Approach Is Limited

DOD has taken some steps to collect examples of financial and operational outcomes resulting from the financial statement audit.³⁸ However, these efforts are limited and do not collect all available information on outcomes resulting from corrective actions taken to remediate audit findings. DOD primarily collects information on audit outcomes through its annual data calls, in place since 2019.³⁹ This data call collects information from the military services and other selected

³⁸DOD evaluates DOD components' audit progress overall by monitoring the development and completion of corrective action plans to address NFRs and material weakness areas. Appendix V details DOD's progress in addressing NFRs and material weakness areas as of the fiscal year 2023 audit.

³⁹In addition, ODCFO has conducted a mid-year data call in fiscal years 2023 and 2024 that requests updates to previously provided outcome information. Military service financial management officials told us they also collect information on audit outcomes, primarily in support of ODCFO's data calls. Officials from the Army, Navy, and Marine Corps stated that they had no additional information on audit outcomes outside of what was previously reported in response to ODCFO's data calls. The Air Force provided us with slides detailing seven outcomes from fiscal years 2020 and 2021, which Air Force officials stated had not previously been reported in response to ODCFO's data call.

components on examples of outcomes that demonstrate audit progress, achievement, and associated value.

However, the reported outcomes varied in the scope of information provided, based on our review of the components' data call submissions. For example, some of the submissions note financial outcomes such as cost savings and avoidances, or operational outcomes such as improvements to data or inventory procedures, as previously described. In other instances, the reported outcomes were more narrowly focused on the audit itself, such as by noting the closure of NFRs or timeliness of documentation provided to the independent public accountants who conduct the financial statement audit.

In addition to the annual data calls, ODCFO officials stated they have typically collected some additional information regarding financial statement audit outcomes in support of FIAR Governance Board meetings. Specifically, ODCFO officials stated that DOD holds five of these meetings each year and that two to three of those include a segment covering return on investment in the audit, for which the military services and selected other components are requested to provide information.⁴⁰ ODCFO officials stated that the information provided for FIAR Governance Board meetings is used in support of preparing for the department's Deputy's Management Action Group meetings, which reviews audit progress semiannually.⁴¹ According to an ODCFO official, the Under Secretary of Defense (Comptroller) and key members of the FIAR Governance Board report at Deputy's Management Action Group meetings on subjects including audit progress and challenges, among others. DOD officials told us that these meetings can also include discussion of outcomes that have resulted from the audit.

According to DOD, the Deputy's Management Action Group and FIAR Governance Board meetings are part of an audit oversight governance infrastructure, which includes additional forums through which audit

⁴⁰According to an ODCFO official, the department holds these meetings quarterly, with an additional meeting each October that is focused on preparing DOD's annual statement of assurance.

⁴¹The Deputy's Management Action Group is the primary civilian-military management forum that supports the Secretary of Defense, and addresses top departmental issues that have resource, management, and broad strategic or policy implications. The Deputy's Management Action Group's primary mission is to produce advice for the Deputy Secretary of Defense in a collaborative environment and to ensure that the group's execution aligns with the Secretary of Defense's priorities, as well as the planning and programming schedule.

progress and solutions can be discussed. For example, functional councils meet quarterly to review remediation status and develop solutions related to property and IT issues identified by the audit. In addition, material weakness working groups meet to coordinate solutions and maintain momentum related to various other material weakness areas. An Army official stated these meetings provide a venue to discuss best practices or identify solutions to challenges in addressing audit findings, which can be helpful, since many issues are not unique to a particular component. Navy officials also stated that coordinating with other DOD components can be helpful to identify lessons learned. For example, the officials noted they have coordinated with the Air Force to improve aircraft valuation practices.

The ODCFO uses the outcome information it collects to support statutory and internal reporting requirements, along with other information requests. In particular, ODCFO officials told us the outcome information supports DOD's Agency Financial Report, FIAR Report, related press briefings, and other reports to Congress. According to ODCFO officials, the outcome information it collects also supports the department in measuring audit progress across five areas: workforce modernization, business operations, quality decision-making, reliable networks, and enhanced public confidence.⁴² For example, examples of audit outcomes are presented in FIAR reports under headings for each of those areas in a section focused on benefits of the audit.

While DOD collects some information on outcomes associated with audit remediation efforts, we found that these efforts are limited. For example:

- DOD's data calls request that responding components provide three to five "good news stories" that demonstrate the benefits of the components' audit investments. As such, this effort does not capture the full scope of positive outcomes or any audit outcomes that are negative or neutral in nature, such as unanticipated costs or operational challenges resulting from a corrective action.
- According to ODCFO officials, their office generally collects information on audit outcomes from components that undergo a stand-alone audit and have received a disclaimer of opinion, although components having received an audit opinion—such as the Marine

⁴²According to ODCFO officials, the department hasn't established underlying goals or objectives associated with these areas.

Corps—may continue to realize outcomes resulting from their efforts to remediate material weaknesses and NFRs.⁴³

- The outcome information ODCFO obtains through its data call is not linked to specific corrective actions, which could limit the department's ability to evaluate the effects of its corrective actions.

Our key practices to successfully address high-risk areas—such as DOD financial management and business system modernization—include instituting a program to monitor and independently validate the effectiveness and sustainability of corrective measures.⁴⁴ For example, our work has shown that agencies can use performance data to determine if corrective actions are having the desired effect on the root cause of the high-risk area and identify any unintended consequences. Further, successfully addressing high-risk areas can result in significant benefits. In addition, *Standards for Internal Control in the Federal Government* state that management should use and communicate the necessary quality information to achieve the entity's objectives.⁴⁵ For example, management should communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives.

Although DOD has taken some steps to identify outcomes and share related lessons learned throughout the department, its collection efforts are limited because it has not considered all opportunities for collecting outcome information. For example, DOD's NFR database—which contains records for all financial statement audit NFRs and corrective action plans across the department—includes the capability for more extensive collection of audit outcome information, but DOD has not consistently used this capability. Specifically, the database includes a

⁴³According to an ODCFO official, the office previously collected outcome information from some components that had attained an audit opinion. The official stated they are now collecting audit outcomes only from components that have not received a favorable opinion to support the department's efforts to attain an audit opinion by December 2028. Components that receive an audit opinion can still be subject to NFRs and material weaknesses identified by the financial statement auditors. For example, the Marine Corps—which has been included in DOD's data calls since 2019—received a clean audit opinion for its fiscal year 2023 financial statement audit, but the auditors nonetheless identified seven material weakness areas that the Marine Corps will continue to undertake efforts to address.

⁴⁴GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar. 3, 2022).

⁴⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

“good news stories” field that can be populated for each corrective action plan recorded in the database.⁴⁶ According to the data dictionary for the NFR database, reporting entities (i.e., DOD components) can optionally populate the field when validating a corrective action plan, the point at which management performs testing to determine whether the corrective actions taken were effective.⁴⁷ The data dictionary further states this will allow the database to act as a repository for capturing audit remediation successes. However, based on a May 2024 extract of the database, we found that the field was substantively populated for only 33 of around 3,700 records for validated corrective action plans.⁴⁸

In addition, although DOD uses its NFR database to monitor general audit progress, ODCFO officials told us in March 2024 that they were not familiar with the “good news stories” database field. Subsequently, in May 2024, ODCFO officials stated that they are considering removing the “good news stories” field from the NFR database, in alignment with a broader effort to remove optional or non-standardized elements from the data system. The officials stated that the “good news stories” field has never been required. The officials also stated that it may not always be possible to identify outcomes related to a corrective action plan in all cases, and it can be difficult to attribute an outcome to a single corrective action plan. The officials further stated that it is important for senior officials to review reported outcomes to determine suitability for public reporting, and that because such reviews do not occur as part of the corrective action plan validation process, they may not align with ODCFO’s timing for compiling outcomes for its public reporting.

However, according to ODCFO guidance, the office has used reporting tools to query information from its NFR database for other uses to reduce the need for data calls from DOD components that may be inefficient or unreliable. Additionally, this guidance requires that components complete the “good news stories” data field at the time of corrective action plan

⁴⁶Corrective action plans outline how audit findings will be remediated, establish associated milestones, and identify responsible officials.

⁴⁷ODCFO officials stated the data dictionary is considered draft, as it is continuously updated as the NFR process evolves.

⁴⁸We considered records to be substantively populated if the field included text other than “none” or “not applicable.” An additional nine validated corrective action plan records were populated with “none” or “not applicable” for this data field.

validation.⁴⁹ Further, in October 2023 the Secretary of Defense directed DOD leaders to maximize the use of the department’s Advana system—which includes the NFR database—to measure audit progress and return on audit investments.⁵⁰ Consistent with other processes, ODCFO could query and review outcome data from the NFR database on an as needed basis if the field was more widely used to collect outcomes.

ODCFO officials acknowledged limitations associated with the department’s current collection efforts and noted that a repository of outcomes could be used to identify relevant and updated outcome information.⁵¹ For example, submissions to ODCFO’s data calls included few examples related to environmental and disposal liabilities or government property in possession of contractors, though both topics are identified by DOD OIG as scope limiting material weaknesses, and some DOD component officials we interviewed described outcomes in those areas.⁵²

ODCFO officials also told us they are interested in improving their office’s ability to measure and demonstrate audit progress and outcomes, and that they have had difficulty communicating challenges related to audit remediation. Collecting information on negative or neutral audit outcomes, in addition to positive outcomes, could help address this challenge. Further, identifying and reporting on negative and neutral outcomes could enhance DOD’s visibility of costs or tradeoffs—such as those we identified—associated with audit remediation efforts and thereby support informed decision-making when planning corrective actions. Expanded collection of outcome information could also enhance opportunities to

⁴⁹Office of the Deputy Chief Financial Officer Financial Improvement and Audit Remediation Directorate, *ODCFO Notice of Findings and Recommendations (NFR) Database: Reporting Entity Responsibilities and Desktop Guide*, Version 6.1 (December 2023). ODCFO officials stated the field is optional, and the guidance requires an update to ensure consistency with other ODCFO guidance.

⁵⁰Secretary of Defense Memorandum, *Expectations for Supporting Department of Defense Financial Statement Audits* (Oct. 13, 2023).

⁵¹A financial management official from the Army also told us that the Army could improve its ability to centralize its collection of audit outcomes. In April 2024, the Army official told us that the Army is developing plans to collect information on audit successes in a centralized location, such as an internal website, that can be accessed by Army leadership. This effort would include assigning a dollar value to the benefits when possible and regularly reporting the outcomes to ODCFO.

⁵²DOD OIG has identified certain material weaknesses as “scope limiting,” meaning that these material weaknesses prevent auditors from performing the necessary procedures to draw a conclusion on the financial statements.

share lessons learned across the department and provide Congress with better visibility over the results of DOD's investments in the financial statement audit.

As the largest department in the U.S. government—reporting over \$1 trillion in appropriations and \$1.2 trillion in assets during fiscal year 2023—DOD's financial management has a significant impact on the U.S. government-wide financial statements. In addition, the complexity of DOD's mission and breadth of its operations create unique challenges in attaining a financial statement audit opinion. By considering opportunities to collect and share additional information on financial and operational outcomes and lessons learned resulting from the financial statement audit and remediation efforts, DOD could enhance its ability to determine if its corrective actions are having the desired effects and identify remediation benefits across its five areas of measurement. Further, by including this additional information in its audit progress reports, DOD can provide external parties, such as Congress, with more complete information on audit outcomes to enhance oversight and help DOD achieve its objectives.

Conclusions

DOD's financial statement audit is a massive undertaking that serves as a catalyst for transforming DOD's business operations and can result in better support for the warfighter. While DOD has not yet achieved a clean audit opinion, we found that DOD's financial statement audits and related remediation efforts have resulted in a range of financial and operational outcomes, and that DOD anticipates additional outcomes in the future. We also found that DOD has taken steps to identify and report such outcomes to inform Congress and the public about the department's audit progress.

However, DOD's collection of this information is limited and does not collect all available information on audit outcomes. For example, DOD has collected limited examples of positive outcomes only from selected components and has not collected information on negative or neutral outcomes. By considering opportunities to collect and share additional information on outcomes resulting from its audit remediation efforts, DOD could enhance its ability to identify audit remediation efforts that have substantially benefited DOD's finances and operations, as well as enhance its visibility over associated costs or other tradeoffs. Expanded collection of outcome information could also support existing efforts to share identified lessons learned among DOD components as part of the department's audit oversight governance infrastructure. Further, enhanced collection of information on audit outcomes can provide

Congress and the public more information regarding the value of DOD's investments in the audit infrastructure and help Congress oversee the department's audit progress.

Recommendations for Executive Action

We are making one recommendation to the Secretary of Defense.

The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller) considers opportunities to collect and share additional information on financial and operational outcomes and lessons learned resulting from audit remediation efforts. (Recommendation 1)

Agency Comments

We provided a draft of this report to DOD for review and comment. DOD concurred with our recommendation and cited actions it will take to address the recommendation. DOD's comments are reproduced in appendix VI. DOD also provided technical comments, which we incorporated as appropriate.

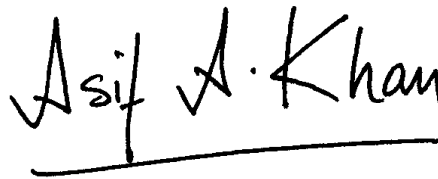
We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Secretary of the Army, the Secretary of the Navy, the Secretary of the Air Force, and the Commandant of the Marine Corps. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or members of your staff have any questions regarding this report, please contact Cathleen A. Berrick at (202) 512-3404 or berrickc@gao.gov or Asif A. Khan at (202) 512-9869 or khana@gao.gov.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.



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Appendix I: Outcomes Resulting from GAO Recommendations Related to Department of Defense Financial Statement Audits

This appendix presents information on the outcomes of selected GAO recommendations related to Department of Defense (DOD) financial statements audits and associated remediation efforts. Table 3 below includes information on GAO recommendations related to DOD’s financial statement audit that have been implemented by DOD, along with associated outcomes as documented by GAO through our recommendation closure process. For more information on our criteria for selecting recommendations to present in this appendix, please see appendix III.

Table 3: Implemented GAO Recommendations Related to Department of Defense (DOD) Financial Statement Audit Remediation Efforts, Fiscal Years 2019–2023

GAO report	Issue	Recommendation and action	Outcome
Defense Infrastructure: Additional Actions Could Enhance DOD’s Efforts to Identify, Evaluate, and Preserve Historic Properties (GAO-19-335)	GAO found that the Army lacked complete and consistent data on historic properties and did not routinely assess the condition of its historic properties.	The Army should clarify the requirement for Army installation personnel to conduct a physical inventory of historic properties every 3 years, including an assessment of each property’s condition. The Army updated its Real Property Management handbook accordingly.	The Army should be better able to ensure that landholders are meeting the requirements of the National Historic Preservation Act.
Defense Travel: DOD Should Strengthen Its Ongoing Actions to Reduce Improper Travel Payments (GAO-19-530)	GAO found that the DOD Defense Travel System had \$965.5 million in improper payments from 2016 through 2018. DOD established a Remediation Plan to reduce improper payments and selected 10 components for initial implementation. DOD selected these 10 components because they accounted for a significant percentage of total travel payments. However, DOD did not take into account the components’ own estimates of their improper payment rates. Further, only four of the nine components GAO surveyed had completed all the plan’s requirements, in part because DOD did not develop any milestones.	DOD should revise its component selection approach to consider available improper payment rate data and data on the components’ amount of travel payments. DOD identified additional data on improper payment rates of DOD components not initially included in the selection that were required to implement the DOD Travel Pay Improper Payments Remediation Plan. DOD should establish milestones for the requirements, monitor whether the components have completed them on time, and hold components accountable for completing the requirements. DOD required components to submit information on the completion of their remediation plans by March 20,2020.	DOD should be better able to conduct appropriate oversight over components most at risk for improper travel payments. DOD should have greater assurance that it has taken sufficient actions to reduce improper payments.

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

GAO report	Issue	Recommendation and action	Outcome
Defense Real Property: DOD Needs to Take Additional Actions to Improve Management of Its Inventory Data (GAO-19-73)	GAO found that DOD had weaknesses in its processes for recording and reporting real property data, which led to inaccurate and incomplete information. Further, the military services did not fully monitor recording processes and implement corrective actions to resolve data discrepancies.	The Air Force should require monitoring of processes for recording all required real property information. The Air Force revised Department of the Air Force Instruction 32-9005 as well as issued standard operating procedures for existence and completeness testing for buildings, structures, linear structures, and land to ensure monitoring and remediation of identified deficiencies in the real property records.	The Air Force should be able to provide accountable and auditable real property information.
Financial Management: DOD Needs to Implement Comprehensive Plans to Improve Its Systems Environment (GAO-20-252)	GAO found that DOD lacked performance goals to effectively monitor the remediation of IT issues identified by the audit.	DOD should establish performance goals that include performance indicators, targets, and time frames to monitor the status of IT-related remediation efforts. DOD reported the number of high priority IT-related notices of findings and recommendations that it expected to address in fiscal years 2021 through 2024. As a performance indicator, the department reported the percentage of relevant corrective action plans that DOD would not complete by targeted completion dates.	DOD should be better positioned to monitor achievement of its remediation efforts and know if changes need to be made to its approach.

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

GAO report	Issue	Recommendation and action	Outcome
Air Force: Enhanced Enterprise Risk Management and Internal Control Assessments Could Improve Accountability over Mission-Critical Assets (GAO-20-332)	GAO found that the Air Force did not have a process in place to base its annual assessment of internal control and Statement of Assurance preparation on uniform testing performed across its agency. Further, GAO found that the Air Force lacked a process for managers to consider the results of internal control reviews performed at the business process assessable unit level when they assess and report on the status of internal control for the overall Air Force Statement of Assurance. GAO also found that the Air Force's governance structure did not include a mechanism for senior management to oversee the management of risks associated with material weaknesses and consider their effects across the Air Force.	<p>The Air Force should develop policies or procedures for assessing internal control to require the use of test plans. The Air Force updated its guidance to require test plans that outline the intent and approach for testing, coordination and assignment of testing procedures, and a plan for test execution.</p> <p>The Air Force should establish a process and reporting lines of all sources of information, including reviews performed of internal control processes related to mission-critical assets, that will be considered in the Statement of Assurance. The Air Force updated its guidance to require the conclusions of a control's design, implementation, operating effectiveness, and residual risk to be documented within the Enterprise Governance Risk and Compliance tool.</p> <p>The Air Force should develop and implement procedures for an enterprise risk management governance structure that includes oversight responsibilities. The Air Force developed and implemented procedures that require senior management to identify if updates are needed to the reviewed enterprise risks, which include risks that are contributing to operational, reporting, or compliance material weaknesses.</p>	<p>The Air Force should be able to ensure that it is consistently and effectively assessing its internal control to timely identify and correct deficiencies.</p> <p>The Air Force's actions should enhance its ability to timely identify internal control deficiencies.</p> <p>The Air Force's actions should help it reduce the risk that it will not properly identify, assess, and respond to significant entity-level risks.</p>

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

Department of Defense: Actions Needed to Reduce Accounting Adjustments ([GAO-20-96](#))

GAO found that DOD's various strategies and plans did not provide clear direction or defined outcomes, nor did they address reducing the need for recording accounting adjustments DOD-wide. Further, GAO found that neither DOD nor the Defense Finance and Accounting Service established policies and procedures that require staff to develop and implement action plans or monitor the effectiveness of action plans in eliminating the need for accounting adjustments. GAO also found that over 17 percent of the total accounting adjustments recorded by the Defense Finance and Accounting Service were recorded to force Fund Balance with Treasury account balance amounts received from components to agree with Treasury's accounts. Additionally, GAO found instances where supporting documentation packages for accounting adjustments were missing the required Defense Finance and Accounting Service Journal Voucher Catalog and Checklist (Defense Finance and Accounting Service Form 9339). GAO also found that DOD had not reviewed its accounting adjustments' category codes for relevance since the codes were first established in 2002.

DOD should develop and implement procedures that include clearly defined outcomes focused on reducing accounting adjustments with specific actionable steps and procedures. DOD issued guidance requiring the use of root cause indicator codes to identify the cause of accounting adjustments. DOD also developed a Root Cause Analysis Dashboard. DOD further issued guidance requiring DOD components to create action plans to address the causes of unsupported accounting adjustments and developed the Journal Voucher Trend Analysis Dashboard.

DOD should develop and implement policies and procedures to help ensure consistent development, implementation, monitoring, and documentation of accounting adjustment action plans. DOD issued a memorandum requiring DOD components to create action plans with supporting documentation to address the causes of unsupported accounting adjustments.

The Defense Finance and Accounting Service should implement procedures to help ensure that Fund Balance with Treasury reconciliations are consistently performed, and that all Defense Finance and Accounting Service sites review and document research conducted on the causes of any differences arising from reconciliations. DOD developed procedures outlining the required reporting and reconciliation process, including requirements for researching and documenting the causes of the differences for Fund Balance with Treasury adjustment reporting. DOD also updated its internal

This multi-faceted and collaborative effort should assist DOD and its components' management in reducing accounting adjustments.

DOD should improve the consistency of the development, implementation, monitoring, and documentation of action plans, which may over time help reduce the number of accounting adjustments and improve the overall reliability of DOD's financial information.

DOD and its components should be able to consistently perform and document required reconciliations, identify causes for adjustments, and take steps to resolve them, which will help DOD produce reliable and auditable financial statements.

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

GAO report	Issue	Recommendation and action	Outcome
		<p>policy to align its Fund Balance with Treasury reconciliation requirements with Treasury guidance and added a summary table with deadlines for completing the Fund Balance with Treasury reconciliations.</p>	
		<p>DOD should establish procedures to help ensure the consistent implementation of the requirements for using Defense Finance and Accounting Service Form 9339. DOD developed mandatory training for staff on the use and inclusion of Form 9339 in every accounting adjustment package.</p>	<p>The training should help ensure that accounting adjustment packages contain all required documentation, which may reduce the risk of inaccurate reporting and improving the overall reliability of DOD's financial statements.</p>
		<p>DOD should perform and document a comprehensive review of accounting adjustment category codes to determine their ongoing applicability or the need for additional codes to reflect the current reporting environment. DOD validated the applicability of existing category codes and updated the descriptions of the category codes in its guidance.</p>	<p>DOD should be able to properly capture reasons for recording adjustments, which will improve the Defense Finance and Accounting Service's ability to provide DOD with reliable information about recorded accounting adjustments.</p>

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

GAO report	Issue	Recommendation and action	Outcome
Department of Defense: Additional Actions to Improve Suspense Account Transactions Would Strengthen Financial Reporting (GAO-21-132)	GAO found that neither DOD nor the Defense Finance and Accounting Service issued implementing guidance on how the Defense Finance and Accounting Service should consolidate suspense account transactions department-wide. Further, GAO found that DOD and the Defense Finance and Accounting Service used unreliable data to measure the progress of initiatives designed to address long-standing suspense account deficiencies and reduce suspense account balances.	<p>The Defense Finance and Accounting Service should establish a process and associated guidance to (1) prepare a department-wide Suspense Account Universe of Transactions at the consolidated level and (2) ensure that the Defense Finance and Accounting Service sites gather consistent information for preparing the Suspense Account Universe of Transactions for the DOD components. The Defense Finance and Accounting Service issued guidance requiring its sites to use a new standardized Suspense Account Universe of Transactions layout, which will (1) ensure that uniform Universe of Transactions information is collected for all DOD components and (2) allow the Defense Finance and Accounting Service to prepare a department-wide Universe of Transactions.</p> <p>The Defense Finance and Accounting Service should develop guidance for Defense Finance and Accounting Service sites to use when developing metrics for measuring the progress of their efforts to address issues with and reduce the balances of suspense accounts. The Defense Finance and Accounting Service issued guidance to ensure that the Universe of Transactions reconcile to Treasury's Central Accounting Reporting System.</p>	<p>DOD should be able to improve financial reporting of its suspense accounts.</p> <p>DOD should be able to improve the reliability of its financial reporting of suspense accounts.</p>

**Appendix I: Outcomes Resulting from GAO
Recommendations Related to Department of
Defense Financial Statement Audits**

GAO report	Issue	Recommendation and action	Outcome
DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits (GAO-21-157)	GAO found that DOD's Notices of Finding and Recommendations (NFR) database did not contain all the data elements defined in the Implementation Guide for Office of Management and Budget Circular A-123 deficiencies in a timely manner.	DOD should update the NFR database with a field to record the year deficiencies are first identified. DOD updated the NFR Database to include the "First Year Identified" field.	DOD and its components should have information to track NFRs and corrective actions to address identified deficiencies in a timely manner.
Department of Defense: Actions Needed to Improve Accounting of Intradepartmental Transactions (GAO-21-84)	GAO found that the initiation and approvals of the General Terms and Conditions agreements with the Government Invoicing's General Terms and Conditions module varied among DOD components.	DOD should take actions to help ensure that all DOD components follow DOD's policy requiring the use of G-Invoicing's General Terms and Conditions functionality to initiate and approve General Terms and Conditions agreements. DOD developed a General Terms and Conditions Executive Dashboard tool within the Advana platform to track component usage of the General Terms and Conditions module.	DOD enhanced its ability to ensure that all DOD components are using the General Terms and Conditions module, which should facilitate full implementation of G-Invoicing and help remediate DOD's intragovernmental eliminations deficiency.

Source: GAO analysis of GAO report recommendation and accomplishment information. | GAO-24-106890

Note: Actions and outcomes listed are based on GAO information obtained through its recommendation closure process.

Appendix II: Selected Inspector General and Military Service Audit Agency Recommendations Related to the Financial Statement Audit

Several Department of Defense (DOD) organizations are involved in conducting performance audits of DOD programs. Specifically, the DOD Office of Inspector General (OIG) conducts independent audits, evaluations, and investigations of DOD programs, operations, and personnel that result in reports with recommendations. Likewise, the military service audit agencies—which consist of the Army Audit Agency, Air Force Audit Agency, and Naval Audit Service—conduct performance audits within the specific military departments.

We reviewed DOD OIG and service audit agency recommendations that were closed between October 1, 2018, and January 31, 2024, to identify those related to DOD’s financial statement audits and associated remediation efforts. This appendix presents information regarding the recommendations we identified and examples of resulting outcomes. For more information on our criteria and selecting recommendations to present in this appendix, please see appendix III.

DOD OIG Recommendations

We determined that DOD OIG had 166 closed recommendations related to the financial statement audit throughout the specified period. The closed recommendations related to various topics, including visibility over assets and improving financial management policies. For example, according to information from DOD OIG:

- In March 2019, DOD OIG recommended that the F-35 Joint Program Office appoint officials to work with the prime contractor and verify the existence and completeness of all F-35 property.¹ In response, the Joint Program Office appointed two officials to work with the prime contractor and issued a memo that included their responsibilities for managing and accounting for F-35 property. This closed the recommendation in March 2020.
- In June 2022, DOD OIG recommended that the Commander of Area Support Group–Kuwait develop procedures to ensure that all transferred government-furnished property is recorded in the Kuwait accountable property records and that the Kuwait accountable records are annually reconciled with contractor government-furnished property records.² In response, the Army developed a standard operating

¹Department of Defense, Office of Inspector General, *Audit of Management of Government-Owned Property Supporting the F-35 Program*, DODIG-2019-062 (March 13, 2019).

²Department of Defense, Office of Inspector General, *Audit of U.S. Army Base Operations and Security Support Services Contract Government-Furnished Property in Kuwait*, DODIG-2022-106 (June 22, 2022).

procedure that expanded on existing DOD and Army guidance, including procedures for recording government-furnished property transfers and reconciling property records. As a result of these actions, DOD OIG closed the recommendation.

- In May 2019, DOD OIG recommended that the Defense Security Cooperation Agency provide organizations responsible for implementing its security assistance accounts with accounting and reporting guidance for the Special Defense Acquisition Fund inventory.³ The Defense Security Cooperation Agency developed a memorandum that provided clarifying and updated reporting and accounting guidance and required that it be shared with all program and financial managers responsible for the development of foreign military sales cases, which closed the recommendation in March 2021.

Service Audit Agency Recommendations

We determined that the Army Audit Agency had 118 closed recommendations, the Naval Audit Service had 55 closed recommendations, and the Air Force Audit Agency had 102 closed recommendations related to the financial statement audit throughout the specified period. The recommendations, namely for the Air Force Audit Agency and Naval Audit Service, related to various topics, including visibility over assets and mitigation of cybersecurity risks. For example, according to information from the service audit agencies:

- In October 2019, the Air Force Audit Agency recommended that the National Air and Space Intelligence Center annually inspect units for inventory completeness.⁴ The Air Force Audit Agency closed this recommendation in October 2019.
- Similarly, in June 2018, the Naval Audit Service recommended that Installation Security Officers at select locations outside the continental U.S. be directed to ensure security equipment inventories are being sufficiently maintained and that serial numbers and expiration dates for security equipment are being reliably tracked.⁵ The Naval Audit Service closed this recommendation in September 2021.

³Department of Defense, Officer of Inspector General, *Audit of the Defense Security Cooperation Agency-Security Assistance Accounts*, DODIG-2019-085 (May 8, 2019).

⁴Air Force Audit Agency, *National Air and Space Intelligence Center Security Controls*, F-2020-0001-A00900 (Oct. 4, 2019).

⁵Naval Audit Service, *Security Equipment for Navy Security Forces Personnel at Selected Installations Outside the Continental United States*, N2018-0044 (June 27, 2018).

**Appendix II: Selected Inspector General and
Military Service Audit Agency
Recommendations Related to the Financial
Statement Audit**

- In October 2019, the Air Force Audit Agency recommended that the Air Force’s Office of the Chief Information Officer establish internal controls to validate oversight organizations efforts to, among other things, identify and monitor excess IT hardware asset inventories and manage the redistribution of excess IT hardware assets.⁶ The Air Force Audit Agency closed this recommendation in November 2022.
- In September 2023, the Naval Audit Service recommended that the U.S. Fleet Cyber Command develop a plan of action and milestones to begin completing cybersecurity inspections to ensure compliance with applicable guidance.⁷ The Naval Audit Service closed this recommendation in September 2023.

By implementing these recommendations, the military departments have taken steps that can help support their auditability, improve their operations, and manage risk.

⁶Air Force Audit Agency, *Information Technology Hardware Asset Purchasing*, F-2020-0001-O10000 (Oct. 17, 2019).

⁷Naval Audit Service, *Naval Air Forces Cybersecurity Inspections and Assessment*, N2023-0025 (Sept. 8, 2023).

Appendix III: Objectives, Scope, and Methodology

This report examines (1) financial and operational outcomes that have resulted or are anticipated to result from Department of Defense (DOD) financial statement audits and related remediation efforts, and (2) the extent to which DOD has taken steps to identify outcomes of its financial statement audits and related remediation efforts.

For the scope of this work, we considered outcomes to include positive, negative, or net-neutral outcomes, including one-time or temporary outcomes; longer-term, enduring outcomes; intangible outcomes, such as changes in organizational culture; and outcomes affecting the warfighter. We considered financial outcomes to include both identified dollar amounts and notional effects relating to cost savings or added costs. We considered operational outcomes to include those occurring in conjunction with financial outcomes or may be cost neutral.

Methods Used to Identify Realized or Anticipated Outcomes of DOD's Financial Statement Audit and Related Remediation Efforts

To determine the financial and operational outcomes that DOD has realized or anticipates as a result of its financial statement audits, we reviewed DOD publications to identify and document known financial and operational audit outcomes. Specifically, we reviewed DOD Agency Financial reports and Financial Improvement and Audit Remediation (FIAR) reports for fiscal years 2019 through 2023.¹ We recorded the reported audit outcomes that we identified from these sources in a spreadsheet for analysis. We categorized these outcomes by subject area and analyzed whether the outcome included a financial element, such as whether the outcome cited any cost savings or avoidances. In addition, we recorded any instances of identified labor hour savings.

We also identified audit outcomes previously reported or known by GAO. To do so, we held discussions with subject matter experts within GAO across our Defense Capabilities and Management, Financial Management and Assurance, Information Technology and Cybersecurity, Contracting and National Security Acquisitions, and Natural Resources and Environment mission teams, as well as with GAO's Chief Accountant

¹These years align with when DOD conducted audit results data calls, described further below.

and Chief Actuary. Through these discussions, we identified and reviewed relevant GAO work.²

We also obtained and analyzed the results of component audit results data calls for fiscal years 2019 through 2023, which was the entire time period this data call has been conducted by the DOD Office of the Deputy Chief Financial Officer (ODCFO). According to DOD, these data calls help the ODCFO monitor audit status, timelines, strategy effectiveness, and measure progress toward a clean audit opinion. Among other things, the data calls request information from selected DOD components on “good news stories” that demonstrate audit progress. As discussed in the body of this report, ODCFO officials told us that these annual data calls serve as the department’s primary method for collecting information on outcomes of the financial statement audit.

To analyze the data call results, we consolidated all the good news stories and additional supporting information from the data calls into one spreadsheet.³ We identified some good news stories that were solely audit focused, such as the number of Notices of Findings and Recommendations (NFR) closed by the component or timeliness of providing documentation to the auditors. When no additional information regarding associated outcomes was provided, we excluded those entries from the scope of our analysis.

We analyzed the consolidated good news stories to catalog financial and operational audit outcomes identified by DOD. To do so, we reviewed each entry and combined entries that were overlapping or duplicative in nature (e.g., the same outcome reported by a component over multiple years with updated information). We also compared the entries with those

²These GAO products include: GAO, *DOD Financial Management: Efforts to Address Auditability and Systems Challenges Need to Continue*, [GAO-23-106941](#) (Washington, D.C.: July 13, 2023); *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD’s Financial Statements*, [GAO-23-105784](#) (Washington, D.C.: May 15, 2023); *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023); and *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits*, [GAO-21-157](#) (Washington, D.C.: Oct. 13, 2020). We additionally reviewed GAO recommendations related to functional areas covered by DOD’s financial statement audits, as further discussed in this appendix.

³The data calls have covered additional topics, such as metrics related to the DOD component’s responses to auditor requests and compliance with laws and regulations. For the purpose of our analysis, we included only information that related to financial or operational outcomes resulting from the financial statement audit.

identified from DOD publications as described above to identify corresponding public reporting of the information reported by the components.⁴ To facilitate organizing and summarizing the entries, we recorded the DOD material weakness area associated with each outcome and noted whether the outcome included a financial element, such as whether the outcome cited any cost savings or avoidances. In addition, we recorded any instances of identified labor hour savings.

Based on our analysis, we identified the reported entries that were suitable for reporting as audit outcomes within the scope of our work. Two senior analysts reviewed each entry to determine its suitability based on the following criteria: whether a financial or operational outcome was described that was not solely audit focused (as described above); whether the information provided could be used to illustrate the value, meaningfulness, or importance of the financial statement audit; whether enough information was provided to establish a basic understanding of the actions taken or resulting outcome; and professional judgment. If both analysts concluded that the information was not suitable for reporting as an outcome within the scope of our work, we excluded those entries from further analysis.

For entries identified as suitable for reporting as audit outcomes within the scope of our work, we conducted outreach to follow up with reporting DOD components to obtain additional related information, if available. We also requested that the DOD components confirm the accuracy of any cited cost savings or recoveries that we identified from the data call submissions. We did not obtain and review documentation to independently verify the outcomes reported by the DOD components.

To assess the reliability of the data call submissions, we reviewed related documentation and interviewed knowledgeable officials. We determined based on these interviews and the responses from follow-up on some of the outcomes received that the data do not present a complete listing of outcomes resulting from the audit and remediation efforts, but rather presented examples of outcomes. We determined the data call submissions were sufficiently reliable to present examples of financial statement audit outcomes, as reported by DOD and its components.

⁴DOD uses the information from its audit results data calls to support its public reporting, among other uses.

We also conducted a case study methodology to develop more detailed narratives regarding some audit outcomes. We used our analysis of DOD's data call submissions to select outcomes to serve as the basis for these case studies. To do so, we first reviewed DOD documentation to identify key topics related to the audit. Specifically, we reviewed scope limiting material weaknesses identified by the DOD Office of Inspector General (OIG) and audit priorities identified by the Secretary of Defense.⁵ While selecting outcomes for inclusion in our case study, we identified outcomes that addressed varied aspects of material weakness areas.⁶ In addition, the team considered the availability of information regarding associated outcomes and coverage across a variety of components, including the Army, Navy, Air Force, and Marine Corps and at least one component that has attained a clean audit opinion. This process resulted in the selection of 21 outcomes for preliminary inclusion in our case study methodology.

To identify the outcomes most suitable for presentation as a case study in our report, we requested input from relevant officials regarding the continued validity of the outcome, the availability of related documentation, and the knowledge of any additional downstream outcomes. As a result of the input received, we excluded two of the initially selected outcomes.

For the remaining 19 preliminarily selected outcomes, we interviewed senior accountable officials from the relevant DOD components to obtain additional context and information. Based on these interviews, we selected eight outcomes to include as case studies in our report. To select these outcomes, we considered the extent of information available, the significance of the outcomes, and the best fit for developing examples that can be easily understood by a reader. In addition, we selected outcomes to provide representation of the four military services within our scope and two other DOD components and to describe outcomes across a variety of subject matter areas.

⁵DOD OIG describes scope limiting material weakness as those which prevent financial statement auditors from performing the necessary procedures to draw a conclusion on the financial statements.

⁶Material weaknesses are serious deficiencies identified by financial statement auditors that affect DOD's financial reporting such that there is a reasonable possibility that a material misstatement of its financial statements will not be prevented, or detected and corrected, on a timely basis.

We obtained related documentation for the eight selected outcomes, if available. For two of the outcomes, we conducted an additional interview with field or program level officials to obtain additional information, based on the nature of those outcomes and availability of officials. In developing our case study narratives, we combined outcomes that were similar in nature to develop the five case studies presented in the body of this report.

We also conducted interviews with current and former DOD, military service, and other officials to obtain their perspectives on audit outcomes. Specifically, we interviewed officials from the ODCFO, financial management officials from the military services, and officials from DOD OIG familiar with the financial statement audit to discuss their perspectives on outcomes resulting from the audit and related remediation efforts. We also interviewed senior accountable officials from the military services, the Defense Logistics Agency, and the Defense Information Services Agency regarding efforts undertaken to address a variety of DOD material weaknesses identified by the audits, as well resulting outcomes. In addition, to obtain background information to inform our work, we interviewed six former senior DOD officials and personnel from four independent public accounting firms contracted by DOD OIG to conduct DOD component financial statement audits.

Methods Used to Assess DOD's Steps to Identify Outcomes of Its Financial Statement Audits and Related Remediation Efforts

To assess steps taken by DOD to identify outcomes of its financial statement audits and related remediation efforts, we conducted interviews with ODCFO and military service financial management officials to discuss efforts undertaken for identifying and documenting such outcomes. As previously discussed, we obtained and reviewed DOD's component audit results calls for fiscal years 2019 through 2023, which DOD uses to collect information on audit outcomes. We also reviewed an example of slides prepared for DOD's recurring FIAR Governance Board. ODCFO officials told us they obtain additional information from DOD components regarding audit outcomes in support of these meetings two to three times each year. We compared DOD's efforts to collect audit outcome information with *Standards for Internal Control in the Federal Government* principles that management should use and internally communicate the necessary quality information to achieve the entity's objectives.⁷

⁷GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

We also requested from the military services information on any additional audit outcomes not previously reported in response to ODCFO's annual data calls. As stated in the body of this report, officials from the Army, Navy, and Marine Corps stated that they had no additional information on audit outcomes not previously reported, and the Air Force officials provided us slides regarding seven outcomes from fiscal years 2020 and 2021 that they stated had not been previously reported. We reviewed the information provided by the Air Force and incorporated into our work, as appropriate.

We also reviewed an extract of data from DOD's notices of findings and recommendations (NFR) database to determine the extent to which those data included information on audit outcomes. We further interviewed ODCFO officials regarding prior, current, or potential use of that database to track information on audit outcomes. To assess the reliability of the NFR data, we reviewed related documentation and interviewed knowledgeable officials. Based on these steps, we determined the data were sufficiently reliable to describe use of the database to record audit outcomes and to present statistics regarding DOD's progress to address financial statement audit NFRs, as discussed further below.

Additional Work Conducted in Support of this Audit

As part of this audit, we conducted work to identify GAO, DOD OIG, and military service audit agency recommendations that related to DOD's financial statement audit and any known resulting or anticipated outcomes of implementing those recommendations. To determine which recommendations from GAO, DOD OIG, and the service audit agencies were related to DOD's financial statements audit, we collected open and closed recommendation information from an internal GAO database for recommendations closed between October 2018 and September 2023 and by submitting data requests to DOD OIG and the service audit agencies for recommendations closed between October 2018 and January 2024.

We reviewed the recommendations by first filtering the recommendations using a keyword search for terms connected to the audit. These keywords included the names of the material weakness areas and accounting concepts. To further identify related recommendations, two analysts independently reviewed the recommendations' text as well as the statuses of the recommendations—for those that had statuses—and compared them against criteria we developed. The criteria consisted of whether the recommendation was related to the audit or audit readiness, whether the status of the recommendation changed because of the audit, or whether the recommendation pertained to any of the scope limiting

material weaknesses. Once both analysts reviewed the recommendations, the results were compared to identify points of disagreement. The analysts then adjudicated the conflicting recommendations to determine a final decision. The reviewed recommendations were used to better understand the effect of GAO, DOD OIG, and the service audit agencies on the financial statements audit and inform discussions with DOD officials.

In addition, as part of this audit, we updated our prior reporting on the status of DOD's efforts to address NFRs and material weaknesses identified by DOD's financial statement audits.⁸ To do so, we obtained a complete extract of DOD's NFR database as of May 2024. We analyzed the data to assess the percentage DOD components contribute to the total number of NFRs that relate to DOD material weaknesses. In addition, we analyzed information provided by DOD OIG to calculate the rate of DOD's remediation of NFRs and the number of NFRs closed by DOD components in fiscal years 2022 and 2023.

We conducted this performance audit from June 2023 to September 2024, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸We most recently reported on these efforts in [GAO-23-105784](#).

Appendix IV: Additional Examples of Operational Outcomes Resulting from Department of Defense Financial Statement Audits

This appendix provides information on additional operational outcomes resulting from Department of Defense (DOD) financial statement audits and related remediation efforts. We identified the outcomes presented in this appendix based on our review of DOD Agency Financial Reports and Financial Improvement and Audit Remediation (FIAR) reports, DOD components' submissions in response to data calls conducted by the DOD Office of the Deputy Chief Financial Officer (ODCFO), additional information obtained from DOD components, and selected public statements of senior DOD officials during fiscal years 2019 through 2023.

This appendix also describes how DOD's audit remediation efforts and resulting outcomes relate to financial statement audit material weaknesses—serious deficiencies that affect DOD's financial reporting such that there is a reasonable possibility that a material misstatement of its financial statements will not be prevented, or detected and corrected, on a timely basis. The DOD Office of Inspector General (OIG) has identified certain material weaknesses as “scope limiting,” meaning that these material weaknesses prevent auditors from performing the necessary procedures to draw a conclusion on the financial statements.¹

Improvements to financial systems and data. Many operational outcomes resulting from DOD's financial statement audits include improvements to financial systems and data. Such outcomes can result from efforts to address the scope limiting material weaknesses for IT (such as through financial management systems modernization), Universe of Transactions (a list of every financial event or transaction that happened during a specific time frame that impact a financial statement balance), and Fund Balance with Treasury. Table 4 provides additional examples of improvements to financial systems and data resulting from DOD financial statement audit efforts.

¹In fiscal year 2022, DOD OIG reported that of the 28 material weaknesses identified at the DOD agencywide level, it considered 16 weaknesses to be scope limiting, which is consolidated into 10 categories as follows: IT; Universe of Transactions; Fund Balance with Treasury; General Property, Plant, and Equipment, including real property; Reporting Entity; Government Property in the Possession of Contractors; Joint Strike Fighter program; DOD Oversight and Monitoring; and Environmental and Disposal Liabilities.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

Table 4: Additional Examples of Improvements to Financial Systems and Data Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023

DOD component	Description of financial statement audit outcome
Air Force	<ul style="list-style-type: none"> • In fiscal year 2020, DOD reported that the Air Force implemented the Theatre Integrated Combat Munitions System at all Air Force installations to serve as its single application for configuration management, capability analysis, and combat support related to conventional munitions. This system improves the accuracy of the Air Force’s financial reporting of operating materials and supplies by enhancing visibility into Air Force-owned munitions managed by the Department of the Army through real-time transaction-level data. <hr/> <ul style="list-style-type: none"> • From fiscal year 2021 through 2023, the Air Force reported various actions to reconcile its Fund Balance with Treasury. In fiscal year 2021, the Air Force reported that it analyzed more than \$50 billion in transactions between the Air Force and the Department of the Treasury to support a \$1 billion variance and increase the accuracy of its financial statements. During fiscal years 2022 and 2023, the Air Force took steps to validate and match more than \$600 billion in Fund Balance with Treasury transactions. As part of these efforts, the Air Force improved the efficiency of this process, resulting in more timely documentation to financial statement auditors. In addition, the Air Force implemented and automated internal controls, which it stated have enhanced its oversight of Fund Balance with Treasury and accountability of budgetary resources, among other benefits. In fiscal year 2024, the Air Force analyzed more than \$126 billion in transactions between the Air Force and Treasury. The Air Force informed GAO that these and related actions contributed to the Air Force becoming the first military service to fully remediate its general fund’s Fund Balance with Treasury material weakness in fiscal year 2023. <hr/> <ul style="list-style-type: none"> • In fiscal year 2021, the Air Force reported that it implemented a methodology for applying the likelihood and estimate of loss to legal cases and implemented related internal controls. According to the Air Force, these efforts drove the downgrade of its Contingent Legal Liabilities material weakness in fiscal year 2021 and provided the Air Force with a more reliable assessment of potential legal budgetary impacts in future years. In fiscal year 2024, the Air Force informed GAO that it continues efforts to close its Contingent Legal Liabilities significant deficiency, including by migrating data from a legacy system into a new case management system. <hr/> <ul style="list-style-type: none"> • In fiscal year 2021, the Air Force developed an analytics tool to better connect different financial processes to real-world events and engage stakeholders to drive more accurate data inputs. The Air Force reported this tool helps to identify the cause of balance sheet changes by comparing the purchase of new assets and disposals against the associated financial systems. This effort has led to the development of similar tools to help other work units and support the Air Force’s overall audit progress. <hr/> <ul style="list-style-type: none"> • In fiscal year 2021, the Air Force reported efforts to support and demonstrate the accuracy of its civilian and military payroll processing. In military payroll, the Air Force reported that it completed control monitoring activities on more than 3,860 military payroll entitlements and improved the error rate from 5.64 percent in fiscal year 2020 to 1.24 percent in fiscal year 2021. According to the Air Force, no errors or overpayments were found in a sample of nearly \$4 million civilian pay entitlements. In fiscal year 2024, the Air Force informed GAO that in fiscal year 2023, it lowered the improper/unsupported payment rate from 0.12 percent to 0.11 percent for year-to-date sampled military pay transactions. In addition, the total civilian pay initial review pass rate of 98.7 percent exceeded the 95 percent standard and resulted in a 0.05 percent improper or unsupported payment rate for the year (to date) with no corrective actions required. According to the Air Force, these improvements help increase payroll accuracy and reduce distractions, making for more focused and effective warfighters.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2021, the Air Force reported that it significantly improved management controls and governance over its working capital fund financial execution. To address root causes of the Financial Reporting and Management Control Oversight material weaknesses, the Air Force delegated financial oversight of its working capital fund to the Air Force Materiel Command, which established a new working capital fund financial oversight and data analytics capability. This new office hired three additional accountants who developed new analytic oversight capabilities, including three new automated dashboards. These dashboards are intended to improve visibility and forecasting capabilities related to working capital fund cash balances; increase oversight of journal voucher manual adjustments from six different working capital fund accounting systems; and increase transparency of depot maintenance and supply chain financial transactions to identify errors and anomalies requiring additional research.
	<ul style="list-style-type: none"> In fiscal year 2022, the Air Force continued to implement controls over the financial reporting of military equipment to detect potential misstatements. For example, the Air Force leveraged analytics to identify \$1.6 billion in depreciation expenses attributed to prior periods, which resulted in correcting journal vouchers to appropriately state year-end balances for fiscal year 2022. The Air Force also used data quality reports to flag abnormal activity in its accountable property system of record. This monitoring control correctly reported asset costs by confirming that inputs were accurate and discrepancies were corrected in a timely manner, and by increasing collaboration across functional areas.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Air Force developed the Unliquidated Obligations Dashboard, the first enterprise-wide picture of the Space and Missile System Center's overall funding portfolio. Using risk scoring, the dashboard helps budget analysts quickly identify near-term expiring funds and better prioritize mission-critical spending. This new capability identified the root cause of approximately \$120 million in unliquidated obligations over the last 4 fiscal years.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that in fiscal year 2021 the Department of the Air Force conducted assessments of more than 122 internal controls, which constituted 60 percent of all required general fund assessments and were essential to closing the Oversight and Monitoring of Internal Controls material weakness one year ahead of schedule.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Department of the Air Force completed advanced analytics studies in fiscal year 2021 to fully capture maintenance, manpower, and experience levels. The dynamic visualization tools for this effort feature real-time data that help field managers better predict staffing requirements and recruit against known experience gaps. The improved ability to make sure the right people with the right skills are making the right repairs also helps to ensure planes are operational.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Department of the Air Force used detailed year-to-date analytics developed in fiscal year 2021 to identify and correct approximately \$5.2 billion worth of historic variances on its equipment and accumulated depreciation general ledger accounts. This increased level of visibility allows for greater control and oversight of financial transactions related to military equipment.
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported it has created a strategic approach to reconcile and validate its Universe of Transactions by focusing on material systems and systems key to supporting material weakness efforts. For example, the Air Force reported it enhanced nine accountable property systems reconciliations and is developing 11 additional financial management reconciliation prototypes of approximately 60 financially impacting feeder systems. These additional prototypes will support Inception to Date reconciliations for critical audit areas including Fund Balance with Treasury and Procure to Pay. In fiscal year 2024, the Air Force informed GAO that it continues to develop reconciliations for priority systems.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported new system implementations for its working capital fund. Through fiscal year 2022, the Maintenance, Repair, and Overhaul system was approximately 40 percent through system development (with full system implementation and functionality on schedule for fiscal year 2028). This system will provide an integrated capability for planning, scheduling, and executing organic depot maintenance to support optimized workload assignment and resource allocation, among other things. According to the Air Force, this system is 85 percent through developing the minimum viable product for business capabilities for seven end-to-end business processes. This development work, once deployed, lays the foundation for a standard enterprise system that will enable the Air's Force sustainment center to reduce flow days, increase on-time delivery, and improve aircraft availability, resulting in increased support to the warfighter. The new system will also reduce the number of interfaces to allow the workforce to spend more time focusing on data analytics and less time remediating system issues.
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported it delivered three new cost estimation methodologies for wastewater treatment plants, oil water separators, and water supply wells with environmental closure requirements and one new cost estimation methodology for missile alert facilities likely to contain asbestos. The Air Force pivoted from using unreliable third-party cost data to actual contract costs supplied by the U.S. Army Corps of Engineers to estimate environmental liabilities for asbestos survey and abatement costs related to building demolitions, resulting in a \$628 million year-over-year increase in reported asbestos liabilities. These additional activities will allow the Air Force to remediate long-standing environmental closure requirements and asbestos audit findings. In fiscal year 2024, the Air Force informed GAO it continues to enhance cost estimation procedures, including developing more formal and robust documentation to better evidence execution of control activities by process owners across all levels of review.
Army	<ul style="list-style-type: none"> In fiscal year 2019, the Army reported an effort to clear unmatched transactions between Mechanization of Contract Administration Services—DOD's system for managing large weapon systems procurements—and the General Fund Enterprise Business Management System. The goal of this initiative was to reduce existing unmatched transactions and find ways to stop the inflow of unmatched transactions. The Defense Finance and Accounting Service worked closely with the Army to stop the inflow and provided the Army with a white paper summarizing its findings and recommendations. As a result, the unmatched transactions count was reduced by 85 percent. In fiscal year 2024, the Army informed GAO that these efforts continue to benefit the Army in part because unmatched transactions require Army commands to expend significant time to resolve and contribute to inaccurate reporting. The Army has deployed an automated monthly General Fund Enterprise Business System-to-Mechanization of Contract Administration Services reconciliation in fiscal year 2023 that it stated will close two key findings in fiscal year 2024. In fiscal year 2019, DOD reported that the Army established the Universe of Transactions database to house and reconcile transactions from business systems to accounting systems to the financial statements. Since then, the Army has established processes to obtain data from 27 systems and has significantly increased its capability to provide data to auditors. As a result, the scope of Army notices of findings and recommendations (NFR) has decreased. In fiscal year 2020, DOD reported that the Army automated the review of accounting transactions entered into the General Fund Enterprise Business System and the Logistics Modernization Program system for compliance with the U.S. Standard General Ledger transaction library. This action strengthens the Army's internal controls over financial reporting by improving the identification of noncompliant transaction entries that may result from various potential issues (such as manual entries, incorrect job aids, and improperly implemented posting logic). It also facilitates the development of system change requests to correct identified noncompliant posting logic.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Army worked closely with the Defense Finance and Accounting Service to improve the control design around Fund Balance with Treasury reconciliation. This resulted in a material reduction in the differences between the Army's accounting records and those of the Department of the Treasury. In January 2019, this amount was reported as \$256 million. As of April 2020, this amount was reduced to \$36 million. According to the Army, the reduction of material differences and the improvement of the controls marks an important achievement in Army business reform.
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported that its non-payroll accruals successfully implemented the Defense Travel System accrual methodology, along with recording the associated journal voucher in the fourth quarter that year. It was estimated that the Defense Travel System accrual accounted for approximately \$11.4 million on the Army's financial statements. In fiscal year 2024, the Army informed GAO that these efforts also resulted in the resolution of an NFR related to the lack of recording of accruals associated with the travel business process. The resolution and subsequent recording of this accrual on a quarterly basis resulted in accurate financial reporting for Defense Travel System-related expenses and accounts payable balances for the Army's general fund financial statement audit. Additionally, the implementation of this quarterly accrual process enabled the Army to increase its capability of tracking estimated travel costs, better positioning the Army's senior leaders to make more informed decisions with finite resources.
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported it submitted a system change request to remediate a General Fund Enterprise Business System error in accounting for payroll paid in Germany. This posting logic error impacted approximately \$12 million in recorded payroll. Fixing this issue will help prevent future errors and allow for more accurate accounting of local national pay. In fiscal year 2024, the Army informed GAO that it continues to submit and implement system change requests related to the modification of system posting logic within the General Fund Enterprise Business System. This includes the implementation of two change requests related to the implementation of system accounting processes and posting logic changes within the system. These changes help address underlying compliance issues and reduce the time needed to perform tasks that are otherwise manual, like recording journal vouchers. Currently, the Army is making a concerted effort to prioritize outstanding system change requests submitted by relevant stakeholders to ensure that they are implemented in time to meet deadlines associated with the remediation of NFRs and the downgrade of material weaknesses.
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported that in partnership with the Defense Finance Accounting Service, the Army working capital fund was able to remediate variances affecting its Logistics Modernization Program system. This system acts as a centralized general ledger to consolidate all transactions and ensure financial statements are accurate. This effort resulted in a 99 percent match rate for the system's inventory management and warehouse management reconciliation in fiscal year 2021 and allowed inventory reconciliation personnel to focus on other inventory reconciliations in their remediation efforts. In fiscal year 2024, the Army informed GAO that it migrated all Army working capital fund Advana-based reconciliation solutions from the legacy Advana environment into its next-generation Advana platform: the Army Reporting Evaluation System. The Army also re-scripted the solutions to perform in accordance with audit standards, address issues identified by the Army's auditors, and operate faster with more automation. According to the Army, this effort will improve the accuracy of asset and material listings, providing visibility into the location, condition, and count of materials on hand and supporting leaders' decision-making.
	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that the Army Working Capital Fund worked to research and address the root causes for the variances in the fund's cash balances. This resulted in a reduction in those variances from \$1,374.8 million to \$197.8 million, roughly 86 percent, and a more accurately reported Fund Balance with Treasury.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal years 2021 and 2022, the Army reported that its working capital fund designed and implemented a standardized template to monitor stock transport orders that was applied across all commands, providing visibility into shipping and receiving practices and improving the calculation of material requirements planning. In fiscal year 2023, the Army assessed the established thresholds for stock transport orders research, which are set by Army regulation to ensure a reasonable timeline for stock transport orders shipping and receiving. Once it assessed the thresholds, the Army updated the stock transport order monitoring control to mirror the assessment and enhance monitoring. Closely monitoring stock transport orders improves the accuracy of the Army's material requirements planning calculation, which can prevent material shortages or delays in obtaining material that should have been ordered earlier. In fiscal year 2024, the Army informed GAO that it continues to focus on root causes within commands to reduce the shipping and receiving processing errors. Site review and closure is monitored monthly by headquarters and reported to senior leadership on a quarterly basis.
	<ul style="list-style-type: none"> In fiscal year 2022, the Army reported that, in collaboration with the Defense Finance and Accounting Service, it completed actions to remediate its civilian payroll-related NFR. The Army relies on its civilian payroll process to, among other things, estimate and set funds aside to pay for Federal Employment Compensation Act claims. These claims provide coverage to federal civilian employees who sustained work-related injuries or disease by providing monetary and medical benefits. By working to understand, update, and document its Federal Employment Compensation Act process, the Army was able to remediate a recurring NFR related to approximately \$1.2 billion in annual payments and allow Army leaders to better account for taxpayer dollars. In fiscal year 2024, the Army informed GAO that this NFR remains closed with no additional findings reported from the Army's independent public accountant.
	<ul style="list-style-type: none"> In fiscal year 2023, the Army reported improvements to its service accrual process that have enabled it to correctly account for expenses for services during the accounting period they were incurred. For example, the Army updated its standard operating procedures to incorporate additional headquarters-level monitoring procedures and provided quarterly training to its lifecycle management commands, depots, and arsenals. In fiscal year 2024, the Army informed GAO that these efforts led to the working capital fund properly recording expenses in the accounting period in which they are incurred, in accordance with U.S. generally accepted accounting principles, rather than when the related invoices are paid. As a result, the service accruals balances have increased by more than \$200 million. Additionally, these implemented controls and processes are helping the Army maintain visibility into its future liabilities so that it can more accurately manage cash flow and mission needs.
	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the Army General Fund reduced its Fund Balance with Treasury suspense balance by 47 percent and Statement of Differences by 91 percent in fiscal year 2022.
	<ul style="list-style-type: none"> In fiscal year 2023, the Army reported that it deployed 18 data dashboards on an intranet site for the Army's audit stakeholder community. These dashboards include topics such as Army command performance, sample failures, NFRs, and corrective action plans. In fiscal year 2024, the Army informed GAO that it recently deployed a dashboard that links NFRs to their origins as audit sample failures. The Army met with command stakeholders to incorporate their feedback while developing the dashboard and make it useful to commands. The Army developed additional dashboards for tracking audit performance across business processes and commands and for NFR remediation activities. These dashboards enhance the Army's ability to understand its posture and performance as it relates to audit performance.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, the Army reported it completed the design, development, and deployment of a reconciliation between its Procurement Automated Data and Document System and General Fund Enterprise Business System with a 99 percent match rate, which has an annual net impact of about \$32–35 billion on the Army's general ledger data. In fiscal year 2024, the Army informed GAO that it automated the monthly refresh of this reconciliation in Advana to validate that transactions are complete and accurate in each system by detecting variances between systems for further variance analysis. The Army performs this as a monthly internal control to reconcile billions of transactions in the Procurement Automated Data and Documents System, and each reconciliation achieves match rates above 90 percent. Being able to prove systems are communicating completely and accurately is key to downgrading material weaknesses for the related processes and accounts. Further, this verifies data as complete when used by leadership for decision-making.
	<ul style="list-style-type: none"> In fiscal year 2023, the Army reported that it automated a reconciliation process that addresses a long-standing NFR and brings the Army a step closer on the path to downgrading the Financial Reporting material weakness. In fiscal year 2024, the Army informed GAO that this reconciliation process enhances the Army's ability to be a reliable fiscal steward of taxpayer funds. By comparing budgeted to actual spending, the Army can better oversee fund utilization to prevent Anti-Deficiency Act violations and confirm that its financial statement data aligns with budget execution before compilation. These activities support the warfighter by providing insights from current spending and past funding to inform future budgeting discussions.
Defense Commissary Agency	<ul style="list-style-type: none"> In fiscal year 2019, the Defense Commissary Agency reported progress in improving its controls related to undelivered orders. The agency undertook significant reconciliation efforts to significantly reduce open undelivered orders and open transactions to prepare for the deployment of Enterprise Business Solution Power Financials and the Defense Agencies Initiative. According to the Defense Commissary Agency, reconciling and cleansing the data prior to migrating to the Defense Agencies Initiative helped minimize data problems in the new system and ensured a smooth transition. In fiscal year 2019, DOD reported that the Defense Commissary Agency deployed new point of sales systems that allow for faster checkout operations in its stores. This system, the Enterprise Business Solution, allows the agency to sunset its legacy ordering and inventory management system. In addition, the Defense Commissary Agency is working to deploy the Defense Agencies Initiative for non-resale financial processes and will decommission a legacy system with this transition.
Defense Finance and Accounting Service	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that the Defense Finance and Accounting Service implemented new policies and procedures to strengthen its system of internal controls in response to audit findings related to suspense account balances, the Treasury Statement of Differences, and Cash Management Report variances. This resulted in a 95 percent reduction (\$34.0 billion) in DOD suspense account balances, \$3.8 billion reduction in Treasury Statement of Differences, and \$1.5 billion reduction in Cash Management Report variances. As a result, the Defense Finance and Accounting Service was able to deliver a complete Universe of Transactions for these Fund Balance with Treasury risk areas, including beginning balances. In fiscal year 2020, DOD reported that a project by the Defense Finance and Accounting Service to resolve Statements of Differences—similar to reconciling hundreds of checking accounts—resulted in an 88 percent reduction in total differences from \$6.6 billion in December 2018 to \$821 million in March 2020, and reduced aged differences by 96 percent. Results of the Defense Finance and Accounting Service's data analysis have been shared throughout the DOD comptroller community to facilitate components' ownership of resolving future differences. Quarterly transaction detail and management analysis reports for each Defense Finance and Accounting Service disbursing station were deemed auditable in 2019 and are being sustained. In fiscal year 2020, DOD reported that the Defense Finance and Accounting Service reduced the number of fiscal year 2019 unsupported journal vouchers by 78 percent and the total dollar amount of adjustments by 63 percent by implementing new internal controls and business processes, increasing supporting documentation, and improving customer collaboration.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Defense Finance and Accounting Service launched an effort to remove cleared and offsetting transactions and develop a sustainable and reliable Universe of Transactions for each Treasury Index. This resulted in a reduction of offsetting transactions totaling \$29.4 billion (absolute) from September 2018 to September 2019.
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Defense Finance and Accounting Service created voucher-level support for 90 percent of the Marine Corps' cross-disbursements that were previously only reported at the summary level. The updated process allows for better division of in-transit balances between the Navy and Marine Corps' shared appropriations and reduces concerns associated with shared lines of accounting.
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Defense Finance and Accounting Service worked closely with the Navy to develop a process that better supports trading partner eliminations between Navy Working Capital Fund and Navy General Fund activities. For fiscal year 2019, trading partner eliminations with proper support totaled \$2.65 billion, which contributed to the decrease in overall unsupported journal vouchers.
	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that the Defense Finance and Accounting Service leveraged cross-federal government partnerships, expanded financial statement measures, created extensive plans and hundreds of milestones, and built transaction reconciliations (Universe of Transactions) to monitor and resolve both aged and overall Fund Balance with Treasury variances. These efforts reduced overall balances in fiscal year 2020 for Suspense Accounts, Statement of Differences, and the Cash Management Report by 94 percent from \$57.3 billion to \$3.8 billion, and aged balances by 99 percent from \$50.5 billion to \$664.3 million. These reductions also resulted in fewer resources required to work these areas, allowing the agency to focus on other priorities.
Defense Health Agency	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that the Defense Health Agency developed a series of reconciliations that tie the general ledger details from six unique accounting systems to the financial statements. As a result, the Defense Health Agency was able to support the financial statement line items down to the supporting general ledger system detail for over \$22.2 billion in assets. The Defense Health Agency was also able to reconcile trial balances produced by different systems, which helped resolve almost \$213.0 billion in variances.
	<ul style="list-style-type: none"> In fiscal year 2022, the Defense Health Agency reported that it worked with the Defense Finance and Accounting Service to improve the quality of Defense Health Program journal voucher packages and establish standardized documentation for the review of journal vouchers. According to the Defense Health Agency, these efforts resulted in a consistent reduction in audit exceptions in fiscal year 2019 and fiscal year 2020 testing. In fiscal year 2021, the auditor did not identify any substantive exceptions during the journal voucher testing process. In fiscal year 2024, the Defense Health Agency informed GAO that it is working with the Defense Finance and Accounting Service to develop a standardized process for journal vouchers. The Defense Finance and Accounting Service sends the journal vouchers to the Defense Health Agency contract support for review and concurrence before the packages are sent to the civilians for review and approval. Documentation and a journal voucher tracker are retained on a shared drive.
	<ul style="list-style-type: none"> In fiscal year 2023, the Defense Health Agency reported that the Defense Health Program began efforts to transition to a more streamlined network structure to inform better decision-making and increase transparency across levels of the organization. In fiscal year 2024, the Defense Health Agency informed GAO that as of October 2023, military treatment facilities have been aligned to one of nine defense health networks. To date, the Defense Health Program has received, assigned, and coordinated 824 financial audit samples across Defense Health Agency military treatment facilities related to undelivered orders, unfilled customer orders, and civilian payroll. As the fiscal year 2024 financial statement audit continues, and audit testing results are received, the Defense Health Program will assess the impact of network structure on audit performance.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the Defense Health Program developed an inception-to-date Advana Fund Balance with Treasury tool, a first-of-its-kind control designed to validate if the tool's U.S. Treasury balance and undistributed balances are supported by the Defense Health Program and the Defense Health Agency-Contract Resource Management's financial statements. In fiscal year 2023, DOD reported that, in fiscal year 2022, the Defense Health Program demonstrated the ability to reconcile draft financial statement balances to transaction-level detail prior to declaring the financial statements final and reduced unsupported Defense Departmental Reporting System journal voucher balances.
Defense Information Systems Agency	<ul style="list-style-type: none"> From fiscal years 2020 through 2022, the Defense Information Systems Agency reported its general fund team worked with the Defense Finance and Accounting Service to reduce unmatched transactions. As a result, the Defense Information Systems Agency reported it reduced its unmatched balances from over \$200 million in 2020 to under \$8 million at the end of fiscal year 2023. According to the agency, this reduction is critical because unmatched balances present higher risk to the audit and affect multiple financial statement lines. In fiscal year 2024, the Defense Information Systems Agency informed GAO that it continues to focus on reducing unmatched balances to decrease the risk to the general fund audit and ensure balances on the financial statements are accurate and supportable. In fiscal year 2023, the Defense Information Systems Agency reported that it processed over \$6.2 billion in "transaction for self" payments while only incurring \$36,000 in prompt payment expenses. A Defense Information Systems Agency official stated transactions for self are made by the agency directly, rather than through a service provider, such as the Defense Finance and Accounting Service. In addition, the agency reported reducing prompt payment interest and unmatched disbursement balances by allowing certain payments to be entitled from its Financial Accounting and Management Information System. In fiscal year 2024, the Defense Information Systems Agency informed GAO that these efforts have reduced audit risk due to payments processing timely and avoiding prompt payment interest. In fiscal year 2023, DOD reported that the Defense Information Systems Agency General Fund decreased unmatched disbursements by 46 percent since the second quarter of fiscal year 2022 (from \$39 million to \$21 million, as of March 31, 2023).
Defense Logistics Agency	<ul style="list-style-type: none"> In fiscal year 2022, the Defense Logistics Agency reported it significantly mitigated a core system design limitation of not having the ability to produce accurate and timely open balance reports by identifying priority general ledger accounting codes, defining business rules, identifying the source of the key data elements, and validating reporting requirements. The key general ledger accounting codes were chosen, and open balance reports were developed outside the core financial system. As these reports were validated, additional general ledger accounting code reports were developed, and then mature reports were transitioned into "bolt on" applications within the financial system. In fiscal year 2024, the Defense Logistics Agency informed GAO that accurate and timely financial reports support audit remediation efforts and the agency's response to independent public accountant requests. In fiscal year 2023, the Defense Logistics Agency reported efforts to enhance the accuracy and utility of data. For example, the agency implemented enhancements to improve the accuracy of certain data related to the source of new orders, including by developing reconciliations to the trial balance for revenue activity and carry-out amount. The agency stated that these efforts are intended to enhance the completeness and accuracy of its reporting and underlying data. In addition, the agency reported that it developed 12 new dashboards to enable executive leadership, acquisition, logistics operations, and major subordinate commands to analyze financial performance and trends across the agency. Key metrics visualized in fiscal year 2023 were unfulfilled customer orders, accounts receivable, accounts payable, systems requirements reviews, and unliquidated orders.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, the Defense Logistics Agency reported additional improvements to its financial data. For example, the agency reported that it had migrated all Fund Balance with Treasury reconciliations to Advana, reducing the inception-to-date value of undistributed balances to less than 1 percent of the total fund balance with Treasury for the general fund and transaction fund. In addition, the agency compiled a list of all feeder and accounting systems that are relevant to internal controls over financial reporting. It further tested and determined controls to be designed and operating effectively for payroll, travel, and employee record setup and maintenance.
Department of Defense	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that the department improved internal controls and the descriptive capability of journal vouchers in the reporting system. To further lessen the risk of misstatement, the department reported that it issued a policy instructing reporting entities to reduce recording “on-top” adjustments in the financial reporting system and instead record adjustments in the source field-accounting system. In fiscal year 2019, DOD reported that the department continues to make progress toward achieving an auditable systems environment. Any new IT system or significant modification to an existing system that contributes to DOD financial information requires a review to verify the system will meet federal audit requirements. The reviewer must be a professional accountant and independent from the system. DOD reported that this requirement ensures the auditability of new systems and complies with the National Defense Authorization Act for Fiscal Year 2019. In addition, DOD reported that the department was reducing legacy financial management systems by investing in current Enterprise Resource Planning and target financial management systems and evolving the roles of service providers in conjunction with retiring systems. In fiscal year 2022, DOD reported that after reducing Fund Balance with Treasury overall balances or variances by more than \$50 billion in the previous 2 years, the department achieved an additional \$3.1 billion reduction in fiscal year 2021 in the areas of suspense (52 percent reduction), statement of differences (58 percent reduction), and the cash management report (45 percent reduction). In fiscal year 2022, DOD reported that the department worked with the military services to compile a complete list of reconciliations to produce a Universe of Transactions for each component. The services and the Defense Finance and Accounting Service are validating this list and working with the Office of the Under Secretary of Defense (Comptroller) to finalize it. In fiscal year 2022, DOD reported that Advana provided all General Ledger to Trial Balance reconciliations for components within the scope of the DOD consolidated audit and completed approximately 75 percent of feeder reconciliations for Treasury Index 97 General Fund reporting of components not under stand-alone audit. In addition, DOD reported that Advana launched an intragovernmental reconciliation tool designed to compare internal transactions of the department to ensure proper reporting in the financial statements. The application reconciles across accounting systems in the department at the funding document level. DOD reported Advana reconciles 98 percent of seller transactions and 84 percent of buyer transactions. In fiscal year 2023, DOD reported that the department has sustained a 79 percent reduction in funding variances with Treasury since completing its first agencywide audit in fiscal year 2018. The department migrated its reconciliation of Fund Balances with Treasury to Advana for the Army Working Capital Fund; Navy General Fund; Department of the Navy Working Capital Fund; Marine Corps General Fund; Department of the Air Force Working Capital Fund; and the Defense Logistics Agency General Fund, Working Capital Fund, and Transaction Fund. The remaining Treasury Index 97 also migrated to Advana, retiring the legacy reporting tool. In fiscal year 2023, DOD reported that since fiscal year 2021, the department has retired over 17 legacy defense business systems that were subject to Internal Control over Financial Reporting, allowing DOD to focus improvement efforts and resources on enduring systems.
Marine Corps	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Marine Corps reduced the number of IT systems it uses, which reduces costs and the Marine Corps’ cyber footprint.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> • In fiscal year 2022, DOD reported that the Marine Corps had reduced unmatched transactions by \$3.9 billion since fiscal year 2022 and reduced unsupported undistributed transactions from \$2.2 billion in October 2022 to less than \$500,000 in March 2023.
	<ul style="list-style-type: none"> • In fiscal year 2023, the Marine Corps downgraded its Fund Balance with Treasury and Financial Statement Compilation and Reporting material weaknesses and achieved a clean audit opinion. According to the Marine Corps, the Fund Balance with Treasury material weakness downgrade hinged on the Marine Corps' ability to reduce its undistributed balance from \$2.2 billion in September 2022 to about \$381 million in September 2023, the unsupported portion of which was only \$531,000. The Financial Statement Compilation and Reporting material weakness downgrade was supported by removing \$3.2 billion of unsupported forced trading partner adjustments during fiscal year 2023 and replacing them with \$184 million of support trading partners journal vouchers that were based on better data and improved interactions with trading partner entities. The Marine Corps stated better data allows leaders to make better and more informed decisions.
	<ul style="list-style-type: none"> • In fiscal year 2023, DOD reported that the Marine Corps auditors noted sufficient positive results in their tests of control design for the Marine Corps Total Force System, which allows them to advance to the testing of operating effectiveness of controls. This system processes approximately \$15 billion in military payroll annually for the Marine Corps.
	<ul style="list-style-type: none"> • In fiscal year 2024, the Marine Corps stated that its audit remediation efforts in fiscal year 2023 highlighted dysfunctional system interfaces and non-existent system interfaces that resulted in heavily manual financial reporting processes. The Marine Corps' increasing understanding of this situation and the associated negative consequences resulted in collaboration across DOD that has the potential to spearhead new audit remediation efforts. These efforts should have benefits and cost savings across the department. According to the Marine Corps, automating manual business processes and streamlining the IT environment to meet financial reporting needs up front will reduce man hours, cost, and the level of effort required to support the audit in the long term.
National Security Agency	<ul style="list-style-type: none"> • In fiscal year 2022, the National Security Agency reported that it partnered with the DOD Comptroller's office and the Defense Finance and Accounting Service to revise the DOD Deposit Fund policy (implemented in fiscal year 2022). As a result, the National Security Agency anticipates the elimination of a matter of emphasis in its Disclaimer of Opinion. In fiscal year 2024, the National Security Agency informed GAO that the fiscal year 2022 audit report resulted in the removal of the matter of emphasis as well as a major component of the National Security Agency's Fund Balance with Treasury and Deposit Funds material weakness associated with the reporting of deposit funds in accordance with the revised DOD policy.
Navy	<ul style="list-style-type: none"> • In fiscal year 2019, the Navy reported it modernized its Enterprise Resource Planning system by making changes to improve performance, such as migrating to a high-performance analytic cloud-based platform. These actions will provide faster and more capable performance for the 72,000 users across six Navy commands who play a role in managing more than half of the Navy's finances. The Navy also continued to make progress in the consolidation of general ledger systems by shutting down a legacy general ledger system and continuing the migration of all other systems to the Standard Accounting Budgeting and Reporting System and the Enterprise Resource Planning system. • In fiscal year 2019, DOD reported that the Navy worked with the Defense Finance and Accounting Service to reduce the number of on-top accounting adjustments for the Navy's financial statements. This led to the research and remediation of \$3.1 billion in journal vouchers for the Navy Working Capital Fund, Naval Facilities Engineering Command and a reduction in fiscal year 2018 Navy Working Capital Fund journal vouchers by about 8 percent. Reducing the number of on-top adjustments also allowed the Defense Finance and Accounting Service to repurpose about \$7,000 per year of labor dollars into other Department of the Navy audit initiatives.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that the Navy shifted its business processes to require all disbursements of Department of the Navy funds to be made by the Department of the Treasury and initiated by Enterprise Resource Planning. This significant change will require all of the Department of the Navy's trading partners to change how they process reimbursable transactions.
	<ul style="list-style-type: none"> In fiscal year 2020, the Navy reported it substantially improved visibility and control of Fund Balances with Treasury by completing the transfer of all revenue program balances out of suspense accounts and into the appropriate Treasury accounts. This milestone reduced the absolute balance of these programs from \$792 million at the end of fiscal year 2019 to zero as of June 2020. The Navy and the Defense Finance and Accounting Service also cleared overaged variances, which reduced the balance for Navy-managed disbursing offices from \$131 million at the end of fiscal year 2019 to approximately \$1 million in July of fiscal year 2020. These actions helped address major sources of audit findings around the use of suspense accounts to manage revenue programs and the Statement of Differences. In fiscal year 2024, the Navy informed GAO that these efforts supported the general fund's Fund Balance with Treasury material weakness downgrade that was achieved in fiscal year 2023.
	<ul style="list-style-type: none"> In fiscal year 2020, the Navy reported it strengthened the efficiency and accuracy of its financial reporting by implementing standardized financial management reports that provide leadership with visibility and transparency of the data being reported. Along with the elimination of legacy manual processes in favor of systems automation and efficiency improvements, the Navy reported it executed financial reporting in fiscal year 2020 and beyond more quickly, accurately, and cost-effectively than ever before. In fiscal year 2024, the Navy informed GAO that it continues to make improvements in the accuracy and efficiency of its financial reporting processes, including more recent efforts such as establishing the Financial Execution and Reporting Management Council and implementing data analytics tools.
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Department of the Navy realigned \$369 million in facility support funding, providing it directly to the Navy Facilities Engineering Command, and consolidated that command's financial operations with Commander, Naval Installations Command. These changes eliminated over 6,800 annual reimbursable documents and an associated 40,000 financial transactions.
	<ul style="list-style-type: none"> In fiscal year 2022, the Navy reported it developed a Working Capital Fund Cash Application tool to improve visibility of the cash balances of the working capital fund activities. The tool identifies the overall cash position across business types, activities, and sub activities; produces comparative analytics; and makes forward-looking projections using historical data. In fiscal year 2024, Navy informed GAO that the tool provides real-time insights into the cash position of the working capital fund activities. This facilitates data-driven decision-making related to working capital fund resources impacting the warfighter.
	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the Navy completed the general fund reconciliation workbook, demonstrating that Navy trial balances reconcile to Treasury with an immaterial unsupported variance. The Navy also transitioned all general fund and Department of the Navy working capital fund reconciliations to Advana.
U.S. Special Operations Command	<ul style="list-style-type: none"> In fiscal year 2022, the U.S. Special Operations Command reported that a major component of the command implemented the Defense Agencies Initiative accounting system to replace legacy systems. According to the command, this transition drives enterprise-wide efficiencies and improvements through business transformation and optimization; enables effective decision-making through enhanced confidence in data management; and establishes an agile platform that fully supports scalability for future growth. In fiscal year 2024, the U.S. Special Operations Command informed GAO that a major component successfully migrated to the Defense Agencies Initiative for the entire fiscal year 2023, reducing the number of financial and feeder systems and their associated NFRs.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2022, the U.S. Special Operations Command reported it transitioned 28 of 84 programs into the Defense Property Accountability System, which is the primary system for property, plant, and equipment. In fiscal year 2023, U.S. Special Operations Command transitioned an additional 20 programs (for a total of 48) into this system, providing accurate financial stewardship to 174,000 items valued at \$233 million. In fiscal year 2024, the U.S. Special Operations Command informed GAO that 20 additional programs were transitioned in 2023, and six additional programs have completed the transition into the Defense Property Accountability System since the last report. Overall, 54 transitions have been completed and 30 remain. In fiscal year 2023, the U.S. Special Operations Command reported it added a data scientist to its financial management team to develop IT tools such as dashboards for leadership decision-making, trend analysis, and tracking audit remediation progress. In fiscal year 2024, the U.S. Special Operations Command informed GAO that its initiative to add data stewards and scientists throughout the enterprise was to support the delivery of timely information to leadership to make financial and operational decisions.
U.S. Transportation Command	<ul style="list-style-type: none"> In fiscal year 2020, the U.S. Transportation Command reported that it implemented a risk management framework and improved the security of critical systems that support financial reporting and daily operations. In fiscal year 2024, the U.S. Transportation Command informed GAO that it is compliant with the current requirement for unclassified government cloud and financial management systems and is working on a transition plan to address additional requirements. In fiscal year 2020, the U.S. Transportation Command reported that its Surface Deployment and Distribution Command developed, tested, and implemented a system interface reconciliation process between Surface Deployment and Distribution Command's Transportation Financial Management System and two feeder systems representing \$649.1 million (68 percent) of Surface Deployment and Distribution Command obligations. Additionally, the Surface Deployment and Distribution Command designed and implemented system interface reconciliations between the Defense Transportation System and Transportation Financial Management System and made significant progress toward system interface reconciliations for two additional feeder systems. In fiscal year 2024, the U.S. Transportation Command informed GAO that since 2020, Surface Deployment and Distribution Command has continued to develop feeder system reconciliations. In fiscal year 2023, the U.S. Transportation Command reported that its Air Mobility Command strengthened internal controls by establishing and documenting a monthly detail to trial balance reconciliation process and executed an annual IT review of new and modified user accounts and privileges as outlined in account management policy and procedures. In fiscal year 2023, DOD reported that the U.S. Transportation Command transitioned from Common Cost Accounting Structure to Advana and completed root-cause analysis for its working capital fund undistributed variances. In fiscal year 2023, the U.S. Transportation Command reported it leveraged manpower study results from fiscal year 2022 to further define a work breakdown structure for fiscal year 2023 to support the addition of resources. The command leveraged the work breakdown structure to give senior leaders insight into the resource shortage, which led to the approval of 33 full-time staff equivalents.

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106890

Note: The information presented in this table does not represent all financial statement audit outcomes related to improvements to financial systems and data. Rather, these are examples of outcomes reported by DOD components in response to DOD's annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD's mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO's coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

Mitigation of cybersecurity risks. Operational outcomes resulting from DOD’s financial statement audits also include the mitigation of cybersecurity risks, which can result from efforts to address aspects of the IT scope limiting material weakness. For example, according to the DOD OIG, this material weakness includes system configuration and security management, user access controls, and segregation of duties to prevent users from having conflicting roles and functions. Table 5 provides additional examples of improvements to the mitigation of cybersecurity risks resulting from DOD financial statement audit efforts.

Table 5: Additional Examples of Improvements to the Mitigation of Cybersecurity Risks Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023

DOD component	Description of financial statement audit outcome
Air Force	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that during a site visit to Robins Air Force Base, an auditor noted the system responsible for publishing travel orders for Reservists was not disabling user accounts after a period of inactivity, as required. The Air Force developed and deployed a robotic process automation to monitor and manage user access, resulting in approximately 50 to 60 accounts disabled monthly across the system user population of more than 66,000. This solution brings the system into compliance with required IT controls and improves cybersecurity for system user and access management risk mitigation.
Army	<ul style="list-style-type: none"> In fiscal year 2019, DOD reported that the Army improved its IT general controls related to a variety of systems process areas, including access controls, segregation of duties, configuration management, security management, and contingency planning. During fiscal year 2019, the independent public accounting firm conducting the Army’s stand-alone financial statement audit reviewed and validated the effectiveness of 97 percent of the implemented IT general controls corrective actions. In fiscal year 2023, the Army reported that prior to 2022, it designed a project plan for reviewing the Logistics Modernization Program segregation of duties for certain customized codes within that system. The project plan defined each of the Logistics Modernization Program workstreams that would need to be considered for each module and reviewed for proper segregation of duties controls. In fiscal year 2023, Army completed the final phase of this effort and determined that all issues related to the Logistics Modernization Program segregation of duties across three modules had been reviewed, corrected, and remediated. These efforts increased the control environment over the Army working capital fund Enterprise Resource Planning system and its data. In fiscal year 2024, the Army informed GAO that the Logistics Modernization Program finalized the final rule sets and began reporting on additional system updates, transports, promotions, and reports. The risks related to segregation of duties are addressed within the Logistics Modernization Program, enabling the closure of related notices of findings and recommendations (NFR). According to the Army, these actions support its efforts to downgrade its IT General Controls material weakness.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Defense Health Program	<ul style="list-style-type: none"> • In fiscal year 2023, the Defense Health Agency reported it was developing an access management tool that gathers user listings from various systems, including Defense Health Agency human resources systems and financial systems owned by service providers. The purpose of this tool is to perform access management by comparing the financial system user listings to those of the human resources systems to determine if system access needs remain. In fiscal year 2024, the Defense Health Agency informed GAO that the tool is expected to reduce manual error by performing access management. The Defense Health Program is actively coordinating with the Bureau of Medicine and Surgery and with Identity, Credential and Access Management leadership to plan an effective and efficient implementation of the tool within the Defense Health Program’s IT environment. Additionally, the Defense Health Program has coordinated with the Bureau of Medicine and Surgery to establish a cross platform segregation of duties matrix that will be integrated within the tool to support effective account management controls. • In fiscal year 2023, DOD reported that the Defense Health Program continued evaluating, developing, and implementing complementary user entity controls for the Defense Departmental Reporting System and General Fund Enterprise Business System, including the evaluation of access controls.
Defense Logistics Agency	<ul style="list-style-type: none"> • In fiscal year 2023, the Defense Logistics Agency reported it used network management tools to monitor metrics and historical trends. These automated tools push and pull configurations to and from the network devices, and security compliance can be adjusted, monitored, audited, and reported from a central point. Teams adjusted their policies and processes based on guidance received both from DOD and the Defense Logistics Agency as well as from the DOD Cybersecurity teams. In fiscal year 2024, the Defense Logistics Agency informed GAO that network reliability directly impacts its ability to support the warfighter.
Department of Defense	<ul style="list-style-type: none"> • In fiscal year 2019, DOD reported that the Office of the Under Secretary of Defense (Comptroller) partnered with the Office of the Chief Management Officer and the Office of the Chief Information Officer to identify root causes and begin remediating NFRs related to ineffective or nonexistent access controls. DOD reported that, in July 2019, a joint memo was issued from these offices instructing DOD Components to take action on audit deficiencies with both a high audit impact and high cybersecurity impact. The status of corrective actions for these high priority deficiencies is being actively monitored. In addition, an automated solution for provisioning and managing access to audit-impacting applications has been selected for DOD Components that do not already have this capability in place. This solution will be put in place as the department pursues a longer-term identity and credential management capability. Once fully implemented, the department anticipates that auditors will validate the effectiveness of these tools in addressing the NFRs, which should be closed as a result. • In fiscal year 2020, DOD reported that the department is expanding its focus from primarily securing the perimeter of the network to actively securing and controlling use of the data itself. The DOD cloud strategy encourages the use of commercial cloud services and such platforms’ modern security mechanisms, which ensure the security of large amounts of data. By moving infrastructure from DOD managed, on-premises facilities to the cloud, the department is also taking advantage of cloud providers’ ability to rapidly roll out updates to combat threats from both inside and outside the enterprise. • In fiscal year 2020, DOD reported that the department’s Identity, Credential, and Access Management solution combines information from DOD personnel systems with access-related information from DOD business systems to create a central repository that provides visibility into user access rights within and across systems. The department has identified and prioritized applications to be migrated to the solution and the data elements needed from personnel systems, such as duty status changes. The development team obtained user master record file layouts for 84 percent of the target systems and developed cross-application segregation of duties’ baselines for six end-to-end business cycles.

Source: GAO analysis of Department of Defense (DOD) Information. | GAO-24-106890

Note: The information presented in this table does not represent all financial statement audit outcomes related to mitigation of cybersecurity risks. Rather, these are examples of outcomes reported by DOD components in response to DOD’s annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained

Appendix IV: Additional Examples of Operational Outcomes Resulting from Department of Defense Financial Statement Audits

updated information from DOD’s mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO’s coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

Visibility over assets and inventory. Other operational outcomes resulting from DOD’s financial statement audits include improvements to visibility over assets and inventory. Such outcomes can result from efforts to address scope limiting material weaknesses related to Inventory and Related Property; General Property, Plant, and Equipment, including Real Property; and Government Property in the Possession of Contractors. Table 6 provides additional examples of improvements to visibility over assets and inventory resulting from DOD financial statement audit efforts.

Table 6: Additional Examples of Improvements to Visibility over Assets and Inventory Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023

DOD component	Description of financial statement audit outcome
Air Force	<ul style="list-style-type: none"> <li data-bbox="329 1003 1520 1167">• In fiscal year 2019, DOD reported that the Air Force identified approximately 41,000 contractor-held inventory items that have not been used or requested in over a decade. The Air Force is working with its vendors to dispose of the excess obsolete inventory and is updating policies to drive more accurate categorization moving forward. DOD reported these actions will improve the accuracy of Air Force financial statement reporting and, over time, drive cost savings through reductions in manpower and warehousing costs. <li data-bbox="329 1171 1520 1251">• In fiscal year 2020, DOD reported that to advance mission-critical asset accountability, the Air Force inspected its largest contractor inventory sites, identifying approximately 41,000 excess, obsolete, or unserviceable inventory items and potentially driving reductions in warehouse costs. <li data-bbox="329 1255 1520 1369">• In fiscal year 2020, DOD reported that the Air Force developed a valuation model to identify the full acquisition cost of delivered aircraft for two pilot programs (C-130J and MQ-9). The extrapolation of this methodology to all assets should provide more accurate cost data and help refine aircraft procurement budgeting. <li data-bbox="329 1373 1520 1486">• In fiscal year 2021, DOD reported that the Department of the Air Force successfully reconciled 100 percent of its \$102.5 billion in military equipment assets and financial transaction activity between its accounting and logistics systems, established approximately \$83 billion in existing aircraft cost, and captured 100 percent of aircraft and satellites’ cost currently under construction. <li data-bbox="329 1491 1520 1705">• In fiscal year 2022, the Air Force reported that as part of its efforts to improve real property existence and completeness records and strengthen data quality within the accountable property system of record, it identified \$11.6 billion in asset values previously unreported. These assets represent approximately 3.6 percent of the Air Force’s total plant replacement value of \$326 billion. Additionally, the Air Force finalized its consolidation of systems into a single accountable property system of record to strengthen management of the real property portfolio. By increasing the accuracy of its real property assets and streamlining the systems to report the assets, the Air Force is better prepared to support the needs of the warfighter and achieve its mission. <li data-bbox="329 1709 1520 1793">• In fiscal year 2022, DOD reported that the Department of the Air Force implemented additional controls to compensate for missing IT general controls over the fixed asset roll-forward process. This demonstrated its ability to design effective monitoring controls in a legacy IT environment.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported it developed a monthly data quality review over all Chief Financial Officer assets reported in the Defense Property Accountability System. This tool identifies changes or anomalies with key data elements in the system and automatically flags these for management review, enabling the immediate identification of anomalies and remediation of identified errors. The Air Force also implemented a data quality reconciliation extract that summarizes potential data quality errors. The Air Force can tailor these tools to specific functional community owners for focused remediation activities.
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported it led two efforts to provide more assurance over the completeness of property system records for its pods, a type of military equipment. First, the Air Force Audit Agency conducted a 100 percent inventory of pods at 74 total locations, which resulted in 100 percent accountability in reliability, availability, maintainability for Air Force-owned pods. Next, the Air Force updated its policy to increase accountability of pods stored at Defense Logistics Agency facilities. These efforts, which were made in conjunction with the Military Equipment material weakness downgrade efforts, provide further assurance that Air Force is accurately accounting for the assets entrusted to it.
	<ul style="list-style-type: none"> In fiscal year 2023, the Air Force reported various efforts aligned with transformation of its property systems of record. For example, the Air Force migrated its property records for uninstalled missile motors to a new accountable property system of record that also maintains munitions records to resolve data quality errors and assist with data cleansing and modernization. Additionally, this system migration moved the Air Force toward sunseting legacy IT systems and transitioning to more advanced and efficient systems. In addition, the Air Force reported that it was migrating records of contractor-held materials that are currently reported via spreadsheets into the Defense Property Accountability System. This migration should allow for more consolidated and centralized reporting of contractor-held materials. In fiscal year 2024, Air Force informed GAO that it continues to support database migrations and has updated applicable policy and guidance to ensure timely and accurate entry of accountable property systems of record.
Army	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that at Tooele Army Depot in Utah, auditors tested 3.5 million items of operating materials and supplies for completeness and found no exceptions.
	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Army hired qualified veterans and military spouses to help conduct physical observations of its assets and validate critical data elements. In the first 6 months, the team reviewed over 5,000 asset records, making progress toward properly accounting for real property.
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported it performed a root-cause analysis to understand risks and controls associated with its real property construction-in-progress process—executed by the U.S. Army Corps of Engineers on behalf of the Army—which accounts for \$10 billion of construction-in-progress projects. Through this effort, the Army was able to gain an understanding of process roles and responsibilities and associated risks and update business process documentation, which will support the financial statement audit process. In fiscal year 2024, the Army informed GAO that the related notice of findings and recommendations will not negatively affect the Army’s real property material weakness downgrade and therefore has not been prioritized.
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported it developed a prior period adjustment package to remove a fiscal year 2011 construction-in-progress balance related to a terminated contract for the development of a general equipment asset. According to the Army, the prior period adjustment should result in the elimination of a misstatement on Army’s financials of approximately \$8.2 million.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2021, the Army reported efforts related to valuation for general equipment and real property. For example, the Army performed alternative valuation of general equipment to support the assets' values using historical cost and deemed cost, which helps establish Army Working Capital Fund opening balances and streamline audit processes. The Army also developed working capital fund general equipment valuation packages to establish a supportable deemed cost for certain general equipment capital assets. In fiscal year 2024, the Army informed GAO that it published internal control guides—which established standard business processes and internal controls throughout the enterprise—and made progress with property valuation efforts for general equipment and real property in its working capital fund. As a result of these efforts, the Army stated its working capital fund is preparing a management assertion that its historical balances are fairly presented and that the Army's internal controls are in place to sustain these balances. The end goal is to downgrade the working capital fund general equipment and real property material weaknesses in fiscal year 2024.
	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that the Army General Fund detected and corrected a \$2.3 billion overstatement in which the Army and other defense agencies double reported real property in their fiscal year 2019 financial statements. DOD also reported that the Army confirmed the value of 312,909 real property assets in fiscal year 2021 and developed automated tools to update more than 60,000 asset records, while saving 150,000 labor hours as of May 2021.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Army continued to review and cleanse asset data for over 100,000 real property assets to improve the ability to forecast and budget funds needed for continued sustainment.
	<ul style="list-style-type: none"> In fiscal year 2022, DOD reported that the Army strengthened inventory controls and processes, improving test results for both the existence and completeness of 93 percent of general fund operating materials and supplies.
Defense Finance and Accounting Service	<ul style="list-style-type: none"> In fiscal year 2021, the Defense Finance and Accounting Service reported it added quality control reviews between accounting stakeholders and property, plant, and equipment stakeholders to verify the accuracy of input into the Defense Property Accountability System. The agency also implemented an audit command language tool to automate the property, plant, and equipment population of the missing data elements from an existing accounting report produced by the Business Management Redesign system. In fiscal year 2024, the Defense Finance and Accounting Service informed GAO that it added an additional review of property, plant, and equipment transactions in the Defense Property Accountability System to compare the original capitalization forms to a report by a third party. In addition, due to the agency's transition to the Defense Agencies Initiative accounting system, the audit command language tool is no longer needed.
Defense Health Agency	<ul style="list-style-type: none"> In fiscal year 2019, the Defense Health Agency reported that during site visits to Naval Medical Center San Diego and Naval Medical Center Portsmouth, the auditor identified emergency management program stockpile assets items valued at approximately \$75,000 that had not been recorded in inventory records. The Navy and the Defense Health Agency were developing policies and procedures to drive accurate inventory records and asset valuations. These actions would improve the accuracy of Navy and the Defense Health Agency financial reporting, and over time, drive cost savings through reductions in unnecessary purchases. In fiscal year 2024, the Defense Health Agency informed GAO that the agency published a manual in fiscal year 2023 that established procedures for management of pandemic stockpiles to include inventory management and accountability of stockpiles stored at military hospitals. The Defense Health Agency also informed GAO that, in fiscal year 2024, the agency published an instruction to provide policies and procedures throughout the Defense Health Agency to establish and maintain financial accountability and effective internal controls for accurate financial reporting of stockpile materials.
Defense Intelligence Agency	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the Defense Intelligence Agency established acquisition guidance on the use of contract line-item numbers when accounting for contractor-acquired property. This allowed the Defense Intelligence Agency to better account for and manage contractor-acquired property assets; support the complete and accurate financial reporting of equipment; and demonstrate accountability of worldwide capital assets.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Defense Logistics Agency	<ul style="list-style-type: none"> • In fiscal year 2019, DOD reported that the Defense Logistics Agency established a Real Property Task Force to oversee the auditability of the agency’s real property. The task force was charged with obtaining evidential matter supporting the existence of real property assets. In fiscal year 2019, the Defense Logistics Agency completed the inventory of approximately 18,000 assets at over 500 locations worldwide. • In fiscal year 2020, DOD reported that the Defense Logistics Agency’s inventory control program initiatives translated into more efficient processes and more reliable financial data, and that the agency continued to mature its development of distribution and vendor-managed inventory reconciliation processes. These initiatives enabled the Defense Logistics Agency to reduce inventory variances by \$358 million and increased reliability for receipting, issuing, and completing physical inventories for Defense Logistics Agency-owned material.
Department of Defense	<ul style="list-style-type: none"> • In fiscal year 2020, DOD reported that the department implemented a new module within the Procurement Integrated Enterprise Environment (the department’s central repository for procurement capabilities) that was specifically designed to streamline the recognition, visibility, and reporting of contractor-held government property within its existing procurement environment. • In fiscal year 2020, DOD reported that the department implemented new reporting metrics to improve the management of contractor-held property. For example, the metrics would validate whether contracts include required clauses that provide reporting and tracking requirements for government property; contractor submissions of required property tracking data; and proper recording of contractor-held property in accounting and property systems. • In fiscal year 2021, DOD reported that across the department, DOD components completed book-to-floor and floor-to-book physical inventories for 88 percent of working capital fund inventories; 99 percent of general fund munitions/ordnance; and 100 percent of spare engine inventories through August 2020.
F-35 Joint Program Office	<ul style="list-style-type: none"> • In fiscal year 2020, DOD reported that the F-35 Joint Program Office began its first ever physical inventory of government-owned spare parts and support equipment, completing 18 sites with a 95 percent accuracy rate. The physical inventory lays the groundwork for establishing accurate records in the government’s accountable property system of record and for proper accounting in the government’s general ledger system. The high accuracy rate builds confidence in the contractors’ processes and controls in managing the property to support future operations. • In fiscal year 2021, DOD reported that as of May 2021, the F-35 Joint Program Office completed inventories at 140 sites with approximately 90 percent of assets validated.
Marine Corps	<ul style="list-style-type: none"> • In fiscal year 2023, the Marine Corps reported it solidified its processes and internal controls around accountability of property assets; operating material and supplies; and property, plant, and equipment. The independent public accountant tested over 5,900 military equipment assets; 7,800 real property assets; 1.9 million operating material and supplies non-ammunition assets; 24 million operating material and supplies ammunition assets; and 1,500 garrison property assets. This testing resulted in pass rates of nearly 99 percent. The ability to properly account for property, plant, and equipment and operating materials and supplies is critically important to support warfighters. Knowing how many assets are on hand, where they are located, and their condition enables Marine Corps leadership to make quick and informed decisions to ensure that the Marine Corps always remains at a state of optimal readiness.
National Security Agency	<ul style="list-style-type: none"> • In fiscal year 2023, the National Security Agency reported that it implemented a new accounts payable accrual model with streamlined assumptions that required fewer data inputs. It also assessed the equipment valuation model to group similar assets and analyze value at the combined manufacturer-model level instead of the individual asset level. In fiscal year 2024, the National Security Agency informed GAO that the implementation of the new accounts payable accrual model significantly streamlined assumptions and required documentation by estimating the accrual at a macro-expenditure level rather than a micro-contractual level. This resulted in auditors removing the component of the material weakness associated with procurement and accounts payable activity for all non-federal activity. As it relates to the equipment valuation, the National Security Agency informed GAO that it continues to refine the established estimation methodology for historical equipment purchases and simplify the model based on groups of similar assets instead of individual assets, reducing the complexity and scrutiny of the associated elements.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Navy	<ul style="list-style-type: none"> • In fiscal year 2019, DOD reported that one of the Navy’s Bureau of Medicine and Surgery expeditionary commands was confirmed as having efficient and effective accountability over its operating materials and supplies assets. These assets included emergency medical vehicles, tents, and related supplies for conducting medical operations. which are required to forward deploy emergency medical personnel units and equipment to field locations. Auditors found that the bureau was routinely performing its physical inventories and properly executing its policies and procedures. From an audit perspective, this enables the Navy’s auditors to rely on the Bureau of Medicine and Surgery’s existing processes and controls for future audits. Operationally, the bureau is assured it has the right materials and supplies in the right place at the right time to support its medical operations. • In fiscal year 2019, DOD reported that the Navy completed its physical inventory and corrected its records, and initial audit results showed a 99.7 percent accuracy rate. • In fiscal year 2019, DOD reported that the Navy completed a full inventory of all Real Property assets located on Navy installations. The inventory included over 115,000 assets and found approximately 19,600 errors. The errors were evenly divided between existence (the asset was reflected in Navy records but was previously disposed of), completeness (the asset was present on a Navy installation but not reflected in the records), and data attributes (information about the asset was incorrectly reflected in Navy records, such as the use of the wrong facility category code). The Navy corrected all of the errors in the accountable property system of record. Correcting these errors improved the completeness and accuracy of the data reflected on the Navy’s Balance Sheet related to general property, plant, and equipment and contributed to downgrading the associated Navy material weakness. • In fiscal year 2020, DOD reported that the Navy revised its policies and guidance to improve compliance and conducted a 100-percent physical inventory of more than 115,000 above-ground, real property assets across 98 installations. Ultimately, this effort will allow the Navy to improve the accuracy of budget requirements in support of assets critical to the defense of the nation, such as mooring facilities for naval vessels and hangars for aircraft. • In fiscal year 2020, DOD reported that the Navy’s Fleet Logistics Center Jacksonville conducted a 10-week exploratory assessment of material held within two active aviation squadrons and one building. The assessment identified \$81 million worth of active material not tracked in the system that was available for immediate use, decreasing maintenance time and filling 174 requisitions, including 30 that were high priority. The Navy also eliminated unneeded equipment, freeing up approximately 200,000 square feet. • In fiscal year 2021, the Navy reported that its independent public accountant downgraded the material weakness for utilities real property to a significant deficiency. This milestone was a culmination of over 2 years of remediation efforts. For example, in fiscal year 2021, the Navy conducted a survey that resulted in 27,000 linear feet of utility lines being added to geographic information systems, which improved operational asset management visibility and financial reporting. In fiscal year 2024, the Navy informed GAO that its utilities material weakness downgrade supports operations by providing insights into the location and condition of utility assets, supporting the infrastructure used by warfighters. • In fiscal year 2021, the Navy reported that it demonstrated the existence and completeness of Trident assets aboard Navy vessels by improving the process for loading and offloading assets from a vessel. Specifically, the Strategic Systems Programs Command designed and began executing physical inventory oversight procedures over contractor-held assets and documented a deemed cost valuation methodology for the Trident Guidance Systems that positioned the Navy to establish the baseline valuation in fiscal year 2022. The Navy reported that these efforts received positive feedback from the independent public accountant. • In fiscal year 2021, DOD reported that the Navy performed a 100-percent inventory of its real property. This effort resulted in about 16,000 real property records being corrected, enabling re-investment of \$29 million in fiscal year 2020 for maintenance and replacement dollars. • In fiscal year 2021, DOD reported that in fiscal year 2020, the Navy’s working capital fund inventory accuracy rates increased from 85 percent to 99 percent. These results point to continuing improvements in inventory visibility and management, bolstered by the Department of the Navy’s rapid pivot in the COVID-19 environment from physical hands-on testing to virtual testing procedures.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2022, the Navy completed phase one of its campaign to synchronize audit responsibilities, train inventory plant personnel, and remediate and validate warehouse key controls at 31 Naval Supply Systems Command inventory sites worth \$4.3 billion. The Navy has identified increased inventory accuracy rates through internal testing from 77 percent in fiscal year 2021 to 98 percent in fiscal year 2022.
U.S. Special Operations Command	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the U.S. Special Operations Command acquisition center added 1,089,118 items of operating materials and supplies—valued at \$871.8 million—to the accountable property system of record through a comprehensive material review effort.

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106890

Note: The information presented in this table does not represent all financial statement audit outcomes related to visibility over assets and inventory. Rather, these are examples of outcomes reported by DOD components in response to DOD’s annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD’s mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO’s coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

Development of more efficient processes. We also identified operational outcomes resulting from DOD’s financial statement audits that include improvements to process efficiency. These can relate to more efficient processes for the financial statement audit itself, as well as underlying financial and business management processes. In some cases, the adoption of automated processes can not only save time and effort but can also support internal controls by limiting the potential for human error, which can help to address the DOD Oversight and Monitoring scope limiting material weakness area. Table 7 provides additional examples of improvements to process efficiency resulting from DOD financial statement audit efforts.

Table 7: Additional Examples of Improvements to Process Efficiency Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023

DOD component	Description of financial statement audit outcome
Air Force	<ul style="list-style-type: none"> In fiscal year 2020, DOD reported that the Air Force developed robotic process automations addressing financial and information technology deficiencies, increasing process accuracy to 99.9 percent. For example, the Air Force automated the monitoring and management of system user access, improving cybersecurity and resulting in an average monthly clean-up rate of 55 accounts in a user population of more than 66,000. In fiscal year 2022, DOD reported that the Air Force automated its trial balance reconciliations to enable more efficient responses to audit requests and reduce hours spent reconciling the trial balance to the detailed sub-ledger data, thus freeing up labor hours to focus on other operations.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> • In fiscal year 2023, the Air Force developed 15 new robotic process automations, for a total of 65 automations since the program began in fiscal year 2019. This saved roughly 429,000 labor hours and improved the auditability of 65 processes through enhanced documentation. These automations help to monitor audit logs and report anomalies to identified stakeholders; verify user roles, privileges, and permissions; and provision user accounts, among other things. According to the Air Force, in addition to saving thousands of manual processing hours, these automations improved operational efficiency and effectiveness and increased the accuracy of processes. In fiscal year 2024, the Air Force informed GAO that it developed 11 new automations, creating the potential to save more than 577,000 labor hours while improving the auditability of 76 processes. • In fiscal year 2023, the Air Force reported it used software to evaluate 1,821 contracts flagged as government-furnished property or equipment in its procurement system, which included more than 8,000 task and delivery orders, 160,000 documents, and 2.5 million pages for review. According to the Air Force, automating this effort saved more than 5,000 labor hours. In fiscal year 2024, Air Force informed GAO that these efforts directly impact Air Force's financial statement audit and its overall auditability. • In fiscal year 2023, DOD reported that the Air Force saved 30 hours quarterly by reducing manual processes via sustainable automation methods, which enhances the efficiency of military equipment valuation and analytics processes. • In fiscal year 2023, DOD reported that the Air Force automated seven key controls in fiscal year 2023, saving 256 hours annually that could be directed at analyzing financial data rather than preparing control documentation.
Army	<ul style="list-style-type: none"> • In fiscal year 2020, DOD reported that the Army automated its fiscal year 2015– 2020 Account Balance Report and Reconciliations, which involves millions of records. This enables Army to tie any General Ledger from this time period to its systems and trial balances, an audit requirement. • In fiscal year 2023, DOD reported that the Army's feeds to Advana were ahead of schedule, including streamlining reconciliations, data categorization, and data enrichments. These improvements resulted in decreasing processing time by 30 times. • In fiscal year 2023, DOD reported that the Army's real property automated solutions eliminated the need for approximately 650,000 annual labor hours and increased the throughput for supported inspections and quality assurance and quality control events. • In fiscal year 2023, DOD reported that the Army increased automated audit facilitation via a new platform, eliminating the need for 1,500 labor hours that year. • In fiscal year 2023, DOD reported that the Army reduced the time between asset acceptance and fielding to units for approximately 5,000 assets in the Joint Light Tactical Vehicle fleet.
Defense Finance and Accounting Service	<ul style="list-style-type: none"> • In fiscal year 2021, the Defense Finance and Accounting Service reported it created an automated report for permanent change of station transactions to track documents and ensure requisite signatures are attained and obligations are recorded within the appropriate accounting period. An internal policy was also published to address fund certifier signatures to provide consistency across the agency. In fiscal year 2024, the Defense Finance and Accounting Service informed GAO that the improvement for permanent change of station transaction processing brought enhanced communication between the financial managers and human resources by creating a report for those stakeholders to ensure the timely recording of obligations. • In fiscal year 2021, DOD reported that the Defense Finance and Accounting Service progressed from producing 56 Fund Balance with Treasury universes of transactions in nearly 10 months to producing 119 in fewer than 55 days, resulting in more frequent and timely testing for auditors.
Defense Health Agency	<ul style="list-style-type: none"> • In fiscal year 2023, the Defense Health Agency reported it began developing a script that will automate user deactivation in its electronic health record system.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Defense Information Systems Agency	<ul style="list-style-type: none"> During fiscal years 2019 through 2023, the Defense Information Systems Agency reported efforts to use robotic process automations to minimize repetitive manual processes associated with the financial statement audits of its general fund and working capital fund. Most recently, in fiscal year 2023, the agency used automation to process nearly 46,000 transactions, saving over 18,860 manhours. In recognition for its efforts in using automation, the agency stated it received the Office of the Under Secretary of Defense (Comptroller) Salute to Excellence in Government Service, Exceptional Innovation Award in 2023. In fiscal year 2024, the Defense Information Systems Agency informed GAO that continued automation of its audit samples allows it to respond timelier to audit requests and redirect labor hours to other functions. Thus far, the Defense Information Systems Agency has utilized robotic process automation to process over 23,000 transactions, generating over 14,000 artifacts in support of audit samples and saving over 19,000 hours.
Defense Logistics Agency	<ul style="list-style-type: none"> In fiscal year 2022, the Defense Logistics Agency reported that it used control testing to detect a deficiency in which fund authorization documents—those on which sub allotments are received—were not being input into enterprise business systems in a timely manner. Upon identifying the deficiency, the agency was able to develop and implement an internal control that monitors the timeliness, accuracy, and completeness of fund authorization documents into enterprise business systems, ensuring funds are available for use or reimbursement to the working capital fund. In fiscal 2024, DOD informed GAO that the Defense Logistics Agency reported a total of 187 unattended robotic process automations. These automations significantly contribute to efficiency by providing 300,000 hours annually to the Defense Logistics Agency’s missions. This technological advancement enables the agency to shift resources from labor-intensive tasks and focus more time and energy on critical areas such as audit remediation and supporting the needs of the warfighter.
Department of Defense	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that as of March 2021, it had 323 bots deployed, 60 percent of which aligned to financial management processes, with 16 percent directly supporting compliance or audit response activities. Processes such as quarterly reconciliations can be done by a bot in a fraction of the time it would take a person to complete the task, freeing up valuable personnel resources for more complex tasks.
Marine Corps	<ul style="list-style-type: none"> In fiscal year 2023, the Marine Corps reported it maintained 100 percent of its Universe of Transactions in Defense Agencies Initiative and leveraged Advana to aid in various audit remediation efforts, to include trading partner reconciliations. According to the Marine Corps, Advana has provided invaluable visibility over its data and will lead to future efficiencies in these areas.
National Security Agency	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that the National Security Agency implemented a system interface to automate data entry of financial transactions, reducing manual processes by 1,500 labor hours per year. It also automated a report supporting the agency’s Statement of Assurance, saving approximately 500 labor hours per year. In fiscal year 2022, the National Security Agency reported that it continued to develop automations to support its financial statement audit, such as by allowing for a systematic way to pull supporting documentation and compare data attributes in support of auditor requests. In quarter four of fiscal year 2022, the agency developed four new robotic process automations and 14 non-robotic process automations. The robotics saved hundreds of hours, having downloaded or uploaded several thousand documents for various audit efforts. The 14 non-robotic process automations saved approximately 425 hours per quarter and substantially increased data accuracy. In fiscal year 2023, the National Security Agency reported it implemented 46 automation tools with the use of robotic process automation and other software. The automations will save approximately 2,560 hours per quarter (10,240 hours per year) and increase data accuracy. In fiscal year 2024, the National Security Agency informed GAO that the referenced automations helped support the timely delivery to the auditors of over 12,000 documents in fiscal year 2022 and 22,000 documents in fiscal year 2023.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Navy	<ul style="list-style-type: none"> • In fiscal year 2019, DOD reported that the Department of the Navy initiated an assessment of 30 financially significant applications to identify possible segregation of duties conflicts. To facilitate the assessment, the Navy created an automated tool that allows time-consuming and labor-intensive reviews to be automated. This tool generates a report in as few as 5 minutes that previously would have taken days to weeks to complete. • In fiscal year 2021, the Navy reported it established an enterprise-wide automation Center of Excellence to provide automation governance and best practices. The automation Community of Practice consists of over 200 members across the enterprise. Processes that the Navy has automated include (1) searching for and resolving rejected transactions due to input error and correcting errors more quickly; (2) assisting analysts with compilation and review of quarterly reports, significantly reducing manual processing while improving accuracy; (3) decreasing the Navy’s response time to the independent public accountant’s inventory sample selections; (4) supporting unmatched transaction and unmatched collection processing and clearing of open accounts payable items; (5) supporting automatic feeder and general ledger system reconciliations; and (6) creating service entry sheets and automatically recording general ledger activity, reducing manual burden and increasing timeliness. • In fiscal year 2022, the Navy reported that it implemented a Treasury Direct Disbursing capability—allowing the agency to send and receive financial transactions directly to the Department of the Treasury—which processed an estimated \$47 billion in contract vendor payments in fiscal year 2022. According to the Navy, its Enterprise Resource Planning system became the first DOD system to implement interfaces with all Treasury disbursement channels, and this system’s accounts payable functions reduced the need to use external DOD accounts payable systems. The Navy stated that Enterprise Resource Planning was also first to implement Treasury Direct for all Treasury collection channels via a collaborative standardization solution with the Defense Finance Accounting System. The Navy further stated that, as of fiscal year 2022, 90 percent of all Navy afloat disbursing operations have been automated, eliminating manual processes that can result in variances that require manual corrections.
U.S. Special Operations Command	<ul style="list-style-type: none"> • In fiscal year 2023, the U.S. Special Operations Command reported it developed specific custom dashboards and automation tools in Advana to identify resources needed in material weakness areas. In addition, the command reported it began developing a comprehensive dashboard for lost buying power to improve ease of use and provide up-to-date information for enterprise users. Providing these data was previously a manual process of pulling reports from multiple sources and creating spreadsheets to sort and analyze the data. In fiscal year 2024, the U.S. Special Operations Command developed the Integrated Master Schedule tool within Advana. This tool provides custom filters to highlight critical audit remediation milestones and is expected to keep remediation efforts on track while also cross-walking control deficiencies for audit findings to material weaknesses. The U.S. Special Operations Command informed GAO that these efforts help reduce the need for data calls and consolidating data from other systems and allow for analysis, reconciliations, and decision-making.
U.S. Transportation Command	<ul style="list-style-type: none"> • In fiscal year 2020, the U.S. Transportation Command reported it employed robotics within its Army component, Surface Deployment and Distribution Command. The Surface Deployment and Distribution Command robotics save hundreds of man-hours each month by reducing the timeline to bill customers. In fiscal year 2024, the command informed GAO that it has since employed robotics at the headquarters/command level.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
	<ul style="list-style-type: none"> In fiscal year 2023, the U.S. Transportation Command reported that its Air Mobility Command used Advana to develop automated processes to retrieve Defense Enterprise Accounting and Management System general ledger and trial balance information to fulfill audit requests timelier and more efficiently. In addition, the Surface Deployment and Distribution Command continued to develop automations of manual processes, developing seven in fiscal year 2023. These automations, along with runs of previous automations, avoided an additional 924 hours and completed 3,501 transactions. Command headquarters was able to automate a key control needed during financial reporting and better identify errors before signing off on the U.S. Transportation Command's final financial reports. In fiscal year 2024, the command continued developing robotic process automations and other automation tools across the command and informed GAO that additional automation has reduced the need for monitoring controls.
	<ul style="list-style-type: none"> In fiscal year 2023, the U.S. Transportation Command reported that its Surface Deployment and Distribution Command established a change management process to supplement the governance board and document automation approvals, significant development milestones, testing of automations, as well as training and deployment of automations to end users. The Surface Deployment and Distribution Command established a central repository for automations and for tracking of development in Advana, which allows all automations to reside in a single tenant and easily deploy to end users. As of fiscal year 2023, the Surface Deployment and Distribution Command had 17 users of this repository with the ability to run developed and deployed automations.

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106890

Note: The information presented in this table does not represent all financial statement audit outcomes related to improvements to process efficiency. Rather, these are examples of outcomes reported by DOD components in response to DOD's annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD's mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO's coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

Additional audit benefits. We also identified additional operational benefits resulting from DOD's financial statement audits that include improvements to policies and procedures, collaboration, or other less tangible benefits, as shown in table 8.

Table 8: Additional Examples of Operational Benefits Resulting from DOD Financial Statement Audit Efforts, Fiscal Years 2019–2023

DOD component	Description of financial statement audit outcome
Air Force	<ul style="list-style-type: none"> In fiscal year 2021, the Department of the Air Force prioritized the creation of an Enterprise Risk Management program and Enterprise Risk Profile. This enables the Department of the Air Force to consider and prioritize risks from a portfolio perspective by encouraging open and candid conversations about the risks it faces at all levels across the enterprise (instead of a siloed approach). It also empowers leadership to better understand overall risks and how their particular areas of responsibility fit. In fiscal year 2024, the Air Force informed GAO that it is continuing to improve Enterprise Risk Management, including completing its first Leadership Enterprise Risk Survey in fiscal year 2023, the results of which will help create and prioritize Air Force's first ever Enterprise Risk Register. The audit is continuing to help the Air Force identify risks and impediments to its ability to properly and accurately process and report its financial condition in a timely manner.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

DOD component	Description of financial statement audit outcome
Army	<ul style="list-style-type: none"> In fiscal year 2023, DOD reported that the Army implemented an audit acceleration plan with cross-functional teams that create solutions and share findings to scale across the Army.
Defense Contract Audit Agency	<ul style="list-style-type: none"> In fiscal year 2021, the Defense Contract Audit Agency reported that it improved internal controls relating to reviewing and handling potential travel card misuse issues, to ensure appropriate actions are taken to address misuse or fraud and to prevent account delinquencies or suspension. In fiscal year 2024, the Defense Contract Audit Agency informed GAO that these internal controls are now a required process. In fiscal year 2021, the Defense Contract Audit Agency reported that it leveraged the Defense Agencies Initiative to reduce the number of accountant technicians handling reimbursement claims for the entire agency from three to two. In fiscal year 2024, the Defense Contract Audit Agency informed GAO that this staff reduction has not affected the timely processing of reimbursement claims for the agency.
Defense Health Agency	<ul style="list-style-type: none"> In fiscal year 2023, the Defense Health Agency reported that the Defense Health Program developed strategies to align business processes to the National Defense Strategic Goals and Business Operations Plan. In fiscal year 2024, the Defense Health Agency informed GAO that it has obtained access to the Army Process Portal. The portal provides access to process narratives, process maps, and process controls, which can be used to document standardized business processes and internal controls across the military health system. Additionally, the agency is continuing to coordinate with DOD to supplement existing and alternative risk management and internal control processes and procedures to effectively monitor and assess implementation and execution across the organization.
Defense Logistics Agency	<ul style="list-style-type: none"> In fiscal year 2019, the Defense Logistics Agency reported it implemented a revised cost-to-complete standard operating procedure for estimating environmental liability costs and conducted annual training that included these revised procedures. The Defense Logistics Agency also updated process cycle memorandums to include closure and asbestos processes and reflect changes from the cost-to-complete standard operating procedure. In fiscal year 2023, DOD reported actions the Defense Logistics Agency took to improve its communication with its customers and service providers to better resolve problems and support its Fund Balance with Treasury reconciliation process. The Defense Logistics Agency now repeatedly reaches out to its partners for support, instruction, and assistance, creating more streamlined processes and greater efficiencies. The Defense Logistics Agency has also worked with the Defense Finance and Accounting Service to change the frequency of collections to improve solvency of the working capital fund and promptness of payments to vendors.
Department of Defense	<ul style="list-style-type: none"> In fiscal year 2021, DOD reported that it established a Material Weakness Working Group for Government Property in the Possession of Contractors to identify commonalities on root-cause issues and create department-wide solutions.
Navy	<ul style="list-style-type: none"> In fiscal year 2021, the Navy reported that it provided guidance and educated stakeholders on fraud awareness and fraud risk management leading practices. As a result, the Navy reported that participating organizations gained a better understanding of the Navy's fraud risk management program, which promotes an antifraud culture aligned to Navy values.

Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106890

Note: The information presented in this table does not represent all financial statement audit outcomes. Rather, these are examples of outcomes reported by DOD components in response to DOD's annual audit results data call during fiscal years 2019 through 2023 and by DOD through its Agency Financial Report and Financial Improvement and Audit Remediation Report for fiscal years 2019 through 2023. In some instances, GAO obtained updated information from DOD's mid-year data call for 2024—which requests that DOD components provide updates related to outcomes reported in fiscal year 2023—and through GAO's coordination with DOD components regarding outcomes reported during fiscal years 2019 through 2023. GAO did not independently verify the outcomes reported by DOD and its components.

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

Senior DOD officials have also described outcomes resulting from DOD's financial statement audit. The following are additional examples of operational audit outcomes we identified based on our review of selected public statements, including congressional testimony.

The Honorable David Norquist served as the Under Secretary of Defense (Comptroller) and Chief Financial Officer during 2017–2019 and Deputy Secretary of Defense during 2019–2021. In May 2019, in his capacity as Comptroller, Mr. Norquist testified before the Senate Armed Services Committee on DOD's Financial Improvement and Audit Remediation Plan, citing the following examples of financial statement audit outcomes:²

- DOD discovered an inventory of missile motors that had been documented as not working. As a part of audit testing, DOD discovered that the motors did work and was able to avoid spending \$53 million on replacement parts.
- The Navy's auditors reviewed a sample of property assets for the Navy and found that about 6.5 percent of them, or about 2,000 items, no longer existed. The buildings and property had been demolished or taken away but had not been removed from the Navy's property records.
- The Navy identified instances where inventory had been purchased but not recorded in its property system, meaning the inventory was not visible to those trying to fill orders. As a result, the Navy identified \$73 million worth of inventory that could be made available to the warfighter.
- The Navy reduced its bill to the Defense Finance and Accounting Service when it switched from passing information that needed to be manually entered to automated, saving \$65 million.

In July 2019, in response to advance policy questions from the Senate Armed Services Committee before his appointment as Deputy Secretary

²David Norquist, Acting Deputy Secretary of Defense, *The Department of Defense's Financial Improvement and Audit Remediation Plan: The Path Forward*, written statement for the House Armed Services Committee, 116th Cong., 1st sess., May 16, 2019; *The Department of Defense's Financial Improvement and Audit Remediation Plan: The Path Forward, Before the House Armed Services Committee*, 116th Cong. (2019) (statement of Acting Sec. of Defense David Norquist).

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

of Defense, Mr. Norquist cited the following examples of outcomes that resulted from DOD's financial statement audit:³

- The Defense Logistics Agency cleared suspended stock, which filled approximately 59,000 backorders worth \$287 million.
- The Air Force identified approximately 41,000 contractor-held inventory items that have not been used or requested in more than a decade.

In his written statement for a November 2019 Senate Armed Services Committee Subcommittee on Readiness Hearing, Mr. Norquist cited the following examples of audit outcomes:⁴

- DOD automated the quarterly review process of its obligations using Advana. This workflow tool eliminated inefficiencies and provided analysts time and insight to identify a cumulative \$316 million in high-risk funds, allowing for a better use of those resources before expiring or canceling.
- Defense agencies were in the process of consolidating 44 networks and 22 service desks into a single Enterprise service provider for Common Use IT and were closing 71 legacy data centers (18 closed at the time of the statement with six more planned to be closed by the end of 2019).
- The Army conducted reviews of existing programs to determine their importance, which enabled the Army to cut approximately \$2.5 billion per year to free up funding for higher modernization priorities.
- The Defense Logistics Agency previously stored 130 million physical maps in its warehouses. By moving to print on demand mapping, DOD saved \$10 million in fiscal year 2018 by reducing physical inventory by 95 percent, removing 130 million physical maps, and freeing up over 180,000 square feet of space. The new model uses digitized mapping that reduces shipping and storing costs.

The Honorable Thomas Harker served as Acting Under Secretary of Defense (Comptroller) and Chief Financial Officer during 2020–2021. During a November 2020 press briefing, he stated that the Navy was able

³David Norquist, Advance Policy Questions for Mr. David Norquist Nominee for Appointment to be Deputy Secretary of Defense, testimony before the Senate Armed Services Committee, 116th Cong., 1st sess., July 19, 2019.

⁴*Department of Defense Audit: Hearing Before the Subcomm. On Readiness and Management Support of the Senate Comm. on Armed Services*, 116th Cong. (2019) (testimony of David L. Norquist, Deputy Secretary of Defense).

**Appendix IV: Additional Examples of
Operational Outcomes Resulting from
Department of Defense Financial Statement
Audits**

to find \$3.4 billion over the prior several years as a result of the financial statement audit and, consequently, put more than \$50 million worth of items onto aircrafts and ships, and another \$2.7 billion back onto the books and available to meet other needs.⁵

The Honorable Kathleen Hicks has served as the Deputy Secretary of Defense since 2021. In February 2021, in response to advance policy questions from the Senate Armed Services Committee before her appointment as Deputy Secretary of Defense, Dr. Hicks stated that one of the greatest contributions of the audit is its impact on operational readiness.⁶ She further stated the audit process improves DOD's operations through more reliable information for decision-making and improved inventory management and that DOD's audit efforts will lead to strengthened internal controls, improved visibility of assets and financial resources, increased transparency and accountability, and streamlined business processes. According to Dr. Hicks, DOD financial statement audits are a critical component in reforming DOD's business practices for greater performance and affordability and can drive needed cultural changes within DOD.

⁵Thomas W. Harker, Assistant Secretary of the Navy, Financial Management and Comptroller (Performing the Duties of the Under Secretary of Defense Comptroller and Chief Financial Officer), *DOD Outlines Results of Third Annual Department-Wide Audit* (transcript), November 16, 2020.

⁶Kathleen Hicks, Advance Policy Questions for Dr. Kathleen Hicks Nominee for Appointment to be Deputy Secretary of Defense, testimony before the Senate Armed Services Committee, 117th Cong., 1st sess., February 2, 2021.

Appendix V: Status of Department of Defense Efforts to Address Audit Notices of Findings and Recommendations and Material Weaknesses

When conducting the financial statement audit, auditors issue notices of findings and recommendations (NFR) to communicate deficiencies that auditors identified during the audit. NFRs outline the condition, criteria, cause, effect, and recommendations to correct specific deficiencies identified by auditors in connection with Department of Defense (DOD) and component financial statement audits. Auditors evaluate and classify deficiencies based on severity of the deficiency.

In addition, financial statement auditors can identify material weaknesses that affect an audited entity's financial statements. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner. Material weaknesses underlie the audit scope limitations that prevent DOD from achieving a clean audit opinion.

DOD's Office of Inspector General (OIG) identified 28 material weaknesses on DOD's financial statement reporting in fiscal year 2023, showing no change from fiscal year 2022. Of the 28 material weaknesses identified, DOD OIG considered 17 weaknesses to be scope limiting in the fiscal year 2023 audit. DOD has known of some of these scope limiting material weaknesses for more than 19 years. These long-standing material weaknesses are significant roadblocks to DOD's auditability goals and are preventing DOD from establishing an efficient and effective financial management environment.

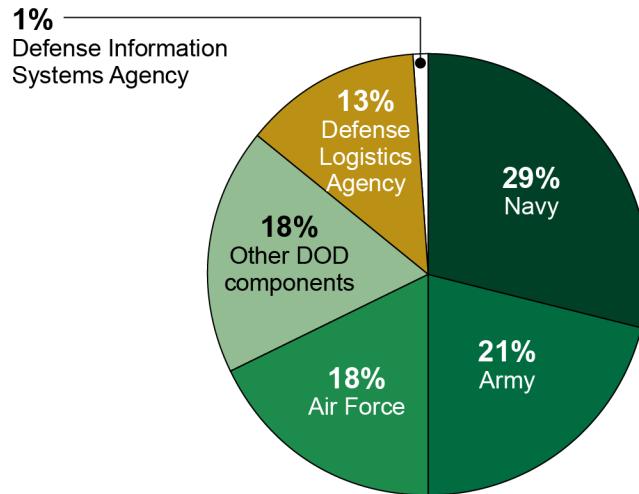
As of May 2024, DOD's military departments contribute 68 percent of the NFRs that relate to DOD-wide material weaknesses, while the Defense Logistics Agency contributes 13 percent and the Defense Information Systems Agency contributes 1 percent of such NFRs.¹ DOD's other components make up the remaining 18 percent, as shown in figure 8.²

¹According to an official from the Office of the Deputy Chief Financial Officer, a new field was added to the database in 2023 that is intended to improve available data on which NFRs contribute to specific material weaknesses. We have not evaluated the new data field.

² DOD's military departments are Army, Navy, and Air Force. Marine Corps is a component of Navy. We present the Defense Information Systems Agency and Defense Logistics Agency as separate components for the analysis presented in this appendix based on the inclusion of those components in our case studies for this report.

Appendix V: Status of Department of Defense Efforts to Address Audit Notices of Findings and Recommendations and Material Weaknesses

Figure 8: Percentage of Notices of Findings and Recommendations That Contribute to DOD Material Weaknesses, by Component, Fiscal Years 2019–2023



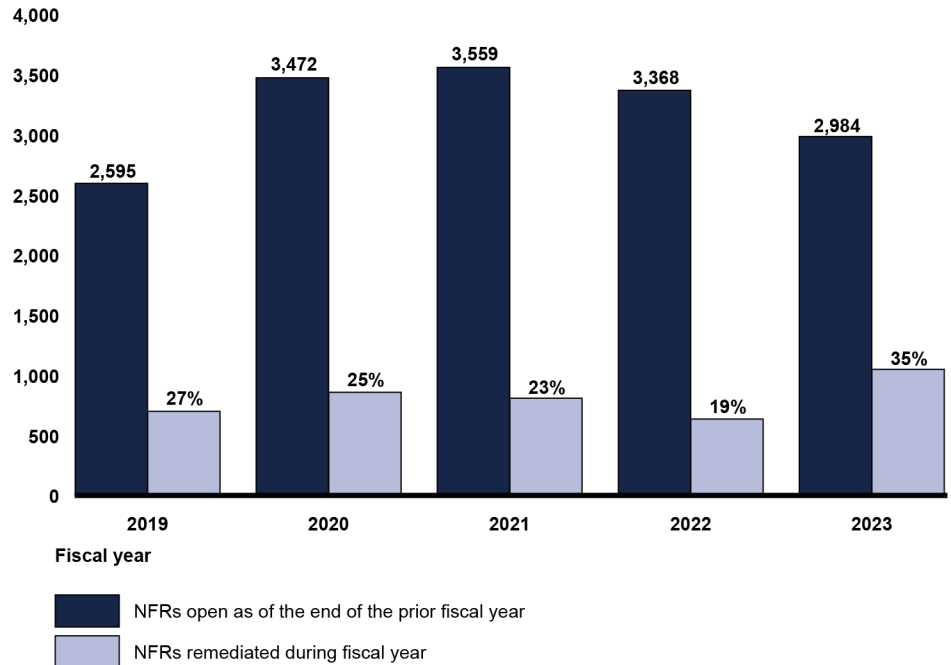
Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-24-106890

Note: We present the Defense Information Systems Agency and Defense Logistics Agency as separate components for this analysis based on the inclusion of those components in our case studies for this report.

Addressing the NFRs is critical to help address DOD-wide material weaknesses. NFR remediation rates—the rate at which DOD and its components fully address and close auditor-issued NFRs—reflect progress DOD has made toward achieving a clean audit opinion each year. As shown in figure 9 below, there was a steady decline in DOD’s NFR remediation rate during fiscal years 2019 through 2022.

Appendix V: Status of Department of Defense Efforts to Address Audit Notices of Findings and Recommendations and Material Weaknesses

Figure 9: Notices of Findings and Recommendations (NFR) Remediation Rate, Fiscal Years 2019–2023
Number of NFRs



Source: GAO analysis of the Department of Defense documentation. | GAO-24-106890

However, in fiscal year 2023, DOD’s NFR remediation rate almost doubled from the previous fiscal year. Based on our analysis of NFR data obtained from DOD OIG for fiscal years 2022 and 2023, we found the increase in DOD’s NFR remediation rate reflected increases in NFR closures at the military departments and the Defense Logistics Agency as the remediation efforts were validated by auditors.³ Specifically, Department of the Navy and Defense Logistics Agency closure percentages increased significantly. According to Navy officials, the increase in remediation of Navy NFRs was due to the Navy’s strategy of targeting material weakness downgrades for the most impactful areas, as well as the Navy’s approach for decommissioning legacy systems and remediating IT issues. In addition, Defense Logistics Agency officials

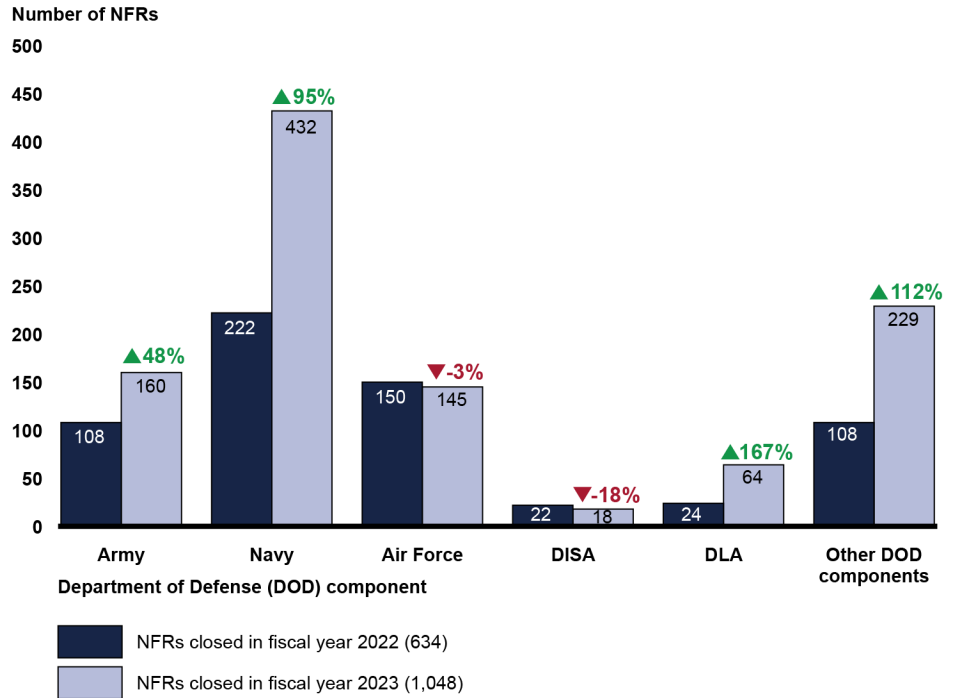
³We obtained data from DOD OIG showing the count of NFRs issued to and closed by reporting entities as of January 2024. These counts may differ from counts reflected by DOD’s NFR database.

Appendix V: Status of Department of Defense Efforts to Address Audit Notices of Findings and Recommendations and Material Weaknesses

stated that their NFR closures increased because of a concerted effort to close NFRs to help downgrade material weaknesses.

In fiscal year 2018, auditors issued 2,595 NFRs to DOD components. In fiscal year 2019, auditors were able to close 698, or 27 percent, of those NFRs open as of the end of fiscal year 2018. During the fiscal year 2020 audits, auditors closed 857, or 25 percent, of the 3,472 NFRs open as of the end of fiscal year 2019. In fiscal year 2021, auditors closed 808, or 23 percent, of the 3,559 NFRs open as of the end of fiscal year 2020. In fiscal year 2022, auditors closed 634 or 19 percent, of the 3,368 NFRs open as of the end of fiscal year 2021. In fiscal year 2023, auditors closed 1,048 or 35 percent, of the 2,984 NFRs open as of the end of fiscal year 2022 and issued or reissued 2,938 NFRs. (See fig. 10.)

Figure 10: Notices of Findings and Recommendations (NFR) Closures, Fiscal Years 2022–2023



Source: GAO analysis of Department of Defense data. | GAO-24-106890

Appendix VI: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

September 11, 2024

Ms. Cathleen A. Berrick
Managing Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Mr. Asif Khan
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Berrick and Mr. Khan:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-24-106890, "FINANCIAL MANAGEMENT: DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring," dated August 15, 2024 (GAO Code 106890).

Enclosed are DoD's response and technical comments to the report's recommendation.
My point of contact is [REDACTED]

Sincerely,

PIERCE.TINA.MA
RIE.1152087655

Digitally signed by
PIERCE TINA.MARIE 1152087655
Date: 2024.09.11 16:30:12 -0400

Tina M. Pierce
Deputy Chief Financial Officer

Enclosures:
As stated

**GAO DRAFT REPORT DATED AUGUST 15, 2024
GAO-24-106890 (GAO CODE 106890)**

**“FINANCIAL MANAGEMENT: DOD HAS IDENTIFIED BENEFITS OF FINANCIAL
STATEMENT AUDITS AND COULD EXPAND ITS MONITORING”**

**DEPARTMENT OF DEFENSE RESPONSE
TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller) considers opportunities to collect and share additional information on financial and operational outcomes and lessons learned resulting from audit remediation efforts.

DoD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) will review its current business processes and consider opportunities to enhance or expand its collection of financial and operational outcomes. Considerations will focus on data call improvements to expand the scope of audit outcomes captured, link related audit outcomes to scope-limiting material weaknesses, and increase the total population of Components queried. Additionally, the Office of the Under Secretary of Defense (Comptroller) will explore alternative collection methods to support this effort and implement them as appropriate. Subject to suitability for release, any increases in information gathering and identification of lessons learned will continue to be communicated through the Department’s existing audit oversight governance framework.

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Asif A. Khan, (202) 512-9869 or khana@gao.gov.

Staff Acknowledgments

In addition to the contacts named above, Ryan D'Amore (Assistant Director), Roger Stoltz (Assistant Director), Serena Epstein (Analyst in Charge), Crystal Alfred, Tulsi Bhojwani, Edgar Fletes, Noah Gerber, Amie Lesser, Lillian Ofili, Michael Silver, Anne Thomas, and Emily Wilson made significant contributions to this report.

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