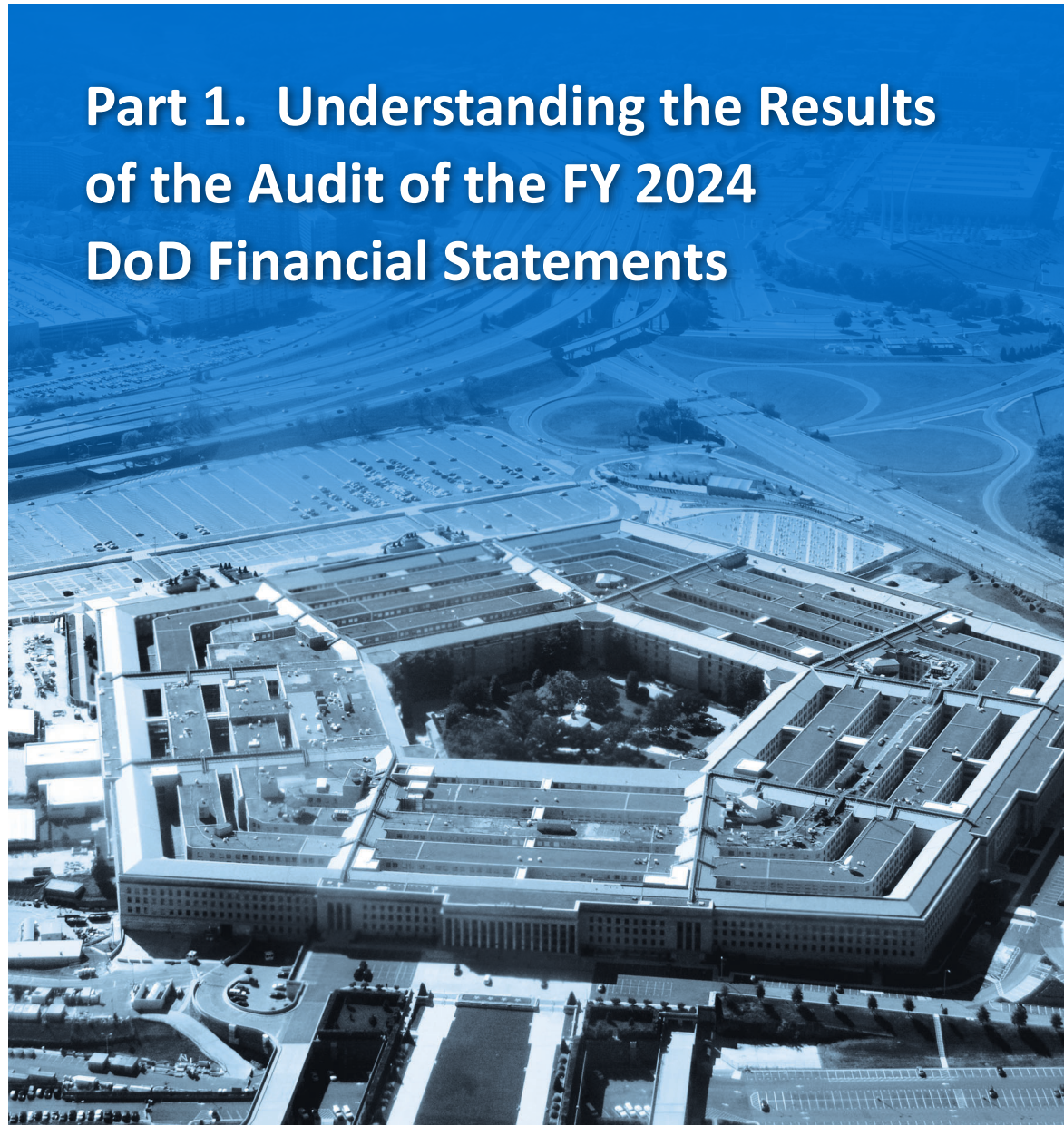




# INSPECTOR GENERAL

*U.S. Department of Defense*

FEBRUARY 28, 2025



## Part 1. Understanding the Results of the Audit of the FY 2024 DoD Financial Statements

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY







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

February 28, 2025


As required by the Chief Financial Officer's Act of 1990 and implemented by Office of Management and Budget Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," in FY 2024, the DoD Office of Inspector General (OIG) conducted its seventh financial statement audit of the DoD. As in prior years, the DoD OIG issued a disclaimer of opinion on the FY 2024 DoD Agency-Wide Financial Statements, meaning the DoD could not provide sufficient evidence for the auditors to conclude whether the DoD fairly presented its financial statements in accordance with accounting guidance.

Within the audit report, the DoD OIG identified 28 DoD Agency-Wide material weaknesses, which are weaknesses in internal controls that are so significant that they could prevent management from detecting and correcting a material misstatement in the financial statement in a timely manner. The number of material weaknesses in FY 2024 was unchanged from FY 2023. However, the DoD OIG added a new material weakness due to the DoD's improper implementation of a new accounting standard and closed one material weakness due to corrective actions taken by the DoD.

Previously the DoD OIG has issued a single comprehensive report that provided readers meaningful and understandable information about the DoD financial statements. This year, the DoD OIG is issuing the report in two parts. Part one focuses on the definition of a financial statement audit, its importance and usefulness, and a summary of the DoD audit results. It also discusses the importance of building and maintaining a robust internal control environment and that sound financial management is everyone's business. Part two will provide more detailed information on the specific material weaknesses that DoD auditors identified during the financial statement audits and discuss the importance of efficient and effective operational and financial management.

Obtaining a clean audit opinion is critically important for the DoD to improve mission readiness and the efficiency of operations. In addition, the DoD must pass its audit for the Government-Wide Financial Statements to receive a clean audit opinion, due to the DoD's size and budget.

As part of our statutory responsibilities, we will continue to fully and fairly audit the DoD's financial statements, identify deficiencies, and provide clear information and recommendations to the DoD on the actions required to fix those deficiencies. We remain fully committed to this important long-term effort to improve the financial health of the DoD and, thereby, help ensure stewardship of taxpayer funds comprising approximately half the discretionary spending of the U.S. Government and 73 percent of its assets.

  
Steven A. Stebbins  
Acting

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# Understanding the DoD FY 2024 Audited Financial Statements

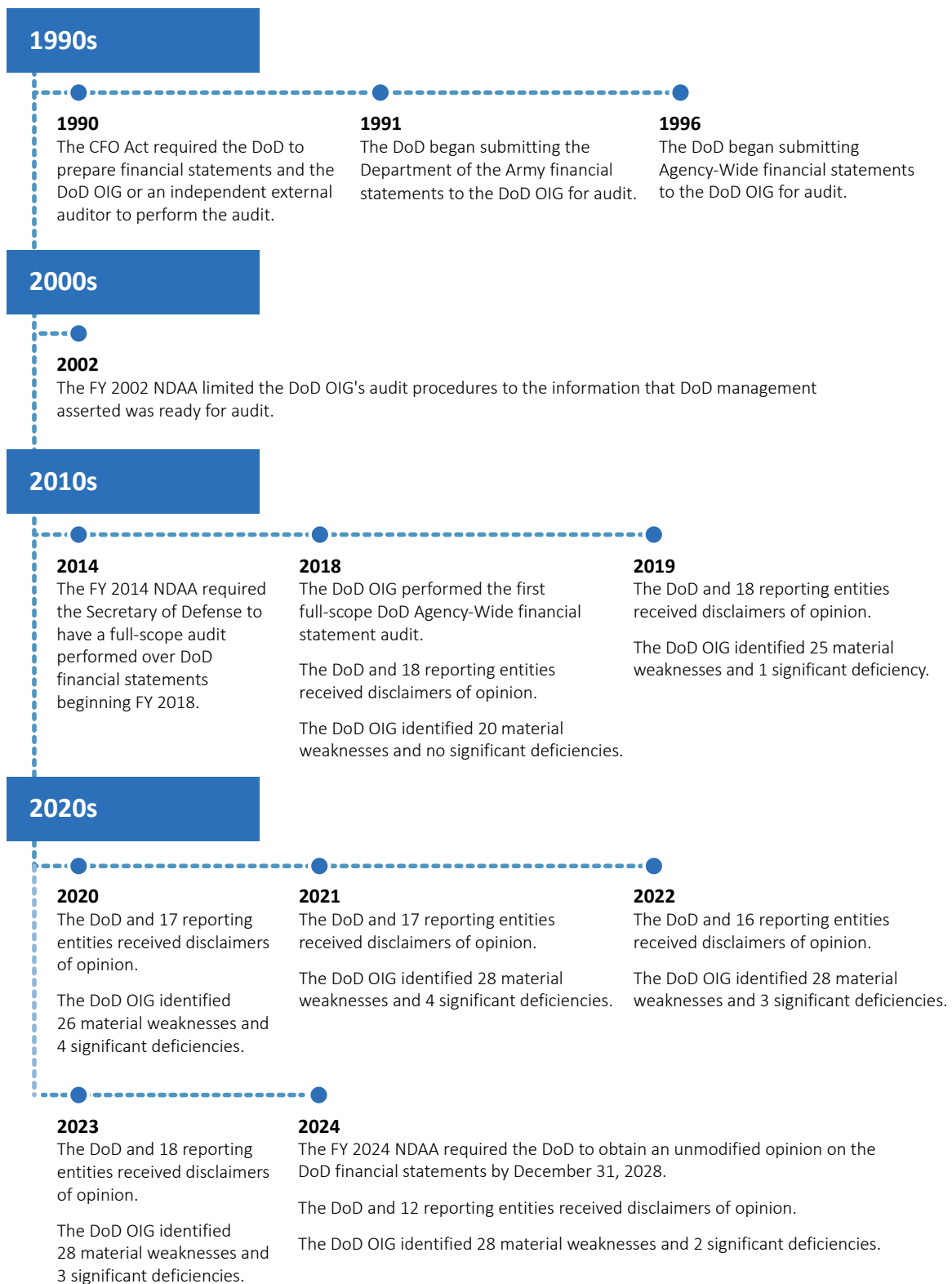
The DoD prepares the annual DoD Agency Financial Report and the Component-level financial statements to provide an overview of the financial and operational performance of the DoD and its Components. The DoD issued its FY 2024 DoD Agency Financial Report, which included the FY 2024 DoD Agency-Wide Financial Statements, on November 15, 2024. The DoD OIG performed an audit of the FY 2024 DoD Agency-Wide Financial Statements and oversaw independent public accountants (IPAs) as they performed audits of the DoD Components' financial statements. Collectively we performed the audits to determine whether the DoD and its Components presented their financial statements in accordance with Generally Accepted Accounting Principles (GAAP). GAAP establishes accounting concepts and principles to ensure that an organization's financial statements are clear, consistent, and comparable.

Shortly after the enactment of the Chief Financial Officers (CFO) Act of 1990, which requires Federal agencies to prepare financial statements for audit, the DoD submitted the first Component financial statements to the DoD OIG for audit.<sup>1</sup> In FY 2002, as shown in Figure 1, Congress limited the audit procedures and directed the DoD OIG to perform audit procedures on only information that DoD management asserted was ready for audit. It was not until 28 years after the enactment of the CFO Act that Congress required the DoD to undergo its first full-scope financial statement audit. Over the last 7 years of full-scope audits, the DoD has shown incremental progress toward obtaining a favorable audit opinion. Despite that progress, the DoD still has substantial work to do, and its corrective action plans show that DoD management does not expect to obtain a favorable audit opinion until FY 2028.

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<sup>1</sup> Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990, as amended (31 U.S.C. § 3515).

*Figure 1. Progression of the DoD Agency-Wide Financial Statements*



**LEGEND**

**NDAA** National Defense Authorization Act

Source: The DoD OIG.

The DoD Agency Financial Report, which includes the DoD financial statements and independent auditors' reports, can be difficult to understand for readers unfamiliar with the technical language, industry-specific terminology, and prescribed formatting. To address these challenges, the DoD OIG produces this annual report to explain the results of the financial statement audits in a way that is understandable and meaningful to those without a technical background in financial statement auditing and accounting.

In previous versions of this report, we presented the information and analysis in one report. This year, we are issuing this report in two parts. Part one summarizes the FY 2024 audit results at a high level and focuses on explaining:

- why the DoD financial statement audits and internal controls are important;
- who is involved and the responsibilities they have in preparing or auditing the DoD financial statements;
- what processes the DoD and its reporting entities follow when preparing their financial statements;
- what processes the DoD OIG and IPA firms follow when auditing the DoD and its reporting entities' financial statements; and
- how to interpret the results of the FY 2024 financial statement audits.

Part two of this report will explain the FY 2024 audit results in more detail and give examples of issue areas across the Department. Part two will also provide more detailed information on the specific material weaknesses that DoD auditors identified during the financial statement audits and discuss the importance of efficient and effective operational and financial management.

## **Importance of the DoD Financial Statement Audits**

The DoD is the largest Department in the U.S. Government. As reported in the FY 2024 DoD Agency Financial Report, the DoD employed approximately 2.1 million Military Service members and approximately 811,000 civilian employees. The DoD manages one of the U.S. Government's largest portfolios of real property, with more than 712,000 facilities located on more than 4,800 sites in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. In FY 2024, the DoD reported discretionary appropriations of \$909.7 billion, half the discretionary spending of the United States, and it reported nearly \$4.1 trillion in assets, which is approximately 73 percent of the U.S. Government's total assets. Because of the DoD's size, it has a major impact on the Government-Wide Financial Statements.



The public release of DoD OIG reports on the financial statements promotes accountability by the DoD and transparency with the public regarding the financial and operational challenges facing the DoD and its stewardship of taxpayer funds. Given the DoD's vital mission, and the significant resources required to execute its mission, the challenges the DoD faces are of substantial public importance. The audits—and accurate financial statements—enable Congress and the public to assess how the DoD spends its money, help the DoD improve its operations, identify vulnerabilities in information technology (IT) and other systems, prevent wasteful practices before they occur, and help to identify and remediate them when they do. The DoD Agency-Wide and Component-level financial statement audits serve a vital role in maintaining the public's trust by promoting accountability and transparency.

## ***Accountability***

Accountability plays an essential role when discussing the DoD's use of public funds. The DoD is accountable to the President, Congress, and the American taxpayer for the proper use of the substantial funds and resources that have been entrusted to it. The financial statement audits enhance the DoD's accountability because the auditors examine the systems and processes used for conducting DoD's business, such as buying goods and services.

Accountability in the DoD means that it can demonstrate that the goods and services it purchased are supported by a valid need, correctly reported, and properly used for DoD missions. Audits hold the DoD accountable while promoting sustainable business operations.

## ***Transparency***

The DoD financial statements and the associated audits provide transparency to Congress and the public of how the DoD uses its resources. The audits are designed to validate and substantiate the DoD's financial information. However, this information is only reliable in a sound financial management environment. For example, if a DoD Component receives funding but does not have effective processes and procedures in place to spend and track those funds, the public's confidence that the funds were used for the intended purpose could suffer.

The DoD audits support transparency by identifying gaps in the DoD's operations, internal controls, processes, policies, and asset accountability. The DoD Agency-Wide auditors communicate those gaps through audit findings documented in the auditor's report. From those findings, the DoD creates corrective action plans to close those gaps, with the goal of improving the overall health of the DoD's financial environment.

## The Role of Internal Controls in the DoD

Internal control is not one event, but a series of actions that occur throughout an entity's operations, performed by people and systems, which help an entity achieve its objectives. An effective internal control environment improves accountability and transparency, as it aids in adapting to situational changes, evolving demands, changing risks, and new priorities. Therefore, internal control is an important tool that management uses to sustain its operations. In this sense, the internal control environment is built into the entity as a part of the organizational structure.

DoD leadership stated that strengthening the DoD's internal control environment was a priority for FY 2024. The FY 2024 DoD Statement of Assurance Execution Handbook provided guidance to DoD Components on the importance of maintaining a strong internal control environment. This goal was also reflected in the DoD Agency Financial Report, which stated that DoD management is responsible for maintaining an effective internal control environment that supports the preparation of financial statements that are free from material misstatements. DoD management must also evaluate the effectiveness of this internal control environment using criteria established under the "Federal Managers' Financial Integrity Act of 1982."<sup>2</sup>

Sound financial management, including the implementation of internal controls, is the responsibility of management at every level in the DoD. While sound financial management is necessary to produce reliable financial statements, it also provides operational value by producing better information for decision making and ensuring the careful stewardship of taxpayer dollars. Sound internal controls enhance mission performance. For example, an operational leader will be better able to employ assets in support of a mission if they are using an IT system that accurately displays the location and condition of those assets. The leader can rely on the information in the system, and therefore, can trust that the assets will be there to support the mission. To achieve this, the DoD's operational and financial leaders should work together when designing or modifying existing systems and processes to ensure that they include proper internal controls. This will enable the DoD to improve the reliability and sustainability of its decision-making systems and processes, while simultaneously strengthening financial statement accountability and transparency across the DoD.

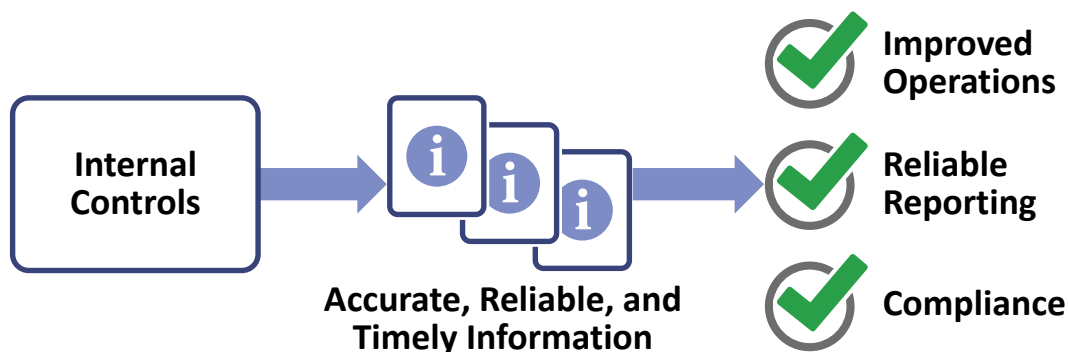
The financial data used to compile and construct the DoD's financial statements are a by-product of the business transactions and accounting associated with those activities. Without effective internal controls, the DoD may not have accurate and reliable information regarding its inventory, equipment and vessel locations, or munition counts, which could

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<sup>2</sup> Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 8, 1982, as amended (31 U.S.C. § 3512).

affect operational decisions and wartime readiness. Furthermore, a lack of internal controls jeopardizes the integrity of the financial data used to construct the DoD's financial statements. These financial statements are used by Congress and the American taxpayer to ensure accountability and transparency regarding the DoD's use of taxpayer dollars and are indispensable to maintaining public trust. Figure 2 illustrates how internal controls impact an entity.

*Figure 2. Impact of Internal Controls*



Source: Adapted from the Government Accountability Office Green Book.<sup>3</sup>

## Internal Controls and Financial Management Are Everyone's Business

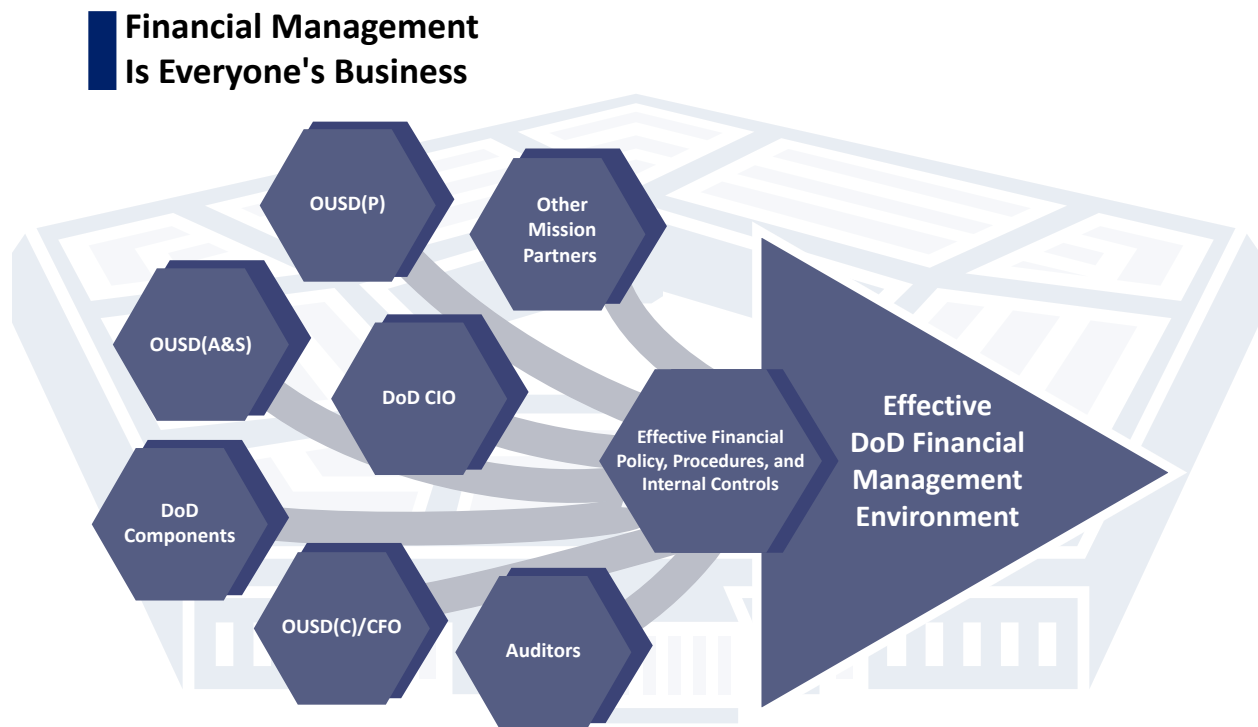
People are what make internal controls work, and support from the highest levels of leadership is critical to establishing the directives and culture that foster integrity and ethical conduct. The DoD assigned responsibility for implementing a strong internal control environment to DoD Component heads. By establishing, communicating, and implementing strong internal controls they create a "tone at the top" that emphasizes the need for an internal control environment that produce accurate and reliable data. The "tone at the top" is crucial in establishing an internal control environment with the tools, resources, and mechanisms needed for achieving reliable and accurate data at all organizational levels.

Internal controls are integral to sound financial management and require collaboration across the DoD organizational structure. As shown in Figure 3, the various parties within the Office of the Secretary of Defense and DoD Components contribute to the effectiveness of the DoD's financial management environment. The roles and responsibilities of these various parties essential to a sound internal control and financial management environment are identified in the sections following Figure 3.

<sup>3</sup> GAO Report No. GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.



Figure 3. Financial Management Is Everyone's Business



#### LEGEND

- DoD CIO** DoD Chief Information Officer
- OUUSD(A&S)** Office of the Under Secretary of Defense for Acquisition and Sustainment
- OUUSD(C)/CFO** Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
- OUUSD(P)** Office of the Under Secretary of Defense for Policy

Source: The DoD OIG.

### Office of the Secretary of Defense

The Office of the Secretary of the Defense is responsible for policy development, planning, resource management, and program evaluation, and includes the offices of senior leaders responsible for personnel, weapons acquisition, research, intelligence, and fiscal policy. The following officials and organizations within the Office of the Secretary of Defense have important financial management roles, which includes implementing DoD's internal control environment.

- **Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD** – Responsible for budgetary and fiscal matters, including financial management, accounting policy and systems, manager's internal control systems, audit readiness, and execution guidance. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer also provides internal control guidance through policies, training, tools, and templates.

- **DoD Chief Information Officer** – Responsible for matters related to IT and information resources management and ensuring that defense business systems comply with the DoD’s auditability requirements. Within the DoD’s IT systems, the DoD Chief Information Officer is required to ensure the implementation of a comprehensive system of internal controls providing reasonable assurance that IT programs are operating as intended and evaluate the effectiveness of those controls. The DoD Chief Information Officer also leads system decision making as co-chair of the Defense Business Council.
- **Under Secretary of Defense for Acquisition and Sustainment** – Responsible for matters related to acquisition and sustainment in the DoD, including policy; production; logistics and distribution; procurement of goods and services; materiel readiness; maintenance; business management modernization; and nuclear, chemical, and biological defense programs. The Office of the Under Secretary of Defense for Acquisition and Sustainment also establishes logistics policies and procedures to improve the visibility, accountability, and internal control of critical assets and support the auditability of the logistics enterprise.
- **Under Secretary of Defense for Policy** – Responsible for all matters of formulation of national security and defense policy, and the integration and oversight of DoD policy and plans to achieve national security objectives. This office impacts the financial management and control environment because it assists with policy that governs the operations of the DoD.

## ***DoD Components and Other Mission Partners***

DoD Component management is responsible for ensuring that key processes, systems, and internal controls are effectively designed and implemented to support financial management operations.<sup>4</sup> For example, DoD Component officials are required to review and confirm that key controls and related processes are in place and functioning. In addition, DoD Component management is responsible for ensuring that employees possess the right skills and knowledge to effectively operate the key controls and related processes. Furthermore, as most DoD Components rely on external service providers to execute certain business processes, both the Component and service provider must maintain effective internal controls to ensure the reliability of information produced by the service provider for financial reporting purposes.<sup>5</sup>

Additionally, the DoD partners with industry and commercial contractors to provide the goods and services it needs to support the DoD mission. These mission partners play a vital role in the DoD’s operational and financial success. As a result, the DoD’s goal of improving its financial management environment must extend to the controls, practices, and policies

<sup>4</sup> For purposes of this report, a DoD Component is a Military Department, Defense agency, DoD field activity, combatant command, or other organizational entity within the DoD.

<sup>5</sup> For purposes of this report, a service provider is a DoD organization that conducts business on behalf of another entity.

employed by those outside the direct purview of the DoD. The DoD's financial management workforce and their mission partners must work together to support the development of an effective, efficient control environment by ensuring that operational and financial controls are built into the systems, policies, and practices that mission partners use when providing goods and services to the DoD.

### ***Auditors***

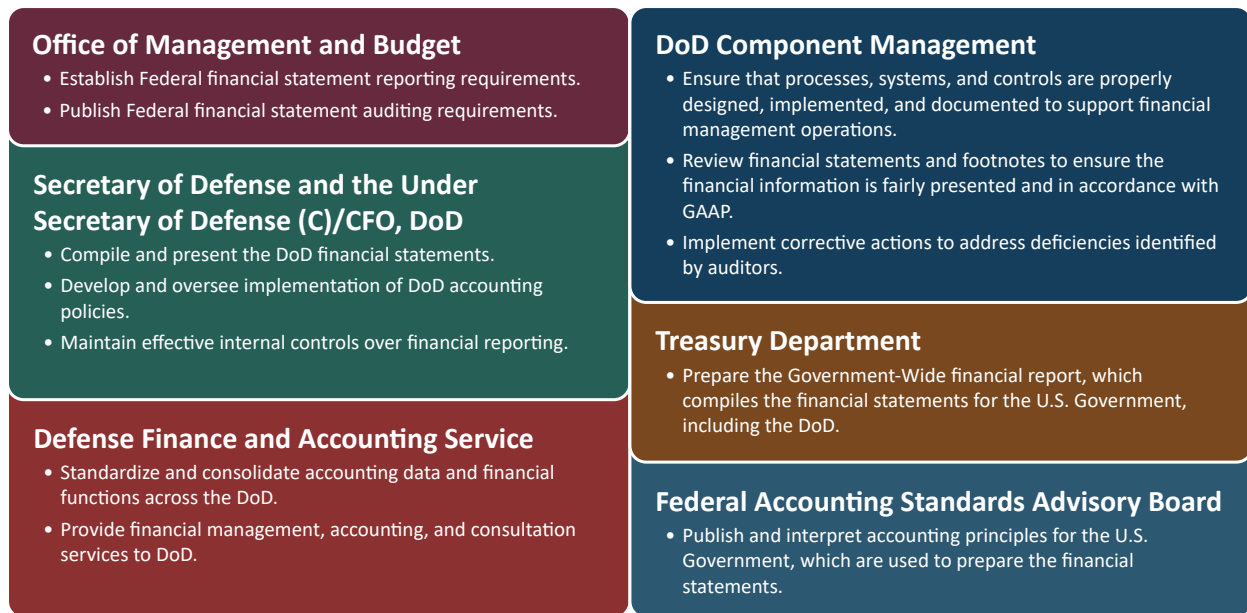
Auditors play a vital role in improving the financial management environment. Both DoD OIG and IPA auditors conduct independent and objective audits of an Agency's programs and operations. These audits include aspects of the internal control and risk management system. Management uses the findings and recommendations from these audits, alongside their own internal controls, to monitor and improve the design and operating effectiveness of the control system of the entity.

## **Financial Statement Preparation and Audit Roles and Responsibilities**

The effort to prepare and audit the DoD Agency-Wide and Component-level financial statements is immense. Many individuals and Components throughout the DoD work together to prepare and audit the statements. Figures 4 and 5 identify those involved and their responsibilities in preparing and auditing the DoD financial statements.

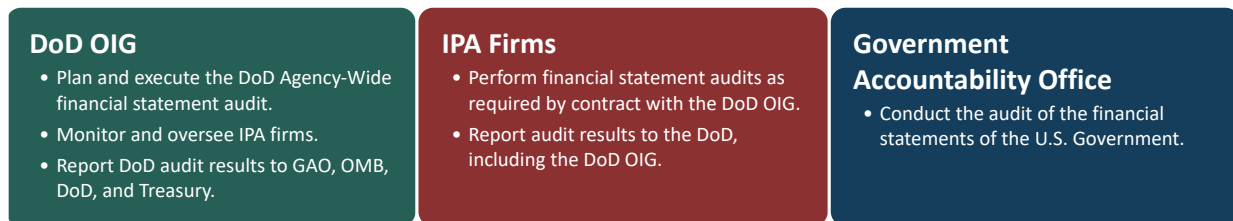


*Figure 4. Responsibilities for Financial Statement Preparations and Audits*



Source: The DoD OIG.

*Figure 5. Responsibilities for Conducting Financial Statement Audits*



Source: The DoD OIG.

## Preparing and Auditing the DoD Financial Statements

The DoD Agency-Wide financial statements combine the financial activity of all DoD Components. The DoD publishes its financial statements annually as part of the DoD Agency Financial Report, which is DoD management's representation of the DoD's financial and operational performance. Included in the DoD Agency Financial Report is the DoD OIG's independent auditor's report on the fair and reasonable presentation of the DoD financial statements and the DoD OIG's report on the Department's Top Management and Performance Challenges. Figure 6 identifies and explains significant sections of the FY 2024 DoD Agency Financial Report.

Figure 6. Significant Sections of the DoD Agency Financial Report



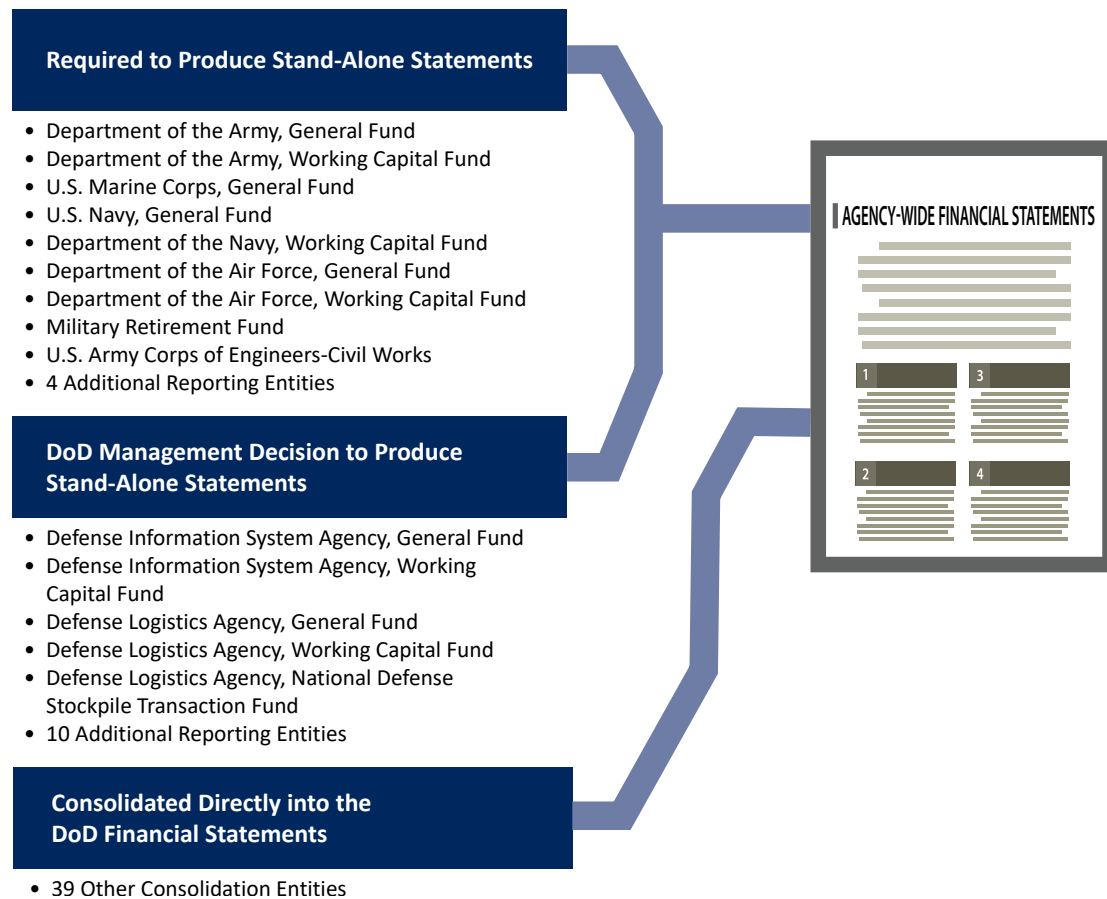
\* The DoD OIG's report on the Top DoD Management and Performance Challenges is statutorily required by the Reports Consolidation Act of 2000, 31 U.S.C. § 3516(d).

Source: The DoD OIG.

## Requirements for DoD Reporting Entities to Produce Stand-Alone Financial Statements

As stated previously, the DoD Agency-Wide financial statements combine the financial activity of all DoD entities. Of these entities, 28 prepare and issue their own stand-alone financial statements to meet certain reporting requirements.<sup>6</sup> Specifically, the DoD prepares and issues stand-alone financial statements for 13 of the 28 entities as required by Office of Management and Budget (OMB) Bulletin No. 24-02 and other statutes.<sup>7</sup> The remaining 15 entities produced stand-alone statements at the discretion of DoD management. Entities that do not produce their own stand-alone financial statements are consolidated directly into the DoD Agency-Wide financial statements.<sup>8</sup> Figure 7 provides a summary of the DoD's financial statement preparation requirements for DoD entities.

Figure 7. The DoD's Financial Statement Preparation Requirements



Source: The DoD OIG.

<sup>6</sup> A 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.

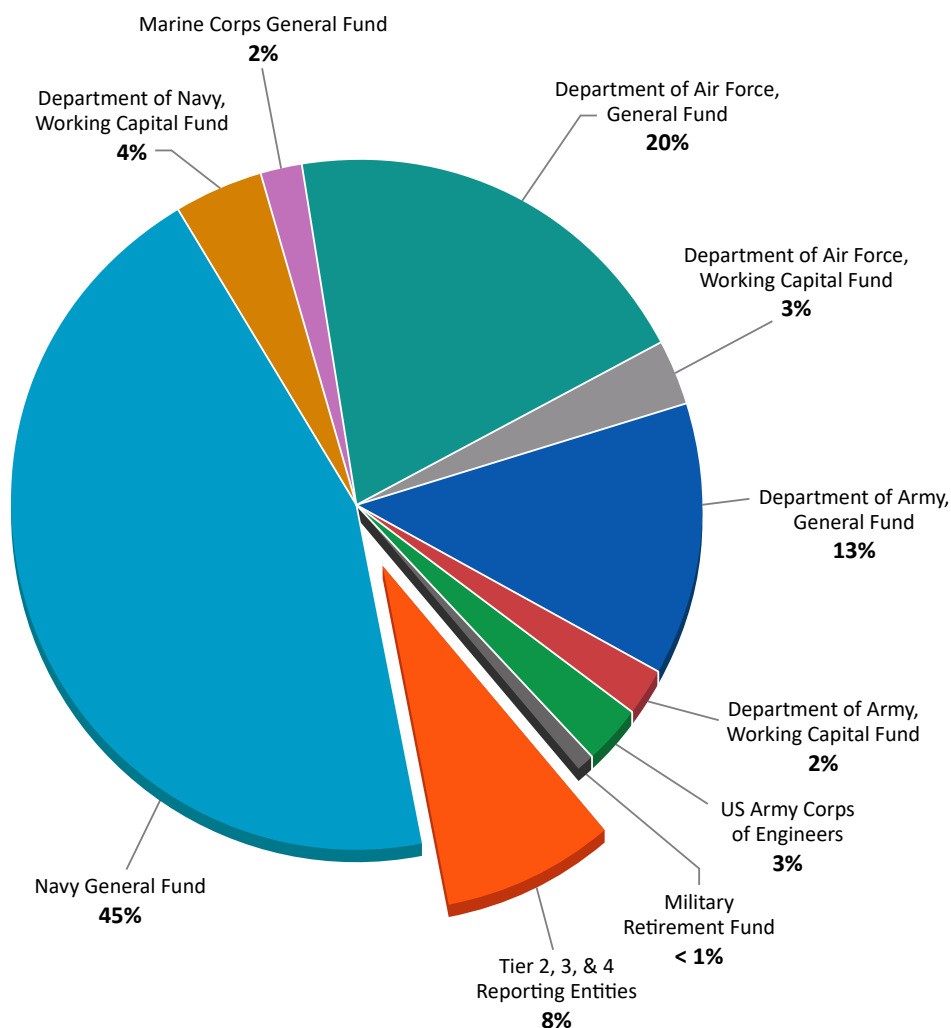
<sup>7</sup> Of the 13 entities, 9 are required by the Government Management Reform Act of 1994, as designated in OMB Bulletin No. 24-02. "Audit Requirements for Federal Financial Statements," July 2024, and implemented by the DoD, while the other 4 are required by section 3108, title 50, United States Code.

<sup>8</sup> A consolidation entity is an organization that should be consolidated in the financial statements of a reporting entity, such as the Missile Defense Agency.



The decision for OMB or DoD management to require an entity that is not part of the CFO Act mandate to have a stand-alone audit or be consolidated directly into the DoD Agency-Wide financial statement is generally driven by the materiality of that entity. Figure 8 shows the DoD's total assets, other than intragovernmental assets, that are held by DoD entities. As depicted, 92 percent of DoD assets are held by entities that are required to produce stand-alone financial statements. The rest of the DoD's assets are reported by entities that DoD management directed to produce stand-alone financial statements or that are directly consolidated into the DoD financial statements.

*Figure 8. Total Other Than Intragovernmental Assets by DoD Entity*



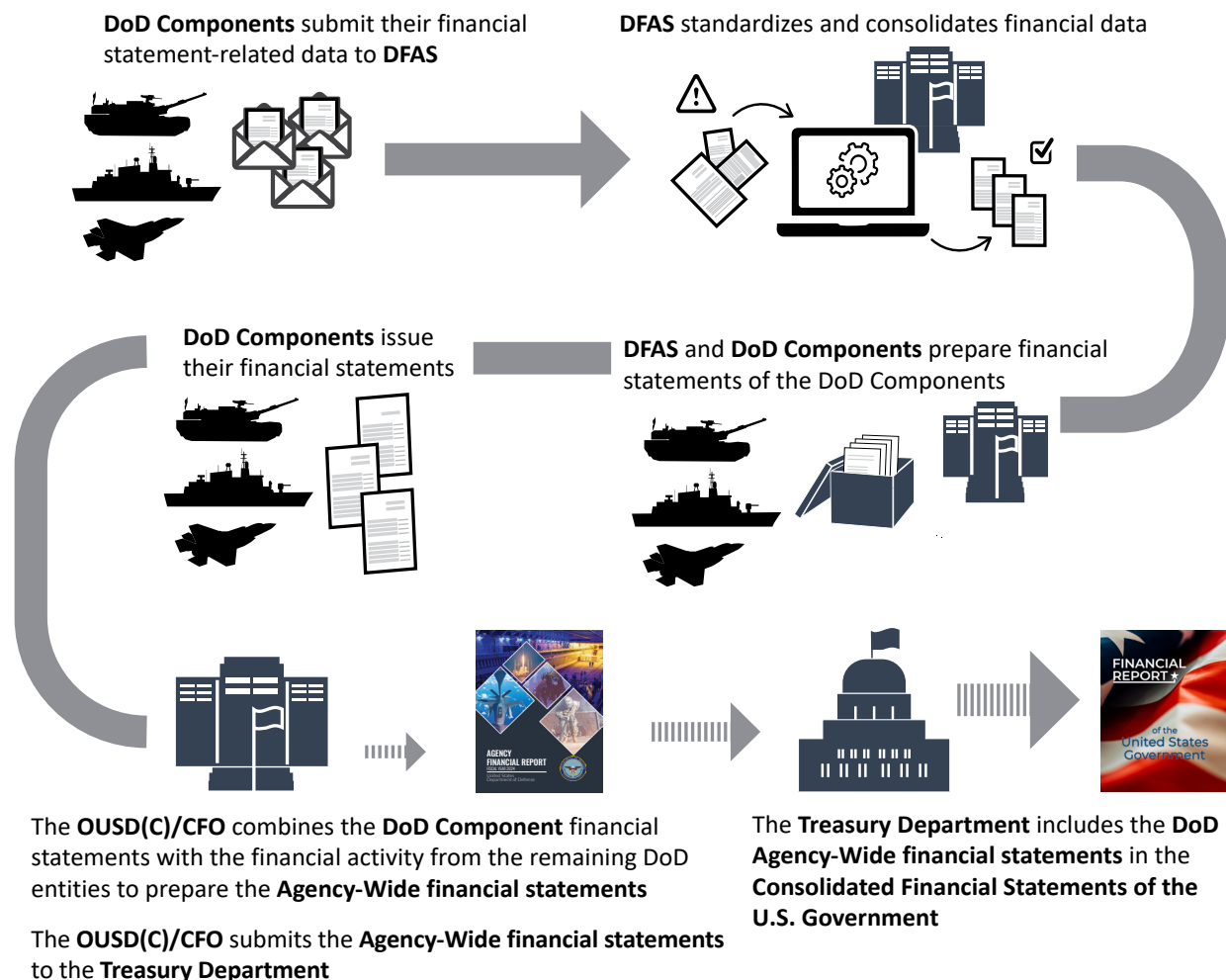
Note: This figure excludes intragovernmental assets because intragovernmental assets represent an asset to one Government entity while being a liability to another. Those assets net to zero and do not impact the Government-Wide Financial Statements.

Source: The DoD OIG.

## Preparing the DoD Agency-Wide Financial Statements

The process for preparing the consolidated DoD Agency-Wide financial statements begins with DoD reporting entities providing the Defense Finance and Accounting Service (DFAS) the financial information required to build the entity's financial statements. DFAS personnel then standardize the financial information and prepare that entity's stand-alone financial statements.<sup>9</sup> Those stand-alone financial statements will ultimately be combined and consolidated with the financial information from entities that do not produce stand-alone financial statements to produce the DoD Agency-Wide financial statements. After consolidation, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer provides the DoD Agency-Wide financial statements and supplementary financial information to the Treasury Department for inclusion in the Consolidated Financial Statements of the U.S. Government. Figure 9 provides a high-level illustration of the process for preparing the financial statements.

Figure 9. Key Steps for Preparing the DoD Financial Statements



Source: The DoD OIG.

<sup>9</sup> DFAS does not prepare the financial statements of the U.S. Army Corps of Engineers–Civil Works. The U.S. Army Corps of Engineers finance center prepares the U.S. Army Corps of Engineers–Civil Works financial statements.

## ***Auditing the Financial Statements***

The DoD OIG is required to audit the DoD Agency-Wide consolidated financial statements, in accordance with the CFO Act and implemented by OMB Bulletin No. 24—02. To do this, the DoD OIG conducted the Agency-Wide financial statement audit and oversaw 5 IPA firms that audited 19 DoD reporting entities. Collectively, between DoD OIG and IPA personnel, more than 1,600 auditors participated in the audits of the DoD Components' and Agency-Wide FY 2024 financial statements.

The DoD OIG and the IPAs audit the financial statements of the DoD and its Components in accordance with auditing standards and requirements issued by various Federal regulatory agencies, including the Government Accountability Office and OMB. To oversee the IPAs' audits of significant reporting entities, the DoD OIG verifies the IPAs' compliance with applicable auditing standards and contract requirements. The DoD OIG's oversight procedures include reviewing the IPAs' plans, procedures, and testing results. In addition, the DoD OIG uses the results of the Component-level audits in combination with results from its own audit procedures to determine whether the DoD Agency-Wide financial statements are presented fairly.

## **Interpreting Financial Statement Audit Results**

The DoD OIG and the IPAs conducted audits of the DoD Agency-Wide and DoD Component-level financial statements to:

- express an opinion on whether the Agency-Wide and associated Component-level financial statements were fairly presented in accordance with GAAP;
- report any material weaknesses or significant deficiencies in internal control over financial reporting; and
- report on compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements.

## ***Understanding the Types of Audit Opinions***

When auditors perform a financial statement audit, they are responsible for expressing their conclusion, called an opinion, on whether management fairly presented the financial statements and the related notes to the financial statements and in accordance with GAAP. Figure 10 demonstrates the types of opinions that auditors can issue.

Figure 10. Types of Audit Opinions

Types of Audit Opinions		
Unmodified (also known as “Clean”)		
<ul style="list-style-type: none"><li>Planned audit procedures completed and entity can provide supporting documents.</li><li>Auditors conclude that management has presented financial statements, in all material respects, fairly and in accordance with GAAP.</li></ul>		
Modified Opinions		
Qualified	Adverse	Disclaimer
<ul style="list-style-type: none"><li>Management provides sufficient appropriate evidence enabling the auditor to conclude that misstatements are material but not pervasive to the financial statements.</li><li>Management is unable to provide sufficient appropriate evidence to enable the auditor to support an unmodified opinion, but the auditor concludes that the possible effects of undetected misstatements could be material but not pervasive.</li></ul>	<ul style="list-style-type: none"><li>Management provides sufficient appropriate audit evidence to allow auditors to complete planned audit procedures; however, the auditor concludes that misstatements are both material and pervasive to the financial statements.</li></ul>	<ul style="list-style-type: none"><li>Planned audit procedures cannot be completed because management is unable to provide sufficient appropriate evidence for the auditors to base an opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.</li></ul>

Source: The DoD OIG.

Understanding Internal Control Deficiencies

When conducting an audit, auditors consider whether management has designed appropriate internal controls and whether those controls are operating effectively. However, DoD auditors do not provide an opinion on the overall effectiveness of internal controls. Instead, they issue notices of findings and recommendations (NFRs) throughout the audit to identify control weaknesses or inefficiencies, as well as their causes, effects, and recommendations for corrections. NFRs may help DoD leaders identify issues with systems, prioritize improvements, drive efficiencies, and measure progress in modernizing and enhancing the DoD’s financial management capabilities.

A deficiency in internal controls over financial reporting, also called a control deficiency, exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements in a timely manner during their day-to-day activities. Auditors test how a control is designed and operating by interviewing personnel, observing the entity’s operations, and inspecting documentation. After testing, auditors evaluate the results and document deficiencies. These deficiencies are classified based on their severity. Figure 11 lists the three classifications of control deficiencies from the least severe to the most severe. Auditing standards require auditors to report on internal controls over financial reporting that present the significant deficiencies and material weaknesses identified during an audit.

Figure 11. Three Classifications of Deficiencies in Internal Controls

Classifications of Deficiencies			
	Other Control Deficiency	Significant Deficiency	Material Weakness
Definition	A weakness or deficiency that auditors bring to the attention of management that typically does not have a significant impact on the financial statements, but could improve the business processes of the agency.	A deficiency, or combination of deficiencies, in internal control over financial reporting that is important enough to bring to management's attention.	A deficiency, or 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.
Example	The DLA did not design or implement adequate policies and procedures to ensure that new assets are recorded timely. Therefore, the Property Plant and Equipment balance in the financial statements may not be complete and accurate, increasing the risk of material misstatements in the DLA Working Capital Fund financial statements.	The Army did not consistently implement or operate controls relating to the existence and valuation of general equipment assets beginning balance, which led to immaterial misstatements in the Army Working Capital Fund financial statements.	The Air Force did not have sufficient and effective internal controls in place to ensure that all OM&S is recorded and reported in their financial statements. As the Air Force has not fully developed and implemented adequate controls over OM&S, the Air Force General Fund's financial statements may be materially misstated.
	Least Severe	Less Severe	Most Severe

Source: The DoD OIG.



## Results of FY 2024 Audits

The results of the FY 2024 audits remained largely unchanged. The DoD has continued working to remediate material weaknesses, significant deficiencies, and NFRs, but has not fully implemented the needed corrective actions to change the DoD Agency-Wide audit opinion. However, the DoD made progress at the Component level, including two new clean audit opinions and several material weakness downgrades.

### FY 2024 DoD Reporting Entity Audit Results

While FY 2024 saw minimal changes in audit opinions for the DoD's major Components, the DoD did obtain two new unmodified opinions and continued to remediate FY 2023 audit findings. As shown in Figure 12, the DoD reporting entities received 11 unmodified (clean) opinions, 1 qualified opinion, and 12 disclaimers of opinion. Reporting entities, such as the Defense Health Agency–Contract Resource Management and U.S. Army Corps of Engineers–Civil Works, have consistently obtained unmodified opinions on their financial statements. Appendix A shows the history of financial statement audit opinions for DoD reporting entities since FY 1991.

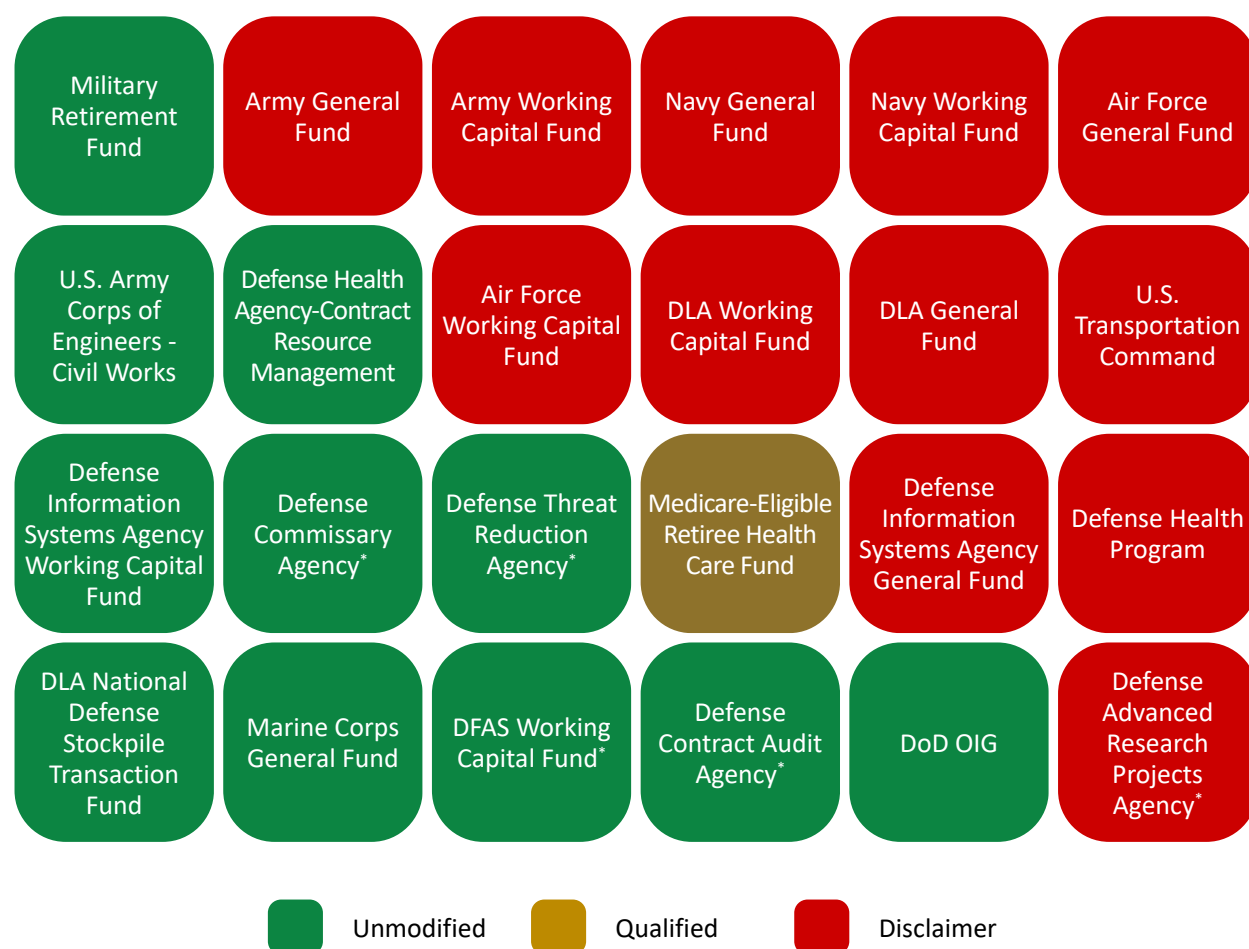
The most significant changes to the FY 2024 audit opinions included:

- the Defense Threat Reduction Agency obtaining an unmodified opinion after completing its second stand-alone audit,
- the Defense Logistics Agency National Defense Stockpile Transaction Fund obtaining an unmodified opinion, and
- 14 DoD reporting entities having at least 1 of their material weaknesses downgraded.<sup>10</sup>

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<sup>10</sup> 9 of the 14 DoD reporting entities downgraded their Fund Balance with Treasury material weakness.

Figure 12. FY 2024 DoD Reporting Entity Financial Statement Audit Results



#### LEGEND

**DLA** Defense Logistics Agency

\* The DoD OIG does not oversee the financial statement audits of these DoD reporting entities. The reporting entities have internal personnel designated to oversee the completion of the audit.

Source: The DoD OIG.

In the FY 2024 audits, the DoD OIG and the IPAs collectively reported 151 material weaknesses and issued 2,848 NFRs to the DoD and its Components. During the FY 2024 audits, auditors closed 930 prior-year NFRs, reissued 2,297 prior-year NFRs, and issued 551 new NFRs. Most notably, auditors identified that 76 percent of the NFRs demonstrated that internal controls were either not designed or operating effectively within the Components' financial management structure. Table 1 displays the number of deficiencies for the DoD Agency-Wide and each Component. In addition, Appendix B depicts the number of DoD NFRs issued between FY 2018 and FY 2024.

Table 1. Total Deficiencies Identified in FY 2024

Component	Material Weaknesses <sup>3</sup>	NFRs <sup>3</sup>		
		Count	Financial	IT
Department of the Army <sup>1</sup>	29	640	489	151
Department of the Navy <sup>1</sup>	22	820	353	467
Department of the Air Force <sup>1</sup>	15	450	214	236
Marine Corps	7	33	17	16
U.S. Army Corps of Engineers <sup>2</sup>	3	36	24	12
Defense Health Program	7	64	48	16
Defense Information Systems Agency <sup>1</sup>	4	36	31	5
Defense Logistics Agency <sup>1</sup>	20	379	278	101
U.S. Transportation Command	15	144	92	52
Defense Health Agency-Contract Resource Management	0	6	0	6
Medicare-Eligible Retiree Health Care Fund	1	13	4	9
Military Retirement Fund	0	6	2	4
Agency-Wide	28	221	177	44
<b>Total</b>	<b>151</b>	<b>2,848</b>	<b>1,729</b>	<b>1,119</b>

<sup>1</sup> These DoD Components received separate opinions for each of their fund types, as indicated in Figure 12. We combined the deficiencies identified from all the funds into a summary total for each DoD Component.

<sup>2</sup> The total material weaknesses and NFRs for the U.S. Army Corps of Engineers includes those from Civil Works and Military Programs' sub-allotted fund accounts.

<sup>3</sup> The same material weakness area and NFR issue can be reported at the DoD Agency-Wide level, the DoD Component level, and even for each fund under a Component (for example, the General Fund and the Working Capital Fund). Therefore, the same material weakness could be counted twice for one Component. In addition, the break-out of an NFR is determined by the specific auditor's judgment, whereas one auditor may combine multiple issues, but another auditor may choose to separate them.

Note: This table includes only those material weaknesses and NFRs that were identified and issued by the DoD OIG or by the IPA auditors overseen by the DoD OIG.

Source: The DoD OIG.

## FY 2024 DoD Agency-Wide Audit Results

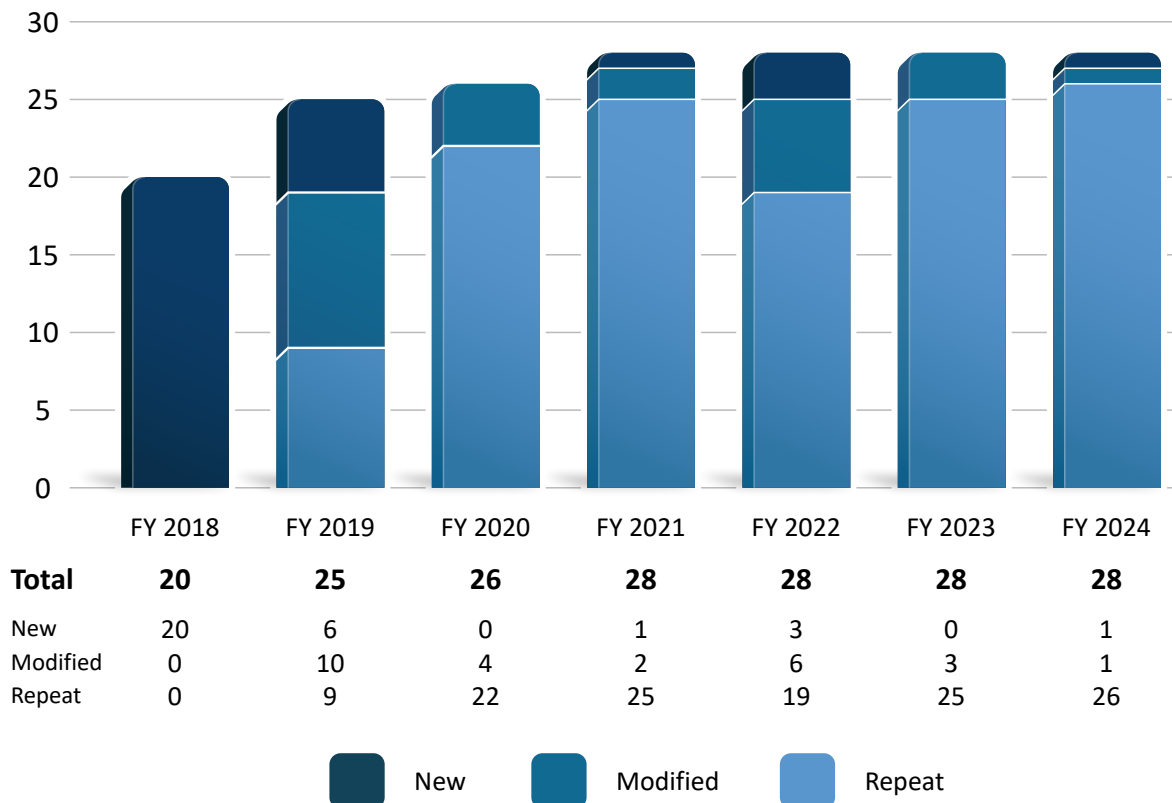
For the seventh consecutive year, the DoD OIG disclaimed its opinion on the DoD Agency-Wide Financial Statements. The disclaimer of opinion means that the DoD was unable to provide sufficient evidence for the auditors to conclude that the financial statements were fairly

presented in accordance with GAAP. The DoD OIG identified 28 material weaknesses at the DoD Agency-Wide level. Of the material weaknesses identified in FY 2024 when compared to FY 2023:

- 26 material weaknesses were repeated,
- 1 new material weakness was issued,
- 1 prior-year material weakness was closed, and
- 1 prior-year material weakness was modified.

It is important to note that comparing the number of material weaknesses from year to year is not a reliable way to measure progress towards a clean financial statement opinion. As shown in Figure 13, the total number of material weaknesses has not changed since FY 2021; however, the DoD made progress in certain areas. For example, in FY 2024, the DoD OIG closed the Contingent Legal Liabilities material weakness due to DoD management’s successful remediation of the DoD OIG’s findings. However, the DoD OIG issued a new material weakness related to the DoD’s inability to implement new guidance for reporting leases. So, while the number of overall material weaknesses did not change, simply looking at the number of material weaknesses from year to year does not capture the DoD’s progress. Appendix C provides the total number of material weaknesses since FY 2018, broken out by DoD reporting entity.

*Figure 13. Total Material Weaknesses Identified Annually Since FY 2018*



Source: The DoD OIG.

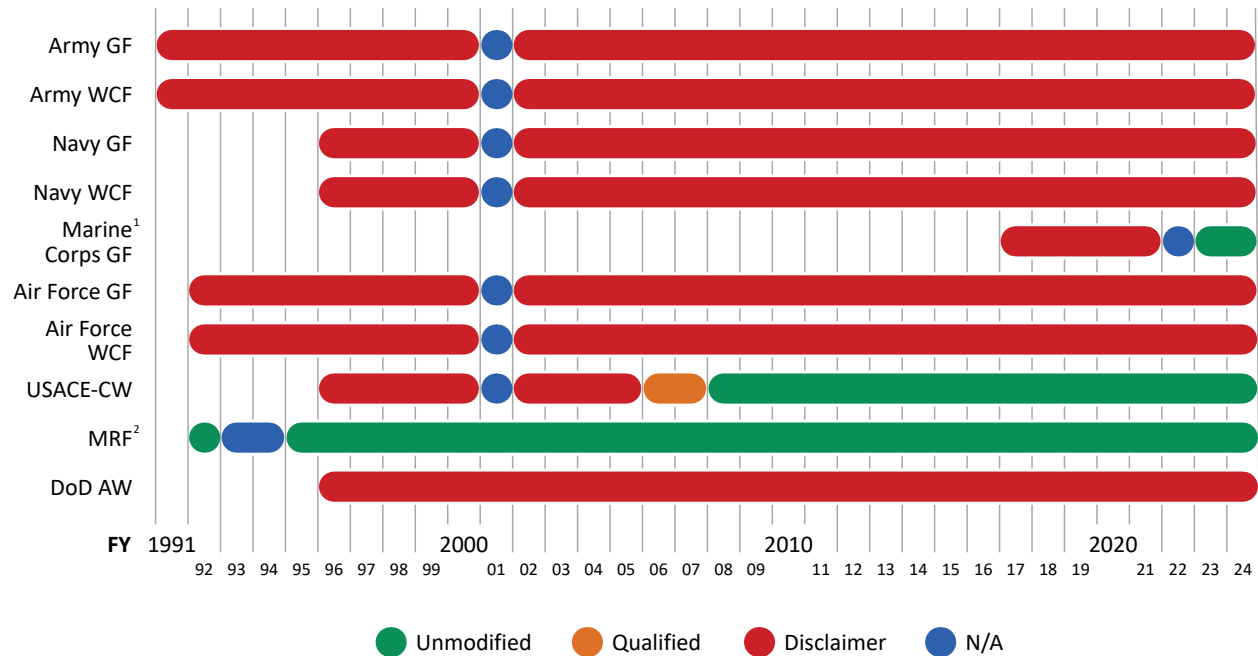
## Conclusion

In FY 2024, auditors completed the DoD's financial statement audits for the seventh consecutive year, noting that two DoD reporting entities, the Defense Threat Reduction Agency and Defense Logistics Agency National Defense Stockpile Transaction Fund, achieved unmodified opinions for the first time. In total, DoD reporting entities received 11 clean opinions, 1 qualified opinion, and 12 disclaimers of opinion.

Financial management is everyone's business, and designing, installing, and maintaining internal controls to create a sound financial management environment is fundamental to obtaining a clean audit opinion. DoD leaders responsible for weapons acquisition, research, information technology, intelligence, personnel, and supply and logistics should collaborate with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer to ensure the integration of robust financial management and accountability controls when building new or modifying existing systems. This collaboration to implement stronger, more efficient financial management controls will improve the DoD's operational effectiveness, enhance its decision-making capabilities, and better-position it to achieve a clean financial statement audit opinion by FY 2028, in accordance with Congress' mandate.



## Appendix A. DoD Opinions FY 1991–FY 2024



### LEGEND

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

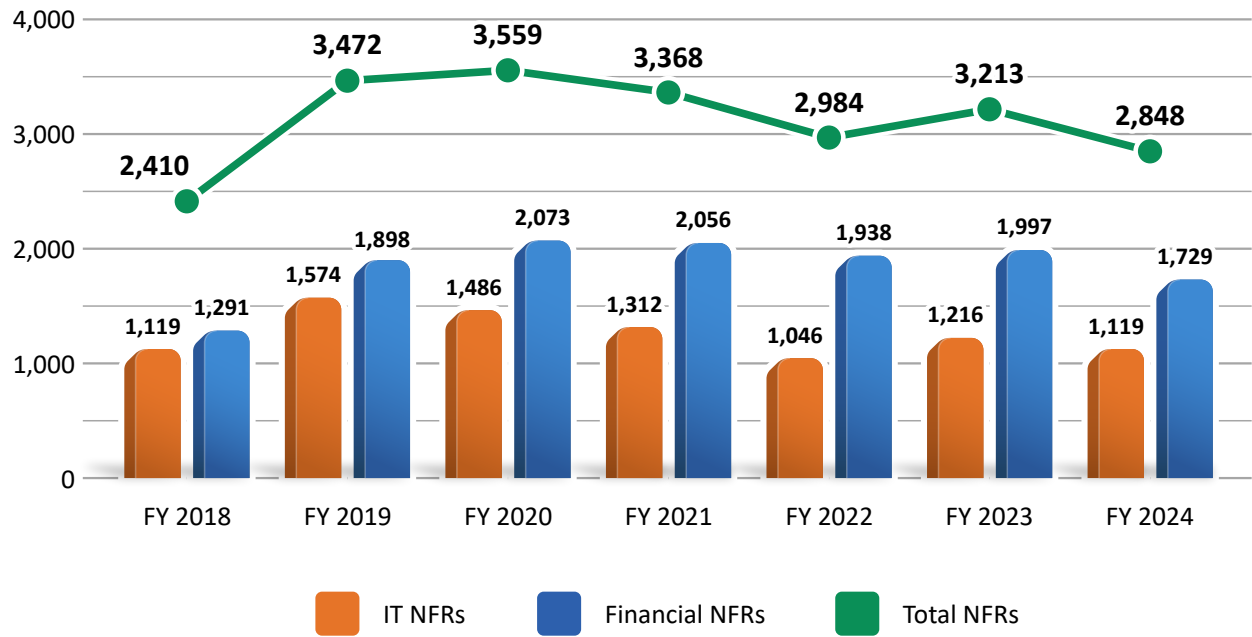
<sup>1</sup> The U.S. Marine Corps GF was consolidated with the Navy GF until FY 2017 and reported at the Department of the Navy GF. Beginning in FY 2017, the U.S. Marine Corps began preparing full financial statements for audit. OMB Bulletin No. 22-01 listed the U.S. Marine Corps as a DoD Component that was required to prepare audited financial statements; however, for FY 2022, the OMB exempted the U.S. Marine Corps from preparing audited financial statements because the U.S. Marine Corps was under a 2-year audit cycle.

<sup>2</sup> The FY 1993 and FY 1994 MRF Financial Statements were not audited.

Note: The chart only includes opinions from DoD reporting entities whose financial statements are required by OMB Bulletin No. 24-02. The chart does not include information pertaining to 4 additional entities required by other statutes. In addition, DoD reporting entities, except for the MRF, did not submit financial statements for audit for FY 2001. Therefore, no audit opinions were issued for that fiscal year.

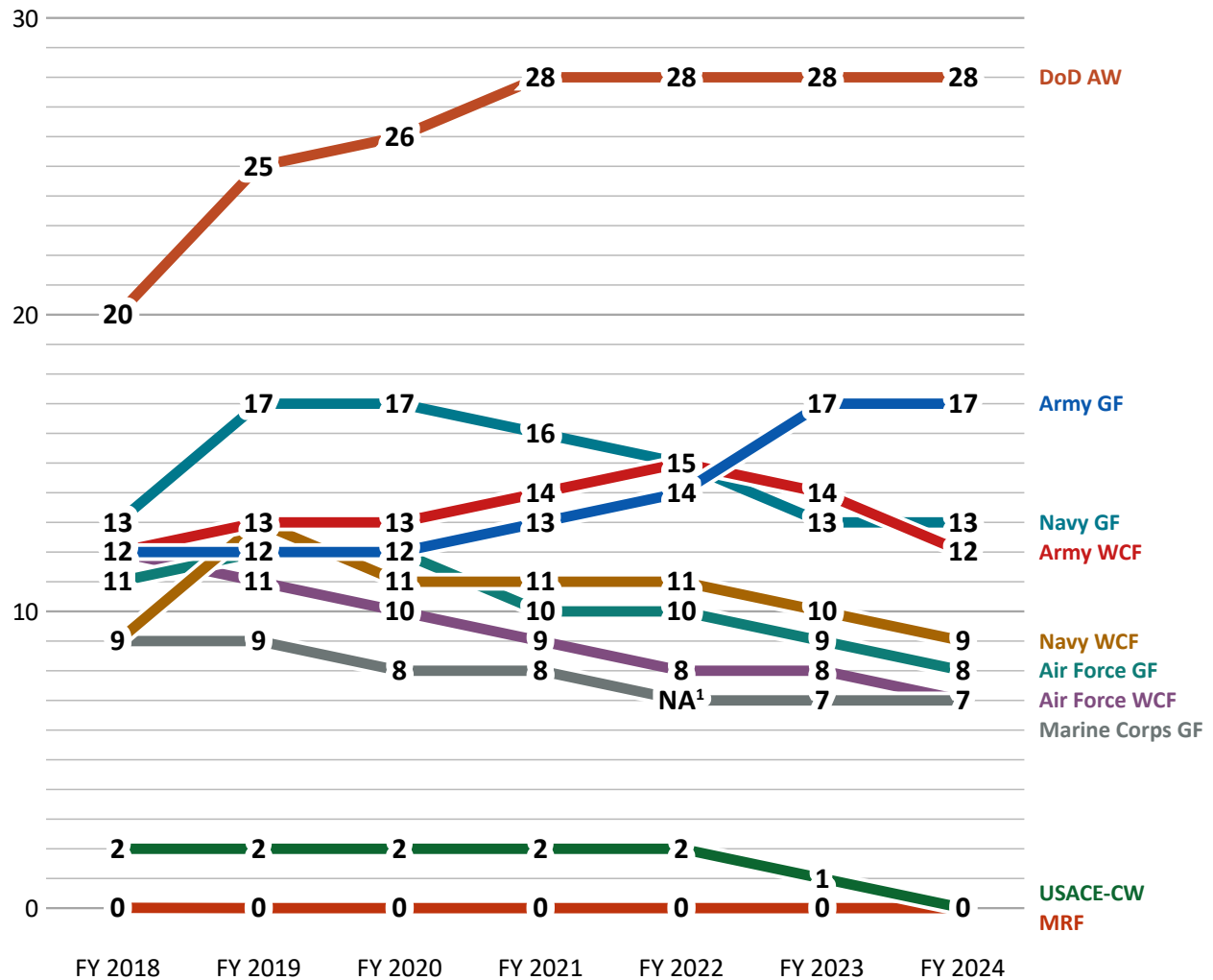
Source: The DoD OIG.

## Appendix B. DoD NFRs FY 2018–FY 2024



Source: The DoD OIG.

## Appendix C. DoD Material Weaknesses FY 2018–FY 2024



### LEGEND

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

<sup>1</sup> For FY 2022, the OMB exempted the U.S. Marine Corps from preparing audited financial statements because the U.S. Marine Corps was under a 2-year audit cycle.

Note: The chart only includes material weaknesses from DoD reporting entities whose financial statements are required by OMB Bulletin No. 24-02. The chart does not include information pertaining to 4 additional entities required by other statutes.

Source: The DoD OIG.

# Acronyms and Abbreviations

<b>DFAS</b>	Defense Finance and Accounting Service
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IPA</b>	Independent Public Accountants
<b>IT</b>	Information Technology
<b>NFR</b>	Notice of Finding and Recommendation
<b>OMB</b>	Office of Management and Budget

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

**Legislative Affairs Division**  
703.604.8324

**Public Affairs Division**  
[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324



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4800 Mark Center Drive  
Alexandria, VA 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
DoD Hotline 1.800.424.9098

