**Office of the Under Secretary of Defense (Comptroller)/
Chief Financial Officer
July 2024**

**United States Department of Defense
Financial Improvement and Audit Remediation Report**

A Message from the Under Secretary of Defense (Comptroller)/ Chief Financial Officer

Our fiscal year (FY) 2023 financial statement audit efforts resulted in the U.S. Marine Corps becoming the first Military Service to achieve an unmodified opinion. This was a major achievement and offers lessons learned for how other Department of Defense (DoD) reporting entities can accomplish this same level of success. The Department also made demonstrable progress in resolving Fund Balance with Treasury, a scope-limiting material weakness and a Secretary of Defense FY 2023 audit priority. The Air Force General Fund became the first Military Service to close its Fund Balance with Treasury material weakness, and Army Working Capital Fund, Navy General Fund, and Marine Corps each downgraded this foundational material weakness.

These significant accomplishments underscore the importance of highly-visible and consistent leadership and accountability—the tone at the top. Both Secretary of Defense Lloyd Austin and Deputy Secretary of Defense Kathleen Hicks have issued calls to action that demand Department-wide, cross-functional commitment from the Secretaries of the Army, Navy, and Air Force, and Principal Staff Assistants, to address material weakness root causes. We are leading change to ensure we meet the audit-related goals mandated in the Department of Defense 2022 National Defense Strategy of the United States, the DoD Strategic Management Plan Fiscal Years 2022 – 2026, and the Department of Defense Financial Management Strategy FY22-26. Meeting the Department's audit goals, as well as achieving the congressional mandate of an unmodified opinion by December 31, 2028, requires a meaningful shift in the overall DoD audit strategy. It requires a fresh review of our timelines, dependencies, and challenges and an adjustment to how we mitigate risk and measure audit progress.

As we advance on the 2028 mandate, we are holistically addressing the root causes in material areas to overcome audit scope-limiting issues and accelerate audit progress. While we will continue to track numbers of audit findings and material weaknesses, our focus will be on tackling the big issues impeding an unmodified opinion and measuring progress in terms of value to the American people—workforce modernization, business operations, quality decision-making, reliable networks, and enhanced public confidence.

We continue to need the support of our partners and stakeholders. We need support from Congress and the congressional defense committees to address some of our most difficult, systemic problems as well as adequate and consistent funding for financial systems modernization and audit support and remediation. Our commercial industry partners must prioritize reporting accurate inventories of DoD property in their possession. The independent public accounting firms and the audit community must accommodate the Department's strategy for accelerating audit progress. We will continue to rely on the Government Accountability Office and DoD Office of Inspector General for granularity and visibility into our challenges and our successes.

I am grateful for the hard work and support that our auditors, stakeholders, and workforce have given us. We could not have made it this far, and we will not achieve our future goals, without all of them.

Michael McCord

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FY 2023 Audit Results

The Department took an important step forward when the U.S. Marine Corps became the first Military Service to achieve an unmodified audit opinion on its General Fund financial statements for FY 2023. This significant achievement and other successes are informing how the Department is refreshing its audit strategy and tackling its most critical challenges.

The FY 2023 audits comprised 29 standalone audits and an audit of the DoD consolidated financial statements. Two new standalone audits were completed for the Defense Advanced Research Projects Agency and Defense Threat Reduction Agency. Ten reporting entities received unmodified opinions, and one received a qualified opinion.

An unmodified opinion means the auditors concluded the financial statements are fairly presented and free of any material misstatements. A qualified opinion means the financial statements are right with noted exceptions. The DoD Consolidated audit and all other standalone audits resulted in a disclaimer of opinion, meaning the auditors did not have enough evidence to provide an opinion.

The Department maintains tight control over all its assets and is working hard to bring DoD financial management systems, such as DoD property systems of record, up to audit standards. Today, favorable audit opinions (unmodified and qualified) cover nearly 52 percent of the Department's $1.9 trillion in FY 2023 total assets (Figure 1).

Unmodified Audit Opinions
U.S. Army Corps of Engineers (USACE) - Civil Works
U.S. Marines Corps (USMC) General Fund
Defense Commissary Agency (DeCA)
Defense Contract Audit Agency (DCAA)
Defense Finance and Accounting Service (DFAS) Working Capital Fund
Defense Health Agency - Contract Resource Management (DHA-CRM)
Defense Information Systems Agency (DISA) Working Capital Fund
Department of Defense Office of Inspector General (DoD OIG)
Military Retirement Fund (MRF)
National Reconnaissance Office (NRO)*

Qualified Audit Opinions
Medicare-Eligible Retiree Health Care Fund (MERHCF)

Disclaimers of Opinion
DoD Consolidated Audit
Army General Fund
Army Working Capital Fund
Navy General Fund
Department of the Navy (DON) Working Capital Fund
Department of the Air Force (DAF) General Fund
DAF Working Capital Fund
Defense Advanced Research Projects Agency (DARPA)
Defense Health Program (DHP)
DISA General Fund
Defense Intelligence Agency (DIA)*
Defense Logistics Agency (DLA) General Fund
DLA Working Capital Fund
National Defense Stockpile Transaction Fund
Defense Threat Reduction Agency (DTRA)
National Geospatial-Intelligence Agency (NGA)*
National Security Agency (NSA)*
U.S. Special Operations Command (USSOCOM)
U.S. Transportation Command (USTRANSCOM)

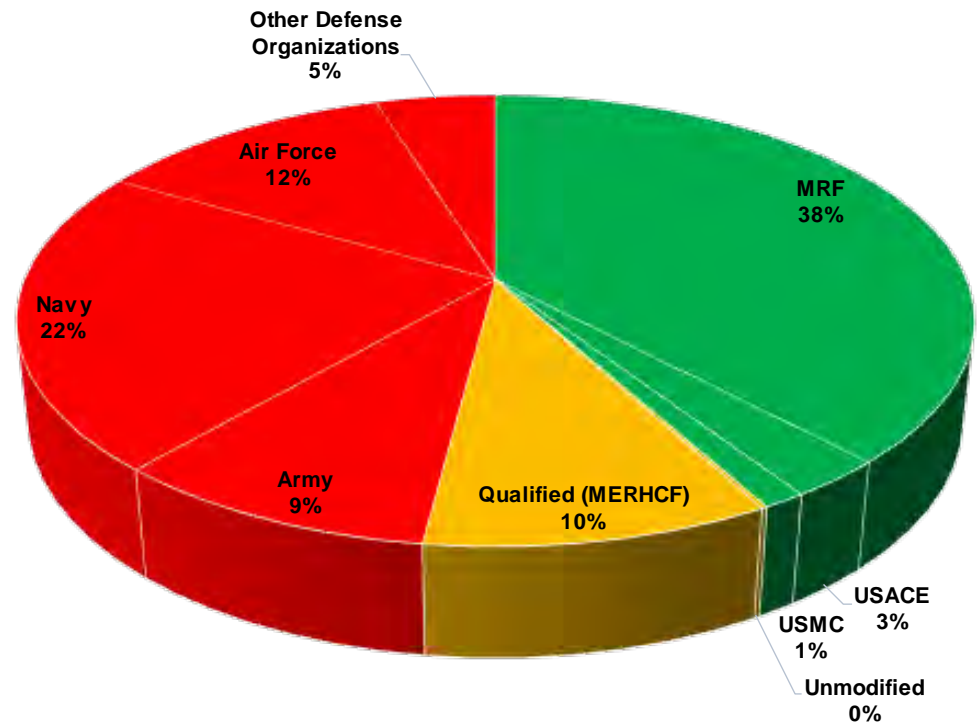*Denotes assets not included in Figure 1.*

Figure 1. DoD Assets Under Opinion and with Disclaimers FY 2023

FY 2023 Audit Results

This was the 14th consecutive unmodified audit opinion for the Defense Health Agency–Contract Resource Management, 15th for the National Reconnaissance Office, 16th for the U.S. Army Corps of Engineers–Civil Works, 22nd for the Defense Contract Audit Agency, 24th for the Defense Finance and Accounting Service Working Capital Fund, and 29th for the Military Retirement Fund.

Audit Findings

Material weaknesses are areas where a combination of findings could lead to a misstatement in the DoD financial statements. The Department measures audit progress against its material

weaknesses. The DoD Office of Inspector General (DoD OIG), which performs the audit of the DoD consolidated financial statements, identified no new DoD-wide material weaknesses for FY 2023. The FY 2022 DoD Component Level Accounts material weakness was consolidated into the DoD-Wide Oversight and Monitoring material weakness, and the FY 2022 Configuration Management and Security Management material weakness was separated into two material weaknesses, for no net change in the total number of 28 FY 2023 DoD-wide material weaknesses.

Table 1. FY 2023 DoD-Wide Material Weaknesses

Financial Management Systems Modernization	Joint Strike Fighter Program*
Configuration Management*	Contingent Legal Liabilities
Security Management*	Accounts Payable
Access Controls*	Environmental and Disposal Liabilities*
Segregation of Duties*	**Beginning Balances**
Interface Controls*	Unsupported Accounting Adjustments
Universe of Transactions*	Intragovernmental Transactions and Intradepartmental Eliminations
Reporting Entity*	Gross Costs
Fund Balance with Treasury*	Earned Revenue
Inventory and Stockpile Materials*	Reconciliation of Net Cost of Operations to Outlays
Operating Materials and Supplies	Budgetary Resources
General Property, Plant, and Equipment*	Service Organizations
Real Property*	**Component Entity-Level Controls**
Government Property in the Possession of Contractors*	DoD-Wide Oversight and Monitoring*

Bold font denotes a SecDef Financial Statement Audit Priority for FY 2024.
* Denotes a scope-limiting material weakness as identified by the DoD OIG in the report, "Understanding the Results of the Audit of the FY 2022 DoD Financial Statements," (DODIG-2023-070).

FY 2023 Audit Results

Scope-limiting material weaknesses are categories of findings that prevent the audits from moving forward. The FY 2024 financial statement audit priorities named by the Secretary of Defense (SecDef) target scope-limiting material weaknesses. That concentrated focus is proving effective, as the Department made significant progress in resolving the Fund Balance with Treasury material weakness. The Department of the Air Force General Fund closed its Fund Balance with Treasury material weakness, making it the first Service to remediate this foundational issue on one of its financial statements. The National Reconnaissance Office also closed its Fund Balance with Treasury material weakness. Additionally, the Army Working Capital Fund, Navy General Fund, and Marine Corps General Fund each downgraded its Fund Balance with Treasury material weakness.

In total, DoD reporting entities closed or downgraded 12 material weaknesses, including the Department of the Navy Working Capital Fund and Navy General Fund that both downgraded its Entity Level Controls – Oversight and Monitoring material weakness; the U.S. Transportation Command downgraded Reporting Entity Definition and Imputed Costs; the Defense Information Systems Agency General Fund downgraded Property, Plant, and Equipment; and the National Reconnaissance Office downgraded Property, Plant, and Equipment Assets.

In addition to identifying the issues most material to the financial statements, auditors issue notices of findings and recommendations, or NFRs. Each NFR is tied to one or more material weakness that it affects. The FY 2023 audits resulted in 3,246 NFRs, 2,615 of those contributed to a material weakness. The FY 2023 audits resulted in 238 more findings than the FY 2022 audits. This increase is partially attributable to a change in how NFRs that cover multiple funds are reported.

For complete results of the DoD Consolidated Audit, please refer to the Independent Auditor's Report included in the [DoD Agency Financial Report for FY 2023](#).

As of July 17, 2024, the Department has developed 2,615 corrective action plans to address FY 2023 audit findings. Corrective action plans describe how the DoD Component will address the root cause and remediate the issue by establishing milestones, assigning responsibility, and projecting a completion date. There may be one or more corrective action plan for each NFR, and one corrective action plan may help remediate multiple NFRs. NFRs that continue from one fiscal year into another are reissued by the auditor. NFRs not reissued by the auditors are considered closed. Only an auditor can determine whether an NFR has been remediated and closed. The Department closed 780 FY 2022 NFRs, and as of July 17, 2024, auditors have validated 589 of 2,318 FY 2023 corrective action plans.

Service Provider Examinations

Service providers are DoD Components and external organizations that provide common services to DoD Components, such as processing civilian and military pay and related benefits. Auditors examine a service provider's system and process controls in accordance with Statement on Standards of Attestation Engagement No. 18 (SSAE No. 18). Auditors issue findings and render an opinion in a System and Organization Controls Report, or SOC 1 Report. Auditors of other DoD reporting entities may rely on those reports as evidence the service provider's controls are suitably designed and operating effectively instead of doing their own testing. This saves both time and money.

Auditors completed 30 SSAE No. 18 examinations covering 37 systems owned by 8 DoD service providers. The Department received 15 unmodified opinions, 14 qualified opinions, and 1 adverse opinion. An adverse opinion means there were pervasive and material misstatements in management's descriptions of the system, design of controls, or failures in the operating effectiveness of controls.

Those with unmodified opinions include standard disbursing, civilian-pay, and contract-pay services provided by DFAS; and Advana, the Department's enterprise-wide, multi-domain data, analytics, and artificial intelligence platform maintained by the Chief Digital and

FY 2023 Audit Results

Artificial Intelligence Office. Additionally, DFAS Navy Enterprise Resource Planning (Navy ERP) – Vendor Pay obtained an unmodified opinion in FY 2023, its first year undergoing an examination. Continually increasing the number of examinations performed each year, broadening the scope of the examinations, and increasing the number of examinations resulting in an unmodified opinion are essential strategies to achieving the Department's audit goals.

Value of Audit

The cumulative effect of the Department's audit investment is catalyzing business process and systems reform across the Department, resulting in greater financial integrity, increased transparency, and ultimately, a better supported warfighter. Tools initially developed to support the financial statement audits, such as Advana, are expanding support to other areas of DoD operations.

Return on investment is captured across five areas essential for achieving and sustaining an unmodified opinion:

- Workforce Modernization – Upskill and maintain a modern and efficient workforce
- Business Operations – Enhance operational efficiency and stabilize the business environment
- Quality Decision-Making – Improve timeliness, accuracy, and availability of financial and operational data to increase confidence in that data and support decision-making
- Reliable Networks – Enhance cybersecurity, bring systems into compliance, and achieve greater interoperability between systems to enhance mission effectiveness
- Enhanced Public Confidence – Achieve an unmodified financial statement audit opinion, increase accountability and transparency, and provide greater public confidence in DoD's stewardship of taxpayer dollars

Airman Noelle Ross, 374th Comptroller Squadron financial operations technician, assists a customer at Yokota Air Base Japan, Nov. 8, 2023. In addition to general customer service, Ross' primary responsibilities include managing the housing and debts accounts across the 374th Airlift Wing. The 374th CPTS is responsible for providing fiscally responsible resource management, auditable and timely financial services, and actionable decision support for units and Airmen across Yokota Air Base. (U.S. Air Force photo by Master Sgt. DeAndre Curtiss)

These five areas are essential building blocks of meeting the priorities outlined in the National Defense Strategy. Table 2 shows notable achievements in advancing the National Defense Strategy in these areas for the Military Departments, Defense Logistics Agency, and other defense organizations.

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Table 2. Return on Investment Across Five Strategic Areas

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
U.S. Department of the Army				
Operates 68 Robotic Process Automations ("bots") to support financial management goals and objectives, saving approximately 115,000 labor hours annually. Updated 50,000 installation real property records and 199,000 real property transactions, saving approximately 33,000 labor hours through use of the Real Property Inventory Automation tool. Continued to identify and deliver training for the financial management community covering a wide range of audit subjects across a variety of platforms and methods, including the Annual Audit Summit, microlearning videos, and digital courses.	Kicked off the Audit Integration Executive Committee, which oversees the assignment, execution, and assessment of material weakness downgrades and remediation of significant deficiencies. Developed the Capital Asset Validation tool for landholding command teams to identify and display real property asset record updates from November 2023 to April 2024. This resulted in the identification of 1,263 asset record updates accounting for a net $17.6 billion decrease in deflated deemed cost.	Migrated and descripted all Advana-based solutions into the next-gen Advana environment, which addresses audit risks and accelerates the process to perform controls and population generation. Enhanced the Audit Execution Dashboards that link the audit sample failures that occur at the Command level to the resulting NFRs. Enhanced scripting logic to resolve data quality issues and improve the accuracy of the real property asset report in Advana, resulting in the identification of nearly $195 billion in asset records that should not be included in the asset report.	Developed the Army Personnel Monitoring Portal, a simplified, cost-effective, and flexible solution to identify terminated and transferred individuals with unauthorized access. The tool compares transferred and terminated user data with active system users to identify possible instances of unauthorized access, which are then investigated.	Downgraded Working Capital Fund - Fund Balance with Treasury material weakness. Army continues to perform effective monitoring controls and is projecting a downgrade of the General Fund - Fund Balance with Treasury material weakness to a significant deficiency in FY 2024. As the service provider for munitions, achieved a modified audit opinion on the Munitions SSAE No. 18 examination and aided in munitions inventory counts for the Marine Corps audit. Recognized the audit-focused teams of 11 organizations that achieved 100% pass rates during asset site visits in FY 2023.
U.S. Navy				
Avoided $1.5 billion in unsupported accounts payable journal vouchers in Standard Accounting, Budgeting and Reporting System in FY 2024. Avoided over $18.5 billion worth of abnormal accounts payable conditions in FY 2024. Put 181 automations in production, which allowed the Navy to re-focus 200,000 hours, a 20% increase over the 166,000 hours in FY 2023. 14 DON personnel completed the first ever Data Analytics Graduate Certificate Program at the Naval Post Graduate School and 23 began the Automation Citizen Developer Program, which won an enterprise award.	Deployed 7 automations within the Bureau of Naval Personnel in support of the Military Pay improper payment process, sustaining DoD's lowest Military Pay improper payment rate (0.06%) and reducing auditor-identified exceptions by 88%. Deployed G-Invoicing Navy ERP in November 2023. Processed its first order and settled performance transaction through G-Invoicing in December 2023.	Reviewed $17 billion of unliquidated obligations through the Budget Execution Validation process, validating that 97% of the balances met audit requirements and uncovering $330 million available for deobligation. Established the Financial Execution and Reporting Management Council to support data-driven oversight of the financial management community, progress, risks and milestones. This data has helped make significant progress in developing with metrics this year, especially the new 2024 Accounts Payable and Accounts Receivable metrics.	Decommissioned 11 systems by transitioning to an ERP environment; 3 Budget Submitting Offices transitioned to Navy ERP and 1 transitioned to the Defense Agencies Initiative (DAI) in FY 2022. Decommissioned one additional system in FY 2023. Implemented a train-the-trainer program, focused on providing Budget Submitting Office liaisons the training to develop and deploy digital tools, such as data analytics, artificial intelligence, machine learning, automation, and data acquisition.	Downgraded Navy General Fund Oversight and Monitoring and Fund Balance with Treasury material weaknesses, and DON Working Capital Fund Oversight and Monitoring material weakness in FY 2023. In Quarter 3 of FY 2024, Navy ERP will have transitioned all Navy ERP Budget Submitting Offices to Standard Financial Information Structure 11.2 Compliant Reporting. Completed the conversion of $5 billion in Navy budget authority to Navy ERP by migrating six major Navy commands.

FY 2023 Audit Results

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
U.S. Marine Corps				
Embraced emerging technologies and used the Advana suite to improve data visibility and transparency, resulting in faster data analysis. Trained more than 500 users on the Advana tool and leveraged the tool to support the Fund Balance with Treasury downgrade and end of audit adjustments.	FY 2023 auditors completed more than 70 site visits around the globe and tested more than: • 5,900 Military Equipment assets • 7,800 Real Property assets • 1.9 million Non-Ammo assets • 1,500 Garrison Property assets • 24 million Ammo assets	Improved the quality and understanding of data leveraged by leadership as evidenced by the downgrading of the Fund Balance with Treasury and Financial Statement Compilation and Reporting material weaknesses.	Reduced by 70% the number of IT NFRs from the FY 2021 audit.	Received an unmodified audit opinion in FY 2023, making the Marine Corps the first military service in DoD to attain that goal.
U.S. Department of the Air Force				
DAF Financial Systems Operations Digital Management Automation System delivered 11 new automations in FY 2024, as of May 2024. Created potential savings of over 577,000 automation hours and improved the auditability of 76 processes through enhanced documentation and business process execution traceability.	DAF Working Capital Fund conducted 82 virtual and in-person site visits in FY 2023, expanding to over 960,000 items, valued at $2.9 billion at over 96% accuracy. High inventory accuracy counts support supply chain planning and operations, confirmation of asset visibility and availability, and reliability of data to make informed readiness decisions. Implemented a transition roadmap to migrate DAF's Fund Balance with Treasury reconciliation into Advana in FY 2025. Developed an Advana testing strategy to validate controls are operating effectively before transitioning to sustain the control environment. The transition to Advana will reduce DAF's reliance on highly manual controls and reduce hours spent preparing Fund Balance with Treasury controls by an estimated 500 hours starting in FY 2025.	Further enhanced the Integrated Master Schedule (IMS) by deploying automated workflows to enforce stakeholder accountability and streamline approval queues. Leveraged financial improvement metrics and insights in more than 100 critical meetings and leadership forums. The IMS' real-time analytical capabilities provided DAF leadership with a more accurate measure of progress and risks to enhance the level of quality decision-making and more rapidly implement corrective actions.	Achieved a qualified opinion on the Defense Enterprise Accounting and Management System SSAE No. 18 examination.	Executed Reliability and Maintainability Information System data quality controls to validate 650 flagged transactions in the amount of $3.3 billion to ensure accurate financial reporting. Closed the Air Force General Fund - Fund Balance with Treasury material weakness.

FY 2023 Audit Results

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
Defense Logistics Agency				
Deployed 160 robotic process automation use cases. 41 have undergone full cycle enhancements, and 153 are designed to execute in an unattended manner. These bots are projected to save over 288,000 hours annually.	Through Quarter 2 of FY 2024, deployed on schedule the Warehouse Management System at 17 Distribution, 45 Disposition, and 9 Recruit Training Center sites, 74% of total sites. The system is expected to save approximately $12 million annually.	Redesigned monthly budgetary to proprietary reconciliations and analysis to consolidate the levels of variances by system and modules, providing efficiencies and drill-down capabilities for better insights into variances and decision-making.	Continued implementing the DLA Identify, Credential, and Access Management (ICAM) roadmap that follows a prioritized schedule for onboarding systems.	Reduced National Defense Stockpile Transaction Fund and General Fund aged undistributed to less than 10% of total undistributed for Quarter 2 of FY 2024, meeting the SecDef goal for Fund Balance with Treasury.
Other Defense Organizations				
DFAS placed 20 bots into production in FY 2023 to automate a wide variety of tasks with an associated benefit of over $500,000. This year marked the deployment of its 100th bot, and DFAS is on track to put another 15 bots in place in FY 2024 for an estimated annual benefit of 22,000 hours. DISA audits used bots to process more than 23,000 transactions, generating over 14,000 artifacts in support of audit samples, saving over 19,000 hours. NGA improved monitoring and supervision of the DoD Financial Management Certification program and achieved a certification standard of 95%. NGA increased focus on hiring and retaining qualified accountant talent and implemented successful intern opportunities, recruitment incentives, and a repeating hiring announcement. USTRANSCOM automated the document feed for 12 of 18 planned systems to support document retrieval. USTRANSCOM currently has over 100,000 documents.	DARPA changed from federal advance estimates to actuals. DARPA updated the unliquidated orders review process to encompass program managers and contract officers. In addition, increased focus on de-obligation for DARPA managed contracts. DTRA reviewed and certified all open unliquidated orders as of FY 2023 to validate receipt and acceptance for disbursements in support of beginning balances. DTRA implemented controls to accurately capture Government Furnished Equipment. Implemented monthly controls and certification process for receipt and acceptance. NGA developed and implemented a lookback analysis of U.S. Treasury balances to assess historical trends and likelihood of audit completeness issues, significantly reducing the risk of materially misaligned transactions. USSOCOM transitioned 56 of 84 programs into the Defense Property Accountability System, the primary system for property, plant, and equipment.	NSA's auditors implemented new rules of engagement to increase transparency during the FY 2024 audit. Areas coming out of remediation have been put forward to the external auditor for testing and several areas are in the testing phase. The testing phase begins with testing 20% of the population. Testing of the remaining 80% is dependent on the results of the initial 20%. USTRANSCOM executed data stewardship by exporting and analyzing all NFRs and CAPs within the NFR database for timely, complete, and accurate data to support informed decision-making.	DFAS Working Capital Fund transitioned accounting systems to DAI and is tracking toward a 25th consecutive unmodified opinion, which would be its first unmodified opinion using the DAI. DHP is deploying Military Health Service MHS GENESIS, a modern electronic health record for the Military Health System that provides a single, continuous record of care for 9.5 million beneficiaries worldwide. DHP launched a new medical billing module—Revenue Cycle Expansion to bolster medical accounts receivable transparency and reporting.	DARPA underwent its first standalone financial statement audit. DHP reduced the overall undistributed balance to less than 1 percent of the total Fund Balance with Treasury for November 2023 through January 2024, meeting the quantitative goal of overall undistributed disbursement and collection balances to less than 1 percent of Fund Balance with Treasury. DHP's fiscal year to date average is 1.03 percent. DTRA underwent its first standalone financial statement audit. NRO closed its Fund Balance with Treasury material weakness. USSOCOM deployed the IMS tool within Advana for use across the Special Operations Forces Enterprise. This tool provides custom filters to highlight critical audit remediation milestones for leadership, action officers, process owners, and other principal representatives and is expected to keep remediation efforts on track while also cross-walking control deficiencies for audit findings to material weaknesses.

FY 2023 Audit Results

Audit Incentives

The Department recognizes individuals and teams that consistently make and sustain measurable progress toward audit remediation goals. Examples include time-off awards, commendation letters, and achievement and commendation medals, and coins. In addition to recognizing and rewarding behavior within their organizations, Components can recommend outstanding teams and individuals for Department-level recognition and awards, such as the Under Secretary of Defense (Comptroller) (USD(C)) Financial Management Awards Program. For calendar year 2023, the Financial Management Awards Program Board evaluated 152 nominations and recommended a total of 29 awards.

Table 3. Audit Remediation Incentives and the FY 2023 Audit

Component	Number of Non-Monetary Awards Related to the FY 2023 Audits		
	Individual	Team	Organization
Army	8	5	0
Navy	5	6	0
Marine Corps	21	0	0
Air Force	21	9	1
DFAS	26	0	0
DIA	1	0	0
DISA	1	1	0
NGA	14	6	0
NSA	1	2	0
USTRANSCOM	3	0	0
DoD Total	**101**	**29**	**1**

Audit Costs

Audit, audit support, and audit remediation costs totaled $1.276 billion for FY 2023. Approximately $126 million was paid to the independent public accounting firms conducting the audits and examinations, and $224 million went to audit support, such as responding to auditor requests for information. Another $926 million went to remediating audit findings. The Department relies on continued congressional support to ensure adequate and consistent funding for financial system modernization and audit support and remediation.

The reporting entities track and report audit resources as follows:

- Audit Services and Support are the costs of the audits and SSAE No. 18 examinations performed by independent public accounting firms, plus government and contractor costs for supporting the audits and responding to auditor requests.
- Audit Remediation includes government and contractor costs for correcting findings and the costs of achieving and sustaining an auditable systems environment, not including Enterprise Resource Planning system deployment or maintenance costs.

Table 4. FY 2023 Audit Costs

	FY 2023 $ in Millions		
	Audit Services and Support	Audit Remediation	Total
Army	$55	$205	$260
Navy	$73	$279	$352
Marine Corps	$27	$57	$84
Air Force	$46	$206	$252
Other Reporting Entities	$187	$244	$431
DoD Total	**$388**	**$991**	**$1,379**

Numbers may not sum due to rounding.

Audit Strategy and the Path to 2028

Fiscal year 2023 was a pivotal year for the Department of Defense financial statement audits. The Marine Corps became the first Military Service to achieve an unmodified audit opinion. The Department also made substantial progress toward remediating its Fund Balance with Treasury DoD-wide, a scope-limiting material weakness and SecDef financial statement audit priority. Both confirmed the power of tone-at-the-top and act as a model for addressing some of the Department's most entrenched issues and propelling other reporting entities forward toward an unmodified opinion.

The Department's strategies for advancing the 2022 National Defense Strategy also called for accelerating audit progress and achieving an unmodified audit opinion as a DoD-wide priority and business imperative. The DoD Strategic Management Plan FY 2022 – 2026, Annual Performance Plan, and DoD Financial Management Strategy FY22-26 intersect along financial statement audit goals and objectives (Figure 2). To increase accountability to the American public, the National Defense Authorization Act for FY 2024 legislated an acceleration in the Department's audit goals, mandating an unmodified financial statement opinion by December 31, 2028.

Meeting the Department's audit goals, as well as the congressional mandate, demanded a meaningful shift in the overall DoD audit strategy and a review of the Department's audit timelines, dependencies, and challenges. The revised audit strategy must also address how the Department mitigates risk, remediates audit findings, measures audit progress, and assesses return on investment. The "Path to December 2028" combines establishing clear leadership expectations; applying lessons learned from the Marine Corps successful audit; a refreshed audit strategy, including an emphasis on the role of service providers; and continued investment in systems, tools, and technology.
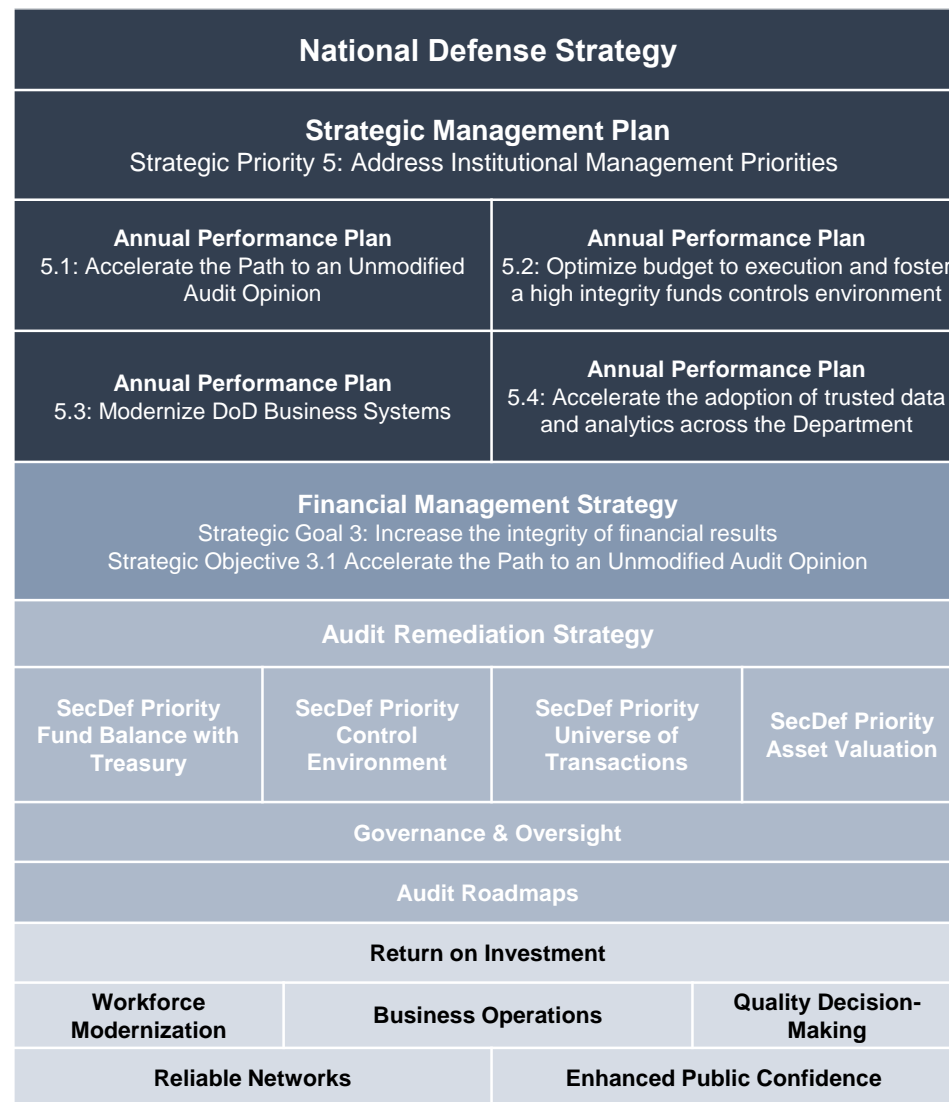
National Defense Strategy	
Strategic Management Plan Strategic Priority 5: Address Institutional Management Priorities	
Annual Performance Plan 5.1: Accelerate the Path to an Unmodified Audit Opinion	**Annual Performance Plan** 5.2: Optimize budget to execution and foster a high integrity funds controls environment
Annual Performance Plan 5.3: Modernize DoD Business Systems	**Annual Performance Plan** 5.4: Accelerate the adoption of trusted data and analytics across the Department
Financial Management Strategy Strategic Goal 3: Increase the integrity of financial results Strategic Objective 3.1 Accelerate the Path to an Unmodified Audit Opinion	

Audit Remediation Strategy			
SecDef Priority Fund Balance with Treasury	**SecDef Priority Control Environment**	**SecDef Priority Universe of Transactions**	**SecDef Priority Asset Valuation**

Governance & Oversight

Audit Roadmaps

Return on Investment

Workforce Modernization	Business Operations	Quality Decision-Making

Reliable Networks	Enhanced Public Confidence

Figure 2. Advancing the National Defense Strategy

Audit Strategy and the Path to 2028

Leadership

The success of any mission relies on the coordinated effort of all stakeholders. A successful audit opinion at the reporting-entity level and on the DoD consolidated audit requires the Military Departments, DoD Principal Staff Assistants, other Defense organizations, and DoD service providers to all work in lock-step toward this common goal. In FY 2024, the Secretary of Defense issued two significant audit-related memoranda. Two additional memoranda further advanced the Secretary's call to action:

Expectations for Supporting Department of Defense Financial Statement Audits October 13, 2023, signed by the Secretary of Defense	Fiscal Year 2024 Financial Statement Audit Priorities November 30, 2023, signed by the Secretary of Defense
• Outlined SecDef expectations of principal staff assistants for accelerating audit progress • Required implementation plans for these expectations to be submitted to the Deputy Secretary • Established defined measures of success for each principal staff assistant's area of focus • Required Senior Executive Service (SES) individual performance plans to include SecDef financial statement audit priority goals • Consider audit progress in the Planning, Programming, Budgeting, and Execution/Program Objective Memorandum process • Service organizations to maximize use of Advana	• Called for continued pursuit of prior year priorities (i.e., Improve Fund Balance with Treasury, Strengthen Internal Control Environment, and Create a Universe of Transactions) • Added a fourth priority of Optimizing Asset Valuations • Specified goals and key performance indicators for reporting entities to use in tracking progress
Supplemental Senior Executive Service Performance Plan Guidance for Supporting Department of Defense Financial Statement Audits January 19, 2024, signed by the Under Secretary of Defense (Personnel and Readiness)	**Deputy Chief Financial Officer Fiscal Years 2024-2025 Financial Statement Audit Priorities and Expectations for Other Defense Organizations February 16, 2024, signed by the Deputy Chief Financial Officer (DCFO)**

• Provided supplemental guidance for SES members for the FY 2024 performance plan and implementing performance accountability
• Prescribed adding the Financial Improvement and Audit Remediation (FIAR) requirement to the "Results Driven" critical element of performance plans
	• Called on other Defense organizations' SESs to:
	  o Include DCFO audit priority goals and their organization's audit objectives in the Results Driven element of SES performance plans
	  o Enhance internal controls, business processes, and monitoring mechanisms to maximize budgetary resources and minimize loss of purchasing power prior to expiration or cancellation
	  o Execute FIAR audit roadmap requirements or other metrics for reporting entities included in the DoD consolidated audit
	  o Employ Risk Management and Internal Controls requirements
	  o Review audit support contracts to ensure focus on results and conveyance of audit knowledge to government staff
	  o Monitor and ensure challenges identified on performance metric tools are resolved

Audit Strategy and the Path to 2028

Governance

The Department operates various governance forums to support formulating DoD policy and facilitate decision-making on an organization's policies, direction, and performance, such as the Defense Performance Improvement Council. To complement other governance forums and underscore leadership commitment to the annual financial statement audits, the Department established a tiered audit oversight governance infrastructure.

- The Deputy's Management Action Group is the Department's principal governance forum for management actions affecting the defense enterprise, including resource management and planning, programming, budgeting, and execution. Co-chaired by the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff, the Deputy's Management Action Group reviews audit progress and audit resource allocations semiannually.
- Financial Improvement and Audit Remediation Governance Board is the most senior governance body over non-

Deputy Secretary of Defense Kathleen H. Hicks speaks with servicemembers during a tour in Hangar 7 at RAF Lakenheath, England, Nov. 28, 2023. The Department is working to improve its accounting of Real Property, a DoD-wide material weakness. Real Property includes buildings and structures, such as hangars, and linear structures. (DoD photo by U.S. Air Force Senior Airman Cesar J. Navarro)

budgetary Defense financial management equities. Chaired by the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), the board comprises senior leaders from the Principal Staff Assistants, the Military Departments, DFAS, and DLA. Representatives from other DoD Components, the Government Accountability Office, and DoD OIG regularly attend the quarterly meetings.

- Financial Operations (FinOps) provides a weekly forum in which the Military Departments, DLA, and DFAS can share lessons learned. Led by the DCFO, these meetings give financial leaders a peer-to-peer opportunity to discuss audit progress, status, and strategy. The FinOps reviews the SecDef Audit Priorities Status Dashboard monthly before reporting out to other governance forums.
- Other Defense Organizations Financial Operations (ODO FinOps) supports other Defense organizations and reporting entities financial improvement efforts, including audit roadmaps and progress toward an unmodified audit opinion. Also led by the DCFO, the ODO FinOps provides a forum for discussing challenges and dependencies that may impact audit progress. The ODO FINOPs meets every other month.
- Functional Councils are organized around the Department's pivotal and pervasive audit issues of property, information technology, and financial reporting. Each functional council meets quarterly to review remediation status and strategies and to develop solutions including potential changes to DoD policy and procedures.

Audit Strategy and the Path to 2028

Marine Corps Lessons Learned

The Marine Corps is made up of 204,000 active and reserve Marines and 20,000 civilians, with a budget of $51 billion annually. To complete the FY 2022 – FY 2023 financial statement audit, Marine Corps auditors made more than 70 site visits, issued 3,100 provided by client requests, and tested more than 5,900 military equipment assets, 7,800 Real Property assets, 1.9 million non-ammunition assets, 1,500 garrison property assets, and 24 million ammunition assets. The audit resulted in an unmodified opinion—the first by any DoD Military Service—and the downgrading of its Fund Balance with Treasury and Financial Statements Compilation and Report material weaknesses. In FY 2024, the Marine Corps is working to connect its property systems and general ledger to reduce costs and financial reporting risk and determining its path forward for remaining material weaknesses.

Lessons learned from audit success are informing the Department's overall audit strategy, including:

➢ Tone at the top was the most important lesson learned. The Commandant inspired action and drove accountability across the Marine Corps. The Deputy Secretary of Defense issued a memorandum to senior DoD leadership and Defense Agency and DoD field activity directors calling for complete and timely response to Marine Corps' audit needs. Leadership has been identified as a lesson learned in other areas of DoD audit success and is woven throughout the DoD audit strategy.

➢ Breaking down siloed organizations, systems, and data management to minimize the need for extensive manual workarounds to meet financial reporting standards was also important. Procurement, supply, logistics, asset management, and accounting must be better integrated to improve audit results.

➢ Budget officers and financial analysts must also meet expense reporting requirements in order to achieve an unmodified opinion. Budget execution is more than obligation rates and problem disbursements, as the expense cycle is underreported across DoD. Historically, the Department has focused on obligation rates and problem disbursements only.

➢ Modifying the Marine Corps' financial statement audit plan for fiscal years 2022 and 2023 from two annual financial statement audits to one two-year audit allowed significantly more time for internal controls assessment and testing and demonstrates the importance of a flexible audit strategy.

Audit Remediation Strategy

A Department-wide unmodified audit opinion has always been the goal. Achieving this goal on an accelerated timeline requires a coordinated effort between both internal and external stakeholders. Internal stakeholders, such as the Military Departments, other Defense organizations, Principal Staff Assistants, and Service Providers, must work together and through the Office of the Under Secretary of Defense (Comptroller) to continually engage external stakeholders, including Congress, regulators, and federal oversight agencies.

Intersection of Priorities

To identify areas of shared interest, the Department compared scope-limiting material weaknesses identified by the DoD OIG with the U.S. Government and Accountability Office's (GAO) High Risk List. Scope-limiting material weaknesses are areas of material weakness that impede the completion of the audit. The DoD OIG identified 16 of the Department's 28 DoD-wide material weaknesses as scope limiting. An end-to-end remediation strategy, including critical path, action officers, and timelines, is developed for each scope-limiting material weakness. GAO's high risk list reports on government operations that need improvement and involve substantial resources or provide critical services to the public.

Audit Strategy and the Path to 2028

Figure 3 overlays the Secretary's Audit Priorities to illuminate the Department's top five challenges to audit progress:

1. Fund Balance with Treasury and establishing a universe of transactions
2. Legacy Systems
3. Internal Control Architecture
4. Oversight and Monitoring
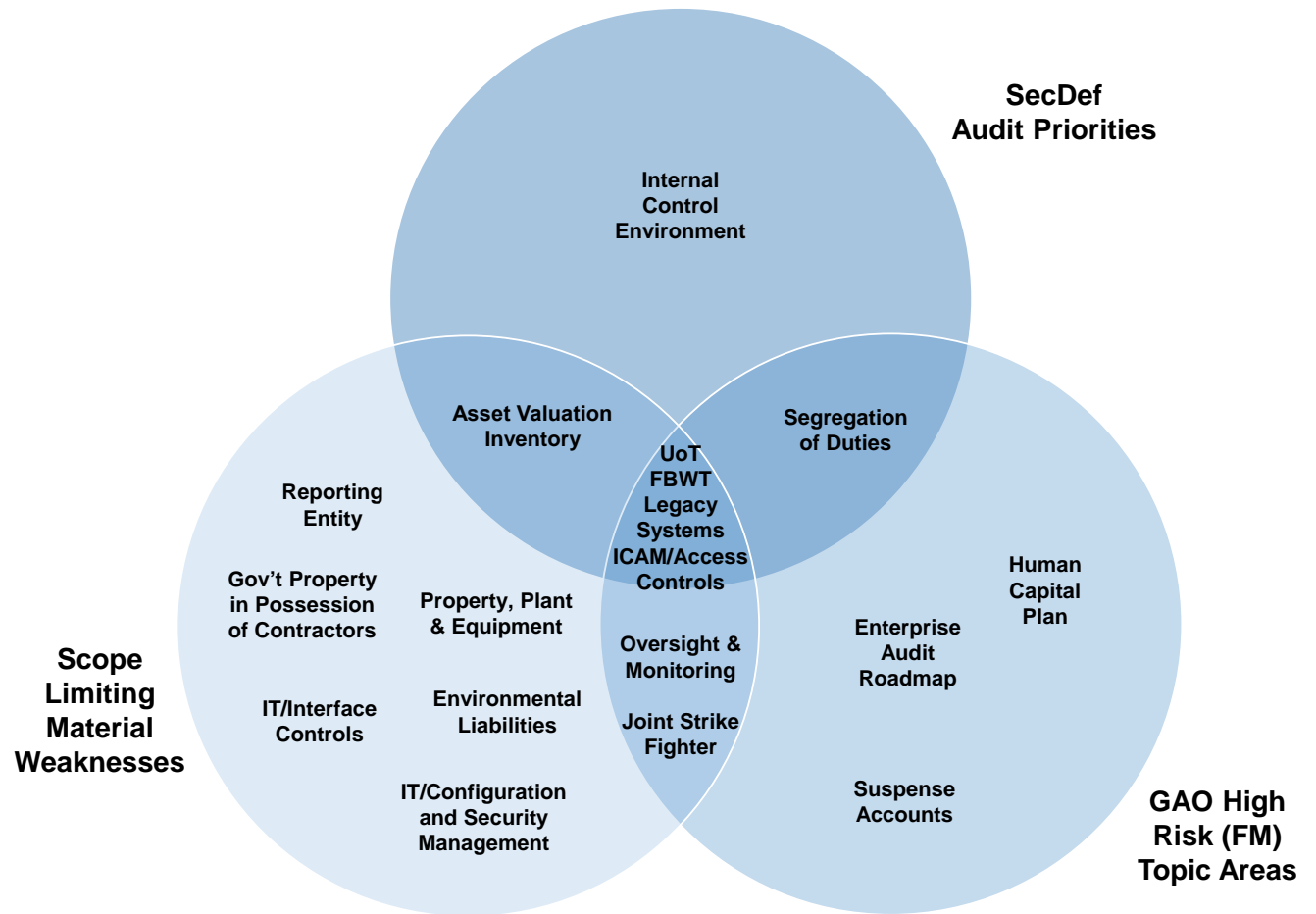5. Property Valuation and Accountability, including Joint Strike Fighter

Figure 3. Intersection of Priorities
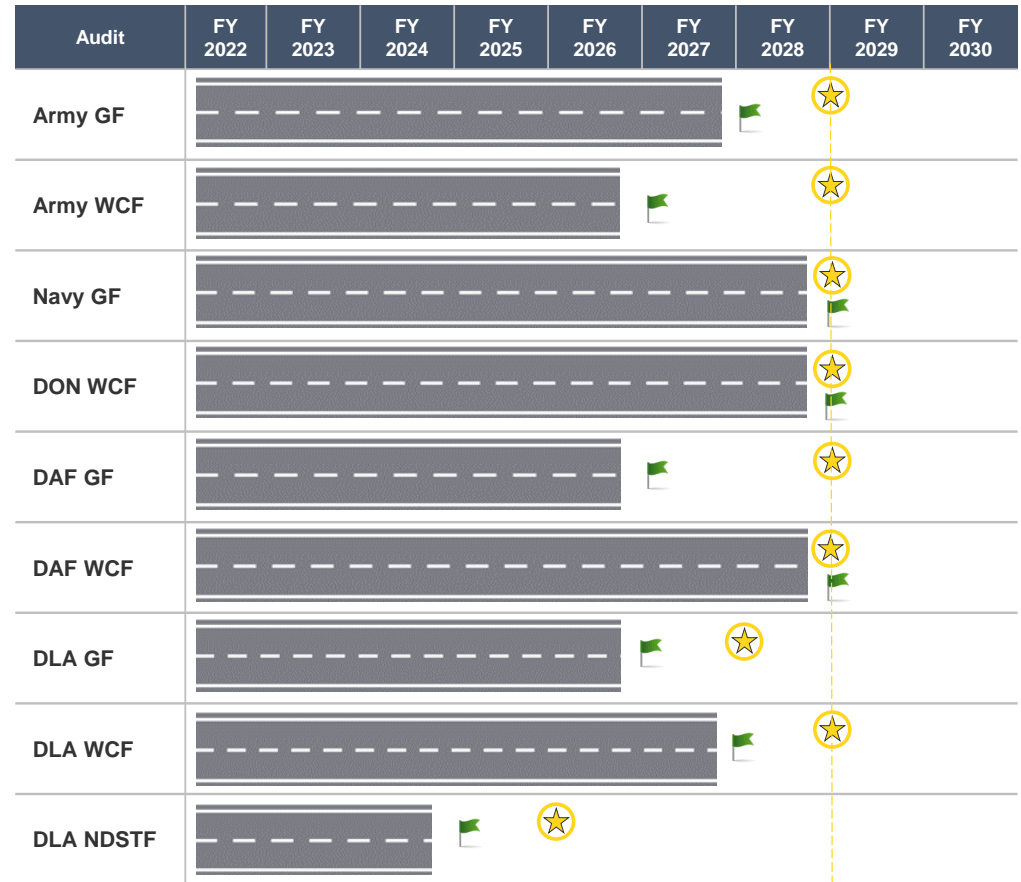
Audit Strategy and the Path to 2028

For the remainder of FY 2024, Components are focused on remediating as many NFRs as possible that contribute to Fund Balance with Treasury, universe of transactions, the controls environment, and legacy systems.

Audit Roadmaps

The Military Departments and each reporting entity under a standalone audit with a disclaimer of opinion, including the DoD intelligence community agencies, maintain an audit roadmap. The audit roadmaps guide the implementation of corrective measures and establish milestones against which progress can be measured and the return on the Department's audit investment assessed. Each roadmap is reviewed annually to ensure it aligns to the Secretary's audit priorities, addresses root causes of issues, and adjusts for risk. Any deviation from an approved audit roadmap requires approval from the Deputy Secretary of Defense and USD(C)/CFO. Each roadmap was re-aligned in FY 2024 to accelerate audit progress and achieve the December 2028 unmodified audit opinion mandate.

Monitor Progress

The governance forums with audit oversight use audit scorecards to track progress against the audit roadmaps. Each scorecard tracks findings, corrective action plans, and audit roadmap milestones across various metrics such as the number of findings closed related to material weaknesses, milestone completion rates, milestones past due, etc. Leaders in the Department use these scorecards to assess where improvements in audit remediation are needed and which reporting entities are most in need of assistance. Additionally, by identifying which corrective action plans or milestones contributing to a material weakness are past due, leaders are better able to assess potential risks to the Department's overall audit position.

⭐ **Current target FY for unmodified audit opinion**

🚩 **Current target FY for qualified audit opinion**

Figure 4. FY 2024 Audit Roadmap Commitments

Audit Strategy and the Path to 2028

Risk Management and Internal Controls Program

An effective Risk Management and Internal Controls (RMIC) program provides a structured framework for identifying, assessing, and mitigating risks. The Department's RMIC program, co-led by the USD(C)/CFO and the Performance Improvement Officer and Director, Administration & Management, is focused on improving audit outcomes, enhancing mission support, and tracking returns on audit investments. It coordinates a reporting entity's assessments of the effectiveness of its internal control systems. Reporting entities conduct annual risk assessments and submit agency-level risks to the OUSD(C) through the annual Statement of Assurance process. The DoD RMIC program, including fraud risk management, ensures the Department maintains consistency with GAO requirements and the Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and helps to sustain financial management improvements.

Service Providers

DoD service providers are partners to the Components and critical to DoD audit success. Service providers perform most of the financial management and reporting services for Components and are a large part of individual reporting entity's control environments:

- DFAS executes most of the accounting and finance functions for the Department
- DLA supports DAI, a general ledger system used by 26 DoD reporting entities
- DISA provides data center hosting and network services for multiple systems with a Department-wide financial audit impact
- Defense Manpower Data Center (DMDC), DCMA, and external commercial service providers also provide financially relevant services for DoD Components

The use of service providers supports the Department's efforts to reduce the number of IT systems, including those that affect financial

A Soldier assigned to Alpha Company, 2nd Battalion, 58th Infantry Regiment trains on Shoulder-Launched Munitions (SLMs) on October 23, 2023, at Fort Moore, GA. SLMs allow Soldiers to engage enemy personnel, light armored vehicles, bunkers and other field fortifications in close combat. Army received a modified opinion on its FY 2023 Munitions SSAE No. 18 examination (U.S. Army photo by Capt. Stephanie Snyder)

reporting. For example, the Department migrated more than 25 Treasury Index-97 reporting entities and the Marine Corps from legacy general ledger systems to DAI. DAI received its seventh consecutive SSAE No. 18 opinion in FY 2023. The Department is standardizing processes, controls, and systems to facilitate increasing the number of SSAE No. 18 examinations performed each year.

Systems, Tools, and Technology

The Department continues to invest in technology and tools to accelerate audit progress and modernize the Department's systems to support sustainment. Systems and the internal controls environment are a SecDef audit priority, named as a scope-limiting material weakness, and highlighted by GAO in its high-risk list. Both GAO and the DoD OIG have recognized the Department's progress in defining a systems strategy.

Audit Strategy and the Path to 2028

Defense Business Systems

As of June 2024, the Department has designated 246 of the defense business systems catalogued in the Defense Information Technology Portfolio Repository as being relevant to internal controls over financial reporting (ICOFR). Systems relevant to ICOFR are subject to the annual financial statement audits. Since last year, the Department retired or consolidated 7 systems, removed 2 systems from the list of ICOFR-relevant systems, and added 20 systems, for a net increase of 11 systems. Of the 20 newly identified systems, 10 are new systems in pre-deployment status. As the audit progresses, the Department will continue to simplify its systems environment by retiring outdated systems and continually assessing the scope and inventory of existing ICOFR-relevant systems.

System migrations and retirements are critical drivers to achieving a more simplified, efficient, and auditable IT environment. The Department employs a data-driven approach to align systems-related business operations with the Enterprise Financial Management (FM)

IT Systems Roadmap and the Department's financial management strategy. The Enterprise FM IT Systems Roadmap drives systems improvements by providing an integrated overview of plans, critical paths, and timelines for system migrations, consolidations, and retirements. The Enterprise FM IT Systems Roadmap also facilitates system prioritization and portfolio management by helping leaders make assessments based on business function and technical maturity data from authoritative sources.

Continued use and refinement of the Enterprise FM IT Systems Roadmap is critical to good management and progress toward the Department's goal of better integrating audit remediation, security, compliance, system interoperability, and system consolidation and retirement plans. Success is measured by the number of systems migrated or retired timely and the adoption of federal and DoD standards, all leading to a more simplified, secure, compliant, auditable, and cost-effective environment.

SecDef Financial Statement Audit Priorities for FY 2024

The Secretary's annual financial statement audit priorities are an essential part of the DoD audit strategy. Spotlighting critical areas and concentrating efforts Department-wide has proven a successful strategy, as demonstrated by the substantial progress toward resolving Fund Balance with Treasury in FY 2023.

Each year, the Secretary of Defense re-evaluates audit status and identifies priority scope-limiting material weaknesses where the Department needs to drive progress. For each priority area, the Department establishes quantitative goals against which progress can be measured. An executive dashboard shows real-time status of milestones and corrective action plans for the Military Services and DLA. Status is reported monthly to the Deputy Secretary of Defense.

The SecDef financial statement audit priorities for FY 2024 are:

- Fund Balance with Treasury
- Internal Control Environment
- Universe of Transactions
- Optimizing Asset Valuations

Progress toward the quantitative goals established for each priority area and major accomplishments are on the following pages. Table 5 shows the Military Services and DLA estimates for the downgrading or closing of the Secretary's FY 2024 audit priorities.

Table 5. Target Remediation Dates

| | Target Remediation Date | | | | |
| | Fund Balance with Treasury | Internal Control Environment | | | Universe of Transactions |
		Access Controls	Segregation of Duties	Entity Level Controls	
Army GF	FY 2024	FY 2027	FY 2027	FY 2027	FY 2026
Army WCF	Downgraded	FY 2024	FY 2024	FY 2027	N/A
Navy GF	Downgraded	Not Tracked	Not Tracked	Downgraded	N/A
DON WCF	FY 2026	Not Tracked	Not Tracked	Downgraded	N/A
Marine Corps GF	Downgraded	FY 2028	FY 2028	FY 2025	N/A
DAF GF	Closed	FY 2026	FY 2026	FY 2026	FY 2026
DAF WCF	FY 2024	FY 2026	FY 2026	FY 2028	FY 2028
DLA GF	FY 2025	FY 2026	FY 2026	N/A	N/A
DLA WCF	FY 2027	FY 2026	FY 2026	N/A	N/A
NDSTF	FY 2024	FY 2026	FY 2026	N/A	N/A
DoD-Wide	**FY 2026**	**FY 2026**	**FY 2026**	**FY 2026**	**FY 2028**

N/A denotes that the reporting entity's audit report does not specifically identify this priority area as a material weakness.

SecDef Financial Statement Audit Priorities for FY 2024

Priority Audit Area 1: Improve Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's available budget spending authority available to pay current liabilities and finance future authorized purchases. Each reporting entity must balance its records to Treasury's records monthly to verify completeness and accuracy and resolve any differences. The Department reported a Fund Balance with Treasury of $768 billion on the FY 2023 DoD Balance Sheet—roughly 20 percent of DoD's total assets.

Table 6. Fund Balance with Treasury

DoD-wide Target Remediation Date: FY 2026 Measure of Progress: Undistributed transactions as percentage of Fund Balance with Treasury.		Alignment with the DoD Strategic Management Plan and Annual Performance Plan: • Strategic Objective 5.1 - Accelerate the Path to an Unmodified Audit Opinion, Performance Goal 5.1.2 - Utilize Advana for Fund Balance with Treasury Reconciliations
FY 2024 Goals	**FY 2024 Quantitative Goal**	**Status as of May 2024**
Clear undistributed disbursement and collection balances that materially contribute (greater than 10 percent) to the undistributed disbursement and collection balance total within 60 days or less.	<10%	34.73%
Reduce and maintain total undistributed disbursement and collection balances, as reported in Advana Dashboard, to 1 percent or less of total Fund Balance with Treasury.	< or = 1%	0.88%
Key: Goal Met or Exceeded ● Goal Not Met ● Data Pending		

Note: Current status as reported represents mid-year progress at a single point of time. Final year-end results will not be known until the end of the audit cycle in November.
Reporting entities that have downgraded their Fund Balance with Treasury material weakness will prioritize the sustainment of their control environment.
Fund Balance with Treasury is currently reported one month in arrears, creating a one-month lag in status reporting compared to other metrics.

SecDef Financial Statement Audit Priorities for FY 2024

Accomplishments

In FY 2023, the Department, with extensive support from DFAS, made significant progress in resolving its Fund Balance with Treasury material weakness:

- Air Force General Fund closed its Fund Balance with Treasury material weakness
- Army Working Capital Fund downgraded its Fund Balance with Treasury material weakness to a significant deficiency
- Navy General Fund downgraded its Fund Balance with Treasury material weakness to a significant deficiency
- Marine Corps downgraded its Fund Balance with Treasury material weakness to a control deficiency
- The above successes combined Fund Balance with Treasury balance of $423 billion is 55 percent of the DoD-wide balance of $768 billion

The Department migrated 90 percent of DoD reporting entities' Fund Balance with Treasury reconciliations into Advana, exceeding its goal for FY 2023 of 75 percent.

Army Working Capital Fund continues to effectively perform monitoring controls over Fund Balance with Treasury and is projecting to downgrade the significant deficiency to a control deficiency in FY 2025.

DAF validated and reconciled more than $126 billion in collections and disbursements, as of March 2024, as part of the reperformance of the Consolidated Cash Accountability System reconciliation. Additionally,

DAF traced $126 billion of disbursements and collections (over 99 percent of all Treasury activity) from the source system, validating the U.S. Treasury balance is complete and accurate.

DAF developed a timeline to separate existing Fund Balance with Treasury controls between the U.S. Space Force and U.S. Air Force. As of June 2024, more than 10 controls have been broken out, which will aid in preparing for a future standalone audit of the U.S. Space Force.

DAF General Fund teamed with the Working Capital Fund to develop two key Treasury reporting controls, resulting in reducing the monthly report preparation and review time by 40 hours per month.

DFAS developed and processed 20 undistributed inception-to-date and year-to-date universe of transactions for 8 DFAS-IN Defense Agency customers. As a result, a team working across six mission areas successfully eliminated $42.5 million in undistributed net variances.

DFAS built and demonstrated Suspense and Cash Management Report risk reduction analysis in support of the DISA, DTRA and DARPA audits. After leveraging existing contract and historical transaction data from across the network, DFAS identified a reduction in risk of $285 million for DTRA, $162 million for DARPA, and $229 million for DISA General Fund.

SecDef Financial Statement Audit Priorities for FY 2024

Priority Audit Area 2: Strengthen Internal Control Environment

A strong and effective internal control environment is essential to achieving and sustaining an audit opinion and achieving the Department's national security goals. Access controls and segregation of duties controls help prevent cyberattacks and secure data, equipment, and facilities. Components must also implement Identity, Credential, and Access Management (ICAM) solutions, or another auditable internal control measure, for providing, reviewing, modifying, and removing user access in all systems relevant to internal controls over financial reporting. Goals related to the internal controls tool and entity level controls further reduce risk.

Table 7. Internal Control Environment

DoD-wide Target Remediation Date: FY 2026 Measure of Progress: Percentage of findings closed, implementation of ICAM solutions, documented processes		Alignment with the DoD Strategic Management Plan and Annual Performance Plan: • Strategic Objective 3.4 - Enhance the DoD's Cybersecurity Posture • Strategic Objective 5.4 - Modernize DoD Business Systems	
FY 2024 Goals		**FY 2024 Quantitative Goal**	**Status as of June 30, 2024**
Remediate privileged access control deficiencies for ICOFR-relevant systems through an effective internal control framework. Each Component should achieve a 50 percent NFR reduction from the prior year ending NFR balance.		> or = 50%	42%
ICAM: • For ICAM program management offices deploying their own ICAM solution, achieve a 90 percent on time delivery, based on schedule.		> or = 90%	22%*
• For Components that own ICOFR-relevant systems, whose systems will need to be configured to use an ICAM solution, achieve a 90 percent on time delivery, based on the Component-provided ICAM system capability schedule configuration.		> or = 90%	Metric in development
• For Component system owners whose systems will be on-boarding to an ICAM solution (all ICOFR-relevant system owning agencies), achieve a 90 percent on time on-boarding, based on the Component provided ICAM on-boarding schedule.		> or = 90%	Metric in development
Segregation of Duties: • Remediate and reduce 10 percent of financial statement NFRs from the prior year ending NFR balance.		> or = 10%	30%

SecDef Financial Statement Audit Priorities for FY 2024

DoD-wide Target Remediation Date: FY 2026 Measure of Progress: Percentage of findings closed, implementation of ICAM solutions, documented processes		Alignment with the DoD Strategic Management Plan and Annual Performance Plan: • Strategic Objective 3.4 - Enhance the DoD's Cybersecurity Posture • Strategic Objective 5.4 - Modernize DoD Business Systems	
FY 2024 Goals	**FY 2024 Quantitative Goal**	**Status as of June 30, 2024**	
Internal Control Tools: • Deploy to 25 percent of DoD entities an Internal Control tool that is interoperable with the DoD's Risk Management and Internal Controls Program.	> or = 25%	19%	
Entity Level Controls: • Complete a 100 percent assessment that validates Entity Level Controls compliance with the Government Accountability Office Standards for Internal Controls in the Federal Government (i.e., the "Green Book").	100%	66%	
• Complete 50 percent documentation of the end-to-end process control narrative and systems and business processes design and execution controls testing.	> or = 50% (documented process control narratives) > or = 50% (effective key controls)	Baseline in development 30%	
Key: Goal Met or Exceeded ● Goal Not Met ● Data Pending			

Note: Current status as reported represents mid-year progress at a single point of time. Final year-end results will not be known until the end of the audit cycle in November.
* Denotes as of March 31, 2024.

Accomplishments

Overall, the Department achieved a 40 percent closure rate for FY 2023 IT NFRs. It retired seven ICOFR-relevant systems and removed two systems from the ICOFR-relevant list.

The Chief Information Officer provided policy and direction to the Components on the tasks, standards, and conditions for managing material weakness controls (DoDI 8500.01, DoDI 8510.01, DoDI 8520.03, DoDI 8530.01).

The Chief Information Officer confirmed one enterprise ICAM solution and five approved Component ICAM solutions, which will advance access controls and segregation of duties remediation. The financial management community established 8 of 19 baseline end-to-end

segregation of duties rules for end-to-end business cycles. These 8 rules have been approved by ICAM governance and are being integrated into ICAM solutions.

OUSDI developed an interim ICAM glidepath, identifying critical path milestones that must be achieved in order to preserve the remediation timeline and goals.

Army addressed a total of 32 of 42 FY 2023 IT NFRs (76 percent) as of July 22, 2024. Closed NFRs indicate a more complete information technology general controls system and improved accountability.

SecDef Financial Statement Audit Priorities for FY 2024

Army designed a project plan for reviewing Logistics Modernization Program (LMP) segregation of duties for all customized transaction codes within LMP. From FY 2022 through FY 2024, the Army completed three LMP modules and determined all LMP segregation of duties issues across the three modules had been reviewed, corrected, and remediated. These efforts improved the control environment over the Army Working Capital Fund ERP system.

Army developed its Army Personnel Monitoring Portal, a simplified, cost-effective, and flexible solution to identify terminated and transferred individuals with unauthorized access. The portal compares transferred and terminated user data from authoritative sources with active system users to identify possible instances of unauthorized access, which can then be investigated.

In FY 2023, Army received a modified audit opinion on its SSAE No. 18 Munitions examination, remediating 23 of the 33 business process and systems issues identified in FY 2023 and closing 45 of 49, or 92 percent, of prior-year findings.

In FY 2023, Navy closed 148 of 459, or 32 percent, of IT NFRs open at the beginning of the year. To date in FY 2024, Navy has closed 58 of 387, or 15 percent, IT NFRs open at the beginning of the year.

To date, Navy has completed the integration of six audit-relevant systems with the Naval Identity Service ICAM solution to automate critical access controls, such as account provisioning, access reviews, user termination and transfers, and segregation of duties.

Navy implemented a password management system using the Privileged Access Management function of Naval Identity Service ICAM to restrict and manage access to system accounts and completed a look-back analysis through which system account activity is reviewed and monitored. Navy also implemented a process to analyze, validate, and review a complete and accurate population of Naval Investigative Service ICAM system interfaces.

Marine Corps downgraded its Financial Statement Compilation material weakness and is continuing to invest in technology to increase its capacity to use data to enhance operations, inform decision-making, and comply with legal obligations. Further, Marine Corps is breaking down business process and system silos to connect disparate datasets and build the framework for an integrated, robust internal control environment.

Marine Corps concluded its FY 2023 audits with a 70 percent decrease in the number of IT NFRs.

Marine Corps system owners continue to implement ICAM to address access control and segregation of duties control deficiencies.

Marine Corps is exploring opportunities to use more of the capabilities resident within DAI (i.e., use of additional modules) to further streamline operations.

DAF closed 75 of 77, or 97 percent, of IT corrective action plans submitted to auditors in FY 2023. This marks a 22 percent year-over-year increase.

DAF initiated discovery and onboarding of 69 financial and financial feeder systems in FY 2023 that resulted in strengthening DAF's cybersecurity risk posture, safeguarding DAF's data, and helping to address more than 130 IT NFRs.

DAF is leveraging an Enterprise Governance, Risk, and Compliance tool in FY 2024 to develop an end-to-end business process repository of internal controls assessments for Working Capital Fund assessable units, a fraud risk management framework assessment workflow, and a process cycle memorandum dashboard. Additionally, the DAF is upgrading the tool's user interface, which will provide users with a role-driven workspace that increases productivity.

DLA closed 64 IT and financial FY 2023 NFRs, a significant increase from prior years.

Priority Audit Area 3: Create a Universe of Transactions

The universe of transactions is the entirety of underlying, individual accounting transactions that support a financial statement line or balance. Each reporting entity under audit must be able to validate the completeness of its universe of transactions. The Department is using Advana to create a complete universe of transactions in one central location.

Table 8. Universe of Transactions

DoD-wide Target Remediation Date: FY 2028 **Measure of Progress:** Percentage of universe of transactions audit findings closed.		**Alignment with the DoD Strategic Management Plan and Annual Performance Plan:** • Strategic Objective 5–5 - Optimize Budget to Execution and Foster a High Integrity Funds Control Environment • Strategic Objective 5–4 - Modernize DoD Business Systems	
	FY 2024 Quantitative Goal	**Status as of March 31, 2024**	
Compile a 100 percent validated list of feeder and accounting systems for ICOFR.	100%	TBD	
Using this compiled list, produce a quarterly supportable universe of transactions with an Advana universe of transactions completeness level of 70 percent.	50%	Metric in development	
Demonstrate effective Complementary User Entity Controls for financial reporting processes identified as material to Component or Service Provider organizations by achieving a 40 percent reduction from the prior year ending NFR balance.	> or = 40%	35%	
Ensure 100 percent of key data elements are populated within Advana, to include valid Standard Financial Information Structure trading partner codes.	100%	59%	
Key: Goal Met or Exceeded ● Goal Not Met ● Data Pending			

Note: Current status as reported represents mid-year progress at a single point of time. Final year-end results will not be known until the end of the audit cycle in November.

SecDef Financial Statement Audit Priorities for FY 2024

Accomplishments

OUSD(C) developed a framework to organize populations of universe of transactions and measure remediation progress across the Department. It worked with seven reporting entities to validate system populations against the framework.

OUSD(C) developed a metric to measure a supportable universe of transactions metric by population.

Army developed the Logistics Universe of Transactions for general equipment, demonstrating improved traceability, integrity, and accuracy. Integrating data from several Army ERP systems, Army selected Logistics Universe of Transactions to replace existing ineffective reports.

DON developed a methodology and machine learning capability to generate sample populations in support of the Budget Execution Validation and Dormant Account Review Quarterly processes. The machine learning capability has allowed the DON to review 67,132 samples, resulting in the de-obligation of $519 million. $84 million of the de-obligated funds were active funds, which were then used to fund other priorities and requirements.

DAF created a strategic approach to reconcile and validate its universe of transactions by focusing on material systems. In FY 2023, the DAF enhanced, and currently sustains, nine accountable property systems of record reconciliations. The DAF is developing 11 additional financial management reconciliation prototypes for material feeder systems. These additional prototypes will support inception-to-date reconciliations for critical audit areas including Fund Balance with Treasury and Procure to Pay.

DAF enhanced its quantitative drill-down in FY 2023 to support inception-to-date and included more than 67 million transactions covering $151 billion in obligations, which enabled assessable unit teams and the auditor to better isolate assessable unit populations for faster analysis and testing. The drill-downs will contribute significantly to the remediation of Procure to Pay deficiencies.

DAF is projecting to close 2 of 4, or 50 percent, of its General Fund NFRs related to complementary user entity controls in FY 2024. The DAF is dependent on internal and external mission partners to obtain a complete universe of transactions and is reliant on SOC-1 reports. As reconciliations transition to approved platforms, such as Advana, the DAF is working with OUSD(C) and mission partners to validate that SOC-1 reports include the relevant level of information and implement complementary user entity controls.

DLA compiled a list of all feeder and accounting systems relevant to internal controls over financial reporting to support a universe of transactions.

Priority Audit Area 4: Optimize Asset Valuations

The Secretary's FY 2024 financial statement audit priorities memorandum calls for the Office of the Under Secretary of Defense (Comptroller), in collaboration with the Office of the Under Secretary of Defense (Acquisition and Sustainment), Military Departments, Defense Contract Audit Agency, and Office of Cost Assessment and Program Evaluation, to develop alternatives for valuing assets acquired as part of Major Defense Acquisition Programs and Major Weapon Systems.

Due Date: September 30, 2024

Alignment with the DoD Strategic Management Plan and Annual Performance Plan:

* Strategic Objective 5.1 - Accelerate the path to an unmodified opinion.

The Department operates in a unique environment, developing systems such as aircraft, ships, and satellites that are highly complex and globally distributed. No organization acquires equipment in such a complex process on a scale approaching the Department of Defense.

The DoD business processes and IT systems environment through which the Department acquires these assets do not align with federal accounting standards, which makes the valuation of this equipment to meet these standards onerous. Often, construction takes place across multiple years, locations, and contractors, making the accumulation and presentation of construction-in-progress and valuation data to support financial audits difficult. Additionally, calculating indirect costs and collecting ancillary costs, such as storage and transportation, is time-consuming and costly to identify, disassemble, categorize, allocate, and reaggregate.

Simplifying the valuation process will create efficiencies resulting in cost avoidance with minimal impact on the users of the financial statements. This directly supports the Department's national security mission, all while maintaining legal, ethical, and accountable stewardship of the assets and related funds. The Department will continue to explore alternatives to valuing assets acquired as part Major Defense Acquisition Programs and Major Weapon Systems to meet this SecDef financial statement audit priority.

Conclusion and the Value of Partnership

Achieving an unmodified opinion on the DoD consolidated financial statements is a collective effort between the Military Departments, other defense organizations, Service Providers, the OUSD(C), and other Principal Staff Assistants.

The Military Departments and other Defense organizations will continue to increase automations and reduce manual processes; implement controls to resolve gaps; review complementary user entity controls to reduce impact of reliance on third party service providers; and automate feeder systems to reconcile balances to the general ledger.

The Service providers will continue to support solving the Department's universe of transactions material weakness and other financial reporting issues; strengthen and enforce data quality controls; and advance preventive and detective controls.

The Principal Staff Assistants will continue to provide policy guidance to accelerate audit objectives; support functional and financial community audit remediation; and promote the prioritization of technology modernization, workforce development, acquisition management, and budget reform.

Finally, the **OUSD(C)** will continue to prioritize audit efforts based on materiality and optimize budget resources; fund and enforce the use of enterprise-wide tools and technology that accelerate audit progress; and engage with Congress, regulators, and auditors to help resolve the Department's most complex accounting issues.

To that end, the Department calls on support from its federal partners and stakeholders.

Congressional Support

The Department needs Congress' continued support to achieve its audit goals and objectives. Their continued willingness to make bold and focused investments are critical to advancing the Department's audit progress, including ensuring adequate and consistent funding by

requiring budget authority at the top-line level for financial system modernization and audit support and remediation efforts.

Office of Management and Budget and U.S. Department of Treasury Support

The Department needs support from the Office of Management and Budget and the Department of Treasury to resolve long standing accounting and related issues, including:

- Working with the Federal Accounting Standards Advisory Board and the independent public accounting community to

Conclusion and the Value of Partnership

provide actionable guidance on establishing beginning balances and the potential use of the purchases method of accounting for Operating Materials and Supplies and munitions.

- Providing greater flexibility for the Department's audit reporting timelines, such as a two-year audit cycle that was granted for the Marine Corps; and extending DoD's reporting requirement beyond the November 15 audit deadline.
- Providing guidance and assistance on Treasury Index-97 funds disaggregation efforts in support of downgrading the Department's Fund Balance with Treasury material weakness.

Audit Community Support

The independent public accounting firms and the audit community must accommodate the Department's strategy for accelerating audit progress. The Department will continue to rely on the GAO and DoD OIG for granularity and visibility into DoD's challenges and successes.

Acronyms and Abbreviations

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C

CFO	Chief Financial Officer

D

DAF	Department of the Air Force
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DCAA	Defense Contract Audit Agency
DCFO	Deputy Chief Financial Officer
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA-CRM	Defense Health Agency – Contract Resource Management
DHP	Defense Health Program
DIA	Defense Intelligence Agency
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DoD	Department of Defense

DoD OIG	Department of Defense Office of Inspector General
DON	Department of the Navy
DTRA	Defense Threat Reduction Agency

E

ERP	Enterprise Resource Planning System

F

FBWT	Fund Balance with Treasury
FIAR	Financial Improvement and Audit Remediation
FinOps	Financial Operations
FM	Financial Management
FY	Fiscal Year

G

GAO	Government Accountability Office

Acronyms and Abbreviations

I

ICAM	Identify, Credential, and Access Management
ICOFR	Internal Controls Over Financial Reporting
IT	Information Technology

L

LMP	Logistics Modernization Program

M

MERHCF	Medicare-Eligible Retiree Health Care Fund
MRF	Military Retirement Fund

N

Navy ERP	Navy Enterprise Resource Planning System
NDSTF	National Defense Stockpile Transaction Fund
NFR	Notice of Findings and Recommendations
NGA	National Geospatial-Intelligence Agency
NIS	Naval Identity Services
NRO	National Reconnaissance Office
NSA	National Security Agency

R

RMIC	Risk Management and Internal Controls

S

SecDef	Secretary of Defense
SES	Senior Executive Service
SOC	System and Organization Controls
SSAE	Statement on Standards for Attestation Engagements

U

UoT	Universe of Transactions
U.S.	United States
USACE	United States Army Corps of Engineers
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps
USSOCOM	United States Special Operations Command
USTRANSCOM	United States Transportation Command