

RELEASE IMMEDIATE RELEASE

Department of Defense Completes Seventh Consecutive Department-Wide Financial Statement Audit

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The Department of Defense (DoD) released the results of its seventh annual Department-wide financial statement audit today, which again resulted in a disclaimer of opinion. "Despite the disclaimer of opinion, which was expected, the Department has turned a corner in its understanding of the depth and breadth of its challenges," said Michael McCord, Under Secretary of Defense (Comptroller) and Chief Financial Officer. "Momentum is on our side, and throughout the Department there is strong commitment—and belief in our ability—to achieve an unmodified audit opinion."

Mr. McCord attributes DoD's audit momentum to the tone-at-the-top, which he has emphasized, alongside Secretary of Defense Lloyd J. Austin III and Deputy Secretary Kathleen Hicks. "The path forward is clear," McCord continued, "significant work remains and challenges lie ahead, but our annual audit continues to be a catalyst for Department-wide financial management reform, resulting in greater financial integrity, transparency, and better-supported warfighters."

Teams of independent public accountants and the DoD Office of Inspector General closely examined the financial statements of the Department and its reporting entities. Of the 28 reporting entities undergoing standalone financial statement audits, 9 received an unmodified audit opinion, 1 received a qualified opinion, 15 received disclaimers, and 3 opinions remain pending. The Defense Threat Reduction Agency (DTRA) achieved an unmodified audit opinion in only its second year under standalone audit. The fiscal year (FY) 2023 U.S. Marine Corps' unmodified opinion and the FY 2024 DTRA unmodified opinion are the first new financial statement opinions since FY 2020. The Department is firmly committed and is taking actions to achieve an unmodified audit opinion on its financial statements by December 31, 2028, as mandated by the National Defense Authorization Act for Fiscal Year 2024.

In FY 2024, the Department made progress in improving its financial management practices and increasing transparency, closing the DoD-wide Contingent Legal Liabilities material weakness. The Department sustained the momentum gained in FY 2023 in resolving its Fund Balance with Treasury material weakness, a Secretary of Defense DoD-wide audit priority area. Eight DoD reporting entities closed or downgraded their Fund Balance with Treasury material weakness: Department of the Army General Fund, Department of the Navy Working Capital Fund, Department of Air Force Working Capital Fund, Defense Information Systems Agency General Fund and Working Capital Fund, Defense Threat Reduction Agency, the Defense Advanced Research Projects Agency, and the National Geospatial-Intelligence Agency. In addition to existing reporting entities with favorable audit opinions, DoD has closed or downgraded 12 FBWT material weaknesses over the last two fiscal years, totaling \$703 billion, or 82% of the \$856 billion DoD-wide balance. Of that the Military Departments represent \$657 billion, or 78% of the total. Additionally, the Department of the Army General Fund and Working Capital Fund both closed their Entity Level Controls – Enterprise Responsibilities material weaknesses, and Army Working Capital Fund downgraded its Property, Plant and Equipment – General

Equipment, Property, Plant and Equipment Real Property and Environmental Disposal and Liabilities material weaknesses; the Air Force General Fund downgraded its Military Equipment material weakness; the Defense Information Systems Agency General Fund closed its Financial Reporting material weakness; the Defense Health Program closed its Stockpile Materials material weakness and downgraded its Information Systems material weakness; the Defense Intelligence Agency downgraded its Financial IT Controls material weakness, and the U.S. Army Corps of Engineers – Civil Works downgraded its Construction In Progress – Property, Plant and Equipment material weakness.

The Department also demonstrated improvements in system controls, completing 27 system examinations and achieving 17 unmodified and 8 qualified opinions; 2 examinations were adverse. The FY 2024 25 favorable opinions represent 93% of the examination opinions, an increase from the FY 2021 81% favorable examination opinions. Results of system examinations are used by other auditors, which reduces duplicative testing.

The Department saw a return on investment across areas essential for achieving and sustaining an unmodified opinion: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. A recent Government Accountability Office report, "DOD Has Identified Benefits of Financial Statement Audits and Could Expand Its Monitoring," cited operational benefits of the audits, including improvements to financial systems and data, mitigation of cybersecurity risks, enhanced visibility over assets and inventory, and more efficient processes, and noted that additional outcomes are anticipated.

For example, in FY 2024, the Department used Advana for new contingency reporting, including support to Haiti, tracking the Pacific Deterrence Initiative, and hurricane response; the Department of the Air Force has delivered 76 bots saving 577,000 labor hours and improving the efficiency of 76 business processes; the Department of the Army's new Integrated Personnel and Pay System consolidates information from over 50 legacy systems and promotes secure and consistent processes and data; and the Department of the Navy further consolidated its systems by migrating 9 major commands, decommissioning 11 systems, and transitioning 3 Budget Submitting Offices to Navy ERP, its enterprise resource planning system.

"The Department continues to need the sustained investment, senior leadership commitment, and the support of our partners in Congress, federal regulators, the audit community, and our military and civilian personnel to accomplish its audit goals," added McCord. "An unmodified audit opinion has always been the Department's primary financial management goal, and with their help, I know it is achievable."

For more information, please see the Department's Agency Financial Report and links to DoD Component Agency Financial Reports at <https://comptroller.defense.gov/odcfo/afr/>.

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