



MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2023

Americans rightly expect the Department of Defense (DoD) to account correctly for every taxpayer dollar entrusted to it. The DoD Agency Financial Report for Fiscal Year 2023 details areas where we have made progress in our annual financial statement audit, reflective of our resource and asset stewardship, and places where we have fallen short. As we improve our auditability, the Department remains firmly committed to transparency and to responsible stewardship of taxpayer dollars as an important means to keep our country safe and secure.

The Department continues to be guided by three priorities: defending the United States; taking care of our people; and succeeding through teamwork. I am pleased with the progress we have made in these areas, including supporting our partners in Ukraine and Israel, deepening the alliances that reinforce our security, staying vigilant against persistent threats to our nation, providing generous support to our military families, and much more. None of this work would be possible without the men and women of the Department of Defense. They are the best team in the world, and we will continue to provide the support they need and deserve.

Because of the Department's global scale—we have three million people on our payrolls; a health-care system that serves more than nine million troops, retirees, and family members; and assets that are worth more than those of the ten largest U.S. companies combined—our systems and processes were designed to track resources and assets at the local level. Only in the past six years has the Department of Defense begun to update our systems to conduct audits at the enterprise level.

Achieving a Department-wide unmodified (clean) audit opinion will take time, but we are committed to reaching this milestone. We owe American taxpayers a clean and comprehensive financial bill of health. I have zero tolerance for fraud, waste, and abuse, whether in the Pentagon, elsewhere in the Department, or in the industrial base that builds U.S. military capabilities. As we accelerate our audit remediation and business transformation, we are making sure that our internal controls are sound. We must get this right, and we will get this right.

There are no easy solutions to audit success, but I expect that the Department's audit priorities will generate measurable progress from our agencies and departments. We will focus on resolving key issues that are preventing us from achieving our goal of an unmodified audit opinion. In fiscal year 2024, I am committed to four audit priorities: reconciling our balances with the U.S. Treasury; strengthening our internal control environment; completing the creation of an authoritative database that captures all accounting system transactions; and optimizing asset valuation. For all of these, we will continue to measure progress and hold people accountable.

This report identifies areas where we need to do better. The Statement of Assurance in the Management's Discussion and Analysis section outlines my assessment of the effectiveness of internal controls over financial reporting, including the material weakness areas impeding the completeness and reliability of our performance and financial data, as well as compliance

with relevant laws and regulations. The Independent Auditor’s Report details results of this year’s audit, which includes a disclaimer of opinion that identified multiple areas for improvement. Auditor recommendations will help us improve our financial reporting process and data. Modernizing and improving our business practices and systems will help us to better defend the United States and protect U.S. interests around the world.

The Department is grateful to Congress for its support and investment in our mission. This year’s report demonstrates the strides made to meet our audit goals—and underscores our commitment to give taxpayers the transparency and confidence in DoD stewardship they deserve.

A handwritten signature in black ink, appearing to read "Lloyd J. Austin III". The signature is fluid and cursive, with a prominent initial "L" and a long, sweeping tail.

Lloyd J. Austin III

