



# Department of Defense FISCAL YEAR 2023 AUDIT OVERSIGHT REPORT





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*The estimated cost of this report for the Department of Defense is approximately \$29,000 in Fiscal Years 2023 - 2024. This includes \$25,000 in expenses and \$4,210 in DoD labor.  
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## 1. Summary of FY 2023 Financial Statement Audit Opinions

The Department completed its sixth annual consolidated financial statement audit covering \$3.8 trillion in total assets. The annual financial statement audits are vital to the Department’s data transformation and business reform efforts. They provide leadership and financial managers across the Department with objective, independent assessments of the Department’s internal controls, financial reporting practices, and reliability of financial information. The audit comprised 29 standalone audits conducted by independent public accountants (IPAs) and a consolidated Agency-wide audit performed by the Department of Defense Office of Inspector General (DoD OIG) (see Figure 1). The DoD OIG issued a disclaimer of opinion on the Department’s FY 2023 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. See the DoD OIG’s independent audit report in the Financial Section of the [United States Department of Defense Agency Financial Report Fiscal Year 2023](#) for further detail.

Of the 29 component standalone audits, 7 received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with generally accepted accounting principles), 1 received a qualified opinion (i.e., auditors concluded there were misstatements or potentially undetected misstatements that were material but not pervasive to the financial statements), 3 opinions are still pending, and 18 received disclaimers of opinion. The standalone audits for the DoD OIG, the U.S. Marine Corps (USMC) General Fund (GF), and the Defense Information Services Agency (DISA) Working Capital Fund (WCF) are scheduled to conclude after the date of this publication. Other Components and Accounts are not undergoing a standalone audit and are audited by the DoD OIG as part of the Department of Defense (DoD) consolidated audit.

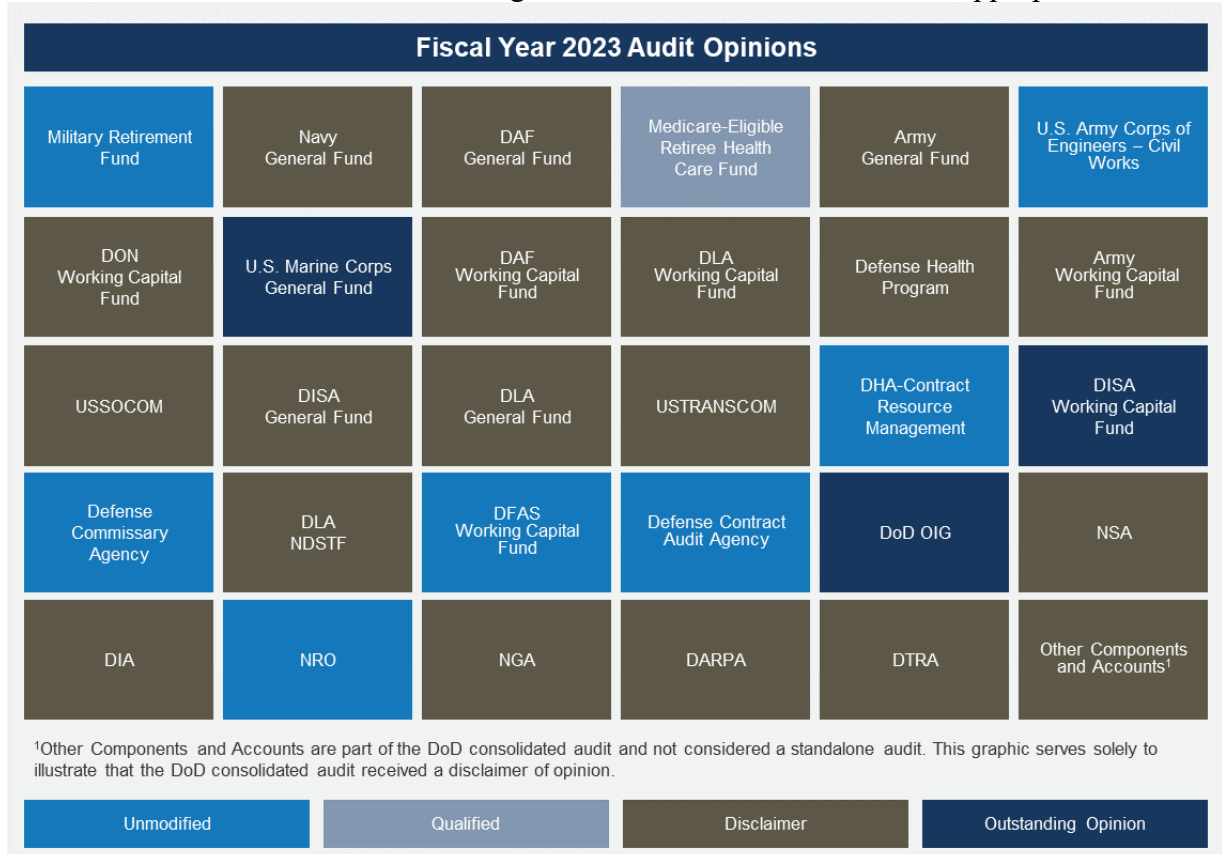


Figure 1- FY 2023 Financial Statement Audit Opinions



## 2. Root Causes, Progress Made and Challenges Remaining

The Medicare-Eligible Retiree Health Care Fund (MERHCF) has a qualified audit opinion for FY 2023. The Department is pursuing a change in the Office of Management and Budget Program and Financial Schedules by FY 2025 that should result in improving the audit opinion from qualified to unmodified once satisfactory testing and validation has been concluded by the auditors.

For Components with disclaimers of opinion, the Department identified five areas essential for achieving and sustaining an unmodified opinion: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. The Department tracks root causes and reports progress made and challenges remaining for these five focus areas.

### 2.1 Root Causes

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
An aging workforce and competition with industry for talent results in workforce capacity and capability challenges	A challenging control environment and outdated technology contribute to ineffective and inefficient business operations	Incomplete, inconsistent, and unreliable data from financial and operational systems and a lack of transparency degrades decision-making capabilities	Legacy systems with unresolved security and financial reporting deficiencies obstruct audit progress and operational effectiveness	A challenging control environment and lack of audit progress undermine financial and operational integrity and erodes the public's trust

### 2.2 Progress Made

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
Workforce development initiatives and the deployment of innovative technology attracts talent away from industry and reduce the Department's talent shortage	A strengthened control environment and innovative technology adoption improves business operations and enhances military readiness by better informing what assets the department has and what is their condition	Data quality efforts provide new levels of transaction detail, and when enhanced with data analytics and machine-learning technology, visibility and insights are continuously improved	Replacing legacy systems with compliant systems strengthens cybersecurity and resiliency and accelerates audit progress	Closed audit findings and achieving more audit opinions provide confidence in the Department's stewardship of the public's resources





**U.S. Department of the Army**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>The U.S. Department of the Army (the Army) developed 14 robotic process automations (RPAs or "bots") in FY 2022 and FY 2023 for Army financial systems, eliminating the need for 5.6K labor hours in FY 2023. There is a total of 79 RPAs currently in place, helping the Army streamline manual tasks, improve risk mitigation, and enhance reporting.</li> <li>In FY 2023, the Army provided trainings on Power BI dashboards, corrective action plan (CAP) development, and internal controls. These trainings provide valuable insight and instruction on the audit and its lifecycle, with audiences ranging from Army Senior Leaders to command supply personnel.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2021, the Army developed a CAP and standard operating procedures to remediate auditor identified deficiencies for construction-in-progress (CIP) accounting. The procedures included a monitoring control requesting the status for all open CIP projects based on the data in the financial system, Logistics Modernization Program (LMP). The control improved Army insight into open CIP projects and helped Army WCF sites resolve issues timely. In FY 2022, the Army enhanced the standard operating procedures and monitoring control to include additional CIP accounts.</li> <li>In FY 2023 the auditors tested the Army CIP account monitoring control. As of September 30, 2023, the CIP clearing was zero for the first time since the Army WCF's migration to the LMP. This improvement is due to Army and the Army WCF sites ensuring completed CIP projects were entered into their respective accountability property system of record before fiscal year end.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2022, the Army designed a Responsible Party Framework (RPF) that defines consistent inventory monitoring controls and allows Army to identify a responsible party for any inventory discrepancy and improve control effectiveness and reliability. In FY 2023, the Army implemented the RPF across all inventory controls. This allowed previously unreviewed variances to be identified, reviewed, and corrected.</li> <li>With the consistent reviews of inventory variances, the Army established a holistic approach to monitor and enforce consistent reviews and resolve identified data inconsistencies for inventory items not previously visible.</li> </ul>	<ul style="list-style-type: none"> <li>Prior to 2022 the Army designed a project plan for reviewing LMP Segregation of Duties (SODs) for all customized transaction codes within LMP. The project plan defined each LMP workstream to be considered for three LMP modules and included appropriate SODs controls. Each workstream included four phases for each module. Two modules were completed in 2022.</li> <li>In FY 2023, the Army completed the final module and determined all LMP SODs issues across the three modules had been reviewed, corrected, and remediated. These efforts increased the control environment over the Army WCF enterprise resource planning (ERP) system and its data.</li> </ul>	<ul style="list-style-type: none"> <li>The Army developed new reports in LMP and implemented improved tools for reviewing service contracts, including obligations incurred, expenses incurred-to-date and accrual indicators. This has allowed Army to execute a more robust monitoring of service contracts and accruals to ensure its subordinates are properly accruing service expenses in accordance with policy.</li> </ul>



**U.S. Navy**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>In FY 2022, the Navy identified opportunities for RPAs to reduce monthly recurring journal voucher adjustments recorded in Navy's Standard Accounting, Budgeting, and Reporting System (SABRS).</li> <li>Automation in SABRS has resulted in the avoidance of \$10.6B abnormal accounts payable transactions. The system change automated the posting of goods receipts/payables and eliminated over 7,000 journal vouchers.</li> <li>As of FY 2023, the Navy has 168 automations in use which has saved 166k hours, an increase from 140k hours in FY 2022.</li> <li>503 students completed financial management data analytics courses totaling over 11K training hours in FY 2023.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Navy implemented modifications to the SABRS trial balance compilation process that resulted in a reduction of program execution times by 78 percent and reduced data storage demands by 85 percent.</li> <li>The Navy also deployed the first Navy solution for Treasury mandated G-Invoicing processing on the Command Financial Management System (CFMS)/SABRS platform.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Navy expanded the Budget Execution Validation (BEV) process and Commanders Enterprise Resource Management Council (CERMC), which established a governance structure for executing a consistent and repeatable process for monitoring the status of funds across the Navy.</li> <li>The process provides greater insight into funds management, optimizes usage of budgetary resources for mission critical objectives, identifies root causes of unexpended funds, and supports overall audit readiness initiatives.</li> <li>Through the BEV/CERMC process the Navy reviewed \$17B of unliquidated obligations; validating 97 percent of the balances met audit requirements, while also uncovering \$330M available for deobligation.</li> </ul>	<ul style="list-style-type: none"> <li>Decommissioned 11 systems by transitioning to an ERP environment; 3 Budget Submitting Offices transitioned to the Navy ERP, and 1 transitioned to the Defense Agencies Initiative (DAI) in FY 2022. Decommissioned one additional system in FY 2023.</li> <li>Completed Naval Identity Services identity, credential, and access management (ICAM) integration with two Navy systems in FY 2023.</li> <li>In FY 2023, the Navy closed 121 of 459 (26 percent) of the FY 2022 IT NFRs as of October 27, 2023.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Navy downgraded the GF and WCF Oversight and Monitoring Material Weaknesses.</li> <li>The Navy also sustained auditability of FY 2022 balance sheet categories and made substantial progress towards auditability of both GF and WCF Fund Balance with Treasury (FBWT) by passing test of design for management oversight of the control environment.</li> </ul>



**U.S. Marine Corps**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>The Marine Corps adopted DAI worldwide as its general ledger of record during FY 2022. The organization also trained over 2000 users to research and resolve problem transactions.</li> <li>In FY 2023, the Marine Corps trained an additional 500 users on Advana, the Department's analytics platform, which is being used for FBWT and trading partner reconciliations.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Marine Corps reduced monthly undistributed journal voucher analysis from 8 hours to 30 minutes with automation.</li> <li>Transitioned from year-to-date to inception-to-date reporting and eliminated 360 monthly unsupported journal vouchers and replaced them with 60 supported journal vouchers, resulting in more efficient operations and reliable reporting processes.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Marine Corps achieved 100 percent of DAI universe of transactions flowing through Advana.</li> <li>During FY 2023, the Marine Corps reduced unsupported undistributed transactions from \$2.2B to \$531K.</li> <li>These efforts resulted in a better understanding of financial activity and which data can be better parsed to support more effective leadership decisions.</li> </ul>	<ul style="list-style-type: none"> <li>During the FY 2023 audit, the Marine Corps closed 70 of 104 (67.3 percent) FY 2021 IT NFRs.</li> <li>The Marine Corps Total Force System (MCTFS), which processes \$15B per year in Military Payroll, passed control design and control effectiveness testing is underway.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Marine Corps auditor accountability testing of property areas resulted in pass rates of:               <ul style="list-style-type: none"> <li>99.5 percent for Operating Materials and Supplies (OM&amp;S) non-ammunition - 1.2M items.</li> <li>99.5 percent pass rate for OM&amp;S ammunition – 54M items.</li> <li>97 percent pass rate for military equipment – 3.7K assets.</li> <li>99 percent pass rate for Real Property – over 7K assets.</li> </ul> </li> </ul>





**U.S. Department of the Air Force**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>From FY 2019-2022, the Department of the Air Force (DAF) deployed 50 bots saving approximately 188K labor hours and improving auditability of 50 processes through enhanced documentation and process execution traceability. These bots reduced the wait time in gaining critical insights, which enabled the DAF to proactively address potential misstatements.</li> <li>In FY 2023, the DAF's Financial Systems Operations Digital Management Automation System delivered 22 new automations (i.e., bots), for a total of 68 bots since the program began in FY 2019, saving roughly 504,139 labor hours and improving the auditability of 68 processes through enhanced documentation and business process execution traceability.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2022, 29 of the DAF's base possessed inventory count site visits were conducted, including the first ever outside the continental United States (OCONUS). During these site visits, the auditor counted more than 199K items, with a value of over \$2.4B at a 99 percent accuracy.</li> <li>These high accuracy counts are confirmation of asset visibility/availability and reliability of data to make informed readiness decisions. In FY 2023, 82 virtual and in person visits were conducted, expanding to over 960K items, valued at \$2.9B at over 96 percent accuracy.</li> <li>High inventory accuracy rates provide direct support to supply chain planning and operations. The DAF can rely on their current inventory data to know the right part is in the right location at the right time driving increased supply rates and reducing costs.</li> </ul>	<ul style="list-style-type: none"> <li>Following up on a highly successful rollout of the Integrated Master Schedules (IMS) in FY 2021, the DAF refined and matured data collection processes in FY 2022 to sustain its IMS and associated dashboards/metrics.</li> <li>The standup and implementation of IMS schedule metrics and exception-based reporting across the DAF illuminated the critical path to remediate material weaknesses and empowering senior leaders to make quality, data-driven decisions on delayed, high-impact areas that require their immediate attention.</li> <li>In FY 2022, IMS dashboards/metrics were leveraged in approximately 72 critical meetings to drive discussions.</li> <li>In FY 2023, the DAF leveraged Financial Improvement Audit Remediation IMS metrics and insights in 100 critical meetings and leadership forums empowering executive leadership to enact rapid decisions and corrective action on audit priorities. Furthermore, the solution's real-time analytical capabilities provided DAF leadership with a more accurate measure of progress and enabled an enhanced level of quality decision making.</li> </ul>	<ul style="list-style-type: none"> <li>The DAF identified high priority systems for ICAM onboarding to address multi-factor authentication, access reviews, timely de-provisioning, and enforcing segregation of duties.</li> <li>In FY 2022, the DAF implemented an ICAM solution for priority audit relevant financial management and feeder systems.</li> <li>ICAM significantly strengthens the DAF's cybersecurity risk postures and ability to safeguard data through enhanced management of digital identities, multi-factor authentication for all users, common processes for authentication, and management of provisioning and de-provisioning access that will ultimately keep the right people in and the wrong people out.</li> <li>In FY 2023, the DAF continued executing against its ICAM roadmap that follows a prioritized schedule for onboarding financial management and feeder systems to centralized ICAM services, addressing the root causes behind 62 percent of IT NFRs. In FY 2023, 19 audit relevant financial management and feeder systems are in the onboarding process.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2022, the DAF, in collaboration with the Defense Finance and Accounting Service (DFAS), increased the efficiency of performing the validation from three months to seven days in FY 2022, providing the auditor timelier documentation to support the DAF General Fund material weakness reduction efforts. In addition to supporting material weakness reduction efforts, the reperformance enhanced the DAF's overall controls and oversight of balances, accountability of budgetary resources, and monitoring of service providers.</li> <li>The DAF, in collaboration with DFAS, enhanced its overall controls and oversight of FBWT balances, accountability of budgetary resources, and monitoring of service providers by implementing 10-plus key oversight and compensating controls during FY 2023, while sustaining existing controls. These new controls directly affect the DAF's oversight of material disbursements (\$165B in total) being recorded accurately and completely at the U.S. Treasury.</li> </ul>



**Defense Logistics Agency**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>The Defense Logistics Agency (DLA) has deployed 160 RPA use cases, 41 have undergone full cycle enhancements and 153 are designed to execute in an “unattended” manner. These RPAs are projected to save over 288k hours annually, which can be refocused to the DLA missions.</li> </ul>	<ul style="list-style-type: none"> <li>Starting in FY 2022, the DLA began deploying its Warehouse Management System (WMS) across the entire enterprise to modernize warehouse operations. The WMS implementation integrates commercial warehouse automation capabilities with DLA business process reengineering and the use of standard functionality to implement commercial best practices and mitigate audit findings.</li> <li>In FY 2023, the DLA deployed WMS at 13 distribution and 35 disposition sites on schedule. WMS is expected to save approximately \$12M per year across the life of the program.</li> </ul>	<ul style="list-style-type: none"> <li>The DLA redesigned its monthly budgetary to proprietary (B2P) reconciliations and analysis to consolidate the levels of B2P variances by system and modules. The new reconciliation process improved research process efficiencies that provide drill-down capabilities for better variance insights and decision making.</li> </ul>	<ul style="list-style-type: none"> <li>The DLA identified the financial systems for onboarding to ICAM to address multi-factor authentication, access controls, and effective segregation of duties.</li> <li>The DLA continued implementing its ICAM roadmap that follows a prioritized schedule for onboarding systems.</li> </ul>	<ul style="list-style-type: none"> <li>The DLA migrated all FBWT reconciliations to Advana and reduced the inception-to-date value of undistributed balances to less than 1 percent of the total FBWT for the General Fund and the National Defense Stockpile Transaction Fund.</li> <li>The DLA compiled a list of all feeder and accounting systems that are relevant to internal controls over financial reporting.</li> <li>The DLA tested and determined financial reporting controls are designed and operating effectively for payroll, travel, and employee record setup and maintenance.</li> </ul>



**Other Defense Organizations**

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>In FY 2022, the DISA utilized RPAs to process over 36,000 transactions, generating over 64,000 artifacts in support of audit samples saving over 4,900 hours. For FY 2023 DISA was able to process nearly 46,000 transactions, saving over 18,860 manhours.</li> <li>Beginning in FY 2022, the National Security Agency (NSA) developed automations that saved manual hours and increased data accuracy. In FY 2023 NSA implemented 46 automation tools. The automations will save over 10K hours per year and increase data accuracy.</li> </ul>	<ul style="list-style-type: none"> <li>The National Geospatial-Intelligence Agency (NGA) implemented a CIP and software in development (SID) unique identifier to be included in the requisition of capital assets, allowing NGA to aggregate costs through automated reports.</li> <li>As of FY 2022, the NGA validated and remediated \$3.1B in personal property CIP and SID acquisition costs and related depreciation and amortization balances.</li> <li>During FY 2023, the NGA validated and remediated and additional \$559.7M in personal property CIP and SID acquisition costs and accumulated depreciation and amortization.</li> <li>In FY 2022, the U.S. Special Operations Command (USSOCOM) transitioned 28 of 84 programs into the Defense Property Accountability System (DPAS), which is the primary system for Property, Plant, and Equipment. The DPAS system supports compliance with audit requirements to accurately report asset values.</li> <li>In FY 2023, the USSOCOM transitioned 20 additional programs to DPAS for a total of 48 resulting in accurate financial stewardship to 174K asset items, valued at \$233M.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2022, the U.S. Transportation Command (USTRANSCOM) partnered with Naval Systems Engineering Resource Center to utilize their software and database platform to link external and internal audit efforts.</li> <li>Command leadership in collaboration with the Audit Management Team (AMT) and Integrated Master Schedule Online (IMSo) Team executed data stewardship by exporting and analyzing all NFRs and CAPs within the NFR database for completeness and accuracy. The team manually compared the spreadsheet provided by the external auditor at the beginning of FY 2022 to the FY 2022 material weakness identifying unmatched NFRs and CAPs. The USTRANSCOM is currently automating the data export from the NFR database to IMSo, where it can execute updates in half of the time. This will lead to more accurate and up-to-date reporting to leadership as well as save countless hours of manually pulling exports from the NFR database. Internally, the IMSo team has developed three leadership dashboards and four reports.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2022, the NSA resolved material IT system deficiencies to obtain a clean System and Organization (SOC) 1 Report</li> <li>In FY 2023, the NSA maintained a clean SOC 1 and reduced auditor identified IT system findings.</li> <li>As of 27 September 2023, the auditors validated the closure of 40 access control related the Defense Health Program (DHP) IT NFRs issued during FY 2018-2022 audits.</li> <li>For the period of FY 2018 – 2023, the DHP auditors validated the closure of 61 financial NFRs and 76 information technology NFRs.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2023, the Defense Advanced Research Projects Agency (DARPA) underwent its first standalone financial statement audit. In preparation for the audit the DARPA improved financial information by updated business processes and implemented task management technology to manage and communicate audit inquiries, prepared by client items, and sample requests from the auditor. As a result, the DARPA was able to access thousands of key supporting documents, flowcharts, and process narratives in a timely manner, and explain complex business processes performed by its service providers.</li> <li>The Defense Intelligence Agency (DIA) established agency-wide acquisition guidance on the use of contract line-item numbers when accounting for contractor acquired property. This allowed the DIA to better account for and manage contractor acquired property assets and support the complete and accurate financial reporting of equipment. The DIA supported IPA efforts to verify existence and completeness of capital asset and demonstrated accountability of worldwide capital assets.</li> </ul>



## 2.3 Challenges Remaining

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
<ul style="list-style-type: none"> <li>The Department needs to develop a modern workforce</li> <li>Congress should streamline hiring and security clearance processes to be more in line with private sector, where applicable</li> <li>Industry should introduce innovative time and resource saving enterprise solutions</li> </ul>	<ul style="list-style-type: none"> <li>The Department needs to improve budget efficiency to reduce uncertainty</li> <li>Congress should stabilize budget process to avoid continuing resolutions and government shutdowns</li> <li>Industry should bring property in possession of contractors into audit compliance</li> </ul>	<ul style="list-style-type: none"> <li>The Department needs to require data interoperability and system compatibility</li> <li>Congress should ensure timely continuity and confirmation of leadership</li> <li>Industry should provide transparency into location and condition of assets</li> </ul>	<ul style="list-style-type: none"> <li>The Department needs to replace legacy systems to reduce the risk of cyber-attacks and system vulnerabilities</li> <li>Congress should provide adequate and consistent resources for replacing the Department's legacy systems</li> <li>Industry should provide compliant, innovative, and affordable enterprise solutions</li> </ul>	<ul style="list-style-type: none"> <li>The Department needs to improve awareness of audit benefits and the Department's strengths to Congress and the public</li> <li>Congress should advocate for continued support of financial statement audits</li> <li>Industry should support audit progress by complying with audit requirements</li> </ul>

## 3.0 Information Technology Systems

### 3.1 IT Systems Impeding Audit

The FY 2022-2026 DoD Financial Management (FM) Strategy recognizes business systems are critical enablers for the efficient, effective, and accountable execution of taxpayer dollars in support of the DoD mission. Ensuring system simplification and compliance improvement plans are prioritized, funded, and are tracked are critical to DoD's strategy for improving its overall Defense Business Systems (DBS) environment. The FM Strategy established measures for tracking planned system retirements and the implementation of key financial system requirements for enduring systems. In FY 2023, the DoD retired ten systems relevant to internal controls over financial reporting (ICOFR). Three of the nine retirements were legacy accounting systems that migrated to a modern ERP. The Department tracks and reports systems expected to retire that further simplify and improve auditability in its semiannual DBS Audit Remediation Plan Briefings and annual report.

### 3.2 IT Systems Strategy and Business Process Reengineering

The foundations to improving or replacing our systems include establishing and leveraging tools and analytics to improve accountability over planned system retirements. Additionally, conducting recurring, data driven assessments on enduring systems to identify consolidation opportunities and compliance levels with critical financial system requirements is foundational for the Department. The consolidation and improvement of data, along with the establishment of annual FM systems reviews, supports enterprise-wide monitoring of DoD's progress in achieving its IT systems strategy.

In FY 2023, the Department undertook its second annual FM Systems Review to assess compliance of our 160 ICOFR-relevant systems. As a result of this review, Components who own enduring systems with deficiencies are required to submit improvement plans. The end goal of



these efforts addresses system deficiencies that ensure the systems that remain in tomorrow's environment are enablers to the Department's financial auditability goals; while continuing to aggressively deploy modern, secure, and compliant systems that consolidate vital functionality and enable retirement of non-compliant, legacy systems. The Department also evaluates non-financial IT NFRs to address operational deficiencies that could impact audit progress.

An enterprise approach to end-to-end optimization is required to achieve our target systems environment that preserve data integrity through efficient operations and full alignment to our business enterprise architecture. Examples of business process reengineering (BPR) include:

- Continued consolidation of systems into the DAI, an enterprise resource planning system, that leverages commercial-off-the-shelf capabilities. DAI enables interoperability through data and process standardization, and integration with Advana for improved data visualization and process improvement. Currently DAI supports 24 Components for general ledger accounting, with plans to onboard 1-2 more over the next 3 years. In FY 2023 DAI received its 7th consecutive positive (unmodified or qualified) Statement on Standards for Attestation Engagements No. 18 (SSAE No. 18) opinion. In an SSAE No. 18 examination, the auditors evaluate and report on the quality (accuracy, completeness, fairness) of financial reporting, paying particular attention to internal controls over information systems involved in financial reporting.
- Service providers with systems supporting multiple agencies continue to work closely with the Office of the DoD Chief Information Officer to implement system requirements to automate and streamline access and segregation of duties controls. This includes service providers working closely with customers to prioritize strengthening entity level controls associated with complementary user entity controls issued in Service Organization's Control Reports.
- Components are developing comprehensive system strategies with performance metrics to address FM systems modernization efforts in support of the audit. One such Component is the Air Force, who established an Interface and Interoperability (I&I) Assessment Team to perform a micro-level analysis of critical Tier 1 systems and a macro-level analysis of financially material end-to-end business processes to identify near and long-term recommendations to mitigate risk, modernize systems, and optimize processes. The I&I team has completed five system analyses and six business process analyses covering Hire to Retire, Procure to Pay, Plan to Stock, Acquire to Retire, Order to Cash, and Budget to Report, which identified material gaps impacting auditability, security, and reliability. To date, the I&I team has recommended 57 system change requests to be implemented in the next 12-24 months to address audit and data quality gaps. The I&I team also identified five priority issues with cross-cutting impacts and is actively engaging government stakeholders to develop courses of action and recommendations to address and remediate root cause issues to enable an interim auditable state.
- As part of a broad Foreign Military Sales (FMS) enterprise modernization effort, two business process reengineering efforts have been undertaken that include addressing antiquated legacy mainframe systems that impact the Security Assistance Account (SAA) audit. The first BPR effort sought to consolidate FMS requirements from across all components of the enterprise based on existing functionality,



which led to an enterprise master requirements list that is being leveraged to guide component modernization efforts. The second BPR effort seeks to improve the core FMS processes used to establish, execute, and monitor FMS activity. This ongoing continuous process improvement board will provide recommendations for all components systems that will be incorporated as modernization continues through 2028. In the near-term SAA data is being translated and interfaced into Advana to facilitate elements of SAA financial statement. In the long term, more comprehensive modernization will be achieved with the implemented of a modernized case execution system. Overall BPR efforts resulted with improved consolidation of SAA data elements in Advana and the Military Departments developing implementation plans for modernized Case Execution systems.

- The Department leverages Advana to bring disparate business data into focus through comprehensive executive dashboards and integrated financial reporting and reconciliation analyses. Advana has been a force multiplier in assisting with the management of our business systems environment, which includes identifying and executing reengineering and consolidation opportunities. Additionally, DoD leaders are deploying machine learning, artificial intelligence, and other automation software to assist with BPR efforts that streamline reporting, analysis, and transaction processing while sustainably improving our analytics and business environment.

#### 4.0 Asset Management

##### 4.1 Asset Accountability

The Department has a responsibility to gain full value from its capabilities and investments, thereby earning the trust of the warfighter, Congress, and the American people. In June 2021, the Office of the Secretary of Defense (OSD) published DoD Instruction 4140.73, Asset Physical Accountability Policy, which instructed OSD to monitor the performance of physical inventories and their results. To support this requirement the Supply Chain Metrics Group (SCMG) started collecting data from the Components to support this requirement beginning in August 2021. The objective of this effort is to assess the accuracy of the inventory counts and effectiveness of the end-to-end inventory reporting process.

Inventory accuracy requirements are supported within the current SCMG Guidebook. The requirement for inventory accuracy as a specific metric will be included in the current revision being developed, scheduled for publication at the end of calendar year 2023. This effort supports:

- Improved reporting and monitoring of compliance.
- Enhanced transparency between the services and OSD.
- Increase confidence in the supply chain.

In August 2022, the Department published the Department's Enterprise Asset Visibility Continuous Process Improvement Strategy. The overall goal of this strategy is to improve enterprise-level asset visibility through continuous process improvement, standardization, automation of data collection, business process innovation, and data interoperability within the Department. Continuous process improvement and enhancement





of asset visibility information provides the ability to manage asset life cycles, and to transform asset data into actionable information supporting asset and inventory management.

Current and planned efforts include, updating policy, re-engineering business processes to include inserting automatic data collection technologies, implementing industry standards for data capture and transmission, and enhancing availability of inventory data at the enterprise-level. These efforts support:

- Improved visibility of available resources, to meet customer requirements regardless of which Component has them or whether they are in-transit, in-storage, in-process, and in-theater.
- Greater efficiency of physical inventories, receipt processing, and cargo tracking to help preclude unnecessary procurement of assets.
- Improved inventory existence, completeness, and accuracy in support of audit readiness.
- Enhanced interoperability.
- Improved accuracy, reliability, and timeliness of data collection with the least amount of human intervention.

## **4.2 Logistics IT Systems**

An effective logistics IT network that leverages the full range of commercial capabilities as well as internally developed government solutions is critical to asset accounting. Implementing modernization and standardization of systems enables policy compliance and interoperability among Components. Standard data elements and transactions are the building blocks used to achieve interoperability, accountability, asset visibility, and auditability. Availability of requisite data, joined with variable length transactions, data standards, appropriate business rules, and change management supports those outcomes.

The DoD continuously seeks to improve its tracking and visibility of assets through its portfolio of over 400 logistics IT systems. The Department is pursuing assessments of the current logistics IT portfolio, rationalization of non-compliant or redundant systems, and executing system changes to improve asset tracking and visibility across the enterprise. Additionally, the logistics standards for transactions and data elements are being assessed as part of a larger effort to update our business architecture for improving interoperability.

## **4.3 Government Furnished Property**

Government furnished property (GFP) is currently an area of focus for the Department. The GFP Module is a Procurement Integrated Enterprise Environment application for both DoD and contractor users that, when fully implemented, will consolidate all GFP tools, capabilities, and processes into a single location. As the Department's single IT interface to industry for GFP, the GFP Module improves GFP visibility and streamlines processing through data reuse. The oversight and visibility of GFP enabled by the GFP Module will address the Department's audit material weakness related to government property in the custody of contractors. From FY 2021 to FY 2022 the Department had a 137 percent



increase in GFP transaction receipts by contractors (243,444 in FY 2021 and 334,120 in FY 2022), and GFP attachments increased from 3,960 in FY 2021 to 4,442 in FY 2022.

Upcoming GFP Module updates include enhancements to capture modifications made to GFP while in the contractor's custody. Updates include changes to national stock numbers, part numbers, or other product identifiers. Further, the GFP Module will be enhanced to capture the contractor repair process.