U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

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Mr. Jules W. Hurst III
Performing the Duties of the Under Secretary
of Defense (Comptroller)/Chief Financial Officer
U.S. Department of Defense
1100 Defense Pentagon
Washington, D.C. 20301-1100

U.S. Consolidated Financial Statements: Key Issues for the Department of Defense

Dear Mr. Hurst:

As the Department of Defense's (DOD) senior official with the responsibility to perform the duties of DOD's Chief Financial Officer, you have an important role in helping to ensure that reliable and complete federal financial information is available. The purpose of this letter is to highlight important issues for your awareness related to financial management in the federal government.

GAO is responsible for conducting the annual audit of the U.S. government's consolidated financial statements, or CFS.[1] On January 16, 2025, we issued a disclaimer of opinion on these statements for fiscal years 2024 and 2023.[2] The consolidated financial statements are compiled from federal entity financial statements and other federal entity information. As such, federal entities, including DOD, have a key role in supporting financial reporting at the government-wide level.

DOD's strong and sustained commitment is critical to addressing the following key issues that affect the U.S. government's consolidated financial statements.

DOD's disclaimers of opinion and material weaknesses: DOD continues to face long-standing financial management problems. After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits for fiscal years 2018 through 2024. These audits resulted in disclaimers of opinion, identification of material weaknesses in internal control over financial reporting, and thousands of audit findings. For fiscal year 2024, DOD's auditor reported 28 material weaknesses related to DOD's internal controls over financial reporting, which contributed to DOD's inability to obtain an audit opinion. These weaknesses limit the reliability of DOD's financial reporting. DOD's auditor made a number of recommendations to help address these weaknesses.

[1]The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to annually submit audited financial statements for the executive branch of the U.S. government to the President and Congress. These statements, as submitted, also include the legislative and judicial branches.

[2]GAO, *Financial Audit: FY 2024 and FY 2023 Consolidated Financial Statements of the U.S. Government*, GAO-25-107421 (Washington, D.C.: Jan. 16, 2025).

DOD's inability to obtain an audit opinion contributed to us being unable to express an opinion on the consolidated financial statements. It is important that DOD address the issues causing the disclaimers of opinion to support accurate reporting for the consolidated financial statements. The National Defense Authorization Act for Fiscal Year 2024 also requires the Secretary of Defense to ensure that DOD receives an unmodified audit opinion on its financial statements by no later than December 31, 2028.[3]

Since 1995, DOD financial management has been on our High-Risk List of agencies and program areas that are vulnerable to fraud, waste, abuse, and mismanagement.[4] In 2025, we expanded the DOD financial management high-risk area to include fraud risk management. DOD's financial management is hampered by ineffective processes, aging systems, and inadequate controls; incomplete corrective action plans; and insufficient monitoring and reporting. Improved financial reporting to address the causes underlying the disclaimers of opinion would help DOD make progress toward removal from our High-Risk List.

Intragovernmental activity and balances: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report that the federal government was unable to adequately account for intragovernmental activity and balances between federal entities. This is one of three major impediments preventing us from rendering an opinion on the consolidated financial statements.

Under federal accounting standards, intragovernmental activity and balances between federal entities must be eliminated for the preparation of the consolidated financial statements. While the Department of the Treasury has issued guidance and worked with federal entities to reduce differences in intragovernmental activity and balances in recent years, differences remain. These include differences between DOD and its trading partners.

DOD's auditor reported for fiscal year 2024 that DOD, which has a substantial amount of intragovernmental activity and balances, did not have effective controls to properly capture trading partner information at the transaction level required to eliminate intradepartmental and intragovernmental transactions, which resulted in a risk of material misstatements. In addition, other material weaknesses reported by DOD's auditor could contribute to this impediment. Such weaknesses could result in material misstatements in DOD's intragovernmental balances reported to Treasury.

It is important that DOD provides reliable intragovernmental activity and balances data to Treasury, which properly eliminates in consolidation. To accomplish this, DOD will need to focus on establishing effective controls that accurately identify, record, and report intragovernmental transactions and balances, including reconciling and resolving differences with its trading partners. Resolving differences with trading partners involves (1) identifying differences related to transactions in DOD's and its trading partners' accounting records; (2) reconciling those differences; and (3) adjusting accounting records, either DOD's or its trading partners' as appropriate, to eliminate the differences.

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[3]The National Defense Authorization Act for Fiscal Year 2024, Pub. L. No. 118–31, § 1005, 137 STAT. 136, 379 (2023), reprinted at 10 U.S.C. § 240a note.

[4]GAO, *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness*, GAO-25-107743 (Washington, D.C.: Feb. 25, 2025).

Unresolved differences in federal entity intragovernmental activity and balances at the transaction level could result in material misstatements in the consolidated financial statements.

Reconciliation statements: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report on Treasury's ineffective preparation of the two Reconciliation Statements: (1) Reconciliation of Net Operating Cost and Budget Deficit and (2) Statement of Changes in Cash Balance from Budget and Other Activities.

We found that (1) amounts in the statements were not fully consistent with underlying information in significant federal entities[5] audited financial statements and other financial data and (2) all reconciling items were not identified and reported in the statements. In addition, our separate audit of the General Fund of the U.S. Government found that the effect of journal entries on all applicable General Fund line items, including the budget deficit, which is a key line item on the Reconciliation Statements, was not able to be determined.[6]

Treasury is developing corrective actions to address the deficiencies related to the Reconciliation Statements. These include using the budget and accrual reconciliation disclosure included in federal entities audited financial statements, including DOD's financial statements, to prepare the Reconciliation Statements.[7] DOD's auditor reported a material weakness in internal control for fiscal year 2024 related to DOD's budget and accrual reconciliation disclosure. Specifically, DOD was unable to support adjustments made to reconcile budgetary and proprietary data, which resulted in a risk of material misstatements. DOD accurately preparing its budget and accrual reconciliation information is important to Treasury's efforts in this area.

In addition, Treasury also determined that additional reporting by federal entities, including DOD, was needed to address the deficiencies.

- Treasury determined that it needs DOD to report transactions with the necessary detail to Treasury's Central Accounting Reporting System (CARS), including Treasury Account Symbol (TAS) and Business Event Type Code (BETC) information, either by continuing to transition to being a full-CARS reporter or by agreeing with Treasury on an alternative solution that provides sufficient transaction traceability. As of July 2025, 57 percent of DOD's business units reported TAS and BETC information at a summary level instead of at the transaction level.
- Treasury determined that it needs to enhance the ability for federal entities, such as DOD, to record reclassifications of TAS and BETC information for Fund Balance with Treasury activity previously recorded in CARS at a more detailed level. While Treasury is in the

[5]For fiscal year 2024, federal entities significant to the U.S. government's consolidated financial statements were the 24 Chief Financial Officers Act agencies and Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, Millennium Challenge Corporation, National Credit Union Administration, National Railroad Retirement Investment Trust, Pension Benefit Guaranty Corporation, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, Tennessee Valley Authority, U.S. International Development Finance Corporation, U.S. Postal Service, General Fund of the U.S. Government, and Security Assistance Accounts.

[6]The General Fund is a significant component of the U.S. government's consolidated financial statements. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities). See GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2024 Schedules of the General Fund*, GAO-25-106679 (Washington, D.C.: Mar. 13, 2025).

[7]Statement of Federal Financial Accounting Standards (SFFAS) 53, *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*, requires a reconciliation that explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the period.

process of enhancing the reclassification process in CARS, it has implemented the Transfers and Non-Cash module within CARS for federal entities to report this activity, including TAS and BETC information, at a sufficiently detailed level. Currently, federal entities report this activity at a summarized level.

DOD (1) reporting transactions with the necessary detail, (2) fully implementing the Transfers and Non-Cash module for its transfer and noncash activity, and (3) using the enhanced reclassification process once it is implemented in CARS are important to Treasury's efforts in this area.

Treaties and other international agreements: In our fiscal year 2024 audit of the consolidated financial statements, we continued to report that Treasury was unable to reasonably assure that contingencies related to treaties and other international agreements were reported in accordance with U.S. generally accepted accounting principles.

We found that (1) contingencies for treaties and other international agreements were not sufficiently identified at the time of entry into force and (2) treaties and other international agreements with contingencies were not monitored for events that may give rise to the recognition or disclosure of a contingency. In addition, we found that there was not a process for determining in which federal entity's financial statements to report any identified contingencies.

Treasury, in coordination with the Department of State, is developing new processes for federal entities, including DOD, to implement to address these deficiencies. DOD effectively implementing the new processes to identify, monitor, and report any contingencies related to treaties and other international agreements is important to accurately reporting contingencies at the government-wide level.

Copies of this letter are being sent to the appropriate congressional committees. The letter will also be available on the GAO website at https://www.gao.gov. In addition, we sent separate letters to the Secretary of Defense related to agencywide priority recommendations[8] and DOD's senior official with responsibilities to perform the duties of the Chief Information Officer focused on key recommendations related to managing information technology.[9]

If you have any questions or would like to discuss matters outlined in this letter, please contact me at simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. I appreciate DOD's continued commitment and thank you for your personal attention to these important matters.

Sincerely,

[8]Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue. Since 2015, GAO has sent letters to selected agencies to highlight the importance of implementing such recommendations. See GAO, *Priority Recommendations: Department of Defense*, GAO-25-108042 (Washington, D.C.: June 2, 2025).

[9]GAO, *Chief Information Officer Open Recommendations: Department of Defense*, GAO-25-108211 (Washington, D.C.: May 29, 2025).

//SIGNED//

Dawn B. Simpson
Director
Financial Management and Assurance

cc: Deidre A. Harrison, Deputy Controller Performing the Delegated Duties of the Controller, Office of Management and Budget

Gary Grippo, Acting Fiscal Assistant Secretary, Department of the Treasury