U.S. Government Accountability Office

DOD Financial Management: Role of Service Organization Reports in Assessing the Effectiveness of Internal Controls

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Q&A Report to Congressional Committees
September 18, 2025

Why This Matters

The Department of Defense (DOD) has the largest discretionary budget authority of any agency in the federal government—$920 billion in fiscal year 2024.Yet it is the only major federal agency to have never achieved an unmodified (or clean) audit opinion on its agencywide financial statements. The National Defense Authorization Act for Fiscal Year 2024 mandated that the Secretary of Defense ensure that DOD receives an unmodified audit opinion on its financial statements by December 31, 2028. For fiscal year 2024, DOD's agencywide financial statement auditor reported 28 material weaknesses in internal control over financial reporting. One of the material weaknesses, first identified in fiscal year 2019, related to DOD's use of service organizations.

Service organizations provide their customers with centralized services, such as accounting and payroll, that are important for managing DOD's financial operations. Customers retain responsibility for the processes involved in these services. Therefore, customers and their financial statement auditors need to understand the design and operating effectiveness of service organizations' controls over such processes. System and Organization Controls 1 (SOC 1) reports, which are prepared by service organization auditors (service auditors), can help them do so.

We developed this report in connection with fulfilling our mandate to audit the U.S. government's consolidated financial statements, as outlined in section 331 of title 31, United States Code. This report discusses the service auditors' opinions in DOD service organizations' fiscal years 2020 through 2024 SOC 1 reports and the actions DOD service organizations took to address any deficiencies identified in those reports. We are also providing information on DOD's efforts to address its *Service Organizations* material weakness.

Key Takeaways

- A SOC 1 report is an efficient way to provide multiple financial statement auditors and customers with an independent opinion on the controls and systems at a service organization that are relevant to its customers' internal controls over financial reporting. By identifying deficiencies, SOC 1 reports also give service organizations a basis for improving their operating processes and controls.
- The number of DOD service organization SOC 1 reports issued, and the audit opinions included in these reports, varied for fiscal years 2020 through 2024. In its ongoing effort to adapt to changing customer needs, DOD plans to add six SOC 1 reports in the next 2 to 3 years.
- Most of the service organizations whose SOC 1 reports we selected for further review had performed root cause analyses to address deficiencies

identified in their SOC 1 reports; however, some did not consistently perform or document their analyses. We previously recommended that they do so.

- Service organization officials identified ongoing complex and time-consuming challenges, such as the transition to a new system, in achieving unmodified audit opinions on their SOC 1 reports.
- The Office of the Under Secretary of Defense (OUSD) (Comptroller) is taking various actions to address DOD's *Service Organizations* material weakness, such as updating guidance and facilitating communication between service organizations and customers.

What are DOD service organizations?

DOD service organizations are DOD entities that provide key services relevant to internal controls over financial reporting to one or more customers, also referred to as user entities.[1] For example, the Defense Finance and Accounting Service is a service organization that provides accounting services to many customers, including the Department of the Navy and the Defense Health Agency.

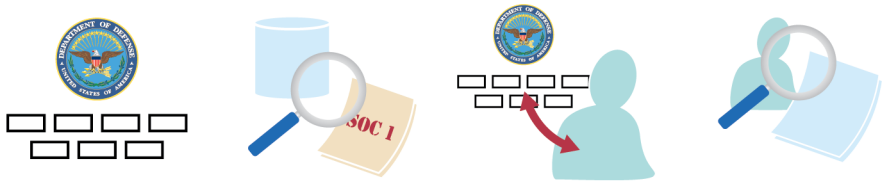
In addition, one service organization can provide multiple services, each of which may undergo a SOC 1 examination. For example, in fiscal year 2024, the Defense Finance and Accounting Service provided 11 services, such as civilian pay and financial reporting, that each underwent a SOC 1 examination. In fiscal year 2024, there were eight DOD service organizations undergoing 27 SOC 1 examinations that provided services to approximately 85 customers.[2]

How do customers understand a service organization's controls?

Customers use SOC 1 reports to understand a service organization's controls and assess whether those controls address the financial reporting risks associated with performing the services provided.[3] This involves understanding the controls over the service organization's system, which includes the policies and procedures that the service organization's management has designed, implemented, and documented to carry out the services provided and covered by the SOC 1 report.[4] Additionally, customers must implement certain controls, called complementary user entity controls (CUEC), described in the SOC 1 report that are necessary to achieve the service organization's control objectives.[5]

Figure 1 describes the main participants involved in the SOC 1 process: the DOD service organization, the service auditor, the customer, and the customer's financial statement auditor.

Figure 1: Main Participants in the System and Organization Controls 1 (SOC 1) Report Process



Service organization
Provides services to a customer

Service auditor
Performs the SOC 1 examination and issues the SOC 1 report

Customer
Uses services provided by the service organization

Customer's financial statement auditor
Audits and reports on the financial statements of the customer

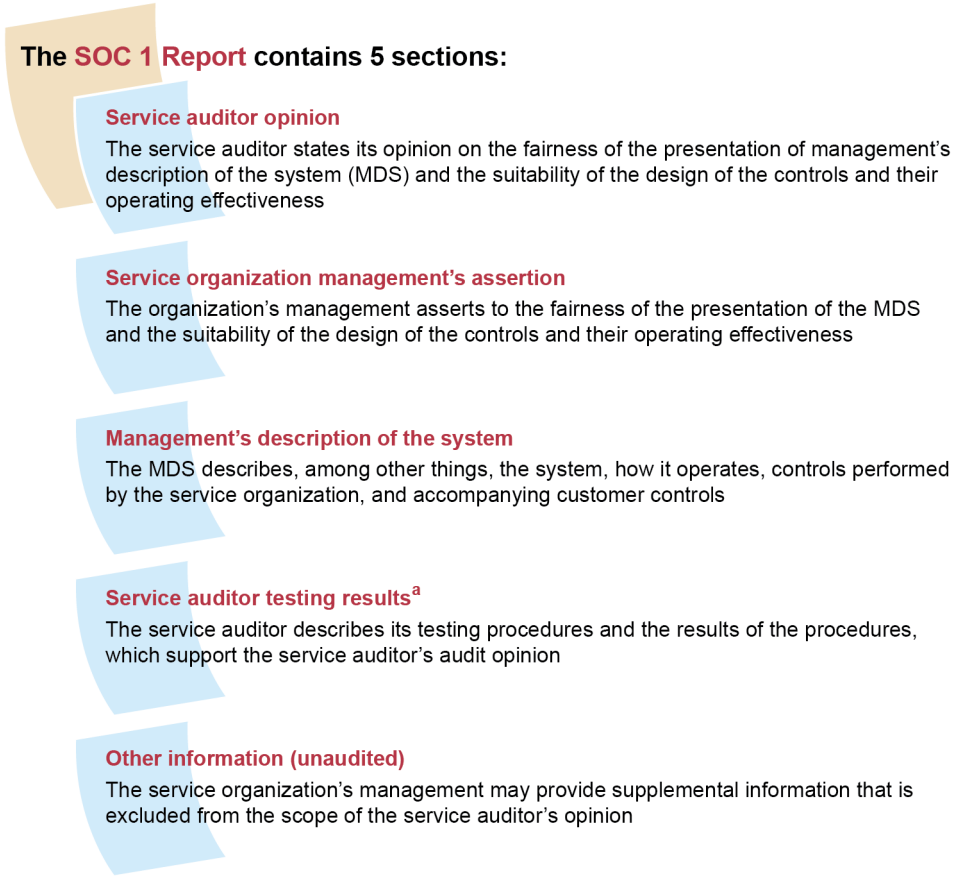
Source: GAO analysis of Department of Defense documentation, GAO (images). | GAO-25-107731

SOC 1 engagements, like financial statement audits, result in audit reports, but the subject matter and resulting audit opinions are different.[6] SOC 1 engagements—which can be type 1 or type 2—examine the controls at a service organization that are likely to be relevant to their customers' internal control over

financial reporting. In the resulting SOC 1 audit report, the service auditor evaluates the fairness of the presentation of management's description of the service organization's system.

A type 1 examination also evaluates the suitability of the design of the service organization's controls as of a specific date, whereas a type 2 examination evaluates both the suitability of the design and the operating effectiveness of the controls over a specified period. Consequently, type 2 reports are usually performed because they can provide evidence to support DOD's agencywide financial statement audit. As seen in figure 2, a SOC 1 report consists of five sections: (1) service auditor's opinion, (2) service organization management's assertion, (3) service organization management's description of its system, (4) service auditor's testing results, and (5) other information (unaudited).[7]

Figure 2: System and Organization Controls 1 (SOC 1) Report Sections



Source: GAO analysis of Department of Defense documentation, GAO (images). | GAO-25-107731

[a]A SOC 1 type 1 report does not include the service auditor's testing results as it only expresses an opinion on the suitability of the design of the service organization's controls.

Why are SOC 1 reports important?

SOC 1 reports are important because they enhance the efficiency of financial statement audits. This may affect DOD's agencywide internal control environment and financial statements, including their reliability and accuracy.

- **Enhanced efficiency.** A SOC 1 report is an efficient way to provide multiple financial statement auditors and customers with an independent opinion on the controls and systems at a service organization that are relevant to its customers' internal controls over financial reporting. SOC 1 reports also give service organizations a basis for improving their operating processes and controls through the identification of deficiencies. They can also provide customers and their financial statement auditors reasonable assurance about whether a service organization's controls described in the report were suitably designed and operated effectively to achieve the control objectives.

For individual customers, this assurance can enhance the efficiency of their internal control assessments by providing them with information on the service organization's controls that they would otherwise have had to obtain on their own.

For the customers' financial statement auditors, being able to rely on the SOC 1 report allows them to reduce the scope of their internal control testing and focus on other audit areas. This saves time and resources, ultimately leading to a more efficient and cost-effective audit for the customer. When customers and their auditors cannot rely on the SOC 1 reports and internal controls identified within the reports, these efficiencies are lost.

Further, a service organization can gain efficiencies from SOC 1 reports when it provides the same service for more than one customer. Those customers and their financial statement auditors can rely on the testing performed by the service auditor if controls are found to be operating effectively. This reduces the audit burden on service organizations.

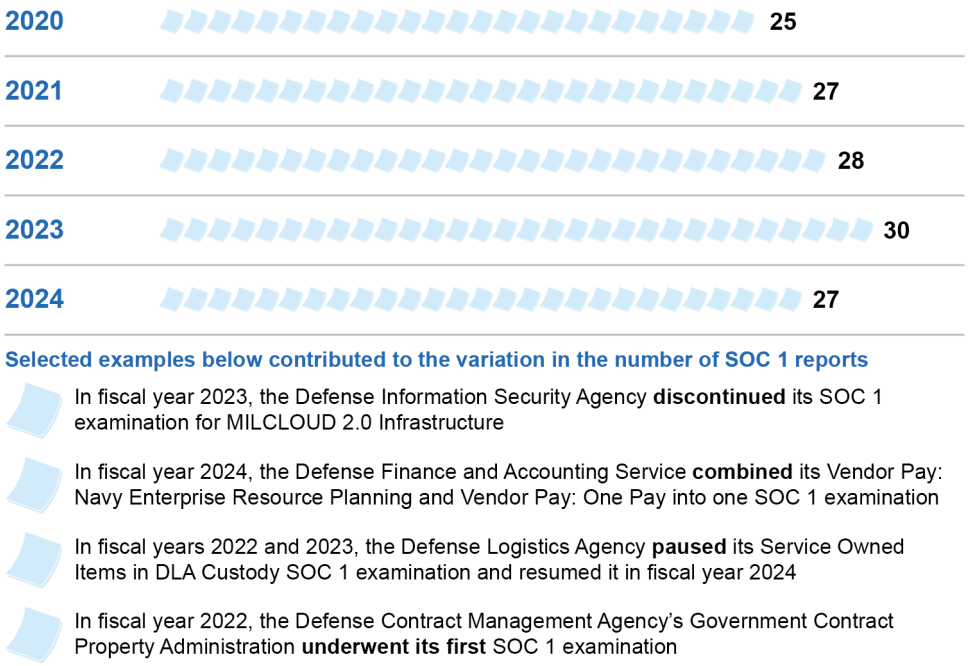
- **Effect on DOD's agencywide financial statements.** If the service auditor determines that the controls described in a service organization's SOC 1 report are suitably designed and operating effectively, the risk of material misstatements in the customers' financial statements may decrease. This could strengthen DOD's agencywide internal control environment and increase the reliability and accuracy of its financial statements.

According to DOD officials, even if a SOC 1 report includes an unmodified audit opinion, a customer's financial statement auditor may determine that they cannot rely on the report. Primarily this happens when customers have not designed and implemented controls to address the CUECs. Further, these officials stated that auditors may not be able to rely on the report if the customer (1) has not assessed the SOC 1 report to evaluate whether the controls described mitigate its risk of material misstatement and (2) cannot communicate to its financial statement auditor how the service organization affects its business processes. Additionally, relevant internal controls, including those of the service organization, any subservice organizations, and the customer, must function effectively for the internal controls in the SOC 1 report to be relied on by the customers and their financial statement auditors.[8]

What were the results of DOD's SOC 1 reports for fiscal years 2020 through 2024?

We found that the number of SOC 1 reports issued, and the audit opinions included in these reports varied. As seen in figure 3, the number of SOC 1 reports issued for fiscal years 2020 through 2024 fluctuated, ranging from 25 to 30. Reasons for these fluctuations include the discontinuation of one report, combined reports, pauses in SOC 1 examinations, and issuance of new reports.

Figure 3: DOD System and Organization Controls 1 (SOC 1) Reports for Fiscal Years 2020–2024

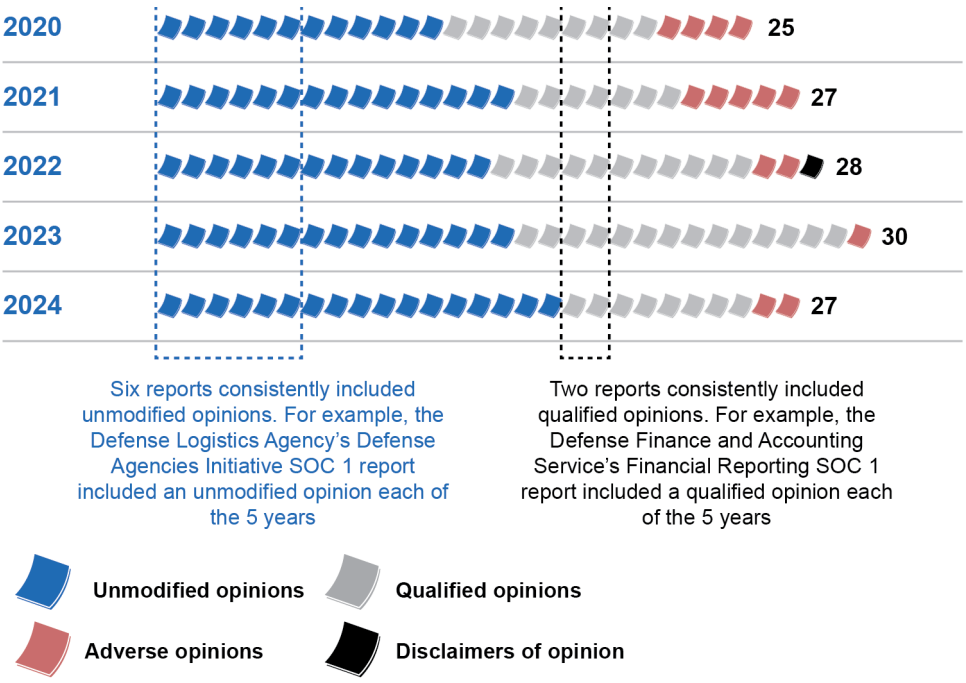


Source: GAO analysis of Department of Defense (DOD) documentation, GAO (images). | GAO-25-107731

According to OUSD (Comptroller) officials, DOD and its service organizations continue to adapt to changing customer needs by increasing the number of SOC 1 examinations performed to help ensure that all the key services DOD service organizations provide that significantly affect customers' financial statements are covered. These officials told us that they plan to add six examinations in the next 2 to 3 years and will continue to evaluate the need for additional examinations based on input from customers. Continually increasing the number of examinations performed each year is an essential strategy for DOD to achieve its overall financial statement audit goal of achieving an unmodified audit opinion on its financial statements by December 31, 2028.[9]

Also, from fiscal year 2020 through fiscal year 2024, service auditors issued either unmodified or modified audit opinions (qualified, adverse, and disclaimer),[10] depending on whether management's description of the service organization's system was fairly presented, the system's internal controls were suitably designed, and the system's internal controls were operating effectively (see fig. 4).[11]

Figure 4: DOD System and Organization Controls 1 (SOC 1) Reports' Audit Opinions for Fiscal Years 2020–2024



Source: GAO analysis of Department of Defense (DOD) documentation, GAO (images). | GAO-25-107731

Additionally, we found that most of the SOC 1 audit opinions changed at least once over our selected time frame. For example, one SOC 1 report included a qualified opinion for fiscal year 2020, followed by unmodified opinions for fiscal years 2021 and 2022, and then back to qualified opinions for fiscal years 2023 and 2024.

According to service organization officials, some changes in audit opinion were due to reasons such as control environments that were still evolving. Additionally, according to accounting standards, internal control has inherent limitations, including the possibility of human error or even intentional circumvention of controls.[12] Therefore, no matter how well an internal control is designed and operated, the audit opinion in a SOC 1 report can still vary from year to year. Nonetheless, it is important that SOC 1 examinations be performed annually because the customer's financial statement auditor cannot rely on tests of internal controls that are performed outside the financial statement audit period.

What deficiencies contributed to the modified SOC 1 audit opinions?

We found that the deficiencies that contributed to modified audit opinions in the SOC 1 reports we reviewed occurred primarily in the following controls:

- **Logical access.** These controls protect data and IT against unauthorized changes, loss, or disclosure by limiting access and user actions. For example, one service organization's logical access controls included regular reviews of IT system user accounts to ensure that each user's access aligned with their job responsibilities. The service auditor identified a deficiency in this control because the organization did not retain evidence required to support continued access for some users.
- **Configuration management.** These controls involve identifying and managing changes to IT features, such as hardware, software, and equipment. For example, one service organization had a configuration management control that required documentation and approval of system change requests. The service auditor found that the organization did not

maintain a list of approved changes, which it identified as a deficiency in the control.

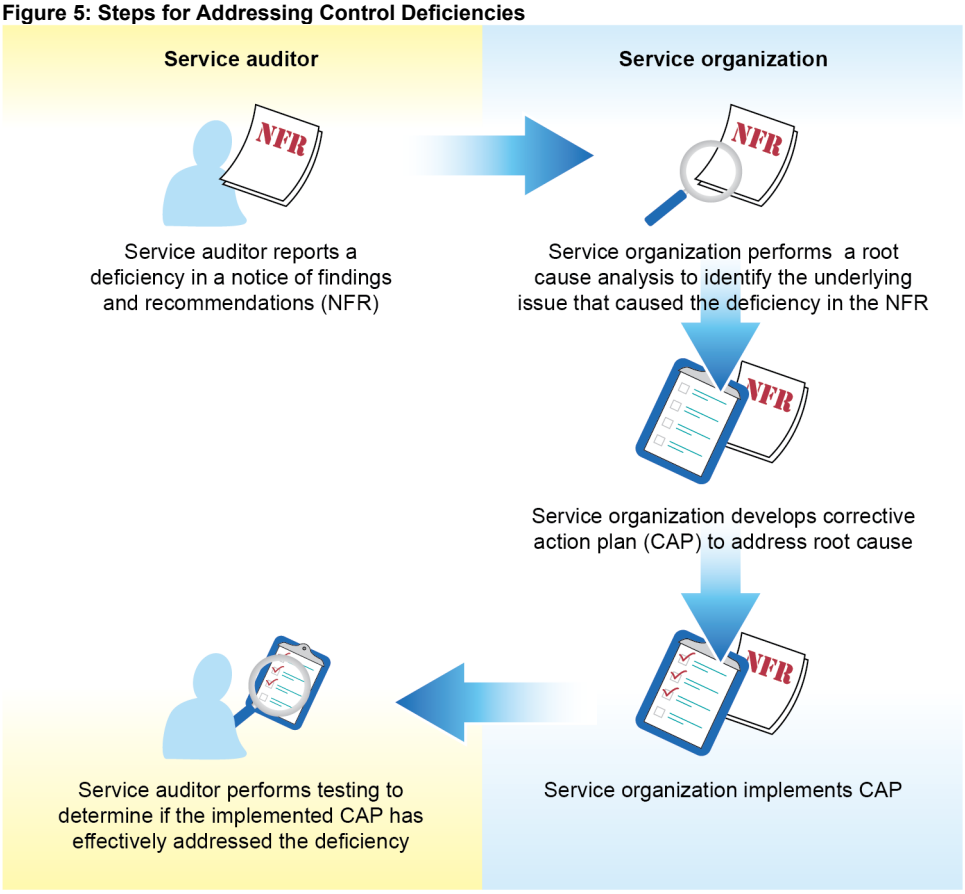
- **Segregation of duties.** These controls involve segregation of work responsibilities so that one individual does not control all critical stages of a process. For example, one service organization had a control to enforce segregation of duties by restricting incompatible system privileges. The service auditor identified a deficiency in this control when one service organization staff member was granted system privileges to perform security reviews of their own activity.
- **Processing.** These controls relate to data integrity within an IT application and ensure that the transactions are authorized and executed completely, accurately, and timely, and that errors are identified and resolved. For example, one service organization had a processing control that required approval of final cost vouchers in its system, including validation that the amount paid to a contractor matches the amount claimed. The service auditor identified a deficiency when it found that a final cost voucher was approved despite these amounts not matching.

According to some service organization officials, although they may have deficiencies in the same control over multiple years, those deficiencies are not necessarily representative of the same issue. For example, we found that one SOC 1 report included a modified audit opinion for fiscal years 2020 and 2021 that was due, in part, to logical access control deficiencies. For fiscal year 2020, the deficiency was related, in part, to system access not being removed timely. However, for fiscal year 2021, that was no longer an issue. Rather, the deficiency was due to user access modifications not being documented correctly and reviews not being performed consistently or as designed.

What is the process for addressing SOC 1 report deficiencies?

According to DOD guidance,[13] once the service auditor identifies a deficiency during a SOC 1 examination and reports it in a notice of findings and recommendations (NFR), the service organization should perform a root cause analysis (see fig. 5).[14] This analysis is essential for ensuring that the subsequent efforts to correct the deficiency address the root cause of the problem and not just the symptoms. The service organization then uses the root cause analysis to develop a corrective action plan (CAP), which describes the steps the organization will take to address the root cause of the deficiency.

Figure 5: Steps for Addressing Control Deficiencies



Source: GAO analysis of Department of Defense documentation, GAO (images). | GAO-25-107731

Are organizations performing and documenting root cause analyses?

We found that most of the service organizations of eight selected SOC 1 reports we reviewed had performed root cause analyses to address the deficiencies identified in their SOC 1 reports. However, the methods these organizations used to document their analyses varied. We found that for deficiencies identified in four SOC 1 reports, the organizations documented their root cause analyses in the CAP, while for one SOC 1 report, the organization documented its analysis in a tracking tool that it maintains.

For deficiencies identified in the remaining three SOC 1 reports, we found that the service organizations did not consistently perform or document their own root cause analyses. Rather, to prepare their CAPs, they generally used the cause that the service auditor identified in the related NFR. However, according to DOD guidance, the true root cause may or may not be identified in the NFR.[15] Therefore, organizations should perform their own analyses to determine whether there are larger issues that need to be addressed beyond those that the auditor identified.

We have previously reported that DOD lacks documentation for its root cause analyses.[16] We recommended that DOD update its guidance to instruct DOD and components to document root cause analysis to address deficiencies auditors identified. To address our recommendation, DOD updated its guidance in January 2025 requiring service organizations to perform root cause analyses and document them in the CAPs.[17] This will help ensure that organizations are taking appropriate actions to resolve the underlying causes of deficiencies identified in SOC 1 reports. We will monitor DOD's implementation of this guidance.

What actions are service organizations taking to address deficiencies?

Selected service organizations have taken various actions to address the deficiencies their service auditors identified. We categorized these actions as follows:

- **Updating tools and guidance**. Service organizations developed tools or clarified guidance to address control deficiencies. For example, to address its logical access controls deficiency, one organization created a new job aid that documents steps for performing annual reviews of customers with high-level IT system access.
- **Requiring training**. Service organizations updated or added training requirements to address deficiencies that were related to staff not adhering to procedures to perform specific tasks. For example, one organization plans to address its logical access control deficiency by instituting refresher training for all personnel on how to request system access.
- **Updating processes.** Some service organizations developed new or improved processes to address deficiencies related to gaps in procedures or design of controls. For example, one organization implemented a process for ensuring effective segregation of duties by developing a matrix that clearly defines staff roles and capabilities. The role matrix will be reviewed and updated annually or as needed.

What prevents service organizations from achieving unmodified SOC 1 audit opinions?

Although efforts to address deficiencies are under way, some service organization officials identified ongoing challenges to achieving an unmodified audit opinion that are complex and time-consuming. For example, one service organization is transitioning to a new inventory management system. Implementing this transition involves reengineering business processes and developing guidance. Until it completes these actions, gaps in controls and new deficiencies may prevent it from achieving an unmodified audit opinion.

In another example, the need to coordinate across several offices within a service organization can delay timeliness in addressing deficiencies. Such is the case with system change requests, which depend on management approving and programmers completing the requests.

Finally, service organizations stated that some deficiencies are outside their control. Specifically, some deficiencies are the result of known DOD agencywide issues and will not be resolved until customers address them. For example, according to a service organization's officials, one of the primary impediments to it achieving an unmodified audit opinion in its SOC 1 report is unsupported accounting adjustments, a DOD agencywide material weakness.[18] These adjustments were made by the service organization, as customers were not able to provide adequate supporting documentation. Until customers address this issue, the organization will not be able to achieve an unmodified audit opinion on its SOC 1 reports.

What is DOD doing to remediate the *Service Organizations* material weakness?

DOD is taking multiple actions, based on its auditor's recommendations, to address the *Service Organizations* material weakness. The material weakness is related, in part, to customers not (1) monitoring service organizations or evaluating the organizations' impact on their financial reporting, and (2) designing and implementing CUECs.[19] To address these issues, OUSD (Comptroller) has, among other things, taken the following actions:

- **Developed a baseline standard operating procedure (SOP) for monitoring service organizations**. To improve customers' monitoring of their service organizations, OUSD (Comptroller) has developed the *Service*

Organization Oversight and Monitoring Procedure (baseline monitoring SOP), which customers can tailor to meet their specific needs.[20] According to OUSD (Comptroller), as of December 2024, 43 percent of DOD's customers had service organization monitoring processes in place. OUSD (Comptroller)'s expectation is that the remaining 57 percent will develop their own SOPs using the baseline monitoring SOP by the end of fiscal year 2025.

- **Developed a CUEC assessment summary.** To help ensure that customers are designing and implementing CUECs, OUSD (Comptroller) requires each customer to submit a CUEC assessment summary semi-annually. In the summaries, customers document their tests of the design and operating effectiveness of their CUECs before their financial statement auditors start their audits.
- **Updated guidance.** In fiscal years 2024 and 2025, OUSD (Comptroller) updated several guidance documents that are relevant to the DOD material weakness.[21] For example, the *Fiscal Year 2024 Department of Defense Statement of Assurance Execution Handbook* requires that customers provide to OUSD (Comptroller) (1) the status of their development of the service organization baseline monitoring SOPs and (2) their CUEC assessment summaries.
- **Conducted a survey to identify SOC 1 reports for in-depth discussion.** In fiscal year 2024, OUSD (Comptroller) conducted a survey with customers' financial statement auditors to identify those SOC 1 reports that the auditors would like to more thoroughly understand. OUSD (Comptroller) then hosted a meeting between these auditors and the service organizations of the five identified SOC 1 reports. The meeting included presentations by these organizations followed by question-and-answer sessions, which allowed auditors to ask questions directly to organization officials.

In addition to the above, OUSD (Comptroller) continues to, among other things, (1) host semiannual working group meetings to facilitate communication across SOC 1 participants and customers' monitoring of organizations and (2) monitor SOC 1 audit opinions and the status of associated NFRs.

Agency Comments

We provided a draft of this report to DOD for review and comment. DOD provided technical comments, which we incorporated as appropriate.

How GAO Did This Study

To describe the results included in the fiscal years 2020 through 2024 SOC 1 reports, we reviewed the reports and summarized the audit opinions received, as well as the deficiencies that contributed to modified audit opinions. We were unable to perform a trend analysis of the SOC 1 reports that consistently received an audit opinion because there was no consistent pattern of change from year to year across the 5 years.

To evaluate the actions that DOD service organizations have taken to address the deficiencies, we selected eight DOD SOC 1 reports (see table 1). Seven of those were a nongeneralizable sample of SOC 1 reports that did not consistently include unmodified opinions for fiscal years 2020 through 2024. Of the seven, five SOC 1 report opinions fluctuated between modified and unmodified opinions at least once, while the remaining two received modified opinions. Also, we used a simple random selection to select one SOC 1 report that had consistently included an unmodified opinion for fiscal years 2020 through 2024.

Table 1. Selected DOD System and Organization Controls 1 (SOC 1) Reports and Audit Opinions, Fiscal Years 2020–2024

Number	SOC 1 report	Service organization	Audit opinion
1	Munitions Inventory Management	Department of the Army	Fluctuated
2	Contract Pay	Defense Contract Management Agency	Modified
3	Military Pay	Defense Finance and Accounting Service	Fluctuated
4	Financial Reporting	Defense Finance and Accounting Service	Modified
5	Defense Automatic Addressing System	Defense Logistics Agency	Fluctuated
6	Service Owned Items in Defense Logistics Agency Custody	Defense Logistics Agency	Fluctuated
7	Procurement Integrated Enterprise Environment	Defense Logistics Agency	Fluctuated
8	Defense Agencies Initiative	Defense Logistics Agency	Unmodified

Source: GAO based on selection of Department of Defense (DOD) sample for review. | GAO-25-107731

Note: Audit opinions noted as "fluctuated" indicate that the opinions changed between modified and unmodified at least once over our selected time frame. Audit opinions noted as "modified" indicate that the SOC 1 reports consistently included a modified opinion over our selected time frame.

For the eight selected SOC 1 reports, we interviewed officials from:

- DOD and DOD service organizations, to gain an understanding of the procedures implemented for addressing any identified deficiencies or impediments preventing the organizations from remediating the deficiencies;
- service auditors that performed the SOC 1 examinations, to obtain perspectives on how service organizations are addressing deficiencies, as well as additional actions needed to resolve deficiencies;[22] and
- customers that use seven or more of the selected reports, to obtain perspectives on whether actions the service organizations have taken to address the deficiencies have improved their ability to use the SOC 1 reports and what additional actions are needed.[23]

We also reviewed DOD and DOD service organizations' policies, procedures, and other documentation related to the SOC 1 process, including reviewing, addressing, documenting, and monitoring deficiencies. This included documentation such as root cause analyses and corrective action plans demonstrating DOD's efforts to address identified deficiencies.

To describe the status of DOD's progress in addressing its *Service Organizations* material weakness, we interviewed OUSD (Comptroller) officials to obtain an understanding of DOD's efforts and any impediments.

We conducted this performance audit from August 2024 to September 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

List of Addressees

The Honorable Roger Wicker
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Rand Paul, M.D.
Chairman
The Honorable Gary C. Peters
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Mike Rogers
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable James Comer
Chairman
The Honorable Robert Garcia
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), and other interested parties.

GAO Contact Information

For more information, contact Asif Khan, Director, Financial Management and Assurance, khana@gao.gov.

Public Affairs: Sarah Kaczmarek, Managing Director, Media@gao.gov.

Congressional Relations: A. Nicole Clowers, Managing Director, CongRel@gao.gov.

Staff Acknowledgments: Rathi Bose (Assistant Director), Crystal Alfred (Analyst in Charge), Melissa Bentley, Seth Brewington, John Craig, Edgar Fletes, Jason Kelly, Kershlyn Lima, and Dacia Stewart.

Endnotes

[1]Service organizations undergo SOC 1 examinations because the examination report may be used by multiple customers and their financial statement auditors. However, service organizations serving fewer than three customers may opt to directly support the customers where it is more efficient and cost beneficial to do so. DOD customers also use services provided by service organizations that are external to the department, including federal agencies and commercial organizations. For example, in fiscal year 2024, DOD customers used services provided by 15 external organizations, including the U.S. Department of the Treasury and Amazon. For this report, we focused on services provided by DOD organizations.

[2]Service organizations also use other service organizations, referred to as subservice organizations, to perform some of the services provided to customers that are likely to be relevant to those customers' internal control over financial reporting.

[3]A service organization's controls include policies and procedures that are likely to be relevant to customers' internal control over financial reporting.

[4]A service organization's system includes both IT systems and business processes.

[5]CUECs are customer controls that service organization management assumes, as a part of the design of its system, its customers will implement. The service organization includes a list of CUECs that are necessary to achieve its control objectives in management's description of the service organization's system (the MDS) of its SOC 1 report. Control objectives are the aim or purpose of specified controls at the service organization and address the risks that controls are intended to mitigate.

[6]The purpose of a financial statement audit is to provide an opinion on whether an entity's financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

[7]A SOC 1 type 1 report does not include service auditor's testing results as it only expresses an opinion on the suitability of the design of the service organization's controls.

[8]Complementary subservice organization controls are controls that management of the service organization assumes, in the design of its system, will be implemented by the subservice organizations and are necessary to achieve the control objectives stated in the MDS.

[9]Department of Defense, Office of the Under Secretary of Defense (Comptroller) Chief Financial Officer, *Financial Improvement and Audit Remediation Report* (July 2024).

[10]The service auditor's opinions may be modified if there are either scope limitations or misstatements that are material. The type of modified opinion depends on the pervasiveness of the effects or possible effects of the scope limitation or misstatement on the description, the suitability of the design of controls, and the operating effectiveness of controls. Specifically, if the effects are not pervasive, the opinion will be qualified. If there is a scope limitation with a pervasive effect, the opinion will be a disclaimer of opinion, and if there is a material misstatement with a pervasive effect, the opinion will be adverse.

[11]The service auditor determines whether the MDS is fairly presented based on criteria in management's assertion, including whether the control objectives are reasonable in the circumstances, the controls identified were implemented, CUECs and complementary subservice organization controls are adequately described, and services provided by a subservice organization are adequately described.

[12]American Institute of Certified Public Accountants, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, AU-C Section 200 (January 2012).

[13]Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Fiscal Year 2024 DOD Internal Control over Reporting – Financial Reporting and Financial Systems Guide* (July 2024).

[14]An NFR is a formal notification from an auditor of an identified deficiency and recommended steps to resolve the deficiency.

[15]Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Financial Statement Audit Requirements and Overview Guide* (January 2025).

[16]GAO, *DOD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits*, GAO-21-157 (Washington, D.C.: Oct. 13, 2020).

[17]Department of Defense, *Financial Statement Audit Requirements and Overview Guide* (January 2025).

[18]Unsupported accounting adjustments occur when a service organization—while preparing a customer's financial statement—records adjustments that force the customer's balances into agreement with corresponding balances of other federal entities, such as Treasury and other DOD components.

[19]Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2024* (Washington, D.C.: Nov. 15, 2024).

[20]Department of Defense, *Service Organization Oversight and Monitoring Procedures* (April 2025).

[21]These documents include DOD's (1) *Statement of Assurance Execution Handbook* (April 2025); (2) *FY 2024 Internal Control Over Reporting – Financial Reporting and Financial Systems Guide*; (3) *Service Organization Oversight and Monitoring Procedures*; and (4) *Financial Statement Audit Requirements and Overview Guide*.

[22]The service auditors that performed the SOC 1 examinations for the eight selected SOC 1 reports are Ernst & Young, Kearney & Company, and Klynveld Peat Marwick Goerdeler.

[23]The customers selected for our review that use seven or more of the selected reports are the Departments of the Air Force, Army, and Navy; U.S. Marine Corps; and Defense Security Cooperation Agency.