

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER**

June 2023



**UNITED STATES DEPARTMENT OF DEFENSE
FINANCIAL IMPROVEMENT AND AUDIT REMEDIATION REPORT**

The Financial Improvement and Audit Remediation Report, commonly called the FIAR Report, was prepared in accordance with section 240b of title 10, United States Code.

The estimated cost of this report or study for the Department of Defense is approximately \$84,000 for the 2023 fiscal year.

This includes \$83,000 in expenses and \$1,130 in DoD labor.

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A Message from the Under Secretary of Defense (Comptroller)/ Chief Financial Officer

Defend the Nation, Succeed through Teamwork, Take Care of Our People—these three guiding priorities, reiterated by Secretary of Defense Lloyd J. Austin III in his March 2023 “Message to the Force,” permeate everything we do, from long-range strategic planning to everyday operations. The 2022 National Defense Strategy articulates these priorities by detailing the Department’s path forward and setting the course. The DoD Strategic Management Plan for Fiscal Years 2022 – 2026 is the blueprint for advancing that strategy and demonstrates our commitment to transparency and accountability.

As Comptroller and Chief Financial Officer, my job is to ensure we resource the Department’s missions in a fiscally responsible manner while inspiring trust with our civilian and military leaders, Congress, and the American people. Last year, Deputy Under Secretary of Defense (Comptroller) Kathleen Miller and I released our goals and objectives for cultivating the financial management workforce, optimizing taxpayer dollars, increasing the integrity of financial results, simplifying and optimizing end-to-end business environments, and empowering data-driven, fiscally informed decision-making. The DoD Financial Management Strategy FY22-26 includes accelerating the push to achieve an unmodified opinion on the Department’s financial statement audits.

Auditing the Department’s \$3.5 trillion in assets and \$3.7 trillion in liabilities (fiscal year 2022) is a massive undertaking but what we are working toward affects every Soldier, Sailor, Airman, Marine, Guardian, and DoD civilian. The audits operate on a large scale, but the improvements and changes we are making every day as a result of those audits have very human outcomes. Systems automations are allowing the Department to repurpose funds and people to other, higher-priority and mission-critical tasks. Strengthened property accountability is helping ensure inventory and equipment needed for military operations are accurately recorded and available. Real-time data analytic tools are giving decision-makers insight into budget issues and driving buying power to better support our men and women in uniform and steward taxpayer dollars. Retiring legacy information technology systems allows us to avoid maintenance costs and reinvest those funds into fewer, more reliable and auditable systems.

We are making progress—but we must do more. The financial statement audits have peeled back the top layers and are revealing the Department’s most entrenched and difficult issues. Solving these problems and achieving an unmodified audit opinion require a sound strategy, strong oversight and committed leaders, and a financial management community that is moving in lockstep toward a common purpose.

Like the DoD Strategic Management Plan, we have streamlined the annual Financial Improvement and Audit Remediation Report to focus on imperatives:

1. Advancing the National Defense Strategy through our audit strategy; prioritizing and then mapping remediation work; overseeing progress and holding folks accountable; and supporting the detailed work of our Components to achieve an unmodified audit opinion;
2. Evaluating the results of last year’s financial statement audit and understanding the details of what auditors found to then categorize and group related findings to reveal more about our material weaknesses; and subsequently directing resources so they are optimized; and finally
3. Monitoring the status of the Secretary of Defense audit priorities, enabling a snapshot of where things stand on our most material issues.

We are committed to transforming the Department’s business operations, and I am grateful for the ongoing support of Congress, the Government Accountability Office, the DoD Office of Inspector General, and my DoD partners. Through these strong partnerships and a continued open dialogue, we will achieve our goals.



Michael McCord

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“We will be good stewards of those resources, for both warfighters and taxpayers. Defense reform will ensure that we use taxpayer dollars efficiently by modernizing our business processes, improving our financial and contract management, and completing the Department’s audit. Above all, our accountability to both our own forces and the American public is core to our democracy and sets us apart from our competitors on the world stage.”

— *Secretary of Defense Lloyd J. Austin III*
Prepared Remarks Before the House Armed Services Committee
March 29, 2023

DoD Audit Strategy

The 2022 National Defense Strategy of the United States of America is directly supported by the Department of Defense Strategic Management Plan for Fiscal Years 2022-2026; the Annual Performance Plan, which links strategic goals and objectives from the Strategic Management Plan to performance goals; and the Comptroller-led DoD Financial Management Strategy for FY 22-26 (DoD FM Strategy). The annual audit priorities named by the Secretary of Defense focus Department-wide efforts on the areas that matter most, and progress is planned and monitored via audit roadmaps. These interrelated strategies establish the way forward for the Department and intersect at the need to improve operations and accelerate the path to an unmodified audit opinion on the DoD consolidated financial statements, as shown in Figure 1.

DoD Financial Management Strategy

The financial statement audits dovetail with other high-priority, long-term financial management goals and objectives established in the DoD FM Strategy. The DoD FM Strategy defines the Department-wide financial management mission, vision, and goals to energize and transform the financial management workforce. Its guiding principles describe the valued behaviors of the FM workforce:

- Steward taxpayer dollars
- Lead by example
- Take care of our people
- Be a strategic partner
- Focus on outcomes
- Be curious
- Embrace innovation to accelerate outcomes
- Drive change
- Generate insights
- Manage performance and risk
- Take prudent risks

Strategic goal number three of the DoD FM Strategy specifically identifies accelerating the path to an unmodified audit opinion as an objective, summarizes why it matters, and establishes ways the Department can measure progress.

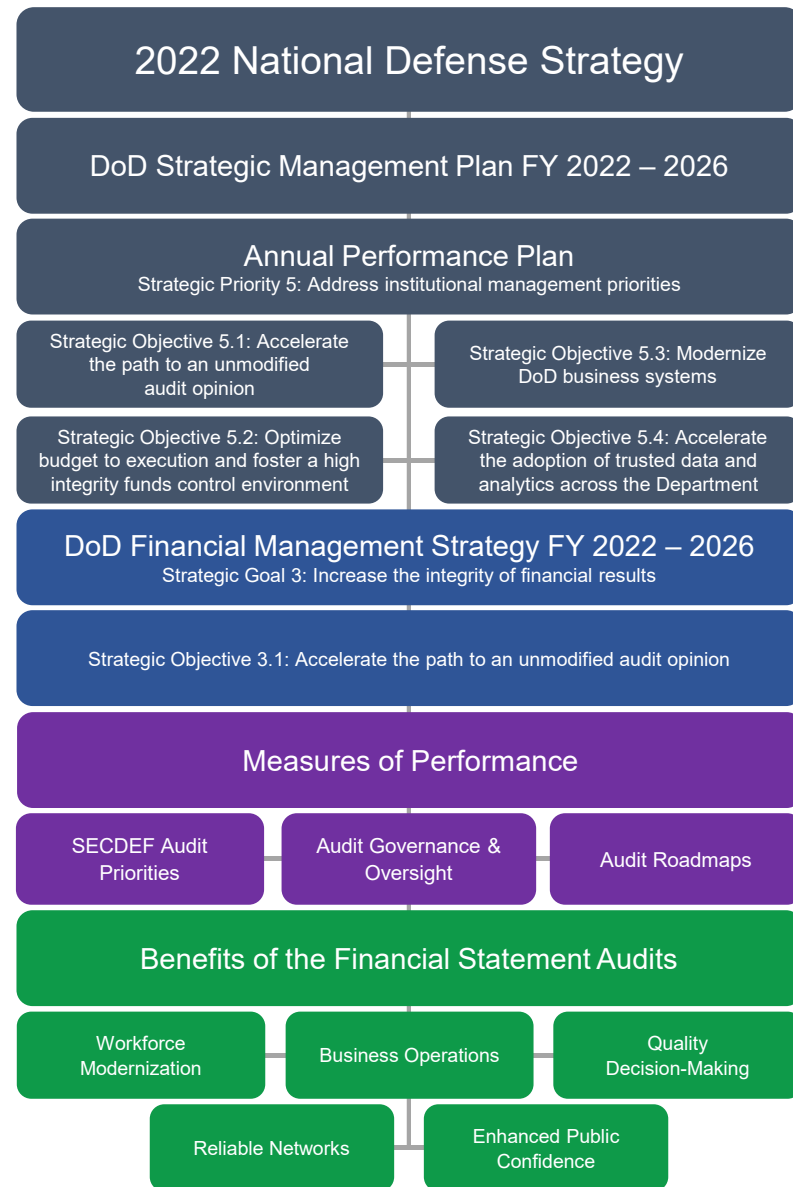


Figure 1. Advancing the National Defense Strategy

DoD Audit Strategy

Measures of Performance

The DoD audit strategy combines near-term, high-priority Department-wide goals with a long-view of Component plans and oversight to help DoD leaders measure performance and hold Components accountable for progress. For the purposes of this report, the “DoD audit strategy” refers to the Comptroller-led effort to accelerate the Department’s drive to achieve an unmodified opinion and should not be confused with the annual audit plan, which is established by the DoD Office of Inspector General. “Components” refers to DoD entities under standalone audit or being audited as part of the DoD Consolidated Audit, including the Department of the Army; Department of the Navy (DON), which includes the U.S. Marine Corps; the Department of the Air Force (DAF), which includes the U.S. Space Force; Defense Agencies; DoD Field Activities; and DoD funds.

The Secretary’s Financial Statement Audit Priorities

Each year, the Secretary of Defense (SECDEF) defines audit priorities based on their importance to the overall auditability of the DoD financial statements and ultimately their ability to positively affect the work of our Soldiers, Sailors, Airmen, Marines, Guardians and DoD civilians. The FY 2023 SECDEF Financial Statement Audit Priorities are Fund Balance with Treasury, Access Controls, and Universe of Transactions.

For each priority area, the Military Departments and the Defense Logistics Agency (DLA) report progress monthly against established metrics to the Deputy Secretary of Defense. Department leaders track progress along a glide path of quantitative metrics. For current status of these priorities, please see the SECDEF Financial Statement Audit Priorities section of this report.

Audit Governance and Oversight

To underscore leadership commitment, the Department established an audit oversight governance infrastructure. Governance includes both the oversight bodies that make up the governance infrastructure and how those bodies monitor progress using health metrics and Component scorecards.

- The Deputy’s Management Action Group (DMAG) is a senior governance forum chaired by the Deputy Secretary of Defense and co-chaired by the Vice Chairman of the Joint Chiefs of Staff. The DMAG is the Department’s principal governance forum for management actions affecting the defense enterprise, and it conducts highly visible, executive-level checks of audit progress against metrics semiannually.
- The Defense Business Council is the Department’s governance and integration body for matters associated with management, defense reform, performance management and improvement, defense business systems, enterprise risk management, and oversight of related resourcing decisions.
- Financial Improvement and Audit Remediation (FIAR) Governance Board provides vision, leadership, direction, oversight, and accountability in support of moving toward an unmodified audit opinion. Chaired by the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), the board comprises senior leaders from the DoD Components under a standalone audit. Representatives from the Government Accountability Office and DoD Office of Inspector General regularly attend the bimonthly meetings.
- FIAR Committee provides oversight and accountability for DoD Component financial improvement plans and actions to achieve full auditability. Led by the Deputy Chief Financial Officer and supported by key leaders from the DoD Components, the Committee meets monthly and advises the FIAR Governance Board on ways to optimize financial management improvement and audit remediation.
- Financial Operations (FINOPs) provides a weekly forum in which Military Departments and certain Defense Agencies share audit remediation lessons learned. Led by the Deputy Chief Financial Officer, these meetings give Military Service and certain Defense Agency financial leaders an opportunity to discuss audit roadmap progress, audit status, strategy, and progress toward an audit opinion. The FINOPs reviews the SECDEF Audit Priorities Status Dashboard monthly before reporting out to the USD(C)/CFO and the DMAG.

DoD Audit Strategy

- Functional Councils address the pivotal, pervasive audit issues of Property and Information Technology. Councils meet quarterly to review remediation status and develop solutions including potential changes to DoD policy and procedures.
- Material Weakness Working Groups for Government Property in the Possession of Contractors, Real Property, General Property, Inventory, Operating Materials and Supplies, Environmental and Disposal Liabilities, and the Joint Strike Fighter Program help ensure the Components coordinate solutions and maintain momentum in these areas.



An F-35B Lightning II aircraft assigned to Marine Medium Tiltrotor Squadron (VMM) 262 (Reinforced) launches from amphibious assault carrier USS Tripoli (LHA 7), Aug. 30, 2022. The Joint Strike Fighter Program Working Group is working to remediate the F-35 audit material weakness. (U.S. Navy photo by Mass Communication Specialist 1st Class Peter Burghart)

Audit Roadmaps

The Military Departments and each Component under a standalone audit with a disclaimer of opinion, including DoD Intelligence Community agencies, maintain an audit roadmap. These audit roadmaps directly support the National Defense Strategy by aligning audit remediation strategies across the Department and facilitating how each Component directs its audit resources. The roadmaps guide the implementation of corrective measures and establish milestones against which progress can be measured and the return on the Department's audit investment assessed.

Any deviation from an approved audit roadmap requires Deputy Secretary of Defense and USD(C)/CFO approval. Efforts to strengthen the roadmaps are ongoing with recent focus on requiring the Military Departments and DLA to identify their audit roadmap critical path, root causes of those issues, and associated remediation milestones through FY 2025.

Similarly, the DoD service providers are developing audit roadmaps to remediate auditor findings from the examinations conducted in accordance with Statement on Standards for Attestation Engagements No. 18 (SSAE No. 18) to chart the path to achieving unmodified opinions on DoD systems and business processes, a major driver to achieving an overall DoD audit opinion.

The various governance bodies use audit scorecards to track audit roadmaps of Components that have not achieved an unmodified opinion. Each scorecard tracks auditor notices of findings and recommendations (NFRs), corrective action plans (CAPs), and audit roadmap milestones across various metrics such as the number of findings closed related to material weaknesses, milestone completion rates, milestones past due, etc. Leaders in the Department use these scorecards to assess where improvements in audit remediation are needed and which Components are most in need of assistance. Additionally, by identifying which corrective action plans or milestones contributing to a material weakness are past due, leaders are better able to assess potential risks to the Department's overall audit position.

DoD Audit Strategy

Benefits of the Financial Statement Audits

In many ways, the opinion is secondary to the financial system and business process improvements that are already resulting in taxpayer savings through gained efficiencies, more reliable data for decision-making, and promoting public confidence. Tools initially developed to support the financial statement audits, such as Advana, the Department's enterprise-wide, multi-domain data, analytics, and artificial intelligence platform, are expanding support to other areas of DoD operations.

Return on investment is measured across five areas essential to the Department's ability to achieve its audit, financial management, and National Defense Strategy goals:

- Workforce Modernization – Increasing robotic process automation or “bot” adoption is giving personnel the tools to execute basic procedures in a fraction of the time it would take a person to complete the task, making available time for other, more complex tasks.
- Business Operations – Strengthening the controls environment, enhancing visibility over physical assets, saving manpower hours, and optimizing resources as senior leaders and the workforce learn to do more with less.

- Quality Decision-Making – Improving information technology (IT) systems, enhancing data timeliness and accuracy, and consolidating data to arm decision-makers with real-time, Department-wide views, and advanced data analytic capabilities. Leaders use modern dashboards, metrics, and analytics to optimize the logistical posture and improve the warfighter's readiness.
- Reliable Networks – Testing physical and logical controls and providing direct and specific feedback on where system owners must improve security and controls to help prevent hacks and cyberattacks, both foreign and domestic.
- Enhanced Public Confidence – Giving taxpayers improved accountability for the financial and physical assets entrusted to the Department and increasing transparency into the use and condition of those assets for greater confidence in the Department's stewardship.

Each Component demonstrates support for the National Defense Strategy through the implementation of its audit roadmap and diligence in remediating audit findings. Table 1 shows achieved improvements since the audits began in FY 2018 across these five areas and how the Components with disclaimers of opinion are advancing the National Defense Strategy, as required by the National Defense Authorization Act for FY 2020. Because of their size and significance to the Department's overall audit position, the Military Services and DLA are listed individually.

DoD Audit Strategy

Table 1. Audit Improvements Across Five Strategic Areas

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
U.S. Department of the Army				
<p>Developed 14 bots for Army financial systems and eliminated the need for 5,600 labor hours in FY23; 79 total automations are currently in place.</p> <p>Established the Army Advana Enclave, consolidating status of fund and budget execution research into one location using Army universe of transactions data.</p>	<p>In FY22, reduced General Fund (GF) – Fund Balance with Treasury suspense balance by 47% and statement of differences by 91%, while Working Capital Fund (WCF) closed 3 NFRs related to statement of differences, treatment of lateral redistribution, and suspense accounts.</p> <p>Real Property automated solutions eliminated the need for ~650,000 in annual labor hours and increased the thru put for supported inspections and quality assurance and quality control events.</p> <p>Increased automated audit facilitation via a new platform eliminating the need for 1,500 labor hours in FY23.</p>	<p>Implemented an audit acceleration plan with cross-functional teams that create solutions and share findings to scale across the Army.</p> <p>Reduced time between asset acceptance and fielding to units for ~5,000 assets in the Joint Light Tactical Vehicle fleet.</p> <p>Automated internal audit metrics reporting.</p> <p>Deployed 18 executive dashboards on the Army Financial Management and Comptroller website for all audit stakeholders on audit execution, command performance, sample failures, NFRs, and CAPs.</p>	<p>Led the DoD in IT NFR closure rate for the FY22 audit for User Access Controls (52% closure rate); Security Management (67% closure rate); and Configuration Management (77% closure rate).</p>	<p>100% of NFRs closed during FY22 audit aligned to an Army material weakness.</p>
U.S. Navy				
<p>As of FY22, DON deployed over 180 bots saving in excess of 140,000 personnel hours.</p> <p>442 students completed FM Connect data analytics courses totaling ~14,800 training hours.</p> <p>First cohort of 30 personnel began the Data Analytics Graduate Certificate Program with Naval Postgraduate School in March 2023.</p>	<p>In FY22, the Navy had 77 financial NFR closures out of 528 total financial NFRs resulting in a 15% reduction in business process controls findings.</p>	<p>DON decommissioned 12 systems by transitioning to an Enterprise Resource Planning (ERP) environment; 3 Budget Submitting Offices transitioned to Navy ERP, and 1 transitioned to Defense Agencies Initiative (DAI) in FY22.</p>	<p>In FY22, Navy closed 24% of IT NFRs (142 of 583).</p> <p>Completed Naval Identity Services (NIS) Identity, Credential, and Access Management (ICAM) integration with 1 Navy system (Navy ERP) in FY22; Completed NIS ICAM integration with 2 Navy systems to date in FY23 and 3 additional Navy systems are planned for integration in FY23.</p>	<p>Increased percent of Balance Sheet that was auditable based on materiality (Dollar value of Balance Sheet line items free from material weakness / Total Balance Sheet Value):</p> <ul style="list-style-type: none"> * GF-Contingent Legal Liabilities \$83.2 million / 50.2 billion (<1%) / FY21 * GF-Environmental and Disposal Liabilities \$31.4 billion / 50.2 billion (63%) / FY22 * GF-Property, Plant, and Equipment \$289.3 billion / 714/8 billion (41%) / FY20 * WCF-Contingent legal Liabilities \$2.9 million / \$4.4 billion (<1% of Total WCF liabilities) / FY21

DoD Audit Strategy

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
U.S. Marine Corps				
<p>Marine Corps adopted DAI worldwide as its general ledger of record during FY22. Trained over 2,000 users to research and resolve problem transactions.</p> <p>Trained an additional 500 users on Advana, which is being used for Fund Balance with Treasury and trading partner reconciliations.</p>	<p>Used Advana to analyze and bucket Fund Balance with Treasury undistributed differences, automating manual analyses and used analysis to support over 20 whitepapers for audit.</p> <p>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.</p> <p>Reduced monthly undistributed journal voucher analysis from 8 hours to 30 minutes with automation.</p>	<p>Achieved 100% of DAI universe of transactions flowing through Advana. Reduced unsupported undistributed transactions from \$2.2 billion in October to <\$500,000 in March.</p> <p>Reduced unmatched transactions by \$3.9 billion since FY22.</p>	<p>Marine Corps Total Force System (MCTFS) passed control design and control effectiveness testing is underway; MCTFS processes ~\$15 billion / year in Military Payroll.</p> <p>Closed 19 of 104 (18%) of FY21 IT NFRs as of May 2023, with corrective action plans for an additional 68 NFRs under evaluation by the auditors.</p>	<p>Auditor accountability testing of property areas have resulted in a pass rate of:</p> <ul style="list-style-type: none"> 99.5% for OM&S non-ammo 1.2 million items. 99.5% pass rate for OM&S Ammo - 54 million items (some held by Navy and Army) 97% pass rate for Military Equipment – 3,700 assets. 99% pass rate for Real Property – over 7,000 assets. <p>Baseline and go-forward valuation testing ongoing.</p>
U.S. Department of the Air Force				
<p>Delivered 14 bots in FY22 for a total of 49 bots since the Air Force Financial Systems Operations Digital Management Automation System program began in FY19.</p> <p>Saved ~188,000 labor hours and improved auditability of 49 processes through enhanced documentation and process execution traceability.</p> <p>Automated 7 key controls saving 32 business days/256 hours annually. Automation efforts are helping the Fund Balance with Treasury team sustain key controls and focus more on analyzing financial data rather than preparing control documentation.</p>	<p>Saved 30 hours quarterly by reducing manual processes via sustainable automation methods, which enhances efficiency of Military Equipment Valuation and analytics processes.</p>	<p>~72 critical meetings annually leverage the Integrated Master Schedule metrics and dashboards to drive discussion (e.g., Executive Steering Committee, Monthly Audit Updates, A4 FIAR Updates), improving visibility and facilitating coordination across the DAF. The Integrated Master Schedule is also featured in ad-hoc deep dive discussions.</p>	<p>Closed 75% (9 of 12) of the high-priority access IT NFRs submitted in FY22.</p>	<p>Closed the WCF Oversight and Monitoring of Internal Controls material weakness, which enables the DAF to identify and remediate deficiencies ahead of the auditor.</p> <p>Achieved 8% GF and 5% WCF Balance Sheet auditability in FY22.</p>

DoD Audit Strategy

Workforce Modernization	Business Operations	Quality Decision-Making	Reliable Networks	Enhanced Public Confidence
Defense Logistics Agency				
Achieved 100% financial management workforce compliance with FM certification requirements.	DLA Warehouse Management System deployment across Distribution and Disposition Centers expected to save ~\$12 million per year across the life of the program.	<p>Bots are projected to contribute over 261,000 hours annually to the DLA mission.</p> <p>Of the 155 bot use-cases, 36 have undergone full cycle enhancements. 153 are designed to execute in an “unattended” manner.</p> <p>New automation for billing checklists estimated to save 350 hours/year and improve accuracy of 4,200 billing checklists.</p>	Achieved >99% IT system availability, meaning the system is offline less than 1% of the time. Availability is a metric DLA uses to measure performance.	<p>Migrated all Fund Balance with Treasury reconciliations to Advana. Reduced the inception-to-date value of undistributed balances to <1% of the total Fund Balance with Treasury for GF and DLA National Defense Stockpile Transaction Fund (NDSTF).</p> <p>Compiled list of all feeder and accounting systems relevant to internal controls over financial reporting.</p> <p>Tested and determined financial reporting controls to be designed and operating effectively for payroll, travel, and employee record setup and maintenance.</p>
Other Defense Organizations				
<p>Overall, the Department expanded Advana to support over 20 active DoD robotic process automation programs and over 300 individual automations.</p> <p>National Security Agency (NSA) developed 4 new bots and 14 other automations. The bots saved hundreds of hours downloading or uploading several thousand documents for various audit efforts. The 14 other automations saved approximately 425 hours per quarter, plus a substantial increase to data accuracy.</p> <p>U.S. Transportation Command (USTRANSCOM) continued the development of bots to reconcile, adjust, and close financial records as well as pull audit sample support. Process automation saved 2,500 hours.</p>	U.S. Special Operations Command (USSOCOM) acquisition center added 1,089,118 items worth \$871.8 million of operating materials and supplies to the accountable property system of record through a comprehensive material review effort.	<p>In FY22, Defense Health Program (DHP) demonstrated the ability to reconcile draft financial statement balances to transaction-level detail prior to declaring the financial statements final and reduced unsupported Defense Departmental Reporting System journal voucher balances.</p> <p>In FY23, DHP migrated all balances out of Standard Accounting and Reporting System-Field Level (STARS-FL) into GF Enterprise Business System (GFEBs), reducing the number of general ledger systems and the cost to maintain IT systems. In 2022, Defense Health Agency (DHA) paid DFAS \$8.5 million for STARS-FL related services.</p>	<p>Defense Information Systems Agency (DISA) partnered with Defense Finance and Accounting Service (DFAS) and the DISA WCF to identify unmatched disbursements from one of DISA GF’s biggest sellers. This resulted in a decrease from quarter 2 FY22 of \$39 million to \$21 million in quarter 2 FY23. The 47% reduction in the unmatched disbursement balance is one of the lowest balances since converting to DAI in FY19.</p> <p>NSA eliminated its Financial Reporting material weakness in FY22 and closed 57% of IT NFRs.</p>	<p>Nine Components sustained unmodified audit opinions in the FY22 audits:</p> <ul style="list-style-type: none"> • Military Retirement Fund • U.S. Army Corps of Engineers - Civil Works • DHA - Contract Resource Management • DISA WCF • Defense Commissary Agency • DFAS WCF • Defense Contract Audit Agency • DoD Office of Inspector General • National Reconnaissance Office <p>The Medicare-Eligible Retiree Health Care Fund sustained its qualified opinion.</p>

DoD Audit Strategy

Achieving an Audit Opinion

The annual audit cycle generally begins in February, with entrance conferences and planning, and ends in November, when the audit reports are issued. In FY 2022, more than 1,600 auditors completed 220 in-person

site visits and 750 virtual site visits, requested approximately 29,000 documents, and tested approximately 45,000 samples.

Providing a date by which the Department overall will attain an unmodified opinion is not yet possible. As the audit has matured, so does the Department's understanding of the challenges and what it will take to achieve an opinion. The Military Services and DLA collectively account for \$1.6 trillion or 46 percent of DoD assets. Once these major building blocks attain unmodified opinions, the Department will be better able to forecast receiving an unmodified opinion on the DoD consolidated financial statements. To the right are working estimates from the audit roadmaps for the fiscal year audit on which each DoD Component under a standalone audit currently estimates it will achieve a favorable (unmodified or qualified) opinion on its financial statements:

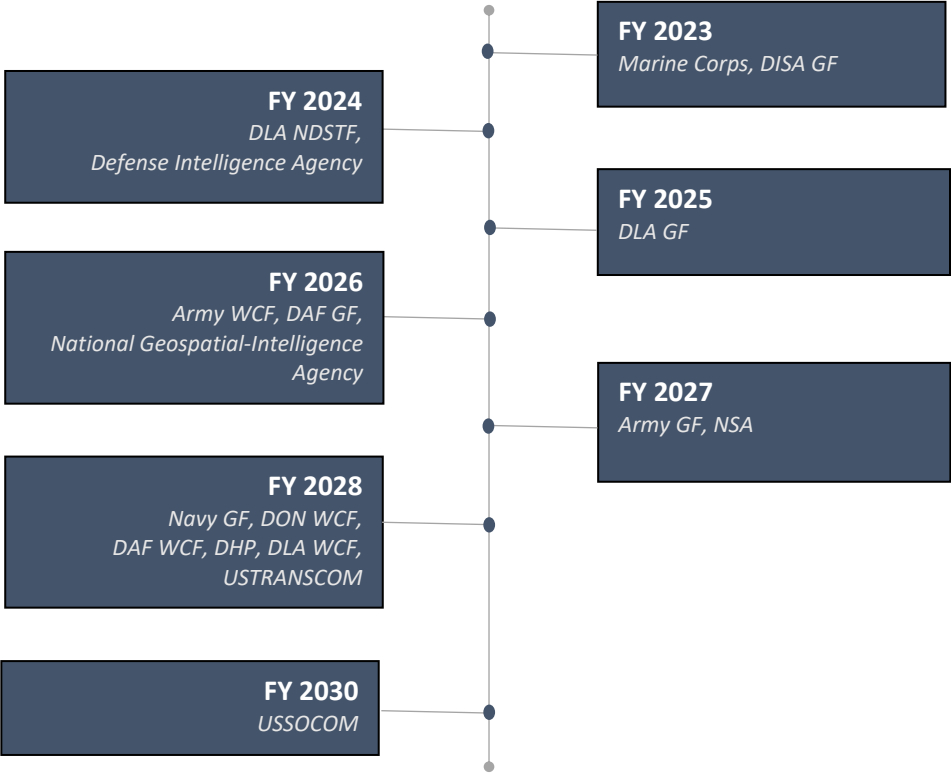


Figure 2. Management's Estimated Timeline for Achieving a Favorable Audit Opinion

Results of the FY 2022 Financial Statement Audits

The annual DoD financial statement audits are arguably the largest audits in the world. With 3.4 million service members and civilians operating 4,800 sites in over 160 countries, the Department manages more than \$3.5 trillion in assets and \$3.7 trillion in liabilities. Today, more than 39 percent of DoD's total assets are under an unmodified opinion (green). The Medicare-Eligible Retiree Health Care Fund, which has a qualified opinion (yellow), increases DoD assets under a favorable audit opinion (unmodified or qualified) to 49 percent, as shown in Figure 3.

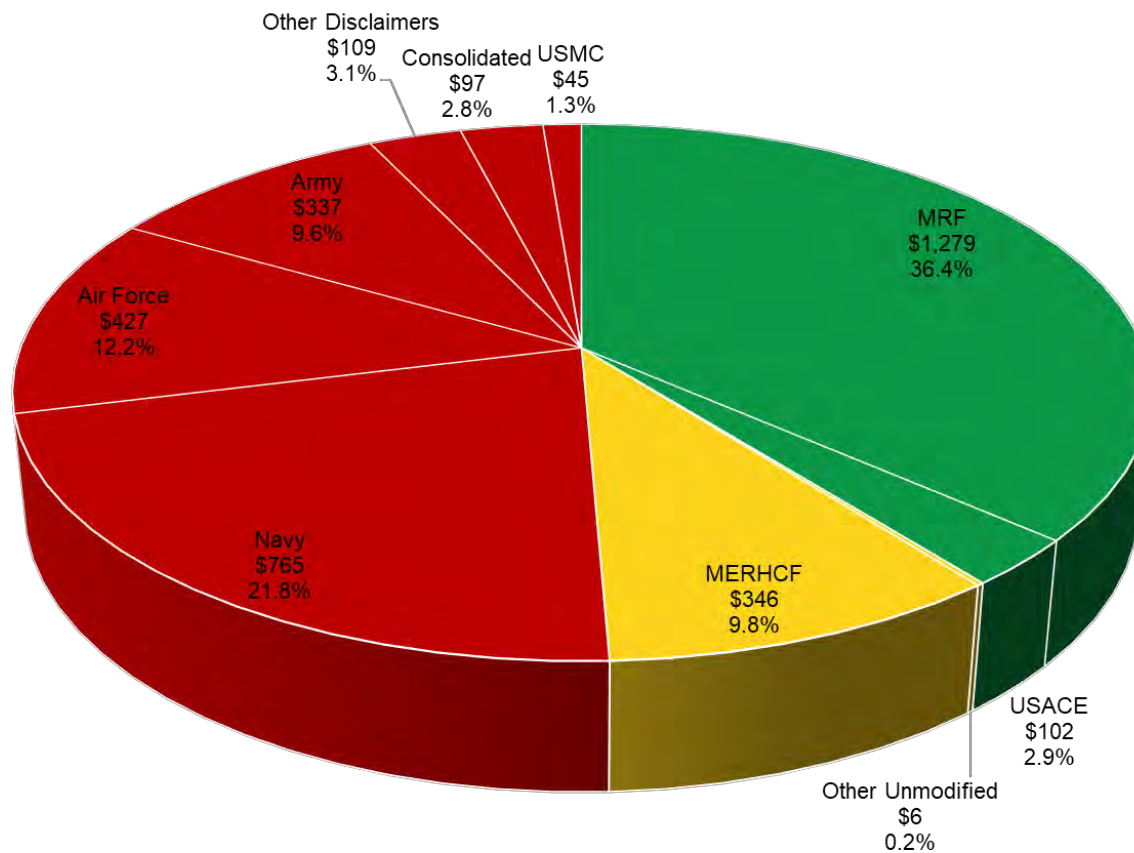


Figure 3. DoD Assets Under Opinion and with Disclaimers (Dollars in Billions), FY 2022

FAVORABLE AUDIT OPINIONS Unmodified Audit Opinions

- Military Retirement Fund (MRF)
- U.S. Army Corps of Engineers - Civil Works (USACE)
- Defense Health Agency - Contract Resource Management
- Defense Information Systems Agency Working Capital Fund
- Defense Commissary Agency
- Defense Finance and Accounting Service Working Capital Fund
- Defense Contract Audit Agency
- Department of Defense Office of Inspector General
- National Reconnaissance Office*

Qualified Audit Opinions

- Medicare-Eligible Retiree Health Care Fund (MERHCF)

Disclaimers of Opinion

- Army General Fund
- Army Working Capital Fund
- Navy General Fund
- Department of the Navy Working Capital Fund
- U.S. Marines Corps General Fund (USMC)**
- Air Force General Fund
- Air Force Working Capital Fund
- Defense Health Program
- Defense Information Systems Agency General Fund
- Defense Intelligence Agency*
- DLA General Fund
- DLA Working Capital Fund
- DLA National Defense Stockpile Transaction Fund
- National Geospatial-Intelligence Agency*
- National Security Agency*
- U.S. Special Operations Command
- U.S. Transportation Command

* Assets not included in figure

** The U.S. Marine Corps General Fund is undergoing a two-year audit cycle, which is currently scheduled to conclude in November 2023. In FY 2022, the U.S. Marine Corps General Fund did not receive an audit opinion from an independent public accounting IPA firm. In FY 2021, the U.S. Marine Corps General Fund received a disclaimer of opinion from an independent public accounting firm.

Results of the FY 2022 Financial Statement Audits

The FY 2022 DoD financial statement audits resulted in nine unmodified opinions and one qualified opinion, as listed beside Figure 3. An unmodified opinion means the auditors concluded the financial statements are fairly presented and free of any material misstatements. A qualified opinion means the financial statements are right with some noted exceptions. The DoD Consolidated audit, conducted by the DoD Office of Inspector General, and all other Component-level standalone audits resulted in disclaimers of opinion, meaning the auditors did not have enough evidence to provide an opinion.

Audit Findings

The FY 2022 consolidated financial statement audit resulted in three new DoD-wide material weaknesses and the consolidation of six material weaknesses into three existing material weaknesses for no net change in the total number of 28 material weaknesses. The Department also downgraded its Defense Agency Deposit Fund Accounts significant deficiency.

Auditors completing standalone audits also identify Component-level material weaknesses. Closing or downgrading Component-level material weaknesses are essential building blocks to resolving DoD-wide issues. In the FY 2022 standalone audits, Components closed three material weaknesses:

- DAF WCF, Oversight & Monitoring of Internal Control
- DHP, General Equipment
- NSA, Financial Reporting

Components also downgraded three material weaknesses to significant deficiencies:

- Navy GF, Environmental & Disposal Liabilities
- DISA WCF Accounts Receivable/Revenue & Accounts Payable/Expense
- DISA WCF Budgetary Resources

Both DISA WCF and DISA GF added a Property, Plant and Equipment material weakness, which DISA is working aggressively to resolve.

FY 2022 DoD-Wide Material Weaknesses

- Fund Balance with Treasury
- Inventory and Stockpile Materials
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Real Property
- Government Property in the Possession of Contractors
- Joint Strike Fighter Program
- Accounts Payable
- Environmental and Disposal Liabilities
- Contingent Legal Liabilities
- Budgetary Resources
- Earned Revenue
- Reconciliation of Net Cost of Operations to Outlays
- Gross Costs
- Financial Management Systems Modernization
- Access Controls
- Configuration Management and Security Management
- Segregation of Duties
- Interface Controls*
- Universe of Transactions
- Beginning Balances
- Unsupported Accounting Adjustments
- Intragovernmental Transactions & Intradepartmental Eliminations
- Reporting Entity*
- Service Organizations
- DoD Component-level Accounts*
- Component Entity-Level Controls
- DoD-Wide Oversight

* New for FY 2022
Underlines indicate a SECDEF Financial Statement Audit Priority for FY 2023

Figure 4. FY 2022 DoD-Wide Material Weaknesses

Results of the FY 2022 Financial Statement Audits

Auditors issued 3,008 NFRs, 10 percent fewer than in FY 2021. This year's findings included 478 new findings and 2,530 recurring findings.

Table 2. FY 2022 NFRs

Component	FY 2022		
	New NFRs	NFRs Reissued	Total
Army	145	341	486
Navy	54	902	956
Marine Corps	N/A	N/A	N/A
DAF	126	326	452
DHP	13	92	105
DISA	8	46	54
DLA	32	390	422
USSOCOM	28	103	131
USTRANSCOM	17	128	145
Other DoD Components and DoD Consolidated	55	202	257
Total DoD	478	2,530	3,008

The Marine Corps entered a two-year audit for the FY 2022 – 2023 audit cycle; no NFRs were issued for FY 2022.

Table 3. FY 2021 NFRs Issued and Closed

Component	FY 2021		
	NFRs Issued	NFRs Closed	% Closed
Army	432	101	23%
Navy	1,121	219	20%
Marine Corps	194	23	12%
DAF	476	150	32%
DHP	111	19	17%
DISA	67	22	33%
DLA	415	35	8%
USSOCOM	130	27	21%
USTRANSCOM	138	10	7%
Other DoD Components and DoD Consolidated	256	54	21%
Total DoD	3,340	660	20%

Thus far, 2,461 corrective action plans have been developed with 444 implemented and validated by management, and 206 FY 2022 NFRs have been closed.

Notably, the number of IT NFRs continued to trend downward even as the scope of the audits expand and more systems are audited, including 15 newly audited systems in FY 2022. Figure 5 shows that from FY 2021 to FY 2022, IT NFRs (black line) decreased by 14 percent (from 1,417 to 1,220), and the number of underlying issues (red line) decreased by 8 percent (from 3,891 to 3,568). The number of systems with IT NFRs is also decreasing (brown line).

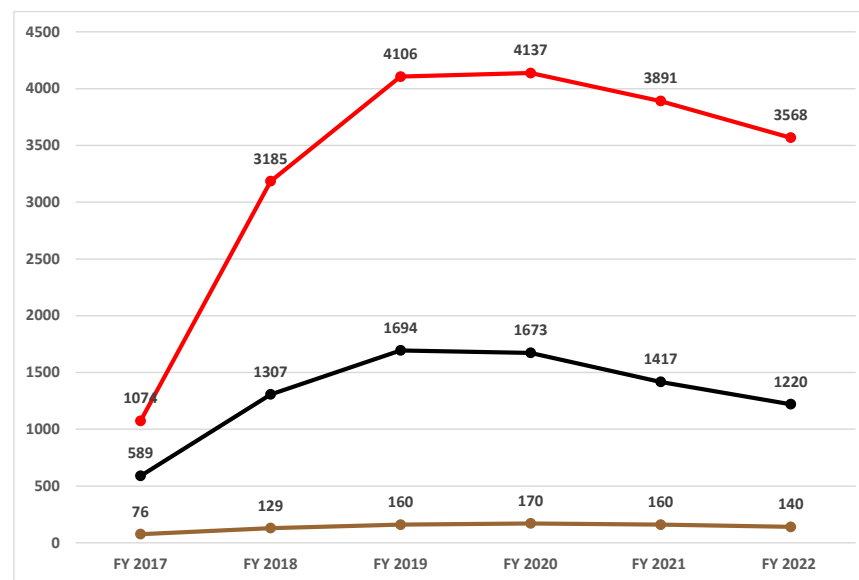


Figure 5. IT NFRs as of May 1, 2023

For complete results of the DoD Consolidated Audit, please refer to the Independent Auditor's Report included in the [DoD Agency Financial Report for FY 2022](#).

Results of the FY 2022 Financial Statement Audits

Service Provider Examinations

Service providers are DoD Components that provide common services to other DoD Components, such as processing civilian and military pay. Auditors examine a service provider’s system and process controls in accordance with SSAE No. 18. They issue findings and render an opinion in a System and Organization Controls Report or SOC 1 Report. Auditors of other DoD Components may choose to rely on these results as evidence the service provider’s controls are suitably designed and operating effectively. This reduces redundant testing among auditors and saves both time and money.

In FY 2022, auditors completed 28 DoD SSAE No. 18 examinations covering 45 systems owned covered by a DoD SOC 1 Report. Auditors issued 14 unmodified opinions. Those with unmodified opinions, including standard disbursing services and civilian-, military-, and contract-pay,



Brian Hardesty, Defense Finance and Accounting Service general ledger branch division chief, left, discusses a report with David Clayton, DFAS General Ledger branch chief during the Army’s mock fiscal yearend closeout at the Maj. Gen. Emmett J. Bean Federal Center July 19, 2021. Mock yearend is an exercise designed to prepare the U.S. Army Financial Management Command and its partners, like DFAS, for the fiscal yearend closeout and financial statement preparation at the start of October. (U.S. Army photo by Mark R. W. Orders-Woempner)

accounted for nearly 73 percent of disbursements made by the Defense Finance and Accounting Service.

Of the remaining examinations, 11 resulted in qualified opinions, 1 resulted in a disclaimer, and 2 resulted in adverse opinions. An adverse opinion means there were pervasive misstatements in management’s descriptions of the system, design of controls, or failures in the operating effectiveness of controls.

Audit Incentives

The Department uses awards and incentives to identify, recognize, and award individuals and teams that consistently make and sustain measurable progress toward audit remediation goals. Examples include time-off awards, commendation letters, and achievement and commendation medals, and coins. In addition to recognizing and rewarding behavior within their organizations, Components can recommend outstanding teams and individuals for Department-level recognition and awards, such as the USD(C) Financial Management Awards Program. For calendar year 2022, the Financial Management Awards Program Board evaluated 142 nominations and recommended a total of 31 awards that represent a breadth of talent and accomplishments.

Table 4. Audit Remediation Incentives and the FY 2022 Audit

Component	Number of Non-Monetary Awards Related to the FY 2022 Audits		
	Individual	Team	Organization
Army	2	0	0
Navy	142	38	1
Marine Corps	2	0	0
DAF	17	2	3
DLA	2	1	0
DIA	19	2	0
DISA	17	1	1
NGA	5	0	0
USTRANSCOM	12	1	1
USSOCOM	0	4	0
DoD Total	218	49	6

Results of the FY 2022 Financial Statement Audits

Audit Resources

Audit, audit support, and audit remediation costs totaled \$1.352 billion for FY 2022. Approximately \$220 million was paid to the independent public accounting firms conducting the audits and examinations, and \$206 million went toward audit support, such as responding to auditor requests for information. Another \$926 million went toward remediating audit findings, including findings related to financial systems and achieving a target business systems environment, which accounted for much of the increase over prior years.

The Components track and report audit resources using the following definitions:

- Audit Services and Support are the costs of the audits and SSAE No. 18 examinations performed by independent public accounting firms, plus government and contractor costs for supporting the audits and responding to auditor requests.
- Audit Remediation includes government and contractor costs for correcting findings and the costs of achieving and sustaining an auditable systems environment. These costs do not include Enterprise Resource Planning system deployment or maintenance costs.

Table 5. FY 2022 Audit Resources

	FY 2022 \$ in Millions		
	Audit Services and Support	Audit Remediation	Total
Army	\$79	\$203	\$281
Navy	\$95	\$238	\$333
Marine Corps	\$9	\$67	\$77
DAF	\$44	\$182	\$226
Other Components	\$199	\$236	\$435
DoD Total	\$426	\$926	\$1,352

Numbers may not sum due to rounding.

SECDEF Financial Statement Audit Priorities for FY 2023

Each year, the Secretary of Defense re-evaluates audit status and issues foundational audit priorities to drive Department-wide progress and the downgrading of material weaknesses. For each priority area, the Department established quantitative goals against which progress is measured. An executive dashboard shows real-time status of milestones and corrective action plans for the Military Services and DLA. Status is reported monthly to the Deputy Secretary of Defense. The Military Services and DLA estimate the downgrading or closing of these priorities as follows:

Table 6. Target Remediation Dates for the FY 2023 SECDEF Audit Priorities

	Target Downgrade or Close Date		
	Fund Balance with Treasury	Access Controls	Universe of Transactions
Army GF	FY 2024	FY 2027	FY 2026
Army WCF	FY 2023	FY 2024	FY 2024
Navy GF	FY 2024	FY 2026	FY 2027
DON WCF	FY 2024	FY 2026	FY 2027
Marine Corps GF	FY 2023	FY 2023	N/A
DAF GF	FY 2023	FY 2026	FY 2026
DAF WCF	FY 2024	FY 2026	FY 2028
DLA GF	FY 2025	FY 2025	FY 2025
DLA WCF	FY 2027	FY 2025	FY 2026
DLA NDSTF	FY 2023	FY 2023	FY 2023
DoD-Wide	FY 2025	FY 2026	FY 2028

Note: No NFRs were issued for Marine Corps Universe of Transactions.

In addition to establishing quantitative metrics, the dashboard highlights forecasted remediation dates that are beyond the DoD-wide targeted date. This capability enables leadership to reach out to Components that fall into this category to see what additional support might be needed to get back on track. The comparative nature of the dashboard also allows Components to gauge progress relative to each other. The inherent flexibility of this data-driven approach ensures that other Components and focus areas can be added as progress is made and priorities re-focused.



Airman 1st Class Gerald Mack, cyber operator with 175th Cyber Operations, Maryland Air National Guard, monitors cyberattacks during Exercise Southern Strike at Camp Shelby, Mississippi, April 21, 2023. Strengthening system access controls is an FY 2023 SECDEF Financial Statement Audit Priority. (U.S. Army National Guard photo by Staff Sgt. Renee Seruntine)

SECDEF Audit Priorities for FY 2023

Priority Audit Area 1: Improve Fund Balance with Treasury

An asset account maintained by the Department of the Treasury, Fund Balance with Treasury shows DoD funds available to spend. Each Component must balance its records to Treasury’s records monthly to verify completeness and accuracy and resolve any differences. The Department reported a Fund Balance with Treasury of \$693 billion on the FY 2022 DoD Balance Sheet—roughly 20 percent of DoD’s total assets.

Table 7. Fund Balance with Treasury

DoD-wide Target Remediation Date: FY 2025 Measure of Progress: Undistributed transactions as percentage of Fund Balance with Treasury.		Alignment with the DoD Strategic Management Plan and Annual Performance Plan: <ul style="list-style-type: none"> Strategic Objective 5.1 - Accelerate the Path to an Unmodified Audit Opinion Performance Goal 5.1.2 - Utilize Advana for Fund Balance with Treasury Reconciliations 	
FY 2023 Goals		FY 2023 Quantitative Goal	Status as of April 2023
Post undistributed disbursements and collections to the appropriate line of accounting within 60 days or less.		Q4 FY 2023: 10%	86%
Reduce the inception-to-date value of undistributed disbursement and collection balances to 1 percent or less of the total Fund Balance with Treasury.		FY 2023: <1%	0.92%
Migrate all Fund Balance with Treasury reconciliations to Advana.		FY 2023: 75%	76%
Key: Goal Met or Exceeded • Goal Not Met • Data Pending			

SECDEF Audit Priorities for FY 2023

Achievements

The Department has sustained a 79 percent reduction in funding variances with Treasury since completing its first agency-wide audit in FY 2018.

The Department migrated Fund Balance with Treasury reconciliations to Advana for Army Working Capital Fund; Navy General Fund, DON Working Capital Fund, and Marine Corps General Fund; DAF Working Capital Fund; and DLA General Fund, Working Capital Fund, and Transaction Fund. The remaining Treasury-Index 97 also migrated to Advana, retiring the legacy reporting tool.

Army General Fund reduced Fund Balance with Treasury suspense balance by 47 percent and Statement of Differences by 91 percent in FY 2022. Army Working Capital Fund closed 3 NFRs related to Statement of Differences, treatment of lateral redistribution, and suspense.

Navy completed the General Fund reconciliation workbook, demonstrating Navy trial balances reconcile to Treasury with an immaterial unsupported variance, and has transitioned all General Fund and DON Working Capital Fund reconciliations to Advana.

Marine Corps reduced unmatched transactions by \$3.9 billion since FY 2022 and reduced unsupported undistributed transactions from \$2.2 billion in October 2022 to less than \$500,000 in March 2023.

Marine Corps used Advana to analyze and group Fund Balance with Treasury undistributed differences, automating manual analyses and supporting over 20 whitepapers for audit.

Marine Corps 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.

Marine Corps reduced monthly undistributed journal voucher analysis from 8 hours to 30 minutes with automation.

Air Force automated 7 key controls in FY 2023 saving 256 hours annually that can now be directed at analyzing financial data rather than preparing control documentation.

DLA migrated all Fund Balance with Treasury reconciliations to Advana and reduced the inception-to-date value of undistributed balances to less than 1 percent of the total fund balance for DLA General Fund and DLA National Defense Stockpile Transaction Fund.

DHP developed an inception-to-date Advana Fund Balance with Treasury tool, a first of its kind control designed to validate if the tool's U.S. Treasury, Treasury balance, and undistributed balances are supported by DHP's and the Defense Health Agency-Contract Resource Management's financial statements.

DISA General Fund decreased unmatched disbursements by 46 percent since quarter 2 of FY 2022 (from \$39 million to \$21 million, as of March 31, 2023).

NSA eliminated its Financial Reporting material weakness in the FY 2022 audits.

USTRANSCOM transitioned from Common Cost Accounting Structure to Advana and completed root-cause analysis for its Working Capital Fund undistributed variances.

SECDEF Audit Priorities for FY 2023

Priority Audit Area 2: Establish User Access Controls

Access controls help prevent cyberattacks and secure data, equipment, and facilities by establishing and limiting who is allowed to access certain data and systems. Components must implement Identity, Credential, and Access Management, or ICAM, solutions, or another auditable internal control measure, for providing, reviewing, modifying, and removing user access in all systems relevant to internal controls over financial reporting. Only systems with a scheduled retirement date that is before year-end FY 2025 may receive a waiver from the ICAM requirement.

Table 8. User Access Controls

DoD-wide Target Remediation Date: FY 2026 Measure of Progress: Percentage of high-priority access control findings closed		Alignment with the DoD Strategic Management Plan and Annual Performance Plan: <ul style="list-style-type: none"> Strategic Objective 3.4 - Enhance the DoD’s Cybersecurity Posture Strategic Objective 5.3 - Modernize DoD Business Systems, Performance Goal 5.3.2 - Decrease the Number of Legacy, Financial Statement Audit-Relevant Business Systems 	
FY 2023 Goals		FY 2023 Quantitative Goal	Status as of April 2023
Remediate privileged access control deficiencies for Internal Controls Over Financial Reporting (ICOFR)-relevant systems through an effective internal control framework. For application end-user access, provide a schedule for when ICOFR-relevant systems will onboard to an ICAM solution to remediate deficiencies. Systems retiring before year-end FY 2025 are excluded from these requirements.		Q3 FY 2023 37.5% Q4 FY 2023 50%	45%
Key: Goal Met or Exceeded • Goal Not Met • Data Pending			

SECDEF Audit Priorities for FY 2023

Achievements

Overall, the Department expects to close 44 percent of privileged access control deficiencies from the FY 2022 audit for ICOFR-relevant systems and is on track to close 50 percent or more by the end of the fiscal year.

Since FY 2021, the Department retired over 17 legacy defense business systems that were subject to ICOFR, allowing the DoD to focus improvement efforts and resources on enduring systems.

The Department created an ICAM onboarding schedule for ~230 systems relevant to ICOFR and established the FM ICAM stakeholder governance process. Additionally, the Department issued two ICAM policy updates and two governance memos regarding requirements to use an approved ICAM solution. DISA launched a self-service ICAM onboarding portal that accelerates onboarding of systems to the enterprise ICAM solution.

Army closed 52 percent of prior year user access control NFRs in the FY 2022 audit. Of the Army's 22 high-priority FY 2022 IT access controls findings, 7 have been closed and 14 more are targeted for completion by the end of FY 2023.

Navy closed 24 percent (142 of 583) of prior year IT NFRs in the FY 2022 audit.

In FY 2022, Navy completed the Naval Identity Services ICAM integration with Navy ERP and has thus far completed integration with two Navy systems in FY 2023. Three additional systems are planned for integration in FY 2023.

Marine Corps closed 18 percent (19 of 104) of FY 2021 IT NFRs as of May 2023, with an additional 68 under evaluation by the auditors.

Marine Corps auditors noted sufficient positive results in their tests of control design for the Marine Corps Total Force System, which allows them to advance to the testing of operating effectiveness of controls. This system processes ~\$15 billion in military payroll annually for the Marine Corps.

Air Force closed 75 percent (9 of 12) of its high-priority FY 2022 IT access controls findings.

DLA tested and determined controls to be designed and operating effectively for payroll, travel, and employee record setup and maintenance.

DHP continued evaluating, developing, and implementing complementary user entity controls for DDRS and GFEBS, including the evaluation of access controls.

Defense Intelligence Agency closed 30 percent of prior-year IT NFRs related to access controls in the FY 2022 audit.

NSA closed 57 percent of its FY 2022 IT NFRs.

Of the IT NFRs USSOCOM closed in FY 2022, 78 percent were related to access controls. In FY 2023, USSOCOM began corrective actions for its 1 high-priority IT NFR and for 44 percent of its access controls NFRs.

SECDEF Audit Priorities for FY 2023

Priority Audit Area 3: Create a Universe of Transactions

The universe of transactions is the entirety of underlying, individual accounting transactions that support a financial statement line or balance. Each Component under audit must be able to validate the completeness of its universe of transactions. The Department is using Advana to create a complete universe of transactions in one central location.

Table 9. Universe of Transactions

<p>DoD-wide Target Remediation Date: FY 2028</p> <p>Measure of Progress: Percentage of universe of transactions audit findings closed.</p>	<p>Alignment with the DoD Strategic Management Plan and Annual Performance Plan:</p> <ul style="list-style-type: none"> Strategic Objective 5.2 - Optimize Budget to Execution and Foster a High Integrity Funds Control Environment, Performance Goal 5.2.3 - With the Exception of Exempted Transactions, Process Intragovernmental Reimbursable Transactions Using the Department of the Treasury G-Invoicing Application (or User Interface Method for Non-DoD Partners) Strategic Objective 5.3 - Modernize DoD Business Systems, Performance Goal 5.3.2 - Decrease the Number of Legacy, Financial Statement Audit-Relevant Business Systems 	
FY 2023 Goals	FY 2023 Quantitative Goal	Status as of April 2023
Compile a validated list of all feeder and accounting systems that are relevant to internal controls over financial reporting, excluding systems retiring before FY 2025 year-end.	FY 2023: 100%	Feeder TBD Accounting 100%
Leveraging data from this list, produce a supportable universe of transactions for financial statement line-item balances on each of the principal financial statements.	FY 2023: 50%	TBD
Leveraging this list, demonstrate effective Complementary User Entity Controls for financial reporting processes identified as material to the Component or Service Provider organizations.	Q3 FY 2023: 37.5% Q4 FY 2023: 50%	31%
Process all intragovernmental reimbursable transactions using the Department of the Treasury G-Invoicing application (or user interface method for non-DoD partners) for new orders in accordance with Treasury guidance.	Q3 Q4 FY 2023: 42%	25%
<p>Key: ● Goal Met or Exceeded • ● Goal Not Met • ● Data Pending</p>		

SECDEF Audit Priorities for FY 2023

Achievements

Army feeds to Advana are ahead of schedule, including streamlining reconciliations, data categorization, and data enrichments. These improvements are resulting in a 30x decrease in processing time.

Air Force developed and is sustaining 9 accountable property systems of record reconciliations that support universe of transactions completeness; 11 additional financial management reconciliation prototypes are being developed for 60 feeder systems. The DAF remains on track to have a 100 percent complete and accurate General Fund universe of transactions by FY 2026.

Marine Corps migrated to DAI, with 100 percent of its universe of transactions flowing through Advana and reduced unsupported undistributed transactions from \$2.2 billion in October 2022 to less than \$500,000 in March 2023.

DHP completed STARS-FL to GFEBS/NSABRS data migration; submitted the FY 2023 beginning balance populations from 2 systems and Quarter 1 of FY 2023 expense population from multiple systems.

DLA established general terms and conditions with federal and DoD trading partners that are required to transact through G-Invoicing.

DLA compiled a list of all feeder and accounting systems relevant to internal controls over financial reporting.

Acronyms and Abbreviations

Acronyms and Abbreviations

C

CAP	Corrective Action Plan
CFO	Chief Financial Officer

D

DAF	Department of the Air Force
DAI	Defense Agencies Initiative
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Program
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMAG	Deputy's Management Action Group
DoD	Department of Defense
DON	Department of the Navy

E

ERP	Enterprise Resource Planning System
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F

FIAR	Financial Improvement and Audit Remediation
FINOPs	Financial Operations
FM	Financial Management
FY	Fiscal Year

G

GF	General Fund
GFEBs	General Fund Enterprise Business System

I

ICAM	Identify, Credential, and Access Management
ICOFr	Internal Controls Over Financial Reporting
IT	Information Technology

Acronyms

M

MCTFS	Marine Corps Total Force System
MERHCF	Medicare-Eligible Retiree Health Care Fund
MRF	Military Retirement Fund

N

NDSTF	National Defense Stockpile Transaction Fund
NFR	Notice of Finding and Recommendation
NIS	Naval Identity Services
NSA	National Security Agency

S

SECDEF	Secretary of Defense
SOC	System and Organization Controls
SSAE	Statement on Standards for Attestation Engagements
STARS-FL	Standard Accounting and Reporting System-Field Level

U

U.S.	United States
USACE	United States Army Corps of Engineers
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps
USSOCOM	United States Special Operations Command
USTRANSCOM	United States Transportation Command

W

WCF	Working Capital Fund
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