

---

*DEPARTMENT OF DEFENSE*

*AGENCY-WIDE  
FINANCIAL STATEMENTS*

*AUDIT OPINION*

*Audit Opinion*

---



*(This page intentionally left blank)*



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

February 15, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Independent Auditor's Report on the Department of Defense Agency-wide  
Financial Statements for FY 2000 (Project No. D2001FI-0018.001)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and the auditors for the financial statements, internal controls, and compliance with laws and regulations. We attempted to audit the FY 2000 DoD Agency-wide Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, Statement of Budgetary Resources, and Statement of Custodial Activity. As the Chief Financial Officer of DoD, the Under Secretary of Defense (Comptroller) is responsible for these financial statements, for establishing and maintaining internal controls, and for complying with laws and regulations applicable to DoD financial accounting and reporting. We did not audit the Army, Navy, and Air Force financial statements for FY 2000. The Military Department audit agencies attempted to audit those financial statements and issued disclaimers of opinion.

**Disclaimer of Opinion.** DoD could not provide sufficient or reliable information for us to evaluate management's assertions or verify amounts on the FY 2000 DoD Agency-wide Financial Statements. We identified deficiencies in internal controls and accounting systems related to General Property, Plant, and Equipment; Inventory; Environmental Liabilities; Military Retirement Health Benefits Liability; and material lines within the Statement of Budgetary Resources. We identified \$1.1 trillion in department-level accounting entries to financial data used to prepare DoD component financial statements that were not supported by adequate audit trails or by sufficient evidence to determine their validity. In addition, we also identified \$107 billion in department-level accounting entries to financial data used to prepare DoD component financial statements that were improper because the entries were illogical or did not follow accounting principles.

The financial data reported on the FY 2000 financial statements for Army, Navy, and Air Force General Funds; the Army, Navy, and Air Force Working Capital Funds; and the U.S. Army Corps of Engineers, Civil Works Program, were unauditible and comprise a significant portion of the financial data reported on the DoD Agency-wide Financial Statements for FY 2000.

Because internal control weaknesses, compilation problems, and financial management system deficiencies continued to exist, we were not able to verify amounts reported for material line items on the financial statements. As a result, we do not express an opinion on these financial statements.

**Required Supplementary Stewardship Information.** The Stewardship Statement includes national defense property, plant, and equipment; heritage assets; and stewardship land. This information is not required to be audited. However, we applied certain limited procedures prescribed by professional standards that raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with Federal accounting standards.

**Required Supplementary Information for Deferred Maintenance.** The supplementary information for Deferred Maintenance is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. We did not apply certain procedures prescribed by professional standards because the official accounting guidance regarding the measurement criteria and reporting placement of deferred maintenance on the financial statements was not fully developed.

**Internal Controls.** The internal controls consist of the following components: control environment, risk assessment, control activities, information and communication, and monitoring. Effective implementation of these controls provides reasonable assurance that accounting data are accumulated, recorded, and reported properly by management and that assets are safeguarded. Management is responsible for internal controls. We performed applicable tests of the internal controls to determine whether the controls were effective and working as designed. However, these tests did not provide sufficient evidence to support an opinion on internal controls; therefore, we do not express an opinion on the DoD internal controls.

The DoD internal controls were not adequate to ensure that resources were properly managed and accounted for, that DoD complied with applicable laws and regulations, and that the financial statements were free of material misstatements. DoD internal controls did not ensure that adjustments to financial data were fully supported and that assets and liabilities were properly accounted for and valued. The material weaknesses and reportable conditions we identified were also reported in the management representation letter for the DoD Agency-wide Financial Statements for FY 2000, the DoD Components Annual Statements of Assurance for FY 2000, and the DoD Financial Management Improvement Plan. A separate report discusses internal control weaknesses in further detail.

**Compliance With Laws and Regulations.** Our objective was to assess compliance with laws and regulations related to the DoD Agency-wide Financial Statements for FY 2000 and not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations.

DoD did not fully comply with the laws and regulations that had a direct and material affect on its ability to determine financial statement amounts. DoD financial management systems were not in substantial compliance with Federal financial management system requirements; applicable Federal accounting standards; and the U.S. Government Standard General Ledger at the transaction level, as required by the Federal Financial Management Improvement Act of 1996. For example, DoD financial management systems were not integrated; did not maintain adequate audit trails; did not value and depreciate property, plant, and equipment in accordance with Statement of Federal Financial Accounting Standards No. 6; and did not incorporate the U.S. Government Standard General Ledger at the transaction level. In addition, DoD did not fully comply with the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Federal Managers' Financial Integrity Act of 1982, as codified in Section 3512, Title 31, United States Code, and Office of Management and Budget Bulletin 97-01. Our work would not necessarily disclose all material weaknesses. A separate report discusses compliance issues in further detail.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing