



May 2022

# DOD FINANCIAL MANAGEMENT

## Additional Actions Would Improve Reporting of Joint Strike Fighter Assets

# GAO Highlights

Highlights of [GAO-22-105002](#), a report to congressional committees

## Why GAO Did This Study

In fiscal year 2019, DOD auditors identified a material weakness related to the JSF program. The JSF is DOD's most costly weapon system in history, with overall costs estimated to be more than \$1.7 trillion over the program's life cycle. Auditors reported that DOD did not report certain JSF program's assets on its financial statements. This omission, as well as DOD's inability to provide supporting documentation for the value of the assets, indicated material failures in controls for recording joint programs at DOD.

This report, developed in connection with fulfilling GAO's mandate to audit the U.S. government's consolidated financial statements, examines the extent to which DOD (1) has developed and implemented procedures for addressing the material weakness and (2) tracks and records information about its joint programs.

GAO reviewed, among other things, relevant reports and accounting standards, JSF documents, and DOD policies and procedures; interviewed DOD officials; and conducted site visits at three contractors' locations.

## What GAO Recommends

GAO is making 12 recommendations, including for DOD to develop and document a strategy to address the material weakness and plans to verify the completeness of JSF asset records, and to determine whether information on joint programs is sufficiently maintained for reporting purposes. DOD concurred with 10 and partially concurred with two of GAO's recommendations. GAO continues to believe that all the recommendations are warranted.

View [GAO-22-105002](#). For more information, contact Kristen Kocielek at (202) 512-2989 or [kocielekk@gao.gov](mailto:kocielekk@gao.gov).

May 2022

## DOD FINANCIAL MANAGEMENT

### Additional Actions Would Improve Reporting of Joint Strike Fighter Assets

#### What GAO Found

The Department of Defense (DOD) has taken steps to address the material weakness that auditors identified related to the F-35 Joint Strike Fighter (JSF) program, including establishing milestone dates for addressing underlying issues. However, GAO found that because it lacks a fully developed strategy, DOD has not met and subsequently revised the milestone dates. Without a documented strategy that includes detailed procedures for addressing the material weakness, DOD is at an increased risk that its effort to remediate the JSF financial reporting issues will not meet milestone target dates and will not be effective.

Further, GAO found that DOD designed inventory count procedures to verify the physical existence of certain JSF assets such as support equipment held at contractor facilities and included in property records; however, DOD did not verify the completeness of assets, as directed by DOD guidance (see figure).

#### DOD Inventory Count Procedures of Joint Strike Fighter Assets

Inventory count procedures are designed so that staff verify the physical existence of Joint Strike Fighter (JSF) assets included on contractors' property records, but they do not verify completeness or that these records contain all JSF assets that are physically present

##### Performed

###### Book-to-floor (existence) verification

All JSF assets listed on contractor's property records are located, and selected data elements (e.g., description, quantity, and location) are validated



##### Not performed

###### Wall-to-wall (completeness) verification

All JSF assets located by inventory staff are compared to existing contractor's property records and validated for inclusion and accuracy



Source: GAO analysis of Department of Defense (DOD) information. | [GAO-22-105002](#)

Because DOD had never previously maintained its own complete JSF property records, it relied on contractor records to perform the inventory, but these sometimes were inaccurate. For example, DOD was unable to verify approximately \$16 million of JSF assets listed on contractor records. DOD officials said that these errors are likely to be significantly higher. Without properly executed inventory procedures that verify both the physical existence of the assets and the completeness of the records, DOD management will not have the information needed for reliable financial statement reporting and may not be able to identify if assets have been lost or stolen.

DOD was unable to provide complete and consistent information about the universe of DOD joint programs. This limited GAO's ability to fully examine and determine the extent to which DOD tracks and records information about its joint programs. GAO found inconsistencies in DOD's reported data about its joint programs and in how DOD offices define and identify joint programs. This increases the risk that financial data used for managing and reporting joint programs will not be consistent, complete, or accurate.

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## Abbreviations

ACAT	acquisition category
APSR	accountable property system of record
DAVE	Defense Acquisition Visibility Environment
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DOD	Department of Defense
DODI	DOD Instruction
DPAS	Defense Property Accountability System
JPO	Joint Program Office
JSF	Joint Strike Fighter
OIG	Office of Inspector General
OUSD	Office of the Under Secretary of Defense
OUSD (A&S)	Office of the Under Secretary of Defense for Acquisition and Sustainment
SFFAS	Statement of Federal Financial Accounting Standards
ST/STE	support equipment/special tooling/special test equipment

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May 5, 2022

Congressional Committees

The Department of Defense (DOD) has the largest discretionary spending authority of any agency in the federal government—\$713 billion in fiscal year 2021. Yet it remains the only major federal agency that has been unable to receive an audit opinion on its department-wide financial statements.<sup>1</sup> Sound financial management practices and reliable, useful, and timely financial information are important for ensuring accountability over DOD’s extensive resources and for efficiently and effectively managing the department’s assets and budgets. Since 1995, GAO has designated DOD financial management as high risk because of pervasive weaknesses in its financial management systems, business processes, internal controls, and financial reporting.<sup>2</sup> These weaknesses have adversely affected DOD’s ability to prepare auditable financial statements, which is one of three major impediments preventing us from expressing an audit opinion on the U.S. government’s consolidated financial statements.<sup>3</sup>

The National Defense Authorization Act for Fiscal Year 2014 required the Secretary of Defense to ensure that a full audit was performed on DOD’s fiscal year 2018 financial statements and to submit the results to

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<sup>1</sup>Discretionary spending refers to outlays from budget authority that are provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs. For fiscal year 2021, DOD received a discretionary budget authority of \$713 billion of the \$1.6 trillion total discretionary budget authority of the federal government.

<sup>2</sup>GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

<sup>3</sup>The other two impediments preventing us from rendering an audit opinion on the federal government’s consolidated financial statements are (1) the federal government’s inability to account for intragovernmental activity and balances between federal entities adequately and (2) the weaknesses in the federal government’s process for preparing the consolidated financial statements. See GAO, *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, [GAO-21-340R](#) (Washington, D.C.: Mar. 25, 2021).

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Congress no later than March 31, 2019.<sup>4</sup> DOD underwent a full audit for each fiscal year, 2018 through 2021, and received a disclaimer of opinion for each of these 4 years.<sup>5</sup> In fiscal year 2021, auditors reported 28 material weaknesses in internal control related to DOD's financial reporting processes.<sup>6</sup> One of the material weaknesses DOD auditors identified related to the F-35 Lightning II Joint Strike Fighter program (hereinafter referred to as the Joint Strike Fighter (JSF) program), DOD's most costly weapon system in history, with overall costs estimated to be more than \$1.7 trillion over the program's life cycle.<sup>7</sup>

DOD auditors first identified the material weakness related to the JSF program in fiscal year 2019. Auditors reported that DOD did not report certain JSF program's assets (hereinafter referred to as JSF assets) on its financial statements.<sup>8</sup> Further, auditors reported that the omission of these assets from the financial statements, as well as DOD's inability to provide documentation supporting the value of the assets, indicated material failures in internal controls for recording joint programs DOD-wide. The F-35 Joint Program Office (F-35 JPO) manages the JSF

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<sup>4</sup>Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, United States Code.

<sup>5</sup>A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

<sup>6</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>7</sup>The overall costs comprise approximately \$400 billion in DOD's planned acquisition costs and DOD's estimated \$1.3 trillion in costs to operate, maintain, and support the F-35 aircraft, such as the supply chain for the delivery of spare parts. The \$1.7 trillion reflects then-year dollars through the end of JSF program operations in year 2077. Then-year dollars include the effects of projected inflation or escalation.

<sup>8</sup>JSF assets consist of the global spares pool and support equipment/special tooling/special test equipment, such as complete engines, landing gear, tires, training simulators, and trailers.

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program and relies on both federal employees and contractors to provide support for its strike fighter aircraft (F-35 aircraft). The F-35 JPO uses two prime contractors, Lockheed Martin and Pratt & Whitney, to not only support the aircraft and engines, respectively, but also to maintain records of its JSF assets, such as the quantity purchased and location and cost of the assets.

We have previously reported that DOD initially did not intend to own the JSF assets, but in 2012 the JSF program's executive steering board issued a memorandum declaring the JSF assets be titled to the U.S. government when they are not installed on an aircraft. However, because DOD did not develop a plan to address this memorandum on how to maintain accountability over the assets that it already owned or would purchase in the future, the prime contractors continued to maintain accountability and provide data for the JSF assets they managed.<sup>9</sup>

DOD management reported in its fiscal year 2021 agency financial report that the department's failure to account for, manage, or record JSF assets in an accountable property system of record (APSR), and reliance on contractor records to value these assets, contributed to the material weakness.<sup>10</sup> Additionally, in 2019, we reported that DOD has spent billions of dollars on JSF assets but does not have records for all the parts it has purchased, where they are located, or how much they cost.<sup>11</sup> We made several recommendations, such as identifying and establishing steps to implement a policy for maintaining accountability of JSF assets and developing a methodical approach for obtaining cost information for these assets. However, DOD has not completely implemented these recommendations, as discussed in more detail later in this report.

We performed this audit in connection with fulfilling our mandate to audit the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies; these include DOD because of the significance of the military services' audit activities to that audit. This report examines the extent to which DOD (1) has developed and implemented procedures for addressing the auditor-

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<sup>9</sup>GAO, *F-35 Aircraft Sustainment: DOD Needs to Address Substantial Supply Chain Challenges*, [GAO-19-321](#) (Washington, D.C.: Apr. 25, 2019).

<sup>10</sup>Department of Defense, *Department of Defense Agency Financial Report Fiscal Year 2021* (Washington, D.C.: Nov. 15, 2021).

<sup>11</sup>[GAO-19-321](#).

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identified material weakness regarding the JSF program and (2) tracks and records information about its joint programs.

To address both objectives, we reviewed reports that GAO and the DOD Office of Inspector General (OIG) issued and DOD agency financial reports for fiscal years 2018 through 2021 and the Notices of Finding and Recommendation and corresponding corrective action plans for fiscal years 2019 through 2021 to gain an understanding of the issues related to joint programs, including the JSF program, across DOD. To examine the extent to which DOD has developed and implemented procedures to address the JSF program material weakness, we interviewed officials with the Office of the Under Secretary of Defense (OUSD) (Comptroller), OUSD for Acquisition and Sustainment (OUSD (A&S)), F-35 JPO, Department of the Air Force, Department of the Navy, U.S. Marine Corps, Defense Logistics Agency (DLA), Defense Contract Management Agency, and DOD contractors to evaluate the

- processes and controls that DOD has established and implemented to perform inventory counts of JSF assets,
- capabilities of the Defense Property Accountability System (DPAS) and whether DPAS meets DOD's requirements for an APSR, and
- methodology DOD has developed to capture costs of JSF assets.

Additionally, we obtained the status of DOD's plan for reporting the JSF assets on its department-wide and component-level financial statements. We also reviewed DOD documents, such as the *F-35 Accountable Property Management Framework*, and department-wide and government-wide policies and standards, such as DOD's *Financial Management Regulation*, DOD instructions and manuals, relevant Statements of Federal Financial Accounting Standards (SFFAS), and the *Standards for Internal Control in the Federal Government*, to obtain information on DOD's accountability over and financial management of the JSF program.<sup>12</sup> To understand how JSF assets are stored at the contractors' facilities and the controls the contractors have over these assets, we conducted site visits at two Pratt & Whitney locations in Fort Worth, Texas, and Jupiter, Florida, and also a subcontractor location in

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<sup>12</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).



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Stuart, Florida.<sup>13</sup> We determined that the control activities component of internal control standards was significant to this objective, specifically the underlying principle that management should design control activities to achieve objectives and respond to risks. We also determined that the monitoring component of internal control standards was significant to this objective, specifically the underlying principle that management should remediate identified internal control deficiencies on a timely basis.

To examine the extent to which DOD tracks and records information about its joint programs, we reviewed DOD policies and procedures for joint acquisition programs. We also interviewed officials from the Joint Chiefs of Staff, OUSD (Comptroller), OUSD (A&S), the military services (Air Force, Navy, and Department of the Army), and the Defense Health Agency to determine how joint programs are defined, initiated, and overseen. To identify a complete population of joint programs at DOD, we first requested a list of joint programs as of May 2021 from OUSD (A&S). Next, to verify the completeness of the joint programs recorded on the OUSD (A&S) list, we

- requested a list of joint programs from each DOD participant identified on the OUSD (A&S) list;
- reviewed the list of joint programs recorded in the fiscal year 2020 OUSD (Comptroller) Program Acquisition Cost by Weapon System book;
- developed a list based on our search of active acquisition programs in the Defense Acquisition Visibility Environment (DAVE) for program names and descriptions that contained the word “joint” or a description of a joint program; and
- reconciled the lists from OUSD (A&S), DOD participants, OUSD (Comptroller), and our own search of DAVE.

We followed up with DOD officials on discrepancies we found through the reconciliation. We determined that the control activities component of internal control standards was significant to this objective, specifically the

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<sup>13</sup>The three contractors’ sites were selected based on the quantity and variety of JSF assets located at each site, as well as the timing of the planned inventory schedule. For this report, unless otherwise specified, contractors’ facilities refers to those operated by the two prime contractors, domestic and international contractors, subcontractors, lower-tier contractors, and vendors that provide parts and services to the JSF program.

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underlying principle that management should design control activities to achieve objectives and respond to risks.

We conducted this performance audit from February 2021 to May 2022 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.

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## Background

### DOD's Financial Reporting Process

To ensure sound management and long-term stability in their operations, organizations track their financial activities (hereinafter referred to as transactions), such as expenses they incur and income they generate.<sup>14</sup> Organizations record their daily transactions, which increase or decrease account balances, in their accounting systems. For example, an organization's "cash balance" account increases when customers make payments due for goods or services previously provided, while other account balances, such as "accounts receivable" (the amount owed to an organization for goods or services provided), decrease because customers are paying part of what they owed to the organization.

At DOD, as seen in figure 1, DOD's individual components perform this daily process of recording transactions in accounting systems.<sup>15</sup> These components use multiple accounting systems to record and summarize their financial transactions.<sup>16</sup> Each month, quarter, and year, components send summarized financial information to the Defense Finance and

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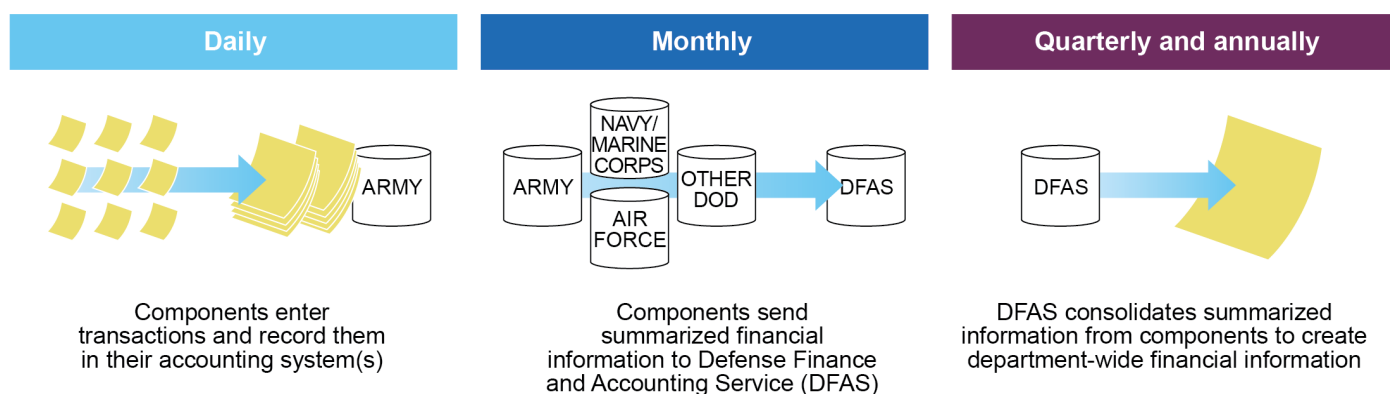
<sup>14</sup>In addition to financial activities such as expenses and income, transactions at DOD also include actions to JSF assets, such as inventory adjustments, changes to condition, receipts, and disposals, which should affect DOD asset balances on its financial statements.

<sup>15</sup>DOD is composed of over 50 individual components. These components are subsidiary organizations within DOD and include the following: Office of Secretary of the Defense; the Chairman, Joint Chiefs of Staff and the Joint Staff; the DOD OIG; the military departments (Army, Air Force, and Navy); other defense agencies, such as DLA; DOD field activities; the combatant commands; the Uniformed Services University of the Health Sciences; and all nonappropriated fund instrumentalities.

<sup>16</sup>Most components have several accounting systems that record and summarize their financial transactions. For example, the General Fund Enterprise Business System is the Army's primary accounting system used to record the majority of its transactions.

Accounting Service (DFAS), the DOD agency that provides accounting support for DOD.<sup>17</sup> DOD's core financial reporting system consolidates the summarized financial information from individual components into DOD's department-wide financial information.<sup>18</sup>

**Figure 1: Recording of DOD Accounting Transactions**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-22-105002

Financial statements provide information about an organization's financial position—such as assets (what it owns) and liabilities (what it owes)—as of a certain point in time, in addition to the financial results of its operations—such as revenue (what came in) and expenses (what went out)—over a period of time, such as a fiscal year. Financial statements are prepared based on the summarized, or consolidated, financial information from an organization's accounting systems. Their reliability depends on there being accurate financial information in the accounting systems.

<sup>17</sup>There are three Defense Finance and Accounting Service (DFAS) sites that perform financial reporting functions, which are located in Cleveland, Ohio; Columbus, Ohio; and Indianapolis, Indiana. DFAS Cleveland supports the Navy and Marine Corps, whereas DFAS Columbus supports the Air Force. DFAS Indianapolis provides most of the Army's accounting support, but DFAS Columbus also provides a small portion.

<sup>18</sup>The one exception at DOD is the U.S. Army Corps of Engineers, which prepares its own financial statements using core DOD processes and, with DFAS support as needed, submits its financial information for DOD consolidation purposes.

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DOD aggregates the summarized financial information from the individual components to produce its consolidated financial statements.<sup>19</sup> DOD, along with other federal agencies, submits financial information to the Department of the Treasury, which then aggregates the information for presentation on the consolidated financial statements of the U.S. government. Reliable and complete financial information is necessary to help agency management and Congress understand the agency's finances, make informed policy and resource decisions, and hold agency officials accountable for their use of these resources.

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## DOD's Acquisition Process and Programs

The financial position of DOD includes the assets it acquires, such as weapon systems and equipment to support its military operations. DOD's acquisition programs, which DOD uses to direct and fund its acquisitions, follow one of six acquisition pathways.<sup>20</sup> These pathways provide procedures for managing different types of acquisition programs. Our focus for the purposes of this report is on the major capability acquisition pathway, which is the process designed to support major defense acquisition programs, systems, and other complex acquisitions. For example, the Army's Black Hawk helicopter is a major capability acquisition program. The Black Hawk is a troop-carrying helicopter designed for all intensities of conflict, without regard to geographical location or environmental conditions. For acquisition programs following the major capability acquisition pathway, DOD designates an acquisition category (ACAT) I through III to facilitate decentralized decision-making, execution, and compliance with statutorily imposed requirements such as submitting Selected Acquisition Reports.<sup>21</sup> ACATs are based on estimated program costs and the type of acquisition (see table 1).

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<sup>19</sup>Office of Management and Budget guidance requires nine DOD components to prepare annual financial reports, and DOD policy requires an additional 15 components to prepare annual financial reports. Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Fiscal Year 2021 Department of Defense Reporting Entities* (Washington, D.C.: May 11, 2021). Further, DOD is required by law to prepare audited financial statements annually covering all accounts and associated activities of each of its components, which it prepares by consolidating all DOD financial information from these 24 components as well as 34 other components. 31 U.S.C. § 3515(a).

<sup>20</sup>The six pathways include urgent capability acquisition, middle tier of acquisition, major capability acquisition, software acquisition, acquisition of services, and defense business systems.

<sup>21</sup>Selected Acquisition Reports provide the status of total program cost, schedule, and performance to Congress and report increased program risk.

**Table 1: Description of Acquisition Category (ACAT) I through III Programs**

ACAT level	Criteria for ACAT designation
ACAT I	<ul style="list-style-type: none"> <li>Major defense acquisition program estimated to require an eventual total expenditure for research, development, and testing and evaluation of more than \$525 million in fiscal year (FY) 2020 constant dollars or, for procurement, of more than \$3.065 billion in FY 2020 constant dollars, or</li> <li>Designated by the milestone decision authority<sup>a</sup> as a major defense acquisition program, or</li> <li>Designated by the milestone decision authority as a special interest<sup>b</sup></li> </ul>
ACAT II	<ul style="list-style-type: none"> <li>Does not meet criteria for ACAT I</li> <li>Major system estimated to require an eventual total expenditure for research, development, and testing and evaluation of more than \$200 million in FY 2020 constant dollars or, for procurement, of more than \$920 million in FY 2020 constant dollars, or</li> <li>Designated by milestone decision authority as a major system</li> </ul>
ACAT III	<ul style="list-style-type: none"> <li>Does not meet criteria for ACAT II or above</li> <li>Is not designated as a “major system”</li> </ul>

Source: Department of Defense Instruction 5000.85, *Major Capability Acquisition*, (Aug. 6, 2020). | GAO-22-105002

<sup>a</sup>The milestone decision authority is an individual who has the overall responsibility for the acquisition program and is accountable for cost, schedule, and performance reporting to a higher authority, including congressional reporting.

<sup>b</sup>The special interest designation is typically based on one or more of the following factors: technological complexity; congressional interest; a large commitment of resources; or the program is critical to achieving a capability or set of capabilities, part of a system of systems, or a joint program. Programs that already meet the major defense acquisition program thresholds cannot be designated as special interest.

Acquisition programs that contribute to joint capabilities or provide a budgetary or financial advantage may be managed as joint acquisition programs. Some of the benefits of making an acquisition program joint include coordination that results in less duplication and overlap of effort; reduced development and production costs; and reduced logistics requirements, such as storage and training. According to DOD officials, joint acquisition programs follow the same acquisition process as other DOD acquisition programs. One example of a joint acquisition program is the JSF program, which follows the major capability acquisition pathway.

## JSF Program

The JSF program is DOD’s largest acquisition program in terms of total estimated lifetime acquisition cost. Initiated in November 1996, the JSF program is a joint, multinational acquisition program intended to develop and field a family of F-35 aircraft for the Air Force, Navy, and Marine Corps; seven international partners; and six foreign military sales

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customers (collectively hereinafter referred to as program participants).<sup>22</sup> The F-35 JPO, which manages the JSF program, is responsible for establishing the requirements, managing the funding, developing the contracts, and providing the directions for and overseeing the execution of the program.<sup>23</sup> DOD's two prime contractors, Lockheed Martin and Pratt & Whitney, are responsible for supporting the aircraft and engines, respectively, including the development, repairs, and management of JSF program property.

As seen in figure 2, the JSF program property is grouped into the following four major categories: F-35 aircraft, global spares pool, support equipment/special tooling/special test equipment (ST/STE) and internal-use software.<sup>24</sup> The JSF program is unique from other joint programs because, as part of the F-35 supply chain, all program participants have access to the shared global spares pool and ST/STE (hereinafter referred to as JSF assets), which DOD owns.<sup>25</sup> The program participants do not purchase these JSF assets directly, but rather pay for access based on projected use, which is estimated based on how many F-35 aircraft they own and the number of flight hours they plan to fly, among other factors. When an asset from the global spares pool is installed on or consumed by a program participant's aircraft, ownership of the asset is then transferred from DOD to the program participant. This construct for the F-

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<sup>22</sup>International partners that have contributed funds for F-35 system development, include the countries of Australia, Canada, Denmark, Italy, the Netherlands, Norway, and the United Kingdom. Military sales participants who purchase F-35 aircraft and JSF assets without contributing to system development include the countries of Belgium, Israel, Japan, Poland, Singapore, and South Korea. According to F-35 JPO officials, multiple other countries are at various stages of foreign military sales consideration.

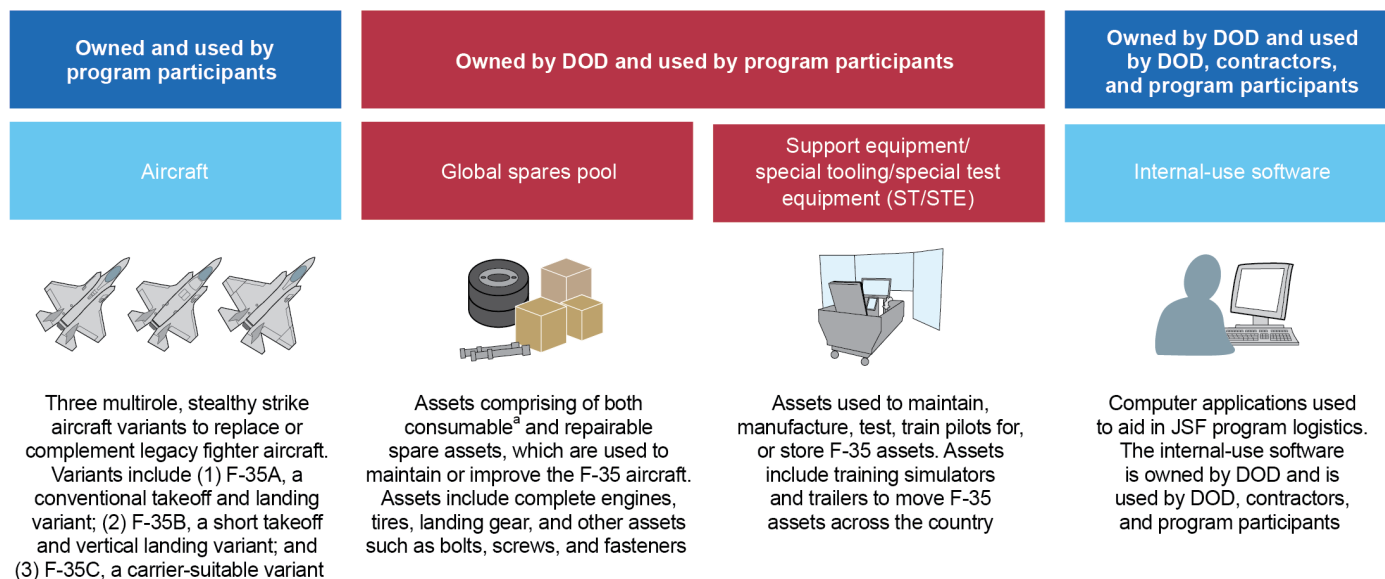
<sup>23</sup>Section 142 of the National Defense Authorization Act for Fiscal Year 2022, Pub. L. No. 117-81, 135 Stat. 1541, 1581 (2021), requires the transfer of F-35 aircraft sustainment functions from F-35 JPO to the Navy and Air Force no later than October 1, 2027. It also requires the transfer of acquisition functions from F-35 JPO to the Navy and Air Force no later than October 1, 2029.

<sup>24</sup>For financial reporting purposes, support equipment, special tooling, and special test equipment are all reported as general equipment. Therefore, in this report, we refer to these assets collectively as ST/STE.

<sup>25</sup>Both the JSF assets and internal-use software meet the criteria for recognition as assets under federal accounting standards and should be reported as assets on DOD's financial statements. See Federal Accounting Standards Advisory Board, *Accounting for Inventory and Related Property*, SFFAS No. 3 (Washington, D.C.: Oct. 27, 1993); *Accounting for Property, Plant, and Equipment*, SFFAS No. 6 (Washington, D.C.: Nov. 30, 1995); and *Accounting for Internal Use Software*, SFFAS No. 10 (Washington, D.C.: Oct. 9, 1998).

35 supply chain was intended to ease the logistical burden on and provide economies of scale for program participants.

**Figure 2: Joint Strike Fighter (JSF) Program’s Property Categories**



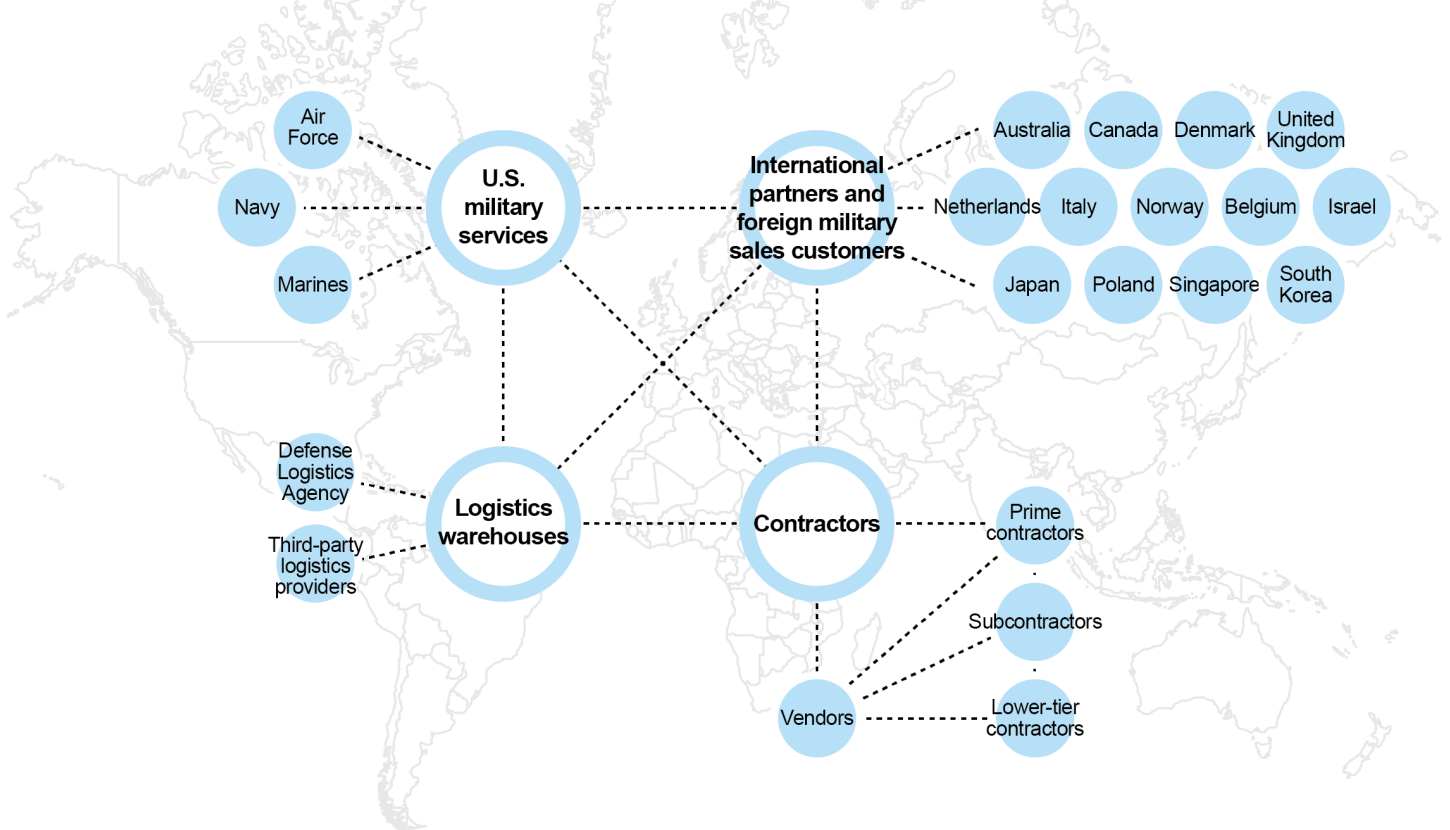
Source: GAO analysis of Department of Defense (DOD) information. | GAO-22-105002

<sup>a</sup>A consumable item is an item that is normally expended in the use for which it is intended.

According to DOD officials, as of October 2021, millions of these JSF assets are located in 671 F-35 sites belonging to domestic and international contractors, subcontractors, lower-tier contractors, vendors, domestic and international military bases and aircraft carriers, and third-party logistic sites in the JSF program’s supply chain (see fig. 3). Over the past few years, the third-party logistics responsibilities for warehousing and shipping JSF assets within the continental U.S. have been gradually transitioning from private contractors and subcontractors to DLA and United States Transportation Command. DOD’s two prime contractors are responsible for allocating the JSF assets to F-35 sites and program participants based on contractual requirements.

**Figure 3: Locations of Sites Storing the Joint Strike Fighter Program Assets**

Joint Strike Fighter (JSF) assets are used, transported, stored, and maintained within an international network that includes U.S. military services, international partners, foreign military sales customers, contractors, and logistics agencies. The 671 locations include domestic and international military bases, warehouses, and aircraft carriers.



Source: GAO analysis of Department of Defense (DOD) information. | GAO-22-105002

As of October 2021, F-35 JPO officials' estimate that the JSF program includes approximately 12 million JSF assets valued at approximately \$8 billion. The total value of these assets inventoried may be significantly higher than the amount currently being reported because the F-35 JPO was unable to determine the cost information for many of the assets inventoried. Also, for the cost information that the F-35 JPO was able to obtain, F-35 JPO officials stated that some of the amounts only include the cost that contractors paid to acquire the JSF assets and not the full cost that DOD paid, which includes additional costs such as transportation and overhead.



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## Recent Reviews of the JSF Program

In order for DOD management to effectively manage and report the JSF program's assets, it should know how many JSF assets it owns and where these assets are located. In addition to the material weakness that DOD auditors reported, in fiscal year 2019, GAO and DOD's OIG each issued a report with recommendations related to the JSF program and the management of these JSF assets.<sup>26</sup> Specifically, in our report, we assessed whether DOD could account for JSF assets and their costs and made three related recommendations. In addition to finding that DOD did not have records for all the JSF assets it purchased, where the assets were located, and how much the assets cost, we found that DOD did not maintain a DOD-approved APSR with the information on JSF assets the U.S. government owned, and it lacked the necessary data to be able to do so. Further, we found that DOD had not established a program policy that explicitly defined how it would maintain accountability for the JSF assets in accordance with DOD guidance. We recommended that DOD

- issue a policy that clearly establishes how DOD will maintain accountability for JSF assets, and identify the steps needed to implement the policy;
- develop a methodical approach to consistently obtain comprehensive cost information from the prime contractor for JSF assets; and
- complete and formalize a methodology for the Navy, Air Force, and Marine Corps to use in recording the funds spent on JSF assets on their financial statements.

DOD concurred with all three recommendations and has made some progress in addressing them; however, all three remained open as of April 2022.

The DOD OIG found that DOD officials did not implement procedures to account for, manage, or record the JSF assets in an APSR for more than 16 years. The OIG reported that the only record of these JSF assets was with the prime contractor and its subcontractor. As a result, DOD did not know the value of the JSF assets and did not have an independent record to verify the accuracy of the contractors' records. The OIG further reported that the lack of a DOD record of JSF assets resulted in an understatement of either the assets or expenses on the DOD financial

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<sup>26</sup>Department of Defense, Office of Inspector General, *Audit of Management of Government-Owned Property Supporting the F-35 Program*, DODIG-2019-062 (Alexandria, Va.: Mar. 13, 2019), and [GAO-19-321](#).

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statements, depending on how the contractor used the assets. The DOD OIG made 10 recommendations related to, among other things, the

- verification of existence and completeness of all JSF assets;
- accounting for JSF property on the appropriate financial statements; and
- performance of a complete inventory, and use of the results of the inventory to establish a baseline property record in the APSR.

DOD concurred with these recommendations; however, all 10 remained open as of March 2021.

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## DOD Has Taken Steps to Address the JSF Material Weakness, but Challenges Remain

DOD has made some progress in addressing the JSF program material weakness that auditors identified, and it set milestone target dates to address some of the underlying issues that caused the material weakness. However, DOD has been unable to meet many of the milestone dates it established because it lacks a fully developed and documented comprehensive strategy that is sufficiently detailed and outlines feasible timelines and procedures to reach milestones. In addition, DOD has faced challenges in its efforts to reach individual milestones, including performing a complete inventory of JSF assets, establishing complete and accurate property records in an APSR, and developing procedures to establish and maintain balances on DOD financial statements—all of which are critical steps to ensure reliable financial reporting and accountability to the public.

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## DOD Has Taken Some Steps to Address the JSF Program Material Weakness

The F-35 JPO and OUSD (Comptroller) have made some progress in developing and implementing procedures to address the JSF program material weakness. DOD auditors identified this material weakness in fiscal year 2019 and reported that DOD did not account for and manage JSF assets or record the assets in an APSR. To address this material weakness, the F-35 JPO has been performing an inventory of JSF assets and recording the inventoried assets in DPAS, its selected APSR. The F-35 JPO expects to complete its inventory of JSF assets by March 2022 and believes that, as of November 2021, it has recorded the majority of JSF asset information captured during its inventory in DPAS. However, as discussed in the report, though the F-35 JPO believes that it has recorded the majority of the JSF assets into DPAS, many of these records are not complete and accurate.

Additionally, the OUSD (Comptroller) has made some progress toward deciding how to report JSF assets on DOD's component-level and

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consolidated financial statements. As part of the JSF program material weakness, DOD auditors found that because DOD did not account for and manage JSF assets, its financial statements did not include them. We also reported that DOD components did not track the funds they have spent to purchase JSF assets to report them properly on financial statements. As previously mentioned, we recommended that DOD complete and formalize a methodology for the Navy, Air Force, and Marine Corps to use in recording funds spent on JSF assets on their financial statements.<sup>27</sup> DOD acknowledged the need to decide how JSF assets will be reported on the annual financial statements, as all JSF assets have never previously been included on DOD's or its components' balance sheets.<sup>28</sup> OUSD (Comptroller) officials stated in January 2022 that the OUSD (Comptroller) is considering a financial reporting option that the Air Force and Navy report their JSF-related assets on their annual financial statements.<sup>29</sup> In March 2022, the OUSD (Comptroller) circulated this option to stakeholders for their comments; however, because the decision to use this financial reporting option is not yet final, our recommendation remains open, and we will continue to monitor DOD's efforts in this area.

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### DOD Set Milestone Target Dates for Addressing the Material Weakness but Has Not Fully Developed and Documented a Comprehensive Strategy to Meet Them

Despite DOD taking some initial steps to address the JSF program material weakness, we found that DOD has not yet fully developed and documented a comprehensive strategy that clearly describes detailed procedures to address the material weakness. Developing and implementing a comprehensive strategy involves DOD clearly defining what is to be done, who is to do it, how it will be done, and feasible milestone target dates for achievement. DOD has prepared a corrective action plan with steps and corresponding milestone target dates—which provide a way for management to estimate the time it will take to complete actions and monitor progress—to address the material

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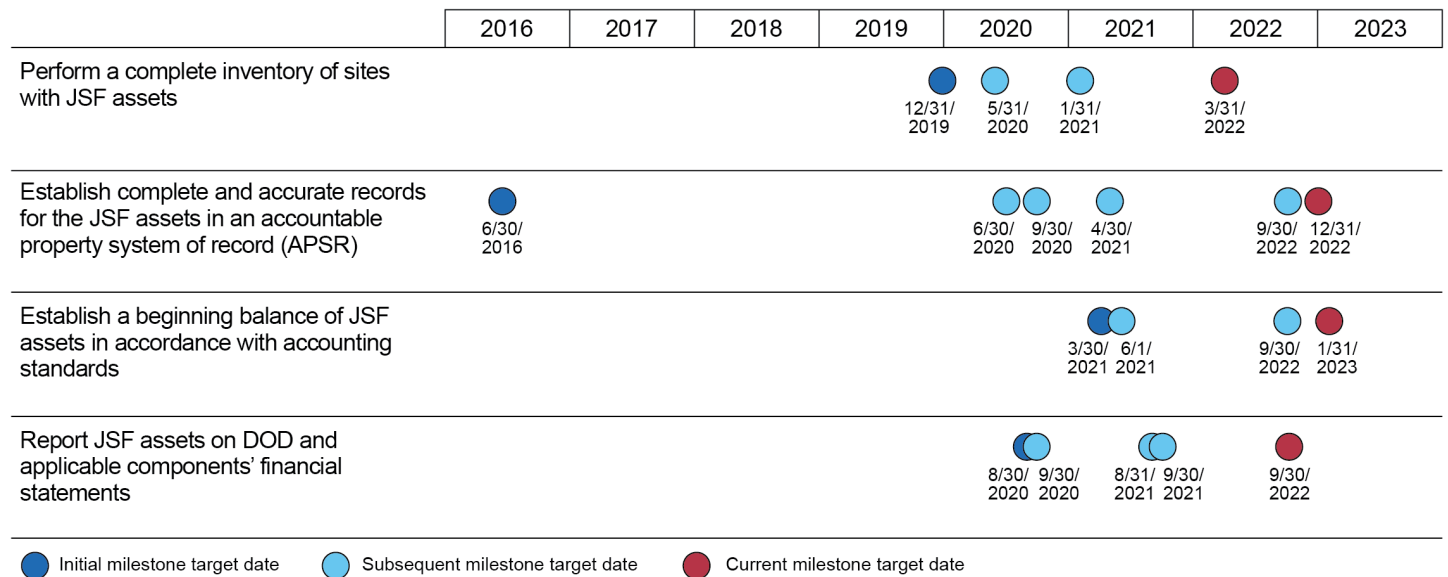
<sup>27</sup>[GAO-19-321](#).

<sup>28</sup>F-35 aircraft are included in DOD and component financial reports. The JSF assets that have never been previously included on the balance sheets are the major categories of (1) the global spares pool, and (2) ST/STE. Balance sheets show an entity's assets, liabilities, and net position.

<sup>29</sup>The portion of the JSF assets, which international partners have funded but not received will be reported on the DOD consolidated financial statements.

weakness. However, as shown in figure 4, the F-35 JPO has continually not met, and subsequently revised, these milestone target dates.<sup>30</sup>

**Figure 4: Joint Strike Fighter (JSF) Program Material Weakness Remediation Milestones with Initial and Subsequent Target Dates**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-22-105002

For example, the initial date for establishing complete and accurate records for JSF assets in an APSR was June 30, 2016, 3 years earlier than when the material weakness was first reported. However, this date has since been revised at least five times and the new milestone target date is December 2022.<sup>31</sup> F-35 JPO officials explained that one reason for the continual revision of the dates was that in setting the target milestone dates to resolve the material weakness, they did not fully develop and document a comprehensive strategy to break down the milestones into achievable tasks, taking into consideration the feasibility

<sup>30</sup>These milestones were identified in our review of various DOD documents, such as a report on open recommendations, a proposed policy whitepaper, a program directive, DOD public reports, and internal corrective action plans.

<sup>31</sup>Even though the material weakness for the JSF program was first reported in 2019, DOD management took steps to establish JSF property records in an APSR in 2016 as part of its audit readiness efforts.

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of the time allotted and the resources that would be required for completing each task by the target milestone date.

The officials stated that management and staff have held numerous discussions on how to address the material weakness, but because of the shortage of staff, the procedures they identified were not fully developed and documented. Since 2019, the F-35 JPO has experienced high staff turnover and challenges in locating subject matter experts to fill open positions. For example, F-35 JPO officials told us that there were periods of time in fiscal year 2020 during which the F-35 JPO had only one government employee, and as of the end of November 2021, two necessary government positions were still vacant. In July 2021, the F-35 JPO established a working group, which included the OUSD (Comptroller), to identify gaps in the current process for addressing the material weakness, determine needed policies and procedures to address those gaps, and build policy plans for performing inventory and determining costs of JSF assets.<sup>32</sup> Additionally, in August 2021, the F-35 JPO hired an F-35 JPO Government Property Policy Manager to develop and maintain policies on behalf of F-35 JPO and help resolve policy gaps identified by auditors, among other things. Although the F-35 JPO has taken these initial steps, the procedures to address the material weakness are still in the very early stages of planning and there is not yet a timeline for documenting the procedures in a comprehensive strategy.

The Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, states that correcting control deficiencies is an integral part of management accountability and must be considered a priority by the agency. Additionally, *Standards for Internal Control in the Federal Government* states that management should remediate identified internal control deficiencies on a timely basis. Without a fully developed and documented comprehensive strategy that clearly describes detailed procedures for achieving tasks and meeting milestone target dates to address the material weakness, as well as feasible time frames and identified resources needed to develop and implement these procedures, DOD is at an increased risk that its effort to remediate the JSF financial reporting issues will not meet milestone target dates and will not be effective.

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<sup>32</sup>The working group also included, among others, representatives from private consulting firms and DOD contractors.

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## Efforts to Achieve Milestones Have Been Further Limited by Procedural and System-Related Challenges

In addition to lacking a documented overall strategy for remediating the JSF program material weakness, DOD has faced challenges in its efforts to reach certain remediation milestones. For example, in fiscal year 2019, the F-35 JPO began conducting an inventory to establish a baseline of its JSF assets currently held at contractor facilities. One of the challenges in establishing this baseline was that DOD has never maintained its own complete JSF property records that contained data elements indicating how many JSF assets it has purchased, where the assets are located, descriptions of the assets, or the full cost paid for the assets. Instead, the two prime contractors for the JSF program have maintained these property records. Our review identified that the inventory procedures that the F-35 JPO used are not properly designed to capture all JSF assets that DOD currently owns and that DPAS property records are not reliable for financial reporting. Additionally, we found that the F-35 JPO has not developed procedures for either establishing the JSF assets' beginning balances needed for financial reporting or capturing and recording transactions once the beginning balances have been established.

## Inventory Procedures Were Not Designed to Fully Capture All JSF Asset Information Needed for Financial Reporting

The F-35 JPO did not design inventory procedures to fully capture and verify all JSF assets that DOD owned. To perform the inventory, the F-35 JPO prepared draft guidance in January 2020 that outlines the process for conducting the inventory of JSF assets at contractor facilities.<sup>33</sup> Specifically, the draft guidance includes procedures for the following:

1. Performing a physical inventory count to validate data elements, such as quantity on hand, description, and asset location of JSF assets currently reported on contractors' site records.
2. Capturing data elements that were not validated during the physical inventory count, such as cost of the item and transaction date. These data elements cannot be physically observed and must be obtained

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<sup>33</sup>The draft guidance (Rules of Engagement) was developed in January 2020 to provide procedures for staff to perform inventory and validate the existence of JSF assets. In November 2020 and April 2021, the draft guidance was updated to require inventory staff to identify, analyze, and reconcile data inconsistencies and to capture data elements for the APSR and financial reporting, respectively. The F-35 JPO has not yet finalized the draft guidance because the number of data elements the F-35 JPO needed to capture increased as the inventory process progressed.

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using source documentation, such as invoices, or Material Inspection and Receiving Reports.<sup>34</sup>

Both the data elements captured by reviewing source documents and those captured during the physical inventory count are needed to track and maintain accountability over JSF assets in DPAS and to accurately present JSF asset balances on DOD's financial statements. However, our review of the inventory procedures identified that the physical inventory count was not designed to capture all JSF assets that DOD owns. Specifically, it was not designed to capture JSF assets missing from the contractors' property records. Additionally, we found that the F-35 JPO is developing but has not yet documented policies and procedures to perform periodic inventories of JSF assets after the initial inventory has been completed.

### **Physical Inventory Count Did Not Verify Existence and Completeness of All JSF Assets**

A physical inventory count, when properly executed, verifies both the physical existence of the assets included in the property records as well as the completeness of the records. We found that the F-35 JPO designed the physical inventory count to verify only the physical existence of assets (also referred to as book-to-floor verification) held at contractor facilities and included in contractors' property records, but not the completeness of the JSF assets listed in contractors' property records (also referred to as wall-to-wall verification) (see fig. 5).

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<sup>34</sup>The Material Inspection and Receiving Report is a multipurpose report used to provide evidence of government acceptance of supplies that the contractor has delivered. The contractor prepares the form and an authorized government representative signs it. See generally 48 C.F.R. ch. 2, App. F (Sept. 13, 2019).

**Figure 5: F-35 Joint Program Office’s Inventory Procedures of Joint Strike Fighter Assets**

Inventory count procedures are designed so that staff verify the physical existence of Joint Strike Fighter (JSF) assets included on contractors’ property records, but they do not verify completeness or that these records contain all JSF assets that are physically present

**Performed**

**Book-to-floor (existence) verification**

All JSF assets listed on contractor’s property records are located, and selected data elements (e.g., description, quantity, and location) are validated



**Not performed**

**Wall-to-wall (completeness) verification**

All JSF assets located by inventory staff are compared to existing contractor’s property records and validated for inclusion and accuracy



Source: GAO analysis of Department of Defense (DOD) information. | GAO-22-105002

Since DOD does not maintain its own complete property records for JSF assets, the F-35 JPO used records provided by its two prime contractors, subcontractors, and vendors as a starting point to perform the physical inventory count, but in some instances these records were inaccurate. For example, as of October 2021, inventory staff were unable to verify the existence of approximately 1,600 JSF assets in contractors’ property records, valued at over \$16 million.<sup>35</sup> In addition, although inventory staff did not intentionally search for JSF assets missing from the contractors’ property records while performing the existence verifications, as of October 2021, they identified approximately 5,000 assets, valued at over

<sup>35</sup>The F-35 JPO contracted the inventory staff in 2019 to perform physical inventory counts of JSF assets held at contractor facilities and collect data elements for those assets. According to F-35 JPO officials, DOD spent approximately \$12 million on the inventory staff’s services from fiscal year 2020 through fiscal year 2021. For fiscal year 2019, the F-35 JPO used DOD military staff to perform the inventory of JSF assets in selected contractors’ locations.



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\$8 million that needed to be added to the contractors' property records. The inventory staff informed us that they found errors in both the existence and completeness of JSF asset property records at nearly every inventory site, and F-35 JPO officials stated that the value of errors is likely significantly higher than the identified amounts.<sup>36</sup>

F-35 JPO officials stated that they did not perform an analysis on the feasibility of performing a wall-to-wall inventory to capture all JSF assets. Additionally, these officials stated that because of time and resource constraints and to minimize the disruption to contractors' operations, the physical inventory count was never intended to verify completeness of JSF asset property records. Rather, the F-35 JPO designed the inventory to obtain a level of assurance over the existence of assets on contractors' records, so those records and related data elements could then be used to establish a baseline of JSF assets in DPAS.

DOD guidance directs staff to use a wall-to-wall inventory methodology when establishing property records for the first time.<sup>37</sup> As previously stated, a properly executed physical inventory count verifies both the physical existence of the assets included in the property records as well as the completeness of the records. This verification helps to ensure that property records accurately reflect the quantities as included in the inventory list as well as the observed quantities on hand.

Additionally, we found that the F-35 JPO has not conducted inventory counts at F-35 sites that are not contractor facilities. For example, the physical inventory count was not performed at F-35 sites such as DOD and international military bases, DLA storage facilities, and aircraft carriers. F-35 JPO officials explained that they rely on DOD and international military staff to perform the physical inventory counts and

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<sup>36</sup>According to F-35 JPO officials, the dollar amounts of errors could be higher because the F-35 JPO was unable to obtain dollar values for some of the JSF assets. Additionally, some of the dollar values that were captured only include what the contractors paid to source the assets and not what DOD paid to acquire them for the government, which includes transportation and overhead costs (referred to as burden).

<sup>37</sup>DOD Manual 4140.01, Volume 5, *DOD Supply Chain Materiel Management Procedures: Delivery of Materiel* (Sept. 17, 2018), and Defense Logistics Manual 4000.25, vol. 2, ch. 6, *Physical Inventory Control* (Oct. 9, 2018).

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validate JSF asset property records.<sup>38</sup> However, DLA officials told us that they do not perform physical inventory counts of the JSF assets in their custody and instead only provide shelving space for these assets. F-35 JPO officials stated that they have held discussions on the steps needed to perform physical inventory counts to verify existence and completeness of JSF assets at F-35 sites not included in the initial physical inventory count; however, they have not yet developed and documented these procedures.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks.<sup>39</sup> For financial reporting, such objectives include the existence and completeness of JSF assets. Since the F-35 JPO did not design physical inventory count procedures to verify completeness of contractors' property records or conduct any inventory procedures at F-35 sites that are not contractor facilities, the F-35 JPO cannot be sure that the inventory count resulted in appropriate verification and an accurate baseline of JSF assets. Verifying asset records is key to validating existence and completeness to help ensure that the records accurately reflect the assets on hand including their locations. When asset records are not properly verified, there is an increased risk that inaccuracies and errors in the property records will be undetected and uncorrected, resulting in misstatements in amounts reported on the financial statements. Also, when a physical inventory count is not properly executed, DOD management may not be able to identify if assets have been lost or stolen or whether purchasing certain assets is unnecessary as the department already has them on hand.

### **F-35 JPO Lacks Policies and Procedures for Performing Periodic Inventory Counts**

We found that the F-35 JPO has not documented policies and procedures to continue performing periodic inventories of JSF assets once the initial inventory has been completed. DOD Instruction (DODI) 5000.64 requires management to develop written inventory plans, which detail a schedule for completion of all inventory counts, and at a minimum to inventory all property at least every 3 years. F-35 JPO officials acknowledged the

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<sup>38</sup>According to an F-35 JPO official, DOD and international military staff perform inventory counts in accordance with the *Sustainment Supply User Guide*, a policy developed by Lockheed Martin, a prime contractor, and approved by the F-35 JPO for the JSF program.

<sup>39</sup>[GAO-14-704G](#).

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DPAS Property Records Are  
Not Reliable for Financial  
Reporting

DODI 5000.64 requirements and stated that they have discussed continuing to use the inventory staff to perform inventory counts using a sampling methodology and the possibility of performing a wall-to-wall inventory for JSF assets going forward. However, because there were insufficient staff to develop and implement a plan for future inventories, the F-35 JPO has not yet documented the procedures for performing periodic inventories. Without written procedures for performing periodic inventories, there is an increased risk the F-35 JPO will not be able to execute an inventory in accordance with DOD policy. The procedures are key to helping ensure that the property records and financial statements accurately reflect the assets on hand on an ongoing basis, as well as helping management identify if any assets have been lost or stolen and preventing management from unnecessarily purchasing assets already on hand.

In fiscal year 2020, the F-35 JPO designated DPAS as the official APSR, but DPAS currently does not have reliable JSF asset property records for financial reporting. According to DOD guidance, establishing an APSR—which captures and stores changes to asset data elements in real time, such as changes to quantity and asset location—is an important step in maintaining JSF asset accountability. Our review found that because of the absence of a direct interface with the prime contractors-managed inventory tracking systems, DPAS currently is not able to capture changes to JSF property records resulting from the movement or the use of the assets. Additionally, DPAS is missing some of the data elements required by DOD policy, and lacks some necessary controls, as identified by external auditors.<sup>40</sup>

**DPAS does not capture real-time changes.** We found that because DPAS does not interface with the prime contractors-managed inventory tracking systems, DPAS currently does not have the ability to capture real-time changes to JSF assets' data elements.<sup>41</sup> For example, during the initial physical inventory count, which began in fiscal year 2019 and is still ongoing, inventory staff capture and verify JSF asset data elements—such as an asset's location, description, and quantity—on spreadsheets. These spreadsheets are a record of the status of each JSF asset as of the date the inventory of that asset was performed. In November 2021,

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<sup>40</sup>DOD Instruction 5000.64, *Accountability and Management of DOD Equipment and Other Accountable Property* (June 10, 2019).

<sup>41</sup>Currently, only the prime contractors-managed inventory tracking systems have the ability to capture real-time changes to JSF assets' data elements.

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the F-35 JPO entered into DPAS the JSF assets' property records containing these data elements, creating DOD's first official record of JSF assets in the history of the program. However, since the inventory count was first performed, the status of the data elements for many of these assets may have changed because of either the movement of an asset to another location, use of the asset to repair aircraft currently owned by program participants, or the disposal of the asset because of damage. Because DPAS does not currently interface with prime contractors' systems and capture real-time changes to JSF assets' data elements that may have occurred since the inventory was first performed, many of the JSF assets' property records in DPAS do not reflect current, accurate information. To update these changes in DPAS, the F-35 JPO will need to recapture the current status of over half of the JSF assets, such as panel assemblies, valves, and other consumable parts, that were inventoried during fiscal years 2019 through 2021.<sup>42</sup>

F-35 JPO officials acknowledged that in the future they will need to capture changes to the data elements of most of the JSF assets that were inventoried, and that DPAS does not yet capture these changes within the JSF program automatically. To enable the capture of real-time changes to JSF asset data elements, the F-35 JPO officials stated that they have identified both a short-term and a long-term solution.

- In the short-term, the F-35 JPO plans to overwrite current property records in DPAS each quarter with more recent data captured from several different data sources, such as Contract Data Requirements Lists, the Procurement Integrated Enterprise Environment, and the Autonomic Logistics Information System.<sup>43</sup> However, many of these sources were never intended to capture all required data elements needed for financial reporting. For example, in one Contract Data Requirements List we reviewed, approximately 14 percent of the property records were missing cost information, and there was no

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<sup>42</sup>The F-35 JPO will also have to capture changes to data elements of JSF assets that DOD acquired after the completion of the initial inventory.

<sup>43</sup>Contract Data Requirements Lists are included in all F-35 contracts and identify data that the contractor is required to deliver to the F-35 JPO. The Procurement Integrated Enterprise Environment is the standard procurement system used throughout DOD, and contains contract and contract attachments from feeder systems and information created within the module of the system, including receiving reports, invoices, receipts, transfers, and losses. The Autonomic Logistics Information System consists of multiple software applications designed to support different JSF activities, such as supply chain management, maintenance, training management, and mission planning.

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information on 15 other required data elements. Also, we have reported that in some instances the Autonomic Logistics Information System lacks data elements such as estimated useful life and JSF asset serial numbers and contained inaccurate or missing data.<sup>44</sup> Because of the large volume of JSF asset property records, the F-35 JPO does not plan to validate the accuracy and completeness of the source data before entering the information into DPAS. Further, given that this overwriting process will be performed only once a quarter and considering the constant movement and use of JSF assets, data in DPAS will not be current and reliable on an ongoing basis, and errors and omissions in the data may not be detected or corrected. F-35 JPO officials acknowledged that overwriting existing property records with more recent data is only a temporary, “Band-Aid” solution, because they lack procedures to capture and validate the data from contractors’ and other DOD systems more frequently until the long-term solution is fully implemented.

- In the long-term, F-35 JPO officials stated that they are in discussions with the prime contractors to develop an interface between DPAS and contractor-managed inventory tracking systems that will allow DPAS to be updated with changes to its property records in real time. However, as of the end of November 2021, this interface was in the planning phase and is expected to take at least 2 to 4 years to become fully operational. Until then, only the contractor-managed logistics system will capture these changes.

**DPAS is missing needed data elements.** We found that the property records entered into DPAS are missing many of the data elements needed for financial reporting. As previously mentioned, one of the procedures the F-35 JPO included in the inventory process was to capture data elements that were not validated during the physical inventory count. According to F-35 JPO officials, they have encountered challenges in consistently obtaining many of the needed data elements, such as the JSF asset’s condition, estimated useful life, placed in service date, and cost information. The F-35 JPO has begun researching different sources for obtaining the missing data elements, including using software applications to extract data elements from contract attachments such as delivery orders, but F-35 JPO officials acknowledged that many of the data elements are still missing.

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<sup>44</sup>GAO, *Weapon System Sustainment: DOD Needs a Strategy for Re-Designing the F-35’s Central Logistics System*, [GAO-20-316](#) (Washington, D.C.: Mar. 6, 2020).

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In order to calculate beginning balances for financial reporting—which is a necessary step for remediating the JSF material weakness and complying with accounting standards—officials decided to move forward by entering the data elements they currently have, while entering temporary placeholders in DPAS for the missing data elements. According to F-35 JPO officials, they have recently developed business rules that allow DPAS to replace missing data element fields systematically with a predefined set of default characters such as dollar signs or hash symbols. These default characters will enable the F-35 JPO to more readily identify when data elements are missing and replace them with correct values. However, the business rules are in a draft format and have not been finalized. Until the business rules that allow for the automated identification of missing data elements are finalized, the F-35 JPO will lack the capability to obtain complete JSF property records that DOD needs for reliable financial reporting.

**DOD’s external auditors identified control issues in DPAS.** In fiscal year 2021, DOD’s external auditors issued an adverse opinion<sup>45</sup> on the suitability of the design and the operating effectiveness of DPAS controls.<sup>46</sup> DOD management takes these measures to address the risks to the reliability of financial information and other data in DPAS. For example, auditors found that management could not demonstrate how controls in DPAS were identified, implemented, and tested to assist in the accurate and timely entry of data. Without these controls, DOD management will not have assurance that JSF asset balances reported on DOD’s financial statements, which are generated from DPAS, are reliable. As of January 14, 2022, DLA has prepared corrective action plans to address the seven auditor findings and is targeting the resolution of these findings during fiscal year 2022.

DOD guidance requires an APSR to (1) provide a comprehensive log of transactions suitable for audit, with completed property records being updated within 7 business days of transaction completion, and (2) reflect the current status of 21 data elements, such as location, condition, full

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<sup>45</sup>The auditor reported that management’s description of DPAS did not fairly present the system, and that DPAS’s controls were neither suitably designed to achieve control objectives nor operating effectively as of June 30, 2021.

<sup>46</sup>Department of Defense, Defense Logistics Agency, *Service and Organization Controls 1 Report, Description of the Defense Logistics Agency (DLA) Defense Property Accountability System (DPAS), For the Period from 01 October 2020 to 30 June 2021* (Fort Belvoir, Va.: Aug. 13, 2021).

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cost, and estimated useful life, for every property record.<sup>47</sup> The F-35 JPO established DPAS as the APSR with the intention of capturing reliable property records, which will be used for establishing auditable JSF asset balances on DOD's financial statements. However, given that DOD received an adverse opinion on the design and effectiveness of DPAS, and since DPAS does not currently have the ability to capture changes to data elements without a direct interface to contractor-managed logistics systems, data in DPAS will not be reliable for financial reporting. Specifically, changes to data elements resulting from movements, receipts, and disposals of JSF assets will not be captured. Until the interface with contractors' systems is completed, DOD will not have current, accurate information to know where its JSF assets are located, what their value is, and how many there are. Additionally, the fair presentation of DOD's financial statements depends on reliable property records in DPAS. Without reliable property records, there is an increased risk of a material misstatement in DOD's reported JSF asset balances.

### F-35 JPO Has Not Developed Procedures to Report Beginning Balances

We found that the F-35 JPO has not finalized and implemented procedures to establish beginning of year balances of JSF assets for the first time. In order to calculate beginning balances, an organization first needs to determine the quantity and all amounts paid (historical costs) to acquire the assets. Historical costs should include not just the amounts paid to vendors, but all additional purchase costs, such as handling, storage, overhead, and transportation charges to the location of intended use. As previously mentioned, the F-35 JPO has encountered challenges in obtaining source documents to capture data elements, such as historical costs, for all of its JSF assets. When historical records and systems do not provide the information necessary to establish a basis for reporting beginning balances, accounting standards allow the F-35 JPO to use an alternative methodology, known as deemed cost, to establish beginning of year balances for the first time.<sup>48</sup> Under the deemed cost method, staff may use a combination of different valuation methods to

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<sup>47</sup>DOD Instruction 5000.64, *Accountability and Management of DOD Equipment and Other Accountable Property* (June 10, 2019).

<sup>48</sup>Deemed cost may be used in establishing beginning balances for the first time in the year in which the reporting entity makes an unreserved assertion that its financial statements or one or more line items are presented fairly in accordance with generally accepted accounting principles.

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value the assets.<sup>49</sup> Once all the assets have been valued and records have been uploaded to DPAS, these property records can then be used to prepare the beginning balances in the financial statements.

The F-35 JPO, in consultation with OUSD (Comptroller), acknowledged that DOD will need to use a combination of historical cost and one or more of the deemed cost valuation methods to establish the beginning of year balances for the first time for JSF assets. Additionally, the F-35 JPO officials stated that they have held discussions on which valuation methods to use, but they have not developed and documented these procedures because they are anticipating that most of the missing historical costs will be captured through the JSF asset inventory process. Accounting standards require that staff prepare and retain supporting documentation describing which valuation methodology was used and the actual source data used to calculate the cost of each asset.<sup>50</sup> Without written procedures for how the F-35 JPO staff should document the methodologies and sources used to calculate the beginning of year balances for the first time, DOD will continue to face challenges in complying with accounting standards. This in turn will hinder its ability to produce reliable and auditable financial statements.

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<sup>49</sup>Federal Accounting Standards Advisory Board, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, SFFAS No. 48 (Washington, D.C.: Jan. 27, 2016), describes alternate valuation methods that can be used for opening balances of operating materials and supplies. The allowable deemed cost valuation methods include standard price (selling price), fair value, latest acquisition cost, replacement cost, estimated historical cost (initial amount), and actual historical cost (initial amount). Federal Accounting Standards Advisory Board, *Establishing Opening Balances for General Property, Plant, and Equipment*, SFFAS No. 50 (Washington, D.C.: Aug. 4, 2016), describes alternate valuation methods that can be used for opening balances of property, plant, and equipment. The allowable deemed cost valuation methods include replacement cost, estimated historical cost (initial amount), and fair value.

<sup>50</sup>Federal Accounting Standards Advisory Board, *Implementation Guidance for Establishing Opening Balances*, Technical Release No. 18 (Washington, D.C.: Oct. 2, 2017), states that reporting entities must provide adequate supporting documentation appropriate for the deemed cost methodology selected to establish opening balances. Adequate documentation of the source of the data and the application of the methodology used will help support management's assertion that the valuations are in compliance with accounting standards in all material respects.



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**F-35 JPO Has Not Developed Procedures to Capture and Record New JSF Asset Transactions and Capture Certain Costs after Reporting Beginning Balances**

Once beginning of year JSF asset balances have been established for the first time using deemed cost, new JSF asset purchases can no longer be recorded in DPAS using a deemed cost methodology. Instead, to report the balances in the following financial reporting cycle, accounting standards require DOD to use historical costs for all new JSF assets.<sup>51</sup> Consequently, it is critical for DOD to have an effective process in place to determine and document historical costs of JSF assets on a continuous basis, prior to management reporting beginning balances using deemed cost and asserting that the balances are presented fairly in accordance with generally accepted accounting principles.

The F-35 JPO has made progress in obtaining historical cost information for new JSF asset purchases. For example, according to F-35 JPO officials, since 2018 all new contracts require contractors to include all purchase costs in the totals listed on the Material Inspection and Receiving Reports. However, we found that the F-35 JPO has not developed procedures to capture and retain new JSF asset transactions going forward, nor has it established procedures to account for new internal-use software development costs. Additionally, we found that in some instances the F-35 JPO may not capture all purchase-related transportation costs in DPAS.

**F-35 JPO Has Not Developed Procedures to Capture and Record New JSF Asset Transactions**

The F-35 JPO has not developed policies and procedures for capturing and recording new JSF asset transactions and retaining supporting documentation once the beginning balances have been established, as required by accounting standards. Since the F-35 JPO cannot use the deemed cost methodology once beginning balances have been established, it is important that it concurrently develop procedures both to establish beginning balances and capture and retain transaction information for asset balances going forward. DOD has reported that to achieve an unmodified opinion,<sup>52</sup> each reporting entity must be able to identify and record its transactions accurately and completely and

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<sup>51</sup>Federal Accounting Standards Advisory Board, *SFFAS No. 3* and *SFFAS No. 6*.

<sup>52</sup>Auditors issue an unmodified opinion when they find that the entity's financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

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demonstrate how those transactions flow to its financial statements.<sup>53</sup> Capturing relevant transactions will be a crucial step in remediating the JSF program material weakness. Examples of these transactions include, but are not limited to, asset repairs, asset disposals, inventory adjustments, changes to condition, changes to location, and contractor purchases of new JSF assets on behalf of the U.S. government. F-35 JPO and OUSD (Comptroller) officials acknowledged the need to develop procedures to capture and record new JSF asset transactions and retain supporting documentation after the beginning balances are established.<sup>54</sup> F-35 JPO officials stated that they have not developed procedures because they are prioritizing the identification of historical costs for JSF assets currently being inventoried.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks. For financial reporting, such objectives include existence and completeness of JSF asset transactions and retention of appropriate documentation of transactions.<sup>55</sup> Without written procedures for how the F-35 JPO will capture and record new JSF transactions once beginning balances have been established and retain supporting documentation, DOD will continue to face challenges in achieving compliance with accounting standards.

### **F-35 JPO Has Not Developed Procedures to Account for the Costs of New Internal-Use Software**

We found that the F-35 JPO has not developed policies and procedures to properly account for and report new JSF internal-use software development costs on DOD's financial statements, after beginning balances are reported.<sup>56</sup> JSF internal-use software development costs are

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<sup>53</sup>Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (June 2020).

<sup>54</sup>DOD Financial Management Regulation, vol. 4, ch. 4, *Inventory and Related Property* (Nov. 2017), states that recorded transactions must have adequate supporting documentation. Some of the examples given are contracts, invoices, receiving reports, payment vouchers, inventory documents, and sales records.

<sup>55</sup>[GAO-14-704G](#).

<sup>56</sup>For reporting beginning balances of JSF internal-use software, the Federal Accounting Standards Advisory Board's *SFFAS No. 10*, as amended by *SFFAS No. 50*, allows DOD to use alternative methods such as deemed cost to value internal-use software.

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incurred when DOD buys commercially available off-the-shelf software; develops its own software; or pays a contractor to design, install, implement, or update software used for the JSF program.<sup>57</sup> In February 2022, F-35 JPO personnel prepared a list identifying the names of 290 software applications that the JSF program uses that according to an F-35 JPO official meet the definition of internal-use software. Although the F-35 JPO prepared this list, we found that it did not include information needed to properly account for the internal-use software. For example, the list did not include data elements such as cost, placed in service date, useful life, owner of the software, and which component controls the software.<sup>58</sup> Without this information, the F-35 JPO cannot determine whether it is responsible for reporting each software application based on DOD's reporting criteria.<sup>59</sup> F-35 JPO officials recognized the need to develop policies and procedures to properly record and report new JSF internal-use software development costs on DOD financial statements to comply with accounting standards and DOD policy. Additionally, F-35 JPO officials stated that they have not developed procedures to record and report these costs because they are prioritizing the completion of the inventory of JSF assets currently under way.

Accounting standards and DOD policy require DOD to report internal-use software development costs on its financial statements.<sup>60</sup> Unless the F-35 JPO identifies a complete list of internal-use software that meets DOD's reporting criteria, it will be unable to determine which internal-use software should be reported as assets on the financial statements. Additionally, until the F-35 JPO develops procedures to properly account for JSF internal-use software development costs after beginning balances

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<sup>57</sup>According to accounting standards and DOD policy, internal-use software does not include computer software that is integrated into and necessary to operate equipment such as aircraft. Instead, costs of such integrated software should be included in the reported cost of the aircraft. See Federal Accounting Standards Advisory Board, *SFFAS No. 10*, and Department of Defense, Financial Management Regulation, vol. 4, ch. 27, *Internal Use Software* (Aug. 2018).

<sup>58</sup>Financial Management Regulation, vol. 4, ch. 27, states that control can include funding the software maintenance, exercising access control, and prioritizing enhancements. The DOD component that controls the software has financial reporting responsibility for that software.

<sup>59</sup>Financial Management Regulation, vol. 4, ch. 27, states that internal-use software costing \$250,000 or more must be reported as an asset. Any internal-use software below this amount must be reported as an expense rather than an asset.

<sup>60</sup>Federal Accounting Standards Advisory Board, *SFFAS No. 10*, and DOD Financial Management Regulation, vol. 4, ch. 27.

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are reported, DOD will not be able to properly report these costs, which increases the risk of a material misstatement on its financial statements.

### **F-35 JPO's Historical Cost Calculation May Not Include All Purchase-Related Transportation Costs**

We found that in some instances the F-35 JPO may not include all purchase-related transportation costs when recording the historical cost of JSF assets after beginning balances are established. For example, JSF assets are often kept in a storage facility before being shipped to their subsequent destinations, such as an overseas military base. As described by F-35 JPO officials, the current procedures for the calculation of the historical cost include only the original transportation cost incurred to deliver a JSF asset to the storage facility and do not include the costs to transport the asset later to a subsequent destination where it will be used. F-35 JPO officials acknowledged that their current process to calculate historical cost may not include purchase-related subsequent transportation costs. Furthermore, these officials stated that they were not aware of the requirement to include purchase-related subsequent transportation costs nor could they identify the percentage of JSF assets that would incur such additional costs.

DOD policy requires an asset's historical cost to include the full amount DOD paid to purchase the asset. The full amount includes the cost paid for the asset plus additional purchase costs, which may include handling, storage, overhead, negotiated profit margin, and transportation charges.<sup>61</sup> Additionally, federal accounting standards require DOD to include all purchase costs needed to bring the assets to their current location.<sup>62</sup> Since the F-35 JPO does not know the percentage of the JSF assets that incur purchase-related subsequent transportation costs, it is not able to determine if these costs would have a significant impact on JSF asset balances reported in DOD's financial statements. Until the F-35 JPO analyzes the impact of purchase-related subsequent transportation costs

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<sup>61</sup>Department of Defense, Financial Management Regulation, vol. 4, ch. 4, states that acquisition cost is the net amount "paid for the property, plus transportation costs and other ancillary costs to bring the items to their current condition and location." Department of Defense, Financial Management Regulation, vol. 4, ch. 25, *General Equipment* (May 2019), states that "recorded cost must include all amounts paid to bring the equipment to its form and location suitable for its intended use."

<sup>62</sup>Federal Accounting Standards Advisory Board, *SFFAS No. 3*, section 43, states that "Historical cost shall include all appropriate purchase and production costs incurred to bring the items to their current condition and location."

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on JSF asset amounts and records any necessary costs, there is an increased risk that the asset balances may be misstated on DOD's financial statements.

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## DOD Cannot Provide Complete and Consistent Data on Joint Programs across All ACAT Levels

In reporting the JSF program material weakness in 2019, the DOD OIG stated that the omission of JSF program assets from DOD's financial statements indicated material failures in controls for recording joint programs at DOD. When we requested a population of current joint programs from DOD as part of our review, DOD was not able to provide complete and consistent joint program information for all acquisition program categories. This limited our ability to fully examine the extent to which DOD tracks and records information about its joint programs and to conclude if there are deficiencies in internal control related to other joint programs at DOD.

DOD and its components were unable to provide a complete population of DOD joint programs because, according to OUSD (A&S) officials, DOD at the department level does not have a central data source that captures information on joint programs for all acquisition program categories. OUSD (A&S) was able to provide us with a list of ACAT I joint programs from DAVE, which OUSD (A&S) established to collect and track information on all ACAT I programs, including joint programs.<sup>63</sup> However, OUSD (A&S) officials explained that while DAVE stores some ACAT II and III joint program information, it is not programmed to require identification of ACAT II and III programs as joint programs. Therefore, OUSD (A&S) could not provide an accurate list of ACAT II and III joint programs. To obtain a complete and accurate population of ACAT II and III joint programs, OUSD (A&S) officials suggested that we contact each DOD component and request a list of its ACAT II and III joint programs. In order to validate the ACAT I joint programs that OUSD (A&S) identified and to obtain a population of ACAT II and III joint programs, we requested a list of joint programs from each DOD participating component identified on the OUSD (A&S) list of joint programs. In reconciling the joint program information that OUSD (A&S) and the components provided, we identified inconsistencies. For example:

- Two of the 20 ACAT I programs identified as joint in DAVE are not joint acquisition programs. According to component officials, two programs—the Air Force's Next Generation Air Dominance and the Navy's Next Generation Air Dominance—require collaboration

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<sup>63</sup>DAVE collects information such as the program's name, lead component, ACAT level, and program cost.

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between the Air Force and the Navy but are considered two separate programs.

- One ACAT I joint program was not identified as a joint program in DAVE. The Navy identified the Advanced Anti-Radiation Guided Missile – Extended Range as an ACAT I joint program, but in DAVE it was not identified as a joint program.

Officials at the components involved with these three programs stated that the misclassifications were due to either user error or failure to update program changes, and they have submitted corrections in DAVE to ensure accurate reflection of joint program information.

Additionally, we found that DOD's joint program information is not always consistent across DOD data sources used to report on ACAT I programs. As previously mentioned, OUSD (A&S) uses DAVE to track and report on ACAT I joint programs. However, OUSD (Comptroller) uses a different data source, the Program Resources Collection Process, to prepare the Program Acquisition Cost by Weapon System book (Weapon System book).<sup>64</sup> We found eight instances where programs identified as joint in the Weapon System book were not identified as joint programs in DAVE. For example, the Weapon System book identifies the Hercules C-130J as a joint program. According to OUSD (A&S), the Hercules C-130J is not identified as a joint program in DAVE because it is an Air Force program only, whereas the Marine Corps has a separate program called the KC-130J. DOD officials were unable to explain why there were differences between the two data sources. If left unaddressed, such differences could contribute to inconsistencies in how DOD offices identify ACAT I joint programs for financial reporting purposes.

Further, DOD policies do not include a clear definition of a joint program for tracking and reporting purposes, which may also contribute to the inconsistency in how different DOD offices and components identify joint programs. For example:

- DODI 5000.85, *Major Capability Acquisition*, states that "A joint program office will be established when a defense acquisition program involves the satisfaction of validated capability requirements from multiple DOD Components or international partners, and is

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<sup>64</sup>The Weapon System book provides summary details on major DOD acquisition programs, such as aircraft and shipbuilding, and is part of the materials that constitute the presentation and justification of the annual President's Budget.

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funded by more than one DOD Component or partner during any phase of the acquisition process.”<sup>65</sup> Though this statement identifies two elements of a joint program—fulfilling the needs and receiving funding from more than one component—this statement as written indicates that these two elements result in the establishment of a joint program office versus providing a clear definition of a joint program.

- The *Defense Acquisition Guidebook* includes the same statement as DODI 5000.85, in addition to stating that “a joint acquisition is any acquisition system, subsystem, component, or technology program with a strategy that includes funding by more than one DOD component or partner during any acquisition phase.”<sup>66</sup>

We also found differences in how officials across DOD identify an acquisition program as joint. For example, of the four DOD components and three DOD offices whose officials we spoke with, two define joint programs as programs that both fulfill the needs of and receive funding from more than one component. Four others define joint programs as programs that only fulfill the needs of more than one component; the remaining office defines joint programs as programs that receive funding from more than one component. Some DOD officials stated that the reason for the inconsistency in how a joint program is defined across various components and offices is that there is not a standardized reporting definition of a joint program across DOD.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks.<sup>67</sup> For financial reporting, such objectives include consistent, complete, and accurate reporting of joint programs. DOD’s inability to provide us with a complete population of joint programs at all ACAT levels prevented us from identifying and evaluating any deficiencies in procedures and internal control for recording joint programs at DOD and determining whether any such deficiencies might have a significant effect on DOD’s financial statement. Moreover, inconsistencies in DOD’s reported data about its joint programs, as well as differences in how DOD components define and identify joint

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<sup>65</sup>DOD Instruction 5000.85, *Major Capability Acquisition* (Aug. 6, 2020).

<sup>66</sup>Department of Defense, Defense Acquisition University, “Chapter 1 Program Management,” *Defense Acquisition Guidebook* (Fort Belvoir, Va.: Sept. 22, 2020), accessed June 28, 2021, <https://www.dau.edu/pdfviewer?Guidebooks/DAG/DAG-CH-1-Program-Management.pdf>.

<sup>67</sup>GAO-14-704G.

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programs, increases the risk that financial data used for managing and reporting joint programs will not be consistent, complete, and accurate.

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## Conclusions

Accurate financial reporting in the federal government helps ensure accountability to the public. In order to accurately present an agency's assets on its balance sheet, management should design and implement accounting policies, procedures, and controls to help ensure that all events affecting asset balances are captured and recorded in a property management system. In fiscal years 2019 through 2021, DOD's auditors reported a material weakness related to the JSF program, finding that DOD did not report JSF assets on its financial statements. The F-35 JPO has taken steps to address the material weakness by conducting an inventory to establish a baseline of the JSF assets that DOD owns and recording the inventoried JSF assets in DPAS. However, we found that because the department has not fully developed and documented a comprehensive, sufficiently detailed strategy, DOD has made minimal progress in achieving milestones it established to address the material weakness and, as a result, has made minimal progress in reporting JSF assets on its financial statements. Additionally, our review identified that the procedures that the F-35 JPO used to conduct the inventory are not properly designed to capture all JSF assets that DOD currently owns and that DPAS property records are not reliable. Further, we found that the F-35 JPO has not developed procedures for establishing and maintaining JSF asset balances on DOD's financial statements. Without taking steps to address these identified issues, DOD will not have reliable comprehensive records of its JSF assets, increasing the risk of a material misstatement in JSF asset balances reported on DOD's financial statements.

Also, as part of the JSF program material weakness, the DOD OIG stated that the omission of the JSF program assets from DOD's financial statements and lack of supporting documentation indicate material failures within controls for recording joint programs DOD-wide. DOD was unable to provide complete and consistent joint program information for all acquisition program categories, which limited our ability to fully examine the extent to which DOD tracks and records information about its joint programs and to conclude on whether there are deficiencies or material weaknesses in internal control for recording other joint programs. Additionally, inconsistencies in DOD's reported data about its joint programs, as well as differences in how DOD components define and identify joint programs, increase the risk that financial data used for managing and reporting joint programs will not be consistent, complete, and accurate.



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## Recommendations for Executive Action

We are making the following 12 recommendations to DOD:

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer, and in coordination with the Under Secretary of Defense (Comptroller), should develop and document a comprehensive strategy to address the JSF material weakness. The strategy should include (1) complete, detailed procedures; (2) time frames based on an analysis of the time needed to accomplish the procedures; and (3) resources required to design and implement the procedures. (Recommendation 1)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop and document a plan for verifying the completeness of JSF assets recorded in its APSR, including conducting an analysis and documenting the results on the feasibility of performing a wall-to-wall inventory to capture all JSF assets. (Recommendation 2)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures for performing physical inventories of JSF assets held at DOD and international partner facilities. To the extent that the procedures include the F-35 JPO relying on these facilities' staff to perform the physical inventory counts, the office should develop and document a plan that describes how the F-35 JPO plans to review the results of these inventory procedures in order to verify the existence and completeness of the recorded amounts of JSF assets at these locations. (Recommendation 3)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures for performing periodic physical inventories once the initial inventory count has been completed, including how DOD will assess the resources and time needed to conduct the inventories and any sampling methodology intended to be used. (Recommendation 4)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures that outline the steps to periodically capture and verify the accuracy and completeness of JSF asset data from contractors and other DOD sources to be recorded in DPAS until a direct interface with the prime contractors' systems has been established. (Recommendation 5)

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The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should finalize the business rules within DPAS to identify and populate default characters for missing data elements in JSF asset property records. (Recommendation 6)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer, and in consultation with the Under Secretary of Defense (Comptroller), should finalize and implement procedures to calculate deemed cost for all JSF assets that lack documentation of historical cost data. The procedures should include the preferred deemed cost valuation methodologies and steps to prepare and retain supporting documentation for all property records created using deemed cost. (Recommendation 7)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures to capture and record new JSF asset transactions and retain supporting documentation to support the recorded transactions after beginning balances are recorded using deemed cost. (Recommendation 8)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should identify a complete list of JSF software applications that meet DOD's reporting criteria. (Recommendation 9)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop policies and procedures to record and report new JSF internal-use software development costs. (Recommendation 10)

The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should analyze the significance of purchase-related subsequent transportation costs on financial reporting of JSF asset balances. As needed, the office should either document the decision and rationale for not capturing these costs or develop policies and procedures for capturing and recording JSF asset purchase-related subsequent transportation costs for financial reporting. (Recommendation 11)

The Under Secretary of Defense for Acquisition and Sustainment, in collaboration with the Under Secretary of Defense (Comptroller), should determine and document whether information on joint programs needed for reporting purposes is sufficiently maintained and whether a central

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data source and standard definition would be appropriate to help ensure consistent, complete, and accurate tracking, recording, and reporting of joint program information. (Recommendation 12)

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its written comments, reproduced in appendix I, DOD concurred with 10 of our 12 recommendations, and partially concurred with two of our recommendations. DOD also provided technical comments, which we incorporated as appropriate.

Specifically, DOD concurred with recommendations 1 through 9, as well as recommendation 12, and cited actions that it will take to address them. We believe that if implemented effectively, these actions should address these 10 recommendations.

DOD partially concurred with recommendation 10, that the Under Secretary of Defense for Acquisition and Sustainment, together with the F-35 Program Executive Officer, should develop policies and procedures to record and report new JSF internal-use software development costs. In its written comments, DOD stated that the F-35 JPO will develop policies and procedures to record and report new JSF internal-use software development costs. DOD further stated that this is dependent on the Under Secretary of Defense (Comptroller) providing guidance on the proper method to record and report internal-use software costs on the department's books.

While we agree that it is important to coordinate with the Under Secretary of Defense (Comptroller) on the proper recording and reporting of internal-use software costs on DOD's financial statements, presently the F-35 JPO has not developed policies and procedures to properly account for and report new JSF internal-use software development costs. Until the F-35 JPO develops procedures to account for and report these costs, the F-35 JPO will lack the data needed to properly account for and report internal-use software costs on DOD's financial statements. Therefore, we continue to believe that this recommendation is warranted.

DOD also partially concurred with recommendation 11, that the Under Secretary of Defense for Acquisition and Sustainment, together with the F-35 Program Executive Officer, should analyze the significance of purchase-related subsequent transportation costs on financial reporting of JSF asset balances, and that as needed, the office should either document the decision and rationale for not capturing these costs, or develop policies and procedures for capturing and recording JSF asset

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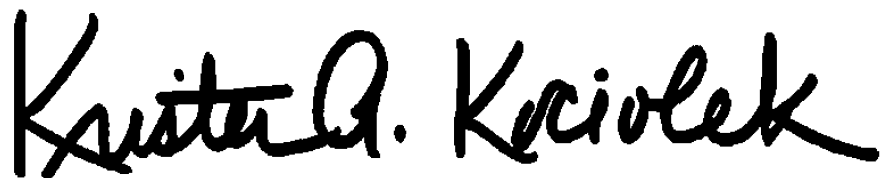
purchase-related subsequent transportation costs for financial reporting. In its written comments, DOD stated that the Under Secretary of Defense for Acquisition and Sustainment, together with the F-35 Program Executive Officer, will work to establish the materiality of transportation costs by budgeting for an analysis to be accomplished. DOD further stated that the F-35 JPO will document decisions and rationale for the treatment of purchase-related subsequent transportation costs for financial reporting and ensure procedures for recording JSF assets are compliant with accounting standards as appropriate.

We believe that DOD's planned actions are important steps. Once DOD analyzes the significance of purchase-related subsequent transportation costs on its financial statements, documents the decisions and rationale for the treatment of these costs, and effectively implements a resulting course of action that ensures procedures for recording JSF assets are compliant with accounting standards, the intent of our recommendation should be met.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Under Secretary of Defense for Acquisition and Sustainment, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who make key contributions to this report are listed in appendix II.



Kristen Kociolek  
Director, Financial Management and Assurance

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*List of Committees*

The Honorable Jack Reed  
Chairman  
The Honorable James M. Inhofe  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Gary C. Peters  
Chairman  
The Honorable Rob Portman  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

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

The Honorable Carolyn B. Maloney  
Chairwoman  
The Honorable James Comer  
Ranking Member  
Committee on Oversight and Reform  
House of Representatives

# Appendix I: Comments from the Department of Defense



ACQUISITION  
AND SUSTAINMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

Ms. Kristen Kociolek  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

April 14, 2022

Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-22-105002, "DOD FINANCIAL MANAGEMENT: Additional Actions Would Improve Reporting of Joint Strike Fighter Assets," dated March 3, 2022 (GAO Code 105002).

Enclosed is DoD's response to the subject report. My point of contact is Ms. Amber Probert, Office of the Deputy Assistant Secretary of Defense (Logistics), at 571-451-9147 or [amber.l.probert.civ@mail.mil](mailto:amber.l.probert.civ@mail.mil).

Sincerely,

CRAMER, PAUL D. Digitally signed by  
CRAMER, PAUL D. DN: cn=PAUL D. CRAMER,  
o=DoD, ou=OSD, email=Paul.D.Cramer@osd.mil,  
c=US  
AVID:1146906539 Date: 2022.04.14 12:10:00-0400

Paul D. Cramer  
Performing the Duties of Deputy Under  
Secretary of Defense for Acquisition  
and Sustainment

Enclosure:  
As stated

**GAO DRAFT REPORT DATED MARCH 3, 2022  
GAO-22-105002 (GAO CODE 105002)**

**“DOD FINANCIAL MANAGEMENT: ADDITIONAL ACTIONS WOULD IMPROVE  
REPORTING OF JOINT STRIKE FIGHTER ASSETS”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO GAO RECOMMENDATIONS**

**RECOMMENDATION 1:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer, and in coordination with the Under Secretary of Defense (Comptroller), should develop and document a comprehensive strategy to address the JSF material weakness. The strategy should include (1) complete, detailed procedures; (2) time frames based on an analysis of the time needed to accomplish the procedures; and (3) resources required to design and implement the procedures.

**DoD RESPONSE:** Concur. F-35 Joint Program Office (JPO) has been coordinating with the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)) and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) since Fiscal Year (FY) 2019 to execute a documented strategy for addressing the JSF material weakness. The OUSD(C) approved corrective action plans (CAPs) to address identified gaps and known challenges with F-35 property accountability and financial reporting for Program assets, and contain applicable milestones and estimated completion dates. F-35 JPO has increased resources dedicated to completing documented milestones, appointed people accountable to outcomes, and established cross-functional working groups to track progress in regularly scheduled meetings. JPO will continue to coordinate with OUSD(A&S) and OUSD(C), along with internal and external stakeholders, to add detail and fidelity to time frames, procedures, and resource requirements as needed.

**RECOMMENDATION 2:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop and document a plan for verifying the completeness of JSF assets recorded in its APSR, including conducting an analysis and documenting the results on the feasibility of performing a wall-to-wall inventory to capture all JSF assets.

**DoD RESPONSE:** Concur. Under the guidance of the OUSD(A&S), F-35 JPO is currently developing policies and procedures for both regularly scheduled inventory verification and record completeness in the JPO Accountable Property System of Record (APSR) to ensure capture and tracking of all JSF assets. The JPO Inventory Management Plan will incorporate analysis of feasibility for wall-to-wall inventory versus alternate inventory procedures, taking consideration to minimize disruptions to F-35 Production manufacturing operations and movement of critical parts in the Sustainment supply chain supporting F-35 flight operations.

**RECOMMENDATION 3:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures for performing physical inventories of Joint Strike Fighter (JSF) assets held at DoD and international partner facilities. To the extent that the procedures include the F-35 JPO relying on these facilities' staff to perform the physical inventory counts, the office should develop and document a plan that describes how the F-35 JPO plans to review the results of these inventory procedures in order to verify the existence and completeness of the recorded amounts of JSF assets at these locations.

**DoD RESPONSE:** Concur. The F-35 JPO is actively coordinating with the OUSD(A&S) to make revisions to the F-35 Lifecycle Sustainment Plan, and publish related JPO Program Directives and Instructions for Program inventory management, to include procedures for reporting and oversight of inventory held at DoD and international partner facilities. F-35 Program governance will be followed with the coordination of the JPO Inventory Management Plan and Memorandums of Agreement to establish roles and responsibilities for completion of physical inventories and procedures verification of Joint Strike Fighter asset records for identified DoD and partner locations.

**RECOMMENDATION 4:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures for performing periodic physical inventories once the initial inventory count has been completed, including how DoD will assess the resources and time needed to conduct the inventories and any sampling methodology intended to be used.

**DoD RESPONSE:** Concur. Under the guidance of OUSD(A&S), F-35 JPO is currently developing policies and procedures for both regularly scheduled inventory verification and sampling methodologies, to include addressing the resources and time needed to conduct the inventories.

**RECOMMENDATION 5:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures that outline the steps to periodically capture and verify the accuracy and completeness of JSF asset data from contractors and other DOD sources to be recorded in DPAS until a direct interface with the prime contractors' systems has been established.

**DoD RESPONSE:** Concur. The F-35 JPO has been coordinating with the OUSD(A&S) and the Defense Logistics Agency since FY 2019 to implement the Program accountable property system of record, Defense Property Accountability System (DPAS). With guidance from the OUSD(A&S), the JPO is in progress developing procedures for periodic capture, validation, and upload into DPAS of property data from contractor and DoD sources. The periodic data management processes will support F-35 property accountability until a direct IT system interface, or other DoD-approved solutions are established.

**RECOMMENDATION 6:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should finalize the business rules within



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**Appendix I: Comments from the Department of Defense**

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DPAS to identify and populate default characters for missing data elements in JSF asset property records.

**DoD RESPONSE:** Concur. The F-35 JPO has drafted business rules to identify and populate values for missing mandatory data elements where gaps exist in JSF property data currently available from contractors and DoD sources. JPO will coordinate draft procedures for interim processes with the OUSD(A&S) for concurrence and finalize Program business rules to support compliant JSF asset records in DPAS.

**RECOMMENDATION 7:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer, and in consultation with the Under Secretary of Defense (Comptroller), should finalize and implement procedures to calculate deemed cost for all JSF assets that lack documentation of historical cost data. The procedures should include the preferred deemed cost valuation methodologies and steps to prepare and retain supporting documentation for all property records created using deemed cost.

**DoD RESPONSE:** Concur. F-35 JPO has been working in coordination and consultation with OUSD(A&S) and OUSD(C) to identify and implement procedures to calculate deemed cost for all JSF assets that lack documentation of historical cost data. Comptroller staff and supporting resources are engaged directly with F-35 JPO and OUSD(A&S) to finalize and document preferred deemed cost valuation methodologies and steps to prepare and retain supporting documentation for all property records created using deemed cost.

**RECOMMENDATION 8:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop procedures to capture and record new JSF asset transactions and retain supporting documentation to support the recorded transactions after beginning balances are recorded using deemed cost.

**DoD RESPONSE:** Concur. With guidance and oversight from OUSD(A&S), the F-35 JPO will develop detailed procedures to capture and record new JSF asset transactions and retain supporting documentation as required to support the recorded transactions after beginning balances are recorded using deemed cost.

**RECOMMENDATION 9:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should identify a complete list of JSF software applications that meet DOD's reporting criteria.

**DoD RESPONSE:** Concur. The F-35 JPO will develop a complete list of JSF software applications that meet the DoD reporting criteria. This list will be updated yearly and be available on demand from the F-35 Chief Software Office.

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**Appendix I: Comments from the Department of Defense**

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**RECOMMENDATION 10:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should develop policies and procedures to record and report new JSF internal-use software development costs.

**DoD RESPONSE:** Partially Concur. The F-35 JPO will develop policies and procedures to record and report new JSF internal-use software development costs. This is dependent on the Under Secretary of Defense (Comptroller) providing guidance on the proper method to record and report internal-use software costs on the Department's books.

**RECOMMENDATION 11:** The Under Secretary of Defense for Acquisition and Sustainment together with the F-35 Program Executive Officer should analyze the significance of purchasing related subsequent transportation costs on financial reporting of JSF asset balances. As needed, the office should either document the decision and rationale for not capturing all purchasing related transportation these costs or develop policies and procedures for capturing and recording JSF asset purchasing related subsequent transportation costs for financial reporting.

**DoD RESPONSE:** Partially Concur. The USD(A&S) together with the F-35 Program Executive Officer will work to establish the materiality of transportation costs by budgeting for an analysis to be accomplished. The F-35 JPO will document decisions and rationale for the treatment of acquisition-related/purchase subsequent transportation costs for financial reporting and ensure procedures for recording JSF assets are compliant with accounting standards as appropriate.

**RECOMMENDATION 12:** The Under Secretary of Defense for Acquisition and Sustainment, in collaboration with the Under Secretary of Defense (Comptroller), should determine and document whether information on joint programs needed for reporting purposes is sufficiently maintained and whether a central data source and standard definition would be appropriate to help ensure consistent, complete, and accurate tracking, recording, and reporting of joint program information.

**DoD RESPONSE:** Concur. The USD(A&S), with the Under Secretary of Defense (Comptroller), will address the requirements for joint program reporting and how collecting joint program information can potentially be accomplished using Advanced Analytics (ADVANA) or other existing tools.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Kristen Kociolek, (202) 512-2989 or [kociolek@gao.gov](mailto:kociolek@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Kimberly McGatlin (Assistant Director), Rathi Bose, Benjamin Durfee, Patrick Frey, Juan Garay, Jason Kelly, Aaron Ruiz, Dacia Stewart, and Anne Thomas made key contributions to this report.

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