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SUBJ/FINANCIAL AUDIT - 2025 UPDATE//

REF/A/MSG/CNO WASHINGTON DC/041653ZNOV24//
REF/B/MSG/CNO WASHINGTON DC/222218ZSEP25//

NARR/REF A is NAVADMIN 225-24, Financial Audit - Improving Navy Readiness.
REF B is NAVADMIN 203-25, C-Note #2: Foundry Always// POC/Mr. Clint
Carroll/VCNO Special Advisor/Email: clinton.a.carroll.civ(at)us.navy.mil//

RMKS/1. In accordance with reference (a), the Fiscal Year 2024 National Defense Authorization Act (NDAA) requires the Department of War to achieve an unmodified opinion on its financial statements by 31 December 2028. An unmodified opinion, also known as a clean opinion, verifies to the American people and Congress that the Navy is a good steward of fiscal and physical assets; that from ships to aircraft to inventory to construction, every dollar is spent wisely and every asset is accounted for accurately. Audit underpins the vital role of our Foundry as outlined in reference (b)

2. Across the Navy, we have seen audit-driven progress in Information Technology (IT) systems, physical asset posture, and cost savings. In FY25, the Navy completed its cutover to Navy Enterprise Resource Planning (ERP), establishing a single financial system for the first time. This transition, combined with the retirement of 14 outdated legacy information systems identified during audit, are expected to yield \$103M in annual savings and have already returned \$80M to the mission. The conversion to ERP will further enable the Department of the Navy (DON) to fully track the cost of its construction-in-progress for Real Property, Vessels, and Aircraft, which is critical for both audit compliance and informing the budget process. A redesigned Ordnance Inventory System (OIS) Chief Financial Officer report enabled the reduction of overaged ordnance in-transit from over \$2B to less than \$200K, thereby enhancing asset visibility and increasing readiness. Additionally, the Navy identified \$750M in obsolete inventory that was incurring storage costs without providing operational benefit and identified \$2.8B worth of Operating Materials & Supplies (OM&S) Ordnance assets for reclassification from "Held for Repair" to "Excess, Obsolete, and Unserviceable," which will improve resource allocation, inventory accuracy and space management.

Finally, an audit site visit uncovered a warehouse of unrecorded avionics parts, which were then used to fill critical backorders for our Sailors on the flightline.

3. While we have made much progress, much work remains to successfully meet the NDAA mandate of 31 December 2028. Audit is not a remote function limited to Budgeting Submitting Office leaders.

Exacting stewardship of fiscal and physical assets by commanders at all echelons is a legal and moral imperative. The cost savings and efficiency improvements we have made and will continue to make have real operational impact. Audit permits us to realize efficiencies and reallocate assets. This in turn allows us to better support our Sailors and fleet for our primary mission: Warfighting.

Auditability has always been the responsibility of commands - just historically not the focus. This must change. Continuing throughout FY26 and in the years ahead, auditors will be in the field auditing assets, talking to Sailors and civilians about how they do their jobs, and requesting documents to support execution of their work.

Command expectations are:

- a. Site Visits. Senior officers and civilian leaders will attend Audit Site Visit Entrance and Exit Meetings and ensure documentation requested by the auditors is provided by the conclusion of a visit if feasible.
- b. Documentation Requests. Commands will ensure all relevant documents are provided by established deadlines. Letters of Explanation will be signed by the commanding officer if sufficient documentation is unavailable or the transaction(s) deviated from established business processes.
- c. Asset Accountability. Supplies, Equipment, and Real Property will have a pass rate of 99% or greater. If asset records are not current or accurate, the organization should immediately conduct a wall-to-wall inventory.
- d. Funds Accountability. Ensure the status of obligations, to include goods and services received and upward/downward adjustments, are recorded monthly in Navy ERP. Keep documentation in support of obligations and adjustments.
- e. IT. Control who uses Navy business systems in your command. Know who has access, ensure their access is documented and approved. Follow IT, network and system security procedures.

4. Audit is not a one-time thing, it is commanders business and our efforts must be sustained. Commanders, commanding officers, and all Navy military and civilian leaders owe it to our Sailors and our Nation to drive a culture of accountability for our fiscal and physical assets perpetually. Hard work now will ensure our Foundry delivers the readiness we need when we need it.

5. Released by ADM J. W. Kilby, Vice Chief of Naval Operations.//

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