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Strengthening Navy Financial Accountability through Property Plant &Equipment (PP&E) Reform

June 2026

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ABSTRACT

This thesis examines how deficiencies in Plant, Property and Equipment (PP&E) accounting and acquisition practices affect the Department of War, specifically the Department of the Navy's (DON) ability to achieve a clean financial audit and proposes reforms to improve audit readiness and accountability. This study adopts both quantitative and qualitative case study approaches, combining document analysis, policy review, and semi-structured interviews with experts.

Using internal DON data and audit findings from FY2018–FY2024, we assess systemic deficiencies affecting weaknesses, controls, and financial processes. Our analysis evaluates workforce structure, system interoperability, and process compliance on audit outcomes.

Findings show audit discrepancies mainly stem from (i) poor documentation controls, (ii) inconsistent business process application, (iii) system gaps between Navy ERP and feeder systems, and (iv) high personnel turnover. Quantitatively, process and documentation errors account for about 62% of repeat findings, with system issues accounting for 28%.

Results suggest that the Navy needs targeted workforce development, system modernization, and stronger internal controls aligned with DoW FIAR priorities. A shift to standardized processes, better training, and improved data governance can reduce deficiencies and boost audit reliability.

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ABOUT THE AUTHORS

LCDR Michelot Joseph was born in Saint Louis du Nord, Haiti, immigrated to the United States in 2007, and enlisted in the U.S. Navy in 2009. He earned a bachelor's degree in accounting from University of Maryland, University College in 2015 and was commissioned as a Supply Corps Officer in 2017 through the Officer Candidate School program**.** His key positions include Flag Mess Leading Petty Officer, Lead Indoctrination Coordinator, Assistant Command Financial Specialist, and Assistant Command DAPA at COMPACFLT, Supply Officer aboard USS TOPEKA, Contracting Specialist at NAVAIR, and Stock Control and Financial Officer aboard USS GERALD R. FORD. Career highlights include completion of advanced education and professional training, such as Certified Contracting Professional**,** Certified Executive Chef**,** Lean Six Sigma Yellow Belt, and graduate of Joint Aviation Supply and Maintenance Material Management, Drug and Alcohol Program Advisor Course, Command Fitness Leader Course, and the U.S. Navy Insight into Industry Management Course at University of Virginia's Darden School of Business**.** He married his wife, Jacqueline Mendoza, in June 2020 and they have one son, Stavros Joseph. He will be reporting to NAVSUP Weapon Systems Support (WSS) Philadelphia following graduation.

LCDR Lollita Russell was born in Kingston, Jamaica, and joined the United States Navy in 2011. Recognized for her leadership, dedication, and logistics expertise, LCDR Russell has served in a variety of operational and shore assignments, including USS Theodore Roosevelt (CVN 71), USS Wasp (LHD 1), USS Virginia (SSN 774), Navy Region Mid-Atlantic, and NAVSUP Fleet Logistics Center Sigonella, Italy, demonstrating excellence in supply chain management, financial accountability, and operational logistics. Career highlights include earning and completing a Master of Science in Business Financial Management at the Naval Postgraduate School. She has been recognized with the Navy Commendation Medal, Navy and Marine Corps Achievement Medal, and various unit and service awards for outstanding performance and leadership. Currently residing in Monterey, California, with her husband, Marcel, and daughter, Amaia, LCDR Russell is slated to transfer to the H-60 Multi-Mission

Helicopter Program Office (PMA-299) at NAVAIR, Patuxent River, Maryland, where she will serve as the Deputy Business Financial Manager.

Lieutenant Anthony "Spidey" Webb is a Supply Corps Officer currently assigned to the Naval Postgraduate School, where he is completing a Master of Science in Business Financial Management. A native of Dallas, Texas, he enlisted in the U.S. Navy in 2003 as a Logistics Specialist Submarines and later earned bachelor's degrees from Columbia Southern University and the University of Maryland. Commissioned in 2016 through the Supply Corps Limited Duty Officer program, he redesignated to the 3100 community in 2020. His sea tours include assignments aboard USS *La Jolla* (SSN 701), USS *Alaska* (SSBN 732), USS *Nevada* (SSBN 733), USS *Providence* (SSN 719), and most recently USS *America* (LHA 6). Ashore, he has served at COMSUBRON 15, Navy Personnel Command (PERS-403), and Commander Task Force 69/Commander Submarine Group 8. His personal awards include six Navy and Marine Corps Commendation Medals, six Navy and Marine Corps Achievement Medals, and multiple campaign and unit awards. After graduation, he will report to his next assignment while continuing to serve alongside his wife, Yasmine.

ACKNOWLEDGMENTS

We gratefully acknowledge the faculty members who supported us throughout this research. Professor Wang, Professor Steffens, Professor Sullivan, and the NAVAIR expert we interviewed for this research, each played a meaningful role in shaping our thinking, challenging our assumptions, and guiding us toward a stronger and more disciplined final product. Their commitment to our success made this work possible.

We also want to recognize the camaraderie and shared effort within our cohort, which pushed us to think critically and stay motivated. Most importantly, we want to thank God and our families for their encouragement and understanding as we balance academic demands with personal and professional responsibilities.

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TABLE OF CONTENTS

LIST OF FIGURES

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LIST OF TABLES

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LIST OF ACRONYMS AND ABBREVIATIONS

APSR	Accountable Property System of Record
CIP	Construction in Process
DoD	Department of Defense
DON	Department of the Navy
FIAR	Financial Improvement and Audit Readiness
FMR	Financial Management Regulations
GAO	Government Accountability Office
GFP	Government Furnished Property
JPO	Joint Program Office
JSF	Joint Strike Fighter
NFR	Notice of Findings and Recommendations
OMB	Office Management Budget
PP&E	Property, Plant, and Equip

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DISCLOSURES

Generative artificial intelligence (genAI) tools were used in several stages of this research to support idea development, data organization, and refinement of written and visual materials. NotebookLM was utilized to brainstorm analytical approaches, compile and synthesize information, and extract quantitative data from Navy and Department of Defense (DoD) audit reports. These uses supported the efficiency of data handling but did not replace independent analysis, interpretation, or judgment.

Microsoft Copilot was employed to compare thesis structures, evaluate alternative angles of approach for each chapter, and assist with proofreading and clarification of complex ideas. Copilot also provided recommendations on appropriate graph, chart, and table formats to enhance the clarity and accuracy of presenting audit findings. In addition, genAI tools were used to polish the design of visual elements to ensure they met academic standards for readability and coherence.

No generative AI system was used to generate original arguments, draw conclusions, or interpret audit results on behalf of the authors. All substantive analysis, methodological decisions, and final interpretations reflect the authors' independent scholarly work. A list of prompts and GenAi outputs has been provided on a separate document.

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I. INTRODUCTION

The Department of War (DoW) manages one of the largest and most complex asset portfolios in the federal government, with the Department of the Navy (DON) responsible for a substantial share of the enterprise's Property, Plant, and Equipment (PP&E) (DoDIG, 2024; GAO, 2025). Despite significant investments in financial improvement initiatives, the DoW has yet to obtain a clean audit opinion, and PP&E remains one of the most persistent barriers to auditability. The Navy continues to face recurring material weaknesses in asset accountability, valuation, documentation, and internal controls—issues that directly affect financial transparency, resource allocation, and long-term modernization planning.

Across multiple audit cycles, findings from the Government Accountability Office (GAO), the DoD Office of Inspector General (DoDIG), and independent public accounting firms consistently highlight systemic deficiencies in the Navy's PP&E processes. These include incomplete or inaccurate asset records, inconsistent valuation methodologies, insufficient supporting documentation, and fragmented business processes across acquisition, logistics, and financial management communities. These challenges are further compounded by system interoperability gaps between the Navy Enterprise Resource Planning (ERP) and its feeder systems, as well as workforce turnover in key financial management roles. Collectively, these issues hinder the Navy's ability to demonstrate the Existence and Completeness (E&C) of its assets—two foundational assertions required for reliable federal financial reporting.

This research builds upon a growing body of literature examining federal financial management, audit remediation, and PP&E accountability within the DoD. Prior studies from GAO and Financial Improvement and Audit Readiness (FIAR) initiative emphasize the need for standardized processes, improved data governance, and strengthened internal controls to support audit readiness across the Department (GAO, 2024; DoD, 2017). While progress has been made in areas such as inventory management and financial systems modernization, PP&E remains a critical and unresolved challenge. The Navy's recurring audit disclaimers underscore the importance of understanding the

root causes of these deficiencies and identifying reforms that can meaningfully improve audit outcomes.

To address this gap, we analyze unclassified audit reports, federal financial management regulations, acquisition policy documents, and insights from subject matter experts. Our review identifies recurring patterns in PP&E-related audit findings and evaluates the effectiveness of current remediation efforts. Consistent with previous research, preliminary evidence indicates that documentation gaps, valuation inconsistencies, and insufficient internal controls are the primary drivers of PP&E audit failures. These issues are exacerbated by decentralized processes and the absence of standardized, enterprise-wide accountability mechanisms.

In addition to diagnosing systemic weaknesses, this study evaluates targeted reforms that could enhance PP&E accountability and strengthen the Navy's audit posture. These include improvements in acquisition-to-accounting integration, modernization of legacy systems, enhanced training pipelines for financial management personnel, and the adoption of standardized processes aligned with DoD Financial Improvement and Audit Readiness (FIAR) priorities. By synthesizing policy requirements, audit evidence, and practitioner perspectives, we develop actionable recommendations to support the Navy's progress toward a clean audit opinion.

In summary, this thesis contributes to the broader DoD auditability effort by providing a focused analysis of PP&E challenges within the Department of the Navy and proposing mission-aligned reforms to address them. Strengthening PP&E accountability is essential not only for audit readiness but also for improving lifecycle management, sustainment planning, and long-term resource stewardship. Given the scale of the Navy's PP&E portfolio and its importance to warfighting readiness, the need for accurate, reliable financial data is both operationally significant and fiscally imperative.

II. BACKGROUND

This chapter establishes the historical, institutional, and operational conditions that explain why Navy PP&E remains the dominant barrier to auditability, thereby directly motivating our research questions on systemic failure, internal control weaknesses, and acquisition-driven audit risk. Using a hierarchical approach, it reviews the evolution of federal financial accountability requirements, the origins of the DoD audit mandate, the structural barriers that continue to impede progress, and the strategic implications of unreliable PP&E data. This context provides a foundation for understanding why reforming PP&E policy and acquisition oversight is essential not only for auditability but also for operational superiority and long-term resource stewardship.

A. EVOLUTION OF FEDERAL FINANCIAL ACCOUNTABILITY AND DOD AUDIT CHALLENGE AS A STRUCTURAL PROBLEM

The evolution of federal financial accountability provides the essential backdrop for understanding why the Department of Defense, and the Navy in particular, continues to struggle with auditability. Before examining the Navy's PP&E challenges, it is necessary to trace how federal audit requirements developed, how DoD became an outlier among federal agencies, and why decades of reform efforts have not resolved long-standing structural weaknesses. Figure 1 provides a visual representation of the Federal Financial Accountability timeline followed by an outline of the major legislative milestones, persistent audit disclaimers, and department-wide initiatives that shaped today's audit environment.

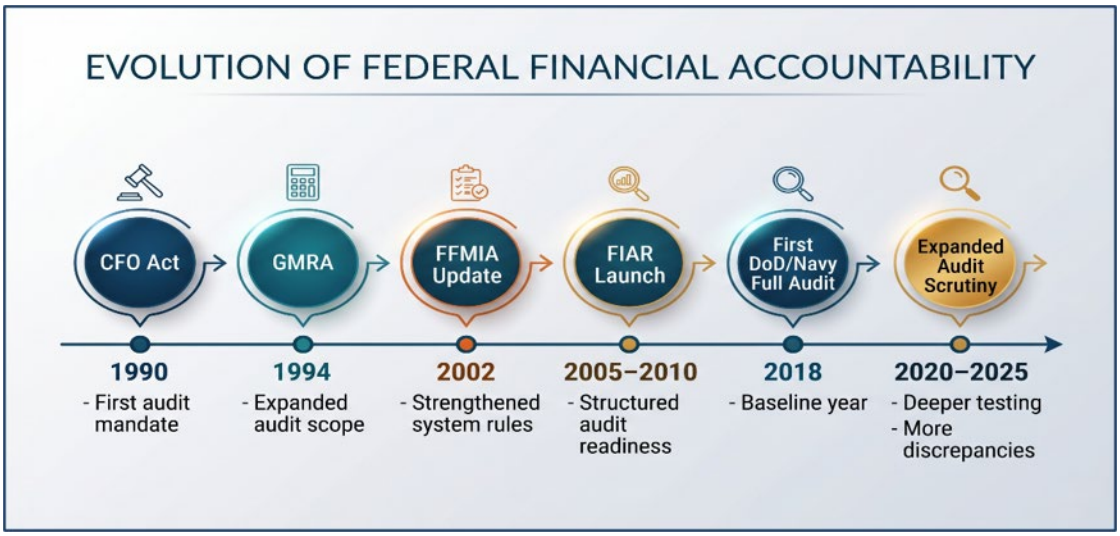

Figure 1. Timeline of Federal Financial Accountability Reforms

1. The Chief Financial Officer (CFO) Act Of 1990 and the Federal Audit Mandate

The requirement for federal agencies to produce auditable financial statements was formally established with the enactment of the Chief Financial Officers Act of 1990. The legislation sought to improve financial accountability, strengthen internal controls, and enhance the reliability of information used by policymakers and the public. Since the Act's passage, most major federal agencies have successfully achieved and sustained unmodified, or "clean," audit opinions, signaling that their financial statements fairly present their financial position in accordance with applicable accounting standards.

2. Three Decades of Disclaimers (Dod Is Still the Outlier)

Despite this government-wide progress, the Department of Defense remains a notable exception. More than three decades after the CFO Act, the Department continues to receive disclaimers of opinion on its consolidated financial statements, indicating that auditors are unable to obtain sufficient appropriate evidence to form an opinion. Oversight bodies have consistently emphasized that these outcomes are not isolated failures, but symptoms of long-standing systemic weaknesses embedded within the Department's financial management environment. The persistence of these disclaimers is particularly significant given the scale and complexity of the Department's operations. The Department of Defense accounts for approximately half of federal discretionary

spending and controls the vast majority of the federal government's physical assets (Government Accountability Office [GAO], 2024). As a result, weaknesses in DoD financial reporting have implications far beyond compliance, affecting stewardship of taxpayer resources, congressional oversight, and the credibility of budgetary decision-making (Bertuca, 2018).

Over time, the Government Accountability Office has designated DoD financial management as a high-risk area, citing ineffective processes, aging systems, and inadequate internal controls. Although DoD leadership has periodically demonstrated commitment to improving audit outcomes, GAO findings continue to highlight challenges related to incomplete corrective actions, insufficient monitoring, and limited demonstration of sustained results. On a recent financial readiness assessment, Department of Defense has reported that approximately $1.5 trillion in gross costs could not be verified due to difficulties reconciling expenses, validating subledger systems, and recording transactions accurately (Department of Defense Inspector General [DODDIG], 2024). These findings underscore that the Department's audit difficulties are structural in nature rather than episodic or attributable to short-term execution gaps.

3. The Financial Improvement and Audit Remediation Initiative

Recognizing the depth of these challenges, the Department initiated a formal, department-wide approach to audit readiness through the Financial Improvement and Audit Readiness (FIAR) initiative. FIAR was designed to institutionalize audit readiness by aligning financial reporting processes, internal controls, and supporting documentation with audit standards (DoD, 2017). While FIAR has produced incremental improvements, particularly in budgetary reporting, it has not yet enabled the Department to overcome the most persistent barriers to auditability, which is its asset accountability and valuation (GAO, 2025).

B. PROPERTY, PLANT, AND EQUIPMENT (PP&E) AS THE CORE AUDIT BARRIER

Having established the broader federal and DoD audit context, the chapter now turns to the asset category that most directly drives the Navy's audit challenges: Property, Plant, and Equipment (PP&E). PP&E represents the largest and most complex portion of

the Navy's balance sheet, and its characteristics make it uniquely vulnerable to audit failure (DoN, 2025). The subsections that follow define PP&E within federal accounting standards, explain why it dominates Navy financial reporting, and highlight the valuation and documentation issues that make it the Department's most persistent barrier to auditability.

1. What PP&E Means in Federal and Navy Accounting

Within the broader DoD audit landscape, Property, Plant, and Equipment (PP&E) has emerged as the most consequential and persistent obstacle to achieving auditability. Federal accounting standards define PP&E as tangible assets with an estimated useful life of two years or more that are acquired for use in operations rather than for resale (FASAB, SFFAS No 6). In the defense context, PP&E includes an expansive range of mission-critical assets, such as ships, aircraft, combat vehicles, facilities, and specialized equipment.

2. Why PP&E Dominates the Navy Balance Sheet

The Navy's reliance on asset-intensive platforms makes PP&E particularly dominant within its financial statements. Unlike many civilian agencies, whose balance sheets are driven by payroll or programmatic expenditures, the Navy's financial position is heavily shaped by the acquisition, operation, and sustainment of high-value physical assets (GAO, 2024). As oversight reports have repeatedly noted, the Department of Defense controls close to 50% of the federal government's total physical assets, with a substantial portion attributable to the United States Navy (GAO, 2024). Figure 2 below visually represents the Navy's asset class proportionality.

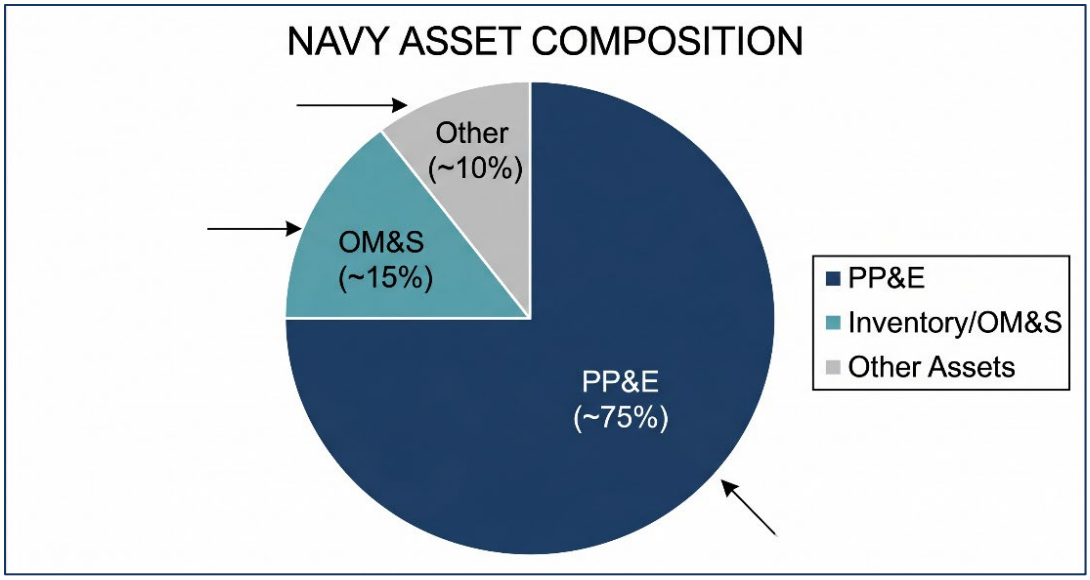

Figure 2. Why PP&E Dominates the Navy Balance Sheet. Adapted from GAO, 2024.

3. The Valuation Problem: Historical Cost Vs. Reality

PP&E presents unique audit challenges that distinguish it from other financial statement items. Assets are geographically dispersed, often deployed globally, and managed across decentralized commands (DoDIG, 2024). According to GAO, many assets were acquired decades ago, predating modern financial systems and standardized data requirements (GAO, 2016). As a result, historical acquisition cost data is frequently incomplete or unavailable, complicating valuation and documentation efforts. These characteristics make PP&E especially vulnerable to failures in existence, completeness, and valuation assertions during financial statement audits.

The valuation of legacy military assets further amplifies these challenges. Federal accounting standards require PP&E to be reported at historical cost, yet the absence of reliable records forces the use of estimation techniques and alternative valuation methodologies (GAO, 2025). While such approaches are permitted under certain conditions, they introduce additional judgment and documentation requirements that are difficult to execute consistently at scale. Oversight bodies have repeatedly identified unsupported valuations and inconsistent methodologies as contributing factors to DoD audit disclaimers.

Given both its financial magnitude and inherent complexity, PP&E has become the focal point of audit readiness efforts across the Department. Therefore, understanding the challenges associated with PP&E policies and processes is essential to explaining the persistence of audit disclaimers within the Navy and the Department of Defense as a whole.

4. The Regulatory and Oversight Architecture Governing Navy PP&E

Understanding the Navy's PP&E challenges also requires examining the regulatory and oversight framework that governs how asset data must be recorded, controlled, and reported. This framework spans federal accounting standards, DoD-level financial regulations, and independent oversight by GAO and the DoD Inspector General. The next subsections describe these requirements and illustrate how gaps in implementation—rather than gaps in policy—continue to undermine the Navy's ability to produce auditable PP&E information.

5. Federal Accounting Standards (FASAB)

The Navy's management of PP&E operates within a dense regulatory and oversight environment shaped by federal accounting standards, Department of Defense regulations, and external review bodies. At the federal level, the Federal Accounting Standards Advisory Board establishes generally accepted accounting principles for federal entities, including standards governing the recognition, measurement, and disclosure of PP&E. These standards are operationalized through guidance such as the GAO Financial Audit Manual, which provides detailed criteria auditors use to evaluate compliance.

6. Dod Financial Management Regulation (FMR)

Within the Department of Defense, these accounting standards are translated into operational requirements through the DoD Financial Management Regulation. The DoD Financial Management Regulation (FMR) serves as the authoritative mechanism through which federal accounting standards are translated into binding, department-wide requirements governing the recognition, valuation, control, and reporting of Property, Plant, and Equipment (DoD Financial Management Regulations [FMR], 2024). For the

Department of the Navy, FMR Volume 4 establishes capitalization thresholds, asset classification criteria, depreciation methodologies, documentation requirements, and internal control responsibilities across the PP&E lifecycle.

Collectively, these provisions are intended to align acquisition, logistics, and financial management activities to produce auditable asset data capable of supporting management assertions under federal financial reporting standards. Despite the clarity of this regulatory framework, effective implementation of FMR requirements within the Navy has proven persistently elusive. Fragmented system architectures, inconsistent enforcement mechanisms, and entrenched legacy business practices inhibit the capture of reliable PP&E data at the point of acquisition and its sustainment throughout the asset lifecycle. Consequently, PP&E records frequently lack complete acquisition cost data, verifiable ownership documentation, or consistent linkage between operational and financial systems, directly undermining auditability and contributing to recurring disclaimers of opinion.

7. Oversight And Accountability (GAO AND DOD IG)

The Navy's PP&E reform trajectory is further shaped by external oversight conducted by the Government Accountability Office and the Department of Defense Inspector General. Through independent audits and evaluations, these organizations assess the Navy's adherence to federal accounting standards, effectiveness of internal controls, and progress toward auditability. Their findings consistently identify deficiencies in policy execution rather than policy design, emphasizing the need for acquisition-aligned data capture, enforceable internal controls, and system integration. Together, these oversight assessments reinforce the conclusion that resolving long-standing PP&E audit deficiencies requires structural implementation reform, not additional regulatory guidance.

C. INTERNAL CONTROL FAILURE IN THE NAVY PP&E ENVIRONMENT

While the regulatory framework establishes clear expectations, the Navy's persistent audit failures stem largely from weaknesses in internal control execution. These weaknesses manifest across systems, processes, and organizational structures,

creating conditions in which PP&E data becomes fragmented, incomplete, or unverifiable. The following subsections examine the most significant internal control breakdowns to include system fragmentation, failures in existence and completeness testing, and decentralized property book management that collectively prevent the Navy from achieving audit readiness.

1. Fragmented Systems and The Single Source Of Truth Problem

Outdated systems and disparate data sources hinder the Navy's ability to track acquisition information and maintain accurate Property, Plant, and Equipment (PP&E) records (GAO, 2024). Independent operation of logistics, financial, and program systems results in data gaps and inconsistencies. This fragmented environment prevents the creation of a unified, reliable record. Reports from the Government Accountability Office (GAO), Department of Defense Inspector General (DoDIG), and Financial Improvement and Audit Readiness (FIAR) frequently identify this fragmentation as a significant barrier to audits, citing mismatched asset lists and incomplete documentation across commands.

These systemic issues hinder the Navy's ability to demonstrate Existence and Completeness during audits. When data does not flow seamlessly from acquisition through acceptance to sustainment, the Navy cannot readily verify asset ownership, location, or record accuracy. This persistent fragmentation is frequently identified as a primary cause of the Navy's material weaknesses and continues to present a significant challenge to achieving audit readiness.

2. Existence and Completeness (E&C) As the Primary Audit Failure Mode

Persistent issues with documentation and inconsistent asset records hinder the Navy's ability to demonstrate the key audit assertions of Existence and Completeness (DoDIG, 2024). Reports from the Government Accountability Office (GAO), Department of Defense Inspector General (DoDIG), and Financial Improvement and Audit Readiness (FIAR) frequently indicate that auditors encounter difficulties verifying whether assets recorded in official records physically exist or whether all required assets are included in financial statements. Numerous commands face challenges, including missing acceptance

documentation, outdated property records, and incomplete valuation data, which create uncertainty about the Navy's asset ownership and locations.

These challenges stem from underlying structural deficiencies within the Navy's overall Property, Plant, and Equipment (PP&E) environment (DoN, 2019). When acquisition, logistics, and financial data are not properly aligned, the Navy is unable to reliably track assets throughout their lifecycle, from procurement through utilization and maintenance. As a result, auditors frequently identify unsupported account balances, unverified asset locations, and incomplete transaction records. The continued inability to satisfy Existence and Completeness requirements remains a primary contributor to the Navy's material weaknesses and constitutes a significant obstacle to achieving audit readiness.

3. Decentralized Property Book Management

Decentralized property book management results in inconsistent Property, Plant, and Equipment (PP&E) records across the Navy. Asset tracking responsibilities are distributed among various commands, program offices, warfare centers, and contractors, each employing distinct processes and oversight mechanisms (DoN, 2019). Although SECNAVINST 5200.45A establishes accountability requirements, reports from the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoDIG) indicate inconsistent application, leading to uneven recordkeeping and missing documentation. The use of local spreadsheets, command-specific tools, and contractor systems in isolation further impedes the maintenance of standardized and accurate property records.

This decentralized structure complicates audit processes, as no single entity maintains comprehensive visibility over asset custody or lifecycle events. When property transfers, disposals, or contractor-held assets are not uniformly recorded, auditors encounter incomplete histories and conflicting information. GAO and DoDIG frequently cite these challenges as contributing factors to the Navy's material weaknesses, noting that decentralized management hinders the production of reliable, audit-ready PP&E records. Enhancing oversight and standardizing processes are essential measures to strengthen internal controls and improve audit readiness.

D. ACQUISITION DECISIONS AS ACCOUNTING RISK MULTIPLIERS

Beyond internal controls, the Navy's acquisition environment introduces additional risks that complicate PP&E accountability (DoN, 2024). Decisions made early in the asset lifecycle such as procurement, acceptance, and contractor management have long-term consequences for financial reporting accuracy. The subsections that follow explore how lifecycle misalignment and contractor-held property create enduring audit vulnerabilities, reinforcing the structural nature of the Navy's PP&E challenges.

1. Cradle-To-Grave Asset Lifecycle Misalignment

Discrepancies in the asset lifecycle introduce accounting risks before equipment is included in the Navy's property system. Acquisition, logistics, and financial teams frequently operate on separate timelines and utilize distinct documentation, leading to incomplete or inconsistent records at critical stages (GAO, 2024). Reports from GAO, DoDIG, and FIAR consistently highlight that acceptance documents, valuation data, and custody information are often absent when assets transition from procurement to operational use. The absence or incompleteness of early records impedes the Navy's ability to generate accurate Property, Plant, and Equipment (PP&E) entries at later stages.

Such misalignments hinder the maintenance of reliable asset histories and significantly affect auditability. Inconsistent documentation from acquisition through sustainment prevents auditors from verifying asset receipt, responsibility, and accurate recording. The PPBE Reform Commission identifies these lifecycle gaps as a persistent source of financial risk, noting that acquisition decisions may create enduring challenges for internal controls (Commission on PPBE Reform, 2024). Consequently, cradle-to-grave misalignment remains a primary contributor to the Navy's material weaknesses. Figure 3 provides a visual representation of the cradle-to-grave PP&E life cycle.

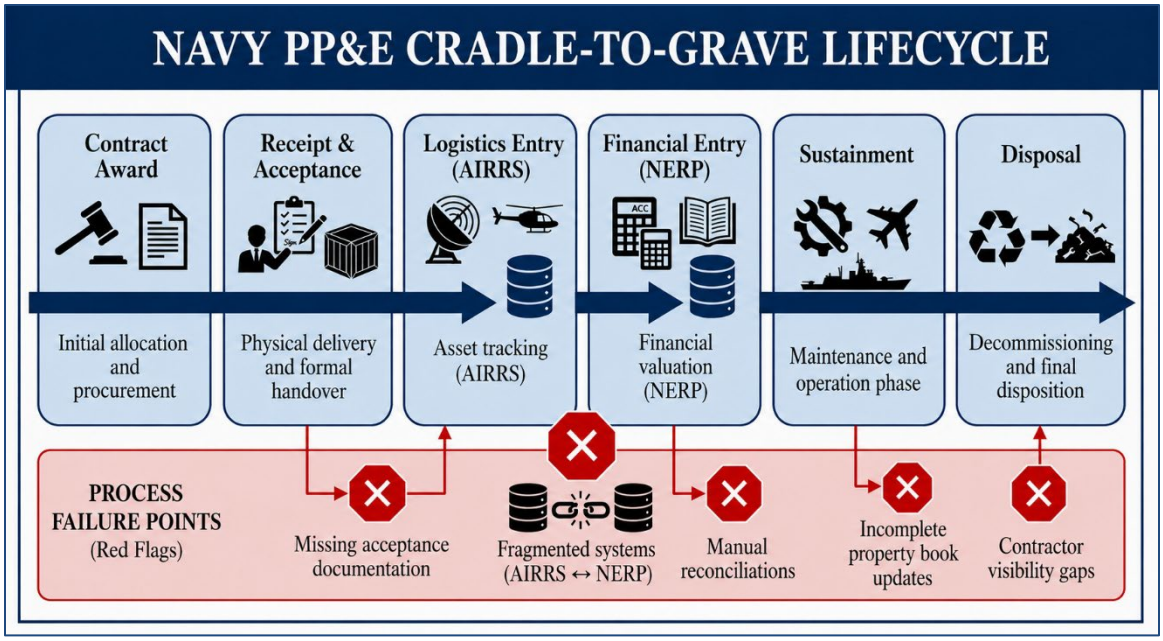

Figure 3. The PP&E Lifecycle and Where Internal Controls Break Down. Created with Gemini, 2026.

2. Contractor-Held Property and Visibility Gaps

Contractor-held property introduces additional accounting risk because the Navy often lacks comprehensive visibility into externally managed assets. Reports from the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoDIG) consistently identify deficiencies in government-furnished property records, emphasizing that program offices often rely on contractor systems that are not integrated with Navy financial or logistics platforms. When contractor inventories are incomplete or outdated, the Navy is unable to readily verify asset locations, assess their condition, or confirm their existence.

Limited visibility into contractor-held property complicates audit processes can hinder verification of asset existence and completeness. Auditors frequently identify discrepancies between contractor inventories and Navy records, as well as missing documentation for asset transfers, repairs, or disposals. GAO reviews of major acquisition programs, particularly those involving multiple contractors, indicate that oversight of government-furnished property remains a persistent weakness within the Department. Enhancing visibility into contractor-managed assets is essential for

strengthening internal controls and mitigating accounting risks in complex acquisition environments.

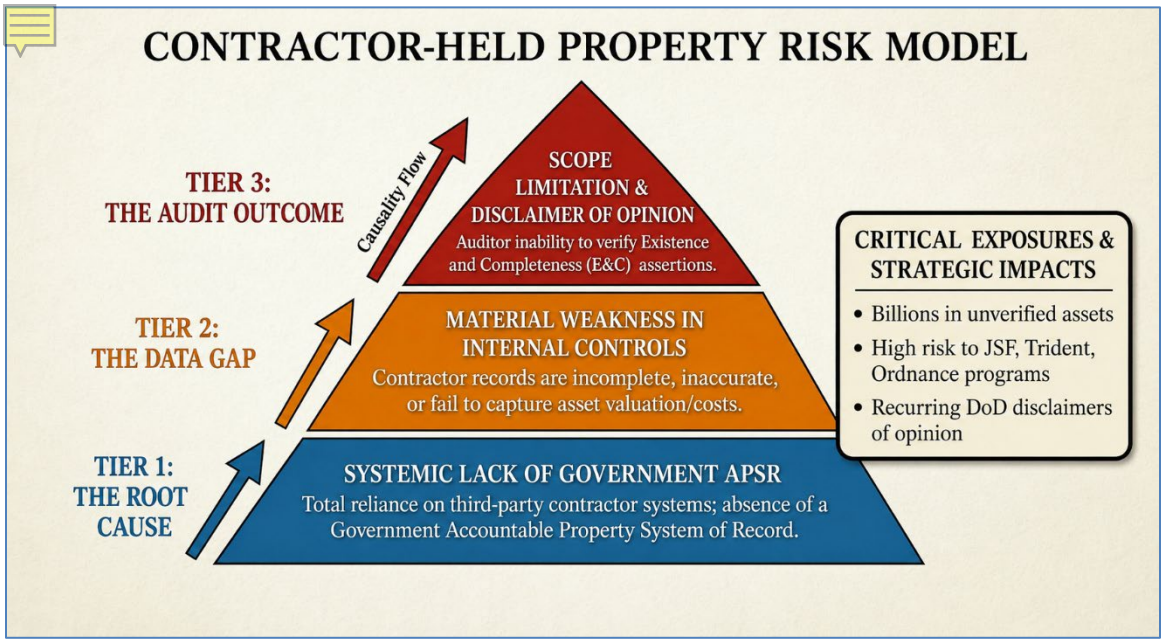

Figure 4. Root Cause Risk Model of Contractor-Held Property. Created with ChatGPT, 2026.

E. IMPLICATIONS FOR READINESS, TRUST, AND NATIONAL SECURITY

The consequences of PP&E audit deficiencies extend far beyond financial reporting. Weak asset accountability affects resource allocation, congressional oversight, operational readiness, and ultimately national security. The final subsections of this chapter examine these broader implications, demonstrating why resolving PP&E weaknesses is not merely a compliance requirement but a strategic imperative for the Navy and the Department of Defense.

1. Resource Misallocation and Redundant Procurement

The consequences of unresolved PP&E audit deficiencies extend beyond financial reporting. Inaccurate or incomplete asset information can lead to inefficient resource allocation, such as procuring equipment that already exists or failing to replace assets that are obsolete or unavailable. Such inefficiencies undermine fiscal stewardship and strain limited defense resources.

2. Congressional Trust and Budgetary Risk

Audit outcomes also influence congressional trust and oversight. For example, in fiscal year 2025, the DoD Inspector General again issued a disclaimer of opinion, indicating that auditors could not obtain sufficient evidence to assess the accuracy of the Department's financial statements (DoDIG, 2026). Entities receiving this disclaimer include the Navy General Fund, Army, Air Force, and major working capital funds and represented approximately 64 percent of DoD budgetary resources and at least 43 percent of total assets (DoDIG, 2026). Additionally, unsupported accounting adjustments, totaling over $859 billion in the final two quarters of fiscal year 2025 further obscure the traceability of taxpayer funds (DoDIG, 2026). The inability to verify key balances places Congress in a constrained oversight position. When accounts payable, inventory, and acquisition program balances cannot be substantiated, legislators cannot reliably evaluate funding requests or assess the proper use of prior appropriations. These conditions contribute to budgetary restrictions such as funding fences, reprogramming limitations, and enhanced reporting requirements, reducing the Department's flexibility to respond to emerging threats.

3. Operational Readiness and Asset Visibility

Asset visibility is closely tied to operational readiness. The ability to deploy forces rapidly and sustain operations depends on accurate knowledge of asset availability and condition. When PP&E information cannot be relied upon, decision-makers face increased uncertainty, potentially affecting mission effectiveness and national security objectives.

Ultimately, audit failures are not merely administrative shortcomings. They undermine confidence in defense governance, constrain operational flexibility, and weaken the strategic foundation of military power. Without trustworthy financial data, particularly in the management of Property, Plant, and Equipment, the Department of Defense cannot fully assure Congress or the American public that resources are translating into sustained and credible military capability.

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III. METHODOLOGY

A. INTRODUCTION

This research methodology is grounded in a systematic mixed-method case study approach and interviews with subject matter experts (SMEs) to examine how deficiencies in Property, Plant, and Equipment (PP&E) accounting and acquisition practices affect the Department of War's ability to achieve a clean financial audit. PP&E comprises a substantial portion of the DoD, specifically the Department of the Navy's (DON), yet longstanding issues with document completion, acquisition financial integration, weaknesses in asset valuation, and documentation completeness, along with weak execution of internal controls, have resulted in recurring audit disclaimers. A qualitative and quantitative approach is appropriate for this research, given the complexity of DoD financial systems and the strict regulations that drive audit compliance. Interviews were conducted with DoD SMEs specializing in auditing PP&E accountability barriers and opportunities for reform. This dual-method approach with mixed-method case study and interviews enables triangulation across oversight findings, regulatory frameworks, and SME insight.

B. MIXED-METHOD CASE STUDY APPROACH

This study employs a mixed-method case study approach centered on the DoD PP&E audit readiness as a defined institutional challenge. This case study design is especially appropriate because PP&E auditability involves interconnected processes across acquisition, logistics, financial management, contracting, and internal controls—systems that cannot be meaningfully isolated or analyzed through purely quantitative means. The case study approach enables the examination of PP&E accountability within its real-world operational, organizational, and regulatory context, where structural complexity, cultural dynamics, system interoperability issues, and policy execution all shape audit outcomes.

The mixed-methods design integrates:

- ***Qualitative analysis*** will be used to interpret policy, audit findings, and practitioners' perspectives.

- ***Quantitative analysis*** will be used to assess patterns, frequency, and trends in audit deficiencies.

Qualitative and quantitative case study research is well-suited for investigating complex organizational problems in which variables overlap, evolve, and interact in ways that resist controlled measurement. Unlike experimental or survey-based methods, the case study framework allows the researcher to explore how institutional context influences PP&E financial reporting, how long-standing control deficiencies persist, and how stakeholders at different levels interpret and implement audit-related guidance. This position is essential for PP&E because many of the Navy's audit challenges stem not from isolated errors, but from systemic issues such as fragmented data ownership, inconsistent documentation practices, and variances in command-level oversight.

This approach also facilitates the identification of deeper, structural weaknesses that may not be apparent only through quantitative performance indicators; hence, the importance of using both qualitative and quantitative methodologies. Audit findings often reveal symptoms, missing documentation, incomplete valuations, and unverified assets, while the case study method helps uncover the institutional, behavioral, and procedural factors that produce those symptoms. By integrating document analysis, quantitative assessment, and insights from subject-matter expert interviews, this methodology supports a holistic understanding of the Navy's PP&E audit-readiness environment and enables the study to link root-cause deficiencies to feasible policy and oversight reforms.

C. DOCUMENT ANALYSIS

The first component of the study consists of a structured review of publicly available government oversight and policy documents. The sources provide foundational evidence of recurring audit deficiencies and institutional barriers affecting Navy PP&W accountability.

Key Documents Include:

- Government Accountability Office (GAO) audit and financial management reports (2018, 2021, 2022, 2025).
- Department of Defense Inspector General (DoDIG) reports (2019 – 2025)
- DoD Financial Management Regulation (FMR) guidance

- Federal Accounting Standards Advisory Boards (FASAB)
- FIAR Strategy documentation (2017)
- Congressional mandates include NDAA provisions

D. INTERVIEWS WITH SUBJECT MATTER EXPERTS

To complement document analysis, this research incorporates interviews with Subject matter experts with professional experience in Navy financial management, audit remediation, acquisition oversight, and PP&E accountability. Interviews were necessary and valuable because they provide context that cannot be fully captured in formal audit reports, including:

- Operational constraints affecting compliance
- Cultural and organizational barriers
- Practical challenges in executing PP&E policies
- Recommendations for feasible and realistic reform implementation

To promote openness and honest feedback, the names and roles of interview participants are kept confidential. The interview protocol was designed to align directly with the thesis research questions and major themes identified in GAO and DoDIG findings.

E. QUESTIONS FOR SME

The interview questions were deliberately structured to align with the thesis's primary and secondary research questions and to elicit nuanced, experience-based insights from subject-matter experts. Each question is designed to probe how deficiencies in PP&E accounting, acquisition processes, and the execution of internal controls directly impair the Navy's ability to produce auditable, reliable financial information. By focusing on SME perspectives, the study aims to uncover practical realities that are not always evident in policy documents or audit reports, such as workflow bottlenecks, cultural factors, system limitations, and gaps in policy implementation.

Additionally, the questions seek to identify targeted PP&E-focused policy reforms and oversight mechanisms that could realistically strengthen accountability, improve data integrity, and advance audit readiness across the Navy enterprise. The intent is not only to document existing challenges but also to capture actionable recommendations from

practitioners who understand both the regulatory framework and the operational environment. This approach ensures that the resulting analysis connects strategic audit requirements to feasible, on-the-ground changes that drive measurable improvements in PP&E financial reporting and overall auditability. A summary of the primary and secondary research questions and answers from the subject matter expert are provided on tables 1 and 2 below.

Table 1. Primary Questions and Answers from SME

	QUESTIONS	ANSWERS
1.	**From your professional experience, what requirements are essential for attaining a clean audit opinion in the Navy's PP&E reporting and accountability processes?**	Audit was historically treated as a "Comptroller" responsibility, which limited broader engagement. NAVAIR improved outcomes by involving all necessary parties, helping resolve documentation gaps and strengthen internal controls, which contributed to downgrading the Aircraft CIP material weakness. This effort showed that achieving a clean audit opinion requires an all-hands-on-deck approach.
2.	**What are the most common deficiencies you observe in Navy PP&E accounting practices that contribute to audit challenges?**	The Navy continues to face challenges in maintaining complete and accurate inventories, particularly at operational units where mission priorities often outweigh audit requirements. Limited awareness of audit importance contributes to inconsistencies.
3.	**In your view, which PP&E-focused policy reforms would most strengthen asset accountability and reduce recurring audit deficiencies?**	Inventory weaknesses persist due to overly complex controls and compliance challenges; the Navy should simplify processes, focus on practical methods, and develop corrective action plans to improve accountability.
4.	**Where do breakdowns most commonly occur when transferring acquisition data into financial systems for PP&E audit support, and in your view, where are the greatest opportunities to apply AI or other IT-**	Aircraft data is managed in NERP, but reconciliation between logistics and financial systems remains manual and inefficient. Limited automation and reliance on multiple systems create reporting challenges. While automation has struggled for aircraft, a BOT solution at Fleet Readiness Centers is improving timeliness and accuracy for assets by reducing

	enabled solutions to strengthen data accuracy and streamline PP&E accountability?	manual entry and ensuring compliance with reporting requirements.
5.	**How do contract changes or delivery delays make it harder to keep PP&E values and audit documentation accurate? And based on your experience, should the Navy rethink its "receipt with exception" policy to better capture these changes?**	No insight was provided in response to this question.

Table 2. Secondary Questions and Answers from SME:

	QUESTIONS	ANSWERS
1.	**How do weaknesses in key internal controls, such as physical inventories, asset reconciliations, documentation reviews, and command-level oversight, undermine the accuracy, completeness, and auditability of PP&E reporting within the Navy?**	Weak internal controls undermine the reliability of Navy financial data, preventing auditors from relying on reported information. While NAVAIR has a strong internal control testing process, effective control implementation remains essential to ensuring accurate and auditable financial statements.
2.	**What are the most common deficiencies you observe in Navy PP&E accounting practices that contribute to audit challenges?**	The Navy continues to face challenges with maintaining complete and accurate inventories, particularly at operational units where mission priorities usually outweigh audit requirements. Limited awareness of audit importance contributes to inconsistencies.
3.	**In your view, which PP&E-focused policy reforms would most strengthen asset accountability and reduce recurring audit deficiencies?**	Aircrafts are procured in lots, making GAAP-compliant accounting complex and requiring years to gain auditor approval. While individual procurement would simplify auditing, it is impractical due to an increase in cost and operational burden. Existing program office processes supported accountability but required

		significant time to formalize and refine to meet audit standards and demonstrate effective internal controls.
4.	**Where do breakdowns most commonly occur when transferring acquisition data into financial systems for PP&E audit support, and in your view, where are the greatest opportunities to apply AI or other IT-enabled solutions to strengthen data accuracy and streamline PP&E accountability?**	The Navy is shifting toward a substantive audit approach, which, although more resource-intensive, has helped validate aircraft valuation through strong documentation. While controls improvements enabled a downgrade of the Aircraft CIP material weakness, this approach is not yet effective across all asset segments, requiring continued refinement.
5.	**How do contract changes or delivery delays make it harder to keep PP&E values and audit documentation accurate? And based on your experience, should the Navy rethink its "receipt with exception" policy to better capture these changes?**	Conditional acceptance is not an issue; however, extensive contract modifications create complexity in validating aircraft value. The large volume of changes and line items makes supporting accurate valuation significantly more difficult.

SUMMARY

This chapter presents a mixed-methods case study integrating qualitative and quantitative data to examine challenges in the Navy PP&E audit. Through document analysis and semi-structured interviews, the study identifies systemic weaknesses that affect audit readiness and develops policy reform recommendations to enable a clean audit opinion and strengthen Navy financial accountability. This approach ensures both analytical depth and pragmatic support for improving Navy findings and recommendations presented in the next chapter. The subsequent chapter presents the findings, data analysis, implications, and recommendations derived from independent analysis, regulatory requirements, and practitioners' insights, and examines key themes related to Navy PP&E accountability.

IV. FINDINGS AND RECOMMENDATIONS

A. INTRODUCTION

This chapter addresses Research Questions One (1) and Two (2) by examining the extent to which the Department of the Navy's (DoN) persistent deficiencies in Property, Plant, and Equipment (PP&E) contribute to the Department of Defense's (DoD) continued inability to achieve a clean audit opinion. Drawing from DoD-wide annual audit reports, DoN Annual Financial Reports, and relevant asset management policies, the chapter presents a comprehensive analysis of Navy PP&E audit outcomes from FY 2018 through FY 2024. The analysis identifies recurring patterns of failure in asset existence, completeness, valuation, documentation, and internal control execution, demonstrating that these weaknesses are not isolated anomalies but entrenched, structural deficiencies that scale upward into DoD-level material weaknesses.

To provide a holistic understanding of the Navy's audit challenges, this chapter integrates both quantitative and qualitative evidence. The first section analyzes seven years of audit results to establish the persistence and systemic nature of Navy PP&E deficiencies. The second section incorporates insights from a subject matter expert (SME) directly involved in PP&E audit remediation, offering practitioner-level validation of the root causes identified in the data. The third section evaluates how Navy-specific weaknesses propagate into DoD-wide audit outcomes, reinforcing the Navy's role as a principal contributor of enterprise-level material weaknesses.

Because the purpose of this study is not only to diagnose the Navy's PP&E audit challenges but also to identify actionable solutions, this chapter concludes with a set of evidence-based recommendations. These recommendations synthesize quantitative trends, SME insights, and root-cause analysis to outline practical reforms that can strengthen PP&E accountability, improve data accuracy, and advance the DoD toward a clean audit opinion. Chapter V will then provide the overall conclusion of the study, summarizing key findings, discussing implications, and identifying areas for future research.

It is important to note that FY 2018 marked the first year in which both the Navy and the DoD underwent a full financial statement audit, establishing the baseline against which all subsequent audit performance is measured. It is also important to recognize that audit scrutiny has expanded significantly since FY 2018, with maturing audit procedures and deeper testing revealing additional discrepancies that were previously undetected.

B. FINDINGS PART I: OVERVIEW OF NAVY PP&E DEFICIENCIES ACROSS FY 2018 THROUGH FY 2024

Our research commenced with an analysis of key auditors' data, including trends in notices of findings and recommendations and material weaknesses for the period under review. To contextualize these trends, Figure 5 illustrates the relationship between total Navy NFRs and the distribution of PP&E-related material across seven fiscal years. It also highlights how PP&E deficiencies consistently represent a significant share of all material weaknesses, even as overall NFR volume fluctuates. The "Other" category presented on the chart consists of Financial Management Systems/IT Controls, Fund Balance with Treasury, and Financial Reporting/Internal Controls. Despite being only one functional area among several enterprise-level domains, PP&E consistently accounts for 30 to 45 percent of all material weaknesses each year. Other weaknesses fluctuate more widely, but none individually approach the persistent volume of PP&E deficiencies.

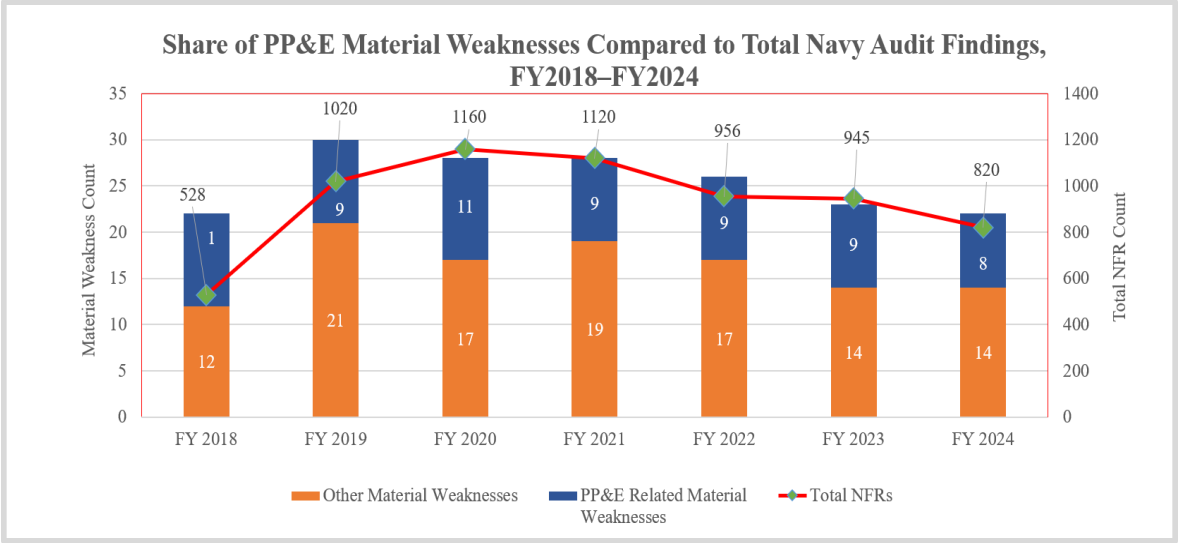

Figure 5. A Seven-Year Comparison of Navy PP&E-Related Deficiencies and Broader Audit Findings. Adapted from DoDIG, (2019 – 2025); DoN, (2019 – 2025).

Across the seven-year audit period, the Navy exhibited persistent and systemic PP&E deficiencies that materially impaired its ability to produce reliable financial statements. These weaknesses consistently manifested in asset existence, completeness, valuation support, documentation, and internal control execution. Despite fluctuations in the volume of Notices of Findings and Recommendations (NFRs), PP&E remained one of the most persistent and disproportionately significant sources of material weaknesses. FY 2018, the first year the Navy and the Department of Defense underwent a full financial statement audit, established the baseline with 528 NFRs and 22 material weaknesses, 10 of which (45.5%) were PP&E-related (DoN, 2019). This was the highest proportional concentration in the period evaluated. As audit visibility expanded in FY 2019, NFRs nearly doubled to 1,020, yet PP&E still accounted for nine (9) of 30 material weaknesses (30%) (DoN, 2020).

FY 2020 marked the peak of audit activity with 1,160 NFRs and 28 material weaknesses, including 11 PP&E findings (39.3%), signaling intensifying deficiencies in valuation, existence, and documentation (DoN, 2021). Although NFRs stabilized in FY 2021 (1,120) and declined in FY 2022 (956) and FY 2023 (945), PP&E weaknesses remained remarkably consistent with nine each year representing between 32% and 39% of all material weaknesses (DoN, 2022, 2023, 2024). Even in FY 2024, which recorded the lowest NFR volume of the period (820), PP&E still accounted for eight of 22 material weaknesses (36.4%) (DoN, 2025). Taken together, these trends demonstrate that PP&E weaknesses did not diminish in proportion to overall audit findings; instead, they remained structurally embedded and pose challenges to remediation efforts, consistently comprising roughly one-third to nearly one-half of all material weaknesses each year.

1. Persistent PP&E Weaknesses Across Audit Cycles

During the audit periods of FY2018 – FY2024, the Navy consistently exhibited significant discrepancies in asset existence, completeness, valuation, and presentation and disclosure. Table 3 illustrates that these deficiencies persisted across all seven fiscal years, with internal controls over PP&E remaining ineffective throughout. Although valuation methodology showed limited improvement beginning in FY 2023, this isolated progress did not offset the broader pattern of systemic weaknesses. The consistency of

these findings indicates that PP&E deficiencies are structural rather than episodic, reflecting long-standing gaps in asset accountability and internal control execution.

Table 3. U.S. Navy Persistent PP&E Audit Weaknesses by Category (FY2018–FY2024). Adapted from DoN (2019 - 2025).

Weakness Category	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Asset Existence	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
Asset Completeness	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
Presentation and Disclosure	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
Valuation Methodology	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Adequate	Adequate
Internal Control over PPE	Ineffective	Ineffective	Ineffective	Ineffective	Ineffective	Ineffective	Ineffective

The above table summarizes the Department of the Navy's recurring PP&E audit deficiencies across seven fiscal years, highlighting the consistency and severity of weaknesses in asset existence, completeness, presentation and disclosure, valuation methodology, and internal control execution. The results show that most categories exhibited significant discrepancies every year, with only valuation methodology showing improvement beginning in FY2023. Internal control over PP&E remained ineffective across the entire period, underscoring the systemic and unremediated nature of Navy PP&E control failures.

PP&E WEAKNESSES ACROSS ALL PROPERTY TYPES

Table 4 illustrates a seven-year summary of audit results across major Navy property categories such as Real Property, General Equipment (Remainder), General Equipment Valuation, and Property in the Custody of Contractors. Every category exhibits significant discrepancies in every fiscal year, demonstrating that PP&E weaknesses are not isolated to specific asset classes but are systemic and enterprise-wide. The uniformity of deficiencies across all property types underscores the Navy's long-standing challenges in asset accountability, valuation accuracy, and oversight, and

highlights the structural nature of PP&E control failures that continue to impede audit readiness.

Table 4. Historical Summary of U.S. Navy PP&E Audit Findings (FY2018–FY2024). Adapted from DoN (2018 – 2024).

Type of Property	FY 2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Real Property	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
General Equipment Remainder	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
General Equipment Valuation	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies
Property in Custody of Contractors	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies	Significant Discrepancies

Note: All property categories have shown persistent "Significant Discrepancies" across all fiscal years (FY2018–FY2024).

Source: Department of Defense Financial Audit Reports, FY2018–FY2024

C. FINDINGS PART II: SUBJECT MATTER EXPERT INSIGHTS ON NAVY PP&E AUDIT CHALLENGES

To complement the quantitative analysis of PP&E audit trends presented earlier in this chapter, a subject matter expert (SME) interview was conducted with a senior NAVAIR official directly involved in PP&E audit remediation. The SME's responses provide critical qualitative validation of the systemic issues identified in the FY2018 – FY2024 audit data and offer an insider perspective on why PP&E weaknesses have remained persistent across the Navy. Several clear themes emerged from the interview, including the need for cross-functional engagement beyond the Comptroller community, the Navy's longstanding struggle with inventory accuracy, the burdensome nature of current PP&E controls, the importance of policy reform - particularly around inventory requirement - and the significant impact of fragmented IT systems on valuation and completeness. These insights not only reinforce the structural nature of the Navy's PP&E challenges but also illuminate practical barriers and opportunities that quantitative data alone cannot fully capture. Table 5 summarizes these themes, the supporting evidence

provided by the SME, and the implications for the Navy's ability to achieve a clean audit opinion.

Table 5. SME Findings: Themes, Evidence, and Implications for Navy PP&E Auditability

Analytical Theme	Evidence from SME Responses
Audit success requires cross-functional engagement beyond Comptroller organizations	"The only way to attain a clean audit opinion... is to engage stakeholders outside of the Comptroller community." SME described how NAVAIR only downgraded the Aircraft CIP MW after involving CPO, Budget, and Program Offices.
Inventory accuracy is the Navy's most persistent and systemic PP&E weakness	"The one area we continue to struggle with is complete and accurate inventories… this applies to other asset segments as well." Personnel at squadrons and depots are mission-focused and often unaware of audit requirements.
Current PP&E controls are overly burdensome and drive non-compliance	"The requirements around our current Aircraft inventory processes leave little to no room for errors… not because we have ever lost an Aircraft, but because we have made the administrative requirements too burdensome."
Policy reform, especially inventory policy, is essential to reducing recurring deficiencies	SME recommends "inventory by exception," using maintenance records, flight logs, and operational data instead of annual wall-to-wall counts.
Fragmented IT systems and manual processes undermine PP&E valuation and completeness	"We are still operating in too many systems… reconciliations are entirely manual." Logistics (DECKPLATE/AIRRS) and financial (NERP) systems are disconnected.

Automation opportunities exist but are limited by data quality and system fragmentation	SME notes BOT automation at FRCs for GE-R uploads, but also states: "Any attempts at IT solutions have not resulted in much… we are too reliant on data from multiple systems."
Internal control weaknesses directly undermine auditability and financial statement reliability	"If we cannot demonstrate that controls are in place and operating effectively, auditors cannot place reliance on the accuracy of our data."
Current Acquisition and contracting practices complicate PP&E valuation and documentation	Aircraft are procured in lots with hundreds of contract modifications, creating thousands of line items requiring support.
Substantive testing may be the most realistic near-term path to audit progress	"The Navy's approach to take a substantive rather than controls approach is the direction we should be headed."
Consolidating PP&E into a single integrated system would dramatically improve auditability	"If we could manage our PP&E in one system… we could eliminate manual reconciliations and human error."

Taken together, the SME findings highlight that the Navy's PP&E audit challenges are not the result of isolated technical errors but stem from structural, policy, and system-level conditions that reinforce the patterns observed in the quantitative data. The themes identified—ranging from fragmented IT systems and burdensome inventory requirements to inconsistent cross-functional engagement and persistent control weaknesses—demonstrate that the Navy's audit barriers are deeply embedded in its operational and administrative processes. These insights provide essential context for interpreting the Navy's recurring PP&E material weaknesses and offer a practitioner-level perspective on why past remediation efforts have struggled to produce lasting improvement. Building on this qualitative validation, the following section translates these themes into targeted, actionable recommendations designed to address the root causes identified by both the audit data and the SME interview.

D. FINDINGS PART III: NAVY IMPACT ON DOD AUDIT OUTCOMES

The Navy's consistently elevated share of NFRs demonstrates that audit deficiencies are not evenly distributed across DoD reporting entities. Across FY 2018–FY 2024, the Navy accounted for 22% to 33% of all DoD NFRs, with a seven-year average of 30%. If findings were evenly distributed across all remaining 14 reporting entities, each would account for approximately 7.1%. Instead, the Navy routinely generated five to six times this amount. Figure 6 illustrates the Navy's disproportionate contribution relative to other DoD components. It is important to note that each reporting entity has a different Independent Public Accountant (IPA) doing the audits and NFRs are sometimes categorized differently. For example, certain DoD agencies may receive lower numbers of NFRs because their IPA group certain class of findings into a single NFR. Additionally, the Navy has a larger share of the overall DoD assets.

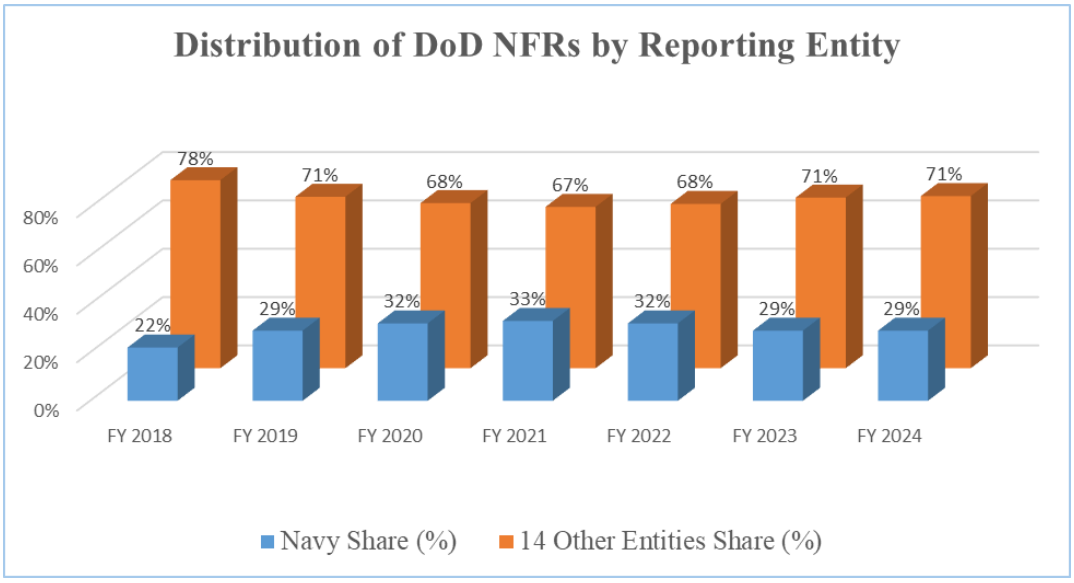

Figure 6. Navy Share of DoD NFRs Compared to All Other Reporting Entities. Adapted from DoDIG (2021, 2023, 2025).

The figure above illustrates the Navy's consistently elevated contribution to Department of Defense Notices of Findings and Recommendations (NFRs) relative to the 14 other reporting entities across seven fiscal years. While the distribution of findings across the Department might theoretically be expected to approximate an even share, the Navy persistently accounts for 22–33 percent of all NFRs — far exceeding any proportional benchmark. The remaining entities collectively account for the balance, yet

no single component approaches the Navy's sustained level of audit deficiencies (DoDIG, 2021 – 2025). This pattern confirms that the Navy is not an outlier but a principal contributor of DoD-wide audit deficiencies. Even in years where total DoD NFRs declined, the Navy's proportional share remained elevated, underscoring the systemic nature of its auditability control weaknesses.

1. Navy's Contribution to DoD Material Weaknesses

The Navy's impact extends beyond NFRs to material weaknesses—the most severe category of audit deficiencies. From FY 2018 to FY 2024, the Navy accounted for 28% to 36% of all DoD material weaknesses, averaging 32% (DoDIG, 2021 & 2025). Because material weaknesses significantly impair financial statement reliability, the Navy's recurring PP&E deficiencies exert a measurable drag on DoD-wide audit outcomes. Figure 7 illustrates the Navy's disproportionate share of material weaknesses relative to other military departments. It presents the distribution of material weaknesses across the Army, Navy, Air Force, and Marine Corps from FY2018 through FY2024, with a dual-axis design that overlays the Navy's percentage share of total DoD material weaknesses. The stacked bars display the absolute number of weaknesses by service, while the line graph highlights the Navy's proportional contribution each year.

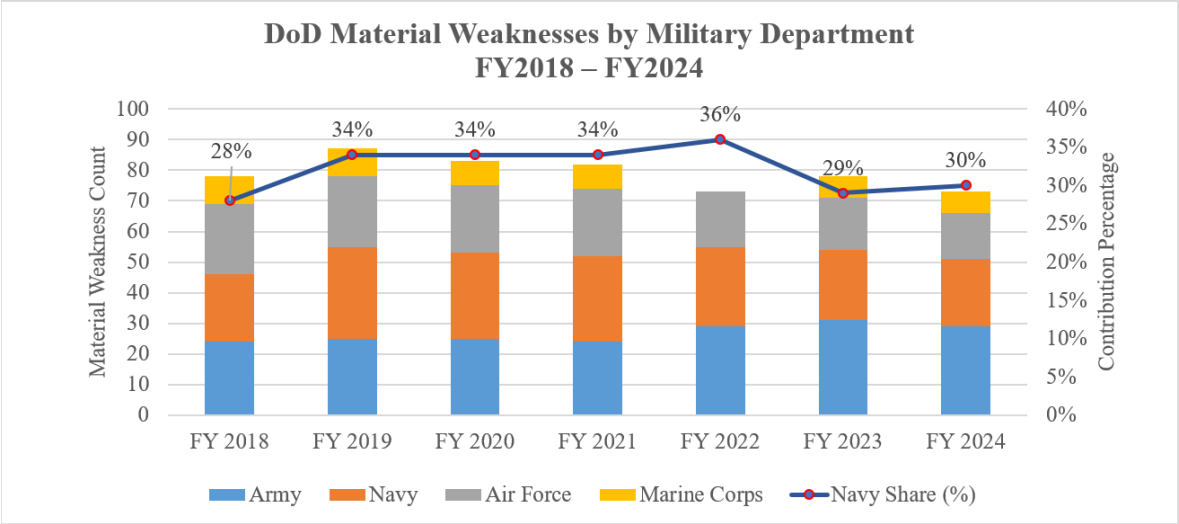

Figure 7. DoD's FY218 – FY2024 Material Weaknesses by Military Department with Navy Proportional Trend. Adapted from DoDIG (2021, 2023, 2025).

2. Contractor-Held Property as a Major Contributor to DoD Audit Failure

A critical subset of PP&E deficiencies involves Government Property in the Custody of Contractors (GFP/CAP). From FY 2020 through FY 2024, independent auditors consistently identified contractor-held property as one of the most pervasive and consequential material weaknesses affecting both PP&E and Inventory/OM&S (GAO, 2023). Agencies' reliance on contractors to maintain accountability for major asset classes–including Trident missile components, ordnance inventories, General Equipment–Remainer, and Joint Strike Fighter (JSF) program property - has resulted in systemic gaps in asset visibility, valuation, and existence testing. These failures deprive those agencies, specifically the Navy, of real-time asset information and prevent auditors from validating asset populations.

To illustrate how these issues reinforce one another and propagate enterprise-level audit risk, Figure 8 presents the three core internal control failures that undermine DoD's ability to maintain accountability over Government Property in the Custody of Contractors (GFP/CAP). Insufficient access to contractor transaction data, the absence of required physical inventories, and ineffective oversight mechanisms collectively prevents the Navy from validating asset existence, completeness, and valuation (GAO, 2023). These deficiencies are especially acute in high-risk programs such as JSF, Trident, and major ordnance portfolios.

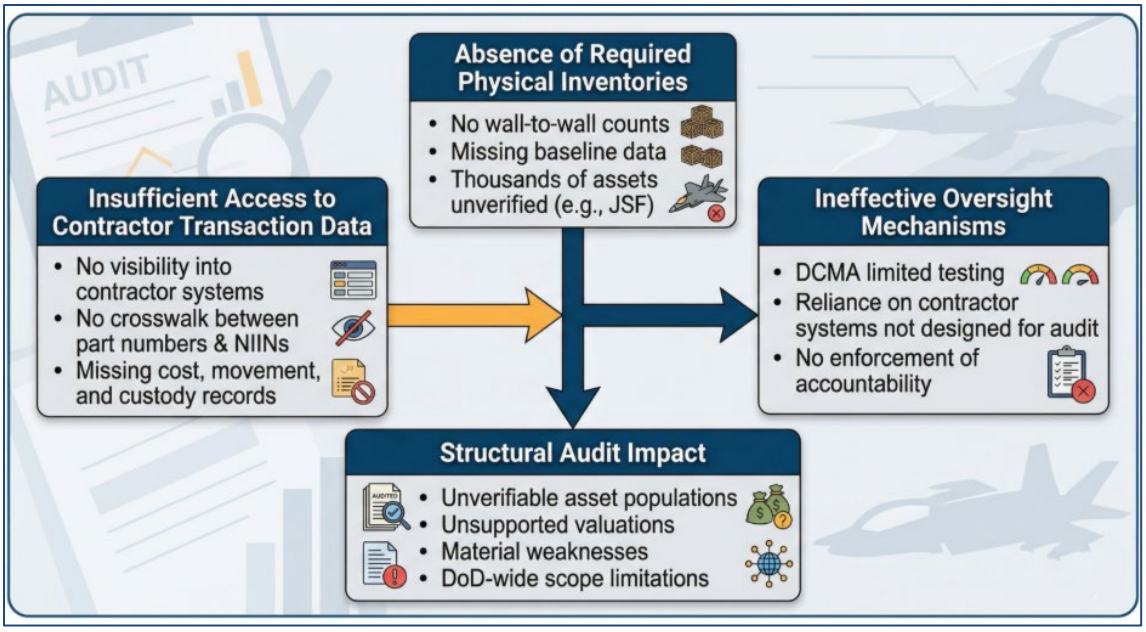

Figure 8. Internal Control Breakdowns Driving Contractor-Held Property Audit Failures. Adapted from DoDIG (2021, 2025).

The JSF program exemplifies the severity of this issue. As the DoD's largest and most expensive weapon system, with an estimated life-cycle cost between $1.7 trillion and $2 trillion and a unit cost exceeding $70 million per aircraft, the JSF program carries an enormous property footprint. Yet for more than 16 years, the DoD did not maintain its own Accountable Property System of Record (APSR) for JSF assets, relying instead on contractor systems that were never designed to meet federal audit standards (DoDIG, 2025). This failure resulted in millions of assets being omitted from the DoD's financial statements. In FY 2020, contractor records identified approximately 3.45 million JSF assets valued at $2.1 billion, and by October 2021, Joint Program Office (JPO) estimates had ballooned to 12 million assets valued at roughly $8 billion, none of which were recorded in a government APSR (DoDIG, 2022).

When the DoD finally attempted physical inventory counts at contractor facilities, auditors uncovered pervasive inaccuracies that underscored the unreliability of contractor-maintained records. Inventory teams were unable to verify the physical existence of approximately 1,600 assets valued at more than $16 million, while simultaneously discovering roughly 5,000 unrecorded assets valued at over $8 million that were present on the floor but missing from contractor records (GAO, 2022). JPO officials further acknowledged that the true dollar value of these discrepancies is likely

significantly higher, as many assets lacked cost information and contractor valuations routinely omitted overhead, transportation, and other allocable costs. According to GAO (2022), remediation efforts have also proven costly because between FY 2020 and FY 2021 alone, the DoD spent approximately $12 million on contractor inventory support services simply to perform counts and collect basic data elements.

The cumulative audit impact of these deficiencies is profound. Because the JPO could not provide reliable data to substantiate the existence, completeness, or valuation of the JSF Global Spares Pool, auditors concluded that the magnitude of the misstatement was unquantifiable (GAO, 2022). This inability to establish a verifiable asset baseline constitutes a scope limitation so severe that it directly contributes to recurring disclaimers of opinion for both the Navy and the DoD. As a result, the JSF program stands as one of the clearest examples of how contractor-held property failures propagate into enterprise-level audit consequences.

E. ROOT CAUSE ANALYSIS: HOW NAVY PP&E WEAKNESSES DRIVE DOD-WIDE MATERIAL WEAKNESSES

A review of DoD PP&E deficiencies reveals that many enterprise-level material weaknesses originate from long-standing, unresolved control failures within the Navy. Because the Navy manages one of the largest and most complex PP&E portfolios in the DoD, its systemic deficiencies scale upward into Department-wide audit challenges. Figure 9 presents a cross-walk of the Navy's PP&E root causes alongside the corresponding DoD-level deficiencies identified across the past seven fiscal years. While earlier sections examined each weakness in detail, this figure highlights a critical pattern: the Navy's internal control failures are not only persistent within its own PP&E environment but are also reflected across DoD components, indicating structural deficiencies that transcend individual services. The alignment between Navy-level and DoD-level findings demonstrates that the Navy's weaknesses are both symptomatic of and contributory to enterprise-wide material weaknesses, reinforcing the conclusion that PP&E deficiencies are systemic rather than isolated.

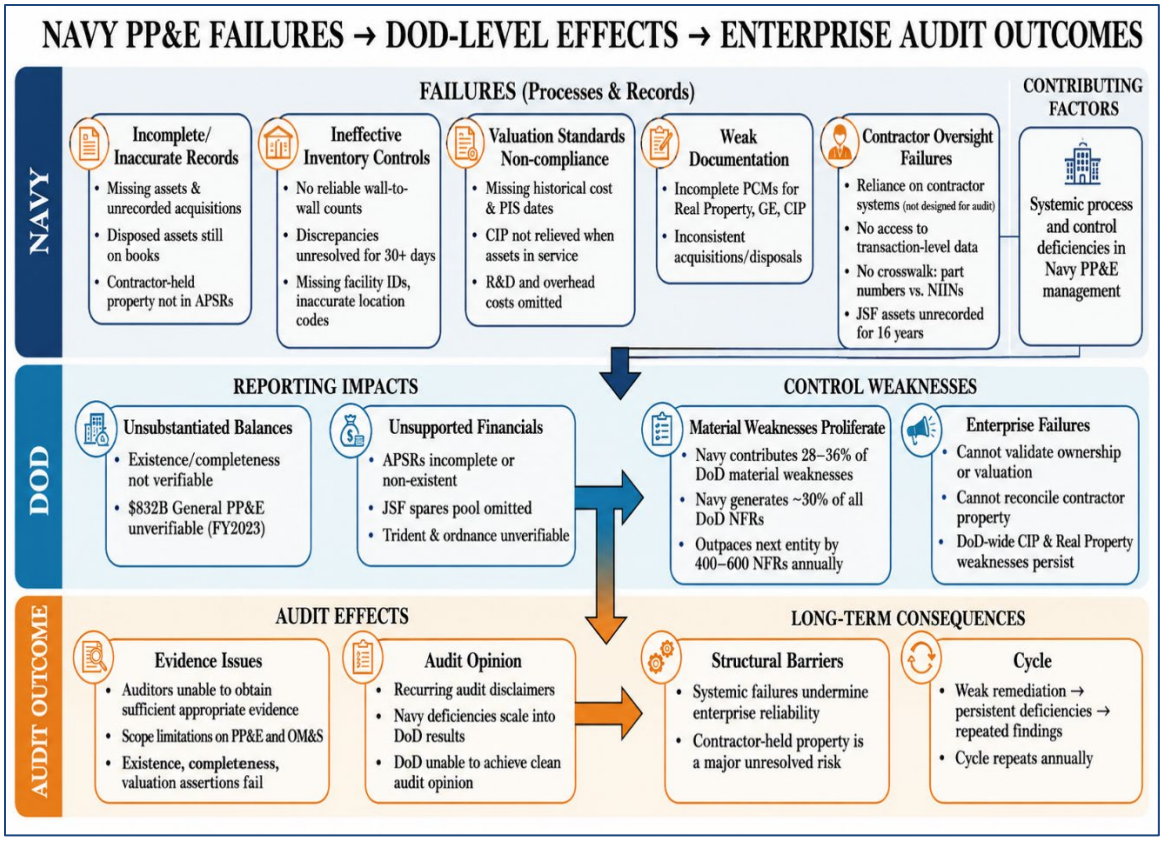

Figure 9. Navy PP&E Failures and Their Escalation into DoD-Level Audit Outcomes. Adapted from DoDIG (2021 – 2025); DoN (2019 – 2024).

As shown in Figure 9, the same root causes—inventory control failures, valuation non-compliance, inadequate oversight of third parties, missing documentation, real property inaccuracies, flawed CIP accounting, and outdated IT systems—appear consistently at both the Navy and DoD levels. This structural mirroring underscores that the Navy's PP&E deficiencies are not merely contributing to DoD-wide material weaknesses; they are central drivers of them. The persistence of these weaknesses across components and fiscal years demonstrates that the DoD's audit challenges cannot be resolved without addressing the Navy's foundational control failures.

F. SUMMARY

The analysis demonstrates that Navy PP&E weaknesses are persistent, systemic, and structurally embedded across asset classes, fiscal years, and internal control domains. These deficiencies materially impair the Navy's financial reporting reliability and contribute disproportionately to the Department of War wide audit outcomes. As our

collective assessment shows, these failures are not simply execution-level issues but reflect deeper institutional misalignment across the acquisition, logistics, and financial management communities, shaped by decades of mission-first culture, fragmented systems, and inconsistent governance. Until the Navy addresses the root causes of its PP&E deficiencies, particularly in contractor held property visibility, valuation accuracy, documentation completeness, and physical inventory controls at the policy and enterprise governance levels, the Department of War will remain unable to demonstrate the audit assertions of existence, completeness, and valuation required for a clean audit opinion.

G. RECOMMENDATIONS: WHERE TO GO FROM HERE

This section presents targeted, evidence-based recommendations derived from our independent analysis of the systemic weaknesses affecting the Navy's Property, Plant, and Equipment (PP&E) reporting and accountability processes. These recommendations synthesize quantitative audit trends from FY2018–FY2024, the structural themes identified in our cross-walk analysis, and the historical and institutional factors that have shaped the Department of War's financial management environment. While practitioner insights provided valuable operational context, they represent only one perspective and were evaluated alongside federal audit standards, governance requirements, and long-standing institutional challenges. As a research team with backgrounds in acquisition, logistics, financial management, and operational support, we developed these recommendations to reflect a balanced, audit-defensible, and governance-aligned path forward. Collectively, they outline a practical and sustainable approach to strengthening PP&E internal controls, improving data accuracy, and advancing the Navy and DoD toward a clean audit opinion. Table 6 below provides a snapshot of the recommendations provided in this chapter to include estimated completion time in line of the DoD Clean Audit opinion target date of 2028 mandate.

Table 6. Summary of PP&E Reform Roadmap Recommendations. Refined with Copilot, 2026.

	Problems	Recommendations	Estimated Implementation Time
1.	Lack of Cross-Functional Governance and Accountability	Establish a Navy-wide PP&E Governance Council to unify acquisition, logistics, financial management, and operational stakeholders under a single governance structure.	**> 3 months**
2.	Weak and administratively burdensome PP&E internal controls	Conduct a Navy-wide control rationalization review and implement quarterly Internal Control Testing (ICT) under the IRM framework.	**12 months**
3.	Outdated, non-risk-based inventory policy	Implement a tiered, risk-based inventory model leveraging operational data while preserving required physical verification.	**12 months**
4.	Fragmented PP&E data environment and lack of authoritative system	Develop a unified enterprise PP&E data environment integrating acquisition, logistics, maintenance, and financial systems.	**> 18 months**
5.	High transaction volume causing posting delays and reconciliation backlogs	Expand automation and Robotic Process Automation (RPA) across PP&E segments to ensure timely posting and reduce manual workload.	**12-18 months**
6.	Incomplete or inconsistent acquisition documentation affecting valuation	Strengthen documentation requirements at the acquisition phase, including standardized acceptance packages and automated CLIN-to-asset mapping.	**~ 6 months**

7.	Heavy dependence on contractor systems with limited visibility	Close the contractor-held property blind spot through standardized electronic inventories, automated data interfaces, and enforceable accountability mechanisms.	**12-18 months**
8.	Overreliance on either control-based or substantive audit approaches	Adopt a hybrid audit strategy combining substantive testing for immature segments with strengthened controls in mature segments.	**18-24 months**
Department of the Navy PP&E Reform Roadmap | 2026			

The summary table above provides a high-level overview of the Navy's most critical PP&E challenges and the corresponding reforms required to address them. While this snapshot is intended to support readers who prefer a concise reference, each recommendation is grounded in detailed analysis, audit evidence, and practitioner insights developed throughout this study. The following sections expand on these recommendations by explaining the underlying problems, the structural conditions that perpetuate them, and the rationale for the proposed reforms. Together, these narrative discussions offer the depth, context, and analytical justification necessary to understand how each recommendation contributes to strengthening PP&E accountability and advancing the Department of the Navy toward sustained audit readiness.

1. Strengthen Cross-Functional Governance and Accountability

Our analysis indicates that one of the most persistent barriers to PP&E auditability is a fragmented governance structure that isolates acquisition, logistics, financial management, and operational communities. This structural misalignment stems from decades of mission-first culture and decentralized accountability and has contributed to recurring material weaknesses and inconsistent implementation of internal controls across the Department of the Navy. Historically, financial auditability was not treated as a core organizational objective within the Department of War, and systems were designed primarily to support operational execution rather than reliable financial reporting. As a

result, no single community owns the full PP&E lifecycle, and corrective actions often fail to take hold across fiscal years.

The SME's observations regarding NAVAIR's successful downgrade of the Aircraft Construction-in-Progress (CIP) material weakness illustrate this broader institutional pattern: meaningful progress occurred only when Command Property, Budget, and Program Offices were fully integrated into the remediation process. We treat this not as a prescriptive practitioner recommendation, but as evidence supporting our broader conclusion that PP&E accountability must be elevated to an enterprise-level governance priority. Sustainable auditability requires a governance model that aligns operational realities with federal audit standards and ensures that PP&E responsibilities are shared across the communities that generate, manage, and report asset data.

a. Recommendations:

We recommend establishing a Navy-wide PP&E Governance Council composed of Comptroller leadership, Command Property Officers, Budget offices, Program Offices, Fleet Readiness Centers, operational units, chaired by the Deputy Assistant Secretary of the Navy for Sustainment (Deputy ASN-S). This council should serve as the enterprise authority for PP&E policy, internal controls, oversight of corrective action plans, and integration of audit readiness. Its mandate should include enforcing lifecycle documentation requirements, setting enterprise data standards, and ensuring that corrective actions are implemented consistently across commands.

To institutionalize accountability and ensure continuity across workforce turnover and operational tempo, PP&E responsibilities should be embedded into:

(1) Fitness Reports (FITREPs)
(2) Civilian performance plans
(3) Command inspection programs
(4) Readiness reporting

Embedding PP&E accountability into performance and readiness structures reinforces that financial auditability is a core organizational requirement—not a secondary administrative task. This governance model aligns with federal audit standards,

addresses long-standing institutional gaps, and provides the structural foundation necessary for sustained PP&E reform across the Department of War.

2. Modernize and Strengthen PP&E Internal Controls

Our analysis shows that the Navy's PP&E internal control environment is constrained by two interconnected structural weaknesses that limit its ability to produce reliable, audit-ready financial information. First, many PP&E controls are administratively rigid, emphasizing precise signatures, dates, and form accuracy. While these requirements emerged historically to compensate for inconsistent documentation and weak asset visibility, their current implementation often shifts attention toward low-value compliance tasks rather than the systemic indicators that reveal true accountability risk. This dynamic reflects a broader institutional legacy within the Department of War, where mission execution historically took precedence over financial auditability, resulting in control structures that prioritize documentation precision over risk-based assurance.

Practitioner perspectives highlighted that current testing practices frequently reinforce this imbalance by focusing on administrative precision rather than operational performance metrics such as supply fill rates, maintenance turnaround times, and readiness indicators. We treat these insights as illustrative, not determinative of a broader structural issue: the Navy often achieves "paper compliance" without identifying units whose PP&E processes are genuinely at risk of causing material misstatements. However, consistent with federal audit standards, our analysis acknowledges that administrative controls remain necessary to ensure traceability, evidence sufficiency, and audit defensibility. The challenge, therefore, is not to weaken controls but to modernize them so they are simpler, risk-aligned, and more effective at detecting material weaknesses.

Second, persistent deficiencies in inventories, reconciliations, and documentation reviews continue to undermine the accuracy and completeness of PP&E reporting. Although organizations such as NAVAIR have developed mature Internal Control Testing (ICT) programs, the broader Navy lacks consistent oversight of corrective action plans (CAPs) and does not enforce standardized reporting under the Internal Risk

Management (IRM) framework. Without recurring testing, command-level accountability, and enterprise-wide visibility into control performance, deficiencies recur across audit cycles, limiting the Navy's ability to remediate root causes and sustain improvements.

a. Recommendations:

First, PP&E controls should be redesigned to be simpler, operationally aligned, and focused on preventing material misstatements rather than enforcing unnecessary administrative steps. We recommend a Navy-wide control rationalization review to eliminate redundant or low-value requirements and incorporate performance-based metrics into the audit readiness framework. Units that consistently meet operational benchmarks should receive reduced audit burden, while units demonstrating poor performance should undergo targeted inventories and enhanced internal controls testing. This approach aligns internal controls with operational realities while remaining consistent with federal audit standards, which still require periodic independent verification.

Second, the Navy should strengthen its IRM program by requiring quarterly internal control testing, enforcing command-level oversight of CAPs, and standardizing the reporting of PP&E control deficiencies. Commands must be held accountable for timely remediation of recurring weaknesses, ensuring that corrective actions are not only documented but demonstrably effective. Enhanced oversight will help institutionalize corrective actions, reduce repeat findings, and improve the reliability of PP&E reporting across the enterprise. This governance-aligned approach ensures that internal controls evolve from a compliance-driven model to a risk-driven model capable of supporting sustained audit readiness.

3. Modernize Inventory Policy Through a Risk-Based, Evidence-Driven Approach

Inventory accuracy remains the Navy's most persistent and consequential PP&E weakness. Our analysis shows that traditional wall-to-wall inventory requirements while historically necessary are increasingly misaligned with the scale, tempo, and digital maturity of modern naval operations. These legacy requirements emerged in an era when

operational systems lacked reliable asset visibility, and physical verification was the only dependable means of establishing existence and completeness. In today's aviation, ship maintenance, and depot environments, however, major end items generate continuous streams of digital evidence through flight logs, maintenance actions, supply transactions, configuration updates, and depot inductions. These data sources provide meaningful indicators of asset activity and condition that did not exist when current inventory policies were designed.

Practitioner perspectives highlighted that forcing commands to re-count assets already validated through operational systems creates administrative burden without proportionate gains in audit confidence. While these insights illustrate the operational strain imposed by legacy inventory models, our analysis recognizes that federal audit standards still require periodic independent physical verification. Operational activity alone cannot conclusively establish asset existence at fiscal year-end, nor can it fully mitigate risks associated with data errors, timing differences, or system inaccuracies. Therefore, the goal is not to eliminate physical inventories but to modernize inventory policy so that physical verification is targeted, risk-based, and supported by reliable operational data.

A modernized approach would acknowledge that assets with recent, verifiable operational activity present lower inherent risk, while dormant or inconsistently documented assets require greater scrutiny. This aligns with both audit defensibility and operational practicality, reducing unnecessary burden on commands while focusing verification efforts where they are most needed.

a. Recommendations:

We recommend replacing annual wall-to-wall inventories with a tiered, risk-based inventory model that leverages operational data as supporting evidence while preserving the periodic physical verification required under federal standards. Under this model, assets with recent, reliable operational activity, such as documented maintenance actions, flight hours, or depot inductions, would be considered lower-risk and subject to reduced inventory frequency or statistical sampling. Audit resources would instead be concentrated on higher-risk categories, including:

- Dormant assets
- Assets with inconsistent configuration or maintenance data
- Assets lacking recent supply or maintenance transactions
- Assets with valuation anomalies or incomplete documentation

This approach does not eliminate physical inventories; rather, it aligns them with risk, improves audit defensibility, and reduces the likelihood of control failures caused by overly rigid procedures. By integrating operational data into inventory planning and prioritization, the Navy can modernize its verification model in a manner that is both operationally realistic and compliant with federal audit requirements.

4. Implementing a Unified Enterprise PP&E Data Environment

Our analysis shows that the Navy's current PP&E systems environment is fundamentally incompatible with modern audit standards and the level of data integration required for reliable financial reporting. Core systems such as DECKPLATE, AIRRS, MAXIMO, and Navy ERP (NERP) were developed independently, for different operational purposes, and without a shared data architecture. As a result:

- No single system captures all required lifecycle events
- Valuation data is frequently disconnected from configuration data
- Maintenance systems do not automatically update financial systems
- Program offices often rely on local "shadow systems" that auditors cannot rely on.

This fragmentation forces commands into perpetual reconciliation cycles that consume thousands of labor hours annually and still fail to produce durable, audit-ready evidence. While practitioner insights highlighted the operational burden created by these reconciliation processes, our independent assessment confirms that the underlying issue is structural rather than procedural. The absence of a unified PP&E data environment prevents the Navy from consistently demonstrating the three core audit assertions:

- Existence: the asset physically exists
- Completeness: all assets are recorded
- Valuation: the asset is recorded at the correct value

Manual reconciliation can temporarily align disparate systems, but it cannot compensate for a data architecture that lacks authoritative integration, automated data lineage, and standardized lifecycle events. These limitations reflect long-standing

institutional conditions within the Department of War, where systems were historically optimized for mission execution rather than financial auditability. As federal audit expectations have evolved, the Navy's legacy systems environment has become a material barrier to achieving a clean audit opinion.

A modern PP&E data environment must therefore be designed not as a technical enhancement but as a foundational governance reform. It must integrate acquisition, logistics, maintenance, and financial data into a single authoritative source, enforce standardized data definitions, and automate lifecycle event updates across the enterprise. Without such an environment, the Navy will remain dependent on labor-intensive workarounds that collapse under auditor scrutiny and fail to provide the traceability required under federal standards.

a. Recommendations:

We recommend that the Navy develop a unified enterprise PP&E data environment that integrates logistics, acquisition, maintenance, and financial reporting functions into a single authoritative source of truth. This reform is not merely a technical enhancement but a foundational governance requirement. A modernized environment must replace the current patchwork of disconnected systems with an architecture capable of enforcing standardized lifecycle events, automating data flow, and providing real-time visibility across the PP&E enterprise. To meet federal audit standards and support reliable financial reporting, the unified environment should:

- Expand interface automation and BOT solutions build on successful models such as the FRC MAXIMO-to-NERP BOT to reduce manual data entry, improve timeliness, and strengthen data integrity.
- Automate data flow from acquisition to disposal, ensuring that configuration, valuation, and accountability updates will propagate seamlessly across all relevant systems.
- Enforce standardized data definitions and lifecycle events, eliminating the inconsistent terminology and documentation practices that currently undermine audit traceability.
- Provide real-time visibility to program officers, comptrollers, and auditors, enabling proactive identification of discrepancies and reducing reliance on after-the-fact reconciliations.

- Serve as the authoritative Accountable Property System of Record (APSR) for all capitalized assets, eliminating ambiguity about which system governs PP&E data.
- Include automated data lineage tracking to support audit traceability and demonstrate the origin, transformation, and validation of PP&E data across its lifecycle.
- Eliminate redundant local systems and spreadsheets, which currently create parallel data environments that auditors cannot rely on and that introduce avoidable risk.

This reform is foundational. Without an integrated PP&E data environment, all other audit readiness efforts remain tactical, temporary, and dependent on labor-intensive workarounds that cannot withstand auditor scrutiny. A unified system architecture is therefore essential to achieving sustained auditability, improving data reliability, and aligning the Navy's PP&E processes with modern Department of War financial management standards.

5. Expand Automation and Robotic Process Automation (RPA) Across PP&E Segments

The Navy's difficulty meeting the seven-day posting requirement in SECNAVINST 5200.45 reflects a structural mismatch between transaction volume and the manual processing capacity of its PP&E environment. High-volume organizations such as Fleet Readiness Centers, shipyards, and warfare centers process tens of thousands of maintenance actions each month, each requiring documentation, valuation, APSR posting, configuration updates, and financial reconciliation. Manual throughput cannot keep pace with this scale, resulting in quarter-end backlogs that distort financial statements and contribute to recurring material weaknesses.

Our analysis shows that automation is essential to resolving this gap. Existing BOT solutions, such as the FRC MAXIMO-to-NERP interface, demonstrate that automated posting can eliminate delays when data structures and system interfaces are aligned. However, automation remains uneven across the enterprise due to fragmented systems and inconsistent data standards. Expanding automation is therefore not a workforce efficiency initiative—it is a structural requirement for timely, accurate, and audit-defensible PP&E reporting.

a. Recommendations:

We recommend expanding automation and RPA across PP&E segments to ensure timely posting, reduce manual workload, and improve audit traceability. Specifically, the Navy should:

- Scale proven BOT solutions (e.g., MAXIMO-to-NERP) across additional maintenance and logistics environments.
- Automate routine PP&E posting and reconciliation tasks to eliminate quarter-end backlogs.
- Standardize data structures and interfaces to enable automated cross-system integration.
- Integrate RPA into the unified PP&E data environment to ensure consistent lifecycle updates.
- Prioritize automation in high-volume segments where manual processing is no longer feasible.

Expanding automation is a foundational enabler of auditability. Without enterprise-level RPA, the Navy will continue to face recurring posting delays, inconsistent data quality, and material weaknesses driven by manual processing constraints.

6. Improve Contracting and Acquisition Documentation for PP&E Valuation

Our analysis shows that many PP&E audit failures originate at the acquisition phase because essential documentation, such as DD250s, CLIN mappings, IGCEs, and configuration baselines, is inconsistently captured, retained, or transferred into financial systems. Once these documents are lost, they cannot be recreated, leaving permanent gaps in valuation and the existence of evidence. This reflects a long-standing structural disconnect: the acquisition community has historically prioritized schedule and performance over financial documentation, resulting in incomplete audit trails for capitalized assets. Practitioner insights illustrated how lot-procured aircraft and frequent contract modifications compound this challenge, but the underlying issue is institutional PP&E valuation cannot be sustained without disciplined documentation practices embedded at the point of acquisition.

a. Recommendations:

To strengthen PP&E valuation and reduce audit risk, the Navy should:

- Require standardized documentation packages (DD250s, CLIN-to-asset mappings, IGCEs, configuration baselines) at each acceptance event.
- Mandate digital retention and automated transfer of acquisition documentation into the APSR and unified PP&E data environment.
- Integrate financial documentation requirements into acquisition milestones, ensuring valuation data is captured before assets enter service.
- Establish accountability for the contracting officer and program officer to provide complete and accurate PP&E documentation.
- Implement automated CLIN-to-asset mapping tools to reduce manual errors and ensure valuation traceability.
- Align acquisition documentation workflows with audit standards to prevent permanent gaps in valuation evidence.

Strengthening documentation at the acquisition phase is essential. Without reliable source documentation, downstream reconciliation efforts cannot produce an audit-defensible valuation or existence evidence.

7. Closing the Contractor-Held Property Blind Spot

Contractor-held property remains the Navy's largest and least controlled PP&E vulnerability. Our analysis shows that this risk stems from structural dependence on contractor systems that do not meet federal audit standards, provide limited government visibility, and lack enforceable accountability mechanisms. The scale of the issue is illustrated by the Joint Strike Fighter (JSF) program's discovery of 12 million unrecorded assets valued at more than $8 billion an outcome driven by fragmented data environments, inconsistent reporting, and insufficient government oversight. These conditions create persistent gaps in existence, completeness, and valuation evidence that cannot be resolved through reconciliation alone. Addressing this blind spot requires both integrating contractor data into government-controlled systems and establishing meaningful accountability for maintaining auditable records.

a. Recommendations:

To close the contractor-held property blind spot and strengthen auditability, the Navy should:

- Require standardized electronic inventories from contractors in formats compatible with the Navy's unified PP&E data environment.
- Mandate automated data interfaces so contractor systems feed lifecycle, configuration, and valuation data directly into government systems.
- Establish enforceable accountability mechanisms, including contractual penalties for incomplete, inaccurate, or non-auditable property records.
- Require government acceptance and validation of contractor-reported inventories before assets are capitalized or placed into service.
- Integrate contractor-held property oversight into the PP&E Governance Council's responsibilities to ensure enterprise-level visibility.
- Conduct periodic, risk-based physical verification of contractor-held assets to meet federal audit standards and validate reported data.

Strengthening oversight of contractor-held property is essential. Without integrated data, standardized reporting, and enforceable accountability, this blind spot will continue to drive material weaknesses across the Department of the Navy.

8. Adopt a Hybrid Audit Strategy to Accelerate Progress Toward a Clean Opinion

Our analysis of the Navy's audit history shows that different PP&E segments are progressing at different levels of maturity. Segments such as Aircraft and Aircraft CIP have demonstrated measurable improvement through substantive testing, while others still lack the internal control maturity required for full reliance. This uneven landscape reflects the broader institutional reality that the Department of the Navy must simultaneously demonstrate near-term audit progress and continue long-term control remediation. A hybrid audit strategy combining substantive testing for immature segments with strengthened controls in mature ones has already enabled the Navy to show incremental progress across seven consecutive audit cycles. This approach aligns with federal audit standards and provides a realistic pathway toward a clean opinion without overstating the readiness of segments still undergoing structural reform.

a. Recommendations:

To accelerate progress toward a clean audit opinion while maintaining long-term sustainability, the Navy should:

- Adopt a hybrid audit strategy that applies substantive testing to segments with immature controls while continuing to strengthen internal controls in segments with established processes.
- Prioritize control remediation in high-risk segments while leveraging substantive testing to demonstrate near-term audit progress.
- Coordinate hybrid audit planning through the PP&E Governance Council to ensure consistency, transparency, and alignment with federal audit standards.

A hybrid strategy balances the need for demonstrable progress with the long-term requirement to build durable, audit-reliable internal controls across the PP&E enterprise.

H. SUMMARY

The audit failure pattern identified in our quantitative analysis points to a single overarching conclusion: the Navy requires a phased, multi-year PP&E Modernization Roadmap to address the structural causes of recurring audit weaknesses. Our findings show that fragmented systems, inconsistent data standards, manual workflows, and limited contractor integration collectively prevent the Navy from demonstrating existence, completeness, and valuation across its PP&E portfolio. A modernization roadmap must therefore consolidate PP&E data into a single authoritative system, establish enterprise-wide data standards, and automate asset lifecycle workflows to reduce manual errors and strengthen auditability. While practitioner insights illustrated the operational benefits of consolidation, our analysis independently confirms that a unified, data-driven environment is essential for long-term audit readiness.

The roadmap should mandate contractor system integration, modernize legacy IT infrastructure, and introduce advanced technologies such as RFID, IoT sensors, RPA, and digital twins—to enable real-time visibility, automated lifecycle updates, and predictive analytics. Strengthening governance through a PP&E Governance Council, embedding financial management personnel within Program Offices, and implementing industry-aligned audit and asset-management training will ensure consistent oversight and workforce readiness. The roadmap must also include enforceable accountability mechanisms, a multi-year funding strategy, and performance metrics that drive transparency and continuous improvement.

Collectively, these actions create a unified, modern PP&E environment capable of sustaining long-term audit readiness and supporting Department of War–wide financial improvement goals. In Figure 10 below, please see the Navy PP&E recommendation snapshot for a quick reference.

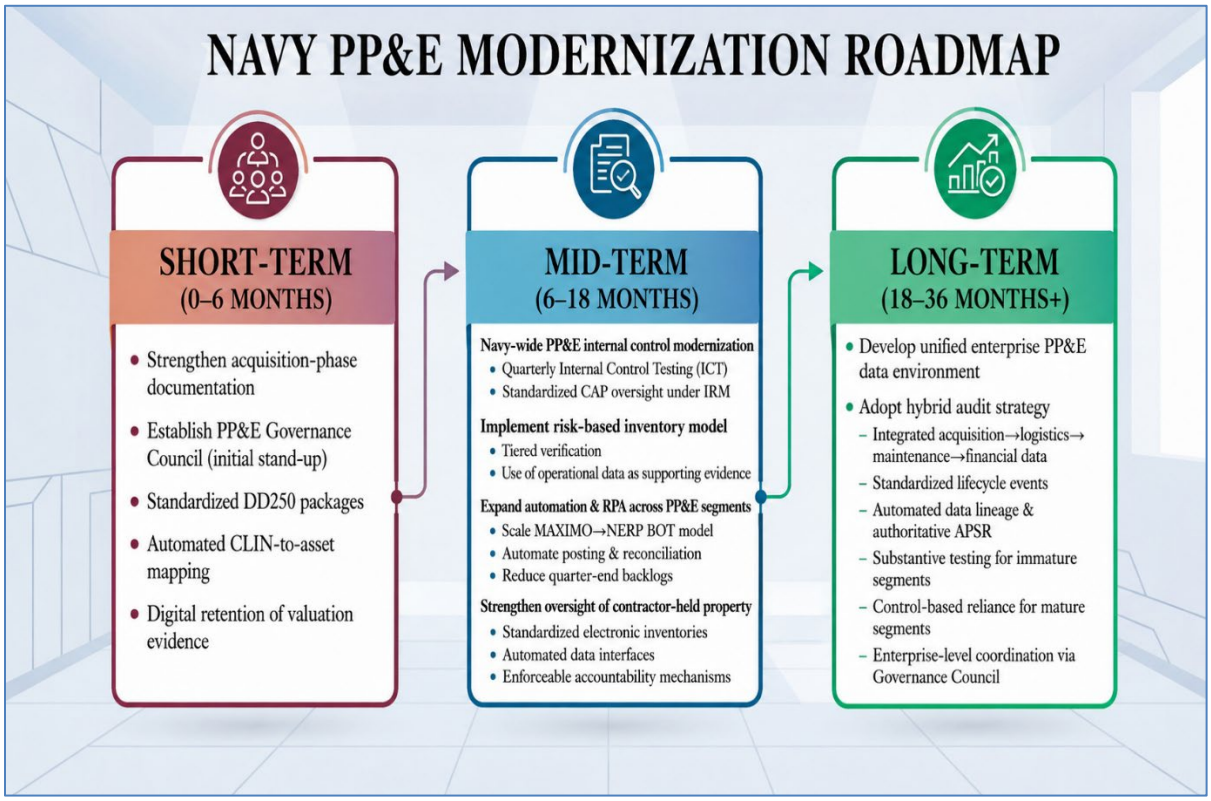

Figure 10. Navy PP&E Recommendations snapshot. Refined with Gemini, 2026.

V. CONCLUSION

The collective analysis presented in this thesis demonstrates that the Department of the Navy's persistent PP&E deficiencies are rooted in structural, institutional, and governance challenges that have accumulated over decades. As a team with backgrounds spanning acquisition, logistics, financial management, and operational support, we recognize that these weaknesses are not simply technical failures; they reflect a broader misalignment between how the Department of War historically managed its resources and the level of financial accountability now required under federal audit standards.

Across our research, we found that PP&E deficiencies, whether in valuation, documentation, contractor-held property, or physical inventory controls, it continues to undermine the Department of War's ability to achieve a clean audit opinion. While subject matter experts provided valuable operational insight, their perspectives often reflected practitioner preferences that must be balanced against governance requirements, regulatory constraints, and the strategic imperatives of a modern defense enterprise. Our role as researchers was to synthesize these perspectives, challenge their limitations, and develop recommendations that are both operationally realistic and audit-defensible.

A central conclusion of this thesis is that PP&E auditability cannot be achieved solely through Comptroller efforts. Our combined experience across the fleet, program offices, and financial management communities reinforces that PP&E accountability is inherently cross-functional. The success of NAVAIR's Aircraft CIP remediation effort illustrates this point: meaningful progress occurred only when Program Offices, Property Managers, Budget personnel, and operational units were fully integrated into the corrective action process. This reinforces the need for a governance model that elevates PP&E accountability to a strategic priority and embeds it into the Navy's operational chain of command.

Our analysis also highlights the limitations of relying exclusively on operational data or practitioner intuition to drive audit reform. While SMEs emphasized the burden of wall-to-wall inventories and the value of operational activity as evidence of existence, federal audit standards require periodic independent physical verification. Operational

data can reduce the scope or frequency of inventories, but it cannot replace them. Similarly, while SMEs identified administrative rigidity in PP&E controls, the solution is not to weaken controls but to redesign them to be simpler, risk-aligned, and focused on preventing material misstatements. As co-authors, we agree that the Navy must strike a balance between operational efficiency and audit rigor, one that respects the realities of fleet operations while meeting the requirements of federal financial reporting.

The findings support several overarching conclusions that reflect our combined perspectives. First, the Navy must adopt a governance model that integrates acquisition, logistics, and financial management communities into a unified PP&E accountability framework. This includes establishing a cross-functional PP&E Governance Council and embedding audit readiness into performance evaluations, command inspections, and readiness reporting. Second, the Navy must modernize its internal controls and inventory policies to reflect a risk-based, evidence-driven approach that aligns with both operational realities and federal audit standards. Third, the Navy must invest in a unified PP&E data environment that integrates logistics, acquisition, and financial systems into a single authoritative source. Without this foundational reform, manual reconciliations will continue to dominate audit cycles, and sustainable auditability will remain out of reach. Fourth, the Navy must strengthen oversight of contractor-held property by standardized data submissions, enforceable accountability mechanisms, and the integration of contractor systems into government-controlled data environments.

Finally, the Department of War should adopt a hybrid audit strategy that balances near-term progress with long-term sustainability. Substantive testing can demonstrate incremental improvement in immature segments, while mature segments continue to strengthen internal controls. This phased approach aligns with the Department of War's broader financial improvement goals and provides a realistic pathway toward a clean audit opinion.

As co-authors, we conclude that strengthening Navy PP&E accountability is essential not only for audit readiness but also for improving resource stewardship, enhancing operational readiness, and restoring congressional confidence in the Department of War's financial management. The reforms proposed in this thesis:

governance integration, internal control modernization, risk-based inventory policy, unified data architecture, automation expansion, acquisition documentation reform, and contractor oversight, collectively form a comprehensive roadmap to address the root causes of PP&E deficiencies. Implementing these reforms will enable the Navy to transition from reactive, compliance-driven remediation to a proactive, data-driven, and governance-aligned PP&E environment capable of sustaining long-term audit readiness and supporting the Department of War's mission in an increasingly complex strategic landscape.

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