MANAGEMENT'S DISCUSSION & ANALYSIS

Provides a High Level Overview of the Department's Programmatic and Financial Performance

Previous Page: Navy Aviation Structural Mechanic Airman Makayla Gallegol checks the banding wire and electrical breakers on an F/A-18E Super Hornet fighter jet aboard the aircraft carrier USS Dwight D. Eisenhower during operations in the Atlantic Ocean, Feb. 28, 2023. (Photo by Navy Petty Officer 2nd Class Jacob Hilgendorf)

Left: Airmen from the 341st Medical Group and 40th Helicopter Squadron demonstrate search and rescue capabilities April 6, 2023, at Malmstrom Air Force Base, Mont. The 40th HS has contributed to a proud rescue history saving over 400 lives since 1973 and logging upwards of 145,000 flying hours conducting search-and-rescue missions in support of the Joint Chiefs of Staff national search and rescue plan. (Photo by Airman Hannah Hardy)

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to ensure the Nation's security by providing military forces to deter our adversaries and prevail in conflict should deterrence fail. The Department advances our priorities through integrated deterrence, campaigning, and actions that build enduring advantages. A strong, principled, and adaptive U.S. military is a central pillar for U.S. leadership, particularly in the face of challenges arising from dramatic geopolitical, technological, economic, and environmental change. The Department focuses on safeguarding and advancing vital U.S. national interests and works alongside other agencies and departments to protect the security of the American people, expand economic prosperity and opportunity, and realize and defend the values at the heart of the American way of life.

Today, the United States faces strategic challenges stemming from complex interactions between increasingly capable state competitors; a rapidly changing global balance of military power; and emerging capabilities of adversaries that pose new threats to the U.S. homeland, vital national interests, and strategic stability. The People's Republic of China (PRC or China) is the most consequential strategic competitor of the United States and the pacing challenge for the Department, while the Russian Federation (Russia) poses acute threats, as illustrated by its brutal and unprovoked invasion of Ukraine. At the same time, the Department must remain vigilant against other persistent threats including those from the Democratic People's Republic of Korea (North Korea), the Islamic Republic of Iran (Iran), and violent extremist organizations, to remain focused on our priorities and avoid strategic distraction. Furthermore, changes in global climate and other dangerous transboundary threats, including pandemics and transnational criminal organizations, are transforming the context in which the Department operates and will increasingly place pressure on the Joint Force and the systems that support it. Recognizing growing kinetic and non-kinetic threats to the homeland from our strategic competitors, the Department will take necessary actions to increase resilience—that is, the ability to withstand, fight through, and recover quickly from disruption.

Consistent with the President's National Security Strategy, the Department's National Defense Strategy (NDS) articulates the following priorities, driving the Department's goals, investments, and programmatic decisions:

1. Defending the homeland, paced to the growing multi-domain threat posed by the PRC.
2. Deterring strategic attacks against the United States, allies, and partners.
3. Deterring aggression, while being prepared to prevail in conflict when necessary, prioritizing the PRC challenge in the Indo-Pacific, then the Russia challenge in Europe.
4. Building a resilient Joint Force and defense ecosystem.

The challenges we face are formidable, but the United States possesses strengths that our competitors cannot match. The Department will adapt to these challenges, which increasingly place pressure on the Joint Force and the entire defense enterprise. We will support a whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, and ensures the Nation leads from a position of strength that will keep America secure, prosperous, and free.

ORGANIZATIONAL STRUCTURE

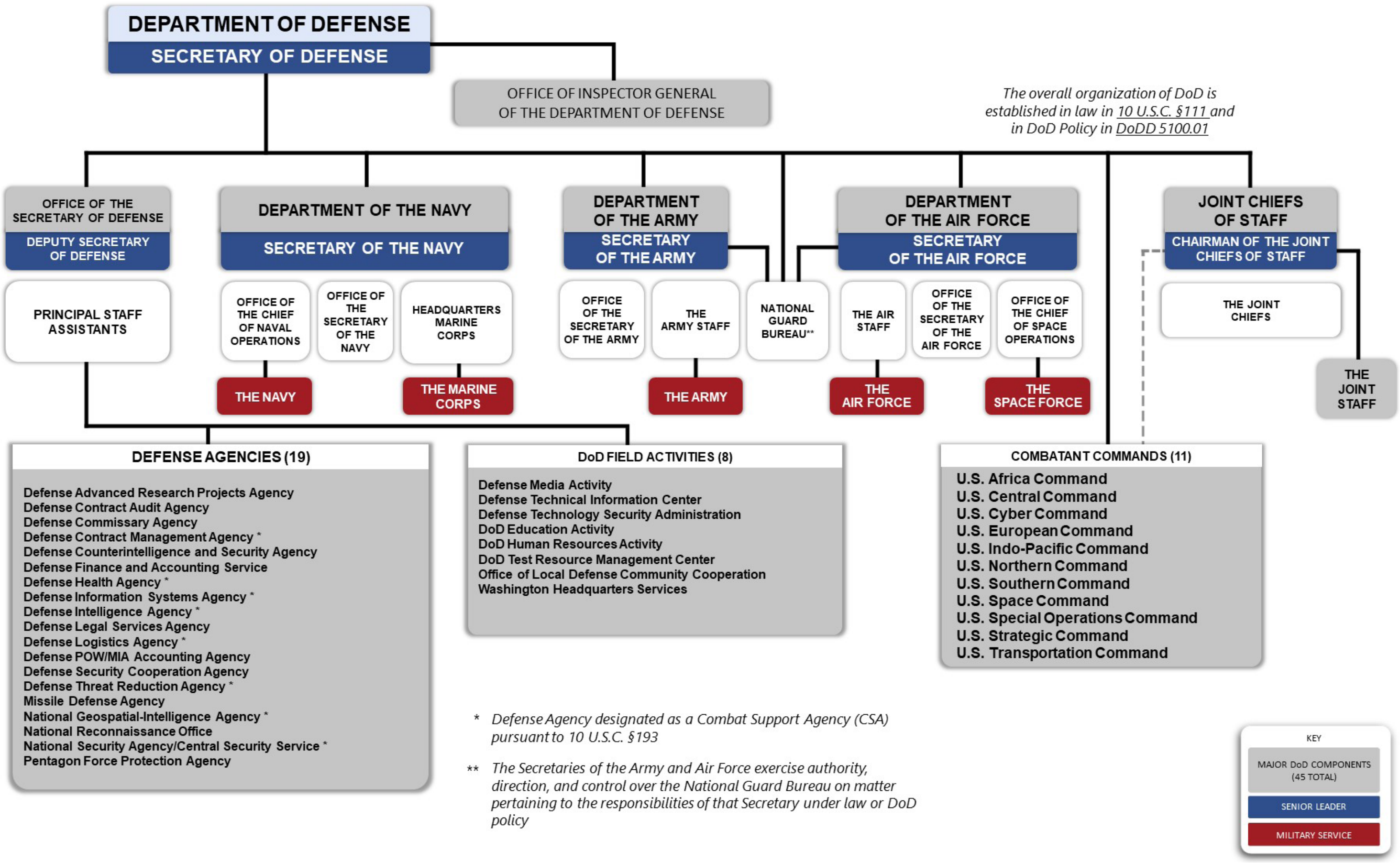
The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 military personnel serving in the National Guard and Reserve forces, and approximately 778,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In carrying out the Department's mission to protect National Security, Military Service members operate approximately 20,319 aircraft and 290 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 667,760 assets (buildings; structures; and linear structures, such as utilities, roads, and fences) located on over 4,686 sites worldwide as of the beginning of Fiscal Year (FY) 2023. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. These sites represent a total of nearly 25.7 million acres that individually vary in size from military training ranges with over 3.4 million acres such as *White Sands Missile Range*, to single weather towers, power line supports, or navigational aids isolated on sites of less than one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (e.g., runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (e.g., public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

The *Secretary of Defense* is the principal assistant and advisor to the President in all matters relating to the Department and exercises authority, direction, and control over the Department—in accordance with Title 10, United States Code (U.S.C.), section 113(b) (*10 U.S.C. §113(b)*). The Department comprises the Office of the Secretary of Defense; Joint Chiefs of Staff; Joint Staff; Combatant Commands; Military Departments; Office of Inspector General of the DoD; Defense Agencies; DoD Field Activities; and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense (see Figure 1).

Indiana National Guard soldiers present the national and state flags during the opening ceremony of the Indianapolis Colts final preseason game at Lucas Oil Stadium in Indianapolis, Sunday, Sept. 10, 2023. From left: Pfc. Benjamin Beaver, Sgt. Batak Strahan, Spc. Denise Loza, Spc. Jonathan Lanning. (Photo by Sgt. Jonah Alvarez)

Figure 1. Department of Defense Organizational Structure



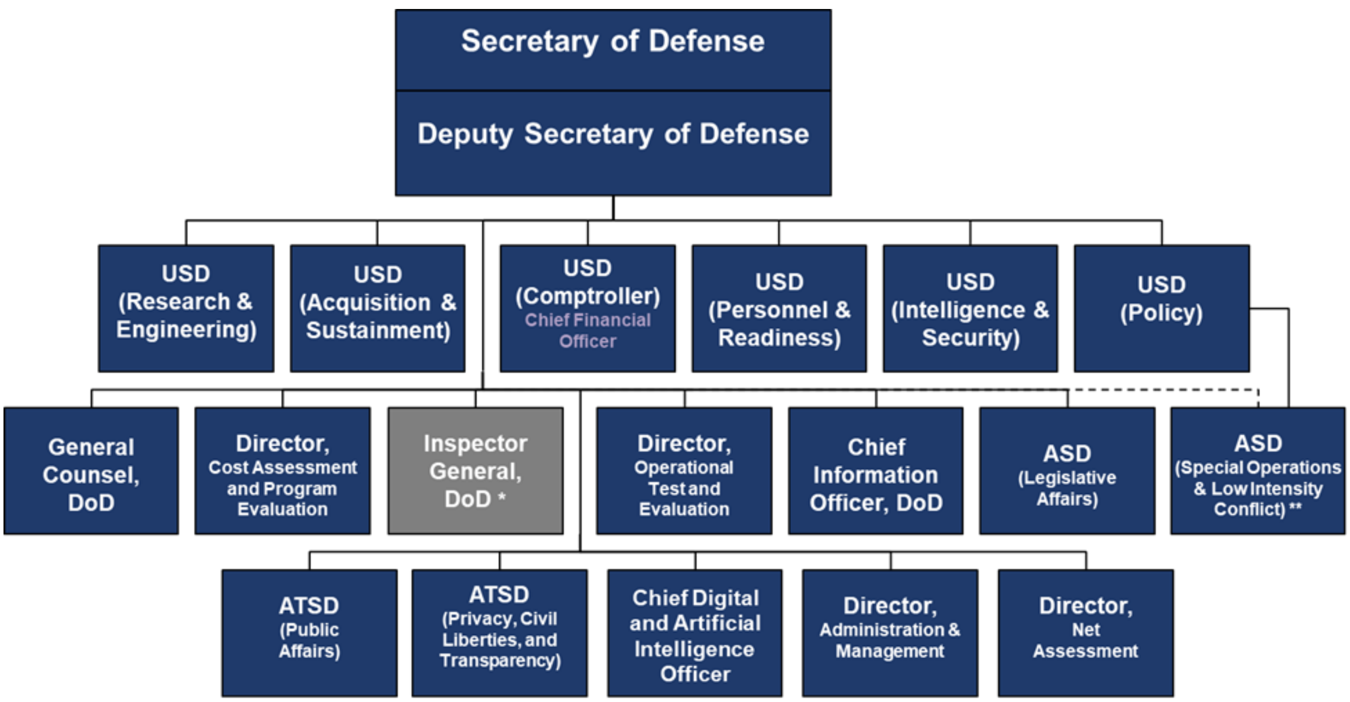
Soldiers assigned to the 2nd Cavalry Regiment conduct a convoy during Exercise Dragoon Ready 23 at the Joint Multinational Readiness Center in Hohenfels, Germany, Jan. 21, 2023. (Photo by: Army Spc. Micah Wilson)

OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out his duties and responsibilities as prescribed by law. The OSD comprises the Deputy Secretary of Defense, Under Secretaries of Defense (USDs), General Counsel of the DoD, Assistant Secretaries of Defense (ASDs), Inspector General of the DoD, and other senior officials and positions established by law or by the Secretary of Defense along with their supporting staffs.

The Principal Staff Assistants (PSAs) are those designated officials in OSD responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing the Defense Agencies and DoD Field Activities under their purview (see Figure 2).

Figure 2. Principal Staff Assistants



* Although the IG DoD is statutorily part of OSD and for most purposes is under the general supervision of the SD, the Office of the IG DoD (OIG) functions as an independent and objective unit of the DoD.

** The ASD(SOLIC) is under the USD(P), but is in the administrative chain of command over USSOCOM and reports directly to the SD for those specific matters.

The fast attack submarine USS Alexandria prepares to depart the floating dry dock after completing a successful regularly scheduled maintenance period at Naval Base Point Loma, Calif., April 5, 2023. (Photo by: Navy Petty Officer 1st Class Thomas Gooley)

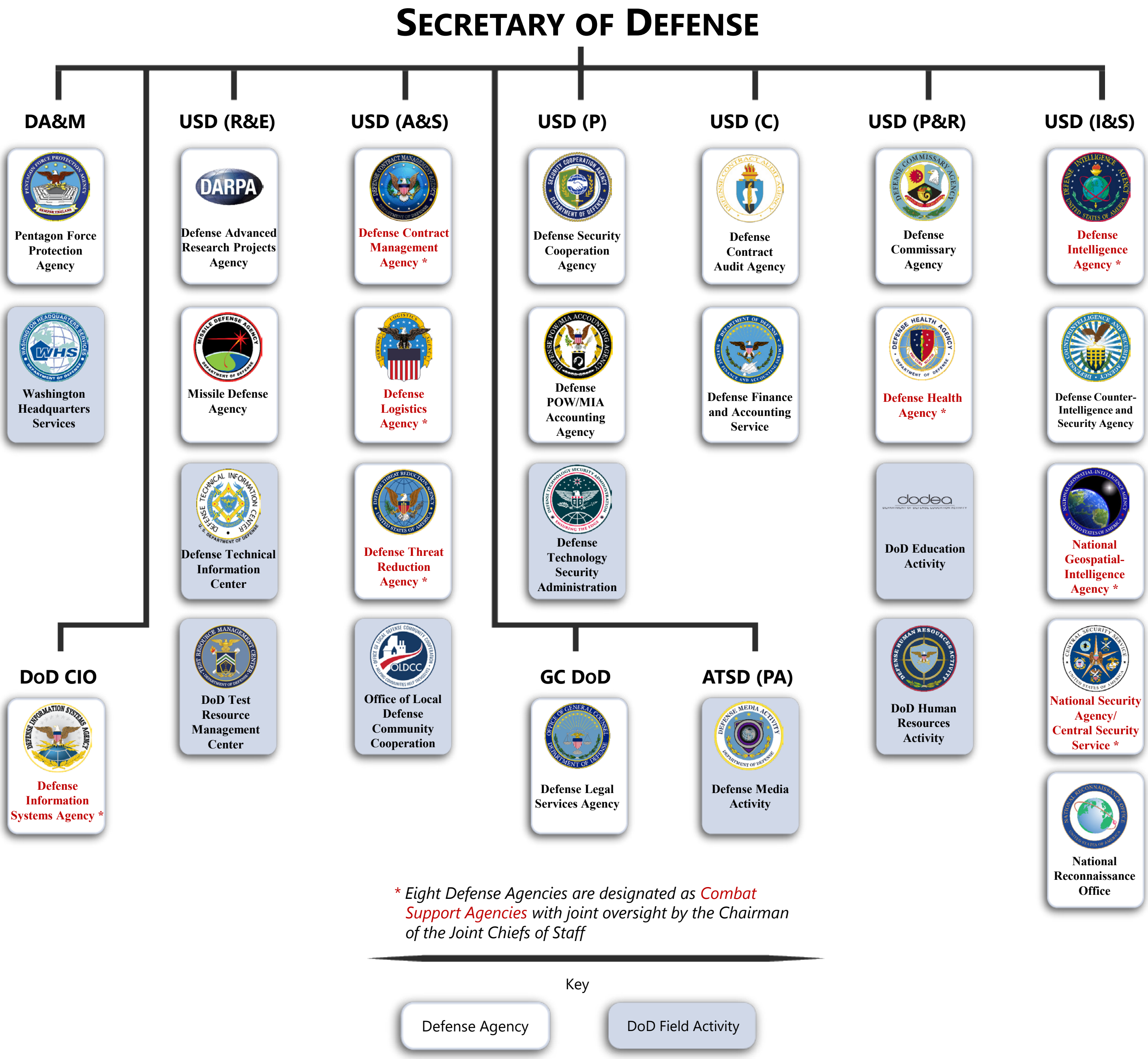
OFFICE OF INSPECTOR GENERAL

The Office of Inspector General of the DoD ([DoD OIG]) is an independent and objective unit within the Department that conducts and supervises audits, investigations, evaluations, and special reviews of the Department's programs and operations. The Inspector General of the DoD serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

Defense Agencies and DoD Field Activities are DoD Components established by law, the President, or the Secretary of Defense to provide—on a Department-wide basis—a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies providing direct support to operating forces. Each Director or Administrator of the 19 Defense Agencies and 8 DoD Field Activities exercises authority, direction, and control over their agency under the authority, direction, and control of a PSA (see Figure 3).

Figure 3. Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

The Joint Chiefs of Staff (JCS) are the principal military advisors to the President, National Security Council, Homeland Security Council, and Secretary of Defense. The JCS consists of the Chairman (CJCS), the Vice Chairman (VCJCS), the Chief of Staff of the Army (CSA), the Chief of Naval Operations (CNO), the Chief of Staff of the Air Force (CSAF), the Commandant of the Marine Corps (CMC), the Chief of Space Operations (CSO), and the Chief of the National Guard Bureau (CNGB). The CJCS is supported in this role by the Joint Staff. The Joint Staff may not operate or be organized as an overall Armed Forces General Staff and shall have no executive authority.

Army Capt. Kahill Lucero rides a camel during a cultural day event at Prince Sultan Air Base, Saudi Arabia, Dec. 11, 2022. (Photo By: Air Force Staff Sgt. Shannon Bowman)

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them within their areas of responsibility (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The chain of command runs from the President, to the Secretary of Defense, to the Commanders of the Combatant Commands. While the CJCS may not exercise military command over any of the armed forces, the CJCS functions within the chain of command by communicating the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4. Combatant Commands

Among Combatant Commands, the U.S. Special Operations Command (*USSOCOM*) and the U.S. Cyber Command (*USCYBERCOM*) have additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments. These responsibilities include programming; budgeting; acquisition; training, organizing, equipping, providing special operations forces and cyberspace operations forces, respectively; and developing strategy, doctrine, tactics, and procedures. However, the USSOCOM and USCYBERCOM, similar to the other Combatant Commands, rely on the Military Departments for resourcing of equipment, base support, military pay, and recruitment.

MILITARY DEPARTMENTS

The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force (of which the Space Force is a component). Upon the declaration of war, if the Congress so directs in the declaration or when the President directs, the Coast Guard becomes a service in the Department of the Navy; otherwise, it is part of the Department of Homeland Security. The Army, Navy, Marine Corps, Air Force, and Space Force are referred to as the Military Services (and the Armed Services when including the Coast Guard). The three Military Departments organize, train, and equip the five Military Services (or six Armed Services when including the Coast Guard) and provide administrative and logistics support to the Combatant Commands by managing operational costs and execution.

The Military Departments include both Active and Reserve Components. The Active Component comprises units under the authority of the Secretary of Defense, staffed by active duty Military Service members. The Reserve Component includes the National Guard and the Reserve of each Military Service, with the exception of the Space Force (see Figure 5). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (e.g., storms, drought, and civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each state or territory.

Figure 5. Reserve Components - Reserve and National Guard

When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve of the Military Services are placed under the operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve are recognized as indispensable and integral parts of the Nation's defense and are fully part of the respective Military Department.

RESOURCES

In FY 2023, the Department received total appropriations of $1,093.7 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Appropriations ($ in Billions)	FY 2023	Restated FY 2022	FY 2021	FY 2020	FY 2019
Discretionary Budget Authority	$ 851.7	$ 776.6	$ 704.8	$ 723.1	$ 687.8
Civil Works Projects executed by USACE	11.7	25.9	6.2	6.1	8.2
Treasury contribution for Military Retirement and Health Benefits	141.1	125.0	114.9	107.0	101.6
Trust Fund Receipts	260.5	283.1	215.9	168.5	172.5
Trust Fund Resources Temporarily not Available	(171.3)	(191.1)	(136.7)	(90.5)	(95.7)
Appropriations (Discretionary and Mandatory) Reported on Statement of Budgetary Resources	**$ 1,093.7**	**$ 1,019.5**	**$ 905.1**	**$ 914.2**	**$ 874.4**

Forty-nine F-16 Vipers and MQ-9 Reapers assigned to the 49th Wing line up on the runway during an elephant walk at Holloman Air Force Base, N.M., April 21, 2023. The 49th Wing is the Air Force's largest F-16 and MQ-9 formal training unit, building combat aircrew pilots and sensor operators ready for any future conflicts. (Photo by: Tech. Sgt. Victor J. Caputo)

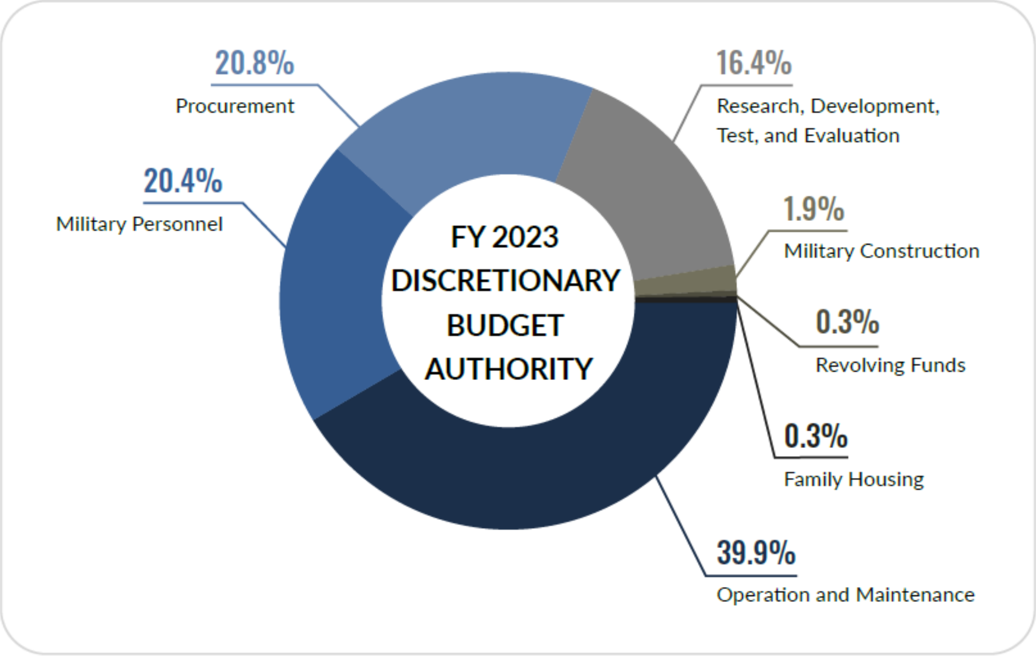
DISCRETIONARY APPROPRIATIONS

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives. The Department's discretionary funds were appropriated or authorized by the *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*, the *National Defense Authorization Act for Fiscal Year 2023*, the *Consolidated Appropriations Act, 2023*; and the *Fiscal Responsibility Act, 2023*. The FY 2023 Discretionary Budget Authority of $851.7 billion was provided to the Department using seven appropriation categories, which describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2023 Discretionary Budget Authority

Appropriation Category	$ in Billions	Percentage
Military Personnel	$ 174.2	20.4%
Operation and Maintenance	$ 339.6	39.9%
Procurement	$ 176.9	20.8%
Research, Development, Test, and Evaluation	$ 139.8	16.4%
Military Construction	$ 16.7	1.9%
Family Housing	$ 2.3	0.3%
Revolving Funds	$ 2.2	0.3%
Total Discretionary Budget Authority	$ 851.7	100.0%



Military Personnel

FY 2023 Military Personnel appropriations increased by $6.7 billion from FY 2022. Generally, funds in this category provide for *military compensation* to the Active and Reserve Component members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the *Blended Retirement System*. Specifically, FY 2023 Military Personnel appropriations included funding for a 4.6 percent military base pay raise effective January 1, 2023.

Operation and Maintenance

FY 2023 Operation and Maintenance (O&M) appropriation increased by $20.4 billion from FY 2022. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for training and operations, pay of civilians, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. Specifically, FY 2023 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, infrastructure, and funding for Combatant Command exercises and engagements (e.g., Operation Pathways, Griffin Shock, Formidable Shield, Balikatan) to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Procurement

FY 2023 Procurement appropriations increased by $23.7 billion from FY 2022. Generally, funds in this category provide for the acquisition of equipment. This includes unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Specifically, FY 2023 Procurement appropriations included funding for the 3 Arleigh Burke-class guided missile destroyers, 2 Virginia-class fast attack submarines, 1 frigate, 1 John Lewis-class T-AO Fleet Oilers, 69 F-35 Joint Strike Fighters, and 8 F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2023 Research, Development, Test, and Evaluation (RDT&E) appropriations increased by $20.7 billion from FY 2022. Generally, funds in this category provide for critical investments in basic and applied technologies, advanced technology development, prototypes, design and development for major acquisition programs, and upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries. Specifically, FY 2023 RDT&E appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance) and space systems development (e.g., the Next Generation Overhead Persistent Infrared Missile Warning/Missile Tracking satellite development). RDT&E also includes strengthening homeland missile defense (e.g., the Ground-based Midcourse Defense and Next-Generation Interceptors), modernizing nuclear enterprise systems, and investing in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, space and hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2023 Military Construction appropriations increased by $3.3 billion from FY 2022. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Specifically, FY 2023 Military Construction appropriations included funding to support the *European Deterrence Initiative* and climate-related investments within the Energy Resilience and Conservation Investment Program.

Family Housing

FY 2023 Family Housing appropriations increased by $0.8 billion from FY 2022. Generally, funds in this category provide for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the United States and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Revolving Funds

FY 2023 Revolving appropriations decreased by $0.5 billion from FY 2022. Generally, funds direct appropriations into the Defense Working Capital Fund to buy operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations support the Defense Commissary Agency (*DeCA*), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new Defense Working Capital Fund activity is established, its founding cash corpus is established by a direct appropriation. Reprogramming associated with increased fuel cost also contributes to the Defense Working Capital Fund.

Civil Works Projects Executed by U.S. Army Corps of Engineers (USACE)

For FY 2023, $8.3 billion was received, compared to $8.3 billion in FY 2022. The funding received in FY 2023 was used to execute a number of civil works projects that included supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage. The Congress appropriates funding directly to the *USACE* under the *Consolidated Appropriations Act, 2023*, *Infrastructure Investment and Jobs Act*, and *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*.

MANDATORY APPROPRIATIONS

In addition to the discretionary budget authority received from annual appropriation acts, the Department also receives mandatory appropriations from the provisions of previously enacted laws. The amounts the Department receives for these mandatory appropriations are generally stipulated by statutorily defined criteria.

Treasury Contribution for Military Retirement and Health Benefits

The Department of the Treasury (*Treasury*) is required to contribute payments to the Military Retirement Fund (MRF), under the provisions of *10 U.S.C. §1413a* and *10 U.S.C. §1414*, and the Medicare-Eligible Retiree Health Care Fund (MERHCF), under the provisions of *10 U.S.C. §1116(a)(1)*, to cover (1) a portion of the present value of future benefits payments to be paid to eligible retirees, and (2) the fiscal year's amortization of the funds' unfunded liability. The *DoD Office of the Actuary* determines the amounts of these contributions based on projection models that rely on data (e.g., average force strength) and assumptions (e.g., future inflation rates).

Trust Fund Receipts

Funds are paid into multiple DoD trust funds, primarily MRF and MERHCF, from various sources including the Treasury contributions, described above, and payments from the Uniformed Services (i.e., the Military Services, the *National Oceanic and Atmospheric Administration*, and the *Commissioned Corps of the U.S. Public Health Service* to cover the cost of benefits earned in the current year, and interest earned on Treasury investments held by the trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources (SBR)*, in the Financial Section, for additional information.

Trust Fund Resources Temporarily Not Available

Certain resources that were appropriated in the current year are precluded from obligation during the current year by a provision of law, such as a benefit formula or limitation. The Department will obligate these resources in future years to pay the current unfunded liabilities of the corresponding trust funds.

Creating Helpful Incentives to Produce Semiconductors (CHIPS)

The Department received $400 million in mandatory funding in the CHIPS Act of 2022 for FY 2023 - FY 2027 to facilitate the procurement of semiconductors in the United States. Of the $400 million appropriated in FY 2023, the Department obligated $38.5 million as of September 30, 2023. These funds may not be apportioned or obligated until the enactment of the respective year's appropriation bill.

EMERGENCY RESPONSE FUNDING

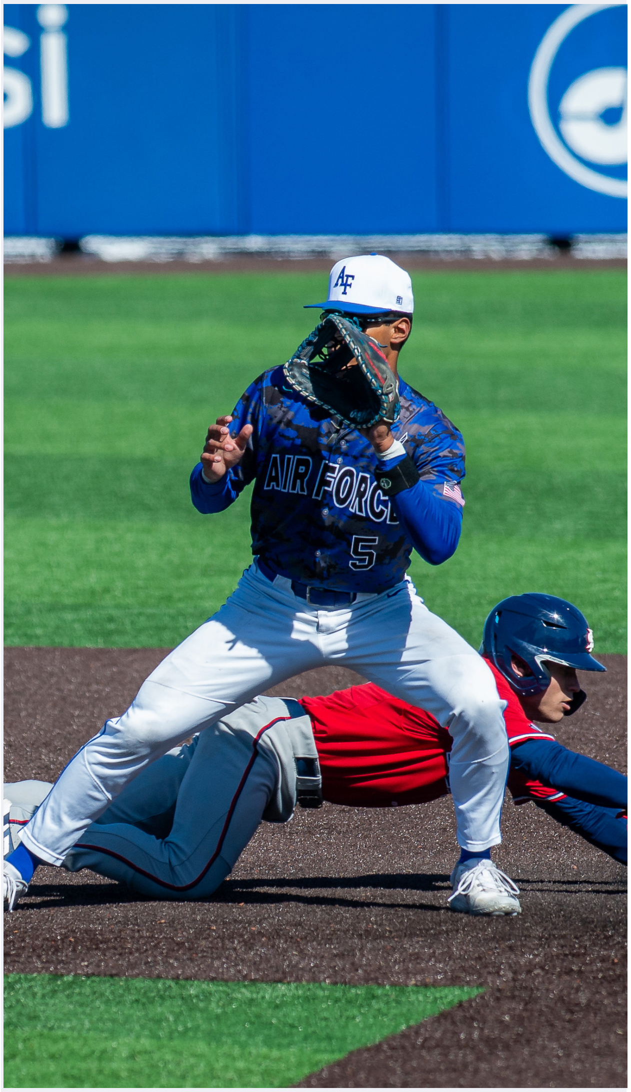
COVID-19 RESPONSE

The Department acted boldly and quickly to support the Federal Government's fight against the Coronavirus Disease 2019 (*COVID-19*) pandemic and will continue to work with domestic and international partners to protect the Nation from potential novel and deadly viruses of the future. The Department anticipates COVID-19 costs will continue to decrease, driving a reduction in the Defense Health Program (DHP) budget in Direct Care and Private Sector Care. The Department continues to invest in testing, genomic sequencing, and integrating health information technology systems to protect against and treat COVID-19, while applying lessons learned to prepare for future biological threats and other major public health emergencies.

As of September 30, 2023, the Department obligated a cumulative total of $10.1 billion of the total Families First Coronavirus Response Act (*FFCRA*) and Coronavirus Aid, Relief, and Economic Security Act (*CARES Act*) supplemental funding.

The DHP COVID-19 funds budgeted and executed in FY 2023 are baseline funding and not FFCRA and CARES Act supplemental funding. The FY 2023 DHP's President's Budget includes $485.0 million to support COVID-19 Private Sector Care claims, vaccine, testing, and surveillance health activities for the pandemic level of effort not covered in the base budget. This funding sources COVID-19 diagnostic, surveillance, and screening tests. The funding also provides COVID-19 booster vaccines, expanded public health efforts, and whole genomic sequencing and bio-informatics capabilities for pandemic preparedness and response for infectious disease threats.

FY 2023, the DHP obligated a cumulative total of $500.8 million in support of COVID-19 requirements.



U.S. Air Force Academy cadet Sam Kulasingam attempts to force out Fresno State during a game at Falcon Field in Colorado Springs, Colo., on April 6, 2023. The Falcons beat Fresno State in a 13-4 Friday afternoon win. (Photo by: Justin R. Pacheco)

UKRAINE RESPONSE

During FY 2023, in response to Russia's invasion of Ukraine, multiple laws were passed by the Congress and signed into law by the President in support of Ukraine. These laws provided supplemental appropriations to the Department totaling $35.7 billion, which are reflected in the FY 2023 total appropriations amounts:

- On September 30, 2022, the *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*, was signed into law. This act provided the Department with an additional $7.8 billion of supplemental funds across multiple appropriation categories to replenish DoD equipment stocks sent to Ukraine via presidential drawdown authority; and to continue military, intelligence and other defense support. The act provides additional funding for the Ukraine Security Assistance Initiative (USAI), which directly funds the acquisition of critical defense capabilities and equipment.
- On December 29, 2022, the *Consolidated Appropriations Act, 2023*, was signed into law, providing an additional $27.9 billion to continue to provide military capabilities and equipment to Ukraine. The Act provided supplemental funds across multiple appropriation categories and included $9 billion for the USAI to provide training, equipment, logistics support, supplies and services, and intelligence support to the military and national security forces of Ukraine. Funding also supported enhanced U.S. military units in Europe supporting NATO Response Forces, replenishment of DoD stocks provided to Ukraine under presidential drawdown authority, and funds for facilities expansion to support enhanced munitions industrial base.

As of FY 2023, the Department obligated a cumulative total of $48.7 billion, and $14.2 billion remains available for future obligation.

PRESIDENTIAL DRAWDOWN AUTHORITY FOR UKRAINE

Since August 2021, the United States has utilized the Presidential Drawdown Authority (PDA) under section 506(a)(1) of the Foreign Assistance Act of 1961, as amended (FAA) enabling the Department to provide articles to Ukraine directly from our stocks. To date, the Department has moved unprecedented amounts of equipment at an exceptional pace to support Ukrainian needs.

During the Department's oversight of its execution of Presidential drawdowns, inconsistencies were discovered in how the Military Departments were establishing the value of defense articles they were drawing down from their inventories and providing to Ukraine. After a reassessment was conducted, it was concluded that the amounts for drawdowns directed during FY 2023 and FY 2022 were overvalued by $3.6 billion and $2.6 billion, respectively. These overvaluations have since been corrected, resulting in identification of $6.2 billion in remaining drawdown authority available for support to Ukraine.

The Department's valuation of assets for the purposes of PDA, and any subsequent corrections, does not have an impact on the Department's valuation of assets for the purposes of financial reporting. For financial reporting purposes, the Department follows the valuation methodology promulgated by Federal Financial Accounting Advisory Board (FASAB) in their Statements of Federal Financial Accounting Standards (SFFAS).

Currently, audits are underway by GAO and DoDIG to assess the Department's methodology for valuation of assets for the purposes of PDA.

PERFORMANCE OVERVIEW

The Department's Strategic Management Plan (SMP) for FY 2022 – FY 2026 articulates the Secretary of Defense's strategic management priorities, consistent with the National Defense Strategy (NDS), with an emphasis on building enduring advantages. The SMP presents the Department's strategic management objectives by providing a framework for describing general and long-term goals, what actions the Department will take to realize those goals, and how the Department will address challenges and risks that may hinder achieving results. The SMP meets statutory requirements pursuant to the Government Performance and Results Act of 1993 (GPRA), GPRA Modernization Act of 2010 (GPRAMA), and OMB Circular No. A-11, requiring federal agencies to develop and submit an Agency Strategic Plan in concurrence with the President's budget request. This plan serves as the blueprint on advancing the NDS in the present and in the years ahead and demonstrates the Department's continued commitment to transparency and accountability.

In addition to the SMP, each year the Department communicates its commitment to strategic planning and performance management by publishing an Annual Performance Plan (APP) and Annual Performance Report (APR). The APP complements the SMP's longer-term planning outlook by linking its strategic goals and objectives to shorter-term operational performance goals, measures, and targets for the upcoming fiscal year. The APR consolidates prior year performance results across all DoD Components and communicates overall implementation progress against the SMP.

Performance Monitoring and Tracking

The Department is a performance-based organization committed to using performance data and results to drive decision-making and accountability for achieving outcomes. The Department monitors, reviews, and reports progress on its strategic priorities, objectives, and associated performance goals and measures on a quarterly basis, following specific targets identified in the APP for the upcoming fiscal year. The Deputy's Management Action Group (DMAG) is the senior body for governing the Department's SMP, including assessing component and enterprise-wide performance. These efforts are supported by the Defense Performance Improvement Council (DPIC) which serves as the Department's governance and integration body for matters associated with defense management, defense reform, performance management and improvement, enterprise risk management, and oversight of related resourcing decisions. The DPIC, chaired by the DoD Performance Improvement Officer (PIO), meets on a monthly basis and also focuses on the preparation and monitoring of the SMP, APP, and APR implementation, and conducts quarterly progress reviews of Agency Priority Goals (APG). These performance measures provide a comprehensive view of the "health" of enterprise management operations for the Department.

Data-Driven Performance Management

The Department is committed to using data and analytics to track progress on strategic priorities in an outcome-driven, metrics-based manner that drive improved performance. To enable the shift to a data-driven approach for performance management, the Chief Digital and Artificial Intelligence Officer (CDAO), in partnership with the PIO and Undersecretary of Defense for Policy (USD(P)), designed an executive analytics capability in Advana, called "Pulse," that uses metrics informed by authoritative data to give DoD senior leaders a strategic view of how the Department is performing against its top priorities. Pulse refers to both the integrated data and analytics layer for performance management in Advana, as well as the governance structure for overseeing progress and escalating risks.

The Pulse applications support the Deputy Secretary of Defense's vision to transform the Department into a data-driven organization, to ensure alignment of performance improvement activities with Secretary of Defense priorities, and to foster better decision-making around performance. This initiative empowers DoD Components to draw deeper insights from data, drive more efficient processes and procedures, and enable proactive performance tracking and monitoring.

With the increased visibility of authoritative data, the Department also has better insight into ongoing reform efforts to address identified areas of underperformance.

Through the Pulse framework, the Department aims to:

- Develop and integrate data-informed, outcome-based metrics to show how the Department is performing against Secretary of Defense/Deputy Secretary of Defense strategic priorities.
- Enable the Secretary of Defense/Deputy Secretary of Defense to proactively monitor how the Department is performing and be notified if there are areas where they need to engage.
- Ensure performance improvement efforts across the Department align to Secretary of Defense/Deputy Secretary of Defense top strategic priorities and performance goals/objectives.

Pulse is a collaborative effort across the Department that will evolve and mature over time. As DoD Components increasingly use Pulse in day-to-day management decisions, the quality of the data and the maturity of available measures will increase. By using Pulse in management discussions at the highest levels, the Department will be able to translate core business objectives into measurable outcomes that change behaviors and improve overall performance.

Performance Management Framework

The SMP for FY 2022 – FY 2026 is the result of a collaborative effort among subject matter experts across the Department and aligns every strategic objective to a strategic priority (see Figure 8). To achieve the objectives outlined in the SMP, the Deputy Secretary of Defense and PIO engage with senior leaders across the Department to promote enhanced management processes, systems, and practices. The SMP provides the Deputy Secretary of Defense and PIO with effective levers to identify, oversee, and report on a series of tangible and measurable activities ensuring diligence in the Department's management of resources assigned to those priorities. The implementation of each strategic objective in the SMP is in the purview of one or more of the Office of the Secretary of Defense (OSD) Principal Staff Assistants (PSAs) who are delegated with the Secretary of Defense's authority to carry out their assigned responsibilities and functional areas.

Strategic Goals and Objectives

The strategic priorities and objectives, coupled with the performance goals and measures outlined in the FY 2024 APP describe how the Department intends to achieve its goals and priorities and succeed through teamwork with our allies and partners. Complete FY 2023 performance results through fiscal year-end will be published in the FY 2023 APR, which will be released with the President's Budget in February 2024, and made available to the public through the Office of the DA&M's website at *https://dam.defense.gov/performance*.

The strategic management framework as defined in the FY 2022 – FY 2026 SMP is presented below. Each Strategic Priority (SP) is tied to one or more Strategic Objectives (SO), which are tied to a Performance Goal (PG) or Agency Priority Goal (APG).

Figure 8. DoD Strategic Goals and Objectives

Strategic Goals	Strategic Objectives
GOAL 1 - Transform the Foundation of the Future Force Building enduring advantages across the enterprise requires overhauling the Department's force development, design, and business management practices. Our current system is too slow and too focused on acquiring systems not designed to address the most critical challenges. This orientation leaves little incentive to design open systems that can rapidly incorporate cutting-edge technologies, creating longer term challenges with obsolescence, interoperability, and cost effectiveness. The Department is transitioning to processes and systems that instead reward rapid experimentation, acquisition, and fielding. We will align requirements and undertake a campaign of learning to identify the most promising concepts, incorporating emerging technologies in the commercial and military sectors for solving our key operational challenges. These efforts will ensure the Department can sustain and strengthen deterrence and investments that build enduring advantages.	**1.1:** Drive competitive advantage by acquiring effective capabilities to deter and, if necessary, defeat pacing threats **1.2:** Modernize and sustain the nuclear deterrent and protect against chemical and biological threats **1.3:** Deliver and optimize the Department's enterprise, information, and technology infrastructure to drive mission effectiveness
GOAL 2 - Make the Right Technology Investments To maintain the U.S. military's technological advantage, the Department continues to champion research, science, technology, engineering, and innovation. The Department will support the innovation ecosystem, both at home and in expanded partnerships with our Allies and partners. Innovation has always been a strength of the United States, and the Department will harness that innovation by focusing development resources on unique capabilities needed by the military and will quickly adopt the best commercial dual use technologies. The DoD will develop and prototype critical technologies and conduct continuous campaigns of joint experimentation to improve those technologies and deliver capabilities to the warfighter.	**2.1:** Build a strong foundation for future science and technology through modernized laboratories and test facilities **2.2:** Collaborate with public/private sector partners in support of innovative, interoperable solutions **2.3:** Leverage technology innovation to build enduring performance advantage
GOAL 3 - Strengthen Resiliency and Adaptability of Our Defense Ecosystem The Department will strengthen our Defense Industrial Base (DIB) to ensure that we produce and sustain the full range of capabilities needed to give U.S. allied and partner forces a competitive advantage. We will bolster support for our unparalleled network of research institutions, both university-affiliated and federally funded research and development centers, as well as small businesses and innovative technology firms. The Department will act urgently to better support advanced manufacturing processes to increase our ability to reconstitute the Joint Force in a major conflict. Industry plays a key role in both the effort to strengthen the defense ecosystem and to project military force: our industry Partners provide critical transportation capability and the global networks we need to meet day-to-day warfighting requirements. The Department's approach will be eminently proactive, developing vibrant relationships with commercial Partners in order to create sufficient military capacity to satisfy wartime demands at acceptable risk levels.	**3.1:** Shape a 21st century Defense Industrial Base (DIB)* **3.2:** Reduce operation and sustainment costs to maximize readiness **3.3:** Enhance the DoD's ability to combat 21st century climate, energy, and environmental challenges* **3.4:** Enhance the DoD's cybersecurity posture **3.5:** Increase the resiliency of C3 capabilities **3.6:** Engage in co-development, research, testing, and evaluation with Allies and partners

Strategic Goals	Strategic Objectives
GOAL 4 - Take Care of Our People and Cultivate the Workforce We Need The Department must continue to focus on attracting, recruiting, retaining, and training its workforce to ensure the Total Force has the right tools to both meet and keep pace with the ever-evolving threats to our Nation. This includes personnel systems and analytics that will provide the best data to support workforce forecasting and development. Enhancing readiness through a diverse and inclusive Total Force will foster innovation and collaboration, and enable the Force to best represent the population it is dedicated to protecting. Focusing on readiness will also require the Department to protect the health, safety, and welfare of the Force by ensuring a safe and supportive environment for all, preventing problematic behaviors, supporting victims, and holding offenders appropriately accountable. In particular, we must strive to counter behaviors – such as sexual assault/harassment, and participation in extremist activities – that erode our force readiness. Finally, the Department recognizes the crucial role family members play in sustaining the Total Force and will work to address their needs. In line with DoD leadership's priority to innovate and modernize the Department, we will continue to modernize our healthcare capabilities. An integrated and transformed Military Health System, with a state of the art electronic health record, will achieve the Quadruple Aim for the Total Force and military families: improved readiness, better health, better care, and lower cost.	**4.1:** Cultivate Talent Management* **4.2:** Change the culture **4.3:** Promote the health, wellbeing, and safety of the Force and families
GOAL 5 - Address Institutional Management Priorities Building enduring advantages also requires the Department to focus on standardization and simplification to enable productivity, trustworthiness, security, and innovation in DoD's management practice. Through Department-level and Federal Agency-wide priority efforts to address institutional priorities, challenges, and risks, we will improve force readiness, deliver greater impact through innovation, and increase the effectiveness and efficiency of the Department's day-to-day operations. The SMP captures key Department-wide initiatives - such as achievement of an unmodified audit opinion - to tackle existing challenges, streamline business processes, and secure and rationalize defense business systems. When the DoD achieves audit, we will operate in a secure environment in which financial data and reporting integrity are the norm, providing confidence in the data used for decision making across the Department. This happens through continued diligence in our audit remediation efforts, which continue to foster an environment that features fewer more capable and secure systems, better data, a proficient analytical workforce, and improved transparency that enables faster insights for mission support.	**5.1:** Accelerate the path to an unmodified audit opinion **5.2:** Optimize budget to execution and foster a high integrity funds control environment **5.3:** Modernize DoD business systems **5.4:** Accelerate the adoption of trusted data and analytics across the Department

**Indicates a strategic objective tied to an agency priority goal.*

Some performance goals are considered APGs, which are intended to highlight target priority policy and management areas in which agency leaders plan to achieve near-term performance advancement through focused senior leadership attention (see Figure 9). The anticipated timeline to accomplish these goals is two years. A senior leader within the Department is assigned to each APG and is responsible for updating the DBC on a quarterly basis. Quarterly progress updates on the APGs are published on Performance.gov.

Figure 9. DoD Level Agency Priority Goals

Agency Priority Goal (FY 2022 - FY 2023)	Agency Priority Goal Lead	Associated Strategic Objective
Ensure Supply Chain Resilience	Assistant Secretary of Defense (ASD) for Industrial Base Policy	Shape a 21st century Defense Industrial Base
Reduce Climate Impacts to DoD Installations	Deputy Assistant Secretary of Defense (DASD) for Environment and Energy Resilience	Enhance the DoD's ability to combat 21st century climate, energy, and environmental challenges
Shape an Appropriately Skilled and Ready Future Workforce: Improve Recruitment and Retention of the Civilian Workforce	Deputy Assistant Secretary of Defense (DASD) for Civilian Personnel Policy	Cultivate Talent Management

Financial Management Strategy Goals and Objectives

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) published the Financial Management (FM) Strategy to unify the FM workforce in achieving common goals throughout the DoD FM community. The FM Strategy for FY 2022 – FY 2026 aims to simplify and standardize DoD's FM environment to accelerate budget confidence, operational effectiveness, cybersecurity protection, auditability, transparency, and affordability. This strategy incorporates input from leaders, budget analysts, data analysts, accountants, and auditors throughout the Department as well as partners of the FM community. Many goals and objectives from the FM Strategy are developed in conjunction with related objectives found within the SMP, as the strategic objectives and performance goals are the result of a collaborative effort with subject matter experts.

The DoD FM community's highest priorities are to deliver world-class, responsive financial management that ensures the Department remains the premier global military and accomplishes its mission in a fiscally responsible manner, while inspiring trust with our civilian and military leaders, Congress, and the American taxpayer. The five strategic goals of the FM Strategy are:

1. Cultivate a skilled and inspired workforce
2. Optimize taxpayer dollars for the highest value outcomes
3. Increase the integrity of financial results
4. Simplify and optimize our end-to-end business environment
5. Empower data-driven, fiscally informed decision-making

Effective DoD financial management adds value to the warfighter's ability to achieve mission success. The Department's ability to be agile and pivot to integrate financial and operational data empowers global force decision-making and enables the FM Community to efficiently support the warfighter.

FORWARD LOOKING INFORMATION

The Department continues to make great strides to improve its current readiness, while making significant investments in future capabilities and force modernization through FY 2024. Given the complexity of its mission, the Department faces a myriad of emerging risks and challenges. Nevertheless, the Department is committed to the appraisal of these risks and in identifying every opportunity to optimize its operational performance.

The aggression from Russia and security risks posed by China necessitates protecting the U.S. homeland and reinforcing a stable and open international system.

The Department advances our priorities through integrated deterrence, campaigning, and actions that build enduring advantages. The Department is implementing a strategy anchored in allies and partners that focuses on deterring the PRC, while campaigning to gain military advantage, enhance deterrence logics, and address gray zone challenges. Our strategy seeks to prevent the PRC's dominance of key regions, while protecting the U.S. homeland and reinforcing a stable and open international system. A key objective is to dissuade the PRC from considering aggression as a viable means of advancing goals that threaten vital U.S. national interests.

Even as the Department focuses on the PRC as our pacing challenge, we are accounting for the acute threat posed by Russia, demonstrated most recently by Russia's unprovoked further invasion of Ukraine. We are working closely with the North Atlantic Treaty Organization (NATO) and our partners to provide U.S. leadership, develop key enabling capabilities, and deepen interoperability to pursue a deterrence by cost imposition logic for Russian aggression against NATO, while ensuring that Russia suffers a strategic defeat in Ukraine.

Marines assigned to the Combat Logistics Battalion 2, Combat Logistics Regiment 2, 2nd Marine Logistics Group, conduct a hike during Marine Rotational Force- Europe 23.1 in Setermoen, Norway, Jan. 29, 2023. The mission focuses on regional engagements throughout Europe by conducting various exercises, mountain-warfare training, and military-to-military engagements which enhance the overall interoperability of the Marine Corps with allies and partners. (Photo by: Marine Corps Sgt. Christian Garcia)

To counter both the security risks posed by the PRC and the aggression coming out of Russia, the Department continues to focus on preventing conflict, while being prepared to prevail should deterrence fail. This requires the Department to operate forces and contribute to synchronizing broader U.S. Government efforts through integrated deterrence, campaigning, and building enduring advantages.

Integrated Deterrence

The combat credibility of the U.S. military to fight and win in defense of our Nation's interests is a cornerstone of integrated deterrence. Effective deterrence requires working seamlessly across domains and theaters and throughout the spectrum of conflict in close cooperation with federal agencies, allies, and partners to ensure the U.S. military makes the cost of aggression clear.

- Deterrence by Denial – To deter aggression, especially where potential adversaries could act to rapidly seize territory, the Department will develop asymmetric approaches and optimize our posture for denial, where adversaries assess that they lack the capability to achieve their objectives through force.
- Deterrence by Resilience – Denying the benefits of aggression also requires resilience – the ability to withstand, fight through, and recover quickly from disruption. The Department will improve its ability to operate in the face of multi-domain attacks on a growing surface of vital networks and critical infrastructure, both in the homeland and in collaboration with allies and partners at risk.
- Deterrence by Direct and Collective Cost Imposition – Denial and resilience strategies are necessary, but not always sufficient. Effective deterrence may also hinge on the Department's ability to impose costs in excess of the perceived benefit of aggression, such that adversaries assess that they have the capability to achieve an objective by force but lack the resolve to incur the perceived costs of doing so. Enabled by combat-credible forces backstopped by a safe, secure, and effective nuclear deterrent, the Department made the following investments:
  - $61.1 billion for air power to continue developing, modernizing, and procuring lethal air forces, including a focus on fighters, including F-22, F-35, F-15EX; the B-21 bomber, mobility aircraft, including KC-46A; specialized support aircraft; and unmanned aircraft systems.
  - $48.1 billion for sea power including new construction of nine battle force fleet ships and continued funding for the incremental construction of Ford class nuclear powered aircraft carriers and Columbia ballistic missile submarines.
  - $37.7 billion for Nuclear Enterprise Modernization, including continued development and procurement of the B-21 program, production of the second Columbia ballistic missile submarine, first-year advance procurement funding for the LGM-35A Sentinel program, and development efforts supporting nuclear command, control, and communications systems.
  - $29.8 billion to enhance Missile Defeat and Defense, including development of the Next Generation Interceptor for Ground-Based Midcourse Defense, increased investments in regional missile defense network, development of a resilient overhead persistent infrared capability in low earth orbit and medium earth orbit, and integration of the Terminal High Altitude Area Defense (THAAD) Battery capability into the Army's Integrated Air and Missile Defense Battle Command System planning process.

Campaigning

Our competitors are increasingly undertaking activities designed to erode U.S. deterrence and advance their own interests. The Department strengthens deterrence, gains military advantage, and counters adversary coercion not only by building Joint Force capability, but also by campaigning—the conduct and sequencing of logically-linked military activities to achieve strategy-aligned objectives over time. Through its campaigning, the Department will tie together the breadth of U.S. defense activities and those of our allies and partners to deter aggression and counter adversary gray zone activities by operating forces, synchronizing broader U.S. Government efforts, and gaining advantages on our terms. Evidenced by day-to-day activities and actions, overseas operations, readiness training and exercises, and continuous engagement and collaboration with our allies and partners to advance our shared interests, the Department made the following investments:

- $146.0 billion for strategic readiness and preparedness of the Joint Force supporting modernizing capabilities for the future fight and sustaining current force readiness.
- $9.1 billion for the Pacific Deterrence Initiative (PDI) providing critical investments in resilient and distributed basing, new missile warning and tracking architecture, funding for the Defense of Guam, and multinational information sharing, training and experimentation.
- $4.8 billion for European deterrence and countering Russian aggression including the European Deterrence Initiative (EDI), NATO support and security investment programs, and the Ukraine Security Assistance Initiative (USAI).

Building Enduring Advantages

The strategy's third approach, to support both integrated deterrence and campaigning, is to build enduring advantages across the defense enterprise which requires broad and deep change in how we produce and manage military capabilities that account for challenges from adversaries and the environment in which we operate. The Department is taking action to affect this change in five ways, by transforming the foundation of the future force, making the right technology investments, adapting and fortifying our defense ecosystem, strengthening resilience and adaptability, and cultivating the workforce we need. With an eye towards leveraging asymmetric American advantages such as our entrepreneurial spirit; the diversity and pluralism of our ideas, creativity and innovation; and the military's combined-arms and joint ethos and years of combat-proven operational experience, the Department made the following investments:

- $145.0 billion Research, Development, Test and Evaluation (RDT&E) budget – supports investment across the Department for Responsible Artificial Intelligence, 5G, and Experimentation.
- $35.9 billion in facilities investments, including Military Construction and Family Housing programs and for Facilities Sustainment, Restoration and Modernization (FSRM).
- $17.8 billion for Science and Technology, including investment in Basic Research.
- $5.1 billion to enhance combat capability and mitigate climate risk by investing in solutions that are mission essential and provide climate benefits, such as increasing platform efficiencies to mitigate logistics risk in contested environments, hardening critical infrastructure, and deploying new technologies that strengthen capability.

The global climate crisis has the potential to disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support response and recovery efforts.

Climate change is transforming the context in which we operate. Our climate-related investments will improve readiness and decrease demands on the Joint Force – vital to maintaining an enduring advantage. We have invested more than $5 billion to enhance combat capability and resilience, mitigate risk, and deploy new technologies that keep the force on the cutting edge.

Increasing temperatures, changing precipitation patterns, and more frequent, intense, and unpredictable weather conditions are impacting military readiness and imposing significant costs on the Department, while exacerbating risk and creating new challenges to U.S. interests around the world. To train, fight, and win in this increasingly complex environment, the Department must consider the effects of climate change across the enterprise and invest accordingly. In responding to this challenge, the Department is prioritizing investments that enhance operational capability, mission resilience, and readiness.

Through increasing platform efficiencies to mitigate logistics risk in contested environments, hardening critical infrastructure, and deploying new technologies that strengthen capability, the Department is committed to solutions that are mission essential. The budget request reflects that commitment and will bolster U.S. security in the near term and lay the groundwork for a more capable future force.

- $3.7 billion investment for installation resiliency and adaptation focused on military facilities to withstand harsh weather conditions and ensure the Department can leverage private sector investments to improve energy and mission resilience.
- $1.3 billion in science and technology investments, which includes hybrid tactical vehicles, to enhance capability like extended range and persistence and provide silent watch. It also includes investments in new technologies like blended wing body aircraft, which have the potential to increase range and payload while improving efficiency.
- $106.2 million in operational energy and buying power to improve the efficiency of operational platforms, while increasing their capability and mitigating logistics risk.
- $54.6 million in contingency preparedness that includes incorporating climate risk scenarios in war games and exercises, humanitarian assistance, and disaster relief and defense support to civil authorities' activities.

Sexual Assault and Harassment threaten the physical and mental well-being of our Total Force and detracts from a healthy organizational climate.

The Department aspires to be an employer of choice where all can contribute their individual capacities and capability to the collective defense of our Nation. To realize that ideal, we remain committed to countering sexual misconduct and other harmful behaviors that have persisted for too long. Sexual assault and harassment are not only damaging to individual Service members, but these behaviors also harm our military readiness and must be prevented. The Total Force–active and reserve Service members, and the civilian employees and contractors that support them–deserve to work in an inclusive culture built on dignity and respect. Ridding the Department of sexual assault and harassment requires courage and commitment from leaders at all organizational levels.

Significant work is already in motion to staff, resource, and professionalize the response workforce to advance victim care and access to resources. In addition, hiring is underway to build a full-time workforce of over 2,500 dedicated prevention personnel. The FY 2024 President's Budget continues to fund implementation of the recommendations of the Independent Review Commission as approved by the Secretary. Examples of these efforts include seminal changes to the military justice paradigm, establishment of an integrated primary prevention workforce, and enabling service members who experience sexual harassment to access services from a sexual assault victim advocate. The Department has developed a Prevention Workforce Model, prevention workforce policy, and has provided training necessary for credentialing the initial cohort of specialized prevention personnel, the centerpiece to establishing a robust, integrated prevention system that defeats multiple harmful, readiness detracting behaviors to include sexual assault and harassment, but also suicide, domestic and child abuse, and other harmful behaviors.

Advanced cyber threats may leave the DoD's data, applications, assets and services with limited protection from unauthorized internal and external parties.

The United States faces multiple cyberspace threats, attributable to both state and non-state entities. Foreign states conduct cyber operations to accelerate their military force modernization and advance their global influence. Meanwhile, non-state actors and criminals are becoming more sophisticated and continue to exploit data and conduct lucrative operations for financial gain. Terrorist organizations continue to organize and plot attacks using the internet.

The FY 2024 cyberspace activities (CA) budget, aligned with the DoD National Defense Strategy (NDS), reaffirms the Department's three enduring cyberspace missions: defend the DoD Information Network, defend the Nation, and prepare to win and fight the Nation's wars. Supporting the Department's 2022 NDS priorities and goals, the FY 2024 CA budget of $13.5 billion will continue to build on the pathway laid out in the Digital Modernization Strategy (DMS) and DoD Cyber Strategy. The CA budget funds programs and activities that advance cybersecurity, cyberspace operations, and advanced cyber research and development activities.

GAO High Risk List

The Government Accountability Office (GAO) issues a biennial report listing programs and operations across the Federal Government that it determines to be high risk due to vulnerabilities to fraud, waste, abuse, and mismanagement or that need broad transformation or reform. The FY 2023 GAO High-Risk Series report (*GAO-23-106203*) lists 37 high-risk areas, five of which are specifically related to the Department:

- DoD Weapon Systems Acquisition;
- DoD Financial Management;
- DoD Business Systems Modernization;
- DoD Approach to Business Transformation; and
- DoD Contract Management.

The Department has either "met" or "partially met" each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring) in four of the five DoD-specific high-risk areas. In FY 2023, DoD's action plan rating decreased from "partially met" to "not met" for DoD Business Systems Modernization because the Department is revisiting its approach to its business enterprise architecture. Additionally, DoD's capacity plan in Operational Contract Support (OCS) improved from "partially met" to "met" because it addressed OCS capability shortfalls that previously created risks to operational effectiveness, timelines, and resource expenditures.

The Department, in coordination with GAO, is dedicated to continual progress toward addressing the risks identified by the GAO in support of more effective and efficient operations.

FINANCIAL HIGHLIGHTS AND ANALYSIS

The financial statements are prepared to report the financial position, financial condition, and results of operations of the Department - pursuant to the requirements of *31 U.S.C. §3515(b)*. The statements are prepared from the records of the Department and, to the extent possible, in accordance with the formats prescribed by Office of Management and Budget (OMB) *Circular No. A-136* and U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). Reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government. Although the Department received a disclaimer of opinion on its financial statements, the Department continues to improve data reliability and timeliness through the ongoing audit remediation effort.

Financial Performance Summary

The following table summarizes the Department's condensed FY 2023 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 10).

Figure 10. Financial Performance Summary (Unaudited)

Dollars in Billions	FY 2023	Restated FY 2022	Increase/(Decrease) $	%
COSTS				
Gross Program Costs	$ 1,012.6	$ 1,040.9	$ (28.3)	-2.7%
Less: Earned Revenue	(157.7)	(219.1)	61.4	-28.0%
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	89.4	526.9	(437.5)	-83.0%
Net Cost of Operations	**$ 944.3**	**$ 1,348.7**	**$ (404.4)**	**-30.0%**
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 768.1	$ 692.9	$ 75.2	10.9%
Investments, Net	1,808.8	1,647.0	161.8	9.8%
Accounts Receivable	14.7	14.9	(0.2)	-1.3%
Other Assets *	16.5	17.6	(1.1)	-6.3%
Inventory and Related Property, Net	341.1	337.7	3.4	1.0%
General Property, Plant and Equipment, Net	832.0	818.6	13.4	1.6%
Total Assets	**$ 3,781.2**	**$ 3,528.7**	**$ 252.5**	**7.2%**
Liabilities:				
Accounts Payable	$ 48.2	$ 41.2	$ 7.0	17.0%
Other Liabilities **	48.6	40.7	7.9	19.4%
Federal Employee and Veteran Benefits Payable	3,761.4	3,578.6	182.8	5.1%
Environmental and Disposal Liabilities	93.8	90.6	3.2	3.5%
Total Liabilities	**$ 3,952.0**	**$ 3,751.1**	**$ 200.9**	**5.4%**
Net Position (Assets minus Liabilities)	**$ (170.8)**	**$ (222.4)**	**$ 51.6**	**-23.2%**

* Other Assets includes Other Assets, Cash & Other Monetary Assets, Advances & Prepayments, and Loans Receivable

** Other Liabilities includes Other Liabilities, Debt, Loan Guarantee Liability, and Advances from others and Deferred Revenue

The DoD Agency-wide financial statements and accompanying notes, which are located in the Financial Section of this report, are consolidated from the financial records of the consolidation entities listed in Appendix A. The financial statements include:

Balance Sheet	**Statement of Net Cost**
Statement of Changes in Net Position	**Statement of Budgetary Resources**

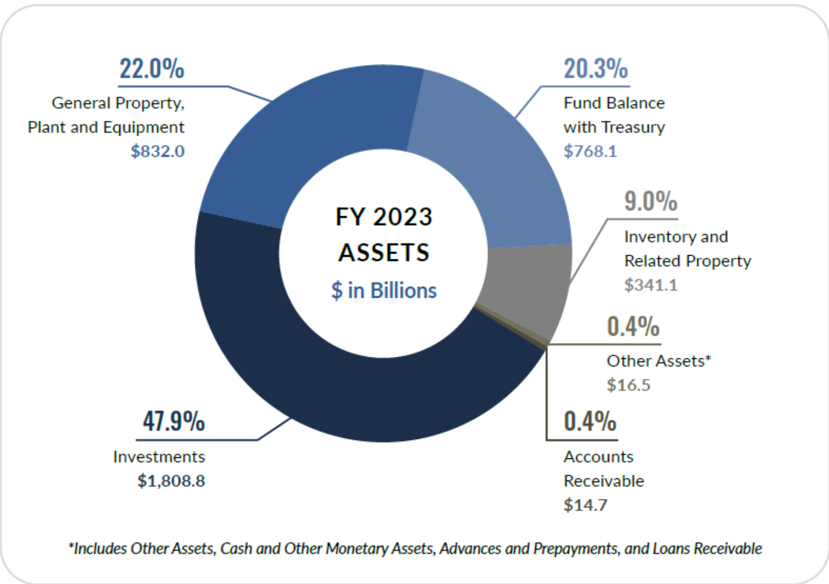
Marines fire an M240B machine gun during a training exercise at Marine Corps Air Ground Combat Center Twentynine Palms, Calif., Jan. 28, 2023. (Photo by: Marine Corps Sgt. Patrick King)

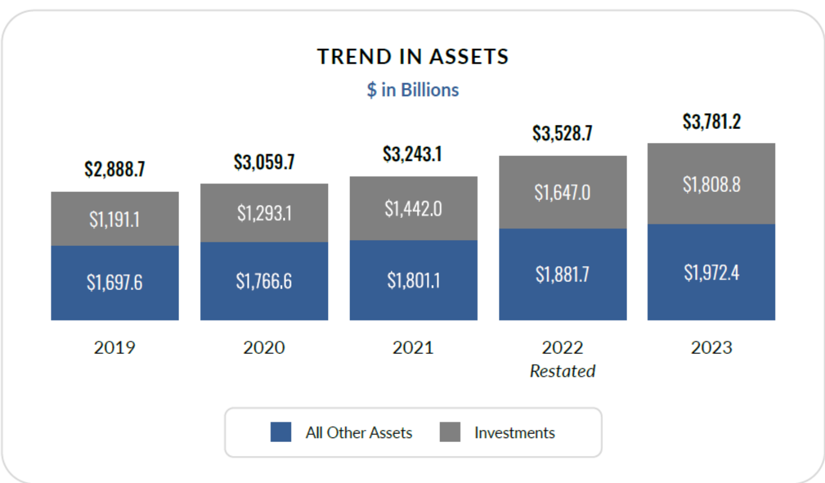
Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2023, and September 30, 2022, reports economic benefits controlled by the Department (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2023, the Department's $3.8 trillion in assets predominantly comprises Investments; General Property, Plant, and Equipment (PP&E); Fund Balance with Treasury (FBWT); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see Figure 11).

Figure 11. Summary of Total Assets (Unaudited)





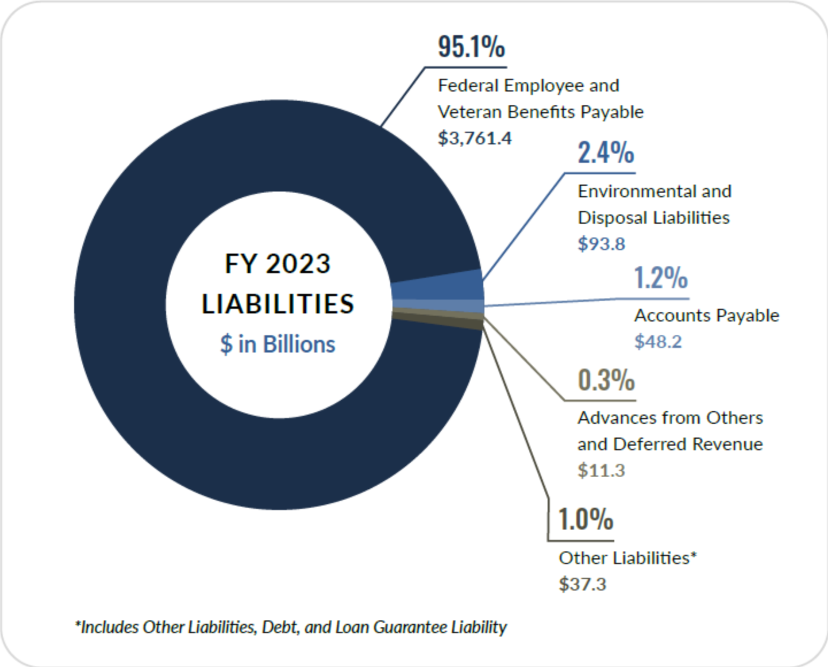
The Department restated the FY 2022 Accounts Receivable; Inventory and Related Property, Net; General PP&E; and Other Assets balances to correct errors, resulting in a $6.9 billion increase in Total Assets as compared to the balance reported in 4Q FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

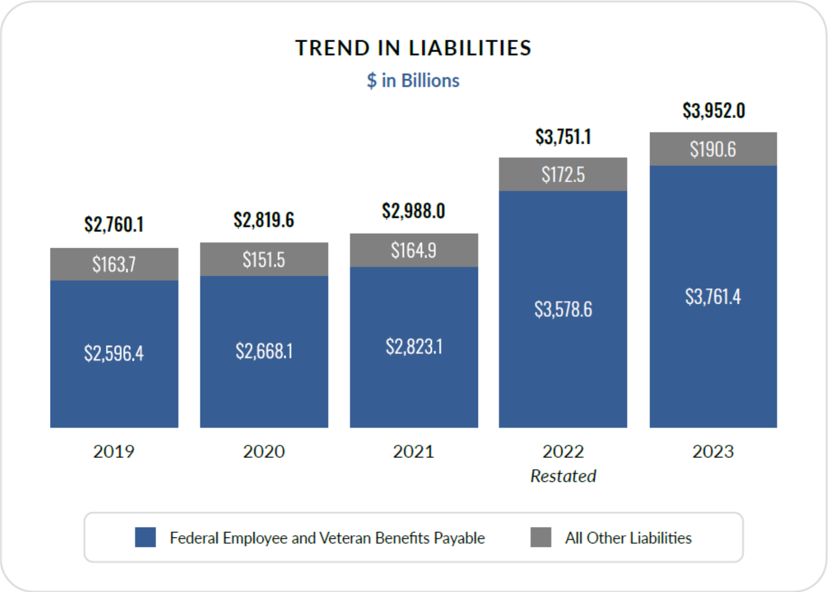
During FY 2023 the Department's total assets increased by $252.5 billion (7.2 percent) over the FY 2022 (restated) amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by $161.8 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments, Net*, in the Financial Section for more information.
- FBWT increased $75.1 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.

As of September 30, 2023, the Department's $4.0 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.1 percent of the Department's liabilities (see Figure 12). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 12. Summary of Total Liabilities (Unaudited)





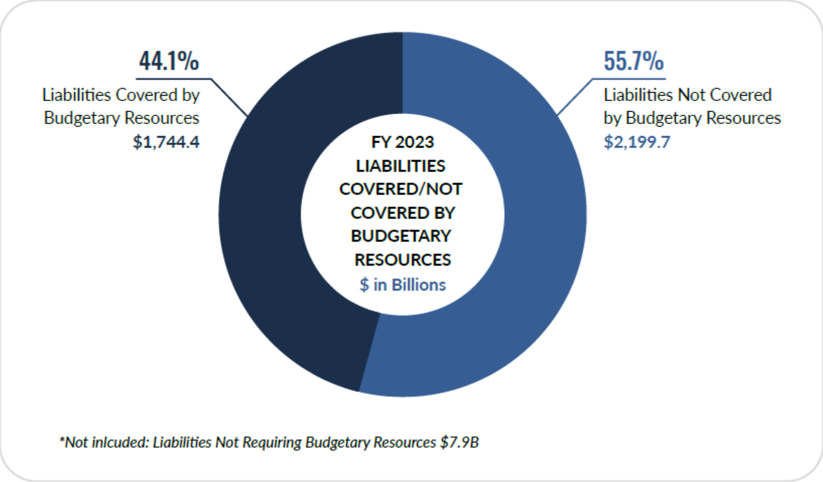
The Department restated the FY 2022 Other Liabilities balances to correct errors, resulting in a $2.5 billion increase in Total Liabilities as compared to the balance reported in FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

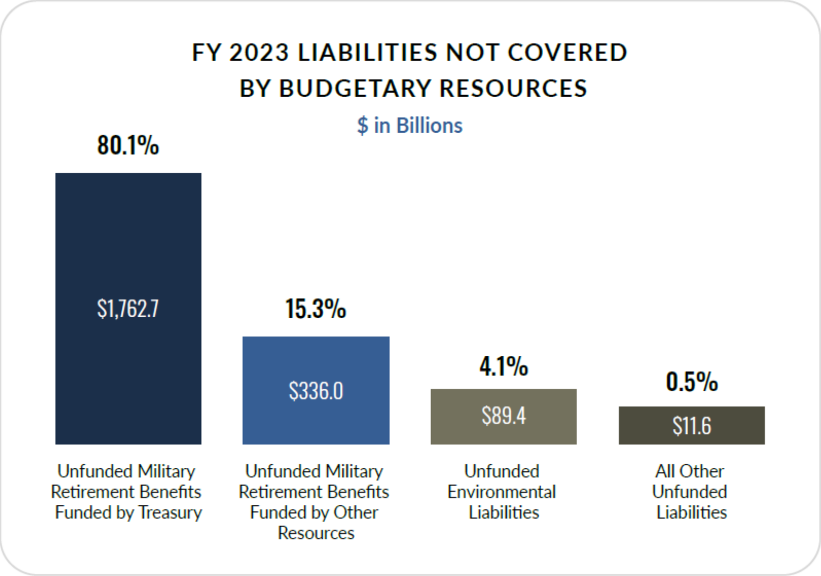
During FY 2023, the Department's total liabilities increased by $200.8 billion (5.4 percent) over the FY 2022 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by $182.8 billion, primarily attributable to a $102.9 billion increase in the actuarial liability of the Military Retirement Fund and a $59.7 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. See Note 13, *Federal Employee and Veteran Benefits Payable*, in Financial Section for more information.

As of September 30, 2023, $2.2 trillion (55.7 percent) of the Department's liabilities were not covered by budgetary resources (see Figure 13). Of this amount not covered by budgetary resources, $1.8 trillion (80.1 percent) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See Note 11, *Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 13. Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)





Statement of Net Cost

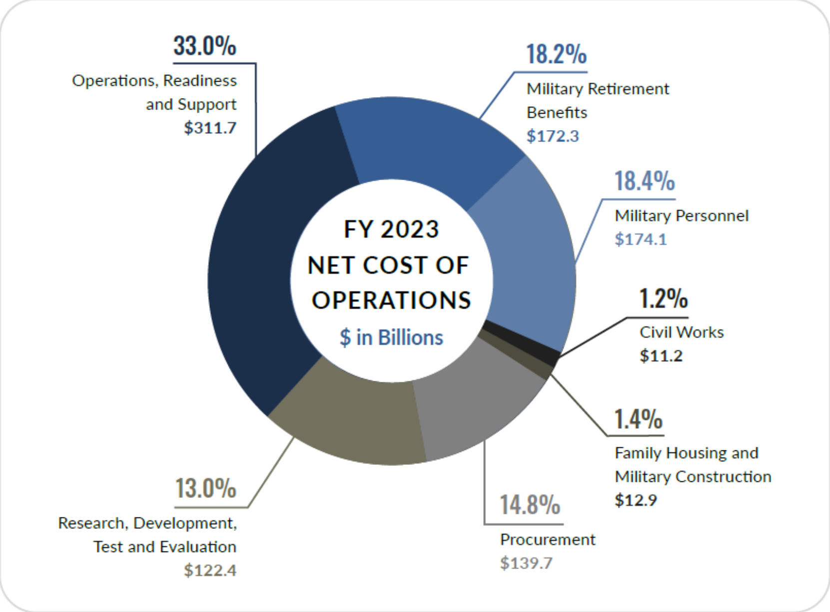
The Statement of Net Cost presents the net cost of the Department's major programs as of September 30, 2023, and September 30, 2022. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (such as investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant, and equipment. See Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*, in the Financial Section for additional information.

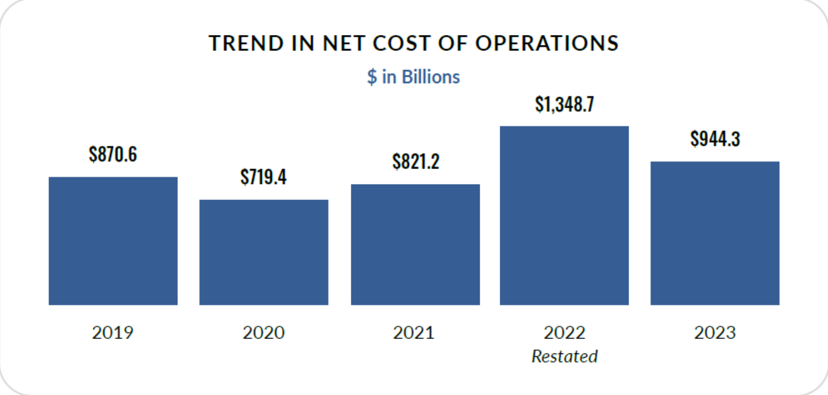
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

- **Military Retirement Benefits:** This program includes expenditures that cover eligible members' retirement pay, disability retirement pay, and healthcare benefits for Medicare-eligible members and their dependents or survivors.
- **Civil Works:** This program includes expenditures related to Energy and Water Development programs executed by the U.S. Army Corps of Engineers (USACE) that primarily fulfill three mission areas: commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration.
- **Military Personnel:** This program includes expenditures for military compensation to the Active and Reserve members of the Military Services. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services for future benefits under the Medicare-Eligible Retiree Health Care Fund (MERHCF).
- **Operations, Readiness, and Support:** This program includes expenditures providing benefits that are derived for a limited period, such as civilian salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), and day-to-day base operations.
- **Procurement:** This program includes expenditures for the acquisition of items that provide long-term benefits such as costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation:** This program includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These expenditures include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- **Family Housing and Military Construction:** This program includes expenditures associated with purchasing, improvements, and support services for property that house Military Service members and their families. Costs are also related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

The major programs composing the greatest share of the Department's $944.3 billion FY 2023 Net Cost of Operations were Operations, Readiness, and Support; Military Personnel; Military Retirement Benefits; Procurement; and Research, Development, Test & Evaluation; which together represented 97.4 percent of the Department's Net Cost of Operations (see Figure 14).

Figure 14. Summary of Net Cost Operations (Unaudited)





The Department restated the FY 2022 General PP&E balances to correct errors, resulting in a $36.1 million decrease in Net Cost of Operations as compared to the balance reported in FY 2022 See Note 28, *Restatements*, in the Financial Section for more information.

During FY 2023, the Department's Net Cost of Operations decreased $404.4 billion (30.0 percent) over the FY 2022 (restated) amount, primarily attributable to the Military Retirement Fund. In FY 2022, the Military Retirement Fund reported a $376.7 billion loss related to changes in actuarial long-term economic and non-economic assumptions. In FY 2023, the loss related to actuarial assumption changes was only $11.1 billion, which is closer to historical amounts.

See Note 13, *Federal Employee and Veteran Benefits Payable* and Note 19, *Disclosures Related to the Statement of Net Cost*, in the Financial Section for additional information.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2023, the Department reported $1.6 trillion in total budgetary resources (see Figure 15).

Figure 15. Composition of DoD Total Budgetary Resources (Unaudited)

Description ($ in Billions)	FY 2023	FY 2022 Restated	FY 2021	FY 2020	FY 2019
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 1,093.7	$ 1,019.5	$ 905.1	$ 914.2	$ 874.4
Unobligated Balances from Prior Year Budget Authority	273.2	213.8	211.2	213.3	226.8
Spending Authority from Offsetting Collections	135.8	150.3	153.7	130.3	113.0
Contract Authority	90.6	81.2	74.0	78.7	86.8
Total Budgetary Resources	$ 1,593.3	$ 1,464.8	$ 1,344.0	$ 1,336.5	$ 1,301.0

The Department restated the FY 2022 Statement of Budgetary Resources due to the obligations and de-obligations of direct loans that occurred within the Defense Production Act Direct Loan Program, resulting in a $32.0 million increase as compared to the balance reported in FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

Of the $1.6 trillion in Total Budgetary Resources for FY 2023, $1.4 trillion was obligated. The remaining Unobligated Balance of $231.9 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for procurement of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2023, the amount of the Expired Unobligated Balance, End of Year increased by $2.2 billion to $24.5 billion in FY 2023 from $22.3 billion in FY 2022. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with 31 U.S.C. §1553.

See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.

AUDIT OVERVIEW

The annual financial statement audits are vital to the Department's data transformation and business reform efforts. They provide objective, independent assessments of the Department's internal controls, financial reporting practices, and reliability of financial information. Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, and measure progress in modernizing and enhancing the Department's financial management capabilities.

The 2022 National Defense Strategy (NDS) is directly supported by the DoD Strategic Management Plan (SMP) for Fiscal Years (FY) 2022 – FY 2026; the Annual Performance Plan, which links strategic goals and objectives from the SMP to performance goals; and the Comptroller-led DoD Financial Management (FM) Strategy for FY 2022 – FY 2026. These interrelated strategies establish the way forward for the Department and intersect with the need to improve operations and accelerate the path to an audit opinion on the DoD consolidated financial statements.

The financial statement audits along with other high-priority and long-term financial management goals and objectives are established in the DoD FM Strategy for FY 2022 – FY 2026. The DoD FM Strategy defines the Department-wide financial management mission, vision, and goals to energize and transform the financial management workforce. The DoD FM Strategy specifically identifies accelerating the path to an audit opinion as an objective, summarizes why it matters, and establishes ways the Department can measure progress.

The cumulative impact of the Department's audit investment is a catalyst for business process and business systems reform across the Department, resulting in greater financial integrity, increased transparency, and ultimately, a better supported warfighter.

Audit Progress Measurement

The Department identified five areas essential for achieving and sustaining an audit opinion: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. Progresses made for these five areas are noted below.

A MODERNIZED WORKFORCE

The scale of the Department's business processes, and volume of its transactions are becoming less burdensome as the annual audits mature. Our workforce is building, deploying, and managing data analytics, robotic process automations or "bots," and other intelligent automation technology, such as machine learning to automate functions that would be cost-prohibitive when performed manually. The audits are driving an increase in bot adoption, allowing personnel to execute basic functions in a fraction of the time it would take a person to complete, making time for other more complex tasks.

- The Defense Logistics Agency (*DLA*) has deployed 160 bots, 41 have undergone full cycle enhancements and 153 are designed to execute in an unattended manner. These bots are projected to save over 288,000 hours annually, which can be refocused on the DLA's mission.
- The Defense Finance and Accounting Service (*DFAS*) placed 90 enterprise and tactical bots into production to automate a wide variety of tasks with an estimated annual benefit of over $6 million.
- The Defense Information Systems Agency (*DISA*) used bots to process nearly 46,000 transactions, saving an estimated 18,860 labor hours.

IMPROVED BUSINESS OPERATIONS

The audits are providing a positive return on investment from value gained through independent auditor insight into the Department's business processes; to assess what is performing well and what areas still need improvement.

- The Army construction-in-progress (CIP) account monitoring control was tested in FY 2023 by their auditors. As of September 30, 2023, auditors for the Army found zero unresolved transactions in the clearing account for the first time since the Army Working Capital Fund's migration to the Logistics Modernization Program. The control improved Army visibility into open CIP projects and helped Army Working Capital Fund sites resolve issues timely. The Army also enhanced the standard operating procedures and monitoring control to include additional CIP accounts.

QUALITY DECISION-MAKING

One of the best cases for value being derived from the audits comes from the extensive improvements in the timeliness, accuracy, and availability of financial and operational data.

- The Navy expanded the Budget Execution Validation (BEV) process and Commanders Enterprise Resource Management Council (CERMC). This action established a governance structure for executing a consistent and repeatable process for monitoring the status of funds across DON. The process provides greater insight into funds management, optimizes the usage of budgetary resources for mission-critical objectives, identifies root causes of unexpended funds, and supports overall audit readiness initiatives. Through the BEV/CERMC process, the Navy reviewed $17 billion of unliquidated obligations; validating 97 percent of the balances met audit requirements, while uncovering $330 million available for deobligation.

RELIABLE NETWORKS

The audits highlight the derived value gained from turning management's attention toward cyberspace by focusing on strengthening the Department's IT controls. Auditors test the Department's processes and procedures for controlling system access and the levels of access given to users (e.g., access to the core coding and configuration functions of a system). The audits test physical and logical controls, provide specific feedback on the areas to improve security, and controls to prevent foreign and domestic hacks and cyberattacks.

- The Air Force continues to implement an Identity, Credential, and Access Management (ICAM) solution for relevant priority audit systems. Executing the ICAM roadmap includes a prioritized schedule for onboarding financial management and relevant feeder systems to centralize ICAM services and address the root causes behind multiple audit-identified issues.

Members of the Defense POW/MIA Accounting Agency participate in a disinterment ceremony at the National Memorial Cemetery of the Pacific in Honolulu, Jan. 9, 2023. The ceremony was part of DPAA's efforts to disinter the remains of service members lost on the Enoura Maru, a Japanese cargo ship used by the Imperial Japanese navy during World War II as a troop and prisoner of war transport ship. The agency's mission is to achieve the fullest possible accounting for missing and unaccounted-for U.S. personnel to their families and the nation. (Photo by: Army Staff Sgt. John Miller)

ENHANCED PUBLIC CONFIDENCE

The audits deliver value to the Department by enabling the capability to accurately and timely account for defense resources.

- The Defense Advanced Research Projects Agency (DARPA) underwent its first standalone financial statement audit. In preparation for the audit DARPA improved financial information by updating business processes and implementing task management technology to manage and communicate audit inquiries, prepared by client items, and sample requests from the auditor. As a result, DARPA was able to access thousands of key supporting documents, flowcharts, and process narratives in a timely manner, and explain complex business processes performed by its service providers.
- The Defense Intelligence Agency (DIA) established acquisition guidance on the use of contract line-item numbers when accounting for contractor-acquired property. This allowed DIA to better account for and manage contractor acquired property assets; support the complete and accurate financial reporting of equipment; and demonstrate accountability of worldwide capital assets.

FY 2023 Audit Priorities

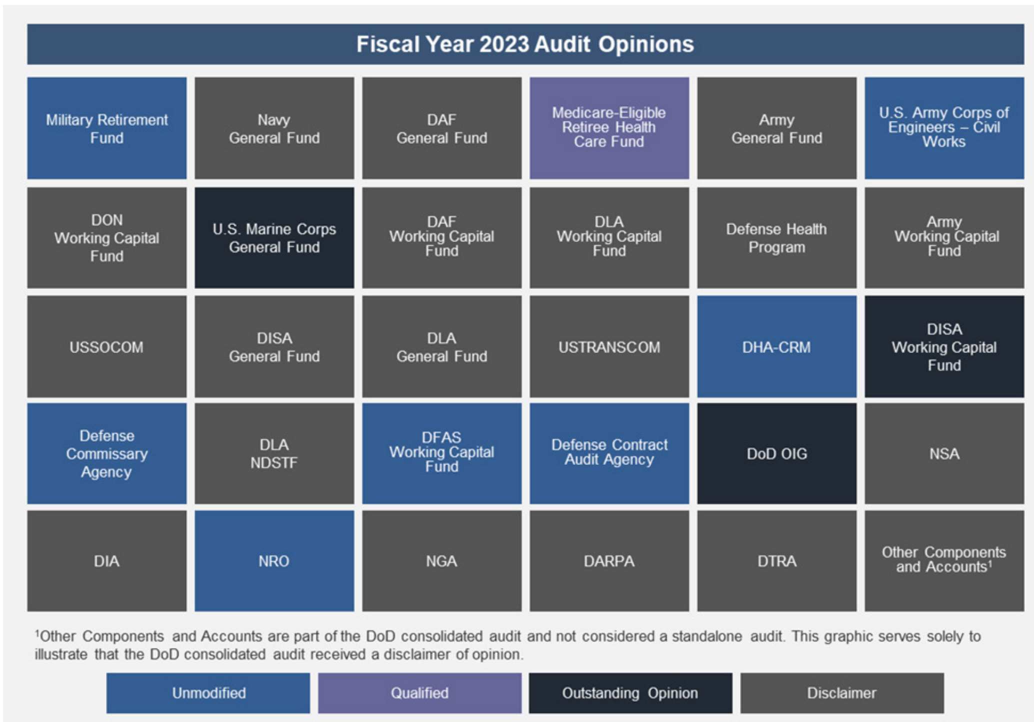
The annual audit priorities named by the Secretary of Defense focus Department-wide efforts on the areas that matter most. For FY 2023, the Secretary of Defense recommitted efforts by maintaining the FY 2022 financial statement audit priorities, with some enhancements to the specific goals and measurements to align remediation resources to areas of expected audit results in FY 2023. As such, the Department focused efforts on the following Secretary's audit priorities:

- Improve Fund Balance with Treasury (FBWT)
  - » Post undistributed transactions to the appropriate line of accounting within 60 days.
  - » Reduce the inception-to-date value of undistributed transaction balances to 1 percent or less of the total FBWT.
  - » Migrate all FBWT reconciliations to Advana.
- Establish User Access Controls
  - » Remediate privileged access control deficiencies for internal controls over financial reporting (ICOFR)-relevant systems through an effective internal control framework.
  - » Provide a schedule for when ICOFR-relevant systems will be onboard to an identity credential and access management solution.
- Create a Universe of Transactions (UoT)
  - » Compile a list of ICOFR-relevant feeder and accounting systems.
  - » Produce a supportable UoT for financial statement line-item balances on each of the principal financial statements.
  - » Demonstrate effective complementary user entity controls for financial reporting processes identified as material to the Component or Service Provider organizations.
  - » Process intragovernmental reimbursable transactions using the Department of the Treasury G-Invoicing application for new orders in accordance with Treasury guidance.

FY 2023 Audit Results

The Department completed its sixth annual consolidated financial statement audit covering approximately $3.8 trillion of the Department's total assets, involved approximately 1,600 auditors, and included nearly 700 site visits. The audit comprised 29 standalone audits conducted by independent public accountants (IPAs) and the Office of Inspector General of the DoD (DoD OIG) (see Figure 16). The DoD OIG issued a disclaimer of opinion on the Department's FY 2023 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. See the DoD OIG's independent audit report in the Financial Section.

Figure 16. FY 2023 Audit Results



Of the 29 component standalone audits, 7 received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with GAAP), 3 had an outstanding opinion, 1 received a qualified opinion (i.e., auditors concluded there were misstatements or potentially undetected misstatements that were material but not pervasive to the financial statements), and 18 received disclaimers of opinion. The standalone audits for the DoD OIG, the DISA Working Capital Fund, and the U.S. Marine Corps General Fund are scheduled to conclude after the date of this publication. The independent auditor's report for each non-classified standalone audit is available in the respective component's financial report accessible on the *Agency Financial Report* website. Other Components and Accounts are not undergoing a standalone audit as they are audited by the DoD OIG as part of the consolidated audit.

As of FY 2023, 19 financial management and feeder systems are currently in the onboarding process. Auditors completed 30 Statement on Standards of Attestation Engagement (SSAE) No. 18 examinations covering 37 systems owned by 8 DoD service providers. The Department received positive (14 unmodified and 13 qualified) audit opinions on 27 of 30 of its SSAE No. 18 examinations. There were 1 adverse and 2 outstanding opinions. DFAS Vendor Pay-Navy Enterprise Resource Planning (ERP) obtained an unmodified opinion in FY 2023, its first year undergoing an SSAE-18 audit.

Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, and measure progress in modernizing and enhancing the Department's financial management capabilities. Auditors issue Notices of Findings and Recommendations (NFRs) for controls determined to be not operating as designed or implemented. The auditor then determines the severity of the NFRs and classifies them as control deficiencies, significant deficiencies, or material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected and corrected on a timely basis. The audits resulted in the consolidation of two Department-wide material weaknesses into one, and the separation of one Department-wide material weakness into two. No new Department-wide material weaknesses were reported resulting in no net change in the number of material weaknesses. The Department of the Army Working Capital Fund and the Department of the Navy General Fund downgraded their Fund Balance with Treasury material weaknesses, and the Department of the Air Force General Fund closed their Fund Balance with Treasury material weakness. The Department of the Navy Working Capital Fund and General Fund downgraded their Oversight and Monitoring material weaknesses. The DISA General Fund downgraded its Property, Plant, and Equipment material weakness. The U.S. Transportation Command downgraded its Reporting Entity Definition and Imputed Costs material weakness. See the summary of DoD OIG-identified material weaknesses in the Other Information section of this report.

Separately, the Department manages the audit of and prepares the Security Assistance Accounts (SAA) financial statements, which include the Foreign Military Sales program's financial activity and position. (Note: The SAA financial statements are not consolidated in the Department-wide financial statements but are consolidated directly into the Financial Report of the United States Government as a separate standalone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, Appendix 1a). The SAA completed its second annual consolidated financial statement audit during FY 2023 covering approximately $115.1 billion in total assets. The audit was conducted by IPAs who issued a disclaimer of opinion. See Note 27, *Security Assistance Accounts*, in the Financial Section for additional information.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2023

The Department of Defense assessed the effectiveness of internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), section 2, and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting as of September 30, 2023. The Department's management identified 37 material weaknesses across the following 14 assessable units:

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting Compilation
- Health Care Liabilities
- Accounts Payable
- Intragovernmental Transactions
- Equipment Assets
- Joint Strike Fighter Program
- Real Property Assets
- Environmental and Disposal Liabilities
- Property in the Possession of Contractors
- Internal Use Software
- Inventory
- Operating Materials & Supplies

The Department assessed the effectiveness of internal controls over operations in accordance with FMFIA section 2 and OMB Circular No. A-123. Based on this assessment, the Department provides modified assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2023. The Department's management identified 40 material weaknesses across the following 10 assessable units:

- Acquisition
- Comptroller and/or Resource Management
- Communication
- Contract Administration
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Information Technology – Business System Modernization (formerly Information Technology)
- Personnel and/or Organizational Management
- Support Services
- Supply Operation

The Department assessed the compliance of DoD financial management systems in accordance with FMFIA section 4; section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA); and OMB Circular No. A-123, Appendix D. Based on this assessment, the Department is unable to provide assurance DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level as of September 30, 2023. The Department's management identified three instances of non-conformance in the areas of Business System Modernization, Federal Information Systems Control Audit Manual compliance, and FFMIA compliance.

Further information about the management-identified FMFIA section 2, FMFIA section 4, and FFMIA section 803(a) material weaknesses, relevant corrective actions to resolve the material weaknesses, and a comparison of the management-identified financial reporting material weaknesses to the auditor-identified financial reporting material weaknesses is provided in the Other Information section.

Management will continue to conduct annual assessments of controls to reduce risks, including fraud risk and risk of not achieving an entity's objectives related to operations, financial reporting, financial systems, and compliance. The Department remains committed towards financial excellence and improving upon its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

Lloyd J. Austin III
Secretary of Defense

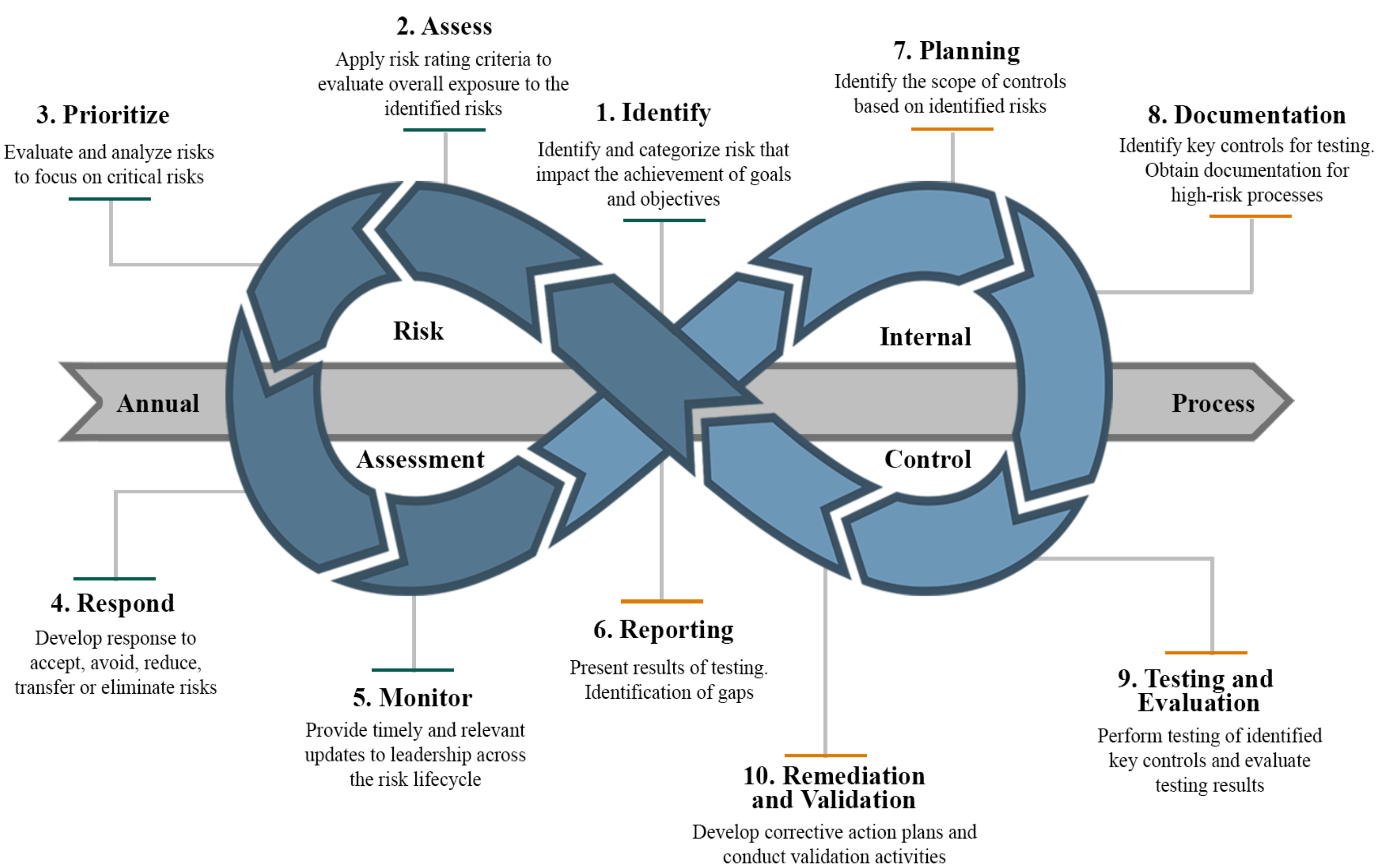
MANAGEMENT ASSURANCES

The Department is committed to instituting and maintaining an effective system of internal controls to provide reasonable assurance that it achieves its mission. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective financial stewardship.

The Federal Managers' Financial Integrity Act of 1982 (*FMFIA*) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. In accordance with OMB *Circular No. A-123* and GAO Standards for Internal Control in the Federal Government ("*Green Book*"), the Department continually strives to integrate proactive risk management and effective internal controls into its business activities.

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Office of the Director of Administration and Management (ODA&M) Performance Improvement Directorate (PID) partner to lead the Department's efforts in fulfilling this requirement through the Risk Management and Internal Controls (RMIC) Program, which holds both financial and operational managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. The DoD RMIC Program uses a continuous, cyclical, and unified approach for assessing risk and evaluating internal controls to achieve its objectives over operations, reporting, and compliance (see Figure 17). The RMIC Program supports the preparation of the Department's report, SOA, on the design and effectiveness of key control activities, which is compiled from information reported by all DoD Components. The RMIC Program and the Financial Statement Audit are complementary processes that, when integrated, provide management with the information needed to accelerate and sustain a financial and operations audit remediation posture.

Figure 17. RMIC Program Process



The risk assessment process provides the DoD Components with specific focus areas for internal control testing and the concentration of remediation activities to increase business process efficiencies and accelerate program efforts. In accordance with *DoD Instruction 5010.40*, the DoD Components must integrate risk management and adequate internal controls into their business activities as an essential part of managing their organization. Components are responsible for conducting annual comprehensive top-down risk assessments, using the results to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency to OUSD(C). Once this information is submitted, OUSD(C) and ODA&M coordinate with Department-wide Senior Accountable Officials (SAOs)—executive-level subject matter experts selected based on their functional ability to provide oversight and monitoring—to determine which component-level material weaknesses and significant deficiencies, in aggregate, rise to the level of a Department-wide material weakness. Additionally, the SAOs work with the components to establish working groups to address material weaknesses and develop CAPs, monitor CAP implementation, track material weakness remediation progress, and report progress to senior DoD leaders through the RMIC governance process.

In FY 2023, ODA&M collaborated with OUSD(C) to design and implement new Enterprise Risk Management (ERM) and Risk Management and Internal Control for Operations (RMIC-O) capabilities for the Department. The Department's new ERM and RMIC-O capabilities are being integrated with the RMIC Program to provide senior leadership a holistic view of significant financial and non-financial risks to the strategic priorities and objectives articulated in DoD's FY2022-2026 Strategic Management Plan (SMP). Additionally, the Department issued substantial updates to the Fraud Risk Management (FRM) Strategy. Specifically, the Department has identified a robust set of baseline controls and strategies for components to effectively identify, prevent, and combat fraud.

Components are encouraged to develop similar documentation for all material assessable units to reduce gaps in entity level controls and improve auditability. The Department is taking steps to facilitate ERM by prioritizing the use of software that integrates internal controls management with audit reporting and tracking. Furthermore, OUSD(C) is managing a pilot program with eight components to further this effort which will allow enhanced decision making and risk management across the enterprise.

While effective internal controls are designed to provide reasonable confidence, it is important to note that internal controls have limitations. They provide reasonable, but not absolute, assurance that errors, misstatements, or noncompliance will be detected. The Department remains committed to ongoing monitoring, assessment, and improvement of internal controls to adapt to changes in laws, regulations, and operations.

Governance

The Financial Improvement and Audit Remediation (FIAR) governance structure establishes a forum to provide financial management leaders and workforce the information and support to continue making progress toward solving the Department's most complex audit-related financial management issues. The FIAR governance structure comprises the following governing bodies and functions:

- **Deputy's Management Action Group (DMAG) Audit Deep Dive:** Provides governance for management actions affecting the defense enterprise, including resource management and planning, programming, budgeting, and execution with a focus on the Department's financial statement audits.
- **FIAR Governance Board (FGB):** Provides vision, leadership, direction, oversight, and accountability in support of achieving an unmodified audit opinion. Through quarterly meetings, the Board, which is a Supporting Tier Forum to the DMAG, prioritizes Department-wide corrective actions that provide the greatest value to the warfighter. In addition to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, other participants include key leaders from the DoD Components under a standalone audit, as well as representatives from the GAO and Office of Inspector General of the DoD.
- **Functional Councils:** Address high-profile and pivotal audit issues related to Financial Reporting, Property, and Information Technology. Functional Councils meet quarterly to review remediation status and develop solutions that may involve changes to DoD policy and procedures.

- **Other Defense Organizations Financial Operations:** Provides oversight and direction for remediation and limited financial operations to the DoD Components at the Tier 2 level undergoing standalone audits and at the Tier 3 and 4 level incorporated into the DoD Consolidated audit.

SYSTEMS COMPLIANCE AND STRATEGY

The Department continues transformation efforts to modernize its financial management (FM) systems environment for enhanced mission effectiveness and auditability in compliance with the Federal Financial Management Improvement Act of 1996 (*FFMIA*) and the Office of Management and Budget (OMB) Circular No. A-123, *Appendix D*. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability.

In accordance with *10 U.S.C. §240g*, the Department submitted an updated defense business system (DBS) Audit Remediation Plan to the Congress in June 2023. This plan, which is a living document and submitted to Congress annually, provides an integrated view of the enterprise roadmap for audit-relevant DBSs. The plan is a current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan also established a foundation for a future roadmap that will:

- Capture in-service, retirement, and other pertinent dates for affected DBSs;
- Describe current cost-to-complete estimates for each affected DBS; and
- Document dependencies both between the various DBSs and the introduction, replacement, update, modification, and retirement of such systems.

In addition, the Department executes annual FM systems reviews that include assessing FFMIA implementation, system security, and progress of remediating IT NFRs. Assessments are leveraged to track compliance with Federal and DoD standards, which inform the investment review process for business systems and serve as a data-driven catalyst for influencing system improvements, migrations, and retirements that improve DoD's overall auditability. The Department leverages an automated Enterprise FM IT Roadmap within DoD's Advanced Data Analytics (Advana) platform. The Advana FM IT Roadmap enables continuous monitoring of compliance reporting, more concise identification of improvement areas, and oversight of retiring outdated, non-compliant systems. In FY 2023, the Department retired 10 systems that were relevant to internal controls over financial reporting, further simplifying the portfolio of systems. With the Defense Business Council and the FIAR Governance Board oversight, the Department continues to improve its financial auditability posture by establishing consistent assessment and reporting criteria for systems that impact our financial reporting, and disciplined oversight of the retirement of systems. This progress is continually updated and reported through the DBS Audit Remediation Plans provided to Congress.

U.S. Air Force Senior Airman Takeira Ayala speaks with Alconbury Elementary School students during Camp Kudos at Royal Air Force Alconbury, United Kingdom, April 14, 2023. The camp gave military children the opportunity to experience and learn about various aspects of deployment preparation. (Photo by: Staff Sgt. Eugene Oliver)

Enterprise Resource Planning Systems

Enterprise Resource Planning (ERP) systems are integral to implementing the FM business process improvements, achieving the planned target environment, reducing the number of vulnerable systems, and sustaining an auditable systems environment. The ERP Systems provide a broad range of functionality to support DoD business operations in areas such as supply chain management, logistics, human resource management, and financial management.

Department of the Army

The General Fund Enterprise Business System (*GFEBS*) is a fully-deployed General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web-based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

The Logistics Modernization Program (*LMP*) is a fully-deployed system that is one of the world's largest integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the national-level logistics support solution. By improving both the systems and processes associated with managing the Army's supply chain at the national and installation levels, LMP allows for the planning, forecasting, and rapid order fulfillment to supply lines. It also improves distribution, reduces theater footprint (e.g., required storage space), and ensures the warfighter is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (*GCSS-A*) is a fully-deployed acquisition system that provides enterprise-wide visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A absorbed the outdated Standard Army Management Information System that was not financially compliant and integrated about 40,000 local supply and logistics databases into a single, enterprise-wide authoritative system. GCSS-A integrates tactical logistics enterprise information for leaders and decision-makers to provide a single maneuver sustainment picture to manage combat power. GCSS-A provides the warfighter with supply, maintenance, and property accountability as well as an integrated materiel management center, management functionality, and support for financial processes. The enterprise system is the key component for the Army Enterprise strategy for compliance with federal financial management and reporting requirements.

Integrated Personnel Pay System – Army (*IPPS-A*) is an ERP software solution designed to deliver integrated personnel and pay capability for Army military personnel. To achieve this, the Army incrementally builds and deploys IPPS-A using four primary releases. Once fully-deployed, IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army human resources processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and improves support to soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

Department of the Navy

Navy ERP is an integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is a financial system of record that uses sophisticated business management software to streamline the Navy's financial and supply chain management. The integration of financial and supply solutions on a single platform provides real-time data and decision support to the Navy Enterprise.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions into one seamless COTS system by streamlining existing personnel, pay systems, and processes; and also providing an adaptable solution that meets the complex needs of sailors, human resources personnel, and Navy leaders. Once fully implemented, NP2 will provide a platform for future initiatives such as improved marketplace-style detailing, enhanced performance evaluations and management, targeted compensation (e.g., bonuses), and automation of time-consuming administrative functions. By streamlining processes and systems, the implementation of NP2 will improve the speed, accuracy, and quality of personnel and pay services.

Global Combat Support System – Marine Corps (GCSS-MC) is a fully deployed system that serves as the Marine Corps' current official Accountable Property System of Record and logistics system, providing supply, maintenance management, inventory, and equipment accountability as well as rapid equipment task organization capabilities. As the Marine Corps' primary logistics system and the centerpiece of the logistics modernization, GCSS-MC provides advanced expeditionary logistics capabilities and functionality to ensure future combat efficiency. Additionally, GCSS-MC executes the Acquire-to-Retire, Plan-to-Stock, and Procure-to-Pay business mission functions, ensuring resources are effectively managed to optimize mission success and enable the warfighter.

In FY 2023, the Navy completed consolidation of their Working Capital Fund general ledgers through the migration of Military Sealift Command-Financial Management Systems to Navy ERP. Additionally, the Navy completed the migration of General Fund activities from Standard Accounting and Reporting System (STARS)-Field Level (FL) to both Standard Accounting, Budgeting, and Reporting System (SABRS) and Navy ERP. The Navy is planning to roll all general fund activities from SABRS to Navy ERP by the end of FY 2026.

Department of the Air Force

The Defense Enterprise Accounting and Management System (*DEAMS*) is a partially-deployed enterprise system that uses a COTS software suite to provide accurate and timely financial information using standardized business processes in compliance with applicable federal laws, regulations, and policies. DEAMS is the core accounting and financial management solution and the financial foundation for all enterprise business system modernization efforts across the Air Force General Fund and U.S. Space Force.

Air Force Integrated Personnel and Pay System (*AF-IPPS*) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout an airman's career. AF-IPPS is expected to be an audit-compliant financial management system that will enhance general and application controls.

Other Defense Organization ERPs

DAI is an enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by COTS software. Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire (including the DAI-OTL module) capabilities for Other Defense Organizations (i.e., OSD, Defense Agencies, and DoD Field Activities) and the Marine Corps.

Enterprise Business System (EBS) is a robust COTS-based ERP system which is secure, flexible, and integrated. Its primary mission is to provide Defense Logistics Agency's (DLA) core financial system with financial reporting, supply chain management, and logistics support capabilities. The DLA EBS uses COTS products to provide an ERP solution approach to manage all of DLA's supply chains.

LEGAL COMPLIANCE

Antideficiency Act

The Antideficiency Act (ADA), which is codified in *31 U.S.C. §§1341(a)(1)*, *1342*, and *1517(a)*, stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation, or fund, or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation. An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (e.g., suspension from duty without pay or removal from office) or penal sanctions (e.g., fines or imprisonment).

In keeping with the reporting requirements for violations of the Act under *31 U.S.C. §1351*, the Department reports confirmed ADA violations to the President through the Director of the OMB, the Congress, and the *Comptroller General* of the United States.

During FY 2023, the Department reported one case involving multiple purpose statute violations that was identified during assessments of the applicable processes. Further information about the Department's reported ADA violations and remedial actions taken are included in GAO's annual compilation of *Antideficiency Act Reports*.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020, in response to the COVID-19 pandemic. The CARES Act provided economic stimulus support in the form of direct cash payments to individuals; increased unemployment benefits; forgivable paycheck protection loans to small businesses; financial support for American industry; and assistance to state, local, and tribal governments. The provisions of the CARES Act additionally provided $10.6 billion to the Department in emergency supplemental funding to prevent, prepare for, and respond to the COVID-19 pandemic.

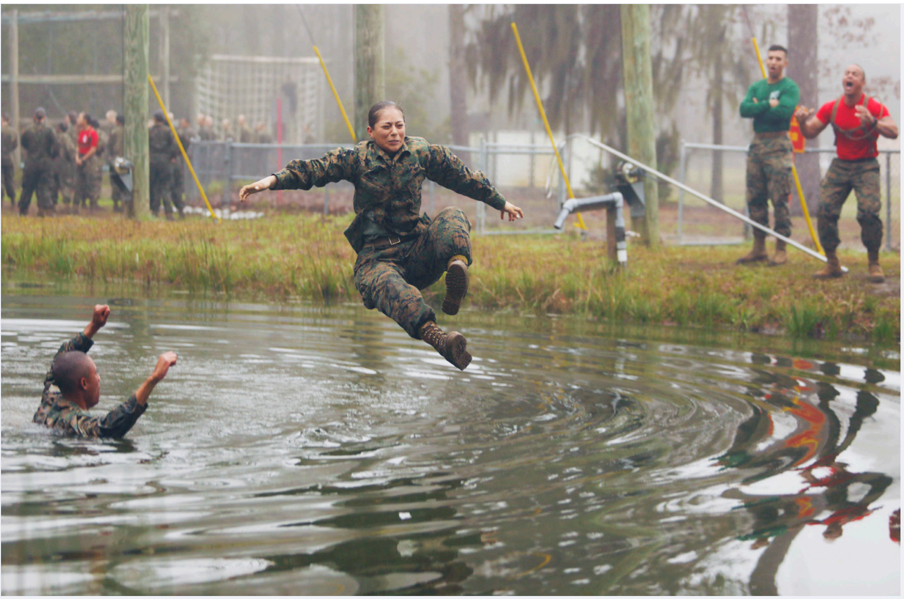
On April 10, 2020, OMB issued *Memorandum M-20-21*, "Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)." In balancing speed with transparency, OMB directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. Further, OMB instructed agencies to consider three core principles: mission achievement by using data and evidence to meet program objectives, expediency in issuing awards to meet crucial needs, and transparency and accountability to the public.

Under the CARES Act, federal agencies are required to submit a monthly report to OMB, the Treasury, the *Pandemic Response Accountability Committee*, and the appropriate congressional committees that detail how the supplemental funds were used. To fulfill this obligation, the Department issued several memoranda requiring the weekly cost reporting of CARES Act funding. Over the past three years, the Department executed over 5.75 million accounting transactions from 23 general ledger accounting systems with CARES Act funding. On a recurring basis, weekly or daily, the CARES Act transactions details are populated into Advana to facilitate compilation, oversight and monitoring, and data analytics. In addition, the Department leveraged the existing Digital Accountability and Transparency Act of 2014 reporting mechanism to provide the monthly status of all CARES Act and other COVID-19 related execution. This data is published for full public transparency, while still protecting operational security concerns, on *USAspending.gov*.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (*DATA Act*) amended the Federal Funding Accountability and Transparency Act of 2006 (*FFATA*) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on USAspending.gov. Implementation of the DATA Act improved the ability of the public to track and understand how the Federal Government is spending taxpayer funds. The required information includes the amount of funding the Department receives; the source of the funding (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); plans for spending the funding; and the actual use of the funding, to include the disclosure of the entities or organizations receiving federal funds through contract and financial assistance awards. The increasing focus on open data transparency continues to steer stakeholders across the Department toward the common goal of producing quality published spending data, while safeguarding sensitive information. In accordance with OMB Circular No. A-123, *Appendix A*, the Department reviewed and updated its DoD DATA Act Data Quality Plan.

On a monthly basis, the Department publishes summary level appropriation, obligation, and outlay data in USAspending.gov in accordance with the DATA Act. On a quarterly basis, the Department submits additional spending and financial award data for publication on USAspending.gov for obligations and outlays at the contract and financial assistance award level. As of June 2023, the Department reported the alignment of over $22 billion across over 598,994 active contract and financial assistance awards through DATA Act certification. The Department remains fully committed to enabling data transparency, while balancing the need to protect classified data and that which could compromise operational security.



Marine Corps recruits participate in the confidence course at Marine Corps Recruit Depot Parris Island, S.C., Feb. 2, 2023. (Photo by: Marine Corps Lance Cpl. Brenna Ritchie)

Payment Integrity Information Act

In accordance with the Payment Integrity Information Act of 2019 (PIIA) and OMB Circular No. A-123, Appendix C, the Department is required to report the status and recovery of improper and unknown payments to the President and Congress. The Department reports improper and unknown payments in the following categories:

- Civilian Pay
- Commercial Pay
- Military Pay
- Military Retirement Pay
- Travel Pay

PIIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient; for an ineligible good or service; as a duplicate payment; for goods or services not received; and any payment that does not account for applicable discounts. Moreover, in accordance with OMB Circular A-123 Appendix C, when an agency is unable to determine whether the payment is proper or improper, as a result of insufficient or lack of documentation, the payment is considered an unknown payment.

Each fiscal year, the DoD OIG reviews the Department's Payment Integrity portfolio, which is published on PaymentAccuracy.gov, to determine the Department's compliance with the PIIA reporting requirements. The DoD OIG then submits a report to the Secretary of Defense, the U.S. Senate Committee on Homeland Security and Governmental Affairs, the U.S. House of Representatives Committee on Oversight and Reform, the appropriate authorizing and appropriations committees of Congress, the Comptroller General of the United States, and the OMB Office of Federal Financial Management Controller. The results of the DoD OIG's FY 2023 determination of DoD payment integrity compliance will be published on the DoD OIG website in May 2024.

Since FY 2017, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review (see Figure 18).

Figure 18. DoD Payment Integrity Compliance Review Results

Fiscal Year	Published Payment Integrity Information with the annual financial statement	Conducted Risk Assessments (if required)	Accurate Improper and Unknown Payment Estimates	Corrective Action Plans (if required)	Demonstrated improvements toward reduction targets	Improper and Unknown Payments Below 10%
2022	✓	✓	✗	✓	✓	✓
2021	✓	✓	✗	✓	✓	✓
2020	✓	✓	✗	✓	✗	✓
2019	✓	✓	✗	✓	✗	✓
2018	✓	✓	✗	✗	✗	✓
2017	✗	✓	✗	✗	✗	✓
2016	✗	✗	✗	✗	✗	✓

Legend: ✓ Compliant ✗ Not Compliant

Preventing and recovering improper payments are among the top financial management priorities of the Department. See the Other Information section and PaymentAccuracy.gov for additional information on PIIA compliance.

Prompt Payment Act

The Prompt Payment Act (PPA) requires federal agencies to pay vendors timely and pay interest penalties when payments are issued past their due dates. The Department complies with the PPA when applicable by statute, regulation, and within the terms of the contract. DFAS is responsible for consolidating interest data for the Department; however, each DoD Component is responsible for capturing, validating, and explaining the results of their data. Established metrics are used to track payment timeliness and interest penalties for late payments.

The Department's goal is to average $90 or less in interest paid per million (IPPM) PPA dollars disbursed on a monthly basis across all applicable contracts. In FY 2023, the average interest paid per million PPA dollars disbursed on a monthly basis increased to $148.23, compared to $60.30 in FY 2022. The Department continues to have recurring challenges, such as invoices without receiving reports, late and insufficient obligation posting, system migrations, prevalidation matching errors, and instant overage. These recurring challenges attribute to a large portion of IPPM and continue to have significant impacts as volume increases. Corrective actions focus on concentrated efforts to prioritize and clear the inventory of overaged invoices, reduce manual payments, and continued efforts to migrate from legacy to ERP systems. In addition, Prompt Payment interest rate fluctuations can impact performance against goal, as Prompt Payment interest rates, set by Treasury, change twice a year.

The Department's Procure-to-Pay (P2P) process encompasses all business functions necessary to obtain goods and services through the execution of procurement processes and procedures, including procurement requirements, strategy, award management, receipt and acceptance, entitlement, disbursement, and closeout. This process continues to be modernized, through the standardization of electronic data interchange, or "handshakes." These efforts will improve the interoperability and integrity of the end-to-end P2P process, lead to more timely actions overall, and assist in reducing the number of late payments by the Department.

Army Maj. Gen. Allan M. Pepin, left, speaks with former Staff Sgt. Darrell Bush, a World War II veteran of the Battle of the Bulge, at Arlington National Cemetery, Va., Jan. 25, 2023. Bush attended a wreath-laying ceremony at the cemetery to commemorate the anniversary of the ending of the battle in 1945. (Photo by: Elizabeth Fraser, Army)

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