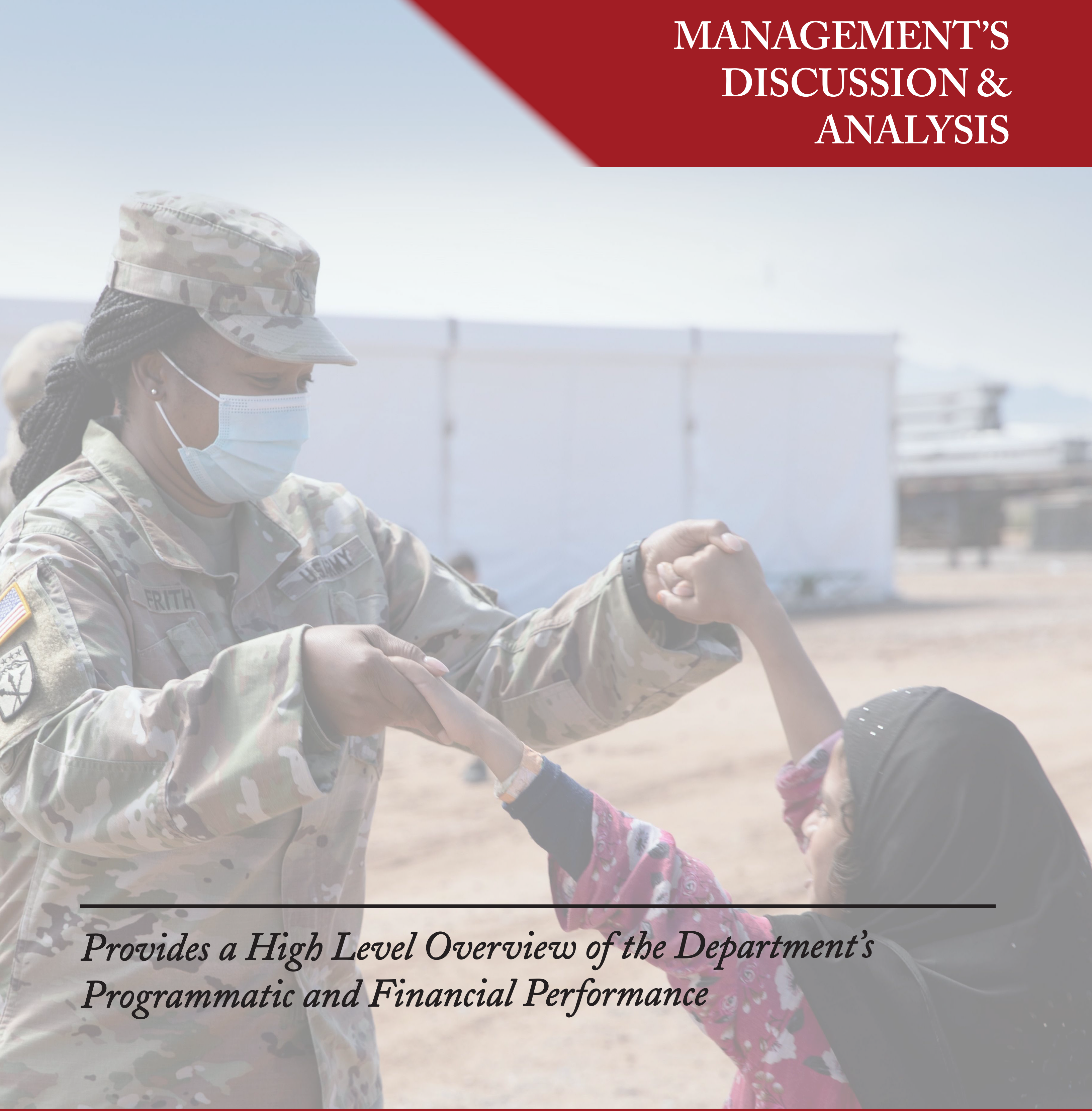
MANAGEMENT'S DISCUSSION & ANALYSIS



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

(Previous page) Staff Sgt. Celia Frith with Headquarters and Headquarters Company, 47th Brigade Support Battalion, entertains an Afghan child at Fort Bliss' Doña Ana Complex in New Mexico, Sept. 2, 2021. (Army Photo by Pfc. Maxwell Bass)

DoD Creates 'Mayor Cells' at Locations Where Afghans Are Housed

(Above) Brig. Gen. Alfred K. Flowers, Jr. (center), Air Force Medical Service Manpower, Personnel and Resources director, gets his brigadier general rank pinned on by his sons, Kendell Flowers (left), a cadet at the U.S. Air Force Academy, and Ayden Flowers, a cadet at Texas A&M, during his promotion ceremony at the Air Force Memorial in Arlington Va., Sept. 7, 2021. (U.S. Air Force photo by Josh Mahler)

Longest-Serving Airman Promotes Son to Brigadier General

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to provide the military forces to deter war and ensure the Nation's security. The Department will continue to provide combat-credible military forces that are capable of defending against aggression that undermines the security of both the United States (U.S.) and its allies.

Today, the United States faces a dynamic and challenging security environment shaped by increasingly capable state competitors. As global threats evolve, so too must the Department evolve to remain ready and capable of defeating the aims of adversaries. China poses the greatest long-term challenge to the United States, and the Department is taking a concerted approach to positioning for long-term competition. A combat-credible Joint Force will underpin 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. The Department must balance competing challenges that stem from advanced and persistent threats to global security and remain prepared to deter and, if necessary, respond to nation-state threats originating from Russia, Iran, and North Korea. The Department will also continue to disrupt transnational and non-state actor threats from violent extremist organizations, such as those operating in the Middle East, Africa, and South and Central Asia.

In response to this complex global security environment, the Department carries out its mission objectives focused on the core priorities outlined in the March 4, 2021, *Message to the Force* from Secretary of Defense Lloyd J. Austin III. The Message to the Force, which builds on the Administration's *Interim National Security Strategic Guidance*, provides the overarching strategic framework for the Department's near-term priorities, and organizes them along the following three distinct lines of effort:

- Defend the Nation;
- Take care of our people; and
- Succeed through teamwork.

Additionally, the Department is reviewing its strategy and plans to release an updated agency Strategic Plan in January 2022, in accordance with the National Defense Authorization Act for Fiscal Year 2017 *(NDAA for FY 2017).* The Strategic Plan will align with the Administration's forthcoming National Security Strategy, identify the Department's defense objectives and priorities, and identify an effective strategy to address global security challenges and provide for the common defense.

ORGANIZATIONAL STRUCTURE

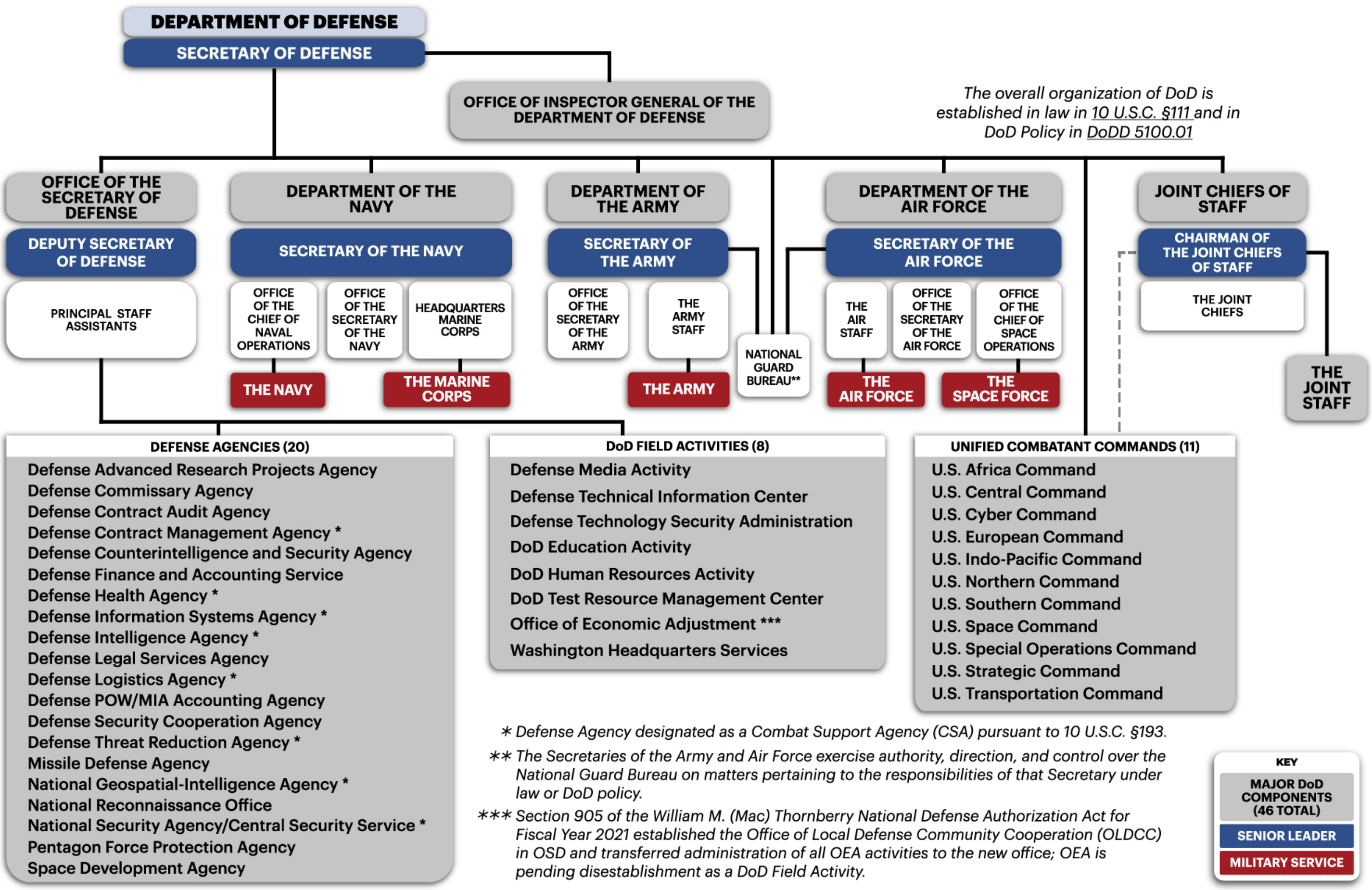
The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 personnel serving in the National Guard and Reserve forces, and approximately 780,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In carrying out the Department's mission, Military Service members operate approximately 14,400 aircraft and over 290 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 620,000 assets (buildings; structures; and linear structures such as utilities, roads, and fences) located on over 4,600 sites worldwide as of the beginning of Fiscal Year (FY) 2021. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and over 40 foreign countries. These sites represent a total of nearly 25.8 million acres that individually vary in size from military training ranges with over 3.4 million acres, such as the *White Sands Missile Range,* to single weather towers or navigational aids isolated on sites of less than one 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 the 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).

Gasses ignite as an M1 Abrams tank fires their main gun during a Dec. 10, 2020, live fire. Photo by Sgt. Alexandra Shea.

Figure 1. Department of Defense Organizational Structure



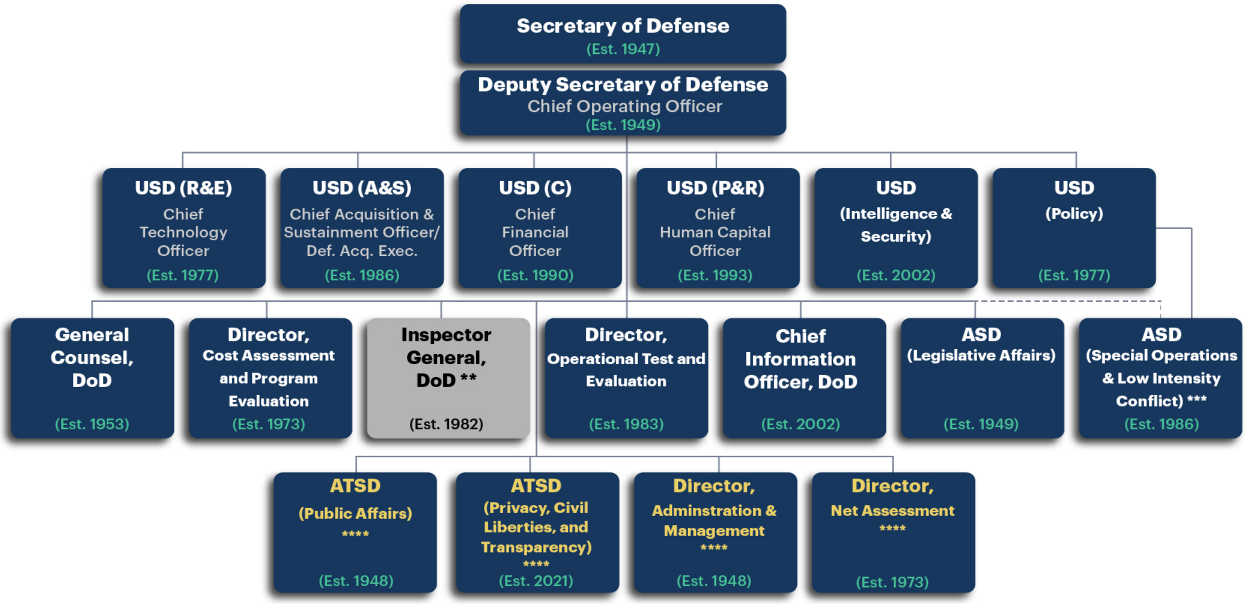
Office of the Secretary of Defense

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*, the Under Secretaries of Defense (USDs), the *General Counsel of the DoD,* the Assistant Secretaries of Defense (ASDs), the *Inspector General of the DoD*, and other staff offices within OSD established by law or by the Secretary of Defense, and other staff offices within OSD established by law or by the Secretary of Defense.

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

Figure 2. Office of the Secretary of Defense Principal Staff Assistants*

OSD Organizational Structure



* *Dates reflect establishment of positions with roles that were essentially the same as they are today (even though the positions may not have previously been Presidential appointments with Senate confirmation).*

** *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 Secretary of Defense for those specific matters.*

**** *Unlike the other positions shown, the indicated positions are Senior Executive Service positions, rather than Presidential appointments with Senate confirmation.*

Office of Inspector General

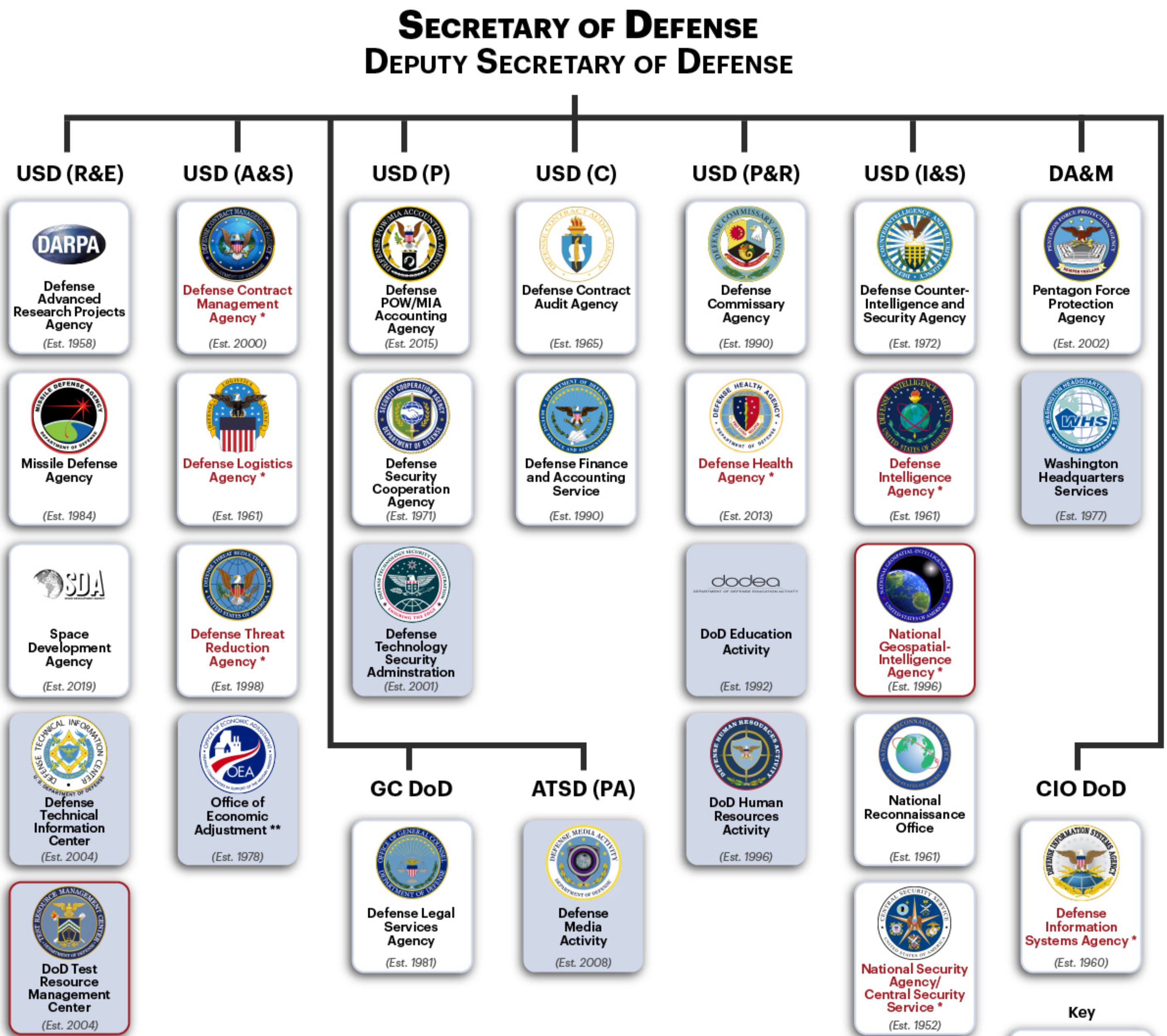
The Office of Inspector General of the DoD (*DoD OIG*) is an independent and objective unit within the Department that conducts and supervises audits, investigations, evaluations, and special reviews of the Department's programs and operations. The Inspector General of the DoD serves as the principal 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 established as DoD Components 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 to directly support the Combatant Commands. Each of the 20 Defense Agencies and 8 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD PSA (see Figure 3).

Figure 3. Defense Agencies and DoD Field Activities

Common Supply or Service Agency Per 10 USC 191



* *Eight Defense Agencies designated as Combat Support Agencies, pursuant to 10 USC §193, with joint oversight by the Chairman of the Joint Chiefs of Staff.*

** *Section 905 of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 established the Office of Local Defense Community Cooperation (OLDCC) in OSD and transferred administration of all OEA activities to the new office; OEA is pending disestablishment as a DoD Field Activity.*

Key

- Defense Agency
- DoD Field Activity
- Required by Law

The Joint Chiefs of Staff and the Joint Staff

The Joint Chiefs of Staff (*JCS*), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the 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 JCS functions as the military advisors to the President, the National Security Council, and the Secretary of Defense.

Combatant Commands

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands, with the CJCS functioning within the chain of command by transmitting 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, including programming; budgeting; acquisition; training, organizing, equipping, and providing special operations forces and cyberspace operations forces, respectively; and developing strategy, doctrine, tactics, and procedures. However, the USSOCOM and USCYBERCOM rely on the Military Services for ensuring combat readiness of the forces assigned to them.

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, Space Force, and Coast Guard are referred to as the Military Services. The three Military Departments organize, train, and equip the five Military Services (or six 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 Forces 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 (such as 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

Federal Missions

United States Army Reserve | **United States Navy Reserve** | **United States Air Force Reserve** | **United States Marine Corps Reserve** | **United States Coast Guard Reserve**

Federal and State Missions

Air National Guard | **Army National Guard**

When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve Forces 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 Forces are recognized as indispensable and integral parts of the Nation's defense and are fully part of the applicable Military Department.

RESOURCES

In FY 2021, the Department received total appropriations of $905.1 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Description	FY 2021 ($ in Billions)	Restated FY 2020 ($ in Billions)	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)	FY 2017 ($ in Billions)
Discretionary Budget Authority	$ 704.8	$ 723.1	$ 687.8	$ 670.6	$ 606.0
Civil Works Projects executed by USACE	6.2	6.1	8.2	22.8	5.8
Treasury Contribution for Military Retirement and Health Benefits	114.9	107.0	101.6	96.3	94.3
Trust Fund Receipts	215.9	168.5	172.5	164.2	153.2
Trust Fund Resources Temporarily not Available	(136.7)	(90.5)	(95.7)	(90.3)	(82.3)
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 905.1	$ 914.2	$ 874.4	$ 863.6	$ 777.0

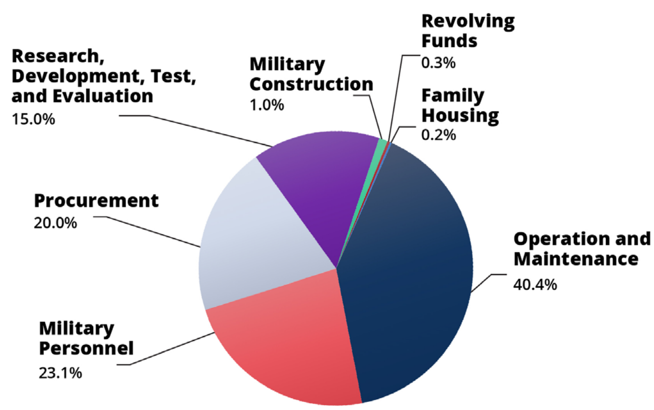
Discretionary Appropriations

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives and was provided through the *NDAA for FY 2021*, the *DoD Appropriations Act of 2021*; the *Military Construction, Veterans Affairs, and Related Agencies Appropriations Act of 2021*; and the *Emergency Security Supplemental Appropriations Act of 2021*. The FY 2021 Discretionary Budget Authority of $704.8 billion was provided to the Department using seven appropriation categories that describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2021 Discretionary Budget Authority

Appropriation Category	$ IN BILLIONS	%
Operation and Maintenance	$284.4	40.4%
Military Personnel	$163.0	23.1%
Procurement	$140.7	20.0%
Research, Development, Test and Evaluation	$105.9	15.0%
Military Construction	$7.2	1.0%
Revolving Funds	$2.2	0.3%
Family Housing	$1.4	0.2%
Total Discretionary Budget Authority	$704.8	100.0%



Operation and Maintenance

FY 2021 Operation and Maintenance (O&M) appropriation decreased by $16.0 billion from the FY 2020 amount. 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 2021 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, and infrastructure as well as funding for Combatant Command exercises and engagements (such as *DEFENDER-Europe 21, Cutlass Express 2021*, and *Global Lightning 2021)* to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Military Personnel

FY 2021 Military Personnel appropriations increased by $8.2 billion over the FY 2020 amount. 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 2021 Military Personnel appropriations included funding for a 3.0 percent military base pay raise effective January 1, 2021.

Procurement

FY 2021 Procurement appropriations decreased by $0.1 billion from the FY 2020 amount. 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 2021 Procurement appropriations included funding for the procurement of the first Columbia-class ballistic submarine, 2 Arleigh Burke-class guided missile destroyers, 2 Virginia-class fast attack submarines, 1 frigate, 96 F-35 Joint Strike Fighters, and 24 F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2021 Research, Development, Test, and Evaluation appropriations increased by $1.0 billion over the FY 2020 amount. 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 2021 Research, Development, Test, and Evaluation appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance), space systems development (e.g., the Next Generation Overhead Infrared Missile Warning satellite development), strengthening homeland missile defense (e.g., the Ground Based Strategic Deterrent), modernizing nuclear enterprise systems, and investment in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2021 Military Construction appropriations decreased by $9.5 billion from the FY 2020 amount. 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 2021 Military Construction appropriations included funding to support the *European Deterrence Initiative* and climate-related investments within the *Energy Resilience and Conservation Investment Program.*

Revolving Funds

FY 2021 Revolving appropriations decreased by $1.9 billion over the FY 2020 amount. Generally, funds in this category provide direct appropriations to Defense Working Capital Fund activities, such as the Defense Commissary Agency (*DeCA*), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities.

Family Housing

FY 2021 Family Housing appropriations increased by $29.0 million over the FY 2020 amount. 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.

Civil Works Projects Executed by USACE

The Congress also appropriates funding directly to the U.S. Army Corps of Engineers (*USACE*) under the *Energy and Water Development and Related Agencies Appropriations Act of 2021*. The $6.2 billion received in FY 2021 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.

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.

Airman 1st Class Keila Falcon, 21st Security Forces Squadron elite guardsman, stands at attention during the unveiling of the 21st SFS Elite Guard Section Oct. 20, 2020. U.S. Space Force photo by Airman 1st Class Andrew Bertain.

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 (such as average force strength) and assumptions (such as 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, payments from the Uniformed Services (i.e., the Military Services, *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, 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.

COVID-19 Response Funding

In response to societal and economic impacts of the Coronavirus Disease 2019 (*COVID-19*) pandemic, multiple laws were passed by the Congress and signed into law by the President to assist with preventing the spread and mitigating the negative impact of the COVID-19 pandemic on individuals; businesses; and federal, state, local, and tribal government operations. Two of these laws provided supplemental appropriations to the Department, totaling $10.7 billion, which are reflected in the DoD FY 2020 total appropriations amount:

- The Families First Coronavirus Response Act (*FFCRA*) was signed into law on March 18, 2020. The provisions of the FFCRA included $82.0 million in emergency supplemental O&M funding for the *Defense Health Program* to waive *TRICARE* participant copayments and cost sharing associated with COVID-19 related testing and medical visits.
- The Coronavirus Aid, Relief, and Economic Security Act (*CARES Act*) was signed into law on March 27, 2020. The provisions of the CARES Act included $10.6 billion in emergency supplemental funding to support the Department's efforts to prevent, prepare for, and respond to the COVID-19 pandemic domestically and internationally, and to fund existing shortfalls in TRICARE-managed care support contracts. These funds were provided across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, and Revolving Funds) and to multiple DoD Components, including the Military Services, National Guard and Reserves, Defense Health Program, USACE, and the DoD OIG.

To facilitate the review and tracking of Component requests for COVID-19 response funds, the Department required Components to categorize their requests using the following cost categories based on the Department's COVID-19 response priorities (see Figure 8). In addition to these categories, DoD funding also supported the whole-of-nation *Government Response to COVID-19*.

Air Force Tech. Sgt. Sierra Singleton, left, and Air Force Airman 1st Class Gabriella Figg, right, with the 86th Operational Medical Readiness Squadron are public health technicians who administer COVID-19 antigen tests to Afghanistan evacuees at Ramstein Air Base, Germany, Oct. 7, 2021. Photo by Air Force Airman Jared Lovett.

Figure 8. Priority Criteria and Cost Categories for COVID-19 Response Funding Assessments

Cost Category	***Description/Types of Requirements***
Priority 1: Protect our People	
A. Most urgent force protection requirements (in priority order)	
Medical Care	• Increasing healthcare cases for eligible military members, dependents, and retirees • Procuring medical equipment (e.g., ventilators)
Diagnostics and Medical Research	• Developing vaccines/anti-virals • Providing 24/7 lab operations • Procuring diagnostic tests and research activities
Medical Countermeasures	• Procuring vaccines and anti-virals • Surveilling public health
Medical Countermeasures – Medical Personal Protective Equipment (PPE)	• Procuring PPE for medical personnel and disease response
Pharmaceuticals and Medical Supplies	• Procuring pharmaceuticals (e.g., albuterol, codeine, saline) and medical supplies (e.g., first aid kits, thermometers)
Non-Medical PPE	• Procuring PPE for first responders, installations, and ships
Cleaning Contracts and Non-Medical Supplies/Equipment	• Increasing cleaning contracts and biohazard mitigation (e.g., disinfectants, sanitizers, cleaning materials)
B. Longer Term Requirements	
Military Healthcare System Direct Care Capacity	• Expanding military treatment facilities to ensure maximum capacity of the direct care system • Procuring expeditionary hospital packages
Priority 2: Safeguard our National Security Capabilities	
A. Continuity of Operations – Highest immediate risk to military readiness	
DoD Operations	• Increasing operations and deployment schedules • Supporting social distancing, quarantine requirements, etc.
Information Technology (IT) Equipment/ Support	• Procuring IT equipment and increased bandwidth to continue operations
Reserve Component Support for the Department	• Deploying Reserve/Guard personnel for DoD missions (e.g., Training, temporary duty travel costs, non-IT equipment)
Transactions with Nonappropriated Fund Instrumentalities (NAFI)	• Supporting coronavirus-related transactions with revenue-generating NAFIs (e.g., to avoid NAFI employee layoffs at Morale, Welfare, and Recreation activities)
B. Defense Industrial Base – High Risk	
Defense Production Act Purchases	• Increasing access to materials necessary for national security and COVID-19 pandemic recovery • Providing loans to subsidize multiple federal loans to create, maintain, protect, expand, or restore domestic Industrial Base capabilities
Contract Modifications and Cost Overruns	• Modifying contracts involving price increases and cost overruns tied directly to the COVID-19 response.

Of the COVID-19 response funds received and available for obligation during FY 2021, $883.0 million was obligated and $54.6 million remained available for future obligation.

PERFORMANCE OVERVIEW

The Government Performance and Results Act of 1993 (*GPRA*), GPRA Modernization Act of 2010 (*GPRAMA*), and Office of Management and Budget (*OMB*) *Circular No. A-11* require federal agencies to develop a Strategic Plan no later than the first Monday in February following the year in which the term of a new President commences.

The Strategic Plan—which is influenced by the *President's Management Agenda* and input from the Congress, OMB, Government Accountability Office (*GAO*), DoD OIG, and other DoD stakeholders—accomplishes numerous important management functions related to achieving the Department's mission. These functions include communicating the Administration's priorities and direction through long-term goals and desired outcomes; providing guidance for programmatic and management functions used to execute strategies needed to complete the goals; and facilitating engagement with stakeholders to enlist ideas, expertise, feedback, and assistance. The Department is in the process of developing a Strategic Plan covering FYs 2022 – 2026 and will submit the final plan to Congress with the FY 2023 President's Budget Request in February 2022. In the interim, the Department continues to carry out its mission objectives focusing on the core priorities outlined in the March 4, 2021, Secretary of Defense Message to the Force: defend the Nation, take care of our people, and succeed through teamwork.

This section provides an overview of the Department's operational performance through Quarter 3, FY 2021. Complete FY 2021 performance results through fiscal year-end will be published in the *Annual Performance Report* in February 2022, which will be available on the Office of the Director of Administration and Management website at *https://dam.defense.gov*.

Information Technology and Business Systems

In the May 5, 2021 memorandum "*Creating Data Advantage*," the Deputy Secretary of Defense outlined a plan to transform the Department to a data-centric organization and named Advana as the Department's single enterprise data analytics and visualization platform. By continuing to increase the number of DoD systems providing data to Advana and improving data access and quality, the Department is building a single source of truth to optimize information technology portfolio management, improve financial management, capture lost buying power, and provide enterprise-wide visibility that drives to action.

The Department continues to create efficiencies in support of the Federal Government-wide Data Center Optimization Initiative (*DCOI*). Through Quarter 3, FY 2021, the Department-wide DCOI effort yielded 38 data center closures and savings of $219.2 million from budgetary actions. This progress contributed to a total reduction of 1,602 data centers (from 3,751 to 2,149) and $851.8 million in savings since the program's inception. The Department's DCOI efforts received an "A" grade on the 12th iteration of the biannual Federal Information Technology and Acquisition Regulation Act (*FITARA*) *Scorecard* developed by GAO and reported to the U.S. House of Representatives, *Committee on Oversight and Reform* during a July 28, 2021, *hearing*.

Marines fire an MK-153 shoulder-launched multipurpose assault weapon during Fuji Viper at Combined Arms Training Center Camp Fuji, Japan, Dec. 10, 2020. Photo by Marine Corps Lance Cpl. Ujian Gosun.

A complimentary DCOI effort, referred to as the Fourth Estate Cloud and Data Center Reform Initiative, focuses on migrating Defense Agencies and DoD Field Activities applications and systems to alternate hosting environments (e.g., cloud and enterprise data centers) to enable the closure of vulnerable data centers and facilitate the transition to the cloud. Through Quarter 3, FY 2021, the Defense Agencies and Field Activities have migrated or decommissioned 115 systems, contributing to a total of 667 systems migrated or decommissioned since the initiative began in 2018. Once completed, the initiative is expected to achieve over 900 system migrations and decommissions.

Human Resources

The Department uses Time-to-Hire (T2H) as a metric to measure and assess its ability to hire new talent efficiently. The *Office of Personnel Management* established an 80-day standard for this metric, as described in the "*End to End Hiring Initiative*" guidance. Over the previous three fiscal years, the Department has significantly improved the timeliness of its hires into the civilian workforce, decreasing the T2H from an average of 100 days in FY 2018 to an average of 81 days as of end of Quarter 3, FY 2021.

Additionally, the Department is continuing to configure the Defense Civilian Human Resource Management System (*DCHRMS*), a cloud-based human resources personnel system that is integrating six different databases into one. DCHRMS will enhance the sharing of information between Components, standardize and streamline personnel processes, and allow users to navigate within a single system to execute core human resources and performance management processes. The system will also provide an automated performance management solution that includes a dashboard for managers, links to employee within-grade increases, and performance awards. In FY 2021, the Department configured all needed nature of action codes, approved a final training execution plan, identified deployment decision criteria, and developed a plan for a user acceptance test for DCHRMS deployment in FY 2022.

COVID-19 Efforts

In February 2021, at the request of the *Federal Emergency Management Agency*, the Secretary called on active duty Military Service members to assist with federal vaccination efforts. Since then, the *U.S. Army North* has led over 5,100 military medical and support personnel from across the Department to 25 states and one territory as part of the overall government response to the COVID-19 pandemic and trust building efforts within some of the Nation's hardest-hit communities.

On May 20, 2021, the Deputy Secretary of Defense and Deputy Secretary of Health and Human Services (*HHS*) signed a memorandum of understanding (MOU) to continue the agencies' partnership in defeating COVID-19 and preparing for future public health emergencies. Since the start of the COVID-19 pandemic, DoD has executed over $26.0 billion on behalf of HHS to meet the needs of the Nation. In accordance with the Secretary of Defense's priorities, the Department will continue to act boldly in supporting interagency efforts to defeat COVID-19. This MOU reinforces DoD support to HHS in furthering that mission and strengthens the partnership between these agencies.

Climate Crisis Response

The President issued numerous Executive Orders (EOs) regarding climate change, including *EO 14008*, "Tackling the Climate Crisis at Home and Abroad," which requires the Department to submit several documents to the President. For example, the Department is developing a Climate Risk Analysis report to assess the national security implications of climate change. To support the development of the Climate Risk Analysis, the Department published a climate exposure assessment report, titled "*DoD Installation Exposure to Climate Change at Home and Abroad*," on April 19, 2021 that helps to identify the climate hazards to which DoD installations are most exposed, a critical first step in addressing the potential physical harm, security impacts, and degradation in readiness resulting from global climate change. Another required document, the *Climate Adaptation Plan*, was signed by the Secretary of Defense on September 1, 2021, and publicly released by the White House on October 7, 2021. This plan articulates a bold vision for climate adaptation and aligns adaptation and resilience efforts with the Department's warfighting mission.

The Department also created a new DoD center to focus on issues related to the Arctic. The *Ted Stevens Center for Arctic Security Studies* will work with partner nations to ensure that a stable, rules-based order in the Arctic will benefit the United States and all Arctic nations, including Canada, Denmark, Finland, Iceland, Norway, Russia, and Sweden.

FORWARD LOOKING INFORMATION

Given the breadth and complexity of its mission, the Department faces myriad emerging risks and challenges. Nevertheless, the Department is committed to ensuring a clear-eyed appraisal of these risks and identifying every opportunity to optimize operational performance. These risks include:

China and other advanced, persistent threats necessitate sustained vigilance, as well as deliberate prioritization of resources and attention.

The Department considers China as the top pacing priority, as China remains the only U.S. competitor able to combine its economic, diplomatic, military, and technologic power to mount a sustained challenge to the international system. As assessed in the *"2021 Military and Security Developments Involving the People's Republic of China"* annual report to Congress, China's strategy seeks to achieve "the great rejuvenation of the Chinese nation" by 2049, characterized by a pursuit of political and social modernity that includes expanding China's national power, perfecting its governance systems, and revising the international order. This includes an objective of developing a "world-class" military which, within the context of its national strategy, likely indicates a desire to develop a military that is equal or superior to that of the U.S. or any other power viewed as a threat. To counter this objective, the Department convened a 15-member task force from across the Department to identify priorities regarding China and ensure alignment with the Administration's whole-of-government approach. On June 9, 2021, the Secretary of Defense issued a *directive* that initiated several major Department-wide efforts to better address the security challenges posed by China, based on the task force's recommendations. Though some of these initiatives remain classified, they are designed to increase the strategic competitiveness of DoD capabilities in a manner that encourages a constructive, stable, results-oriented defense relationship and sets United States-China relations on a path of transparency and non-aggression.

In addition to addressing the accelerating competition with China, the Department will ensure the continued ability to respond to and effectively deter nation-state threats emanating from Russia, Iran, and North Korea, as well as disrupt transnational and non-state actor threats from violent extremist organizations in the Middle East, Africa, and South and Central Asia. These threats include:

USS Constitution fires its cannons as it's tugged through Boston Harbor, May 21, 2021. Photo by Navy Petty Officer 3rd Class Alec Kramer.

- Russia's current behaviors threaten the United States and its allies by eroding transparency and predictability, using military force to achieve its goals, supporting proxy groups to sow chaos and doubt, undermining the rules-based international order, and violating the sovereignty and territorial integrity of its neighbors.
- Iran's malign activities, including its nuclear ambitions, remain a significant destabilizing force in the Middle East and continue to threaten global commerce, violate human rights, and ignore regional sovereignty.
- North Korea's development of ballistic missiles and weapons of mass destruction represent a threat to U.S. interests and to the security of our allies and partners. The Department has a vital interest in defending against North Korean provocations or uses of force, limiting the reach of its dangerous weapons programs, and keeping the American people and allies safe.
- Violent extremist organizations, while degraded globally, continue to pose transnational and regional threats to the United States and our allies and partners.

To address these threats, the *FY 2022 DoD budget request* sustains investments that will preserve the military's ability to project power globally against a full spectrum of threats, even as it prioritizes activities that will deter and defend against adversarial aggression. This includes $5.1 billion for the Pacific Deterrence Initiative (*PDI*) to help maintain a conventional military advantage necessary to deter aggression in the Indo-Pacific region and address the pacing threat, $3.7 billion for the European Deterrence Initiative (*EDI*) to ensure deterrent capabilities are placed in key locations throughout Europe, and $0.5 billion for the Counter-Islamic State of Iraq and Syria (ISIS) Train and Equip Fund (*CTEF*) to support Iraqi Security Forces and vetted Syrian groups and individuals working to prevent the resurgence of ISIS.

The ongoing National Defense Strategy review, as well as concurrent review efforts like the *Global Posture Review*, *Nuclear Posture Review*, and *Missile Defense Review* will help inform how DoD prioritizes future resources in the budget and across the globe to deter competitors and manage an evolving and complex global threat environment.

Adversaries aim to militarize space, requiring specific planning, investments, and resources to protect and defend the space-based assets and capabilities that enable virtually every element of American national power, including diplomacy, economics, finance, and information.

The Department is taking innovative and bold actions to ensure space superiority and secure the Nation's vital interests in space. Potential adversaries have taken note of the United States' reliance on space and are challenging the Nation's advantage in space by aggressively developing offensive weapons to deny or destroy U.S. space capabilities in conflict. The evolution of threats to on-orbit systems force the Department to reconsider how it protects and defends its strategic assets, and how future strategic capabilities should be designed to mitigate threats. The Department must modernize its architecture to survive and execute space power missions in this contested domain. To achieve this, the Department is engaged in an end-to-end transformation of organizations and processes to accelerate delivery of operationally relevant space capabilities. For example, the U.S. Space Force is partnering with the Combatant Commands, *Missile Defense Agency, National Reconnaissance Office*, and *Space Development Agency* to design and build a resilient missile warning architecture comprising strategic and theater missile warning and missile tracking capabilities that provide indications and warnings to protect the Homeland, the Joint Force, and allies abroad.

Legacy space command and control capabilities are insufficient to prevail in future conflict; therefore, the Department prioritized the delivery of space command and control capabilities using a development, security, and operations approach to acquisitions. Leveraging the agile approaches of commercial software developers, the Department is developing cyber-resilient capabilities to enhance American, allied, and partner nation space warfighting capabilities. As the U.S. Space Force was "born digital," it is uniquely positioned to harness modern era advancements and tools to accelerate innovation and ensure the space domain is secure, stable, and accessible. Under the leadership of the newly established Technology and Innovation Office, the U.S. Space Force focuses on partnering with government, science and technology industries, and academia to build a digital service to support its missions and business operations.

The global climate crisis may increase the frequency and scale of natural disasters with 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 affects most, if not all, of the Department's efforts to defend the American people. From melting Arctic Sea ice and thawing permafrost, to wildfires, hurricanes, drought, and sea-level rise, climate change is creating new missions and impacting the operational environment. For example, warming climate in the Arctic is driving increased competition for resources and influence in the region, extended droughts in Central and South America are driving northward migration towards the U.S. southern border, extreme heat conditions in the Middle East are endangering access to water resources thereby threatening regional security and prosperity, and hurricanes and flooding have caused billions of dollars in infrastructure damage to DoD facilities and forced pauses or alterations to military exercises.

In recognition of these risks, the Department is committed to advancing climate change mitigation (i.e., reducing the Department's contribution to climate change) and adaptation (i.e., adjusting for expected future climate). The FY 2022 DoD budget request includes $616.5 million of new investments across the following four categories:

- $261.7 million to strengthen installation mission resilience (i.e., the capability of DoD installations to operate efficiently and rapidly recover from disruptions in public infrastructure like losses of power);
- $186.4 million for research, development, and prototyping focusing on energy demand reduction, management, supply, and storage;
- $153.4 million for improving energy efficiency of operational platforms, leveraging DoD buying power through private sector investment and third-party financed projects, and modernizing the non-tactical fleet by transitioning to electric vehicles; and
- $15.0 million to support the inclusion of climate risks into war games, analysis, exercises, and contingency planning.

(Fort Benning, Ga) – In Week 3 of U.S. Army Sniper School, 35 students participate in the ghillie wash, which is designed to test the strength and durability of the suits as well as weather them. U.S. Army photo by Patrick A. Albright, Maneuver Center of Excellence and Fort Benning Public Affairs.

Navy Ensign Ryan Dunkle gives commands during joint flight training aboard the Coast Guard cutter Healy off the coast of Alaska, Aug. 25, 2021. Photo by Navy Chief Petty Officer Matthew Masasch.

Budget impasses and continuing resolutions may negatively impact DoD planning and readiness.

The Department relies on predictable and timely appropriations in order to conduct long-term planning for continued recovery of military readiness and other key capabilities. The absence of fully enacted appropriations at the beginning of a fiscal year prevents the Department from implementing new operational improvement initiatives, restricts the operations of certain civilian and Reserve Component personnel, and affects the availability of funding for critical weapon systems acquisition and personnel compensation. To mitigate this risk, the Department closely monitors the appropriation process throughout the year and develops contingency plans to ensure the continuation of essential operations in the absence of available appropriations.

The need to distribute CARES Act funding quickly exposes the Department to the risk of improper payments and fraud.

The urgency to disburse funds to support the deployment of DoD resources to areas of need may result in improper payments or fraudulent activities that fail to be identified or prevented by current processes and internal controls that are in place to verify the proper usage of funds. To mitigate this risk, the Department leadership issued multiple memoranda, which have been implemented across the Department, to enforce and emphasize the importance of monitoring and reporting CARES Act activities. In addition, the Office of the Under Secretary of Defense (Comptroller) (*OUSD(C)*) led training sessions and issued budget execution guidance and templates to educate the DoD risk management and internal control community on the increased risks related to the distribution of contingency funds. The Department established a series of dashboards within Advana to help senior leaders oversee Components' performance and monitor activities to ensure compliance with the guidance.

GAO High Risk List

The GAO issues a biennial list of 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 transformation. The FY 2021 GAO High Risk List (*GAO-21-119SP*) included the following risks specifically related to the Department:

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

The GAO removed DoD Support Infrastructure Management, which was included in the FY 2019 list, based on the Department's accomplishments over the preceding 2 years in addressing the reported risk. For example, the Department reduced excess or underutilized properties, contributing to the reduction of 68 percent of total government-wide office and warehouse space and 75 percent of other government-wide properties; reduced base support costs by implementing the GAO recommendations provided in *GAO-19-4*; and more efficiently used installation space through the reduction of leases. For the five remaining risks, the Department has either "met" or "partially met" each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring). Additionally, the GAO upgraded the 'Demonstrated Progress' evaluation criterion for the DoD Financial Management risk from "not met" in FY 2019 to "partially met" in FY 2021 in recognition of the Department's ongoing financial statement audit efforts and progress in addressing internal control weaknesses.

The Department is dedicated to driving continual progress towards fully addressing all the risks identified by the GAO in support of more effective and efficient operations. The Department anticipates working collaboratively with GAO to identify and implement further improvements.

FINANCIAL HIGHLIGHTS AND ANALYSIS

The principal 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 OMB *Circular No. A-136* and with U.S. Generally Accepted Accounting Principles 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.

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 reporting entities listed in Appendix A. The principal financial statements include:

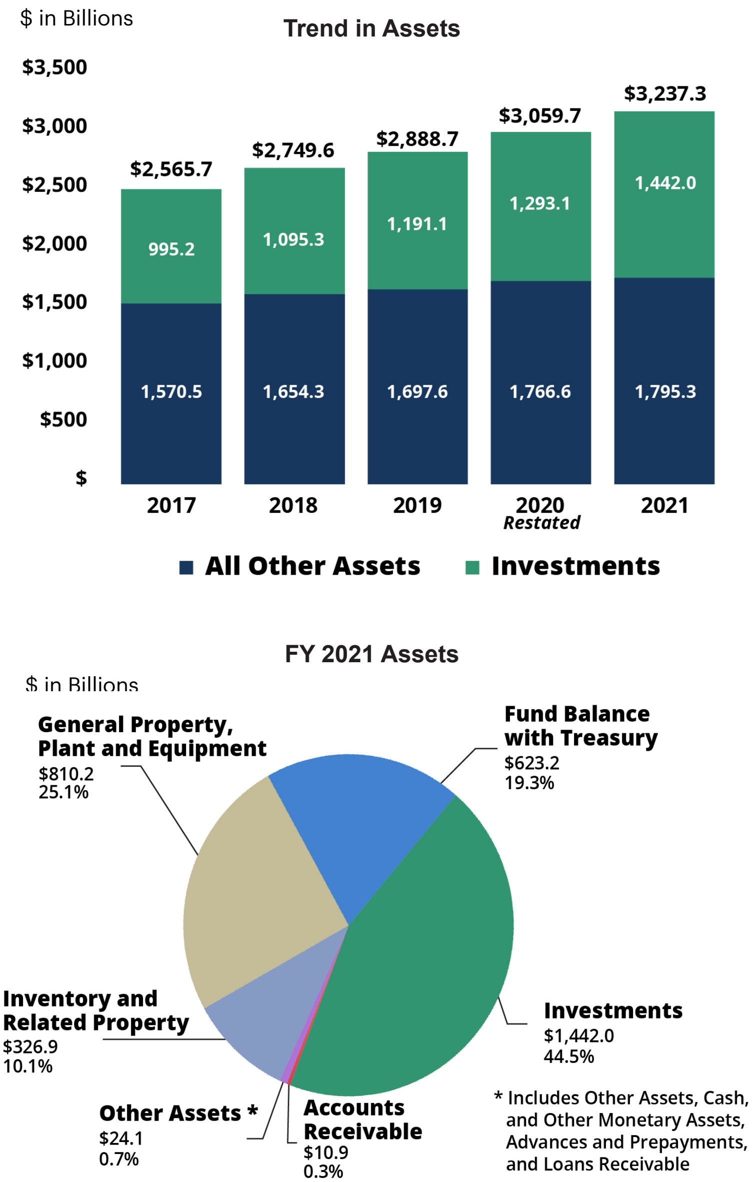
Balance Sheet	*Statement of Net Cost*
Statement of Changes in Net Position	*Statement of Budgetary Resources*

Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2021, and September 30, 2020, 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, 2021, the Department's $3.2 trillion in assets is predominantly comprised of Investments; General Property, Plant, and Equipment (PP&E); Fund Balance with Treasury (FBwT); and Inventory and Related Property (I&RP), which together represented 98.9 percent of the Department's assets (see Figure 9).

Figure 9. Summary of Total Assets (Unaudited)



During FY 2021, the Department's total assets increased by $177.6 billion (5.8 percent) over the FY 2020 (restated) amount, primarily attributable to the following changes:

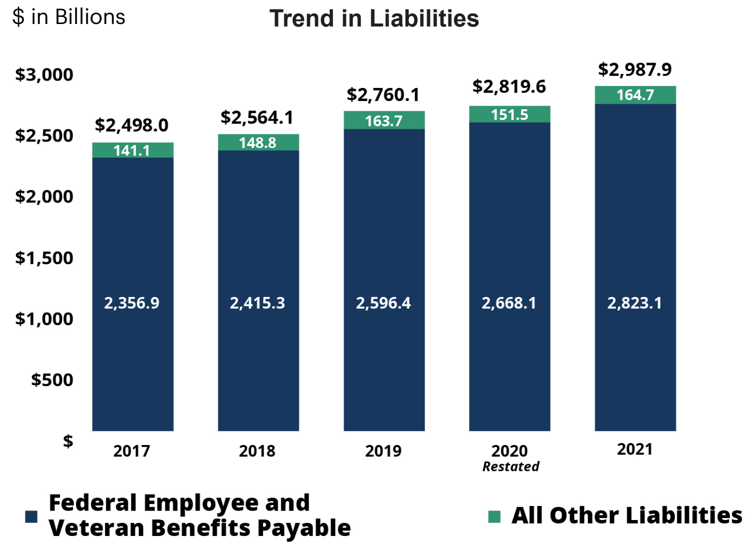
- Investments in securities issued by the Treasury increased by $148.9 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, Investments and Related Interest, in the Financial Section for more information.
- General PP&E increased by $24.7 billion primarily as a result of the continued implementation of more disciplined accounting practices, such as establishing opening balances and revising asset valuations in accordance with Statement of Federal Financial Accounting Standards *(SFFAS) 50*.
- Intragovernmental Accounts Receivable increased by $3.1 billion, primarily due to a $2.7 billion increase in COVID-19 relief activities with HHS related to Operation Warp Speed and COVID-19 vaccine distribution.

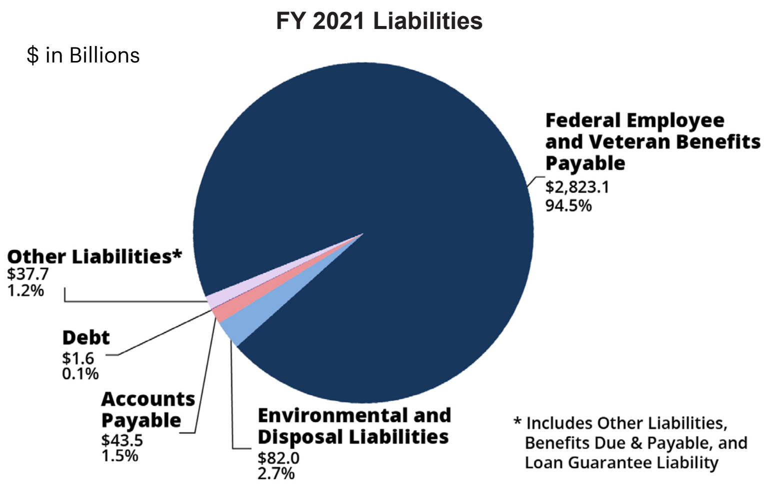
As of September 30, 2021, the Department's $3.0 trillion of liabilities is predominantly comprised of Federal Employee and Veteran Benefits Payable and Environmental and Disposal Liabilities, which together represented 97.2 percent of the Department's liabilities (see Figure 10). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

During FY 2021, the Department's total liabilities increased by $168.3 billion (6.0 percent) over the FY 2020 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable liability increased by $155.0 billion primarily attributable to a $134.4 billion increase in the actuarial liability for military retirement pensions and a $33.3 billion increase in the actuarial liability for military Medicare-eligible retiree health benefits. This actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. See Note 13, F*ederal Employee and Veteran Benefits Payable,* in the Financial Section for more information.
- Environmental and Disposal Liabilities increased by $6.9 billion primarily due to a change in the Department's estimation methodology for asbestos, which increased the associated liability by $4.1 billion. Additionally, the Department recognized a $0.4 billion increase in estimable amounts for sediment dredging.

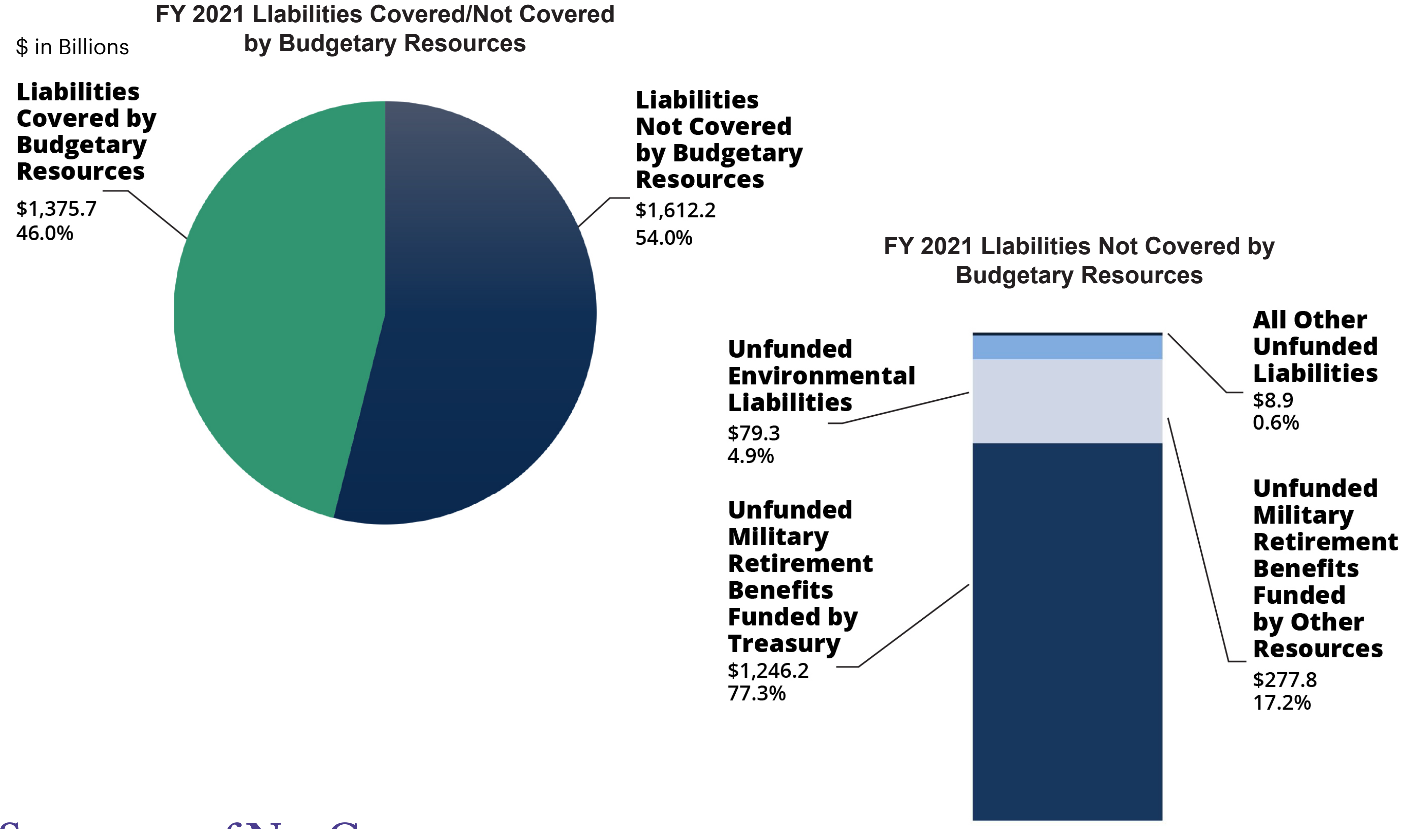
Figure 10. Summary of Total Liabilities (Unaudited)





As of September 30, 2021, $1.6 trillion (54.0 percent) of the Department's liabilities were not covered by budgetary resources (see Figure 11). Of this amount not covered by budgetary resources, $1.2 trillion (77.3 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 11. 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 for the years ended September 30, 2021, and September 30, 2020. 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 Outlays, in the Financial Section for additional information.

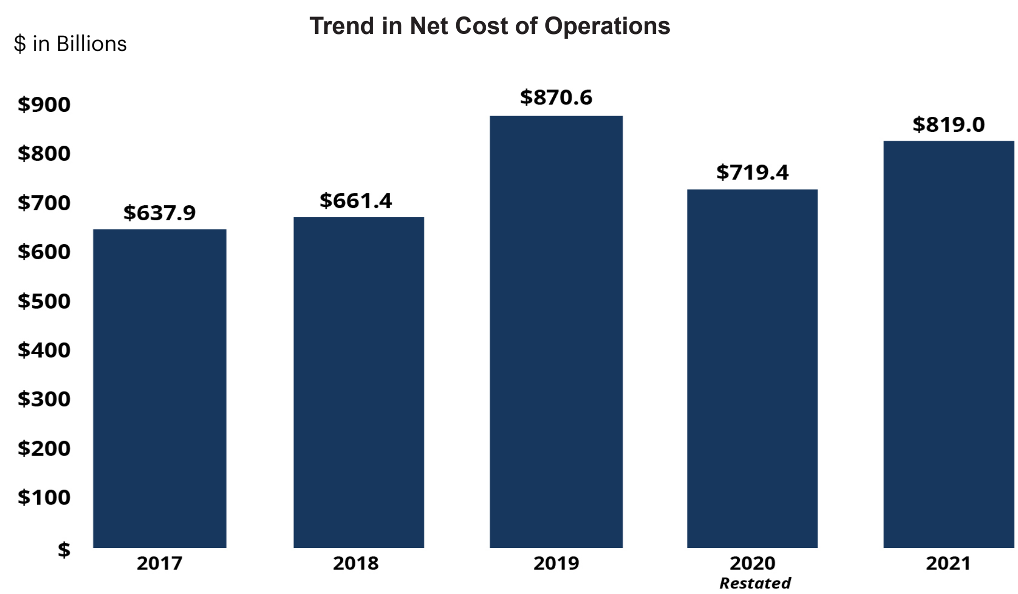
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

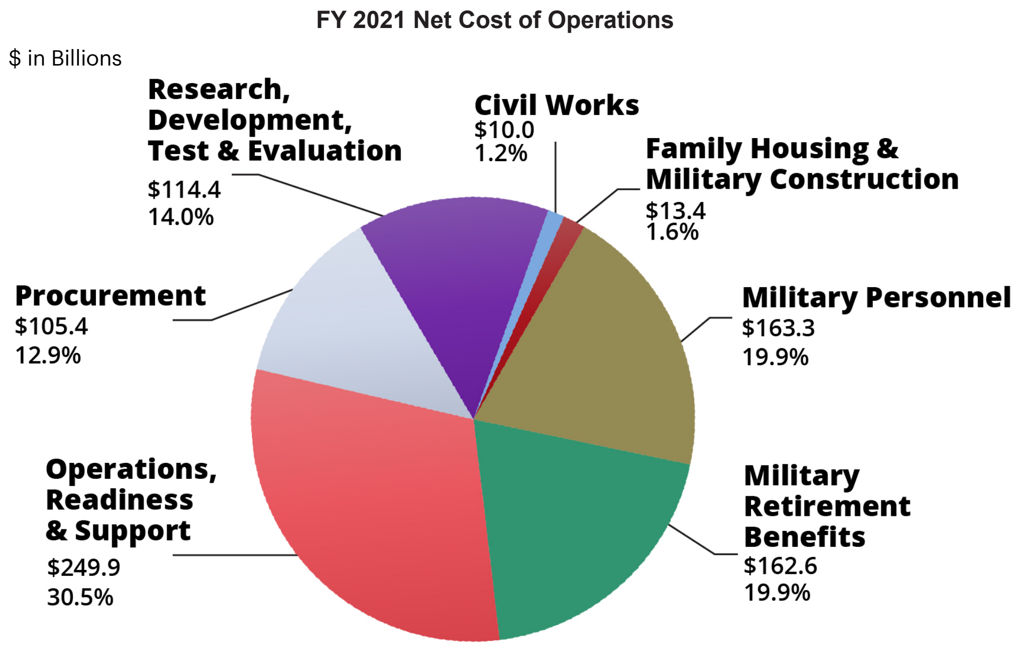
- Military Retirement Benefits includes expenditures that cover eligible members' retirement pay, disability retirement pay, and/or healthcare benefits for Medicare-eligible members and their dependents or survivors.
- Civil Works includes expenditures related to Energy and Water Development programs executed by USACE that primarily fulfill three mission areas: commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration.

- Military Personnel includes expenditures for the salaries and other compensation for active military personnel, reserve, and guard forces. 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.
- Operations, Readiness, and Support includes expenditures that provide benefits that are derived for a limited period, such as 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), base operations support and assets with a system unit cost less than the current capitalization threshold.
- Procurement includes expenditures for the acquisition of items that provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- Research, Development, Test, and Evaluation 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 includes expenditures associated with purchasing, leasing, and support services for property that house Military Service members and their families as well as expenditures 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 $819.0 billion FY 2021 Net Cost of Operations were Operations, Readiness, and Support; Military Personnel; Military Retirement Benefits; Research, Development, Test, and Evaluation; and Procurement, which together represented 97.1 percent of the Department's Net Cost of Operations (see Figure 12).

Figure 12. Summary of Net Cost of Operations (Unaudited)





During FY 2021, the Department's Net Cost of Operations increased $99.7 billion (13.9 percent) over the FY 2020 (restated) amount, primarily attributable to the following changes:

- Military Retirement Benefits net cost increased by $81.8 billion, primarily due to a $123.9 billion increase in losses due to changes in long-term economic actuarial assumptions and an offsetting $44.1 billion increase in Earned Revenue. Earned Revenue increased primarily due to a $34.4 billion increase in interest revenue and a $6.2 billion increase in Treasury contributions received to amortize the unfunded liability.
- Research, Development, Test, and Evaluation net cost increased by $17.1 billion, primarily due to a $11.6 billion increase in costs to support the development of medical biological defense capabilities and a $5.2 billion increase related to smoke, obscurity, and target defeating systems.
- Procurement net cost increased $9.6 billion, primarily due to $9.4 billion increase in purchases of non-capitalized equipment and reclassification of Construction in Progress, which was previous recorded as a prepayment.
- Family Housing and Military Construction net cost increased $5.6 billion, primarily due to $2.7 billion increase attributable to a change in depreciation expense.

See Note 19, Disclosures Related to the Statement of Net Cost, in the Financial Section for additional information.

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of Net Position separately to enable the financial statement user to obtain a better understanding of the nature of changes to Net Position as a whole. The statement focuses on how the Net Cost of Operations is financed and displays the other sources financing the Department's operations.

During FY 2021, the Department's Net Position increased by $9.3 billion (3.9 percent) as compared to FY 2020 (restated), primarily attributable to the following changes:

- Unexpended Appropriations decreased by $16.9 billion, primarily attributable to a $33.5 billion increase in Appropriations Used (which has an inverse effect on Unexpended Appropriations) and a $10.1 billion decrease in Appropriations Received, offset by a $25.8 billion increase in Beginning Balance (the amount of Unexpended Appropriations carried forward from the previous year).
- Cumulative Results of Operations (which has an inverse effect on Net Position) decreased by $26.2 billion, primarily attributable to the following changes:
    - Beginning Balance increased $85.5 billion as the result of the FY 2021 Total Financing Sources received being higher than the FY 2020 (restated) Net Cost of Operations. This Beginning Balance was further adjusted downward by:
        - A $1.1 billion change in accounting principle primarily related to re-evaluation of assets.
        - A $5.7 billion correction of errors primarily related to operating materiel, and supply balances incorrectly valued in the accounting system of record.
    - Appropriations Used increased by $33.5 billion. The Department recognized increases as follows:
        - Operation and Maintenance appropriations used increased by $8.5 billion, primarily due to additional costs related to base support, air operations training, mission support operations, depot maintenance, training, and education.
        - Military Personnel appropriations used increased by $5.2 billion, primarily due to increases in military pay and basic allowance for housing and subsistence.
        - Research, Development, Testing, and Evaluation appropriations used increased by $1.7 billion, primarily due to additional costs related to Space Force test and evaluation support, operational system development, space operations and systems support, and space technology.
        - Procurement appropriations used increased by $2.0 billion, primarily due to increased costs related to weapons procurement and sea-based deterrence.
        - Use of Treasury contributions provided for military retirement and health benefits increased $7.6 billion.
    - Other Financing Sources increased by $12.6 billion, primarily due to the recognition of a $7.9 billion revaluation gain in Shipbuilding assets and a $2.1 billion revaluation gain in Real Property assets.
    - Net Cost of Operations (which has an inverse effect on Cumulative Results of Operations) increased by $99.7 billion.

See Note 20, Disclosures Related to the Statement of Changes in Net Position, 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 2021, the Department reported $1.3 trillion in total budgetary resources (see Figure 13).

Figure 13. Composition of DoD Total Budgetary Resources (Unaudited)

$ in Billions

Description	FY 2021	Restated FY 2020	FY 2019	FY 2018	FY 2017
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 905.1	$ 914.3	$ 874.4	$ 863.6	$ 777.0
Unobligated Balances from Prior Year Budget Authority	211.2	213.3	226.8	181.0	181.0
Spending Authority from Offsetting Collections	153.8	130.3	113.0	119.4	105.7
Contract Authority	74.0	78.7	86.8	88.4	76.5
Total Budgetary Resource	$ 1,344.0	$ 1,336.5	$ 1,301.0	$ 1,252.4	$ 1,140.2

Of the $1.3 trillion in Total Budgetary Resources for FY 2021, $1,168.6 billion was obligated. The remaining Unobligated Balance of $175.4 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for delivery 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 2021, the amount of the Expired Unobligated Balance at the end of the fiscal year decreased by $0.4 billion to $20.8 billion in FY 2021 from $21.2 billion in FY 2020. 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 is a violation of the Antideficiency Act. The vast amount and variety of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting-edge technology efforts, and contingency operations) that must be carried out without exceeding available budget authority often result in adjustments that must be recorded beyond the year(s) of initial obligation, as authorized by *31 U.S.C. §1553*. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments.

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

Financial Performance Summary

The following table summarizes the Department's condensed FY 2021 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 14).

Figure 14. Financial Performance Summary (Unaudited)

$ in Billions	**FY 2021**	Restated **FY 2020**	Increase/(Decrease) $	Increase/(Decrease) %
COSTS				
Total Financing Sources	$ 844.4	$ 797.3	$ 47.1	5.9%
Less: Net Cost	819.0	719.4	99.6	13.9%
Net Change of Cumulative Results of Operations	**$ 25.4**	**$ 77.9**	**$ (52.5)**	**-67.5%**
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 623.2	$ 637.2	$ (13.9)	-2.2%
Investments	1,442.0	1,293.1	148.9	11.5%
Accounts Receivable	10.9	7.4	3.6	48.7%
Other Assets *	24.0	24.2	(0.2)	-0.6%
Inventory and Related Property, Net	326.9	312.4	14.5	4.6%
General Property, Plant and Equipment, Net	810.2	785.4	24.7	3.1%
Total Assets	**$ 3,237.3**	**$ 3,059.7**	**$ 177.6**	**5.8%**
Liabilities:				
Accounts Payable	$ 43.5	$ 39.7	$ 3.8	9.6%
Other Liabilities **	39.3	36.7	2.5	6.9%
Federal Employee and Veteran Benefits Liability	2,823.1	2,668.1	155.0	5.8%
Environmental and Disposal Liabilities	82.0	75.0	6.9	9.2%
Total Liabilities	**$ 2,987.9**	**$ 2,819.6**	**$ 168.3**	**6.0%**
Net Position (Assets minus Liabilities)	**$ 249.5**	**$ 240.1**	**$ 9.3**	**3.9%**

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

*** Other Liabilities includes Other Liabilities, Debt, Bene its Due and Payable, and Loan Guarantee Liability*

AUDIT OVERVIEW

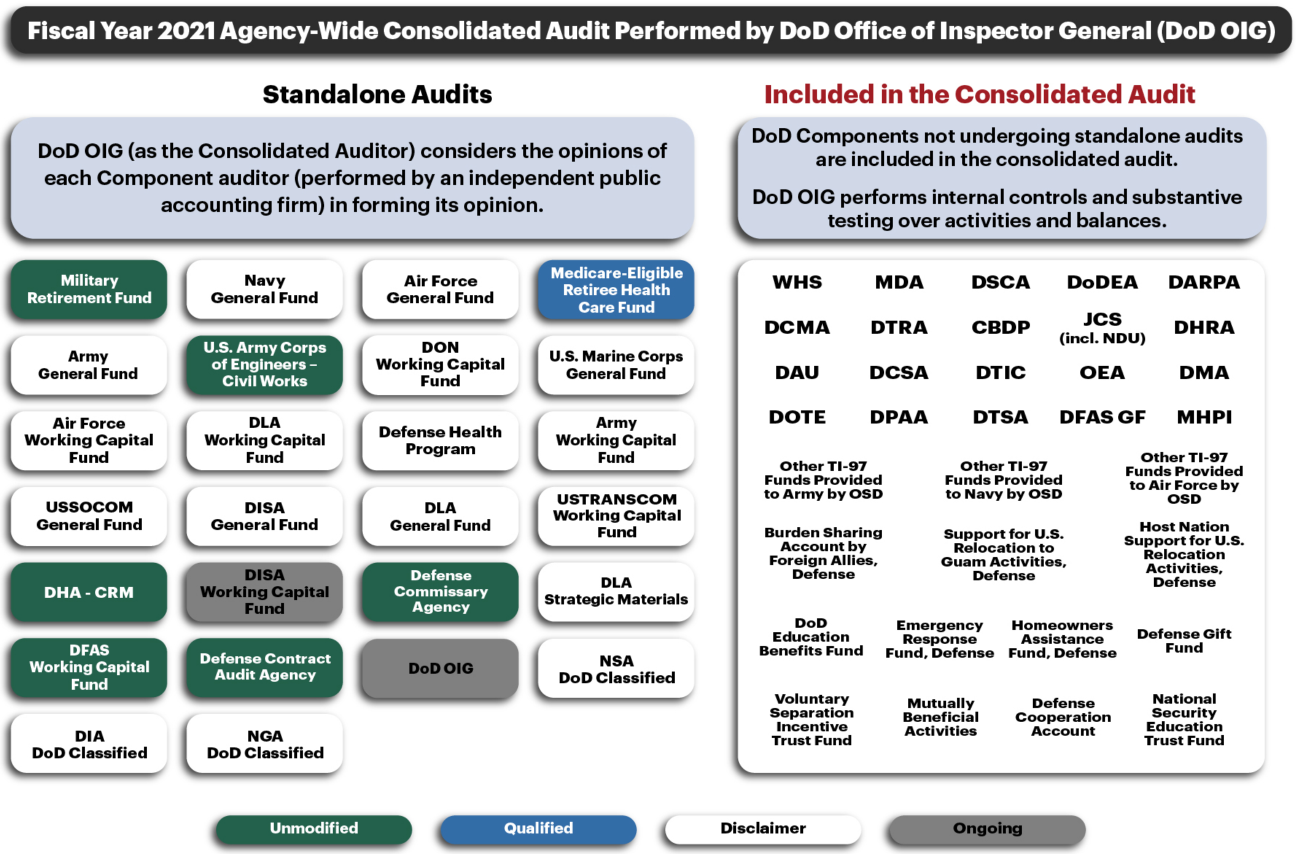
The annual financial statement audits are vital to the Department's data transformation and business reform efforts. They provide objective, independent assessments of the Department's internal controls, financial reporting practices, and reliability of financial information. Auditor findings and recommendations 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 outcomes of the audit remediation efforts will include better support for the warfighter, preservation of military advantage, greater financial data integrity, enhanced demonstration of stewardship, and increased transparency for Congress and the American people.

FY 2021 Audit Results

The Department completed its fourth annual consolidated financial statement audit in FY 2021. It covered approximately $3.2 trillion of the Department's total assets, involved more than 1,200 auditors, and included nearly 1,350 site visits (virtual and in-person). The audit comprised 26 standalone audits conducted by independent public accountants (IPAs) and a consolidated Agency-wide audit performed by the DoD OIG (see Figure 15). The DoD OIG issued a disclaimer of opinion on the Department's FY 2021 financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. The Department's leadership fully expected these results, as receiving a disclaimer of opinion is consistent with the experiences of other large and complex federal agencies during their initial years under audit. See the DoD OIG's independent audit report in the Financial Section.

MANAMA, Bahrain (January 14, 2021) Service members and base personnel march together during a Martin Luther King Jr. Freedom March on board Naval Support Activity (NSA) Bahrain. U.S. Navy photo by Mass Communication Specialist 1st Class Justin Yarborough.

Figure 15. FY 2021 Audit Structure and Results



Reporting entities under standalone audit are listed in order of total FY 2021 assets, with the exception of DoD classified reporting entities which are ordered by year established.

Of the 26 standalone audits, 6 reporting entities received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with generally accepted accounting principles), 1 reporting entity 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 17 reporting entities received disclaimers of opinion. The standalone audits for two reporting entities, the DoD OIG and the Defense Information Systems Agency (*DISA*) Working Capital Fund, are scheduled to conclude in December 2021. The independent auditor's report for each standalone audit is available in the respective reporting entity's financial report available on the *Agency Financial Report website*.

Together, reporting entities receiving unmodified opinions on their standalone audits accounted for about \$1.2 trillion (36.9 percent) of total DoD assets and \$0.2 trillion (11.2 percent) of total DoD budgetary resources. Multiple reporting entities have consistently obtained an unmodified opinion; for instance, this was the 12th for the Defense Health Agency (*DHA*) – Contract Resource Management, the 14th for USACE – Civil Works, the 22nd for the Defense Finance and Accounting Service (*DFAS*) Working Capital Fund, and the 27th for the Military Retirement Fund.

In addition to issuing an opinion, auditors identify material weaknesses and issue Notices of Findings and Recommendations (NFRs). 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, or detected and corrected, on a timely basis. In FY 2021, the DoD OIG identified 28 Department-wide material weaknesses, a net increase of 2 as compared to FY 2020. See the summary of DoD OIG-identified material weaknesses in the Other Information section.

As of November 15, 2021, the DoD OIG and the IPAs issued more than 2,600 NFRs at the Department-wide and reporting entity levels across the consolidated and standalone audits. The Department anticipates receiving additional NFRs as auditors finish compiling their findings and developing the related NFRs. To address these NFRs, reporting entities are responsible for developing corrective action plans (CAPs), which provide information on root-cause analyses, establish milestones, assign responsibilities for milestone completion, and project a completion date for the corrective action.

FY 2021 Audit Remediation Priorities and Roadmaps

During FY 2021, the Department sustained its focus on the following audit remediation priority areas identified in FY 2020:

- Real Property;
- Inventory and Operating Materials and Supplies (OM&S);
- Government Property in the Possession of Contractors;
- Information Technology (IT);
- Fund Balance with Treasury;
- Financial Reporting Internal Controls; and
- Joint Strike Fighter Program.

To help guide the process of addressing these priority areas, senior leaders across the Department collaborated on the development of audit roadmaps during FY 2021 for each reporting entity under standalone audit that received a disclaimer of opinion during the Department's initial financial statement audit in FY 2018. The Department uses these audit roadmaps to align material weakness remediation strategies across the Department, identify timelines, prioritize focus areas, and ensure progress and resources are monitored. The audit roadmaps detail the completion date by fiscal year of corrective actions necessary for the remediation of material weaknesses, the target auditor validation dates, and financial statement line item or audit focus area. The reporting entities' audit roadmaps were aggregated, analyzed, and used to support the development of a Department-wide audit roadmap that charts the Department's path to achieving an unmodified audit opinion and interim milestones along the way.

Reporting entities have thus far achieved notable progress since the rollout of audit roadmaps. For example:

- Throughout FY 2021, the Army Working Capital Fund (WCF) worked to research and address the root causes for the variances in their cash balances. This resulted in a reduction in those variances from $1,374.8 million to $197.8 million, roughly 86 percent, and a more accurately reported Army WCF Fund Balance with Treasury.
- The Department of the Navy identified nearly $960 million in FY 2021 of material not properly accounted for in an accountable property system of record (APSR) through the Navy Material Accountability Campaign. Properly recognizing this property in an APSR improved the completeness and accuracy of account balances reported on the Department of the Navy's balance sheet, and allowed the Department of the Navy to fill open requisition requests without additional purchase costs.
- During FY 2021, the Department of the Air Force performed Federal Information System Control Audit Manual (*FISCAM*) compliance assessments for 12 high priority IT systems (10 for the Air Force General Fund and 2 for the Air Force Working Capital Fund). These IT systems impact the data and processes subject to Component-level material weaknesses, such as Fund Balance with Treasury, Contingent Legal Liabilities, and Oversight and Monitoring of Internal Controls. Additionally, the Department of the Air Force completed the implementation of 104 IT-related CAPs and submitted supporting documentation to their auditor for validation. If validated, the CAPs would represent the remediation of almost 40 percent of the IT-related NFRs received by the Air Force General Fund and Air Force Working Capital Fund.

Audit Progress Measurement

The Department continues to monitor the number of NFRs closed and material weaknesses downgraded to a significant deficiency or resolved to measure progress toward achieving a Department-wide unmodified opinion. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. As of November 15, 2021, the Department closed 466 (13.4 percent) of the NFRs issued during previous audits, approximately 72 percent of which were identified as previously contributing to a Component-level material weakness. Additionally, during the FY 2021, auditors confirmed that the Department downgraded or resolved one Department-wide material weakness related to the Military Housing Privatization Initiative, as well as four other Component-level material weaknesses.

Additional methods the Department used to measure financial statement audit progress include:

- Tracking the achievement of major milestones toward the remediation of complex NFRs that contribute to material weaknesses;
- Assessing the effectiveness of CAPs in successfully remediating associated NFRs;
- Evaluating progress in the results of Statement on Standards for Attestation Engagements *(SSAE) No. 18* examination System and Organization Controls *(SOC) reports* over service providers; and
- Leveraging Advana to monitor the completion of remediation activities and distill analytical insights for use in decision-making.

The financial statement audit and remediation effort is all-encompassing. It acts as a catalyst to drive reform and innovation to best support the Department's mission readiness and lethality, reinforces accountability to taxpayers, and generates detailed findings and recommendations to further guide corrective actions. This continuing effort will result in greater financial management excellence and improved transparency, enabling timely insights that support focused and sustainable solutions for the Department's complex environment.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2021

The Department assessed the effectiveness of internal controls over financial reporting in accordance with section 2 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) 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, 2021. The Department's management identified material weaknesses across the following areas:

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting Compilation
- Health Care Liabilities
- Contract/Vendor Pay
- Reimbursable Work Orders
- Equipment Assets
- Joint Strike Fighter Program
- Real Property Assets
- Environmental Liabilities
- Accountability and Management of Property Furnished to Contractors for the Performance of a Contract
- 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, 2021. The Department's management identified material weaknesses across the following assessable units:

- Acquisition
- Comptroller and/or Resource Management
- Communication
- Contract Administration
- Information Technology
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Personnel and/or Organizational Management
- Support Services
- Supply Operations

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 that 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, 2021. The Department's management identified 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.

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

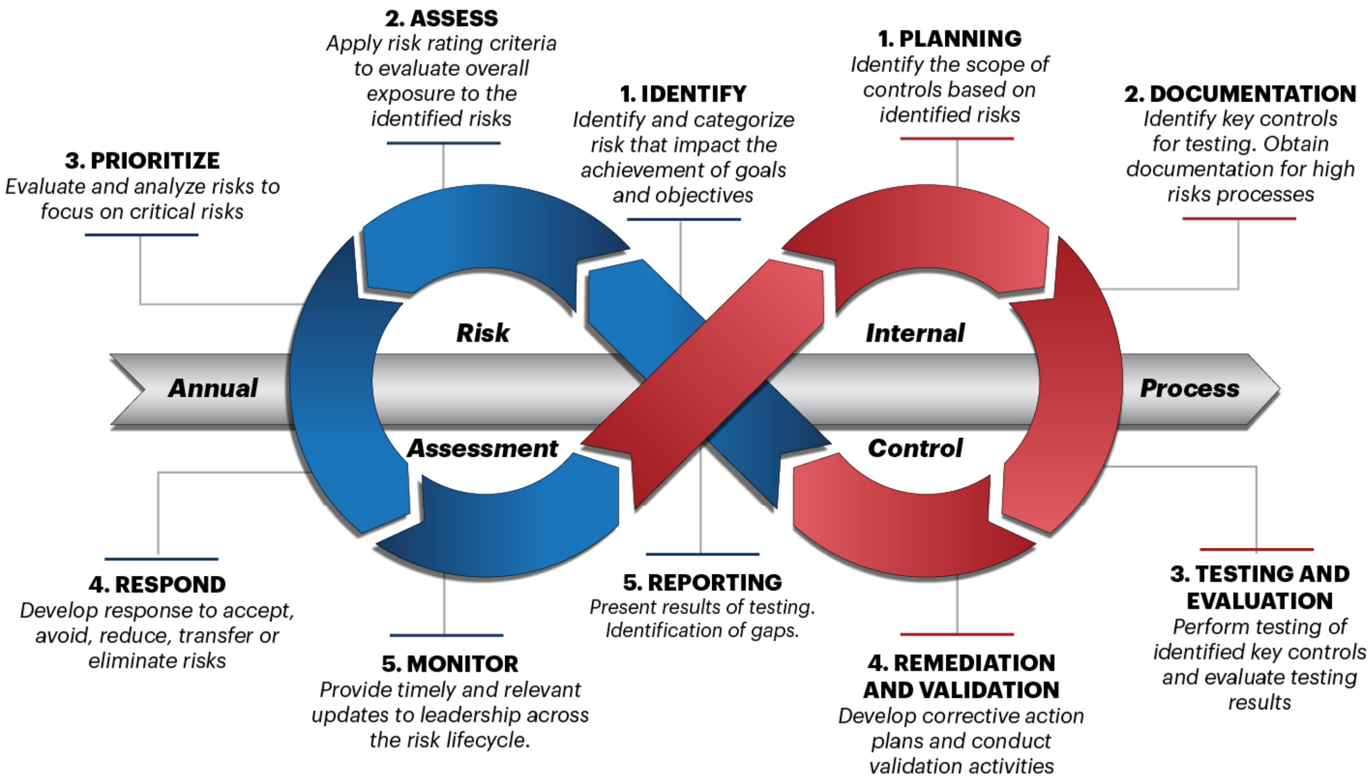
Management Assurances

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.

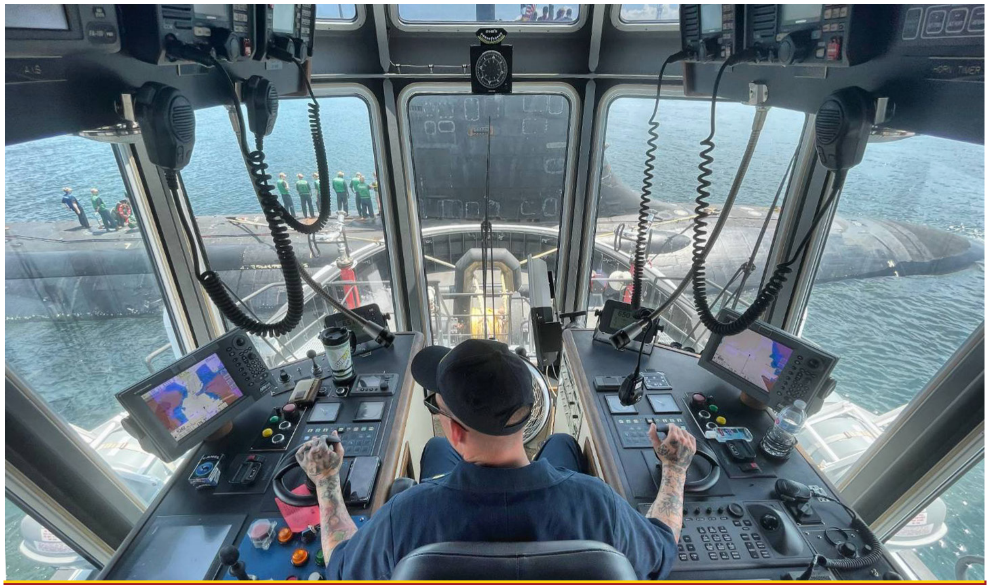
The Federal Managers' Financial Integrity Act of 1982 (*FMFIA*) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. In accordance with OMB *Circular No. A-123* and GAO Standards for Internal Control in the Federal Government ("*Green Book*"), enterprise risk management—a discipline that deals with identifying, assessing, and managing risks—must be fully integrated into the process of designing, implementing, and assessing the effectiveness of internal controls.

The OUSD(C) leads the Department's effort in fulfilling these requirements through the DoD Risk Management and Internal Controls (RMIC) Program. The DoD RMIC Program uses a continuous, cyclical, and unified approach that holds both operational and financial managers accountable for effectively managing risks and internal controls in their areas of responsibility (see Figure 16). The RMIC Program and the financial statement audit are complementary processes that provide management with the information needed to accelerate and sustain the audit remediation posture.

Figure 16. RMIC Program Process



In accordance with DoD Instruction *(DoDI) 5010.40*, Components are responsible for conducting annual comprehensive top-down risk assessments, using the results of the risk assessments to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency. Once this information is submitted, OUSD(C) coordinates 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 relate to current Department-wide material weaknesses, which Component-level material weaknesses may aggregate to rise to the level of a Department-wide material weakness, and which Component-level significant deficiencies may aggregate to 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.



Navy Chief Petty Officer Chris Sherman, port operations tug master for Commander Fleet Activities Yokosuka, Japan, helps the USS Connecticut into berthing, Aug. 4, 2021. Photo by Navy courtesy photo.

Systems Compliance and Strategy

The Department continues to engage in a complex and challenging transformation effort to reform its financial management (FM) environment for enhanced mission effectiveness and auditability in compliance with the Federal Financial Management Improvement Act of 1996 (*FFMIA*) and 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. The remediation of findings from the financial statement audits is a significant part of the Department's FM improvement strategy and is an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

The *NDAA for FY 2012* authorizes the Secretary of Defense to act through the Defense Business Systems Management Committee to develop the Defense Business Enterprise Architecture (BEA), which comprises all defense business systems (DBSs) as well as supported functions and activities. DBSs are information systems other than national security systems that are operated by, for, or on behalf of the Department. The purpose of the BEA is to effectively guide, constrain, and permit implementation of interoperable DBS solutions that are consistent with the policies and procedures established by the Director of the OMB.

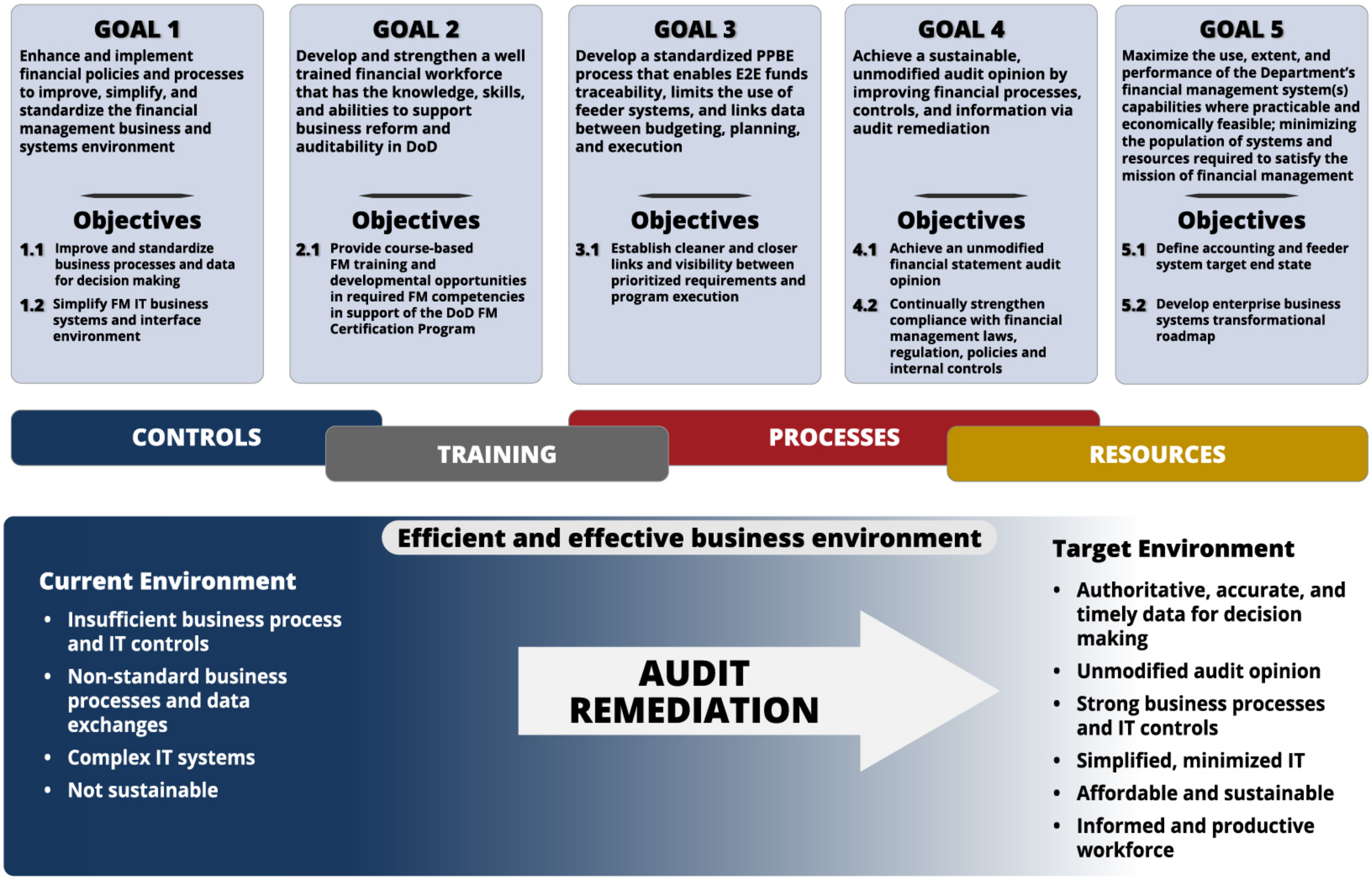
In accordance with section 1002 of the *NDAA for FY 2020*, the Department submitted an updated DBS Audit Remediation Plan to the Congress in July 2021. This plan, which is a living document and submitted to the Congress annually, provides an integrated view of the enterprise roadmap for audit-relevant DBSs, leveraging the BEA to guide investment decisions. 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 DBS Audit Remediation Plan highlights the Department's progress and identifies areas of improvements for procedures in monitoring and managing its DBSs to develop a sustainable enterprise roadmap. For example, since last year's report, the Department retired six vulnerable systems. The financial statement audits help drive the accuracy of the systems inventory, which in turn improves management of DBSs. Although the report serves as a baseline to advance the Department forward, a key improvement identified in the plan is to establish an enterprise target date to achieve the desired target state. Executing the DBS Audit Remediation Plan will maximize the performance of the Department's financial management systems while also reducing the population of these systems.

By defining a target state, documenting the transition plan to deliver the target state, and monitoring progress towards the target state, the DBS Audit Remediation Plan aligns with the FM community's goals and objectives as defined in the *FM Functional Strategy* (see Figure 17).

Figure 17. FM Functional Strategy Goals and Objectives



The FM Functional Strategy is currently being updated, which will be followed by a detailed enterprise FM information technology roadmap projected to be completed in FY 2022. While the roadmap is formalized, additional improvements to systems and applications that assist with monitoring system retirement plans, modernization plans, compliance, and cost are underway to improve the overall management and oversight of the Department's portfolio of FM systems.

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 ERPs 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.

U.S. and Chilean soldiers cross-country ski at the Chilean Army Mountain School in Portillo, Chile, Aug. 27, 2021. Photo by Army Pfc. Joshua Taeckens.

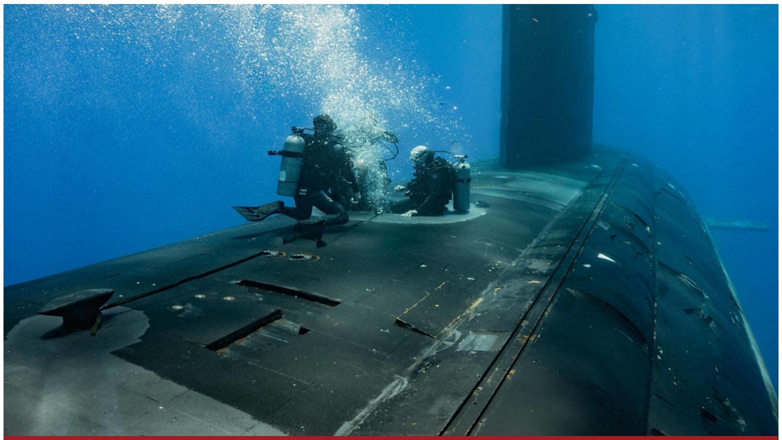
The Logistics Modernization Program (*LMP*) is a fully-deployed system that is one of the world's largest integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the national-level logistics support solution. By improving both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP allows for 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 subsumed the outdated Standard Army Management Information Systems (STAMIS), which were 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, property accountability, 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 a fully-deployed integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is the Department of the Navy 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 access and decision support to the Navy Enterprise.



PACIFIC OCEAN (June 18, 2021) -- Navy Divers assigned to Naval Special Warfare Command conduct operations with the Virginia-class fast-attack submarine USS North Carolina (SSN 777) off the coast of Oahu, Hawai'i.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions in one seamless COTS system by streamlining existing personnel and pay systems and processes, 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, and 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.

Defense Agencies Initiative (*DAI*) has been implemented by the Marine Corps as its core financial management system, effective October 2021. As part of this effort, the Marine Corps has begun a transition from the current civilian time and attendance system, the Standard Labor Collection and Distribution Application, to the DAI – Oracle Time and Labor (OTL) module of the DAI.

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.

The Thunderbirds, the Air Force's flight demonstration squadron, perform at the California Capital Air Show in Mather, Calif., Sept. 26, 2021. Photo by Air Force Staff Sgt. Cory Bush

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 Fourth Estate organizations (i.e., OSD, Defense Agencies, and DoD Field Activities).

The Defense Logistics Agency (*DLA*) DAI is a COTS product used by DLA to manage their supply chain management business. DLA DAI also includes Electronic Procurement, Real Property, Inventory Materiel Management and Stock Positioning, and Energy Convergence modules, providing DLA leadership with the tools to respond to new challenges and trends.

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 (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as 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 2021, the Department reported three cases involving Purpose Statute violations totaling $97.3 million:

- Multiple violations totaling $70.1 million from the Department's use of O&M and Procurement funds, rather than Military Construction funds, to construct numerous Military Operations on Urban Terrain training sites;
- Multiple violations $26.0 million from the Department's use of O&M funds, rather than Shipbuilding and Conversion funds, to convert a large covered lighter barge into a berthing and messing barge; and
- One violation totaling $1.2 million from the Department's use of O&M funds, rather than Research, Development, Test, and Evaluation funds, to develop a new earned value management system.

To prevent recurrences of these types of violations, the Department:

- Updated and clarified the policies surrounding relocatable buildings, training systems, and site work; performed additional contracts compliance reviews; and implemented a series of program management, contracting, engineering, and financial management corrective actions to improve controls related to construction-like projects;
- Instituted organizational alignment and process changes to strengthen the programmatic, contracting, and funding review associated with ship modernization requirements and will implement a formal qualification and continuing training program for all fleet maintenance program managers; and
- Conducted a comprehensive realignment of duties and responsibilities of the budget formulation and execution processes used across the responsible Component and issued a revised policy that centralized the funds execution process.

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 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 details how the supplemental funds were used. To fulfill this requirement, the Department issued several memoranda to the DoD FM community and Departmental leaders instructing the weekly cost reporting of CARES Act funding. On a weekly basis, the Department populated over 100 million transactions from 23 general ledger accounting systems into Advana to facilitate compilation, oversight and monitoring, and data analytics. The Department then leveraged the existing Digital Accountability and Transparency Act of 2014 reporting mechanism to provide the monthly status of all COVID-19 funding execution. This data is published for full transparency, while still protecting the Department's operational security concerns, on *USAspending.gov*.

From right: Guam Army National Guard Spc. Syd Refugia, Spc. Christopher Bolus and Staff Sgt. William Cunningham III perform for guests in the COVID-19 quarantine facility at the Dusit Beach Resort in Tumon, Guam, Dec. 30, 2020. Photo by Mark Scott, Guam National Guard.

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 during FY 2021. The plan provides Components with a framework for establishing internal controls related to the quality of DATA Act submissions and assessing their effectiveness.

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 2021, the Department reported the alignment of over $60.7 billion across over 900,000 active contract and financial assistance awards (approximately 80 percent of the population) 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.

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 payments to the President and the Congress in the following program categories:

- Civilian Pay;
- Commercial Pay;
- Military Health Benefits;
- Military Pay;
- Military Retirement; and
- 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 or for an ineligible good or service, goods or services not received, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

Each fiscal year, the DoD OIG reviews the Department's Agency Financial Report and *PaymentAccuracy.gov* improper payment reporting to determine the Department's compliance with PIIA reporting requirements, and 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 the Congress, the *Comptroller General of the United States*, and the Controller of the OMB. The results of the DoD OIG's FY 2021 determination of DoD payment integrity compliance will be available on the *DoD OIG website* in May 2022.

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

Figure 18. DoD Payment Integrity Compliance Review Results

Fiscal Year	Published Payment Integrity Data in the AFR in Accordance with OMB Guidance	Conducted Risk Assessments (if required)	Published Accurate Improper Payment Estimates	Published Corrective Action Plans	Published and Demonstrated Improvements to Meet Reduction Targets	Reported Improper Payment Rates Below 10 Percent
2020	✓	✓	X	✓	X	✓
2019	✓	✓	X	✓	X	✓
2018	✓	✓	X	X	X	✓
2017	X	✓	X	X	X	✓

Legend
✓ Compliant
X Not Compliant

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

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. DFAS 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 dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. During FY 2021, the average interest paid per million PPA dollars disbursed on a monthly basis was $30.43, which represents a $62.82 reduction from the average interest paid per million PPA dollars disbursed on a monthly basis in FY 2020. The reduction is the result of concentrated efforts to clear the inventory of overaged invoices, reductions in manual payments, improvements in related financial management systems, and a decrease in the *Prompt Payment interest rate* set by the Treasury.

The Department is continuing to modernize the Procure-to-Pay (P2P) process 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 further reducing the number of late payments by the Department.

Soldiers participate in a mass re-enlistment on an Explosive Ordnance Disposal Range at Camp Buehring, Kuwait, Sept. 8, 2021. Photo by Army Spc. Elorina Santos.