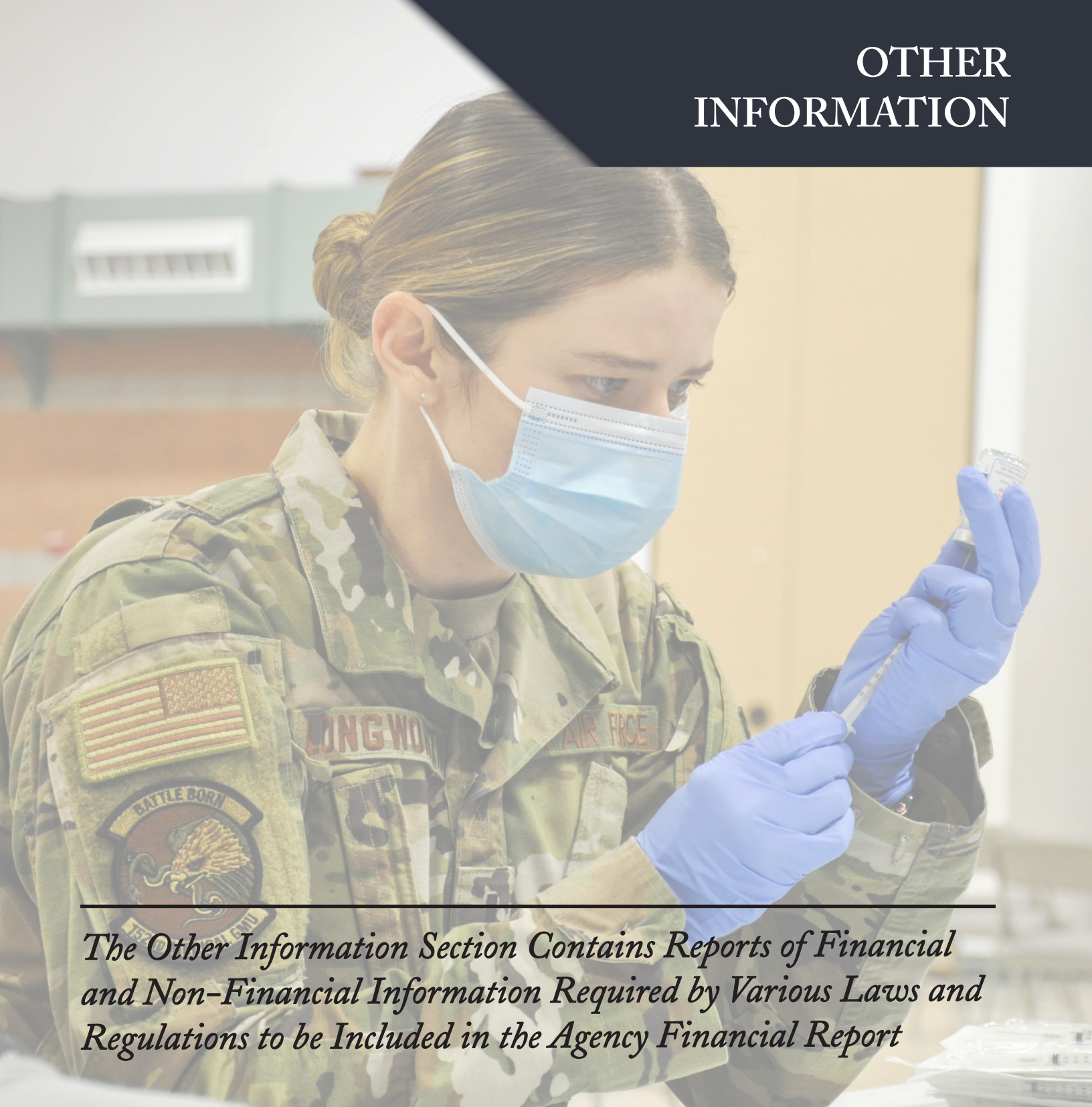# OTHER INFORMATION

The Other Information Section Contains Reports of Financial and Non-Financial Information Required by Various Laws and Regulations to be Included in the Agency Financial Report

(*Previous page*) First Lt. Caleena Longworth, a 152nd Medical Group medical service corps officer assigned to Joint Task Force 17, prepares a syringe with the coronavirus vaccine at the Las Vegas Readiness Center, Jan. 27, 2021, in Las Vegas. (Air National Guard photo by Staff Sgt. Matthew Greiner).

(*Above*) U.S. Marines, Sailors, civilians and their families pose for a photo after surviving a flash flood at Ta-Taki Falls, Okinawa, Japan, Sept. 13, 2020. The members of the group found themselves in a life-threatening situation and assisted each other and local nationals to return safely. (U.S. Marine Corps photo by Courtesy).

Air Guard's 'Baby Doc' overcomes early health condition to become leader in pandemic battle

Marines awarded for Ta-Taki Falls flash flood

MANAGEMENT CHALLENGES

INSPECTOR GENERAL
U.S. Department of Defense

FISCAL YEAR 2022
TOP DOD
MANAGEMENT
CHALLENGES

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE
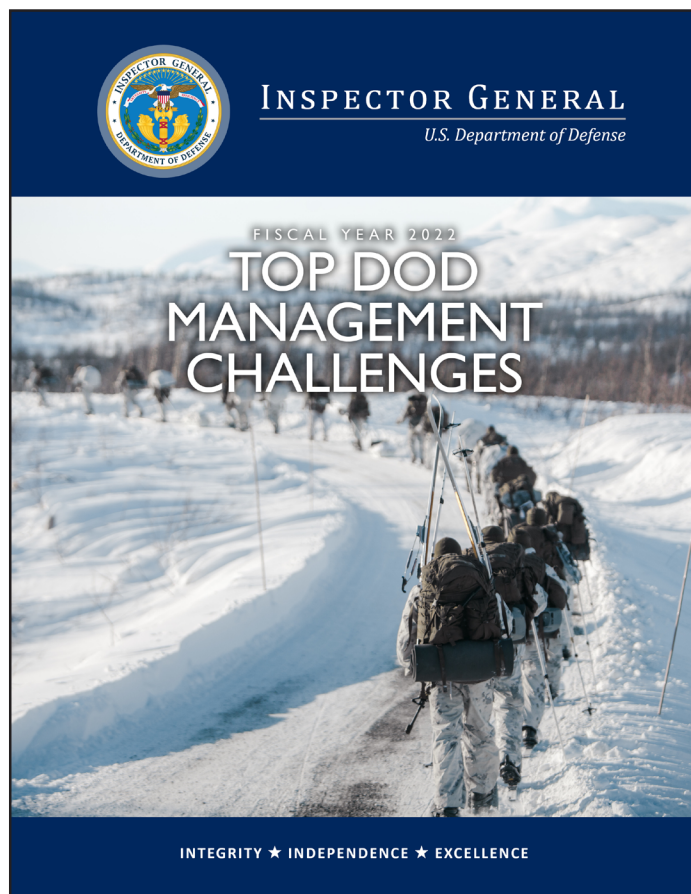
In accordance with the *Reports Consolidation Act of 2000*, the DoD Office of the Inspector General (*DoD OIG*) prepares an annual statement that summarizes what they consider to be the most serious management and performance challenges facing the Department. This statement is included in a larger DoD OIG report that provides additional background and descriptive information about each challenge as well as an assessment of the Department's progress in addressing the challenges.

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2022 rather than FY 2021 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2021 Top DoD Management Challenges as well as similar reports from previous years are available at the *DoD OIG website*.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

October 15, 2021

Each Inspector General (IG) is required by the Reports Consolidation Act of 2000 to prepare an annual statement summarizing what the IG considers to be the "most serious management and performance challenges facing the agency" and to assess the agency's progress in addressing those challenges. According to the law, each "agency head may comment on the IG's statement, but may not modify the statement." The IG's statement must be included in the Agency Financial Report.

The DoD Office of Inspector General (OIG) independently identifies these challenges based on a variety of factors, including our independent research, assessment, and judgment; previous oversight work completed by the DoD OIG and other oversight organizations; congressional hearings and legislation; input from DoD officials; and issues highlighted by the media that are adversely affecting the DoD's ability to accomplish its mission.

The FY 2022 DoD Top Management Challenges are reframed or updated from prior years. This year, the DoD OIG has individual challenges addressing environmental stresses, adapting acquisition and contracting management, and retaining and recruiting the workforce. In addition, the challenges related to technological dominance and data as a strategic asset, that were discussed last year, remain challenges to the DoD and are discussed as part of many challenges this year. Across all of the challenges identified, the DoD has been working to resolve or mitigate the challenge areas. In addition to describing the challenges, the DoD OIG also discusses the recent actions taken by the DoD to address these challenges; assesses the DoD's progress in each challenge area; and cites planned, ongoing, and completed oversight work related to the challenges.

This document is forward-looking. The DoD OIG uses this document in its oversight planning process, seeking to ensure that the DoD OIG's projects address the most significant performance and management challenges facing the DoD. These challenges are not listed in order of importance or by magnitude and all are critically important. The DoD OIG will continue to assess these challenges and conduct independent oversight to detect and deter fraud, waste, and abuse in DoD programs and operations; promote the economy, efficiency, and effectiveness of the DoD; and help ensure ethical conduct throughout the DoD. We look forward to working with the DoD to help address these important challenges.

Sean O'Donnell
Acting Inspector General

Executive Summary

Every year, the DoD OIG identifies the top management and performance challenges facing the DoD. These challenges are based on the DoD OIG's independent research, assessment, and judgment; previous oversight work and oversight work of other organizations; congressional hearings and legislation; input from DoD officials; and issues raised by the media. The DoD OIG also considers and assesses the DoD's progress in addressing these challenges. This annual report provides Congress and the DoD's civilian and military leaders with the DoD OIG's independent assessment of the management and performance challenges affecting the DoD.

The FY 2022 Top DoD Management Challenges are:

1. Maintaining the Advantage in Strategic Competition
2. Assuring Space Dominance, Nuclear Deterrence, and Missile Defense
3. Strengthening DoD Cyberspace Operations and Securing Systems, Networks, and Data
4. Reinforcing the Supply Chain While Reducing Reliance on Strategic Competitors
5. Increasing Agility in the DoD's Acquisition and Contract Management
6. Improving DoD Financial Management and Budgeting
7. Building Resiliency to Environmental Stresses
8. Protecting the Health and Wellness of Service Members and their Families
9. Recruiting and Retaining a Modern Workforce
10. Preserving Trust and Confidence in the DoD

The challenges are not listed in order of priority or importance, but are instead organized as follows. Challenges 1 through 3 relate to the DoD's mission and how it executes that mission across multiple domains. Challenges 4 through 6 relate to how the DoD buys and pays for what it needs to accomplish the mission. Challenge 7 is about the installations from which the DoD operates and how those installations must be protected. Finally, challenges 8 through 10 focus on the health, hiring, and composition of the DoD civilian and military workforce.

STRATEGIC ENVIRONMENT

The DoD operates across all domains—sea, land, air, space, and cyberspace—in an increasingly contested and complex environment. As the DoD continues to shift from counterterrorism to strategic competition, it must reaffirm and strengthen alliances and partnerships. Furthermore, to maintain or reassert a competitive advantage, the DoD seeks to balance modernization of legacy systems with investments in new technologies. Investing in and rapidly incorporating key capabilities is necessary to deter and defeat a range of national security threats from nation states to independent actors. With continued investment in new technologies and capabilities, the DoD must demonstrate that it is a good steward of taxpayer money by producing reliable financial statements and measuring the effectiveness of its investments.

The DoD also faces a challenging domestic environment, with continued health, social, and operational effects from the coronavirus disease–2019 (COVID-19) pandemic. The health and safety of DoD personnel remains a priority, as they face threats from substance abuse, climate change, exposure to environmental hazards, and poor housing conditions. In addition, DoD senior leaders, Congress, and the Administration have renewed or increased their focus on combating sexual harassment and sexual assault, disparate treatment, and extremism in the ranks.

The DoD faces a complicated strategic environment requiring its attention to each challenge in order to defend the United States while taking care of DoD personnel and their families. Furthermore, the DoD must ensure that it does not compromise the trust of the American people.

CHANGES FROM THE FY 2021 DOD TOP MANAGEMENT CHALLENGES

This year, the DoD OIG refocused and separated challenges from the FY 2021 Management Challenges. The DoD OIG chose to separate the discussion of challenges in the DoD's acquisition and contract management from the challenges in the DoD's supply chain and industrial base. The DoD OIG refocused last year's challenge on strengthening resiliency to nontraditional threats to hone in on climate change and other environmental stresses, while discussions of the COVID-19 pandemic occur in several challenges. The DoD OIG speaks to challenges in recruiting and retaining a modern workforce as a stand-alone challenge this year, where in past years it was integrated into multiple challenges. Finally, instead of separate challenges on building and sustaining the DoD's technological dominance and on transforming data into a strategic asset, the DoD OIG integrated these themes into other challenges.

Technological dominance and the collection and use of data remain important considerations for the DoD. Technological dominance is paramount for the DoD to succeed against strategic competitors that are investing heavily in new technologies, from major weapon systems to artificial intelligence. As the DoD becomes more interconnected through information sharing and cloud computing, the need for accurate data grows. Data and data systems permeate every aspect of the DoD and are integral to leaders making informed decisions for executing operations; deciding what to buy; conducting financial management and budgeting; and measuring effectiveness of DoD programs, processes, and operations. Throughout the challenges, the DoD OIG discusses the role and importance of technological dominance and data.

Several challenges from the FY 2021 Top DoD Management Challenges continue for FY 2022. These challenges include the continued shift to strategic competition, assuring space-based and nuclear operations, cybersecurity, financial management and budgeting, protecting the health and well-being of DoD personnel and Service members' families, and ensuring ethical conduct.

SUMMARY OF THE FY 2022 MANAGEMENT CHALLENGES

The DoD OIG considers these 10 challenge to be the most critical issues facing the DoD in FY 2022. The DoD OIG will use these challenges to inform its oversight work in the next fiscal year, as outlined in the DoD OIG FY 2022 Oversight Plan.

The first challenge, "Maintaining the Advantage in Strategic Competition," highlights the DoD's continuing need to maintain and build alliances and partnerships to counter aggression from strategic competitors. As the counterterrorism mission evolves, the DoD must find new ways to ensure that those security objectives are met while aligning resources to meet strategic competition objectives. Strategic competitors, including China and Russia, continue to expand their influence and reach across the Indo-Pacific, Arctic, Europe, Middle East, and Africa. Through U.S. and allied power projection, joint exercises, and operations, the DoD aims to deter aggression from strategic competitors. Maintaining the U.S. military's advantage while balancing strategic competition and countering global terrorism requires the DoD to focus on enhancing collaboration, developing skillsets and training for evolving missions, and advancing new technologies.

The second challenge, "Assuring Space Dominance, Nuclear Deterrence, and Missile Defense," highlights the DoD's challenges of investing in new capabilities in these areas while also sustaining legacy systems to protect U.S. national security interests. As legacy systems become more outdated and strategic competitors continue to expand their capabilities, it is increasingly important for the DoD to update and replace its systems with new technologies and capabilities. The DoD is challenged with ensuring that contractors provide timely replacements that are tested and effective and ensuring that DoD personnel maintain proficiency in legacy systems while learning to use new systems effectively.

The third challenge, "Strengthening DoD Cyberspace Operations and Securing Systems, Networks, and Data," focuses on the importance of having the right cyber capabilities, interoperable systems, and strong cyber hygiene. The DoD's ability to assess and protect its systems, networks, devices, and data is at risk of not keeping pace with adversaries' abilities to compromise DoD technology. The DoD aims to protect not only itself but also the supply chain and industrial base that support the DoD. Ensuring adequate cybersecurity requires that the DoD develop and field new capabilities and identify and remediate cyber vulnerabilities, but the DoD continues to struggle to accomplish this. Through recent innovations such as cloud computing, artificial intelligence, and fifth-generation (5G) technology, the DoD is focusing on deploying and using cutting-edge technology to maintain a competitive advantage.

The fourth management challenge, "Reinforcing the Supply Chain While Reducing Reliance on Strategic Competitors," addresses the vulnerabilities from decreased manufacturing in the United States. In key industries,

such as shipbuilding and microelectronics, domestic capabilities are insufficient or lack necessary resources, leaving the United States outpaced by foreign entities. The COVID-19 pandemic highlighted reliance on foreign sources of supply and reinforced the need for increased collaboration with domestic industries and U.S. allies for a more robust supply chain. The DoD has acted to reinforce the supply chain and support key industries through the use of unique authorities, such as the Defense Production Act. The vulnerabilities with small and midsize businesses that rely on DoD contracts require innovative solutions. Continued focus on important industries, partnerships with allies, and small and midsize businesses will be essential for a strong supply chain that can meet the DoD's needs.

The fifth challenge, "Increasing Agility in the DoD's Acquisition and Contract Management," recognizes the actions taken to reform the acquisition process and use unique types of agreements to increase agility and flexibility. Changes in recent years to expand the definition of a commercial item continue to make it difficult for the DoD to ensure that it is paying a fair and reasonable price for the items it buys. This difficulty in establishing that a price is fair and reasonable increases when there are limited suppliers or just one supplier for an item. Without adequate competition, the DoD may pay a higher price than it otherwise could. These reforms, agreements, and expanded definitions have produced mixed results and require data and analysis to measure their effectiveness and ensure that the DoD is achieving the desired results.

The sixth challenge, "Improving Financial Management and Budgeting," addresses the longstanding financial management challenges that continue to impair the DoD's ability to produce timely and reliable financial statements. Through the annual audits, the DoD gains insights into how its systems, business practices, and processes hinder its ability to effectively conduct financial management and budgeting. For example, the DoD continues to use manual processes rather than automated and sustainable processes, which complicates financial and budget management because the DoD relies on more than 250 information systems. The DoD has made some progress in improving its financial management and budgeting, which resulted in auditors reducing or downgrading previously identified material weaknesses. However, a continued focus on implementing corrective actions, accountability, and ensuring accurate data and sustainable business practices is essential for addressing this longstanding challenge.

The seventh challenge, "Building Resiliency to Environmental Stresses," identifies the effects of environmental stresses on DoD training and operations and the health and safety of DoD personnel. Climate change, extreme weather, environmental pollutants, and environmental protections will continue to affect the DoD's ability to train and operate on land, sea, and in the air. Extreme weather events, such as freezing temperatures in normally warm parts of the United States and hurricanes, caused extensive damage to DoD infrastructure that is costly to repair. The DoD must respond to environmental stresses and ensure that it mitigates the risks and costs to DoD operations, military installations, and personnel.

The eighth challenge, "Protecting the Health and Wellness of Service Members and Their Families," highlights one of the most important

readiness factors for the DoD, the health of the Joint Force. The DoD continues to struggle with ensuring a medically ready force, maintaining required combat health care skills, providing adequate treatment for victims of sexual assault, and addressing behavioral health problems such as substance abuse and suicide. With the COVID-19 pandemic ongoing, and through lessons-learned, the DoD must continually evaluate the needs of medical workers and the facilities in which they work, and ensure that critical medical stock piles are replenished. Finally, military housing remains a concern, and the DoD continues to take actions to ensure that Service members and their families have access to a safe and well-maintained home.

The ninth challenge, "Recruiting and Retaining a Modern Workforce," discusses the importance of recruiting and retaining a modern and diverse workforce capable of addressing the DoD's many requirements. The DoD must compete with the private sector for personnel in the science and technology-related fields and needs the flexibility to attract and retain those skills. The DoD's need for talent in the cyber workforce is especially important as malicious actors continue to attack and exploit DoD systems and the DoD expands cyber operations. In addition, with the growing focus on diversity, the DoD must address the underrepresentation of women and minorities in senior leader positions in both the civilian and military

workforce. A talented and diverse workforce will help the DoD prevail in protecting national security interests.

The tenth challenge, "Preserving Trust and Confidence in the DoD," focuses on the critical issues of sexual harassment and sexual assault, disparate treatment, and extremism within the DoD and their negative effect on how DoD personnel and the public perceive the Department. The DoD has struggled to combat sexual harassment and sexual assault in its ranks. The military has taken actions to reduce racial or ethnic bias in its promotion processes, but continued attention and assessment of actions taken is needed to mitigate disparate treatment. Finally, the DoD must continue to develop methods for reporting and identifying extremism in the ranks while considering how to respect free speech. There are cross-cutting factors that further undermine the DoD's progress in addressing these challenges. These factors include making progress in collecting and analyzing appropriate data, offering the right training and measuring that training's effectiveness, and ensuring transparency and accountability over the investigative processes for sexual assault and sexual harassment, disparate treatment, and extremism. By addressing these challenges, the DoD can strengthen the trust and confidence that DoD personnel and the public have in the DoD.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

DoD management has a fundamental responsibility to develop and maintain effective internal controls to provide assurance that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission.

As discussed in the Management's Discussion and Analysis section, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 (*FMFIA*), the Federal Financial Management Improvement Act of 1996 (*FFMIA*), and Office of Management and Budget (*OMB*) *Circular No. A-123*, and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.

Summary of Financial Statement Audit

Exhibit 1 lists the 28 material weaknesses in the Department's financial statement reporting as identified by the DoD OIG in the Independent Auditor's Report. The material weaknesses identified by the DoD OIG in the Independent Auditor's Report are consistent with those identified by DoD management, which are primarily identified using the assessable unit categories as defined by the DoD Risk Management and Internal Control program.

Lance Cpl. KC Higer competes in the 2021 Military Adaptive Sports Virtual Challenge powerlifting event at Wounded Warrior Battalion East, Marine Corps Base Camp Lejeune, N.C., Sept. 13, 2021. Photo by Lance Cpl. Dylon Grasso.

Exhibit 1. Summary of Financial Statement Audit

Audit Opinion: *Disclaimer*
Restatement: *Yes*

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Legacy Systems[1]	1				1
Configuration Management and Security Management[1]	1				1
Access Controls[1]	1				1
Segregation of Duties[1]	1				1
Universe of Transactions[2]	1				1
Financial Statement Compilation[2]	0	1			1
Fund Balance with Treasury[3]	1				1
Suspense Accounts[3]	1				1
Inventory and Stockpile Materials[4]	1				1
Operating Materials & Supplies[5]	1				1
General Property, Plant, and Equipment[6]	1				1
Real Property[7]	1				1
Government Property in the Possession of Contractors[8]	1				1
Joint Strike Fighter Program[9]	1				1
Accounts Payable[10]	1				1
Environmental and Disposal Liabilities[11]	1				1
Contingent Legal Liabilities[2]	0	1			1
Beginning Balances[2]	1				1
Unsupported Accounting Adjustments[2]	1				1
Intragovernmental Transactions and Intradepartmental Eliminations[12]	1				1
Gross Costs[2]	1				1
Earned Revenue[2]	1				1
Reconciliation of Net Cost of Operations to Outlays[2]	0	1			1
Budgetary Resources[3]	1				1
Service Organizations[2]	1				1
Entity-Level Controls[13]	1				1
DoD-Wide Oversight and Monitoring[13]	1				1
Component-Level Oversight and Monitoring[13]	1				1
Military Housing Privatization Initiative[14]	1		1		0
Total Material Weaknesses	**26**	**3**	**1**		**28**

Exhibit 1 Footnotes

1 The Legacy Systems, Configuration Management and Security Management, Access Controls, and Segregation of Duties material weaknesses identified by the DoD OIG are included within the FISCAM Compliance and FFMIA Compliance material weaknesses identified by DoD management in Exhibit 4.

2 The Universe of Transactions, Financial Statement Compilation, Contingent Legal Liabilities, Beginning Balances, Unsupported Accounting Adjustments, Gross Costs, Earned Revenue, Reconciliation of Net Cost of Operations to Outlays, and Service Organizations material weaknesses identified by the DoD OIG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

3 The Fund Balance with Treasury, Suspense Accounts, and Budgetary Resources material weaknesses identified by the DoD OIG are included within the Fund Balance with Treasury material weaknesses identified by DoD management in Exhibit 2.

4 The Inventory and Stockpile Materials material weakness identified by the DoD OIG are included within the Inventory material weakness identified by DoD management in Exhibit 2.

5 The Operating Materials & Supplies material weakness identified by the DoD OIG are included within the Operating Materials & Supplies material weakness identified by DoD management in Exhibit 2.

6 The General Property, Plant, and Equipment material weakness identified by the DoD OIG are included within the Equipment Assets material weakness identified by DoD management in Exhibit 2.

7 The Real Property material weakness identified by the DoD OIG are included within the Real Property Assets material weakness identified by DoD management in Exhibit 2.

8 The Government Property in the Possession of Contractors material weakness identified by the DoD OIG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.

9 The Joint Strike Fighter Program material weakness identified by the DoD OIG are included within the Joint Strike Fighter Program material weakness identified by DoD management in Exhibit 2.

10 The Accounts Payable material weakness identified by the DoD OIG is included within the Healthcare Liabilities and Contract/Vendor Pay material weaknesses identified by DoD management in Exhibit 2.

11 The Environmental and Disposal Liabilities material weakness identified by the DoD OIG are included within the Environmental Liabilities material weakness identified by DoD management in Exhibit 2.

12 The Intragovernmental Transactions and Intradepartmental Eliminations material weakness identified by the DoD OIG are included within the Reimbursable Work Orders material weakness identified by DoD management in Exhibit 2.

13 The Entity-Level Controls, DoD-Wide Oversight and Monitoring, and Component-Level Oversight and Monitoring material weaknesses identified by the DoD OIG are included within the Entity Level Controls material weakness identified by DoD management in Exhibit 2.

14 The Military Housing Privatization Initiative material weakness identified by the DoD OIG was downgraded to a significant deficiency in FY 2021 as a result of corrective actions implemented.

Summary of Management Assurances

FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting

Exhibit 2 lists the FY 2021 material weaknesses in internal controls over financial reporting, captured by end-to-end process and material weakness area, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report (AFR) for FY 2020.

Exhibit 2. FY 2021 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: No Assurance

End-to-End Process	Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Budget-to-Report	Entity Level Controls	1				1
	Fund Balance with Treasury	2				2
	Financial Reporting Compilation	6				6
Hire-to-Retire	Healthcare Liabilities	1				1
Procure-to-Pay	Contract/Vendor Pay[1]	8	1	2		7
	Reimbursable Work Orders	3				3
Acquire-to-Retire	Equipment Assets	2				2
	Joint Strike Fighter Program	1				1
	Real Property Assets	1				1
	Environmental Liabilities	1				1
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1				1
	Internal Use Software	1				1
Plan-to-Stock	Inventory	4				4
	Operating Materials & Supplies	4				4
Total Material Weaknesses		**36**	**1**	**2**		**35**

Exhibit 2 Footnotes

[1] Two Contract/Vendor Pay material weaknesses identified by management in FY 2020 were resolved as a result of corrective actions implemented. The downgraded material weaknesses related to improper payments and a standard data structure for purchase requests.

Internal Control over Financial Reporting – Material Weaknesses and Corrective Actions

Entity Level Controls

Department-wide; Identified FY 2019; Correction Target FY 2026 (see note)

Material Weaknesses

- Multiple DoD Components do not have sufficient entity level controls (ELCs) to provide assurance over the financial reporting process. The lack of sufficient controls at the Component level increases the risk of material misstatement on both the Components' financial statements and Agency-wide financial statements.

Corrective Actions

- Implement DoD-wide process control narratives (PCNs) that provide baseline guidance for establishing ELCs.
- Continue to revise the template developed to capture the key controls in place for monitoring ELCs and ensuring compliance with relevant policy.
- Continue to conduct annual evaluations of ELCs to analyze high-risk areas and develop and implement corrective actions.

Note: The Correction Target date was adjusted from FY 2021 to FY 2026. The change in Correction Target is due to the additional time required for DoD Components to complete PCNs and ELC assessments related to DoD-wide key controls for oversight, monitoring, and remediation of deficiencies.

Fund Balance with Treasury

Department-wide; Identified FY 2005; Correction Target FY 2022

Material Weaknesses

- The Department does not have effective processes and controls to support the reconciliation of transactions posted to the Department's Fund Balance with Treasury (FBwT) accounts with the *Department of the Treasury*'s records, timely research and resolve FBwT differences, and provide sufficient and accurate documentation to support FBwT transactions and reconciling items.
- The Department does not have effective controls to properly attribute suspense account transactions to the appropriate DoD Component and research and resolve suspense account transactions in accordance *Treasury Financial Manual* requirements.

Corrective Actions

- Develop new and maintain existing key reconciliations, detailed universe of transactions (UoTs), and management analyses.
- Sustain overaged and overall suspense account balances at immaterial levels.
- Implement a methodology to establish materiality thresholds. Implement adequate controls to address FBwT risk areas for appropriate financial reporting.
- Develop and standardize FBwT reconciliations using various financial reporting systems and applications to balance the Departments data with Treasury records.

Financial Reporting Compilation

Department-wide; Identified FY 2005; Correction Target FY 2028

Material Weaknesses

- The Department is unable to provide historical data to support completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period.

- The Department has ineffective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems.

- The Department has inadequate procedures and controls for recording gross cost and earned revenue on the Statement of Net Cost, and providing gross cost and net cost information related to program or organizational outputs and outcomes.

- The Department is unable to adequately research and resolve variances between budgetary and proprietary data throughout the reporting period and unable to provide details required to resolve this reconciling difference.

- The Budgetary Resources balances presented on the DoD Components' and Agency-wide Statements of Budgetary Resources may not be complete, accurate, or supported.

- Service Providers have not designed or implemented reliable controls to provide the reasonable assurance to their DoD Component customers, which decreases the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements.

Corrective Actions

- Continue implementing and improving processes related to the use of the Statement of Federal Financial Accounting Standards *(SFFAS) 48* and *SFFAS 50* "deemed cost" methodologies to establish opening balances for Inventory & Related Property and General Property Plant & Equipment. Develop and implement internal controls to provide assurance that adequate supporting documentation is developed and maintained to substantiate related financial statement balances and line items.

- Retire and replace vulnerable, non-Generally Accepted Accounting Principles (GAAP) compliant financial systems; perform reconciliations from feeder systems to the general ledgers; and analyze posting logic within accounting systems to validate that account balances, budgetary to proprietary relationships, and transactions meet *United States Standard General Ledger* requirements.

- Perform risk assessment procedures over financial reporting controls of cost and revenue recognition, to include management review and validation of accrual estimation methodologies. Work with stakeholders to define and assign costs to major programs.

- Establish guidelines for reconciliation of net cost to net outlays and develop methodologies and training to identify and correct the root causes of the budgetary to proprietary and tie-point account relationship differences.

- Develop an approach to review budget execution business processes and associated financial reporting risks. Implement policies, procedures, and internal controls to support the maintenance and timely retrieval of key supporting documentation, and substantiate that reported balances comply with applicable laws, standards, and regulations. Develop an approach for performing reconciliations and retaining data for sensitive activities.

- Design and implement monitoring and oversight controls over service providers' financial reporting processes. Work with service providers to conduct risk assessments of internal controls intended to verify proper definition of process ownership and compliance with internal control guidance and accounting standards. Require relevant service providers to post corrections in a timely manner.

- Conduct Statement on Standards for Attestation Engagements *(SSAE) No. 18* examinations to identify audit findings and implement corrective actions to strengthen financial reporting processes and controls.

Healthcare Liabilities

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- The Military Treatment Facilities (*MTFs*) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department's planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.

Corrective Actions

- Complete the implementation of new enterprise resource planning core financial systems across the Department to record accrual-based, patient-level cost accounting data.

- Deploy a new billing solution, deploy an automated coding solution, and develop processes to facilitate the creation of itemized bills for all patients receiving direct care within the *Military Health System*. This electronic health record will assist with the accurate reporting of health care activities and support the establishment of an audit trail.

Contract/Vendor Pay

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- Funding may not be accurately recorded or available in the relevant accounting system at the time of contract award.

- The Department lacks standard processes for recording contract obligations electronically in financial systems.

- The Department has insufficient policies governing the recording of accruals related to contracts.

- The Department is unable to reconcile contract data to financial data.

- The Department's complex operating environment does not enable the matching of award to accounting data for public transparency (e.g., Digital Accountability and Transparency Act (*DATA Act*)).

- The Department does not have adequate controls to ensure timely contract closeout and de-obligation of funds, which limits the Department's access to capital.

- The Department lacks sufficient system interoperability for transactions involving multiple DoD Components.

Corrective Actions

- Publish a DoD Instruction setting policies, procedures, and data standards for recording disbursements and report payments.

- Implement scorecards to track compliance with standard procedures and data compliance for all accounting, entitlement, and contract writing systems. This includes ensuring *Purchase Request Data Standard* and *Procurement Data Standard* correctly carry the Standard Line of Accounting.

- Leverage Wide-Area-Workflow invoice acceptance data to expand and improve the posting of accruals within accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.

- Develop a Procure-to-Pay systems roadmap as part of the broader Financial Management Strategy and Implementation Roadmap to ensure system migration plans exist and are implemented to eliminate redundant and antiquated financial management information technology (IT) systems to improve auditability, security, and productivity.

- Design and implement standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e., DATA Act).

- Develop Department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

Reimbursable Work Orders

Department-wide; Identified FY 2011; Correction Target FY 2026

Material Weaknesses

- The Department is unable to provide sufficient evidence to support the performance of work, receipt of intragovernmental goods and services, and validity of open obligations.

- The Department is unable to verify the timely and accurate collection of disbursements and validate recorded reimbursable agreements meet the time, purpose, and amount criteria.

- The Department has ineffective process to collect, exchange, and reconcile buyer and seller intragovernmental transactions.

Corrective Actions

- Continue to perform Component-level gap analyses on key processes, develop and enter general terms and conditions agreements in the Department of the Treasury's *G-Invoicing* system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.

- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing *release timeline*:

  - Quarter 4, FY 2022: Implementation mandated for new orders with a period of performance beginning October 1, 2022 and beyond

  - Quarter 4, FY 2023: Implementation mandated for all orders with a period of performance extending beyond September 30, 2023

- Develop and document authorization procedures and controls over obligations. Develop compensating controls to ensure obligations are properly authorized in instances where system authorizations cannot be relied upon.

- Deploy enterprise-wide intragovernmental transaction (IGT) reconciliation guidance/tool to support monthly IGT reconciliations.

Equipment Assets

Department-wide; Identified FY 2006; Correction Target FY 2024 (see note)

Material Weaknesses

- The Department's processes and controls to account for the quantity and value of General Equipment (GE) are not effective.
- The Department does not have sufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress.

Corrective Actions

- Continue to promote usage of alternative inventory count methods to meet equipment inventory accountability requirements while minimizing the burden of physical site visits.
- Continue to convene quarterly GE working group meetings to highlight policy and guidance gaps impacting the valuation of GE, report on quarterly progress in establishing accountable records, and share lessons learned.
- Leverage property accountability workshops to promote sound accountability practices and provide opportunities for collaboration across Components.
- Develop standard data elements and reporting metrics to standardize equipment accountability.

Note: The Correction Target date was adjusted from FY 2022 to FY 2024. The change in Correction Target is due to a delay in the implementation of corrective actions.

Joint Strike Fighter Program

Department-wide; Identified FY 2019; Correction Target FY 2023 (see note)

Material Weaknesses

- Joint Strike Fighter (*JSF*) program property are not accounted for, managed, or recorded in an accountable property system of record (APSR). As a result, JSF property is not properly reflected in the DoD financial statements. Additionally, the Department relies on contractor records to value JSF property.

Corrective Actions

- Develop systems, policies, and procedures to track movement of JSF property during their lifecycle.
- Develop methodology and assign auditable values to program assets.
- Perform physical inventory counts of JSF property and record JSF property in the relevant APSR.
- Document JSF's sustainment process, standardize its internal controls, and remediate any identified gaps.

Note: The Correction Target date was adjusted from FY 2022 to FY 2023. The change in Correction Target is due to the additional time required to develop systems, policies, and processes to track assets (accountability) and to work with program contractors to obtain needed information to place appropriate value on each asset.

Air Force Staff Sgt. Carmen Pontello introduces Hammer, a military working dog, to a Ghost Robotics Vision 60 semi-autonomous robot at Scott Air Force Base, Ill., Dec. 17, 2020. Photo by Air Force Airman 1st Class Shannon Moorehead.

Real Property Assets

Department-wide; Identified FY 2000; Correction Target FY 2025

Material Weaknesses

- Real property processes, controls, and supporting documentation do not substantiate that all assets are:
  - Properly valued,
  - Supported by documentation that is available and substantiates rights and obligations,
  - Recorded timely and accurately (including relief and reporting of Construction in Progress and real property improvements), and
  - Appropriately presented and consistently reported in the financial statements.

Corrective Actions

- Implement a new enterprise-wide civil engineering IT solution designed to improve data accuracy completeness and streamline operation and asset management. Integrate the new system with the Defense Enterprise Accounting and Management System used for financial reporting.

- Complete verification of the Air Force linear structure inventory.

- Ensure adequate documentation is available to support rights and obligations for financial statement reporting for owned real property and real property use agreements, outlining roles and responsibilities of installation host owner and tenant organizations. Reconcile and update APSR consistent with Agency Real Property Financial Reporting policy.

- Validate data used in the calculation of plant replacement value for alternative valuation of real property assets in accordance with SFFAS 50.

Environmental Liabilities

Department-wide; Identified FY 2019; Correction Target FY 2026 (see note)

Material Weaknesses

- The Department is unable to develop accurate estimates and account for Environmental Liabilities (EL) in accordance with generally accepted accounting procedures due to the following issues:
  - The Department-wide Real Property material weakness does not allow a full and accurate accounting of real property asset-driven EL outside of the *Defense Environmental Restoration Program*.
  - Existence and completeness issues with General Equipment do not allow a full and accurate accounting of equipment asset-driven EL.
  - Insufficient formal policy, procedures, and supporting documentation exist for developing and supporting cost estimates.

Corrective Actions

- Continue to convene the Environmental and Disposal Liability (E&DL) working groups to highlight policy and guidance gaps impacting the valuation of E&DL, report on quarterly progress, and share lessons learned.
- Identify policy gaps and develop overarching solutions.
- Track progress of Real Property and General Equipment physical inventories to ensure that asset-driven E&DL is also being reported appropriately.
- Develop and monitor metrics toward completion. Report progress through working groups, Property Functional Councils, and the FIAR Governance Board.

Note: The Correction Target date was adjusted from FY 2025 to FY 2026. The change in Correction Target is due to delays in revising Real Property asset counts and values, which drive the calculation of certain Environmental Liability amounts.

Accountability & Management of Property Furnished to Contractors for the Performance of a Contract

Department-wide; Identified FY 2011; Correction Target FY 2026

Material Weaknesses

- Government property in the possession of contractors cannot be identified in the Department's property and financial systems. As a result, the Department's financial and accountability records are incomplete.

Corrective Actions

- Develop and implement policy supporting reporting and accountability of Government-furnished property (GFP).
- Develop and implement data standard and automated solutions for reporting GFP.
- Review metrics such as GFP contract clause compliance and APSR compliance with DoD policy using electronic transactions for each Component and provide analysis of progress towards accountability.
- Continue to hold GFP working group meetings.

Internal Use Software

Department-wide; Identified FY 2015; Correction Target FY 2025

Material Weaknesses

■ The Department has not properly addressed the management and financial reporting of internal use software (IUS), which is required by *SFFAS 10* and must be addressed through updated guidance in the DoD *Financial Management Regulation*.

Corrective Actions

■ Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.

■ Develop and implement processes and system changes to APSRs to properly capture and sustain accountability and accounting of IUS.

■ Continue to deploy the Defense Property Accountability System as the APSR solution for IUS.

■ Evaluate Department-wide compliance with IUS APSR requirements to drive IUS APSR policy changes.

■ Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.

■ Validate corrective actions in conjunction with the DoD Chief Information Officer (*CIO*) through results of standalone audits, Agency-wide audit, Component Statements of Assurance, and information presented by Components at the IUS working group.

■ Continue to promote use of SFFAS 50 allowances for opening balance of IUS.

■ Evaluate planned changes from the *Federal Accounting Standards Advisory Board* on accounting for software, software licenses, and other intangible assets for potential accountability and accounting policy changes.

Note: The Correction Target date was adjusted from FY 2024 to FY 2025. The change in Correction Target is due to a delay in the Department-wide implementation of IUS accountability and accounting policy.

Inventory

Department-wide; Identified FY 2005; Correction Target FY 2028 (see note)

Material Weaknesses

■ The Department has not implemented adequate policies and procedures over timely reconciliation of subsidiary ledgers and proper application of inventory costing methodologies.

■ The Department has not implemented adequate internal controls to support management's assertion of existence and completeness of Inventory, including preventing users from posting transactions that exceed their approved thresholds, reviewing interface transmission errors, and ensuring transactions are recorded in the proper period for existence, completeness, and valuation.

- The Department is unable to produce sufficient evidential matter to support inventory transactions, inventory held by third parties, and the complete and accurate identification and correction of erroneous transactions.
- The Department has insufficient documentation to ensure updated business process controls completely reflect all sub-processes within inventory.

Corrective Actions

- Implement revised policy on comingled assets; address process and system deficiencies associated with reconciliations and valuation methodologies.
- Use the Risk Management and Internal Control Program to guide the development and update of internal controls related to inventory accrual, existence, completeness, and valuation. Implement policy changes to support long-term courses of action to mitigate inventory weaknesses.
- Implement and enforce revised DoD policy on asset physical accountability requiring internal controls and annual physical inventories. Design and improve reports, management oversight, and procedures to improve effectiveness of management controls.
- Review, improve, and implement enhanced controls in the inventory processes and perform follow up testing for compliance and effectiveness.
- Convene an Inventory working group to highlight policy and guidance gaps impacting the existence, completeness, and valuation of Inventory, report on progress and share lessons learned.

Note: The Correction Target date was adjusted from FY 2026 to FY 2028. The change in Correction Target is due to delays in the implementation of required policies.

A Falcon 9 Starlink L-24 rocket successfully launches from SLC-40 at Cape Canaveral Space Force Station, Fla., April 28, 2021. Photo by Joshua Conti, Space Force.

Operating Materials & Supplies

Department-wide; Identified FY 2005; Correction Target FY 2027

Material Weaknesses

- The Department does not report Operating Materials & Supplies (OM&S) in the Inventory & Related Property line on the Balance Sheet in accordance with *SFFAS 3* or SFFAS 48.

- The Department has not performed an annual assessment of OM&S acquired by Components for the purposes of determining appropriate accounting treatment under SFFAS 3, to include existence and completeness.

- The Department does not have adequate processes and controls for accurately recording munitions inventories.

- DoD Components do not have sufficient controls and procedures addressing OM&S assets in the possession of third parties, to include service providers and contractors.

Corrective Actions

- Implement an appropriate valuation method for OM&S. Develop and implement procedures to document the process to determine when a decline in value should be considered temporary or permanent. Review all posting logic, re-evaluate existing policies, develop and implement controls to ensure property account posting logic, and establish a methodology to support valuation of OM&S.

- Implement new DoD policy requiring inventory counts of OM&S. Conduct inventory counts in accordance with existing policies and supplement existing policies as necessary based on new DoD policy. Develop Component-level risk control matrices based on inventory control gap analyses to implement changes to the inventory count process. Report metrics on physical inventory counts of OM&S, adjustments, and OM&S in the possession of third parties for use in governance meetings.

- Develop solutions for a new munition control system that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new munition control system solutions.

- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement improved reconciliation processes to address OM&S held by service providers and contractors. All contractor inventory control point programs will be identified and controls developed to maintain OM&S along with policies and procedures for oversight.

- Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.

- Convene an OM&S working group to analyze processes and integrate remediation efforts among Components to optimize system change efforts and harmonize reporting. This working group will report on progress and share lessons learned across the DoD OM&S community.

FMFIA Section 2, Effectiveness of Internal Control over Operations

Exhibit 3 lists the FY 2021 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2020.

Exhibit 3. FY 2021 Effectiveness of Internal Control over Operations (FMFIA §2)

Statement of Assurance: Modified Assurance

Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Acquisition	3	1			4
Comptroller and/or Resource Management	1	1			2
Communication	1				1
Contract Administration	1				1
Information Technology	3				3
Force Readiness	1	1			2
Manufacturing, Maintenance, and Repair	1				1
Personnel and/or Organizational Management	5	1			6
Support Services	2	1			3
Supply Operations	2	1			3
Total Material Weaknesses	20	6			26

Internal Control over Operations – Material Weaknesses and Corrective Actions

Acquisition

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

- Many DoD acquisition programs fall short of cost, schedule, and performance expectations resulting in unanticipated cost overruns, reduced buying power, and/or a delay or reduction in the capability ultimately delivered to the warfighter.

- Many DoD acquisition programs do not have a sufficient Program Executive Office, as mandated by the DoD 5000 series of instructions.

  - Acquisition lifecycle oversight, policies, regulations and organizational structure are non-compliant.

  - Processes do not effectively support the mission by identifying, assessing, and providing oversight of development and procurement solutions.

  - Inadequate documentation and filing of acquisition records.

■ Many DoD acquisition programs do not comply with the Clinger-Cohen Act, *10 U.S.C §2222*, DoD Instruction *(DoDI) 5000.74*, and *DoDI 5000.75*; do not have sufficient management and oversight of IT services and defense business systems; and do not adequately use existing DoD and *Defense Contract Management Agency* controls for generating, monitoring, and closing contracts.

■ The Department has not implemented sufficient oversight controls to ensure attenuation of hazardous noise levels during weapons system design and acquisition.

Corrective Actions

■ Implement DoD 5000 series policy mandates, develop further guidance to properly gather and analyze performance metrics, and align acquisition programs with the DoD mission and needs

■ Continue to improve implementation of *Better Buying Power 3.0* and clarify/update *DoDI 5000.02*. Develop additional standard operating procedures and map key business processes to document control activities within each functional area.

■ Develop and implement a procedural instruction for acquisition approval and governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review acquisition programs, and improve the monitoring and forecasting of potential issues or risk areas. Hire employees to manage accountable property; establish and implement cyclical inventory count schedule. Enforce accountable property and General Equipment requirements, publish property management manual, and deliver employee training on property management solutions.

■ Conduct systems reviews, capability portfolio reviews, configuration steering boards, and cost reviews to identify process inefficiencies and improve the acquisition management process.

■ Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule, and performance variances, and to address reported variances.

■ Publish updated investment management guidance with business capability review instructions and schedule.

■ Publish the agency Strategic Plan addressing investment management, portfolio management, business architecture, and IT modernization strategies.

■ Establish portfolios, develop capability strategies for each portfolio, and conduct portfolio reviews following implementation.

■ Identify initial optimization opportunities for review by the Defense Business Council and other Governance Committees as determined appropriate by the Office of the Director of Administration and Management (ODA&M) and pursue ODA&M approved optimization opportunities.

■ Complete validation review of the Defense Acquisition Workforce Improvement Act (*DAWIA*) acquisition certification-required positions to ensure the acquisition workforce is sufficiently trained. Establish a training plan for involved personnel, certify personnel, and staff DAWIA positions with DAWIA-certified employees.

■ Establish policy and processes for hazardous noise control and mitigation and implement internal oversight controls. Develop technical guidance to assist resource sponsors in development of platform-appropriate key system attributes (KSAs) to address hazardous noise reduction. Establish internal management controls and provide oversight to ensure that the acquisition programs include appropriate KSAs to address the reduction of hazardous noise.

Comptroller and/or Resource Management

Department-wide; Identified FY 2013; Correction Target FY 2028 (see note)

Material Weaknesses

- The Department does not have effective internal controls and management oversight over processes such as use of Internal Use Software and property furnished to contractors.
- The Department's system of internal controls does not provide reliable financial reporting.

Corrective Actions

- Brief leadership; appoint and train staff; develop risk profiles; conduct initial, quarterly, and annual validation and assessment; and automate processes as appropriate. Continue to develop operating procedures and map key business processes to document control activities within each functional area. Fully implement an independent testing program that complies with OMB *Circular No. A-123* requirements.
- Improve entity level controls to establish an internal control system that will produce reliable financial reporting. Conduct meetings with functional area Internal Control Administrators (ICA) and Assessable Unit Managers each year to document entity level controls for their business processes related to the Government Accountability Office Standards for Internal Control in the Federal Government (*"Green Book"*) framework. Document controls/processes and develop testing attributes provided to ICA to monitor controls.

Note: The Correction Target date was adjusted from FY 2021 to FY 2028. This change in Correction Target is to account for the dependency of this material weakness on other material weaknesses related to internal controls over financial reporting.

Communications

Department of the Air Force; Identified FY 2018; Correction Target FY 2023

Material Weaknesses

- The Department of the Air Force has identified a systemic issue in communication of security information between installations and appropriate external entities.

Corrective Actions

- Identify digital fingerprinting hardware and software solutions to improve archiving, enhance ability to reference/verify fingerprinting, and facilitate transfer of fingerprints between U.S. law enforcement agencies.
- Identify best practices used by U.S. law enforcement entities. Identify partnering solution with Air Force *Office of Special Investigations*.
- Replace the Security Forces Management Information System to allow for increased and timely interagency communications regarding personnel security concerns.
- Identify and implement a long-term software solution for case management.
- Further codify Department of Air Force Criminal Justice Information Cell with initial operating capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.

Contract Administration

Department-wide; Identified FY 2009; Correction Target Reassessed Annually

Material Weaknesses

- The Department does not properly define outcomes and capture data to facilitate strategic management of the services acquisition function. The Department continues to face challenges meeting fiscal year competition goals and needs to capitalize on available incentives and address improvements in the definition of contract requirements. The acquisition workforce is not appropriately sized, trained, and equipped to meet the Department's needs.

Corrective Actions

- Continue to track and monitor training requirements for the acquisition workforce, including new training for DoD policy and procedure requirements and contracting professionals.

- Reinforce internal controls to provide reasonable assurance that Contracting Officers designate a qualified Contracting Officer's Representative for all service contracts, or retain and execute contract oversight responsibilities; develop a process that will direct and prevent improper payments.

- Reduce contract closeouts by 20% and ensure there are no more than 350 over-age fixed price contract closeouts.

- Accelerate the performance of contract audits and reconciliations from an annual basis to monthly basis; review and support rate settlement work; validate contractor estimates for deobligations; and review to determine if future billings or deobligations are warranted. Update policies and procedures for internal controls, physical inventory counts, and management of GFP.

Information Technology

Department-wide; Identified FY 2010; Correction Target Reassessed Annually

Material Weaknesses

- DoD financial and business management systems and processes do not provide reliable, timely, and accurate information.

- The Department experiences systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening/encryption) contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.

- The Department experiences:
  - Numerous weaknesses in IT governance (especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies, procedures, and practices across the Department);
  - Lack of clear, concise IT security requirements for developed-in-house and acquired systems;
  - Inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts;
  - Inability to produce application-level audit logs related to account management and configuration management; and
  - Lack of periodic review and update of system-level policy documentation. Additionally, the Department did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component lifecycle.

Corrective Actions

- Expand review and analysis of proposed IT systems. Update the DoDI 5000.75 and increase Investment Review Board oversight.

- Establish processes to ensure stakeholder participation in the cybersecurity scorecard meetings and alignment of Component scorecard metrics to audit findings. Issue 2021 memorandum signed by the Deputy Secretary of Defense on Business Requirements for Access Control Implementation for Information Technology Reporting.

- Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring, and public key infrastructure-based authentication/credentials. Continue development of an enterprise Identity, Credential, and Access Management (ICAM) solution with nine pilot systems to address access control gaps across the Department.

- Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards.

- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform workload studies and associated manning adjustments as necessary.

- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in *DoDI 8520.03* for stronger authentication.

- Develop, communicate, implement, and continuously monitor entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.

- Develop and provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices.

- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.

- Automate acquisition, discovery, tracking, fielding, retirement, and involved audit processes to the greatest extent possible.

- Research and acquire, or design and implement, an access control system or record.

- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.

- Clearly identify lines of demarcation between acquisition and provisioning.

Force Readiness

Department-wide; Identified FY 2016; Correction Target Reassessed Annually

Material Weaknesses

- Multiple MTFs have unfunded sustainment, restoration, and modernization (SRM) requirements that could cause severe injury, death, or moderate to major property damage if not addressed.

- The Department's nuclear enterprise does not have adequate managerial oversight capabilities, an effective self-assessment program, or the ability to produce useful nuclear inspection reports.

Corrective Actions

- Generate, document, and implement standardized issuances/procedures to address multiple issues at the MTFs upon assuming responsibility for SRM.
- Implement a plan to conduct independent evaluations of supply chain risk management for the nuclear command, control, and communications systems; develop the criteria and methodology that will be used; and identify timeframes for conducting the evaluations.

Manufacturing, Maintenance, and Repair

Department of the Navy; Identified FY 2016; Correction Target FY 2025 (see note)

Material Weaknesses

- The Department's policies for defining, costing, and executing ship depot maintenance do not facilitate the accurate prediction of cost and duration.

Corrective Actions

- Continue the evaluation of obstacles to execution performance.
- Identify variances between Execution Year Guidance and the President's Budget to develop mitigations.
- Integrate depot maintenance into routine internal evaluations by the Risk Management Internal Control program.
- Establish processes and controls to correct over-execution of depot maintenance through improved planning of availability, more accurate planning and programming of funding, and improved oversight of availability execution.
- Develop and implement policies for planning and executing depot maintenance while correctly identifying true costs and duration. Establish the President's Budget as the baseline for execution year variance tracking.
- Enhance the maintenance model used for planning, analysis, and budget development.
- Continue quarterly execution reviews pending completion of all scheduled FY 2022 shipyard depot maintenance periods.
- Conduct reviews through the procure-to-pay forum or successor forums.
- Draft procedures detailing the budgeting process for aircraft depot maintenance.
- Develop a step-by-step description of the end-to-end budget process, to include supporting documentation.

Note: The Correction Target date was adjusted from FY 2022 to FY 2025. The change in Correction Target is due to the identification of additional issues during the course of the remediation process which required supplemental actions.

Personnel and/or Organizational Management

Department-wide; Identified FY 2017; Correction Target FY 2023

Material Weaknesses

- The Department's average civilian time-to-hire may negatively impact the Department's ability to quality candidates to fill open resource needs on a timely basis.

- The Department does not systematically collect data on hiring manager satisfaction with the hiring process or quality of candidates for civilian positions.

- The large number of personnel systems, pay systems, and special human resources (HR) authorities and flexibilities used to manage the civilian workforce has caused excessive complexity and variability in HR processes.

- DoD HR specialists and managers lack training and tools to sufficiently manage the complex civilian federal hiring process.

- The Department has not implemented systems to define, collect, monitor, or analyze the performance and cost data of HR service providers, or to monitor and control the types of services provided.

- The Department has not implemented a centralized personnel accountability system and standardized reporting formats to enable consistent management of military personnel HR processes across the geographical Combatant Commands.

Corrective Actions

- Develop and execute Component-level, data-based action plans to reduce time-to-hire. Foster Department-wide cooperation and information sharing through the use of a functional working group.

- Administer a periodic survey to determine hiring managers' satisfaction levels.

- Continue undertaking procedures to simplify, streamline, and standardize HR processes and provide better, more cost-effective HR services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.

- Continue to leverage the DoD HR functional community to define and assess HR competencies, establish learning standards, and develop career paths.

- Execute the HR service delivery project to define, monitor, and evaluate key performance and efficiency measures for Defense Agency and Field Activity HR service providers; identify and remediate instances of fragmentation, overlap, and duplication; address inefficiencies; and implement reforms. Generate bi-monthly newsletters to the HR community describing HR services and HR performance metrics.

- Transition to a single software-as-a-service/cloud civilian human capital management system, initially for core HR transactions and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, and workforce and succession planning).

- Establish business rules for personnel accountability to avoid double counting of personnel. Continue advocating for a joint personnel accountability system.

Support Services

Department-wide; Identified FY 2017; Correction Target Reassessed Annually (see note)

Material Weaknesses

- The Department does not have sufficient Component/Assessable Unit (AU) internal audit or review of operations.
- The Department has not achieved adequate progress in reforming its business functions that support the warfighter.
- There are inconsistencies with the staffing approach to deliver behavioral health, thus impacting the number of appointments required to meet patient demand. Improvements in monitoring referral usage, outcomes, and standardized access/measurement tools are needed.

Corrective Actions

- Generate requirements for internal audit/review of operations performance and law, regulation, and policy compliance; document in a DoD Instruction.
- Strengthen business reform organizational capabilities in support of DoD management objectives, focusing on end-to-end management and monitoring of reform initiatives and implementation activities.
- Revise transformation guidance (e.g., *DoDI 5010.40*) to reflect the GAO Green Book and OMB Circular No. A-123.
- Expand, institutionalize, and scale Department-wide continuous process improvement (CPI) and business transformation training and development of CPI experts, and promote continuous and visible leadership support for transformation.
- Improve Direct Access Reporting Tool (*DART*), which is used to monitor access to mental health services.

Note: The Correction Target date was adjusted from FY 2023 to Reassessed Annually. This change is due to the disestablishment of the Office of the Chief Management Officer, which formerly maintained responsibility for implementing the cited corrective actions. The realignment and reassignment of these responsibilities to other Office of the Secretary of Defense-level offices was still pending as of the end of FY 2021, which will result in corrective action implementation delays.

A Marine conducts a combat patrol during Exercise Forest Light in Japan, Dec. 16, 2020. Photo by Marine Corps Capt. Nicholas Royer.

Supply Operations

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

- Insufficient asset visibility causes the Department to unnecessarily order supplies it already has.
- Lack of supply condition knowledge inhibits the reorder replacement for damaged supplies.
- Reductions in the number of suppliers from which the Department can purchase raw materials and finished goods affects the Department's ability to obtain necessary supplies in a timely manner and of sufficient quality. The Department needs to continue to focus on strengthening the security and effectiveness of its supply chain.

Corrective Actions

- Improve collection and analysis of supplier threat assessments, implement methods to mitigate risks such as improved hardware and software testing, and enhance processes for approving product and vendor lists.
- Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures.
- Increase transparency in the procurement process through improved description of procurement activities and record keeping.
- Implement best practices in cost and contract management with focus on strategic sourcing of sole-source and limited supplier items (such as rare metals).
- Continue use of reverse engineering where applicable and appropriate.
- Repair existing parts economically and efficiently where applicable and appropriate.
- Identify and remove fraudulent suppliers currently in the supply chain using effective supplier fraud management including improved vetting of supplier claims; strengthened review, verification, and analysis of past and current performance; increased scrutiny of supplier ownership; and research of supplier name changes.
- Address limited distribution networks and capabilities to transport supplies to the right place at the right time, safely, and securely.
- Establish and finalize detailed standard operating procedures and instructions to support compliance with existing contract and designation letter requirements.
- Define, develop, and publish policy and procedures to improve compliance with the scrap management program.
  - Perform risk assessment to include fraud risk
  - Develop, update, and implement operational policy and procedures
  - Develop internal controls over process
  - Train personnel on the published policy and procedures
  - Review/perform internal control testing procedures.

FMFIA Section 4, Conformance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management system requirements. Exhibit 4 lists the number of instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2020. *The Office of the Under Secretary of Defense (Comptroller)* is responsible for the development of enterprise-level plans to remediate these instances of non-conformance as well as providing oversight over system owner progress.

Exhibit 4. FY 2021 Conformance with Federal Financial Management System Requirements (FMFIA §4)

Statement of Assurance: *No Assurance*

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Business System Modernization	1				1
FISCAM Compliance	1				1
FFMIA Compliance	1				1
Total Material Weaknesses	3				3

FFMIA Section 803(A), Implementation of Federal Financial Management Improvements

Exhibit 5 lists the FY 2021 instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

Exhibit 5. FY 2021 Compliance with Section 803(A) of the Federal Financial Management Improvements Act (FFMIA)

	Agency	Auditor
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

U.S. Air Force Master Sgt. Carla Thornton, 556th Red Horse Squadron personnelist, fires an M4 rifle with blank rounds during exercise PATRIOT WARRIOR at Fort McCoy, Wisc., August 17, 2021. Photo by Staff Sgt. Shelton Sherrill.

Federal Financial Management Systems Requirements – Non-Conformances and Corrective Actions

Business System Modernization

Department-wide; Identified FY 2001; Correction Target FY 2028

Non-Conformance

- Delays in achieving business system modernization targets has resulted in degraded DoD business process operations to include efficiency, effectiveness, and non-compliance with certain laws (e.g., FFMIA). In addition, the number of applications, hosting locations, interfaces, and other variations in technology create a complex environment where it is difficult to maintain effective IT general and application controls (including information security).

Corrective Actions

- Continue to update the DoD Financial Management Strategy. Develop an integrated financial management system roadmap that will identify the systems to be retired and provide governance to ensure accelerated execution to measurable outcomes. This roadmap will result in a reduced number of systems that impact financial reporting; improve auditability, productivity, and security; and simplify the Department's business systems environment. This includes integrating and improving system data quality in authoritative systems, such as the DoD Information Technology Portfolio Repository.

- Continue to consolidate DoD general ledger systems by enabling and tracking the Department's migration to enterprise resource planning (ERP) systems and retirement of vulnerable systems to allow for large-scale audit improvements and an enhanced business systems environment.

- Develop and implement a series of monitoring tools to integrate and evolve the method of evaluating and measuring progress towards achieving a more efficient and auditable defense business system environment. Specifically, the Department intends to develop metrics within the following categories, system health, system compliance, system cost, system performance, and system risk. Additionally, the Department will leverage the notice of findings and recommendations (NFR) database to monitor and report on the status of corrective action plan and NFR closures.

- Leverage existing working groups and governance bodies such as, the Defense Business Council and Information Technology Portfolio working group to influence business system investment decisions.

FISCAM Compliance

Department-wide, Identified FY 2001; Correction Target FY 2026

Non-Conformance

- The DoD IT systems environment includes numerous vulnerable systems and core enterprise systems that support the major end-to-end processes and ERP systems. Most of the vulnerable systems were originally designed to support functional purposes (such as human resources, property, and logistics management) rather than the development of auditable financial statement reporting. Many of these systems do not comply with Federal Information System Controls Audit Manual (*FISCAM*) requirements with regards to entity-level technology controls, application-level general controls, and automated application controls (including security management access, segregation of duties, configuration management, system interfaces, master data, and audit trails).

Corrective Actions

- Continue to implement an enterprise ICAM) solution to provide user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to use the NFR database, leverage technology (e.g., Advana) and the IT Functional Council to track remediation status and identify common solutions to material weaknesses and Department-wide issues.
- Continue to analyze the current IT NFRs and prioritize issues with the most significant audit and security impacts, including access control deficiencies to help safeguard sensitive data from unauthorized access and misuse.
- Align the Risk Management Framework (RMF) with audit results, as the DoD RMF is essential to the Department's ability to self-identify issues and sustain improvements. Summarize the results of security control assessment reviews performed and develop a plan to remediate identified issues.

FFMIA Compliance

Department-wide; Identified FY 2001; Correction Target FY 2028

Non-Conformances

- The Department's financial systems currently do not provide the capability to record financial transactions in compliance with:
  - Current federal financial management requirements
  - Applicable federal accounting standards
  - USSGL at the transaction level

Corrective Actions

- Migrate four Components to a common ERP system, the Defense Agency Initiative (*DAI*) by FY 2024. The DAI application is a FFMIA-compliant commercial-off-the-shelf solution that obtained its fifth consecutive unmodified SSAE No. 18 opinion in FY 2021.

- Continue to deploy FFMIA-compliant ERP solutions throughout the Department. Implement system change requests to enable additional capabilities and standardized processes and information.

- Continue to focus on reducing vulnerable financial management systems, investing in ERP systems, and evolving the role of service providers.

- Continue to refine and leverage the automated Standard Financial Information Structure (*SFIS*) compliance capabilities within Advana to continuously assess compliance and allow transparency.

- Implement requirement for non-FFMIA-complaint systems to establish a retirement date or modernization plan with milestones on when they will become FFMIA-compliant.

- Leverage technology such as artificial intelligence and robotics process automation to increase the timeliness and accuracy of transactions.

A soldier joins members of the Bindal clan performing a traditional dance at a welcoming ceremony during Exercise Talisman Sabre at Lavarack Barracks, Townsville, Queensland, Australia, July 19, 2021. Photo by Marine Corps Cpl. Michael Jefferson Estillomo.

PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 (*PIIA*) continue to be top financial management priorities for the Department. The Department supports PIIA compliance through the activities of its Payment Integrity program, which comprises 11 separate programs (see Exhibit 6). Collectively, these programs constitute the majority of payments made by the Department annually. This section provides an overview of the FY 2021 results of the Department's Payment Integrity program. The specific testing timeframe varies by program to capture a more complete universe of transactions in an effort to fully comply with the PIIA. The relevant exhibits identify the periods of transactions reviewed for each program. See *PaymentAccuracy.gov* for additional information related to program scorecards, corrective actions, and payment recovery efforts.

Exhibit 6. DoD Payment Integrity Programs

| Program	Description
Civilian Pay	Payments disbursed by the Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.
Commercial Pay	Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and COVID response funding payments made by the Military Services and DoD Components.
DoD Travel Pay	Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes COVID response funding payments made by the Military Services and DoD Components.
Military Health Benefits	Payments disbursed by the Defense Health Agency (DHA) to private sector contractors for delivery of health care services to TRICARE eligible beneficiaries. It also includes COVID response funding payments to support health and medical resources priorities.
Military Pay - Army	Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
Military Pay - Navy	Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Pay – Air Force	Payments disbursed by DFAS for the Air Force and Space Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
Military Pay – Marine Corps	Payments disbursed by DFAS for the Marine Corps to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Retirement	Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
USACE Commercial Pay	Payments disbursed by the U.S. Army Corps of Engineers (USACE) to vendors and contractors for goods and services. It also includes Disaster Relief and COVID response funding payments made by USACE.
USACE Travel Pay	Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief and COVID response funding payments made by USACE.

In accordance with OMB Circular No. A-123, *Appendix C*, the Department categorizes all program outlays as one of three payment types: proper payment; improper payment; or unknown payment. A payment is reported as 'proper' if it was made to the right recipient for the right amount, reported as 'improper' if it was made in an incorrect amount or to the wrong recipient, and reported as 'unknown' for instances where the Department was unable to determine whether the payment falls into the proper or improper category as a result of insufficient or lack of documentation.

In FY 2021, the Department's estimated improper payments were reported in three separate categories in accordance with OMB guidance (see Exhibit 7):

- An Overpayment is a payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of the overpayment. Overpayments result in monetary or cash losses that should not have been paid and in theory should/could be recovered by the Department.

- An Underpayment is a payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount of the underpayment. Underpayments are non-monetary losses to the Department.

- A Technically Improper Payment is a payment made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements. Technically improper payments are non-monetary losses to the Department.

Exhibit 7. OMB Payment Type and Improper Payment Type Categories
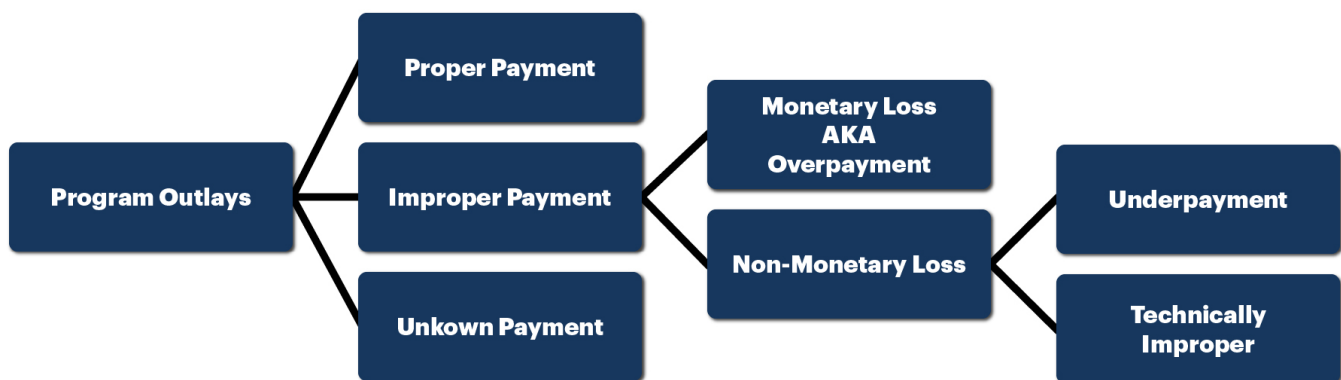
Additionally, in accordance with OMB memorandum, *"Risk-Based Financial Audits and Reporting Activities in Response to COVID-19"*, the Department continued to apply the OMB Circular No. A-123, Appendix C requirements (i.e., improper payments testing) throughout FY 2021 to the Coronavirus Disease 2019 (*COVID-19*) response funding received in FY 2020 through the Coronavirus Aid, Relief, and Economic Security *(CARES) Act* and the *Families First Coronavirus Response Act.* The memorandum permitted Payment Integrity programs that received COVID-19 related funding that were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department verified that the financial systems used to account for COVID-19 response funding were included in the relevant program sampling plans (e.g., Commercial Pay, Military Health Benefits, DoD Travel Pay).

In FY 2021, the Department strengthened and improved its efforts to reduce and recover improper payments in its reporting programs. The estimated improper payment rates reported for all programs were below the PIIA statutory threshold of 10 percent and the majority of the improper payments identified did not result in monetary losses or incidents of fraud, waste, and abuse. Moreover, eight programs reported lower estimated improper payment rates and seven programs reported lower estimated unknown payment rates in FY 2021 as compared to FY 2020.

Overall, the Department identified $667,090.35 million in payments/outlays[1] subject to testing under PIIA and estimated a proper payment rate of 99.62 percent ($664,584.16 million), an improper payment rate of 0.10 percent ($651.66 million), and an unknown payment rate of 0.28 percent ($1,854.53 million) (see Exhibit 8).

Exhibit 8. FY 2021 Estimated Improper Payments by Payment Type and Improper Payment Category

$ in millions

Unknown Payments, $1,854.53 , 0.28%

$664,584.16 , 99.62%

$246.61 , 37.84%

$113.60 , 17.43%

$291.45 , 44.73%

Improper Payments, $651.66 , 0.10%

Proper Payments
Improper Payments
Underpayments
Unknown Payments
Overpayments
Technically Improper

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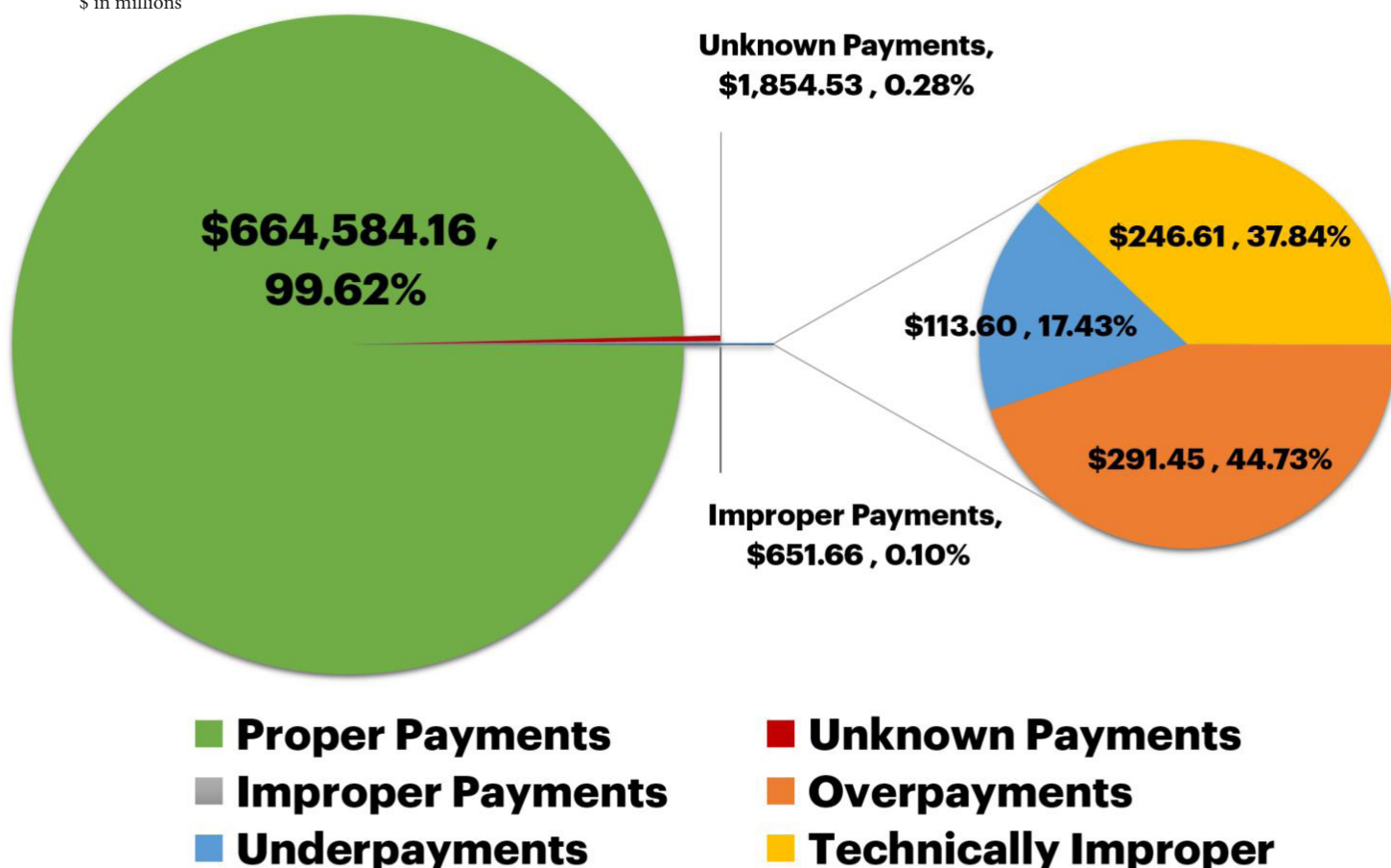
1 The Independent Auditor's Report on the DoD FY 2020 and FY 2019 Basic Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions, and past improper payment compliance audits identified similar weaknesses attributable to the Department's inability to perform reconciliations to provide reasonable assurance over the completeness and accuracy of populations of payments from which statistical samples are selected. To resolve the deficiencies with its estimates, the Department initiated the Payment Integrity Estimates Working Group in FY 2021 with the purpose and intent of reporting reliable (i.e., complete and accurate) estimates for all noncompliant programs.

In FY 2021, the Department reported a total of $2,506.19 million in improper and unknown payments for nine programs. The $651.66 million reported in improper payments was approximately a 72.61 percent ($1,727.85 million) decrease from FY 2020 and the $1,854.53 million reported in unknown payments was approximately a 79.46 percent ($7,172.28 million) decrease from FY 2020. These decreases were primarily attributed to the implementation of effective corrective actions for the three programs that reported the largest amounts of improper and unknown payments in FY 2020: Civilian Pay, Military Pay – Army, and Military Pay – Air Force.

Specifically, the Civilian Pay program reduced unknown payments by $4,905.69 million; the Military Pay – Army program reduced improper and unknown payments by $620.05 million and $1,421.80 million, respectively; and the Military Pay – Air Force program reduced improper and unknown payments by $363.23 million and $841.32 million, respectively. Together, these programs accounted for approximately 56.91 percent of the Department's overall $1,727.85 million decrease in improper payments and approximately 99.95 percent of the overall $7,172.28 million decrease in unknown payments, as compared to FY 2020. (see Exhibit 9).

Exhibit 9. FY 2021 Decrease in Estimated Improper and Unknown Payments

$ in millions
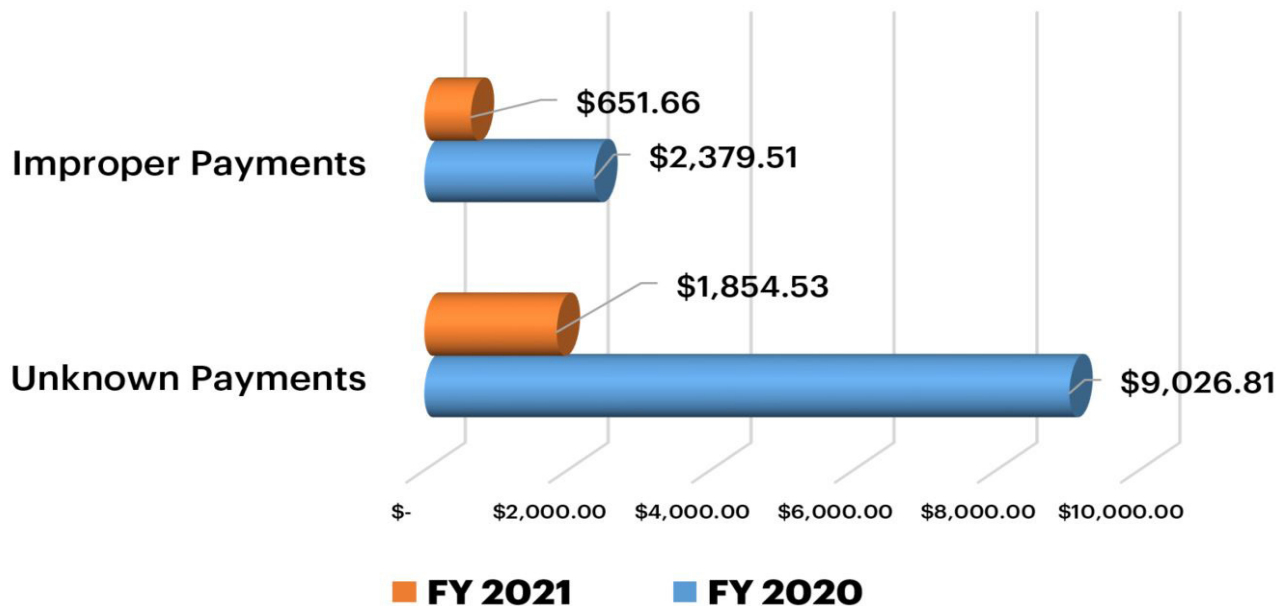
Payment Integrity Insights by Program

When significant[2] improper and unknown payments are identified in a program through testing, DoD Components are required to determine the root cause(s) and develop corrective action plans to remediate them. In FY 2021, the Department's estimated improper and unknown payments were reported using four root cause categories identified in OMB Circular No. A-123, Appendix C:

- Failure to Access Data/Information – Improper payments are attributed to human errors to access the appropriate data/information to determine whether or not a beneficiary or recipient should be receiving a payment, even though such data/information exists and is accessible to the Department or entity making the payment. All overpayments and underpayments were reported in this category.

- Inability to Access Data/Information – A situation in which the data or information needed to validate payment accuracy exists but the agency or entity making the payment does not have access to it.

- Statutory Requirements of Program Were Not Met – An exception in that a payment made to an otherwise qualified recipient for the right amount but the payment process failed to meet all regulatory and/or statutory requirements. In accordance with OMB guidance, all technically improper payments were reported in this category.

- Unable to Determine Whether Proper or Improper – A payment that could be either proper or improper but the agency is unable to determine whether the payment was proper or improper as a result of insufficient or lack of documentation. In accordance with OMB guidance, all unknown payments were reported in this category.

Exhibits 10 – 18 provide the payment integrity testing results for each DoD program deemed to be susceptible to the risk of significant improper and unknown payments.

The United States Army Corps of Engineers *(USACE)* Commercial Pay and USACE Travel Pay programs were both determined not to be susceptible to risk of significant improper and unknown payments as the estimates for both programs were well below the statutory limit for FY 2019 and FY 2020. Therefore, both programs were moved to Phase 1 of the three-year risk assessment cycle described in OMB Circular No. A-123, Appendix C and received relief from reporting improper and unknown estimates in FY 2021.

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2 The Payment Integrity Information Act of 2019 defines "significant" as the sum of a program's improper and unknown payments exceeding (1) $10 million and 1.5 percent of program outlays, or (2) $100 million.

Civilian Pay

In FY 2021, the total estimated improper and unknown payments for the Civilian Pay program were $53.77 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 0.08 percent (+/- 0.11) improper and unknown payment rate and an estimated proper processing rate of 99.92 percent.

Exhibit 10. FY 2021 Civilian Pay Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 66,517.76	
Proper Payment	$ 66,463.99	99.92%
Overpayments	$ -	0.00%
Underpayments	$ -	0.00%
Technically Improper	$ 48.27	0.07%
Improper Payments (IP)	$ 48.27	0.07%
Unknown Payments (UP)	$ 5.50	0.01%
IP Plus UP Amount	$ 53.77	0.08%

Unable to Determine whether Proper or Improper — $5.50

Statutory Requirements of Program Were Not Met — $48.27

☐ Technically Improper due to Statute or Regulation
☐ Unknown Payments
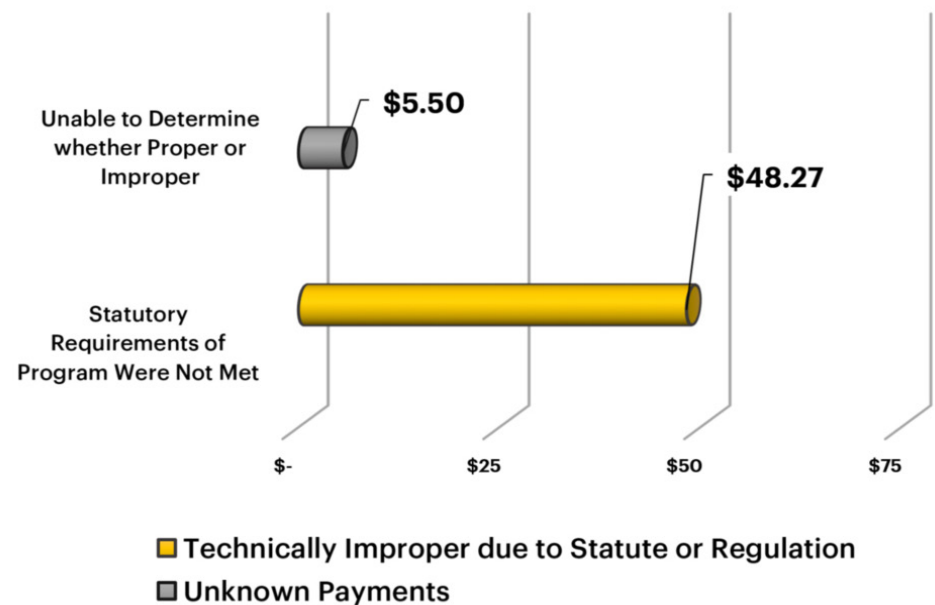
In FY 2021, the estimated improper and unknown payments for the Civilian Pay program decreased by 98.91 percent ($4,862.06 million), from $4,915.83 million in FY 2020 to $53.77 million in FY 2021.

During FY 2021, the Department implemented a methodical and demanding Civilian Pay execution timeline process, resulting in significantly reducing improper and unknown payments. The Department also successfully executed and cleared five corrective action plans and solidified the performance timeline standard to ensure Civilian Pay continued success. Furthermore, in FY 2022 the Department will conduct additional payment type reviews to closer align with the PIIA and OMB Circular No. A-123, Appendix C requirements.

Commercial Pay

In FY 2021, there were no total estimated improper and unknown payments for the Commercial Pay program. This estimate was based on a sampling methodology with a 95 percent confidence level.

Exhibit 11. FY 2021 Commercial Pay Program

Month and Year for Data: October 2019 - July 2021

$ in millions	Amount	Rate
Outlays	$ 412,187.61	
Proper Payment	$ 412,187.61	100.00%
Overpayments	$ -	0%
Underpayments	$ -	0%
Technically Improper	$ -	0%
Improper Payments (IP)	$ -	0.00%
Unknown Payments (UP)	$ -	0.00%
IP Plus UP Amount	$ -	0.00%

Failure to Access Data/Information — $0.00

Unable to Determine whether Proper or Improper — $0.00

Statutory Requirements of Program Were Not Met — $0.00

$- $25 $50 $75 $100
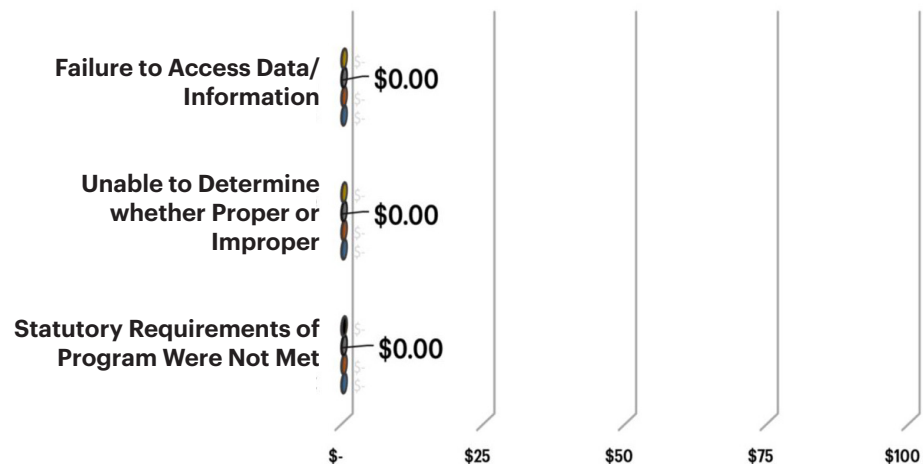
In FY 2021, the Commercial Pay program estimated improper and unknown payments decreased by 100.00 percent, from $306.65 million in FY 2020 to $0.00 in FY 2021. As the amount of improper and unknown payments estimated in this program differs greatly from the results of payment recovery audit efforts, the Department will perform an analysis of the sampling, estimation, and review methods used for the Commercial Pay program to ensure accuracy in reporting.

Travel Pay

In FY 2021, the total estimated improper and unknown payments for the Travel Pay program were $223.36 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 3.41 percent (+/- 0.30) improper and unknown payment rate and an estimated proper processing rate of 96.59 percent.

Exhibit 12. FY 2021 Travel Pay Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 6,550.20	
Proper Payment	$ 6,326.84	96.59%
Overpayments	$ 45.76	0.70%
Underpayments	$ 15.35	0.23%
Technically Improper	$ 147.89	2.26%
Improper Payments (IP)	$ 209.00	3.19%
Unknown Payments (UP)	$ 14.36	0.22%
IP Plus UP Amount	$ 223.36	3.41%
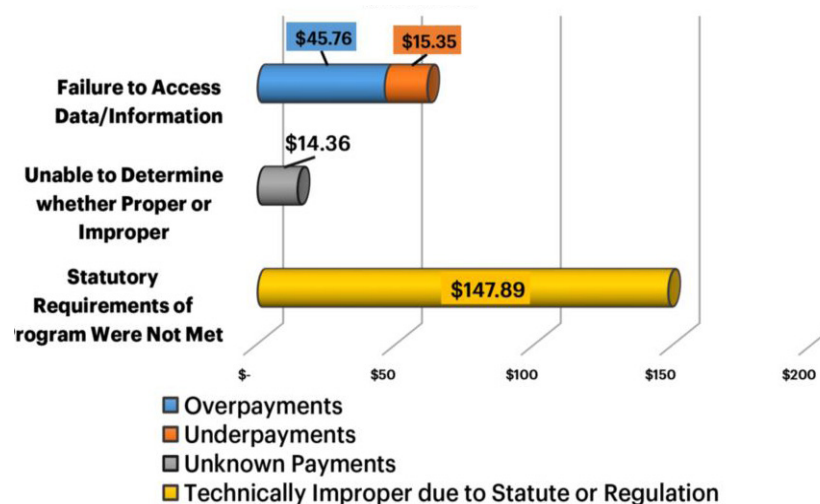
In FY 2021, the Travel Pay program estimated improper and unknown payments decreased by 29.09 percent ($91.61 million), from $314.97 million in FY 2020 to $223.36 million in FY 2021.

The Department developed a collective corrective action plan for FY 2022 with short- and long-term milestones to reduce improper and unknown payments and systematically replace the Defense Travel System with SAP Concur – MyTravel, a commercial-off-the-shelf solution. This system migration is anticipated to greatly reduce the occurrence of improper payments once fully deployed across the Department.

Military Health Benefits

In FY 2021, the total estimated improper and unknown payments for the Military Health Benefits program were $167.98 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 0.85 percent (+/- 0.20) improper payment rate and an estimated proper processing rate of 99.15 percent.

Exhibit 13. FY 2021 Military Health Benefits Program

Month and Year for Data: August 2019 - October 2020

$ in millions	Amount	Rate
Outlays	$ 19,756.13	
Proper Payment	$ 19,588.15	99.15%
Overpayments	$ 124.15	0.63%
Underpayments	$ 43.83	0.22%
Technically Improper	$ -	0.00%
Improper Payments (IP)	**$ 167.98**	0.85%
Unknown Payments (UP)	**$ -**	0.00%
IP Plus UP Amount	**$ 167.98**	**0.85%**
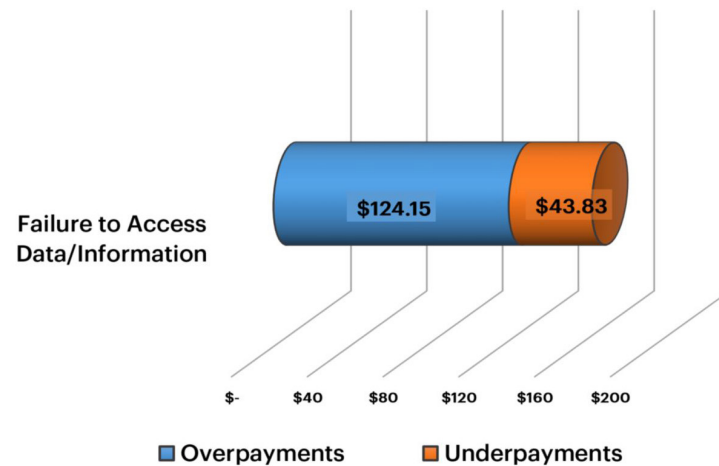
In FY 2021, the Military Health Benefits program estimated improper and unknown payments decreased by 50.43 percent ($170.90 million), from $338.88 million in FY 2020 to $167.98 million in FY 2021.

The Military Health Benefits outlays total presented in Exhibit 13 does not include $3,800.00 million in Administrative Costs that are currently under process, procedure, and internal control development for risk assessment in FY 2022. The Defense Health Agency – Contract Resource Management (DHA-CRM) is in the process of implementing post-payment reviews for Administrative and Other payments. The DHA-CRM, has made progress classifying payments into separate universes; identifying additional documentation necessary; and adding controls, processes, and procedures to support post-payment review efforts.
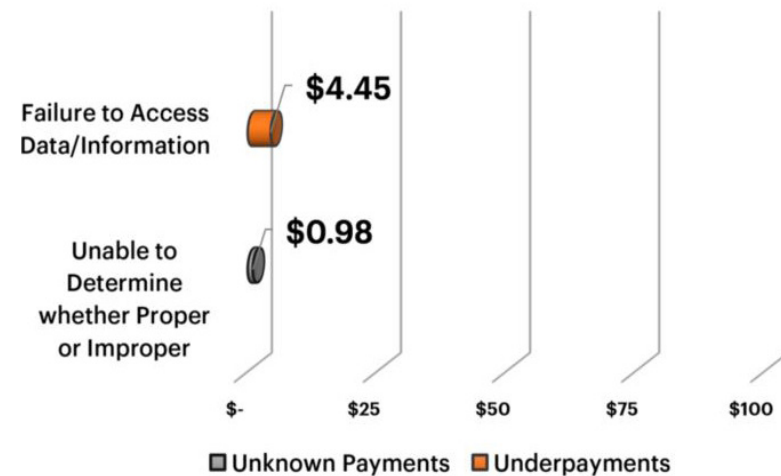
Military Pay – Army

In FY 2021, the total estimated improper and unknown payments for the Military Pay - Army program were $1,514.45 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 3.31 percent (+/- 1.24) improper and unknown payment rate and an estimated proper processing rate of 96.69 percent.

Exhibit 14. FY 2021 Military Pay - Army Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 45,704.49	
Proper Payment	$ 44,190.04	96.69%
Overpayments	$ 27.55	0.06%
Underpayments	$ 38.44	0.08%
Technically Improper	$ 42.79	0.09%
Improper Payments (IP)	**$ 108.78**	**0.24%**
Unknown Payments (UP)	**$ 1,405.67**	**3.08%**
IP Plus UP Amount	**$ 1,514.45**	**3.31%**

- Overpayments
- Underpayments
- Unknown Payments
- Technically Improper due to Statute or Regulation
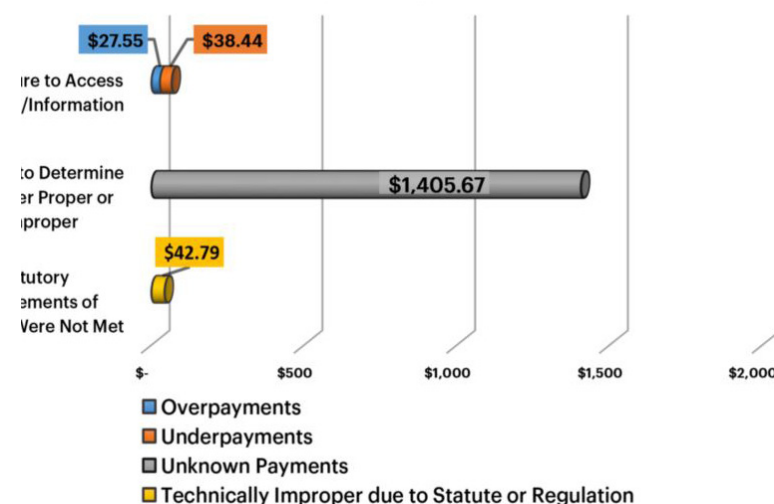
In FY 2021, the Military Pay - Army program estimated improper and unknown payments decreased by 57.42 percent ($2,041.85 million), from $3,556.30 million in FY 2020 to $1,514.45 million in FY 2021.

During FY 2021, the Department implemented corrective actions which consisted of a collaborative timeline process to conduct the PIIA Compliance reviews for the Military Pay programs. This effort assisted with increasing accountability in reducing improper and unknown payments that aligns with the Department payment integrity objectives. Additionally, in FY 2022 the Army plans to implement corrective actions to mitigate the effect of missing or insufficient key supporting documentation available to substantiate personnel system updates.
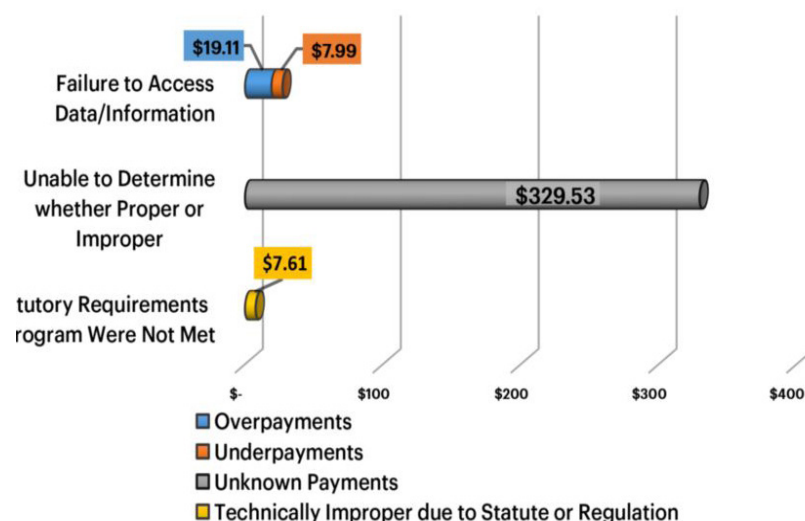
Military Pay – Navy

In FY 2021, the total estimated improper and unknown payments for the Military Pay - Navy program were $5.43 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 0.02 percent (+/- 0.03) improper and unknown payment rate and an estimated proper processing rate of 99.98 percent.

Exhibit 15. FY 2021 Military Pay – Navy Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 25,912.83	
Proper Payment	$ 25,907.40	99.98%
Overpayments	$ -	0.00%
Underpayments	$ 4.45	0.02%
Technically Improper	$ -	0.00%
Improper Payments (IP)	**$ 4.45**	**0.02%**
Unknown Payments (UP)	**$ 0.98**	**0.00%**
IP Plus UP Amount	**$ 5.43**	**0.02%**

In FY 2021, the Military Pay - Navy program estimated improper and unknown payments decreased by 89.44 percent ($45.97 million), from $51.40 million in FY 2020 to $5.43 million in FY 2021.

During FY 2021, the Department implemented corrective actions which consisted of a collaborative timeline process to conduct the PIIA Compliance reviews for the Military Pay programs. This effort assisted with increasing accountability in reducing improper and unknown payments that aligns with the Department payment integrity objectives. The Navy has achieved continuous progress in reducing improper and unknown payments and has consistently executed proper military payments of greater than 99.79 percent for the last two consecutive years of separate Military Service PIIA reporting.

Military Pay – Air Force

In FY 2021, the total estimated improper and unknown payments for the Military Pay – Air Force program were $364.24 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 1.24 percent (+/- 0.45) improper and unknown payment rate and an estimated proper processing rate of 98.76 percent.

Exhibit 16. FY 2021 Military Pay – Air Force Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 29,311.73	
Proper Payment	$ 28,947.49	98.76%
Overpayments	$ 19.11	0.07%
Underpayments	$ 7.99	0.03%
Technically Improper	$ 7.61	0.03%
Improper Payments (IP)	**$ 34.71**	**0.12%**
Unknown Payments (UP)	**$ 329.53**	**1.12%**
IP Plus UP Amount	**$ 364.24**	**1.24%**

In FY 2021, the Military Pay – Air Force program estimated improper and unknown payments decreased by 76.78 percent ($1,204.57 million), from $1,568.81 million in FY 2020 to $364.24 million in FY 2021.

During FY 2021, the Department implemented corrective actions which consisted of a collaborative timeline process to conduct the PIIA Compliance reviews for the Military Pay programs. This effort assisted with increasing accountability in reducing improper and unknown payments that aligns with the Department payment integrity objectives. In FY 2022, the Air Force will continue to perform in-depth research in locating the applicable key supporting documentation to provide reasonable assurance over the validity of payments.

Military Pay – Marine Corps

In FY 2021, the total estimated improper and unknown payments for the Military Pay – Marine Corps program were $0.23 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 0.00 percent (+/- 0.00) improper payment rate and an estimated proper processing rate of 100.00 percent.

Exhibit 17. FY 2021 Military Pay – Marine Corps Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 11,135.10	
Proper Payment	$ 11,134.87	100.00%
Overpayments	$ 0.23	0.00%
Underpayments	$ -	0.00%
Technically Improper	$ -	0.00%
Improper Payments (IP)	**$ 0.23**	**0.00%**
Unknown Payments (UP)	**$ -**	**0.00%**
IP Plus UP Amount	**$ 0.23**	**0.00%**
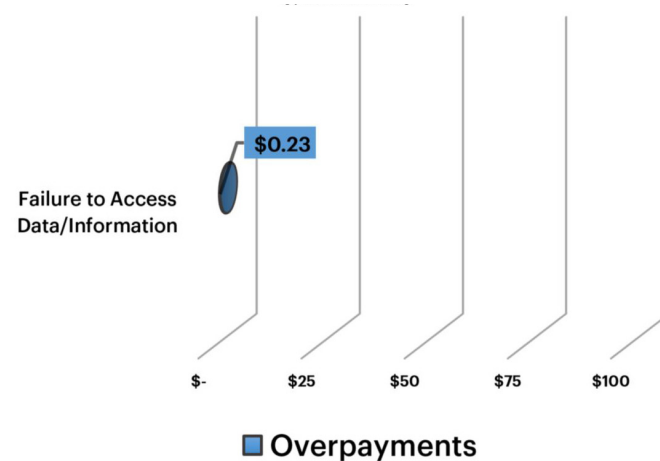
In FY 2021, the Military Pay – Marine Corps program estimated improper and unknown payments increased by 21.05 percent ($0.04 million), from $0.19 million in FY 2020 to $0.23 million in FY 2021.

During FY 2021, the Department implemented corrective actions which consisted of a collaborative timeline process to conduct the PIIA Compliance reviews for the Military Pay programs. While the Marine Corps improper payments slightly increased, the increase was not statistically significant and not indicative of an underlying issue. The Department does not anticipate a continuous increase of improper and unknown payment amounts in future fiscal years for the Marine Corps.

Military Retirement

In FY 2021, the total estimated improper and unknown payments for the Military Retirement program were $176.73 million. This estimate was based on a sampling methodology with a 95 percent confidence level, which equated to a 0.35 percent (+/- 0.24) improper and unknown payment rate and an estimated proper processing rate of 99.65 percent.

Exhibit 18. FY 2021 Military Retirement Program

Month and Year for Data: October 2019 - September 2020

$ in millions	Amount	Rate
Outlays	$ 50,014.50	
Proper Payment	$ 49,837.77	99.65%
Overpayments	$ 74.65	0.15%
Underpayments	$ 3.54	0.01%
Technically Improper	$ 0.05	0.00%
Improper Payments (IP)	**$ 78.24**	**0.16%**
Unknown Payments (UP)	**$ 98.49**	**0.20%**
IP Plus UP Amount	**$ 176.73**	**0.35%**

Chart categories:
- Failure to Access Data/Information: $59.79, $3.54
- Inability to Access Data/Information: $14.86
- to Determine whether ...oper or Improper: $98.49
- ...utory Requirements of ...ogram Were Not Met: $0.05

Legend:
- Overpayments
- Underpayments
- Unknown Payments
- Technically Improper due to Statute or Regulation
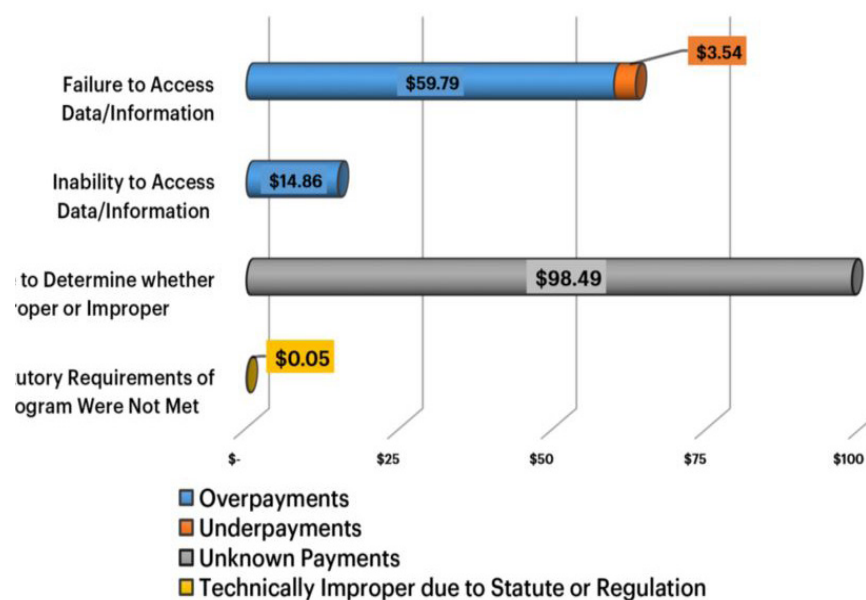
In FY 2021, the Military Retirement program estimated improper and unknown payments decreased by 49.86 percent ($175.76 million), from $352.49 million in FY 2020 to $176.73 million in FY 2021.

In FY 2022, the Department plans to perform a strategic reorganization of the Military Retirement program to strengthen post payment reviews and the integration of quality assurance teams. This reorganization coupled with additional process improvements and system change requests, will streamline access to the proper key supporting documentation to reinforce pre- and post-payment integrity.

Payment Recovery Audit and Activities Program Reporting

The main objective of the Department's Payment Recovery Audit and Activities (PRA) program is to identify, recapture, and reallocate overpayments made by DoD Components in support of the DoD mission while simultaneously demonstrating financial stewardship of resources.

The Department's PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recovery activities performed by *TRICARE* private sector contractors. The Department's PRA efforts are a synchronization of actions taken by DoD Components with additional collection activities performed by the Defense Finance and Accounting Service (*DFAS*), Defense Health Agency (*DHA*), USACE on behalf of the Department. Moreover, the Department's PRA program encompasses all 11 DoD Payment Integrity programs with the following distinctions: PRA programs use the full current fiscal year, not the sampling periods used in the PIIA compliance audit and the PRA programs use actual identified and recoupment amounts not statistical projections. For the purposes of OMB reporting, overpayments recaptured within the Military Health Benefits program are classified as being recaptured through Payment Recovery Activities because DHA uses specific contract requirements to perform its PRA activities (see Exhibit 19).

Exhibit 19. FY 2021 Payment Recovery Audit and Activities Reporting

($ in millions)	Overpayments Recaptured through Payment Recovery Audits				Overpayments Recaptured through Payment Recovery Activites	
Program or Activity	Amount Identified in FY 2021	Amount Recovered in FY 2021	Recovered Rate in FY 2021	FY 2022 Recovery Rate Target	Amount Identified in FY 2021	Amount Recovered in FY 2021
Military Health Benefits [1]					$7.49	$246.32
Civilian Pay [2]	$71.80	$58.80	81.89%			
Commercial Pay	$421.00	$399.60	94.92%			
DoD Travel Pay	$5.42	$1.84	33.95%			
Military Pay - Army [3]	$216.22	$132.31	61.19%			
Military Pay - Navy [3]	$182.39	$100.43	55.06%			
Military Pay - Air Force [3]	$162.28	$96.34	59.37%			
Military Pay - Marine Corps [4]	$6.70	$5.30	79.10%			
Military Retirement	$286.70	$243.60	84.97%			
USACE Commercial	$2.45	$2.45	100.00%			
USACE Travel Pay	$0.11	$0.09	81.82%			
Total	$1,355.07	$1,040.76	76.80%	78.00%	$7.49	$246.32

Exhibit 19. FY 2021 Payment Recovery Audit and Activities Reporting - Footnotes

1   The amounts reported for the Military Health Benefits program include recoveries of overpayments identified in payment reviews as well as refunds occurring in the course of routine claim adjustments. The Department is unable to distinguish between these two sources.

2   The Civilian Pay program includes only in-service collections (i.e., collections from currently employed DoD civilians).

3   The Military Pay – Army, Military Pay – Navy, and Military Pay – Air Force programs include debts for in-service and out-of-service collections from Military Service members.

4   The Military Pay – Marine Corps program only include debts for in-service collections from current Military Service members.

In FY 2021, the Department continued reassessing its PRA program to ensure its compliance with PIIA, resolve open audit recommendations, and substantiate the proper stewardship and execution of the Department's financial resources. As part of the PRA reassessment, the Department created PIIA program-specific working groups to synchronize efforts, bolster internal controls, and refine reporting parameters to only capture overpayments which resulted in a monetary loss to the Department. In FY 2022 the Department will continue to leverage the Commercial Pay and Travel Pay working groups to reinforce the effectiveness of current practices and to implement additional investigative and corrective procedures for determining the comprehensive identification and verified disposition of recovered funds from the various complex entitlement and accounting systems.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*, which amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (*28 U.S.C. §2461, note*), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department. The Department's civil monetary penalty adjustments are published as final rules in the *Federal Register* separately for adjustments pertaining to USACE and those related to the remainder of the Department. Exhibit 20 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 86, pages 37246 (*86 FR 37246*) and 46599 (*86 FR 46599*).

Exhibit 20. FY 2021 Civil Monetary Penalty Adjustments for Inflation

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
National Defense Authorization Act for FY 2005, 10 U.S.C §113, note	Unauthorized Activities Directed at or Possession of Sunken Military Craft	2004	2021	$136,400.00	Department of the Navy	*86 FR 46599* (August 19, 2021)
10 U.S.C. §1094(c)(1)	Unlawful Provision of Health Care	1985	2021	$11,977.00	Defense Health Agency	*86 FR 46599* (August 19, 2021)
10 U.S.C. §1102(k)	Wrongful Disclosure -Medical Records	1986	2021	$7,082.00 (First Offense) $47,214.00 (Subsequent Offense)	Defense Health Agency	*86 FR 46599* (August 19, 2021)
10 U.S.C. § 2674(c)(2)	Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	1990	2021	$1,951.00	Chief Information Officer	*86 FR 46599* (August 19, 2021)
31 U.S.C. §3802(a)(1)	Violation Involving False Claim	1986	2021	$11,803.00	Office of Inspector General	*86 FR 46599* (August 19, 2021)
31 U.S.C. §3802(a)(2)	Violation Involving False Statement	1986	2021	$11,803.00	Office of Inspector General	*86 FR 46599* (August 19, 2021)

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	False claims	1996	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	Claims submitted with a false certification of physician license	1996	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2)	Claims presented by excluded party	1996	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2); (b)(2)(ii)	Employing or contracting with an excluded individual	1996	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(1)	Pattern of claims for medically unnecessary services/supplies	1996	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(2)	Ordering or prescribing while excluded	2010	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(5)	Known retention of an overpayment	2010	2021	$21,112.64	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(4)	Making or using a false record or statement that is material to a false or fraudulent claim	2010	2021	$105,563.18	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(6)	Failure to grant timely access to OIG for audits, investigations, evaluations, or other statutory functions of OIG	2010	2021	$31,669.97	Defense Health Agency	86 FR 46599 (August 19, 2021)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(3)	Making false statements, omissions, misrepresentations in an enrollment application	2010	2021	$105,563.18	Defense Health Agency	86 FR 46599 (August 19, 2021)

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
42 U.S.C. 1320a-7a(a) 32 CFR 200.310(a)	Unlawfully offering, paying, soliciting, or receiving remuneration to induce or in return for the referral of business in violation of 1128B(b) of the Social Security Act	1996	2021	$105,563.18	Defense Health Agency	*86 FR 46599* (August 19, 2021)
33 U.S.C §555	Violations of the Rivers and Harbors Appropriation Act of 1922	1986	2021	$5,903.00	U.S. Army Corps of Engineers	*86 FR 37246* (July 15, 2021)
Clean Water Act , 33 U.S.C. §1319(g)(2)(A)	Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	1987	2021	$22,585.00 per violation, with a maximum of $56,461.00	U.S. Army Corps of Engineers	*86 FR 37246* (July 15, 2021)
Clean Water Act , 33 U.S.C. §1344(s)(4)	Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	1987	2021	Maximum of $56,461.00 per day for each violation	U.S. Army Corps of Engineers	*86 FR 37246* (July 15, 2021)
National Fishing Enhancement Act, 33 U.S.C. §2104(e)	Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	1984	2021	Maximum of $24,730.00 per violation	U.S. Army Corps of Engineers	*86 FR 37246* (July 15, 2021)

BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish the charge for a service or thing of value, in accordance with the guidelines that are defined by *31 U.S.C. §9701*. User fees and charges are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. By charging the costs of programs or activities to identifiable beneficiaries, user fees and charges can promote economic efficiency and equity just as prices for private goods and services can do in a free and competitive private market. The Department must review their fees on a regular basis to ensure that they, Congress, and stakeholders have complete information. Reviews provide information on whether the fee rates and authorized activities are aligned with program costs and activities.

The *Chief Financial Officers Act of 1990* and OMB *Circular No. A–25* require Federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services. There were no material updates or findings identified during the FY 2020 review. The Department will review and analyze user charges and fees, and report any identified findings and results in the DoD AFR for FY 2022.

Staff Sgt. Weeks, Tech Sgt. Tracy and Airman Rayos from the 151st Security Forces Squadron, Utah Air National Guard practice shield techniques Jan 16, 2021 at the Utah State Capitol. U.S. Army photo by Sgt. Ariel J. Solomon.

GRANT PROGRAMS

Exhibit 21 provides data related to expired federal grant and cooperative agreement awards and balances for which closeout had not yet occurred in accordance with Title 2, Code of Federal Regulations, section 200.344 (*2 CFR 200.344*) for two or more years following the end date of the period of performance (PoP).

Exhibit 21. Expired DoD Grant and Cooperative Agreement Award Requiring Closeout

Category	2-3 Years (PoP ended during FY 2019 or FY 2018)	3-5 Years (PoP ended during FY 2017 or FY 2016)	More than 5 Years (PoP ended during FY 2015 or earlier)
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1,550	935	6,102
Number of Grants/Cooperative Agreements with Undisbursed Balances	2,357	1,113	432
Total of Amount of Undisbursed Balances	$360,779,843	$91,926,566	$35,598,524

The Department uses a decentralized grant management process, which necessitates the use of manual data calls to facilitate the collection of information for Department-wide reporting. The DoD Grants Office within the Office of the Under Secretary of Defense for Research and Engineering (*OUSD(R&E)*) continues to improve the data call process and the Department is working to develop a centralized system to facilitate more timely and accurate Department-wide management and reporting of grants and assistance awards. In addition, the various DoD Components that administer and issue grants and assistance awards continue to collaborate in working groups to increase internal communication, resolve issues experienced during the closeout and data call processes, and share lessons learned. Together, these actions have resulted in an increase in the quality of the data reported, which caused the number of unclosed grants for certain time periods to be higher than the number previously reported for similar periods. Despite these increases, the Department's prioritization on fulfilling closeout for high-dollar value grants and assistance awards has driven reductions in the total amount of undispersed balances.

U.S. Marines from Marine Corps Air Station Miramar partake in the Marine Corps martial arts instructor course-culminating event at Naval Air Station North Island, California, Dec. 18, 2020. U.S. Marine Corps Photos by Lance Cpl. Krysten Houk.