MANAGEMENT'S DISCUSSION & ANALYSIS

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

Previous Page: Marines unload light armored vehicles during Steel Knight at Marine Corps Base Camp Pendleton, Calif., Dec. 6, 2021. The exercise enables Marines to operate in a realistic, combined-arms environment to enhance naval warfighting tactics, techniques and procedures. Photo by Marine Corps Lance Cpl. Casandra Lamas.

Left: The USS Ronald Reagan, USS Tripoli and USS Abraham Lincoln steam in formation in the Philippine Sea, June 12, 2022, during Valiant Shield, a field training exercise. Photo By: Navy Petty Officer 3rd Class Gray Gibson

THE TOPGUN LEGACY: MAKING MAVERICKS WITH CAPT. BRIAN FERGUSON

Navy Aerial Advisor Capt. Brian Ferguson and Glen Powell on the set of Top Gun: Maverick by Paramount Pictures, Skydance and Jerry Bruckheimer Films.

Read the full story here.

MISSION OVERVIEW

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

Today, the United States faces a dynamic and challenging security environment shaped by increasingly capable state competitors. The People's Republic of China (PRC or China) is the most consequential strategic competitor of the United States and the pacing challenge for the Department, while Russia poses acute threats, as illustrated by its brutal and unprovoked invasion of Ukraine. The Department remains capable of managing other persistent threats including those from North Korea, Iran, and violent extremist organizations. Furthermore, changes in global climate and other dangerous transboundary threats, including pandemics, are transforming the context in which the Department operates. Recognizing growing kinetic and non-kinetic threats to the United States' homeland from our strategic competitors, the Department will take necessary actions to increase resilience—that is, the ability to withstand, fight through, and recover quickly from disruption.

To ensure tight linkage between strategy and resourcing, the Department integrated the major findings and conclusions of the Nuclear Posture Review and Missile Defense Review in the National Defense Strategy (NDS). Consistent with the President's Interim National Security Strategic Guidance, and in accordance with the NDS, the Department will contribute toward advancing and safeguarding vital U.S. national interests, protecting the American people, expanding America's prosperity, and defending our democratic values. The NDS serves as the key strategic document driving the Department's goals, investments, and programmatic decisions along the following priorities:

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

The Department will adapt to these challenges, which increasingly place pressure on the Joint Force and the systems that support it. A resilient Joint Force will underpin a whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, and ensures the Nation leads from a position of strength.

Secretary of Defense Lloyd J. Austin III speaks with U.S. Military Academy cadets at the annual Army-Navy football game at MetLife Stadium in East Rutherford, N.J., Dec. 11, 2021. Photo By: Air Force Staff Sgt. Jack Sanders

ORGANIZATIONAL STRUCTURE

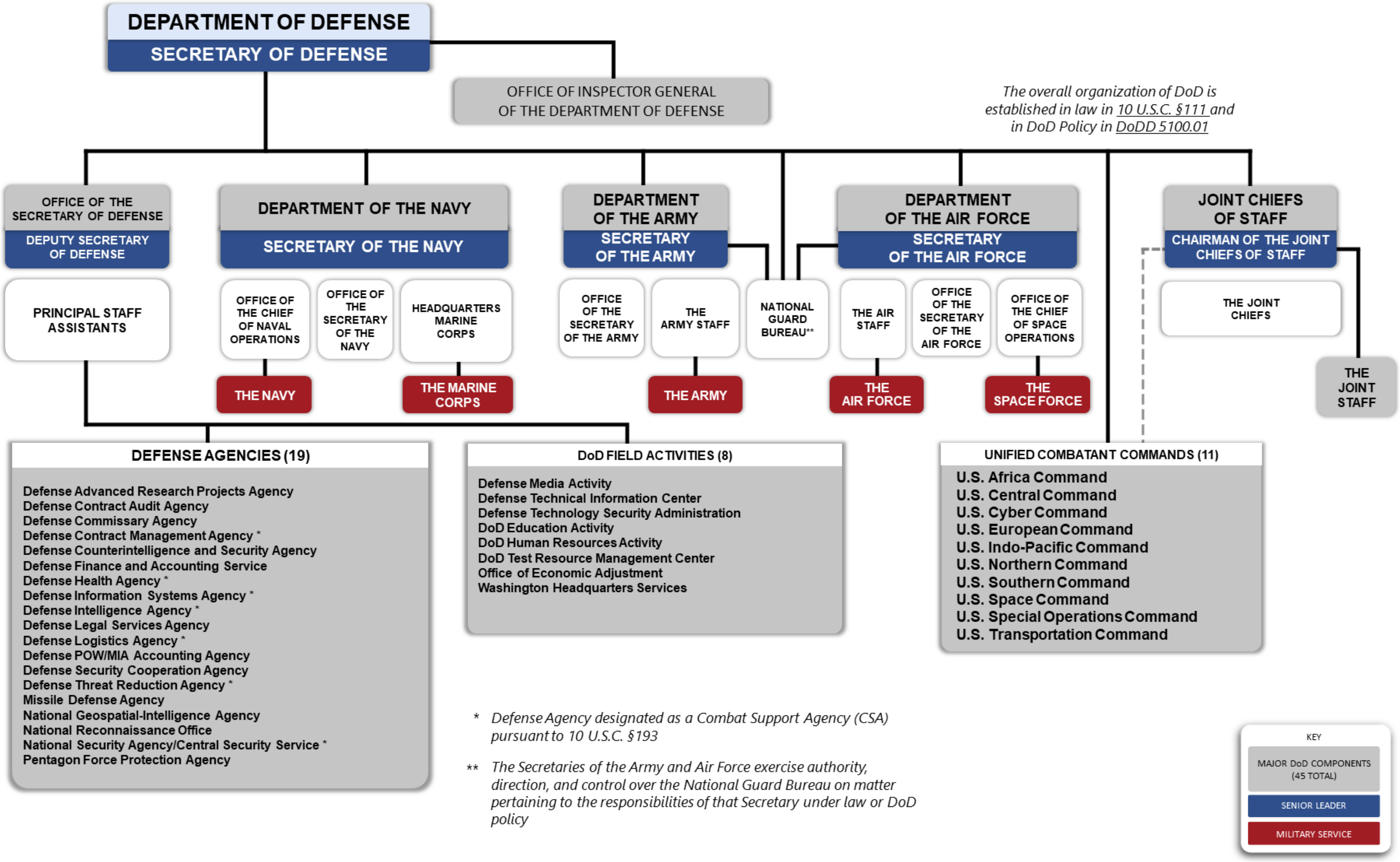
The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 military personnel serving in the National Guard and Reserve forces, and approximately 770,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In fulfilling the Department's mission, Military Service members operate approximately 19,700 aircraft and over 290 battle force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 643,900 assets (buildings; structures; and linear structures, such as utilities, roads, and fences) located on over 4,860 sites worldwide as of the beginning of Fiscal Year (FY) 2022. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. These sites represent a total of nearly 25.8 million acres that individually vary in size from military training ranges with over 3.4 million acres such as *White Sands Missile Range*, to single weather towers, power line supports, or navigational aids isolated on sites of less than one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (e.g., runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (e.g., public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

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

Two Air Force F-16 Fighting Falcon aircraft assigned to the 480th Expeditionary Fighter Squadron at Spangdahlem Air Base, Germany, fly alongside two Romanian F-16s over Romania, March 14, 2022. Airmen routinely train with NATO partners and allies to ensure safety and stability within the European theater. Photo by Air Force Senior Airman Ali Stewart.

Figure 1. Department of Defense Organizational Structure



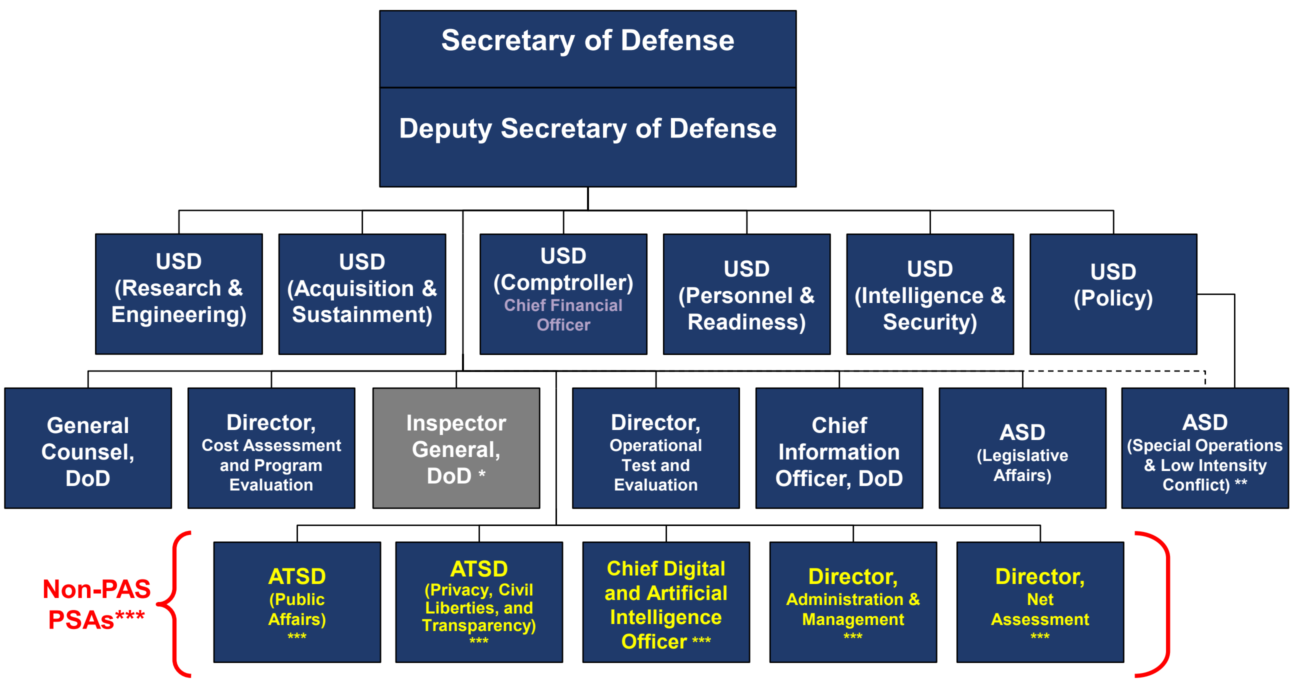
Soldiers fly in an Army MH-6 helicopter during a special operations forces capabilities demonstration over Tampa Bay, Fla., May 18, 2022. Photo by Air Force Staff Sgt. Alexander Cook.

OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out the duties and responsibilities as prescribed by law. The OSD comprises the Deputy Secretary of Defense, the Under Secretaries of Defense (USDs), the General Counsel of the DoD, the Assistant Secretaries of Defense (ASDs), the Inspector General of the DoD, and other staff offices within OSD established by law or by the Secretary of Defense.

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

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



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

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

*** All positions shown are Presidentially-appointed Senate confirmed (PAS) except those with *** which are SES positions.

Army Pfc. Bailey Vachon looks at a mock target during Eager Lion in Jordan, Sept. 5, 2022. With 28 countries participating, the exercise is one of the largest in the region. Photo by Army Sgt. Mark Hayward.

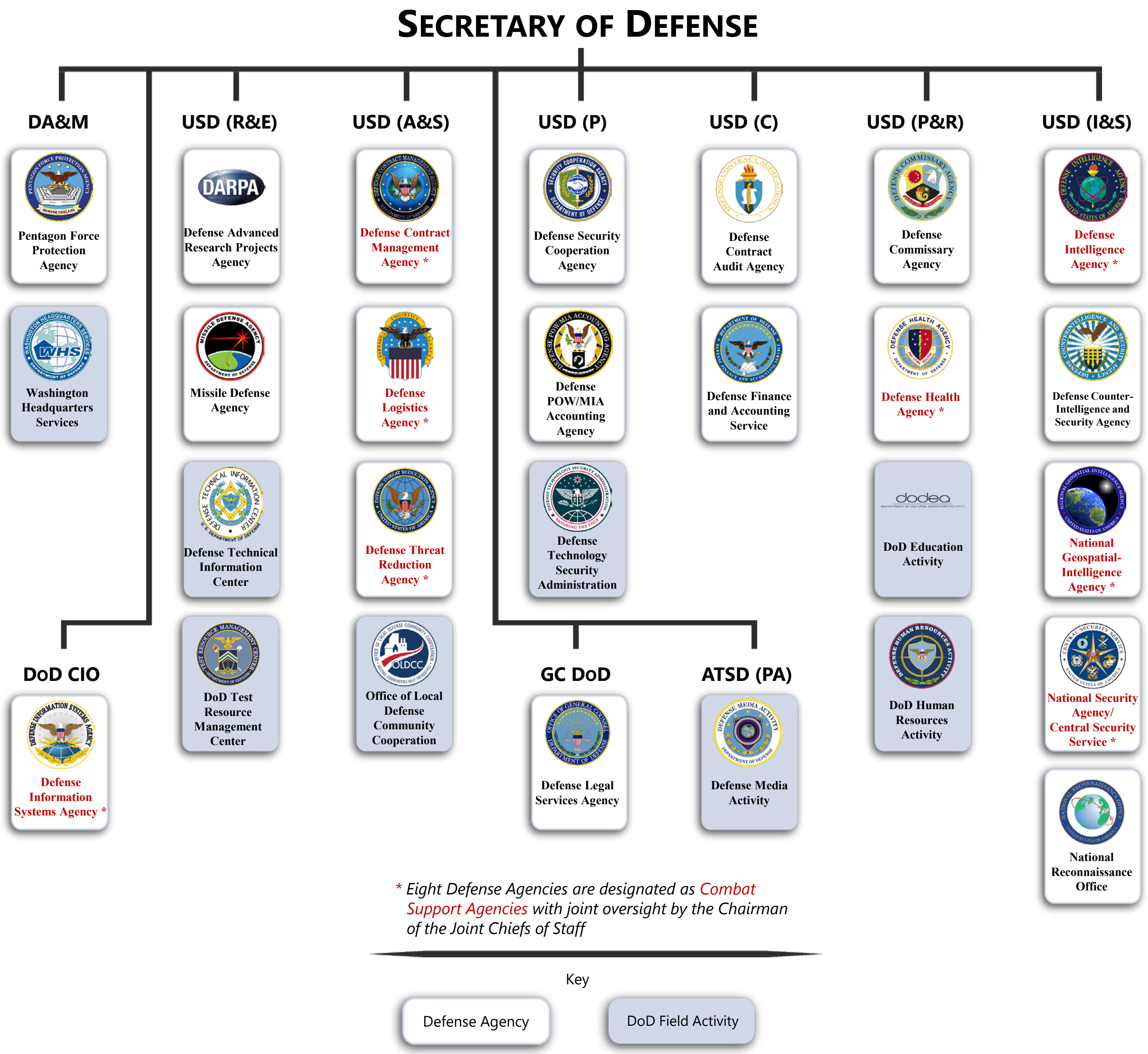
OFFICE OF INSPECTOR GENERAL

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

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

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

Figure 3. Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

The Joint Chiefs of Staff (JCS), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The JCS consists of the Chairman (CJCS), the Vice Chairman (VCJCS), the Chief of Staff of the Army (CSA), the Chief of Naval Operations (CNO), the Chief of Staff of the Air Force (CSAF), the Commandant of the Marine Corps (CMC), the Chief of Space Operations (CSO), and the Chief of the National Guard Bureau (CNGB). The JCS functions as the military advisors to the President, the National Security Council, and the Secretary of Defense.

Army Sgt. Justin Covert mans an M1A2 .50-caliber machine gun on a Stryker vehicle during training at Fort Irwin, Calif., as the Milky Way galactic center is visible overhead, May 24, 2022. Photo by Army Staff Sgt. Christopher Stewart.

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President, to the Secretary of Defense, to the Commanders of the Combatant Commands, with the CJCS functioning within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4. Combatant Commands

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

MILITARY DEPARTMENTS

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

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

Figure 5. Reserve Components - Reserve amd National Guard

Federal Missions

United States Army Reserve

United States Navy Reserve

United States Air Force Reserve

United States Marine Corps Reserve

United States Coast Guard Reserve

Federal and State Missions

Air National Guard

Army National Guard

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

RESOURCES

In FY 2022, the Department received total appropriations of $1,019.5 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Description	FY 2022 ($ in Billions)	FY 2021 ($ in Billions)	FY 2020 ($ in Billions)	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)
Discretionary Budget Authority	$ 776.6	$ 704.8	$ 723.1	$ 687.8	$ 670.6
Treasury contribution for Military Retirement and Health Benefits	125.0	114.9	107.0	101.6	96.3
Civil Works Projects executed by USACE	25.9	6.2	6.1	8.2	22.8
Trust Fund Receipts	283.1	215.9	168.5	172.5	164.2
Trust Fund Resources Temporarily not Available	(191.1)	(136.7)	(90.5)	(95.7)	(90.3)
Appropriations (Discretionary and Mandatory) Reported on Statement of Budgetary Resources	**$ 1,019.5**	**$ 905.1**	**$ 914.2**	**$ 874.4**	**$ 863.6**

Soldiers release heavy drop packages from an Air Force C-130 Hercules onto Frida drop zone during training in Pordenone, Italy, May 17, 2022. Photo by Paolo Bovo, Army.

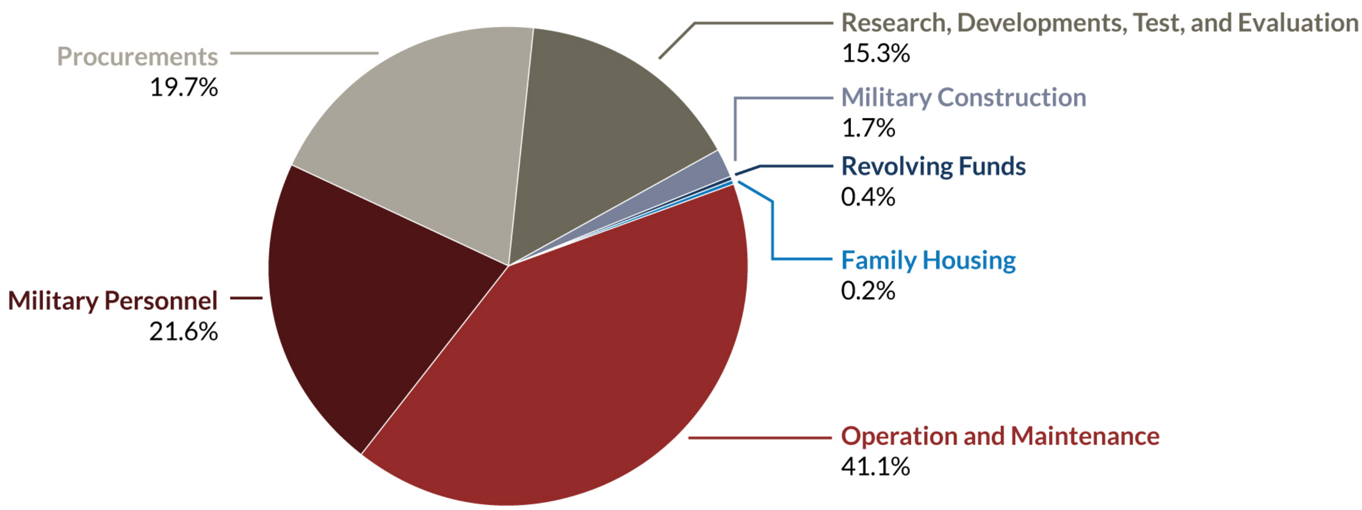
DISCRETIONARY APPROPRIATIONS

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives. The Department's appropriations were authorized by the *National Defense Authorization Act (NDAA) for FY 2022*, and provided in the *Extending Government Funding and Delivering Emergency Assistance Act*; the *Further Extending Government Funding Act, 2022*; the *Further Additional Extending Government Funding Act*; the *Consolidated Appropriations Act, 2022*; and the *Additional Ukraine Supplemental Appropriations Act, 2022*. The FY 2022 Discretionary Budget Authority of $776.6 billion was provided to the Department using seven appropriation categories, which describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2022 Discretionary Budget Authority

Appropriation Category	$ in Billions		Percentage
Operation and Maintenance	$	319.2	41.1%
MIlitary Personnel	$	167.5	21.6%
Procurement	$	153.2	19.7%
Research, Development, Test, and Evaluation	$	119.1	15.3%
Military Construction	$	13.4	1.7%
Revolving Funds	$	2.7	0.4%
Family Housing	$	1.5	0.2%
Total Discrectionary Budget Authority	$	776.6	100%



Operation and Maintenance

FY 2022 Operation and Maintenance (O&M) appropriation increased by $34.8 billion from the FY 2021 amount. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for training and operations, pay of civilians, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. Specifically, FY 2022 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, infrastructure, and funding for Combatant Command exercises and engagements (e.g., *DEFENDER-Europe 22*, *Cutlass Express 2022*, and *Global Lightning 2022*) to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Military Personnel

FY 2022 Military Personnel appropriations increased by $4.5 billion over the FY 2021 amount. Generally, funds in this category provide for *military compensation* to the Active and Reserve Component members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the *Blended Retirement System*. Specifically, FY 2022 Military Personnel appropriations included funding for a 2.7 percent military base pay raise effective January 1, 2022.

Procurement

FY 2022 Procurement appropriations increased by $12.5 billion from the FY 2021 amount. Generally, funds in this category provide for the acquisition of equipment. This includes unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Specifically, FY 2022 Procurement appropriations included funding for the 2 Arleigh Burke-class guided missile destroyers, 2 Virginia-class fast attack submarines, 1 frigate, 2 John Lewis-class T-AO Fleet Oilers, 85 F-35 Joint Strike Fighters, and 12 F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2022 Research, Development, Test, and Evaluation (RDT&E) appropriations increased by $13.2 billion over the FY 2021 amount. Generally, funds in this category provide for critical investments in basic and applied technologies, advanced technology development, prototypes, design and development for major acquisition programs, and upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries. Specifically, FY 2022 RDT&E appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance) and space systems development (e.g., the Next Generation Overhead Infrared Missile Warning satellite development). RDT&E also includes strengthening homeland missile defense (e.g., the *Ground-based Midcourse Defense*), modernizing nuclear enterprise systems, and investing in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, space and hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2022 Military Construction appropriations increased by $6.2 billion from the FY 2021 amount. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Specifically, FY 2022 Military Construction appropriations included funding to support the *European Deterrence Initiative* and climate-related investments within the *Energy Resilience and Conservation Investment Program*.

Revolving Funds

FY 2022 Revolving appropriations increased by $0.5 billion over the FY 2021 amount. Generally, direct appropriations to Defense Working Capital Fund activities finance two categories, costs-mobilization and Defense Commissary Agency (DeCA) operations. Direct appropriations into the Defense Working Capital Fund buy operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations support the DeCA, to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new Defense Working Capital Fund activity is established, its founding cash corpus is established by a direct appropriation. Fuel reprogramming also contributes to the Defense Working Capital Fund. The Department transferred $2.6 billion in expired funding from the foreign currency fluctuation account into the Defense Working Capital Fund to cover increased fuel costs.

Family Housing

FY 2022 Family Housing appropriations increased by $0.1 billion over the FY 2021 amount. Generally, funds in this category provide for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the United States and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Civil Works Projects Executed by USACE

The Congress also appropriates funding directly to the U.S. Army Corps of Engineers (USACE) under the *Energy and Water Development and Related Agencies Appropriations Act, 2022*. For FY 2022, $8.3 billion was received, compared to $7.8 billion in FY 2021. The funding received in FY 2022 was used to execute a number of civil works projects that included supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage. The USACE also received supplemental funds from the Bipartisan Infrastructure Law totaling $15.0 billion and Disaster Relief Supplemental Appropriations Act, 2022 totaling $5.7 billion.

Army and Marine Corps high mobility artillery rocket systems take part in combined arms live-fire training during Exercise Balikatan at Colonel Ernesto Ravina Air Base, Tarlac, Philippines, March 31, 2022. Photo By: Marine Corps Lance Cpl. Jonathan Willcox

MANDATORY APPROPRIATIONS

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

Treasury Contribution for Military Retirement and Health Benefits

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

Trust Fund Receipts

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

Trust Fund Resources Temporarily Not Available

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

An F/A-18F Super Hornet, assigned to Strike Fighter Squadron (VFA) 103, lands on the flight deck of the Nimitz-class aircraft carrier USS George H.W. Bush (CVN 77), June 1, 2022. The George H.W. Bush Carrier Strike Group (CSG) is underway completing a certification exercise to increase U.S. and allied interoperability and warfighting capability before a future deployment. Photo by Mass Communication Specialist 3rd Class Jeremy Boan

EMERGENCY RESPONSE FUNDING

COVID-19 RESPONSE

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

- The Families First Coronavirus Response Act (*FFCRA*) was signed into law on March 18, 2020. The provisions of the FFCRA included $82.0 million in emergency supplemental O&M funding for the *Defense Health Program* to waive *TRICARE* participant copayments and cost sharing associated with COVID-19 related testing and medical visits.
- The Coronavirus Aid, Relief, and Economic Security Act (*CARES Act*) was signed into law on March 27, 2020. The provisions of the CARES Act included $10.6 billion ($6.4 billion had a one-year period of availability while $4.2 billion extended beyond one-year) in emergency supplemental funding to support the Department's efforts to prevent, prepare for, and respond to the COVID-19 pandemic domestically and internationally; it also funds existing shortfalls in TRICARE-managed care support contracts. These funds were provided across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, and Revolving Funds) and to multiple DoD Components—including the Military Services, Reserve Components, Defense Health Program, USACE, and the DoD OIG.

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

As of September 30, 2022, the Department obligated a cumulative total of $9.9 billion or 92.5 percent of the total FFCRA and CARES Act supplemental funding.

Army Capt. Julie Lortz checks the vital signs of a patient at a rehabilitation center in Comayagua, Honduras, April 6, 2022. A medical team from Soto Cano Air Base visits the facility three times a month to provide services to the community. Photo by Air Force Tech. Sgt. Amber Carter.

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

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

UKRAINE RESPONSE

In response to Russia's invasion of Ukraine, multiple laws were passed by the Congress and signed into law by the President to provide assistance in support of Ukraine. These laws provided supplemental appropriations to the Department totaling $26.6 billion, which are reflected in the FY 2022 total appropriations amounts:

- On March 15, 2022, the President signed into law the Ukraine Supplemental Appropriations Act, 2022, as part of the Consolidated Appropriations Act, 2022, which provided the Department $6.5 billion of supplemental funds across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, RDT&E, and Revolving Funds). These funds provide for U.S. European Command operations, military capabilities and equipment to Ukraine, replenish DoD stocks provided to Ukraine, and procure high-demand munitions for the U.S. and approved coalition partners.
- On May 21, 2022, the Additional Ukraine Supplemental Appropriations Act, 2022 was signed into law, which provided the Department with an additional $20.1 billion to further support Ukraine. The Act provided supplemental funds across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, RDT&E, and Revolving Funds) to replenish DoD equipment stocks sent to Ukraine via presidential drawdown authority; replace weapons or defense articles provided to the Government of Ukraine, or to foreign governments, that have provided support to Ukraine at the request of the United States; replenish funding to the Department for defense services, education, and training support; and for other Department-wide Programs that provide additional ammunition, equipment, intelligence and logistical support, supplies, and training for the Department and Ukraine.

As of September 30, 2022, the Department obligated a cumulative total of $10.3 billion, $15.8 billion remained available for future obligation, while the remaining $0.5 billion expired for new obligations. Expired appropriations remain available for valid adjustments that must be recorded beyond the year of initial obligation, as authorized by [31 U.S.C. §1553](#).

Top: Navy Petty Officer 3rd Class Valerie Goodblanket poses with her military working dog, Army, during a training exercise at Commander, Fleet Activities Yokosuka, Japan, Nov. 24, 2021. Photo by Taylor Curry, Navy.

Bottom: Bear Hug. Navy Seaman Reece Luginbill gives a Ukrainian child a stuffed animal during a tour of the USS Arlington as the ship conducts a scheduled port visit in Riga, Latvia, Aug. 21, 2022. The National Defense and Patriotic Foundation in Latvia hosted a camp for children of Ukrainian soldiers and coordinated the visit with the Arlington. Photo By: Navy Petty Officer 1st Class John Bellino

PERFORMANCE OVERVIEW

The Government Performance and Results Act of 1993 (GPRA), GPRA Modernization Act of 2010 (GPRAMA), and Office of Management and Budget (OMB) Circular No. A-11 require federal agencies to develop and submit an Agency Strategic Plan, in concurrence with the President's budget, no later than the first Monday in February following the year in which the term of a new President commences. The Strategic Plan—which is influenced by the President's Management Agenda and input from the Congress, OMB, Government Accountability Office (GAO), DoD OIG, and other DoD stakeholders—accomplishes numerous important management functions related to achieving the Department's mission.

Pursuant to GPRAMA reporting requirements, the DoD Director of Administration and Management (DA&M)—in his role of Performance Improvement Officer (PIO)—is responsible for developing the Department's strategic plan. During the year, the Department released the DoD Strategic Management Plan (SMP) for FY2022-FY2026, which articulates the Secretary of Defense's strategic priorities, consistent with the NDS. The focus of the DoD SMP for FY2022-FY2026 is to advance the NDS goals, in particular, building enduring advantages across the defense ecosystem, spurring innovation and supporting capabilities that our military depends and relies on.

Performance Monitoring and Tracking

The Department is a performance-based organization committed to using performance data and results to drive decision-making and accountability for achieving outcomes. The Department monitors, reviews, and reports progress on its strategic priorities, objectives, and associated performance goals and measures on a quarterly basis, following specific targets identified in the Annual Performance Plan (APP) for the upcoming fiscal year. The Defense Business Council (DBC) is the DoD's governance and integration body for matters associated with management, defense reform, performance management and improvement, defense business systems, enterprise risk management, and oversight of related resourcing decisions. The DBC, which is chaired by the Under Secretary of Defense Comptroller (USD(C)), the DA&M/PIO, and the Chief Information Officer (CIO), meets on a monthly basis and provides governance support in the preparation and monitoring of the SMP, APP, and Annual Performance Report (APR) implementation. The DBC also conducts quarterly progress reviews of Agency Priority Goals (APG) and monitors overall SMP implementation, including how the Department is addressing institutional management priorities. In addition to conducting periodic data-driven reviews of strategic priorities' metrics, the DBC establishes and evaluates select functional metrics, known as "business health metrics." These performance measures provide a comprehensive view of the "health" of enterprise management operations for the Department.

Advana, the Department's authoritative enterprise data repository, provides a common operational and visual interpretation data model of business management and policy based on existing and planned performance measures. The Department leverages Advana's data management tools to integrate data-driven progress reviews of the strategic priority metrics and business health metrics to ensure reliable and authoritative data is accessible to senior leaders. Advana is used to provide a consistent methodology to define, identify, track, and report existing and planned opportunities for performance improvement that directly or indirectly contribute to the SMP and NDS implementation.

The Department employs hundreds of other performance measures to help assess progress in key areas such as performance improvement initiatives, acquisition performance, military readiness, audit remediation, and business process improvement. Together, this suite of analytics capabilities helps DoD senior leaders to manage the entire breadth and scope of the Department's mission and guide the DoD Components in the effective and efficient use of resources. Performance-based data contributes to support multiple decision-making and accountability efforts such as Secretary-level management decisions, budget justification exhibits, and a wide range of reports to Congress to facilitate proper legislative oversight.

Strategic Goals and Objectives

The SMP for FY2022-FY2026 is the result of a collaborative effort among subject matter experts across the Department and aligns every strategic objective to a strategic goal (see Figure 9). While providing a path for the Department to accomplish its goals, the SMP also encompasses the APP for FY 2023 and the APR for FY 2021. The FY 2023 APP further defines specific performance goals and measures along with targets and milestones to guide the Department's business operations. The APP must cover each program activity of the Department set forth in the budget as defined by GPRAMA, while the APR consolidates prior year performance results from all the DoD Components and communicates progress toward achieving the priorities and objectives described in the SMP and APP. Complete FY 2022 performance results through fiscal year-end will be published in the FY 2022 APR, which will be released with the President's Budget in February 2023, and made available to the public through the Office of the DA&M's website at https://dam.defense.gov/performance.

The Thunderbirds, the Air Force's flight demonstration squadron, fly over Indianapolis Motor Speedway during the Indy 500 in Indianapolis, Ind., May 28, 2022. Photo by Air Force Staff Sgt. Andrew D. Sarver

Figure 9. DoD Strategic Goals and Objectives

Strategic Goals	Strategic Objective
GOAL 1 - Making the Right Technology Investments and Transforming the Future Force The Department will invest in redirecting resources toward high-priority platforms to build a Joint Force that is more lethal, resilient, agile, and responsive over time at a speed and scale that matches a dynamic threat landscape. To build unity within, the Department will continue to foster security ties among allies and partners and find new ways to link defense industrial bases, secure supply chains, and co-produce technologies to boost collective military advantages.	1.1: Build a strong foundation for future science and technology by investing in the Department's workforce, laboratory, and testing infrastructure 1.2: Invest in the Department's critical technology areas to build an enduring advantage for the U.S. Military 1.3: Drive competitive advantage through capability delivery 1.4: Modernize and sustain the nuclear deterrent and protect against chemical and biological threats 1.5: Optimize to improve capabilities and drive efficiencies
GOAL 2 - Strengthen Resilience and Adaptability of Our Defense Ecosystem Combating climate change is a vital component of enduring advantages and the Department is committed to strengthening resilience in installations around the country and abroad; investing in more fuel-efficient platforms to alleviate the logistics burden of the Joint Force; and pacing the commercial market's move toward electrification when applicable. The Department aims to adapt and fortify the defense ecosystem by prioritizing joint efforts with a wide range of domestic and international partners and by fostering supply chain resilience, including making use of the Defense Production Act Title III, the Industrial Base Analysis Sustainment Programs, and maximizing "Made in America" manufacturing as appropriate.	2.1: Shape a 21st century Defense Industrial Base* 2.2: Deliver sustainable logistics to support DoD 2.3: Fortify and protect DoD installations through adaptation, mitigation, and resilience* 2.4: Enhance cybersecurity 2.5: Work in partnership with our Nation, our allies, and our partners 2.6: Increase the resiliency of C3 capabilities

Airmen and soldiers play soccer with residents of Chabelley Village in Djibouti, June 9, 2022. Photo by Air Force Senior Airman Josiah Meece. Photo by Air Force Senior Airman Josiah Meece.

Strategic Goals	Strategic Objective
GOAL 3. Taking Care of Our People and Cultivating the Workforce We Need The Department will focus on attracting, recruiting, retaining, and training its workforce to ensure the Total Force is diverse, inclusive, and has the right tools, including personnel systems and analytics, to support workforce forecasting and development and keep pace with the evolving threats to our Nation. Focusing on readiness will also require the Department to protect the health, safety, and welfare of the Force by ensuring a safe and supportive environment through preventing crime and supporting victims, and striving to counter extremist acts. The Department will continue to modernize our healthcare capabilities through an integrated and transformed Military Health System, with a state of the art electronic health record, to offer the Total Force and military families improved readiness, better health, better care, and lower cost.	3.1: Grow our talent to shape an appropriately skilled, resilient and ready future workforce* 3.2: Build a safe and supportive environment for the Total Workforce 3.3: Address the needs of families 3.4: Mitigate COVID-19 3.5: Increase the effectiveness of defense healthcare
GOAL 4. Address Institutional Management Priorities The Department remains diligent in its audit remediation efforts which will foster an environment that features fewer more capable and secure systems, better data, adherence to generally accepted accounting principles (GAAP), a proficient analytical workforce, and improved transparency that enables faster insights for mission support. When the DoD achieves audit, the Department will operate in a secure environment with confidence in the integrity of the data used for financial reporting and decision-making across the Department.	4.1: Deliver excellent, equitable, and secure DoD services and customer experiences 4.2: Establish the Chief Digital and Artificial Intelligence Office to accelerate the Department's adoption of data, analytics, and artificial intelligence 4.3: Optimize budget to execution 4.4: Foster a high integrity funds control environment 4.5: Accelerate the path to an unmodified audit opinion 4.6: Optimize a secure systems environment

Indicates a strategic objective tied to an agency priority goal.

Sailors assigned to Naval Special Warfare Group 8 display the flag while performing dive operations from the fast attack submarine USS New Mexico in the Atlantic Ocean, June 19, 2022. Photo By: Navy Chief Petty Officer Christopher Perez

Some performance goals are considered APGs, which are intended to highlight target priority policy and management areas in which agency leaders plan to achieve near-term performance advancement through focused senior leadership attention (see Figure 10). The anticipated timeline to accomplish these goals is two years. A senior leader within the Department is assigned to each APG and is responsible for updating the DBC on a quarterly basis.

Figure 10. DoD Level Agency Priority Goals

Strategic Objective	Agency Priority Goal (FY2022 - FY2023)
2.1: Shape a 21st Century Defense Industrial Base	Ensure Supply Chain Resilience
2.3: Fortify and protect DoD installations through adaptation, mitigation, and resilience	Reduce Climate Impacts to DoD Installations
3.1: Grow our talent to shape an appropriately skilled, resilient and ready future workforce	Improve Recruitment and Retention of the Civilian Workforce

Financial Management Strategy Goals and Objectives

During the year, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) published the first Financial Management (FM) Strategy to unify the FM workforce in achieving common goals throughout the DoD FM community. The FM Strategy for FY2022–FY2026 aims to simplify and standardize DoD's FM environment to accelerate budget confidence, operational effectiveness, cybersecurity protection, auditability, transparency, and affordability. This strategy incorporates input from leaders, budget analysts, data analysts, accountants, and auditors throughout the Department as well as partners of the FM community. Many goals and objectives from the FM Strategy are developed in conjunction with related objectives found within the SMP, as the strategic objectives and performance goals are the result of a collaborative effort with subject matter experts.

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

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

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

FORWARD LOOKING INFORMATION

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

The aggression from Russia and security risks posed by China necessitate sustained vigilance, as well as deliberate prioritization of resources and attention.

Recent events in Eastern Europe highlight Russia's willingness to use its military to achieve its objectives. The Russian aggression in Ukraine emphasizes the need to ensure U.S. Joint Forces, allies, and partners are an enduring strength for the United States. Furthermore, the Department views the People's Republic of China (PRC or China) as the pacing challenge, and the only competitor able to combine its economic, diplomatic, military, and technologic powers to mount a sustained challenge to the international system. The PRC is increasingly clear in its ambitions and intentions, as it seeks to reshape the international order and develop a world-class military which, within the context of its national strategy, likely indicates a desire to develop a military that is equal or superior to that of the United States or any other power viewed as a threat. To counter both the aggression coming out of Russia and the security risks posed by China, the Department continues to focus on deterring and denying potential aggression against allies and partners. This requires the Department to operate forces and synchronize broader U.S. Government efforts by using such measures as integrated deterrence, campaigning, and building enduring advantages.

Space Force Tech. Sgt. Michelle Holt, a military training instructor assigned to the 1st Delta Operations Squadron, stands in front of graduating guardians during a basic military training coining ceremony at Joint Base San Antonio, June 22, 2022. Photo by Ethan Johnson, Space Force.

Integrated Deterrence

The combat credibility of the U.S. military to fight and win in defense of our Nation's interests is a cornerstone of integrated deterrence, which entails working seamlessly across domains and theaters throughout the spectrum of conflict while in close cooperation with federal agencies, allies, and partners to ensure the U.S. military makes the cost of aggression clear. This credibility is essential today and into the future across the air, sea, land, cyber, and space domains. The Department will continue to collaborate with North Atlantic Treaty Organization (NATO) Allies and partners to reinforce a robust deterrence in the face of our enemies.

The Department's FY 2023 budget request includes critical programs to modernize and improve the combat capability of the Joint Force, including:

- $34.4 billion to recapitalize the nuclear triad and support nuclear command, control, and communications systems, including the Ground Based Strategic Deterrent (Sentinel) intercontinental ballistic missile; the Long Range Stand Off cruise missile; the COLUMBIA-class ballistic missile submarine; Trident II submarine-launched ballistic missile modifications; B-21 bomber; and F-35 dual-capable aircraft.
- $8.1 billion for National Security Space Launch, Global Positioning System, and space-based missile warning systems. Resilient space-based capabilities are critical to enabling Joint All Domain Command and Control to ensure U.S. Space Command—and their joint and coalition warfighting partners—have the capability to operate in and through contested domains.

Campaigning

Our competitors are increasingly undertaking activities designed to erode U.S. deterrence and advance their own interests. Campaigning is tying together the breadth of United States as well as allied and partner defense activities to deter aggression and resist an adversary's gray zone activities by operating forces, synchronizing broader U.S. Government efforts, and gaining advantage on our terms. Ensuring the Joint Force is ready now across the full battle space in which competitors operate is central to campaigning. The use of campaigning will strengthen deterrence and enable the United States to gain advantages against the full range of a competitor's coercive actions. The Department's FY 2023 budget invests heavily into readiness, including:

- The Department of the Army is investing $29.6 billion in its core readiness and readiness enablers accounts, which is an increase of $0.9 billion from FY 2022 enacted levels—primarily due to increased Home Station Training readiness programs, including the Pacific Deterrence Initiative and European Deterrence Initiative. The FY 2023 readiness accounts include $12.9 billion for home station training for ground maneuver forces and $3.5 billion for aviation readiness.
- The Department of the Navy (DON) is investing $51.7 billion, an increase of $2.8 billion above FY 2022 enacted levels, in aviation, ship, weapons support, expeditionary forces, and combat support readiness activities. The DON continues to implement the Optimized Fleet Response Plan and reduce its long-term maintenance backlog by investing in ship depot maintenance and procurement appropriations to expand the U.S. Pacific Fleet maintenance pilot program to U.S. Fleet Forces Command. Further, the DON is investing in aviation readiness to sustain proficiencies intending to improve mission capable rates across the fleet.
- The Department of the Air Force is investing $38.7 billion in core readiness and readiness enabler activities. The Air Force's $28.9 billion budget request for flying hours and weapon system sustainment is an increase of $0.6 billion above FY 2022 enacted levels. For weapon system sustainment, the $18.1 billion request is a $1.3 billion increase from FY 2022 enacted levels and is being invested to maintain the inventory of aircraft, space systems, and other weapon systems.

Building Enduring Advantages

The strategy's third approach, to support both integrated deterrence and campaigning, is to build enduring advantages across the Department's enterprise. This effort begins with investments to the Department's most critical asset, its people. Building enduring advantages also requires the Department to innovate and modernize, invest in the Nation's defense industrial base, and combat climate change. The Department's FY 2023 budget request for building enduring advantages includes the following:

- $6.5 billion over the FY 2022 enacted level in military pay and benefits to retain the best of today's force as the Department creates new opportunities for advancement; $4.2 billion over the FY 2022 enacted level in civilian pay and benefits to support a properly sized and highly capable civilian workforce that is aligned to mission and workload, and is agile in supporting the Department's mission.
- $16.5 billion of Research, Development, Test, and Evaluation (RDT&E) funding dedicated to maturing artificial intelligence and 5G programs.
- $154.0 million to expand required industrial capabilities to support hypersonic weapons such as high temperature composites, advanced propulsion systems, and navigation and guidance components.

The global climate crisis may increase the frequency and scale of natural disasters with the potential to disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support response and recovery efforts.

Climate change is reshaping the geostrategic, operational, and tactical environments with significant implications for U.S. national security and defense. Increasing temperatures; changing precipitation patterns; and more frequent, intense, and unpredictable extreme weather conditions caused by climate change are exacerbating existing risks and creating new security challenges for U.S. interests. Combating this is a vital component of building enduring advantages. By transforming the context in which we operate, our climate change investments improve our readiness and have the potential to decrease demands on the Joint Force. DoD's FY 2023 budget request invests more than $3 billion to create platform efficiencies, deploy new technologies, and harden our critical infrastructure—fully aligned with our warfighting needs and mission objectives.

Debra, a military working dog, wears specialized eye protection while providing security at Patrick Space Force Base, Fla., Aug. 23, 2022. Photo by Air Force Senior Airman Samuel Becker.

The risks of climate change to the Department's strategies, plans, capabilities, missions, and equipment, as well as those of U.S. allies and partners, are growing. Global efforts to address climate change—including actions to address the causes as well as the effects—will influence DoD strategic interests, relationships, competition, and priorities. To train, fight, and win in this increasingly complex environment, the Department will consider the effects of climate change at every level of the DoD enterprise.

The Department's portion of the FY 2023 budget request makes significant new investments that will make installations and operations more resilient to climate change and increase operational capability. Below is an overview of the Department's portion of the budget request related to climate change initiatives:

- $1,973.8 million investment for installation resiliency and adaptation focused on military facilities to withstand harsh weather conditions and ensure the Department can leverage private sector investments to improve energy and mission resilience.
- $247.1 million in operational energy and buying power to improve the efficiency of operational platforms while increasing their capability and mitigating logistics risk.
- $807.0 million in science and technology investments, which includes hybrid tactical vehicles, to enhance capability like extended range and persistence and provide silent watch. It also includes investments in new technologies like blended wing body aircraft, which have the potential to increase range and payload while improving efficiency.
- $27.6 million in contingency preparedness that includes incorporating climate risk scenarios in war games and exercises, humanitarian assistance, and disaster relief and defense support to civil authorities' activities.

Army Sgt. 1st Class Brandt Ireland, a member of the U.S. Special Operations Command team, competes in cycling during the 2022 DOD Warrior Games in Orlando, Fla., Aug. 22, 2022. More than 200 wounded, ill and injured service members and veteran athletes are competing in 12 adaptive sporting events during the games. Photo by Roger L. Wollenberg, DOD.

Sexual Harassment, Sexual Assault and Domestic Violence threaten the physical and mental well-being of our Total Force.

The prevention of sexual assault and harassment is key to preserving readiness in support of a resilient and cohesive force. Sexual assault and harassment are not only damaging to individual Service members, but these behaviors also harm our military readiness and must be eradicated. The Total Force—active and reserve Service members, and the civilian employees and contractors that support them—deserve to work in an inclusive culture built on dignity and respect. Ridding the Department of sexual assault and harassment requires courage and commitment from leaders at all organizational levels.

The Department is implementing numerous recommendations from an Independent Review Commission (IRC) that finished its work last year. The Secretary chartered an IRC on Sexual Assault in the Military to examine the DoD's sexual misconduct prevention and response efforts, make recommendations to address gaps in programming or policy, and strengthen existing approaches. The IRC returned over 80 recommendations to advance four lines of effort: Accountability, Prevention, Climate and Culture, and Victim Care. The National Defense Authorization Act (NDAA) for FY 2022 enacted a revised version of the most significant accountability recommendation into law. For example, these reforms remove prosecutions of sexual assault and related crimes from the chain of command. The Department is in the process of implementing that major reform, which will take effect on December 27, 2023.

The FY 2023 President's Budget requests approximately $500 million to implement the recommendations of the IRC. Examples include the establishment of a violence prevention workforce and enabling service members who experience sexual harassment to access services from a sexual assault victim advocate. The Department has developed a Prevention Workforce Model and has credentialed the initial cohort of specialized prevention personnel—the centerpiece to establishing an effective integrated prevention system that defeats multiple readiness detracting behaviors. The FY 2023 President's Budget will not only sustain momentum for these pivotal efforts, but also fund the hiring of the first-ever Department-wide prevention workforce. Funding will also support fundamental changes to the military justice paradigm, including a new oversight office and key specialized personnel.

In addition to the IRC's recommendations, the Department continues to implement a *Harassment Prevention Strategy* for the Armed Forces. The intent of the strategy is to achieve unity of purpose in harassment prevention across the entire Department, including at the Military Service Academies. The strategy involves a five-year plan to establish a Department-wide prevention system that facilitates data-informed actions and allows for integration of prevention activities while leveraging existing capabilities where possible. Over the long term, the DoD Harassment Prevention Strategy aims to prevent or decrease the prevalence of all forms of harassment, victimization, and perpetration. This will, in turn, increase readiness and decrease the likelihood of self-directed harm and prohibit abusive or harmful acts. The budget request reflects the resources necessary for full implementation and further enhancement of the strategy.

Increased cyber-attacks may leave the DoD information network vulnerable to unauthorized access by internal and external parties.

The Department operates with five cyberspace objectives to reduce risk to the Nation and successfully achieve its mission: improving cyber resiliency, enhancing U.S. military advantage, defending critical infrastructure, securing DoD information and systems, and expanding cyber cooperation. This strategy aligns with the 2022 National Defense Strategy (NDS) approach of building enduring advantages across the Department's enterprise.

The $11.2 billion cyberspace activities budget for FY 2023 builds on the important initiatives established in FY 2021 and provides for a stronger cyber posture, which entails cyberspace activities, such as the Department's cybersecurity, cyberspace operations, and cyber research and development programs. The resources in the FY 2023 budget request will support the collection and analysis of cyberspace critical information, enable U.S. cyber forces to prepare for and conduct offensive and defensive cyber effects operations, and conduct joint operations and training in support of the NDS. In addition, the budget will accelerate the Department's efforts to develop advanced modeling and simulation techniques, including digital twins that integrate models of cyberspace with those of the physical domains to understand complex interactions, emergent behaviors, and operational impacts of cyberspace operations.

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

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

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

The urgency to disburse funds that support the deployment of DoD resources to areas of need may result in improper payments or fraudulent activities, which the current processes and internal controls may fail to identify. To mitigate this risk, the Department leadership issued multiple memoranda, which have been implemented across the Department, to enforce and emphasize the importance of monitoring and reporting CARES Act activities. In addition, the OUSD(C) led training sessions and issued budget execution guidance and templates to educate the DoD risk management and internal control community on the increased risks related to the distribution of contingency funds.

GAO High Risk List

The Government Accountability Office (GAO) issues a biennial report listing programs and operations across the Federal Government that it determines to be high risk due to vulnerabilities to fraud, waste, abuse, and mismanagement or that need broad transformation or reform. The FY 2021 GAO High Risk Series report (*GAO-21-119SP*) lists 36 high risk areas, five of which are specifically related to the Department:

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

The Department has either "met" or "partially met" each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring) in all of these high risk areas. Additionally, the GAO narrowed its scope in DoD Contract Management as the Department made significant progress in rebuilding its acquisition workforce.

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

FINANCIAL HIGHLIGHTS AND ANALYSIS

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

Financial Performance Summary

The following table summarizes the Department's condensed FY 2022 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 11).

Figure 11. Financial Performance Summary (Unaudited)

Dollars in Billions	FY 2022	Restated FY 2021	Increase/(Decrease) $	Increase/(Decrease) %
COSTS				
Gross Program Costs	$1,040.9	$893.7	$147.2	16.5%
Less: Earned Revenue	(219.1)	(155.3)	(63.8)	41.1%
Net Change of Operations	$821.8	$738.4	$83.4	11.3%
NET POSITION				
Assets:				
Fund Balance with Treasury	$692.9	$623.2	$69.7	11.2%
Investments, Net	1,647.0	1,442.0	205.0	14.2%
Accounts Receivable	12.4	10.8	1.6	15.1%
Other Assets *	17.7	24.2	(6.5)	-26.8%
Inventory and Related Property, Net	337.1	327.0	10.1	3.1%
General Property, Plant and Equipment, Net	814.7	815.9	(1.2)	-0.2%
Total Assets	**$3,521.8**	**$3,243.1**	**$278.7**	**8.6%**
Liabilities:				
Accounts Payable	$41.2	$42.5	$ (1.3)	-2.8%
Other Liabilities **	38.2	40.4	(2.2)	-5.5%
Federal Employee and Veteran Benefits Payable	3,578.6	2,823.1	755.5	26.8%
Environmental and Disposal Liabilities	90.6	82.0	8.6	10.5%
Total Liabilities	**$3,748.6**	**$2,988.0**	**$760.6**	**25.5%**
Net Position (Assets minus Liabilities)	**$(226.8)**	**$255.1**	**$(481.9)**	**-188.9%**

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

** Other Liabilities includes Other Liabilities, Debt, and Loan Guarantee Liability

At Attention. Air Force Staff Sgt. Naujy Serrano stands at attention before a change of command ceremony at Royal Air Force Alconbury, England, June 22, 2022. Photo By: Air Force Staff Sgt. Eugene Oliver

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

Balance Sheet

Statement of Net Cost

Statement of Changes in Net Position

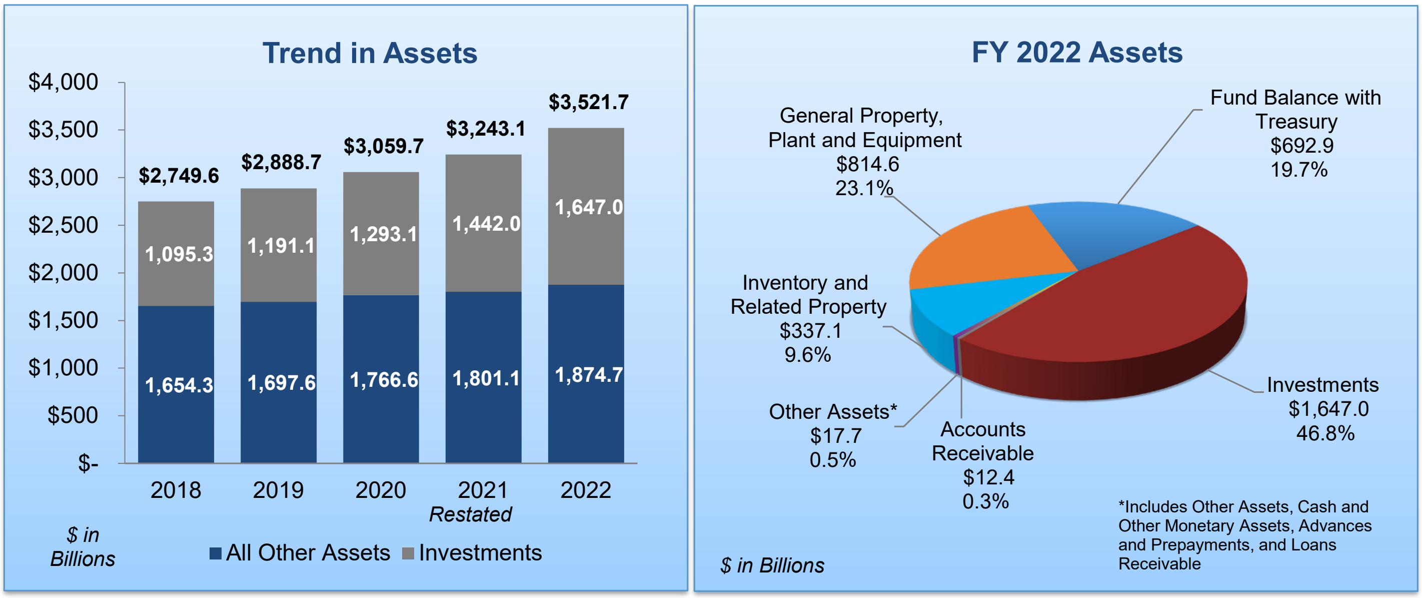
Statement of Budgetary Resources

Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2022, and September 30, 2021, reports economic benefits controlled by the Department (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2022, the Department's $3.5 trillion in assets predominantly comprises Investments; General Property, Plant, and Equipment (PP&E); Fund Balance with Treasury (FBwT); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see Figure 12).

Figure 12. Summary of Total Assets (Unaudited)



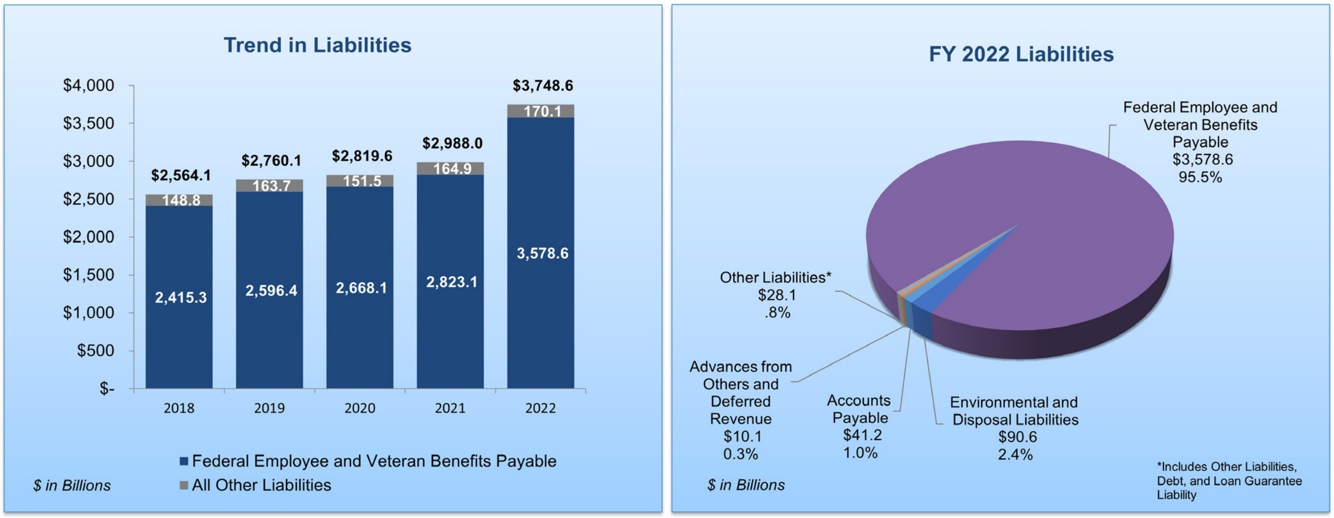
The Department restated the FY 2021 General PP&E, Accounts Receivable, and I&RP balances to correct errors, resulting in a $5.8 billion increase in Total Assets as compared to the balance reported in FY 2021. See *Note 28, Restatements*, in the Financial Section for more information.

During FY 2022 the Department's total assets increased by $278.7 billion (8.6 percent) over the FY 2021 (restated) amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by $205.0 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See *Note 5, Investments and Related Interest*, in the Financial Section for more information.
- FBwT increased $69.7 billion, primarily as a result of increases in budgetary resources received over recent years. See *Note 3, Fund Balance with Treasury*, in the Financial Section for more information.

As of September 30, 2022, the Department's $3.7 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.5 percent of the Department's liabilities (see Figure 13). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 13. Summary of Total Liabilities (Unaudited)



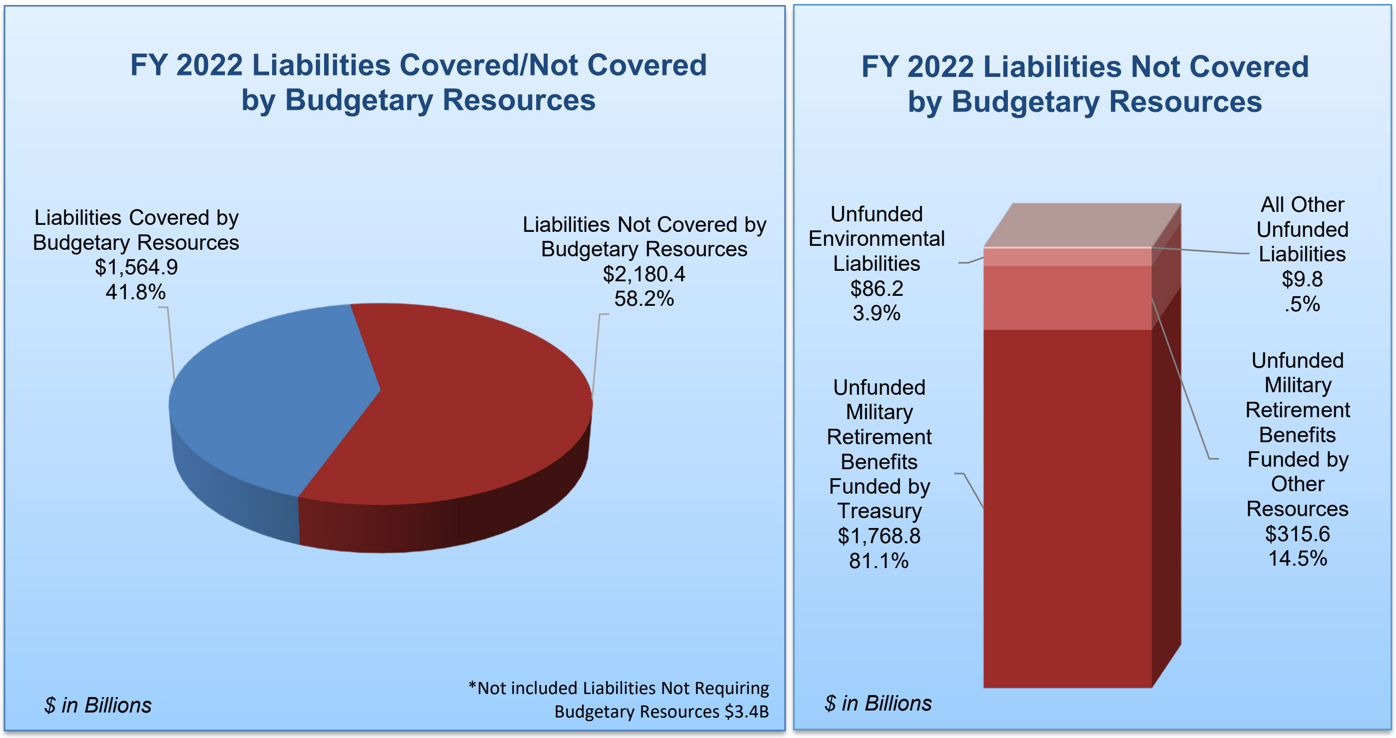
The Department restated the FY 2021 Accounts Payable balances to correct errors, resulting in a $0.2 billion increase in Total Liabilities as compared to the balance reported in FY 2021. See *Note 28, Restatements*, in the Financial Section for more information.

During FY 2022, the Department's total liabilities increased by $760.6 billion (25.5 percent) over the FY 2021 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by $755.5 billion, primarily attributable to a $584.7 billion increase in the actuarial liability the Military Retirement Fund and a $137.7 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. The actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. See *Note 13, Federal Employee and Veteran Benefits Payable*, in the Financial Section for more information.

As of September 30, 2022, $2.2 trillion (58.2 percent) of the Department's liabilities were not covered by budgetary resources (see Figure 14). Of this amount, $1.8 trillion (81.1 percent) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See *Note 11, Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 14. Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)



Statement of Net Cost

The Statement of Net Cost presents the net cost of the Department's major programs for the years ended September 30, 2022, and September 30, 2021. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (e.g., investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant, and equipment. See *Note 24, Reconciliation of Net Cost to Net Outlays*, in the Financial Section for additional information.

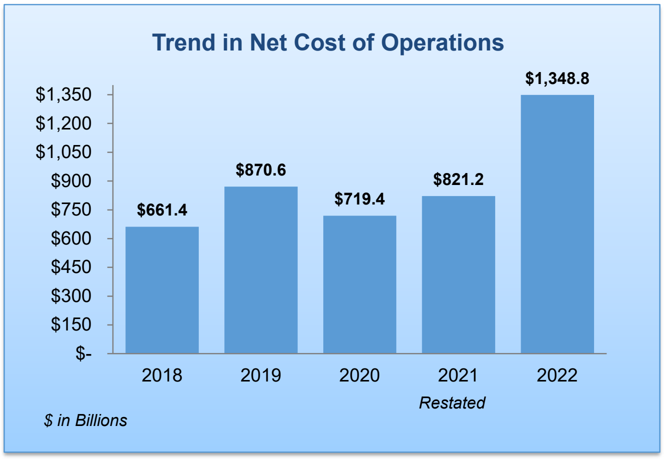
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

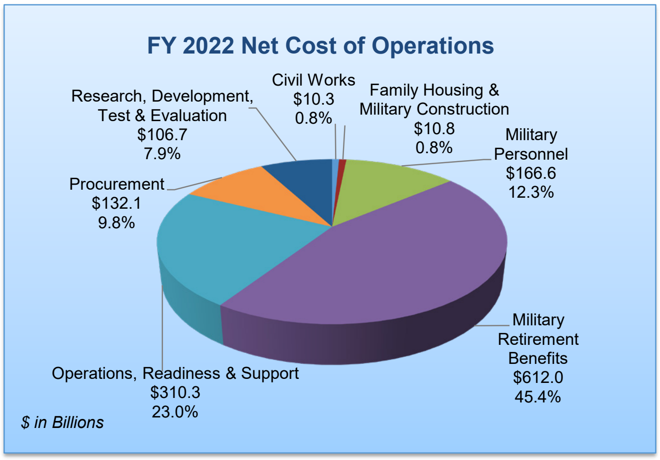
- **Military Retirement Benefits:** This program includes expenditures that cover eligible members' retirement pay, disability retirement pay, and healthcare benefits for Medicare-eligible members and their dependents or survivors.
- **Civil Works:** This program includes expenditures related to Energy and Water Development programs executed by the U.S. Army Corps of Engineers (USACE) that primarily fulfill three mission areas: commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration.
- **Military Personnel:** This program includes expenditures for military compensation to the Active and Reserve members of the Military Services. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services for future benefits under the Medicare-Eligible Retiree Health Care Fund.

- **Operations, Readiness, and Support:** This program includes expenditures providing benefits that are derived for a limited period, such as civilian salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), and day-to-day base operations.
- **Procurement:** This program includes expenditures for the acquisition of items providing long-term benefits such as costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation:** This program includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These expenditures include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- **Family Housing and Military Construction:** This program includes expenditures associated with purchasing, improvements, and support services for property that house Military Service members and their families. Costs are also related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

The major programs composing the greatest share of the Department's $1.3 trillion FY 2022 Net Cost of Operations were Military Retirement Benefits; Operations, Readiness, and Support; Military Personnel; Procurement; and Research, Development, Testing, and Evaluation, which together represented 98.4 percent of the Department's Net Cost of Operations (see Figure 15).

Figure 15. Summary of Net Cost Operations (Unaudited)





The Department restated the FY 2021 General PP&E, Accounts Receivable, I&RP, and Accounts Payable balances to correct errors, resulting in a $2.2 billion increase in Net Cost as compared to the balance reported in FY 2021. See *Note 28, Restatements*, in the Financial Section for more information.

During FY 2022, the Department's Net Cost of Operations increased $527.6 billion (64.2 percent) over the FY 2021 (restated) amount, primarily attributable to Military Retirement Benefits increase of $449.4 billion due to the following changes:

- $409.2 billion increase in Actuarial Assumptions Key changes in long-term economic assumptions underlying the actuarial calculations led to the substantial increase in FY 2022. Long-term economic assumptions for inflation, salary, and interest are set per *Statement of Federal Financial Accounting Standards 33* guidance.
- $86.1 billion increase in Gross Cost is mainly attributable to a $72.6 billion transfer-in of the Coast Guard plan amendment.

- Offset by $45.9 billion in Earned Revenue. Earned Revenue primarily increased due to a $36.2 billion increase in interest revenue related to investments of the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.

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

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2022, the Department reported $1.5 trillion in total budgetary resources (see Figure 16).

Figure 16. Composition of DoD Total Budgetary Resources (Unaudited)

Description	FY 2022 ($ in Billions)	Restated FY 2021 ($ in Billions)	FY 2020 ($ in Billions)	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)
Appropriations (Discretionary and Mandatory) Reported on SBR	$1,019.5	$905.1	$914.2	$874.4	$863.6
Unobligated Balances from Prior Year Budget Authority	213.8	211.2	213.3	226.8	181.0
Spending Authority from Offsetting Collections	150.3	153.7	130.3	113.0	119.4
Contract Authority	81.2	74.0	78.7	86.8	88.4
Total Budgetary Resources	$1,464.8	$1,344.0	$1,336.5	$1,301.0	$1,252.4

Of the $1.5 trillion in Total Budgetary Resources for FY 2022, $1.2 trillion was obligated. The remaining Unobligated Balance of $227.7 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for delivery of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2022, the amount of the Expired Unobligated Balance, End of Year increased from $20.8 billion in FY 2021 to $22.3 billion in FY 2022, an increase of $1.5 billion. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with 31 U.S.C. §1553.

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

AUDIT OVERVIEW

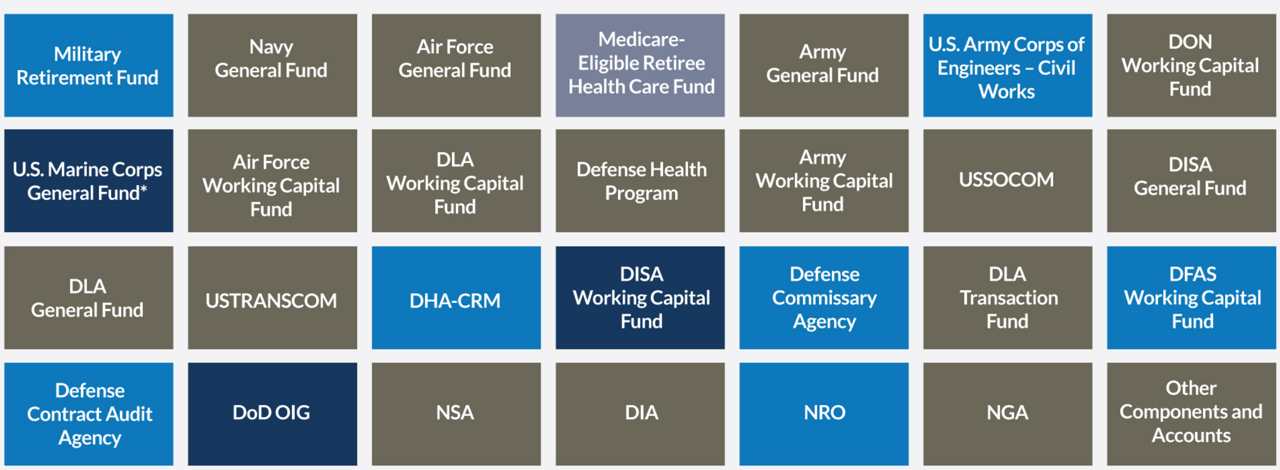
The annual financial statement audits are vital to the Department's data transformation and business reform efforts. They provide objective, independent assessments of the Department's internal controls, financial reporting practices, and reliability of financial information. Auditor findings and recommendations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

During FY 2022, OUSD(C) increased its collaboration with other audit stakeholders such as the Office of the Chief Information Officer (OCIO), the Office of the Under Secretary of Defense (Acquisition and Sustainment) (OUSD(A&S)), and the Military Departments. Department-wide collaboration is evident in the material weakness working groups and functional councils and the ongoing development of material weakness remediation strategies. This collaboration has increased the understanding of the Secretary's audit priorities and assisted in accelerating the development and adoption of remediation solutions. The outcomes of the audit remediation efforts will include better support for the warfighter, preservation of military advantage, greater financial data integrity, enhanced demonstration of stewardship, and increased transparency for Congress and the American people.

FY 2022 Audit Results

The Department completed its fifth annual consolidated financial statement audit covering approximately $3.5 trillion of the Department's total assets, involved approximately 1,600 auditors, and included nearly 970 site visits (virtual and in-person). The audit comprised 27 standalone audits conducted by independent public accountants (IPAs) and a consolidated Agency-wide audit performed by the Office of Inspector General of the DoD (DoD OIG) (see Figure 17). The DoD OIG issued a disclaimer of opinion on the Department's FY 2022 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. The Department's leadership fully expected these results, as receiving a disclaimer of opinion is consistent with the experiences of other large and complex federal agencies during their initial years under audit. See the DoD OIG's independent audit report in the Financial Section.

Figure 17. FY 2022 Audit Results



*The U.S. Marine Corps General Fund is undergoing a two-year audit cycle, which will conclude in November 2023. In Fiscal Year (FY) 2022, the U.S. Marine Corps General Fund did not receive an audit opinion from an Independent Public Accountant (IPA) firm. In FY 2021, U.S. Marine Corps General Fund received a disclaimer of opinion from an IPA firm.

Key: Unmodified | Qualified | Outstanding Opinion | Disclaimer

Of the 27 component standalone audits, 7 received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with GAAP), 1 received a qualified opinion (i.e., auditors concluded there were misstatements or potentially undetected misstatements that were material but not pervasive to the financial statements), and 16 received disclaimers of opinion. The standalone audits for the Office of Inspector General of the DoD (DoD OIG) and the Defense Information Systems Agency ([DISA]) Working Capital Fund are scheduled to conclude after the date of this publication. The U.S. Marine Corps is undergoing a two-year audit cycle, which will be completed in November 2023. The independent auditor's report for each standalone audit is available in the respective component's financial report accessible on the [Agency Financial Report website]. Other Components and Accounts are not undergoing a standalone audit as they are audited by the DoD OIG as part of the consolidated audit.

Multiple components have consistently obtained an unmodified opinion; for instance, this was the 13th for the Defense Health Agency ([DHA])–Contract Resource Management, the 15th for the USACE–Civil Works, the 23rd for the Defense Finance and Accounting Service ([DFAS]) Working Capital Fund, and the 28th for the Military Retirement Fund. In addition to issuing an opinion, auditors identify material weaknesses and issue Notices of Findings and Recommendations (NFRs). A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis. In FY 2022, the DoD OIG identified three new Agency-wide material weaknesses and consolidated six material weaknesses into three, for a net change of zero as compared to FY 2021. See the summary of DoD OIG-identified material weaknesses in the Other Information section.

As of November 15, 2022, the DoD OIG and the IPAs issued more than 1,950 NFRs for the FY 2022 audit at the Department-wide and component levels across the consolidated and standalone audits. The Department anticipates receiving additional NFRs as auditors finish compiling their findings and developing the related NFRs. To address NFRs, components are responsible for developing corrective action plans (CAPs) that provide information on the root-cause of deficiencies, establish milestones, assign responsibilities for remediation, and project a completion date for the corrective action.

Separately, the Department manages the audit of and prepares the Security Assistance Accounts (SAA) financial statements, which include the Foreign Military Sales program financial activity and position. (Note: The SAA financial statements are not consolidated in the DoD Agency-wide financial statements but are consolidated directly into the Financial Report of the United States Government as a separate standalone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, Appendix 1a). The SAA completed its first annual consolidated financial statement audit during FY 2022 covering approximately $94.7 billion in total assets. The audit was conducted by IPAs who issued a disclaimer of opinion. See Note 27, Security Assistance Accounts, in the Financial Section for additional information.

Four F/A-18E Super Hornets, attached to Carrier Air Wing 1, fly in formation with French air force aircraft, including an Airbus A330 Multi-Role Tanker Transport and two Rafale F3R combat aircraft, alongside the Nimitz-class aircraft carrier USS Harry S. Truman in the Mediterranean Sea, July 30, 2022. The Harry S. Truman Carrier Strike Group is on a scheduled deployment in the U.S. Naval Forces Europe area of operations. Photo By: Navy Strike Fighter Squadron 11, Courtesy photo

FY 2022 Audit Priorities and Audit Roadmaps

The Department continues to address long-standing areas of material weaknesses including; Property in the Possession of Contractors, Real Property, Inventory, Operating Materials and Supplies, and the Joint Strike Fighter Program. However, the Secretary of Defense recommitted efforts by refining the Department's audit priorities to better align remediation resources to areas of expected audit results in FY 2022. As such, the Department focused on the following audit priorities:

- Fund Balance with Treasury (FBwT);
- Access Controls; and
- Universe of Transactions (UoT).

To help guide the process of addressing these priority areas, senior leaders across the Department will continue to leverage audit roadmaps, the governance process, and working groups to foster accountability toward finding solutions to common barriers for each component under standalone audit that received a disclaimer of opinion. The Department uses these audit roadmaps to align material weakness remediation strategies across the Department, identify timelines, prioritize focus areas, and ensure progress and resources are monitored. The audit roadmaps detail the completion date, by fiscal year, of corrective actions necessary for the remediation of material weaknesses and the targeted validation dates. The components' audit roadmaps were aggregated, analyzed, and used to develop a Department-wide audit roadmap that documents the Department's planned date for the projected downgrade of Department-wide material weaknesses.

Audit Progress Measurement

The Department continues to monitor the number of NFRs closed and material weaknesses downgraded to a significant deficiency or resolved, to measure progress toward achieving a Department-wide unmodified opinion. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. As of November 15, 2022, the Department closed 483 (14.5 percent) of the NFRs issued during FY 2021. The Department will continue to use audit findings to drive and sustain remediation efforts, focusing on findings that are integral to resolving material weaknesses.

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

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

Value of the Audit

The audit has been a catalyst for business process and business systems reform across the Department resulting in greater financial integrity, increased transparency, and ultimately, a better supported warfighter. Achieving and sustaining an unmodified audit opinion will require the continued investment of resources and focus of senior leaders. However, the trustworthiness and transparency the audit delivers will promote a lasting, leaner, and more accountable DoD in the areas below:

- **A modernized workforce:** The scale of the Department's business processes and volume of its transactions are becoming less burdensome as the annual audits progress. Our workforce is building, deploying, and managing Robotic Process Automation or "bots" to automate functions that would be cost-prohibitive when performed manually. The audits are driving an increase in bot adoption, allowing personnel to execute basic functions in a fraction of the time it would take a person to complete, making time for other more complex tasks. Army successfully deployed a robotic process automation solution to retrieve supporting documents directly from the source system, minimizing manual effort and reducing the average response time. On its first day, the "bot" successfully retrieved supporting documents for 96 percent of the sample items, a process that typically takes five to ten days when performed manually.
- **Improved business operations:** The audits are providing a positive return on investment from value gained through independent auditor insight into the Department's business processes; to assess what is performing well and what areas still need improvement. In FY 2022, Air Force transitioned from their legacy system into a modern enterprise Governance, Risk, and Compliance (eGRC) platform which reduced the number of reporting organizations from in-excess-of 6,500 to 57 individual organizations. Consolidating reporting organizations benefited the Risk Management Internal Control (RMIC) Program's internal controls reporting process and removed redundant reporting requirements for the Statement of Assurance (SoA) by alleviating a substantial administrative burden and allowing for the reallocation of over 142,000 labor hours that were redistributed into other mission critical activities.
- **Quality decision-making:** One of the best cases for value being derived from the audits comes from the extensive improvements in the timeliness, accuracy, and availability of financial and operational data. Through reviewing available data, the National Geospatial-Intelligence Agency (NGA) was able to process over $43 million in contract de-obligations which were identified through their continuing effort to review dormant accounts. The de-obligation of these dormant accounts, or accounts with no financial activity for a long time, allowed NGA to reprogram those funds to more immediate mission-support and mission-critical needs.
- **Reliable networks:** The audits are highlighting derived value gained from turning management's attention toward cyberspace by focusing on strengthening the Department's IT controls. Auditors test the Department's processes and procedures for controlling system access and the levels of access given to users (e.g., access to the core coding and configuration functions of a system). The audits test physical and logical controls and provide specific feedback on the areas to improve security and controls to prevent foreign and domestic hacks and cyberattacks. During the year, the Department of Navy - Chief Information Officer (DoN-CIO) deployed the Naval Identity Services Identity, Credential, and Access Management solution and integrated it with Navy Enterprise Resource Planning (ERP) to automate account provisioning, account removal, and access reviews for over 83,000 users.
- **Enhanced public confidence:** The audits deliver value to the Department by enabling the capability to accurately and timely account for defense resources. The systems used to process Military Pay and Civilian Pay continued to receive unmodified opinions regarding SSAE No. 18 for the sixth and tenth consecutive years, respectively.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2022

The Department assessed the effectiveness of internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), section 2, and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting as of September 30, 2022. The Department's management identified 37 material weaknesses across the following 14 areas of material weakness:

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

The Department assessed the effectiveness of internal controls over operations in accordance with FMFIA section 2 and OMB Circular No. A-123. Based on this assessment, the Department provides modified assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2022. The Department's management identified 23 material weaknesses across the following 10 assessable units:

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

The Department assessed the compliance of DoD financial management systems in accordance with FMFIA section 4; the Federal Financial Management Improvement Act of 1996 (FFMIA), section 803(a); and OMB Circular No. A-123, Appendix D. Based on this assessment, the Department is unable to provide assurance that DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level as of September 30, 2022. The Department's management identified three instances of non-conformance in the areas of Business System Modernization, Federal Information Systems Control Audit Manual (FISCAM) compliance, and FFMIA compliance.

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

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

Lloyd J. Austin III
Secretary of Defense

MANAGEMENT ASSURANCES

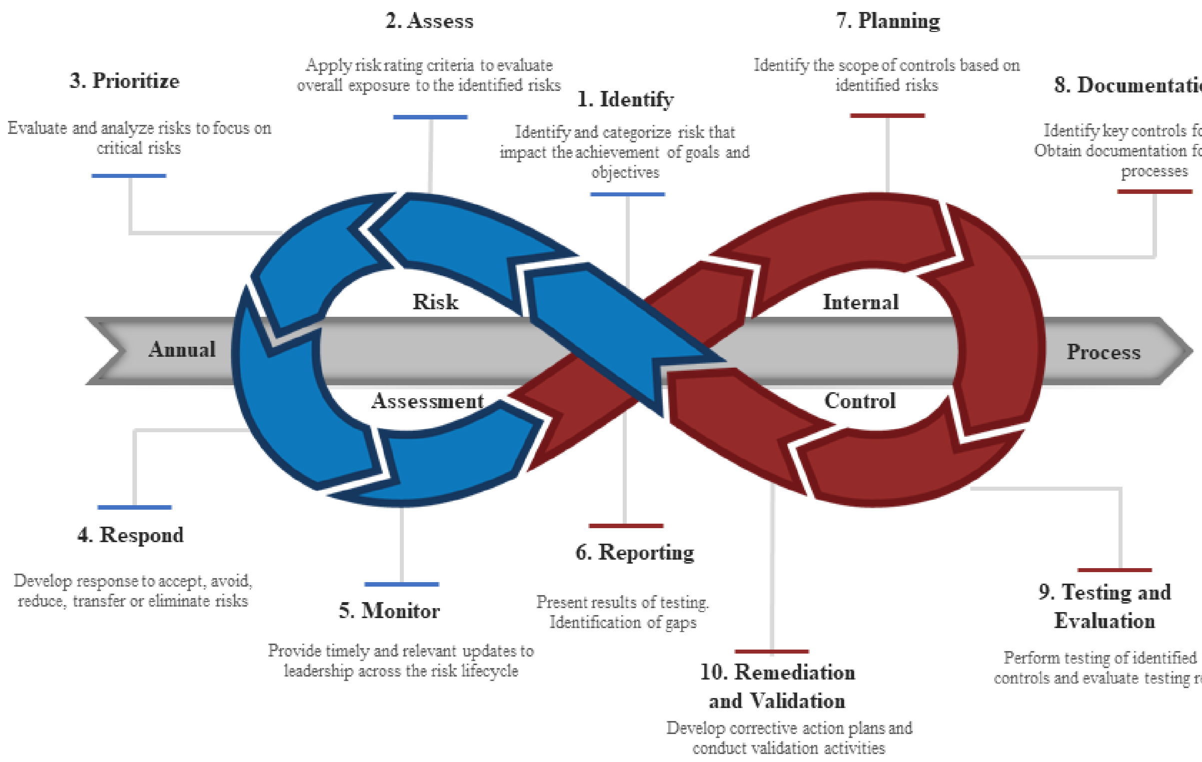
The Department is committed to instituting and maintaining an effective system of internal controls to provide reasonable assurance that it achieves its mission. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective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

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

The Office of the Director of Administration and Management (ODA&M) and Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) lead the Department's effort in fulfilling these requirements using the RMIC Program. This program holds both operational and financial managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility.

The DoD RMIC Program uses a continual, cyclical, and unified approach for assessing risk and evaluating internal controls to achieve its objectives over operations, reporting, and compliance (see Figure 18). The RMIC Program culminates in the SoA, the Department's report on the design and effectiveness of key control activities, which is compiled from information received from the DoD Components. The RMIC Program and the Financial Statement Audit are complementary processes that, when integrated, provide management with the information needed to accelerate and sustain a financial and operations audit remediation posture. During FY 2022 the Department placed increased emphasis on bringing together the RMIC and financial statement audit remediation processes. This was done by establishing a single Senior Accountable Official (SAO) and Action Officer (AO) over each RMIC and financial audit material weakness, mapping findings, corrective action, and material weakness data between them to provide more data driven and strategic decision making, and by initiating a process to develop unified remediation strategies. Going forward, this approach will combine efforts to analysis, improve efficiency and collaboration.

Figure 18. RMIC Program Process



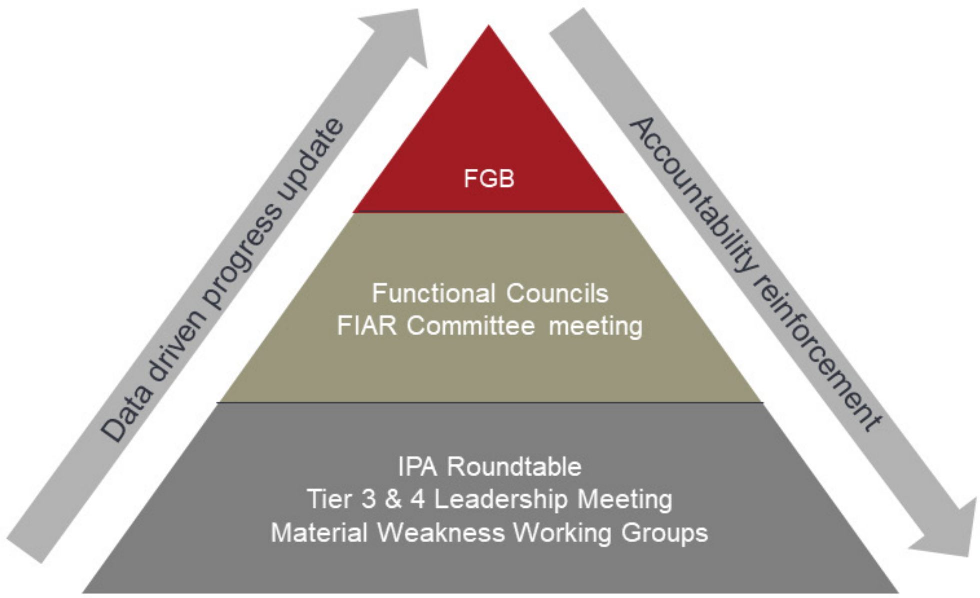
The risk assessment process provides the DoD Components with specific focus areas for internal control testing and the concentration of remediation activities to increase business process efficiencies and accelerate program efforts. In accordance with *DoD Instruction 5010.40*, the DoD Components must integrate risk management and effective internal controls into their business activities as an essential part of managing their organization. Components are responsible for conducting annual comprehensive top-down risk assessments, using the results to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency to OUSD(C). Once this information is submitted, OUSD(C) coordinates with Department-wide SAOs, who are executive-level subject matter experts selected based on their functional ability to provide oversight and monitoring. These SAOs determine which component-level issues aggregate to Department-wide significant deficiencies or material weaknesses. Additionally, the SAOs and their assigned AOs work with the components to establish working groups to address material weaknesses and develop CAPs, monitor CAP implementation, track material weakness remediation progress, and report progress to senior DoD leaders through the RMIC governance process. Consolidating RMIC and financial audit material weaknesses under a single SAO and AO creates synergies that improve efficiency and fosters the close collaboration between OUSD(C) and its partners such as the Office of the Chief Information Officer and the Office of the Under Secretary of Defense (Acquisition and Sustainment).

A guardian is reunited with family at a basic military training coining ceremony at Joint Base San Antonio. Photo by Ethan Johnson, Air Force.

Governance

The Financial Improvement and Audit Remediation (FIAR) governance structure establishes a forum to provide financial management leaders and workforce the information and support to continue making progress toward solving the Department's most complex issues. The FIAR governance structure comprises the following governing bodies and functions (see Figure 19):

Figure 19. FIAR Governance Structure



- **FIAR Governance Board (FGB):** Provides vision, leadership, direction, oversight, and accountability in support of achieving an unmodified audit opinion. Through bimonthly meetings, it prioritizes Department-wide corrective actions that provide the greatest value to the warfighter. In addition to the Under Secretary of Defense (Comptroller) and the Director of Administration and Management, other participants include key leaders from the DoD Components under a standalone audit, as well as representatives from the GAO, Office of Management and Budget, and DoD Office of Inspector General.
- **Functional Councils:** Address high-profile and pivotal audit issues related to Financial Reporting and Fund Balance with Treasury, Property, and IT. Councils meet quarterly to review remediation status and develop solutions that may involve changes to DoD policy and procedures.
- **FIAR Committee Meetings:** Provide similar oversight and direction as the FGB but at a more detailed level.
- **IPA Roundtable:** Facilitates consistent treatment of Department-wide audit issues across IPA firms.
- **Tier 3 & 4 Leadership Meeting:** Provides oversight and direction to the DoD Components not undergoing a standalone audit.
- **Material Weakness Working Groups:** Assist the DoD Components in the progression of resolving material weaknesses such as Property in the Possession of Contractors; Real Property; Inventory and Operating Materials and Supplies; Environmental and Disposal Liabilities; and the Joint Strike Fighter Program.

SYSTEMS COMPLIANCE AND STRATEGY

The Department continues to engage in a complex and challenging transformation effort to reform its financial management (FM) environment for enhanced mission effectiveness and auditability in compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Office of Management and Budget (OMB) Circular No. A-123, Appendix D. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability. The remediation of findings from the financial statement audits is a significant part of the Department's FM improvement strategy and is an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

In accordance with 10 U.S.C. §240g, the Department submitted an updated defense business system (DBS) Audit Remediation Plan to the Congress in July 2022. This plan, which is a living document and submitted to Congress annually, provides an integrated view of the enterprise roadmap for audit-relevant DBSs. The plan is a current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan also established a foundation for a future roadmap that will:

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

In addition, the DBS Audit Remediation Plan highlights the Department's progress and identifies areas of improvement for monitoring and managing its DBSs in developing a sustainable enterprise roadmap. For example, in FY 2022, the Department retired 18 vulnerable systems. The financial statement audits help drive the accuracy of the systems inventory, which in turn improves management of DBSs. Although the report serves as a baseline to advance the Department forward, a key improvement identified in the plan is to establish an enterprise target date to achieve the desired target state. Implementing the DBS Audit Remediation Plan will maximize the performance of the Department's financial management systems while also reducing the population of these systems.

A Marine greets his family during a homecoming at Marine Corps Air Station Camp Pendleton, Calif., Feb. 28, 2022. Photo By Marine Corps Sgt. Dana Beesley.

Enterprise Resource Planning Systems

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

Department of the Army

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

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

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

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

Department of the Navy

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

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

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

Defense Agencies Initiative (DAI) has been implemented by the Marine Corps as its core financial management system at the start of FY 2022. As part of this effort, the Marine Corps began a transition from the current civilian time and attendance system—the Standard Labor Collection and Distribution Application, to the DAI—Oracle Time and Labor (OTL) module.

Department of the Air Force

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

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

Other Defense Organization ERPs

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

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

LEGAL COMPLIANCE

Antideficiency Act

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

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

During FY 2022, the Department reported one case that occurred during the fiscal years of 2015 through 2019, totaling $3.4 million from the use of Research, Development, Test, and Evaluation (RDT&E) funds to pay the educational expenses of Marshallese school children attending the USAKA school, known as the Ri'katak Program. RDT&E appropriations were not available for this purpose, thereby violating the Purpose Statute (31 U.S.C § 1301). As no DoD appropriations were available at the time for what was a foreign assistance program, the Department violated the ADA.

To prevent recurrences of these types of violations, legislation was enacted in the National Defense Authorization Act for FY 2020 to authorize the Ri'katak Program on a space-available basis. This authorization allows assistance for education, including student meals and transportation.

Further information about the Department's reported ADA violations and remedial actions taken are included in GAO's annual compilation of Antideficiency Act Reports.

Army paratroopers jump out of a C-130J Super Hercules aircraft over Ramstein Air Base, Germany, May 25, 2022, during an event to celebrate the 80th anniversary of the 37th Airlift Squadron. Photo by Air Force Staff Sgt. Megan M. Beatty.

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

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

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

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

Air Force wounded warrior athletes congratulate each during a wheelchair rugby competition at Joint Base San Antonio, March 23, 2022. Photo By Air Force Staff Sgt. James Crow.

Digital Accountability and Transparency Act

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

In November 2021, the DoD OIG issued the Department a recommendation to update DoD's DATA Act Data Quality Plan to include a process for documenting and disclosing changes to any DoD Data Act submission. This process included the removal of any information from data elements, as well as changes related to exceptions and errors received from the DATA Act Broker, within the monthly and quarterly DATA Act submissions certification comments. During FY 2022, the plan was updated to include a process for documenting and disclosing monthly and quarterly error reports received from the DATA Act Broker better aligning the Department's quality plan with the DATA Act of 2014.

On a monthly basis, the Department publishes summary level appropriation, obligation, and outlay data in USAspending.gov in accordance with the DATA Act. On a quarterly basis, the Department submits additional spending and financial award data for publication on USAspending.gov for obligations and outlays at the contract and financial assistance award level. As of June 2022, the Department reported the alignment of over $34.6 billion across over 894,000 active contract and financial assistance awards (approximately 85 percent of the population) through DATA Act certification. The Department remains fully committed to enabling data transparency, while balancing the need to protect classified data and that which could compromise operational security.

Army Spc. Lorena Martinez rappels down a tower during training at Camp Dodge in Johnston, Iowa, June 8, 2022. Photo By: Army Staff Sgt. Tawny Schmit

Payment Integrity Information Act

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

- Civilian Pay;
- Commercial Pay;
- Military Health Benefits;
- Military Pay;
- Military Retirement; and
- Travel Pay.

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

Each fiscal year, the DoD OIG reviews the Department's Agency Financial Report and Payment Integrity portfolio, which is published on PaymentAccuracy.gov, to determine the Department's compliance with the PIIA reporting requirements. The DoD OIG then submits a report to the Secretary of Defense, the U.S. Senate Committee on Homeland Security and Governmental Affairs, the U.S. House of Representatives Committee on Oversight and Reform, the appropriate authorizing and appropriations committees of Congress, the Comptroller General of the United States, and the OMB Office of Federal Financial Management Controller. The results of the DoD OIG's FY 2022 determination of DoD payment integrity compliance will be published on the DoD OIG website in May 2023.

Since FY 2017, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review (see Figure 20).

Figure 20. DoD Payment Integrity Compliance Review Results

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

Legend: ✓ Compliant ✗ Not Compliant

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

Prompt Payment Act

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

The Department's goal is to average $90 or less in interest dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. During FY 2022, the average interest paid per million PPA dollars disbursed on a monthly basis was $60.30, an increase over FY 2021's average of $30.43, which is well under the Department's goal. The largest contributors to the increase were primarily within the components' networks and were a result of system migrations that caused challenges resulting in payment delays. Concentrated efforts to clear the inventory of overaged invoices and reductions in manual payments, in addition to improvements in related financial management systems have contributed to the Department's ability to perform under goal. In addition, Prompt Payment interest rate fluctuations can impact performance against goal, as Prompt Payment interest rates, set by Treasury, change twice a year.

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

Auxiliary Repair Dry Dock (ARDM) 4 departs Submarine Base New London in Groton, Connecticut, on the morning of Friday, Aug. 26, 2022. The Shippingport will transit to Colonna's Shipyard in Norfolk, Virginia, to complete the Chief of Naval Operations Docking Service Craft Overhaul availability that is expected to be completed by June 2023. Photo by John Narewski.


GEORGE H.W. BUSH
CVN 77
MUTTS WITH A MISSION