



# OTHER INFORMATION

Provides other financial and non-financial information that are required by various laws and regulations to be included in the Agency Financial Report.

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*Previous photo: Soldiers march across the 7th Army Noncommissioned Officer Academy field at Grafenwoehr Training Area, Germany, June 14, 2022. The soldiers graduated from the basic leader course. Photo By: Army Spc. Elizabeth MacPherson*

*Left photo: Airmen ignite a pyro demonstration to celebrate the 69th year representing the Air Force in Battle Creek, Mich., July 4, 2022. Photo By: Air Force Staff Sgt. Andrew Sarver*



## **BRAVING THE LAST FRONTIER: RECOUNTING THE ITI 1,000-MILE ULTRAMARATHON**

U.S. Air Force Maj. Joshua Brown, the 673d Surgical Operations Squadron Surgical Services flight commander, hikes into Nome, Alaska, as he completes the final leg of the Iditarod Trail Invitational 1,000-mile ultramarathon, March 24, 2022. Brown is the first active-duty service member to compete in the ITI 1,000 and partnered with the We Are All Recruiters program to represent the Air Force at tribal villages along the route. Brown placed 3rd out of 13 competitors in his category, finishing the race in 24 days, 21 hours, and 51 minutes. (U.S. Air Force photo by Airman 1st Class Patrick Sullivan)

[Read the full story here.](#)

# SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

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

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

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



*An M1A2 Abrams fires during the Sullivan Cup at the Army Armor School at Fort Benning, Ga., April 29, 2022. The biennial competition evaluates the performance of the best tank crews from across the Armor Branch, the Marine Corps and international partner militaries. Photo By: Army Spc. Joshua Taeckens*

## SUMMARY OF FINANCIAL STATEMENT AUDIT

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



*Marines assigned to the Marine Fighter Attack Squadron 323, Marine Aircraft Group 11, 3rd Marine Aircraft Wing prepare F/A-18C Hornets to deploy to Poland from Marine Corps Air Station Miramar, Calif., Jun. 6, 2022. VMFA 323 is deployed to Poland to provide defensive counter-air support to NATO allies and partners. The 3rd MAW remains prepared to uphold the principles of democracy, territorial integrity, sovereignty and respect for the international rules-based order. Photo By: Marine Corps Cpl. Levi Voss*

**Exhibit 1. Summary of Financial Statement Audit**

| <b>Audit Opinion: Disclaimer<br/>Restatement: Yes</b>                           |                          |            |                 |                     |                       |
|---|--------------------------|------------|-----------------|---------------------|-----------------------|
| <b>Material Weakness</b>  | <b>Beginning Balance</b> | <b>New</b> | <b>Resolved</b> | <b>Consolidated</b> | <b>Ending Balance</b> |
| Financial Management Systems Modernization <sup>1 and 14</sup>                  | 1                        |            |                 |                     | 1                     |
| Configuration Management and Security Management <sup>1</sup>                   | 1                        |            |                 |                     | 1                     |
| Access Controls <sup>1</sup>  | 1                        |            |                 |                     | 1                     |
| Segregation of Duties <sup>1</sup>  | 1                        |            |                 |                     | 1                     |
| Interface Controls <sup>1</sup>   | 0                        | 1          |                 |                     | 1                     |
| Universe of Transactions <sup>2</sup>   | 1                        |            |                 |                     | 1                     |
| Reporting Entity <sup>2</sup>   | 0                        | 1          |                 |                     | 1                     |
| DoD Component Level Accounts <sup>2</sup>                                       | 0                        | 1          |                 |                     | 1                     |
| Financial Statement Compilation <sup>15</sup>                                   | 1                        |            |                 | 1                   | 0                     |
| Fund Balance with Treasury <sup>3</sup>   | 1                        |            |                 |                     | 1                     |
| Suspense Accounts <sup>15</sup>   | 1                        |            |                 | 1                   | 0                     |
| Inventory and Stockpile Materials <sup>4</sup>                                  | 1                        |            |                 |                     | 1                     |
| Operating Materials and Supplies <sup>5</sup>                                   | 1                        |            |                 |                     | 1                     |
| General Property, Plant, and Equipment <sup>6</sup>                             | 1                        |            |                 |                     | 1                     |
| Real Property <sup>7</sup>  | 1                        |            |                 |                     | 1                     |
| Government Property in the Possession of Contractors <sup>8</sup>               | 1                        |            |                 |                     | 1                     |
| Joint Strike Fighter Program <sup>9</sup>                                       | 1                        |            |                 |                     | 1                     |
| Accounts Payable <sup>10</sup>  | 1                        |            |                 |                     | 1                     |
| Environmental and Disposal Liabilities <sup>11</sup>                            | 1                        |            |                 |                     | 1                     |
| Contingent Legal Liabilities <sup>2</sup>                                       | 1                        |            |                 |                     | 1                     |
| Beginning Balances <sup>2</sup>   | 1                        |            |                 |                     | 1                     |
| Unsupported Accounting Adjustments <sup>2</sup>                                 | 1                        |            |                 |                     | 1                     |
| Intragovernmental Transactions and Intradepartmental Eliminations <sup>12</sup> | 1                        |            |                 |                     | 1                     |
| Gross Costs <sup>2</sup>  | 1                        |            |                 |                     | 1                     |
| Earned Revenue <sup>2</sup>   | 1                        |            |                 |                     | 1                     |
| Reconciliation of Net Cost of Operations to Outlays <sup>2</sup>                | 1                        |            |                 |                     | 1                     |
| Budgetary Resources <sup>2</sup>  | 1                        |            |                 |                     | 1                     |
| Service Organizations <sup>2</sup>  | 1                        |            |                 |                     | 1                     |
| Component Entity-Level Controls <sup>13 and 14</sup>                            | 1                        |            |                 |                     | 1                     |
| DoD-Wide Oversight and Monitoring <sup>2</sup>                                  | 1                        |            |                 |                     | 1                     |
| Component-Level Oversight and Monitoring <sup>14 and 15</sup>                   | 1                        |            |                 | 1                   | 0                     |
| <b>Total Material Weaknesses</b>  | <b>28</b>                | <b>3</b>   |                 | <b>3</b>            | <b>28</b>             |

## *Exhibit 1 Footnotes*

<sup>1</sup> The Financial Management Systems Modernization, Configuration Management and Security Management, Access Controls, Segregation of Duties, and Interface Controls material weaknesses identified by the DoD OIG are included within the FISCAM Compliance and FFMI Compliance material weaknesses identified by DoD management in Exhibit 4.

<sup>2</sup> The Universe of Transactions, Reporting Entity, DoD Component Level Accounts, Contingent Legal Liabilities, Beginning Balances, Unsupported Accounting Adjustments, Gross Costs, Earned Revenue, Reconciliation of Net Cost of Operations to Outlays, Budgetary Resource, Service Organizations, and DoD-Wide Oversight and Monitoring material weaknesses identified by the DoD OIG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

<sup>3</sup> The Fund Balance with Treasury material weakness identified by the DoD OIG are included within the Fund Balance with Treasury material weakness identified by DoD management in Exhibit 2.

<sup>4</sup> The Inventory and Stockpile Materials material weakness identified by the DoD OIG is included within the Inventory material weakness identified by DoD management in Exhibit 2.

<sup>5</sup> The Operating Materials and Supplies material weakness identified by the DoD OIG is included within the Operating Materials & Supplies material weakness identified by DoD management in Exhibit 2.

<sup>6</sup> The General Property, Plant, and Equipment material weakness identified by the DoD OIG is included within the Equipment Assets material weakness identified by DoD management in Exhibit 2.

<sup>7</sup> The Real Property material weakness identified by the DoD OIG is included within the Real Property Assets material weakness identified by DoD management in Exhibit 2.

<sup>8</sup> The Government Property in the Possession of Contractors material weakness identified by the DoD OIG is included within the Property in the Possession of Contractors material weakness identified by DoD management in Exhibit 2.

<sup>9</sup> The Joint Strike Fighter Program material weakness identified by the DoD OIG is included within the Joint Strike Fighter Program material weakness identified by DoD management in Exhibit 2.

<sup>10</sup> The Accounts Payable material weakness identified by the DoD OIG is included within the Health Care Liabilities and Accounts Payable material weaknesses identified by DoD management in Exhibit 2.

<sup>11</sup> The Environmental and Disposal Liabilities material weakness identified by the DoD OIG is included within the Environmental and Disposal Liabilities material weakness identified by DoD management in Exhibit 2.

<sup>12</sup> The Intragovernmental Transactions and Intradepartmental Eliminations material weakness identified by the DoD OIG is included within the Intragovernmental Transactions material weakness identified by DoD management in Exhibit 2.

<sup>13</sup> The Component Entity-Level Controls material weakness identified by the DoD OIG is included within the Entity Level Controls material weakness identified by DoD management in Exhibit 2.

<sup>14</sup> The Financial Management Systems Modernization and Component Entity-Level Controls material weaknesses identified by DoD OIG were formerly called Legacy Systems and Entity Level Controls, respectively, in the DoD Agency Financial Report for FY 2021.

<sup>15</sup> Financial Statement Compilation, Suspense Accounts, and Component-Level Oversight and Monitoring material weaknesses identified by DoD OIG in FY 2021 were consolidated by DoD OIG into the DoD-Wide Oversight and Monitoring, Fund Balance with Treasury, and Component Entity-Level Controls in FY 2022, respectively.

## SUMMARY OF MANAGEMENT ASSURANCES

### FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting

Exhibit 2 lists the FY 2022 management identified material weaknesses in internal controls over financial reporting, captured by end-to-end process and material weakness area, and reports the changes from the material weaknesses disclosed in the Department's Agency Financial Report (AFR) for FY 2021.

#### Exhibit 2. FY 2022 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

| Statement of Assurance: No assurance |  |                   |     |          |              |                |
|--------------------------------------|--|-------------------|-----|----------|--------------|----------------|
| End-to-End Process                   | Area of Material Weakness                              | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| Budget-to-Report                     | Entity Level Controls                                  | 1                 | 1   |          |              | 2              |
|                                      | Fund Balance with Treasury                             | 2                 |     |          |              | 2              |
|                                      | Financial Reporting Compilation                        | 6                 | 1   |          |              | 7              |
| Hire-to-Retire                       | Health Care Liabilities                                | 1                 |     |          |              | 1              |
| Procure to Pay                       | Accounts Payable <sup>1</sup>                          | 7                 |     |          |              | 7              |
|                                      | Intragovernmental Transactions <sup>2</sup>            | 3                 |     |          |              | 3              |
| Acquire-to-Retire                    | Equipment Assets                                       | 2                 |     |          |              | 2              |
|                                      | Joint Strike Fighter Program                           | 1                 |     |          |              | 1              |
|                                      | Real Property Assets                                   | 1                 |     |          |              | 1              |
|                                      | Environmental and Disposal Liabilities <sup>3</sup>    | 1                 |     |          |              | 1              |
|                                      | Property in the Possession of Contractors <sup>4</sup> | 1                 |     |          |              | 1              |
| Plan-to-Stock                        | Internal Use Software                                  | 1                 |     |          |              | 1              |
|                                      | Inventory  | 4                 |     |          |              | 4              |
|                                      | Operating Materials & Supplies                         | 4                 |     |          |              | 4              |
| <b>Total Material Weaknesses</b>     |  | 35                | 2   |          |              | 37             |

<sup>1</sup>Formerly Contract/Vendor Pay

<sup>2</sup>Formerly Reimbursable Work Orders

<sup>3</sup>Formerly Environmental Liabilities

<sup>4</sup>Formerly Accountability and Management of Property Furnished to Contractors for the Performance of a Contract

## Internal Control over Financial Reporting – Material Weaknesses and Corrective Actions

### Entity Level Controls

Department-wide; Identified FY 2019; Correction Target FY 2026

#### Material Weaknesses

1. Multiple DoD Components do not have sufficient entity level controls (ELC) to provide assurance over the financial reporting process. The lack of sufficient controls at the Component level increases the risk of material misstatement on both the components' financial statements and Agency-wide financial statements.
2. Several components did not sufficiently implement oversight and monitoring activities to identify and resolve deficiencies that could affect their basic financial statements (see note).

*Note: Management identified a new material weakness in FY 2022 for lack of oversight and monitoring activities from components to identify and resolve deficiencies in their financial statements.*

#### Corrective Actions

- Continue to implement Department-wide process control narratives (PCNs) that provide baseline guidance for establishing ELCs and refresh existing PCNs as necessary.
- Continue to revise the template developed to capture the key controls in place for monitoring ELCs and compliance with relevant policy.
- Continue to conduct annual evaluations of ELCs to analyze high-risk areas and develop and implement corrective actions.
- Develop a year-over-year comparison view in the OUSD(C) "Risk Management and Internal Controls (RMIC) Dashboard" tool to illustrate and track progress of component testing results over time. Update tool regularly for additional capabilities to facilitate the monitoring actions for PCNs, template revisions, and annual evaluations of ELCs.
- Develop and issue an Agency-wide Corrective Action Plan (CAP) policy instructing components to enhance their root cause analysis in order to address deficiencies.

## Fund Balance with Treasury

Department-wide; Identified FY 2005; Correction Target FY 2025 (see note)

#### Material Weaknesses

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

#### Corrective Actions

- Support beginning balances through research and documentation.
- Coordinate with standard setters for alternate approaches to address beginning balances issues.
- Implement and standardize Advana reconciliations.
- Identify key stakeholders and establish processes to prevent and/or reduce variance inflow and aging
- Enhance internal controls, processes, and systems involved in FBwT reporting.

*Note: The Correction Target date was adjusted from FY 2022 to FY 2025. The change in Correction Target is due to additional time needed to address ineffective processes and controls to perform reconciliations and prevent or resolve existing variances.*



## Financial Reporting Compilation

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

### Material Weaknesses

1. The Budgetary Resources balances presented on the DoD Components' and Agency-wide Statements of Budgetary Resources may not be complete, accurate, or supported.
2. The Department's Reporting Entities have issued inconsistent financial statement presentation styles in prior years (see note).
3. The Department is unable to provide historical data to support completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period.
4. The Department has ineffective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems.
5. The Department has inadequate procedures and controls for recording gross cost and earned revenue on the Statement of Net Cost, and providing gross cost and net cost information related to program or organizational outputs and outcomes.
6. The Department is unable to adequately research and resolve variances between budgetary and proprietary data throughout the reporting period and unable to provide details required to resolve this reconciling difference.
7. Service Providers have not designed or implemented reliable controls to provide the reasonable assurance to their DoD Component customers, which decreases the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements.

Note: In FY 2022, management identified inconsistent financial statement presentation in the components' prior year financial statements.

### Corrective Actions

- Maintain and expand monthly reconciliation methodology between budgetary resources and budget execution information to reduce risk of

reporting incomplete budgetary information in the financial statements. Substantiate that reported balances comply with applicable laws, standards, and regulations. Continue to develop policies, procedures, and internal controls to support the maintenance and timely retrieval of key supporting documentation. Continue implementing and improving processes related to the use of the Statement of Federal Financial Accounting Standards ([SFFAS 48](#) and [SFFAS 50](#) "deemed cost" methodologies to establish opening balances for Inventory & Related Property and General Property Plant & Equipment. Develop and implement internal controls to provide assurance that adequate supporting documentation is developed and maintained to substantiate related financial statement balances and line items.

- Continue to update guidelines for reconciliation of net cost to net outlays, standardize reconciliation methodologies across the Department, and provide training that assists in identifying and resolving the unreconciled differences.
- Design and implement monitoring and oversight controls over service providers' financial reporting processes. Work with service providers to conduct risk assessments of internal controls intended to verify proper definition of process ownership and compliance with internal control guidance and accounting standards. Require relevant service providers to post corrections in a timely manner.
- Continue leveraging Statement on Standards for Attestation Engagements ([SSAE No. 18](#) examinations to monitor the progression of examination findings and develop enhanced financial reporting processes to strengthen controls.
- Retire and replace vulnerable, non-generally accepted accounting principles (GAAP) compliant financial systems; perform reconciliations from feeder systems to the general ledgers; and analyze posting logic within accounting systems to validate that account balances, budgetary to proprietary relationships, and transactions meet [United States Standard General Ledger](#) requirements.
- Ingest all accounting and feeder systems within Advana in order to have a complete population of transactional details that impact the financial statements. Revise policies and procedures to account for costs and earned revenue by major program on the SNC, or on the related Note.
- DoD will maintain oversight over Service

Organization progress through regular reviews of updates to the roadmap to confirm the Service Organizations are on target to achieve their milestones.

- OUSD(C) will provide oversight with regard to DoD Components under a stand-alone audit issuing comparative year financial statements in accordance with GAAP.
- Collaborate with components to assist all year-end adjustments are recorded in the financial reporting system within the appropriate reporting window in accordance with GAAP.

## Health Care Liabilities

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

### *Material Weaknesses*

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

### *Corrective Actions*

- Complete the implementation of new enterprise resource planning core financial systems across the Department for the relevant components to record accrual-based, patient-level cost accounting data.
- Deploy a new billing solution, deploy an automated coding solution, and develop processes to facilitate the creation of itemized bills for all patients receiving direct care within the [Military Health System](#). This electronic health record will assist with the accurate reporting of health care activities and support the establishment of an audit trail.

## Accounts Payable

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

### *Material Weaknesses*

1. The Department may not accurately record funding, or it may not be available in the relevant accounting system, at the time the contract is awarded.
2. The Department lacks standard processes for recording contract obligations electronically in financial systems.
3. The Department has insufficient policies governing the recording of accruals related to contracts.
4. The Department is unable to reconcile contract data to financial data, as well as buyer and seller intragovernmental and intergovernmental transactions.
5. The Department's complex operating environment does not enable the matching of contract to accounting data for public transparency (e.g., inability to match the data required by the Digital Accountability and Transparency Act ([DATA Act](#))).
6. The Department does not have adequate controls to ensure timely contract closeout and de-obligation of funds, which limits the Department's access to capital.
7. The Department lacks sufficient system interoperability for transactions involving multiple DoD Components.

### *Corrective Actions*

- Publish a DoD Instruction setting policies, procedures, and data standards for recording disbursements and report payments.
- Implement scorecards to track compliance with standard procedures and data compliance for all accounting, entitlement, and contract writing systems. This includes ensuring [Purchase Request Data Standard](#) and [Procurement Data Standard](#) correctly carry the Standard Line of Accounting.
- Leverage Wide-Area-Workflow invoice acceptance data to expand and improve the posting of accruals within accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.

- Develop a Procure-to-Pay systems roadmap as part of the broader Financial Management Strategy and Implementation roadmap to ensure system migration plans exist and are implemented to eliminate redundant and antiquated financial management information technology (IT) systems to improve auditability, security, and productivity.
- Design and implement standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e., DATA Act).
- Develop Department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

## Intragovernmental Transactions

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

### Material Weaknesses

1. The Department is unable to provide sufficient evidence to support the performance of work, receipt of intragovernmental goods and services, and validity of open obligations.
2. The Department is unable to verify the timely and accurate collection of disbursements and validate recorded reimbursable agreements meet the time, purpose, and amount criteria.
3. The Department has an ineffective process to collect, exchange, and reconcile buyer and seller intragovernmental transactions (IGT).

### Corrective Actions

- Continue to perform component-level gap analyses on key processes, develop and enter general terms and conditions agreements in the Department of the Treasury's Invoicing system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.
- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing release timeline.
- Develop and document authorization procedures and controls over obligations. Develop

compensating controls to confirm obligations are properly authorized in instances where system authorizations cannot be relied upon.

- Continue to leverage deployed enterprise-wide IGT reconciliation guidance and tools within Advana to support monthly IGT reconciliations.

## Equipment Assets

Department-wide; Identified FY 2006; Correction Target FY 2025 (see note)

### Material Weaknesses

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

### Corrective Actions

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

Note: The Correction Target date was adjusted from FY 2024 to FY 2025 to accommodate the component implementation of corrective actions due to system challenges.

## Joint Strike Fighter Program

Department-wide; Identified FY 2019; Correction Target FY 2027 (see note)

### Material Weaknesses

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

### Corrective Actions

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

Note: The Correction Target date was adjusted from FY 2023 to FY 2027 due to additional time needed to develop and implement the requisite policies, procedures, and systems needed to accurately record, track, and report certain JSF assets in the financial statements.

## Real Property Assets

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

### Material Weaknesses

1. The Department's real property processes, controls, and supporting documentation of real property do not substantiate the acquisition cost, facility construction in progress, and related expenses in the financial statements.

### Corrective Actions

- Implement a new enterprise-wide IT solution designed to increase efficiency, improve data

accuracy and enhance financial reporting.

- Design new systems that interface general ledger transaction with the Defense Enterprise Accounting and Management Systems (DEAMS).
- Complete remaining verification of Air Force Inventory.
- Publish policies to support the accuracy and completeness for reporting the intradepartmental transfers of real property assets.
- Increase the fidelity of the real property inventory baseline by publishing implementation guidance for consistent reconciliations between APSR to Component-level general ledger systems.



*A CH-47 Chinook helicopter flies near Mount Fuji in Japan on its return home journey during 3-2 General Support Aviation Battalion's support to President Biden during his time in Japan. Photo By: Courtesy Photo*

## Environmental and Disposal Liabilities

Department-wide; Identified FY 2019; Correction Target FY 2026

### *Material Weaknesses*

1. The Department is unable to develop accurate estimates and account for Environmental & Disposal Liabilities (E&DL) in accordance with generally accepted accounting principles due to the following issues:
  - » The Department-wide Real Property material weakness does not allow a full and accurate accounting of E&DL related to real property assets, except for the [Defense Environmental Restoration Program](#).
  - » Existence and completeness issues with General Equipment do not allow a full and accurate accounting of equipment related E&DL.
  - » Insufficient formal policy, procedures, and supporting documentation exist for developing and supporting cost estimates.

### *Corrective Actions*

- Continue to convene the E&DL working groups to highlight policy and guidance gaps impacting the completeness, existence, and valuation of E&DL, report on quarterly progress, and share lessons learned.
- Identify methodologies to produce cost estimates consistently between Components, to include standardizing process around the use of the Department's cost estimating tools.
- Align E&DL policies around Real Property and General Equipment physical inventory guidance to confirm that asset-driven E&DLs are being reported appropriately.
- Monitor implementation of standardized processes around the use of the Department's cost estimating tools.

## Property in the Possession of Contractors

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

### *Material Weaknesses*

1. Property in the possession of contractors cannot be consistently identified in the Department's APSRs and general ledger systems. As a result, the Department's financial and accountability records are at risk of misstatement.

### *Corrective Actions*

- Develop and implement policy that supports reporting and accountability requirements for the financial reporting of property in the possession of contractors.
- Develop and implement data standards and automated solutions for identifying the existence and completeness of property in the possession of contractors.
- Continue to manage reporting on contract clause compliance and the APSR-to-general ledger transactional reporting, to include using electronic transactions and enterprise tools.

## Internal Use Software

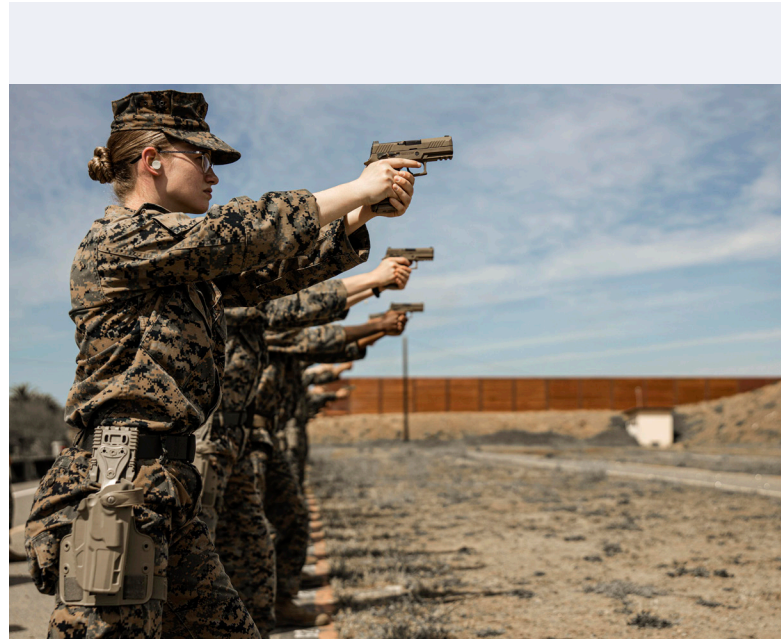
Department-wide; Identified FY 2015; Correction Target FY 2025

### Material Weaknesses

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

### Corrective Actions

- Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.
- Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.
- Develop and implement processes and system changes to APSRs to properly capture and sustain accountability and accounting of IUS.
- Evaluate Department-wide compliance with IUS APSR requirements to drive IUS APSR policy changes.
- Validate corrective actions in conjunction with the DoD Chief Information Officer (CIO) through results of standalone audits, Agency-wide audit, Component Statements of Assurance, and information presented by components at the IUS working group.
- Continue to promote use of SFFAS 50 allowances for opening balance of IUS.
- Evaluate planned changes from the Federal Accounting Standards Advisory Board on accounting for software, software licenses, and other intangible assets for potential accountability and accounting policy changes.



*Top photo: Marines in a combat marksmanship coach class participate in a combat pistol program at Camp Pendleton, Calif., April 26, 2022. Photo By: Marine Corps Cpl. Anthony Pio*

*Bottom photo: South Dakota Army National Guardsmen launch reduced-range practice rockets during a live-fire exercise at Camp Ripley, Minn., July 19, 2022. Photo By: Army Spc. Elizabeth Hackbarth*

## Inventory

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

### *Material Weaknesses*

1. The Department has not implemented adequate policies and procedures over timely reconciliation of subsidiary ledgers and proper application of inventory costing methodologies.
2. The Department has not implemented adequate internal controls to support management's assertion of existence and completeness of Inventory, including preventing users from posting transactions that exceed their approved thresholds, reviewing interface transmission errors, and ensuring transactions are recorded in the proper period for existence, completeness, and valuation.
3. The Department is unable to produce sufficient evidential matter to support inventory transactions, inventory held by third parties, and the complete and accurate identification and correction of erroneous transactions.
4. The Department has insufficient documentation to ensure updated business process controls completely reflect all sub-processes within inventory.

### *Corrective Actions*

- Implement revised policy on comingled assets; address process and system deficiencies associated with reconciliations and valuation methodologies.
- Use the RMIC Program to guide the development and update of internal controls related to inventory accrual, existence, completeness, and valuation. Implement policy changes to support long-term courses of action to mitigate inventory weaknesses.
- Implement and enforce revised Department policy on asset physical accountability requiring internal controls and annual physical inventories. Design and improve reports, management oversight, and procedures to improve effectiveness of management controls.
- Review, improve, and implement enhanced controls in the inventory processes and perform follow up testing for compliance and effectiveness.

- Continue the Inventory working group to highlight policy and guidance gaps impacting the existence, completeness, and valuation of Inventory, report on progress and share lessons learned.

## Operating Materials & Supplies

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

### *Material Weaknesses*

1. The Department does not report Operating Materials & Supplies (OM&S) in the Inventory & Related Property line on the Balance Sheet in accordance with SFFAS 3 and SFFAS 48.
2. The Department has not performed an annual assessment of OM&S acquired by components for the purposes of determining appropriate accounting treatment under SFFAS 3, to include existence and completeness.
3. The Department does not have adequate processes and controls for accurately recording munitions inventories.
4. Components do not have sufficient controls and procedures addressing OM&S assets in the possession of third parties, to include service providers and contractors.

### *Corrective Actions*

- Implement an appropriate valuation method for OM&S. Develop and implement procedures to document the process to determine when a decline in value should be considered temporary or permanent. Review all posting logic, re-evaluate existing policies, develop and implement controls to ensure property account posting logic, and establish a methodology to support valuation of OM&S.
- Implement new Department policy requiring inventory counts of OM&S. Conduct inventory counts in accordance with existing policies and supplement as necessary based on the new policy. Develop component-level risk control matrices based on inventory control gap analyses to implement changes to the inventory count process. Report metrics for use in governance meetings on physical inventory counts of OM&S, adjustments, and OM&S in the possession of third parties.

- Develop solutions for a new munition control system that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new munition control system solutions.
- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement improved reconciliation processes to address OM&S held by service providers and contractors. All contractor inventory control point programs will be identified, and controls developed to maintain OM&S along with policies and procedures for oversight.
- Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.
- Continue the OM&S working group to analyze processes and integrate remediation efforts among Components to optimize system change efforts and harmonize reporting. This working group will report on progress and share lessons learned across the Department's OM&S community.



*TINIAN, Northern Mariana Islands (June 14, 2022) Explosive Ordnance Disposal Technician 2nd Class Orin Olds, assigned to Explosive Ordnance Disposal Mobile Unit (EODMU) 5, Platoon 501 conducts diving operations to neutralize inert training mines in support of Exercise Valiant Shield 2022. Exercises such as Valiant Shield allow the Indo-Pacific Command Joint Forces the opportunity to integrate forces from all branches of service to conduct precise, lethal, and overwhelming multi-axis, multi-domain effects that demonstrate the strength and versatility of the Joint Force and our commitment to a free and open Indo-Pacific. (U.S. Navy photos by Lt. Tyler Baldino)*



## FMFIA Section 2, Effectiveness of Internal Control over Operations

Exhibit 3 lists the FY 2022 management identified material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2021.

**Exhibit 3. FY 2022 Effectiveness of Internal Control over Operations (FMFIA §2)**

| Statement of Assurance: Modified Assurance |                   |          |          |              |                |
|--|-------------------|----------|----------|--------------|----------------|
| Assessable Unit                            | Beginning Balance | New      | Resolved | Consolidated | Ending Balance |
| Acquisition                                | 4                 |          | 1        |              | 3              |
| Comptroller and/or Resource Management     | 2                 |          |          |              | 2              |
| Communication                              | 1                 |          |          |              | 1              |
| Contract Administration                    | 1                 | 1        | 1        |              | 1              |
| Information Technology                     | 3                 |          | 1        |              | 2              |
| Force Readiness                            | 2                 | 1        |          |              | 3              |
| Manufacturing, Maintenance, and Repair     | 1                 |          |          |              | 1              |
| Personnel and/or Organizational Management | 6                 | 1        |          | 3            | 4              |
| Support Services                           | 3                 |          |          |              | 3              |
| Supply Operations                          | 3                 |          |          |              | 3              |
| <b>Total Material Weaknesses</b>           | <b>26</b>         | <b>3</b> | <b>3</b> | <b>3</b>     | <b>23</b>      |

## Internal Control over Operations – Material Weaknesses and Corrective Actions

### Acquisition

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

#### Material Weaknesses

1. Many DoD acquisition programs do not comply with the Clinger-Cohen Act, [10 USC §2222](#), DoD Instruction ([DoDI 5000.74](#), and [DoDI 5000.75](#); do not have sufficient management and oversight of IT services and defense business systems; and do not always adequately use existing DoD and [Defense Contract Management Agency](#) controls for generating, monitoring, and closing contracts.
2. The Department systems engineering in acquisition programs lacks a modular, open-systems approach as required by DoD 5000.01, E1.127; DoDI 5000.02 Operation of the Defense Acquisition System, Defense Acquisition Guide and related functional guidance, in order to optimize total systems' performance and minimize total ownership costs.
3. The Department's pricing for Blank Purchase Agreements for medical items appears to be well above private sector pricing.

#### Corrective Actions

- Continue to drive progress toward Clinger-Cohen Act compliance through implementation of strong controls, checklists, re-organization of duties, and standardization of position descriptions.
- Implement DoD 5000 series policy mandates, develop further guidance to properly gather and analyze performance metrics, and align acquisition programs with the DoD mission and needs.
- Continue to improve implementation of [Better Buying Power 3.0](#) and clarify/update [DoDI 5000.02](#). Develop additional standard operating procedures and map key business processes to document control activities within each functional area.
- Develop and implement a procedural instruction for acquisition approval and governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review acquisition

programs, and improve the monitoring and forecasting of potential issues or risk areas. Hire employees to manage accountable property; establish and implement cyclical inventory count schedule. Enforce accountable property and General Equipment requirements, publish property management manual, and deliver employee training on property management solutions.

- Conduct systems reviews, capability portfolio reviews, configuration steering boards, and cost reviews to identify process inefficiencies and improve the acquisition management process.
- Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule, and performance variances, and to address reported variances.
- Publish updated investment management guidance with business capability review instructions and schedule.
- Address investment management, portfolio management, business architecture, and IT modernization strategies and implementation by DoD Component.
- Establish portfolios, develop capability strategies for each portfolio, and conduct portfolio reviews following implementation.
- Create a committee to monitor progress of internal controls over operations by the Defense Business Council (DBC), and pursue inventory of performance improvement opportunities to accelerate material weaknesses mitigation.

## Comptroller and/or Resource Management

Department-wide; Identified FY 2013; Correction Target FY 2028

### Material Weaknesses

1. The Department has insufficient Existing controls for defining maintenance requirements and planning, programming, budgeting, and executing depot maintenance and has not been effective in generating required output in accordance with planned schedules and budgets. Multiple audits and studies identified a wide range of control issues that cumulatively create MWs in ship and aviation depot maintenance.
2. DoD Medical Treatment Facilities (MTFs), operating under Uniform Business Office (UBO) guidance issued by the DHA, did not conduct compliance audits, follow up on outpatient claims, or refer outstanding claims to legal for collection when they were open for more than 270 days after initial billing as required by the DoD UBO Manual.

### Corrective Actions

- Improve policies for defining, costing, and executing maintenance for depot level to accurately predict both costs and timelines.
- Obtain and review DHA UBO guidance, which outlines the requirement for performing compliance audits. Coordinate with MTF UBO stakeholders to determine the necessary resources and requirements for establishing a compliance audit program. Revise the National Capital Region (NCR) Market Medical Revenue business process narrative to incorporate policies, procedures, and internal controls surrounding the execution of UBO compliance audits as it aligns with Enterprise-level guidance. MTF officials ought to obtain precertification or preauthorization to allow for claim collection.

## Communication

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

### Material Weaknesses

1. The Department of the Air Force has identified

a systemic issue in communication of security information between installations and appropriate external entities.

### Corrective Actions

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

## Contract Administration

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

### Material Weaknesses

1. The Department must demonstrate its plan to transfer the administration of military treatment facilities to improve efficiency by providing specific details on efforts to eliminate duplicative activities, reduction of headquarters' level military, civilian, and contractor personnel.

### Corrective Actions

- Coordinate with Defense Health Agency (DHA) to ensure all operational readiness and installation specific medical functions are considered for transfer.
- Conduct tradeoff analysis, as needed, on potential effect or impact, including but not limited impact on operational costs.
- Develop and implement a plan that details how the Department intends to achieve reductions in headquarters' personnel.

## Information Technology

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

### Material Weaknesses

1. The Department experiences systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening or encryption) contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.
2. The Department experiences:
  - » Numerous weaknesses in IT governance (especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies, procedures, and practices across the Department);
  - » Lack of clear, concise IT security requirements for developed-in-house and acquired systems;
  - » Inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts;
  - » Inability to produce application-level audit logs related to account management and configuration management; and
  - » Lack of periodic review and update of system-level policy documentation. Additionally, the Department did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component lifecycle.

### Corrective Actions

- Strengthen governance and investment certification processes through the Defense Business Council (DBC).
- Expand review and analysis of proposed IT systems to include non-financial management systems.
- Establish processes to ensure stakeholder participation in the cybersecurity scorecard

meetings and alignment of component scorecard metrics to audit findings.

- Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring, and public key infrastructure-based authentication/credentials. Continue development of an enterprise Identity, Credential, and Access Management (ICAM) solution with nine pilot systems to address access control gaps across the Department.
- Coordinate with DoD Components to confirm that current acquisition and IT purchase contracts and policy require the adoption of established user access controls and encryption/hardening standards.
- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform workload studies and associated manning adjustments as necessary.
- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in [DoDI 8520.03](#) for stronger authentication.
- Develop, communicate, implement, and continuously monitor entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.
- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Clearly identify lines of demarcation between acquisition and provisioning.

## Force Readiness

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

### *Material Weaknesses*

1. Multiple MTFs have unfunded sustainment, restoration, and modernization (SRM) requirements that could cause severe injury, death, or moderate to major property damage if not addressed.
2. The Department needs further analysis of the size, readiness, and efficiency of the Medical Force.
3. The Department's nuclear enterprise does not appear to have adequate managerial oversight capabilities, an effective self-assessment program, or the ability to produce useful nuclear inspection reports.

### *Corrective Actions*

- Generate, document, and implement standardized issuances/procedures to address multiple issues at the MTFs upon assuming responsibility for SRM.
- Employ relevant standards to assess required number of active-duty and civilian medical personnel; requirements necessary in order to maintain the skills of active-duty military providers and requirements to increase active-duty and civilian medical personnel's productivity.
- Implement a plan to conduct independent evaluations of supply chain risk management for the nuclear command, control, and communications systems; develop the criteria and methodology that will be used; and identify timeframes for conducting the evaluations.

## Manufacturing, Maintenance, and Repair

Department of the Navy; Identified FY 2016; Correction Target FY 2025

### *Material Weaknesses*

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

### *Corrective Actions*

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

## Personnel and/or Organizational Management

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

### *Material Weaknesses*

1. The Department's average civilian time-to-hire may negatively affect the Department's ability to attract quality candidates to fill open resource needs on a timely basis.
2. The large number of personnel systems, pay systems, and special human resources (HR) authorities and flexibilities used to manage the civilian workforce has caused excessive complexity and variability in HR processes.
3. The Department has not implemented a centralized personnel accountability system and standardized reporting formats to enable consistent management of military personnel HR processes across the geographical Combatant Commands.
4. Higher than anticipated attrition in the Personnel Services Division (PSD) Branches (Processing, Classification, Recruiting and Staffing, Onboarding) has led to a reduction of fully proficient government staff.

### *Corrective Actions*

- Develop and implement Component-level action plans to reduce time-to-hire. Foster Department-wide cooperation and information sharing by using data analytics and DBC governance to improve hiring practices.
- Articulate procedures to simplify, streamline, and standardize Human Resource (HR) processes in order to provide better quality HR hiring services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.
- Execute ad-hoc initiatives to increase capability in the PSD in order to meet demand.
- Automate manpower systems and personnel systems reconciliation; strengthen internal controls; establish business rules for personnel accountability to avoid double counting of personnel.

## Support Services

Department-wide; Identified FY 2017; Correction Target Reassessed Annually

### *Material Weaknesses*

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

### *Corrective Actions*

- Develop and approve new Defense Performance Improvement Framework; build a repository of ongoing performance improvement initiatives; develop prioritization and oversight mechanisms to strengthen enterprise capabilities in support of improving business functions.
- Revise transformation guidance (e.g., [DoDI 5010.40](#)) to reflect pertinent guidance in GAO Green Book and OMB Circular No. A-123, as well as recent changes in the assignment of the Department's management internal control and risk management functions.

## Supply Operations

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

### *Material Weaknesses*

1. Insufficient asset visibility causes the Department to unnecessarily order supplies it already has.
2. Lack of supply condition knowledge inhibits the reorder replacement for damaged supplies.
3. Reductions in the number of suppliers from which the Department can purchase raw materials and finished goods affects the Department's ability to obtain necessary supplies in a timely manner and of sufficient quality.

### *Corrective Actions*

- Improve collection and analysis of supplier threat assessments, implement methods to mitigate risks such as improved hardware and software testing, and enhance processes for approving product and vendor lists.
- Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures.
- Implement best practices in cost and contract management with focus on strategic sourcing of sole-source and limited supplier items (e.g., rare metals).
- Identify and remove fraudulent suppliers currently in the supply chain using effective supplier fraud management including improved vetting of supplier claims; strengthened review, verification, and analysis of past and current performance; increased scrutiny of supplier ownership; and research of supplier name changes.
- Address limited distribution networks and capabilities to transport supplies to the right place at the right time, safely, and securely.



*Marine Corps drill instructors give commands to a poolee during training at Colonial Heights, Va., April 23, 2022. Photo By: Marine Corps Sgt. Alexa Hernandez*

## FMFIA Section 4, Conformance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management system requirements. Exhibit 4 lists the number of management identified instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2021. The [Office of the Under Secretary of Defense \(Comptroller\)](#) is responsible for the development of enterprise-level plans to remediate these instances of non-conformance as well as providing oversight over system owner progress.

**Exhibit 4. FY 2022 Conformance with Federal Financial Management System Requirements (FMFIA §4)**

| Statement of Assurance: No Assurance |                   |     |          |              |                |
|--------------------------------------|-------------------|-----|----------|--------------|----------------|
| Non-Conformance                      | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| Business System Modernization        | 1                 |     |          |              | 1              |
| FISCAM Compliance                    | 1                 |     |          |              | 1              |
| FFMIA Compliance                     | 1                 |     |          |              | 1              |
| <b>Total Non-conformances</b>        | <b>3</b>          |     |          |              | <b>3</b>       |



*Airmen participate in a basic military training graduation ceremony at Joint Base San Antonio, Aug. 11, 2022. Photo By: Daniel Cruz, Air Force*



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

Exhibit 5 lists the FY 2022 management identified instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

### Exhibit 5. FY 2022 Compliance with Section 803(A) of the Federal Financial Management Improvements Act (FFMIA)

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



*Exercise Shield is an annual Croatian air defense exercise that aims at strengthening the execution of the Air Defense tasks against low and medium altitude moving targets. During the exercise, the 173rd Airborne Brigade and Croatian Air Defense Regiment jointly trained on air defense tactics, techniques and procedures to include air-space control, deconfliction and surveillance as well as targeting and live-fire engagement against flying objects on low- and medium-level altitudes. Photo By: Army Capt. Robyn Haake*

## Federal Financial Management System Requirements – Non-Conformances and Corrective Actions

### Business System Modernization

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

#### *Non-Conformance*

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

#### *Corrective Actions*

- Continue to mature and sustain the integrated Enterprise Financial Management IT Roadmap to identify, prioritize, and track system migrations and retirements that will simplify the Department's business systems environment and increase the security, compliance and auditability of systems. This includes integrating and improving system data quality in authoritative systems, such as the DoD Information Technology Portfolio Repository (DITPR).
- Continue to consolidate DoD general ledger systems by enabling and tracking the Department's migration to enterprise resource planning (ERP) systems and retirement of vulnerable systems to allow for large-scale audit improvements and an enhanced business systems environment.
- Consolidate portfolio management tools and implement tools to improve data quality.
- Develop and implement assessment(s) and a series of monitoring tools to integrate and evolve the method of evaluating and measuring progress towards achieving a more efficient and auditable defense business system environment. Specifically, the Department will continue to mature and develop new metrics that allow for easy visibility of system planned migration and retirement plans, system compliance, system cost,

system dependencies, and system health, etc.

- Leverage the notice of findings and recommendations (NFR) database to monitor and report on the status of corrective action plan and NFR closures.
- Leverage existing working groups and governance bodies such as the Defense Business Council, Defense Business Systems Committee, and Information Technology Portfolio working group to influence business system investment decisions and ensure modernization efforts remain on schedule.

### FISCAM Compliance

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

#### *Non-Conformance*

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

#### *Corrective Actions*

- Continue to implement an enterprise ICAM solution to provide user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to use the NFR database, leverage technology (e.g., Advana) and the IT Functional Council to track remediation status and identify common solutions to material weaknesses and Department-wide issues.

- Continue to analyze the current IT NFRs and prioritize issues with the most significant audit and security impacts, including access control deficiencies to help safeguard sensitive data from unauthorized access and misuse.
- Align the Risk Management Framework (RMF) with audit results, as the DoD RMF is essential to the Department's ability to self-identify issues and sustain improvements. Summarize the results of security control assessment reviews performed and develop a plan to remediate identified issues.
- Revise and publish an updated Financial Management Overlay with integrated assessment procedures by December 2023.

## FFMIA Compliance

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

### *Non-Conformances*

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

### *Corrective Actions*

- Migrate three more Components to a common ERP system, the Defense Agency Initiative (DAI) by FY 2025. The DAI application is a FFMIA-compliant commercial-off-the-shelf solution that obtained its sixth consecutive unmodified SSAE No. 18 opinion in FY 2022.
- Continue to deploy FFMIA-compliant ERP solutions throughout the Department. Implement system change requests to enable additional capabilities and standardized processes and information.
- Continue to focus on reducing vulnerable financial management systems, investing in ERP systems, and evolving the role of service providers.
- Deploy a repeatable compliance assessment and monitoring process, working with stakeholders to document objectives, dependencies, and

milestones for Corrective Action Plans.

- Deploy automated compliance and portfolio management tools to measure and track FFMIA and Standard Financial Information Structure (SFIS) compliance and retain a clear line of sight on the systems within our Enterprise FM IT Roadmap.
- Implement requirement for non-FFMIA-complaint systems to establish a retirement date or modernization plan with milestones on when they will become FFMIA-compliant.
- Prioritize system compliance NFRs and establish clear guidance to address internal control gaps. This includes ensuring funding is secured for critical system owners to address FFMIA compliance gaps.
- Consolidate portfolio management tools and implement tools to improve data quality (e.g., DITPR and FSD database, Data Quality dashboards, etc.).
- Partner with key stakeholders to identify and prioritize system compliance NFRs and establish clear guidance to address internal controls.
- Leverage technology such as artificial intelligence and robotics process automation to increase the timeliness and accuracy of transactions.

# MANAGEMENT CHALLENGES

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

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2023 rather than FY 2022 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2022 Top DoD Management Challenges as well as similar reports from previous years are available at the [DoD OIG website](#).



*Top photo: Marines with Marine Corps Forces, Pacific Band perform for a redesignation ceremony at Marine Corps Base Hawaii, June 23, 2022. Photo By: Marine Corps Cpl. Patrick King*

*Bottom photo: Air Force F-16 Fighting Falcons fly in formation before an aerial refueling over Phoenix, Aug. 6, 2022. Photo By: Air Force Staff Sgt. James Richardson*



# INSPECTOR GENERAL

*U.S. Department of Defense*

FISCAL YEAR 2023

# TOP DOD MANAGEMENT CHALLENGES



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

## Mission

*To detect and deter fraud, waste, and abuse  
in Department of Defense programs and operations;  
Promote the economy, efficiency, and effectiveness of the DoD; and  
Help ensure ethical conduct throughout the DoD*

## Vision

*Engaged oversight professionals dedicated  
to improving the DoD*



For more information about whistleblower protection, please see the inside back cover.



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



October 14, 2022

I am pleased to issue our annual report on the Department's most serious management and performance challenges as required by the Reports Consolidation Act of 2000. As in the past, the DoD Office of Inspector General (DoD OIG) independently identified the challenges based on a number of factors. Those factors included an assessment of the Department's strategic documents, such as the National Defense Strategy and Strategic Management Plan; completed oversight work by the DoD OIG and other agencies; input from DoD officials; congressional hearings and legislation; and issues identified by research institutes and the media. The challenges that we identified are neither exhaustive nor ranked in order of significance or severity.

This year we identified eight challenges, which are generally consistent with the challenges we identified in recent years. In particular, we reintroduced the topic of data as a standalone challenge, this time focusing on the DoD's efforts to accelerate its transformation to a data-centric organization. Although we present the challenges by topic, we examined them through the lens of the DoD's ability to effectively and efficiently execute its mission. Consequently, aspects of a challenge, such as the impact of the COVID-19 pandemic, can apply to multiple topics.

In addition to describing the challenges, we discuss recent actions taken by the DoD to address them; assess the DoD's progress in each challenge area; and cite planned, ongoing, and completed oversight work as applicable. The challenges we identified serve as the organizing principle for our DoD OIG annual oversight plan, to help us focus on audits and evaluations relevant to the DoD's most important performance and management challenges. Both the challenges and the oversight plan are key to the execution of our DoD OIG mission to detect and deter fraud, waste, and abuse in DoD programs and operations; promote the economy, efficiency, and effectiveness of the DoD; and help ensure ethical conduct throughout the DoD.

Particularly as the DoD provides substantial support to Ukraine, we look forward to continuing to conduct independent and objective oversight that helps the DoD execute its mission effectively, operate efficiently, and sustain the trust and confidence of the American people.

A handwritten signature in black ink that reads "Sean W. O'Donnell".

Sean W. O'Donnell  
Acting Inspector General

## EXECUTIVE SUMMARY



*U.S. Navy Sailors with Naval Beach Unit Seven rehearse for a bilateral amphibious landing at Naval Education, Training, and Doctrine Command in Zambales, Philippines, on October 6, 2022. (U.S. Marine Corps photo)*



## Executive Summary

The DoD OIG is required by law to report annually the most significant management and performance challenges facing the DoD. The challenges are identified using input from various sources, including oversight work of the DoD OIG and other organizations; congressional hearings and legislation; input from DoD officials; research institute analyses; and issues raised by the media. The DoD's progress to address challenges is also considered. The resulting independent report seeks to inform Congress and the public of the challenges affecting the DoD.

The FY 2023 Top DoD Management Challenges are:

1. Building Enduring Advantages for Strategic Competition
2. Strengthening Cyberspace Operations and Securing Systems, Networks, and Data
3. Maintaining Superiority Through a Resilient Defense Industrial Base
4. Improving Financial Management and Budgeting
5. Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment
6. Protecting the Health and Wellness of Service Members and Their Families
7. Recruiting and Retaining a Diverse Workforce
8. Accelerating the Transformation to a Data-Centric Organization

The numerical designators for each challenge do not represent order of significance or severity. All identified challenges impact the DoD's ability to optimally execute its mission—to provide the military forces needed to deter war and protect the Nation's security.

## EXECUTIVE SUMMARY

## CHANGES FROM THE FY 2022 TOP DOD MANAGEMENT CHALLENGES

The foremost differences from last year's report include the reframing of several challenges, integration of four previous standalone challenges to two, and the reintroduction of a standalone challenge on the theme of data. The change in the overall number of challenges from 10 to 8 does not reflect resolution of previously identified challenges.

Last year's challenge on "Maintaining the Advantage in Strategic Competition," and "Assuring Space Dominance, Nuclear Deterrence, and Missile Defense," were combined and reframed to "Building Enduring Advantages for Strategic Competition," which is consistent with the DoD's integrated strategic review approach underpinning the 2022 National Defense Strategy. Similarly, this year's challenge on "Maintaining Superiority Through a Resilient and Modern Defense Industrial Base" reflects the merger of two previous standalone challenges that focused on the supply chain and acquisition.

This year, "Accelerating the Transformation to a Data-Centric Organization," highlights the importance of the DoD Data Strategy, its implementation, and likely barriers. While the focus of the challenge is on efforts to accelerate the transformation, technological dominance and the collection and use of data affect all challenges to some degree. Data and associated systems permeate every aspect of the DoD and are integral to leaders making informed decisions for executing operations and measuring effectiveness of DoD programs, processes, and operations. Technological dominance and effective use of data are paramount for the DoD to succeed against strategic competitors that are investing heavily in new technologies, from major weapon systems to artificial intelligence.

## STRATEGIC ENVIRONMENT

The strategic environment is contested and the DoD's ability to ensure its dominance will partly rest on how effectively it can address the challenges we present here. The domestic and global context affects the DoD's ability to accomplish its mission and effectively overcome the threats of today and tomorrow.

Domestically, the DoD faces manpower, financial, and operational pressures. Recruiting and retention of Service members and civilians is hampered by diminishing confidence in the military and a Government-wide decrease in morale and employee engagement.<sup>1</sup> Pandemic-induced uncertainty and economic pressures, further exacerbated by the fallout from Russia's assault on Ukraine, are increasing costs and decreasing purchasing power. The demands on the DoD are increasing as less traditional stressors like the COVID-19 pandemic response and the increased frequency and severity of extreme weather events strain readiness and resilience.

On the global front, the People's Republic of China (PRC) and Russia are leading the charge in hardening an anti-U.S. axis, seeking to disrupt the existing order. Whether through incentives, coercion, misinformation, or outright invasion, they seek to expand their spheres of influence and undermine U.S. standing and capabilities. The PRC's military transformation and sustained and sizable investment in quantum computing, artificial intelligence, and other technologies are likely to change how future wars are fought. Security cooperation is a growing area of competition, especially with nations such as the PRC, and although the United States has a competitive advantage, it is being challenged. It will be essential for the DoD to advance and safeguard its partnerships, particularly in the Indo-Pacific.

<sup>1</sup> "2021 Best Places to Work in the Federal Government Rankings," July 2022.

## SUMMARY OF THE FY 2023 MANAGEMENT CHALLENGES

The DoD OIG is presenting eight challenges that it considers the most pressing matters facing the DoD in the upcoming fiscal year.

Management challenge 1, “Building Enduring Advantages for Strategic Competition,” addresses factors that impact the DoD’s ability to sustain and strengthen deterrence and competitive advantages, particularly against our most consequential strategic competitor, the PRC. Key to this challenge is continuing to build partnerships, balancing ongoing operations with sustainment and modernization, developing and fielding new capabilities at a faster rate.

Management challenge 2, “Strengthening Cyberspace Operations and Securing Systems, Networks, and Data,” addresses the DoD’s ability to protect and defend communication and computing systems, networks, devices, and data. Key to this challenge is strengthening cyber capabilities, improving cyber hygiene, and modernizing systems and software.

Management challenge 3, “Maintaining Superiority Through a Resilient Defense Industrial Base,” focuses on the DoD’s and the Defense Industrial Base’s interdependence and associated risks. Key to this challenge is effectively using existing acquisition flexibilities, mitigating the effects of providing stockpiled weapons and supplies to Ukraine, and expanding the domestic and partner capacity for critical materials, such as microchips and minerals.

Management challenge 4, “Improving Financial Management and Budgeting,” addresses barriers that affect the DoD’s ability to attain a clean audit opinion. Key to this challenge is the lack of swift and aggressive changes to accounting and financial management processes, inability to improve internal controls and implement corrective actions in a timely manner, and continued use of legacy systems that do not comply with Federal requirements.

Management challenge 5, “Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment,” addresses three lines of effort of the DoD’s Climate Adaptation Plan: making climate-informed decisions, training and equipping a climate-ready force, and building resilient installations and infrastructure. Key to this challenge is expanding climate literacy and training, integrating climate effects into operations, and addressing installations’ maintenance and improvement backlog.

Management challenge 6, “Protecting the Health and Wellness of Service Members and Their Families,” addresses readiness of health care personnel, mental health services, substance misuse, suicide prevention, and women’s health. Key to this challenge is the adverse impact of the pandemic on health care providers and beneficiaries, the stigma associated with receiving care for conditions such as mental illness, and inadequate resources for women’s health needs including during deployment.

Management challenge 7, “Recruiting and Retaining a Diverse Workforce,” focuses on the DoD having the right people today and in the future to execute its mission. Key to this challenge is competition for talent, decreasing interest in military service, smaller pool of qualified candidates, inadequate talent management, and lack of complete and accurate data to measure diversity and inclusion.

Management challenge 8, “Accelerating the Transformation to a Data-Centric Organization,” focuses on the importance and challenges of using data to inform DoD decisions and improve operational effectiveness. Key to this challenge is the DoD’s ability to overcome cultural barriers, effectively implement its data strategy, and adopt innovation and best practices.



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

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### **U.S. DEPARTMENT OF DEFENSE**

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# PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 ([PIIA](#)) continues to be a top financial management priority for the Department. The Department supports PIIA compliance through the activities of its Payment Integrity program, which comprises 12 separate programs (see Exhibit 6). Collectively, these programs constitute the majority of payments made by the Department annually. This section provides an overview of the FY 2022 results of the Department's Payment Integrity program. See [PaymentAccuracy.gov](#) for additional information related to program scorecards, corrective actions, and payment recovery efforts.

Per [OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement](#), all programs with annual outlays over \$10 million fall into one of two possible classifications: Phase 1 or Phase 2.

## **Phase 1: Identify Susceptible Programs and Activities with an Improper Payment Risk Assessment.**

Programs classified in this phase undergo a risk assessment to determine susceptibility to improper and unknown payments above the statutory threshold<sup>5</sup>. Programs not deemed susceptible to improper and unknown payments above statutory threshold will undergo a risk assessment every three years. Programs deemed susceptible to improper and unknown payments must transition to Phase 2.

## **Phase 2: Report Improper Payment Estimates for Identified Susceptible Programs with a Statistically Valid Sampling and Estimation Methodology.**

Programs classified in this phase will use a statistically valid sampling and estimation methodology to report an annual improper and unknown payments estimate. Phase 2 is not required if the results of Phase 1 indicate that the program is not likely to be susceptible to significant improper and unknown payments.

During FY 2022, the Department classified three programs in Phase 1, and nine in Phase 2.

<sup>5</sup>Programs are considered to be above the statutory threshold if they are reporting an annual improper and unknown payments estimate that is either above \$10,000,000 and 1.5% of the program's total annual outlays or above \$100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated improper and unknown payments amount represents.

### Exhibit 6. DoD Payment Integrity Programs

- **U.S. Army Corps of Engineers (USACE) Commercial Pay:** Payments disbursed by the USACE to vendors and contractors for goods and services. It also includes Disaster Relief and COVID response funding payments made by USACE.
- **USACE Travel Pay:** Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief and COVID response funding payments made by USACE.
- **Military Health Benefits – Administrative:** Payments disbursed by Defense Health Agency (DHA) for TRICARE program administrative and other contract costs.

#### PHASE 1

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

#### PHASE 2



In accordance with OMB Circular No. A-123, Appendix C, the Department categorizes all program outlays<sup>6</sup> as one of three payment types: proper payment; improper payment; or unknown payment. A payment is reported as ‘proper’ if it was made to the right recipient for the right amount, reported as ‘improper’ if it was made in an incorrect amount or to the wrong recipient, and reported as ‘unknown’ if the Department was unable to determine whether the payment is proper or improper as a result of insufficient or lack of documentation.

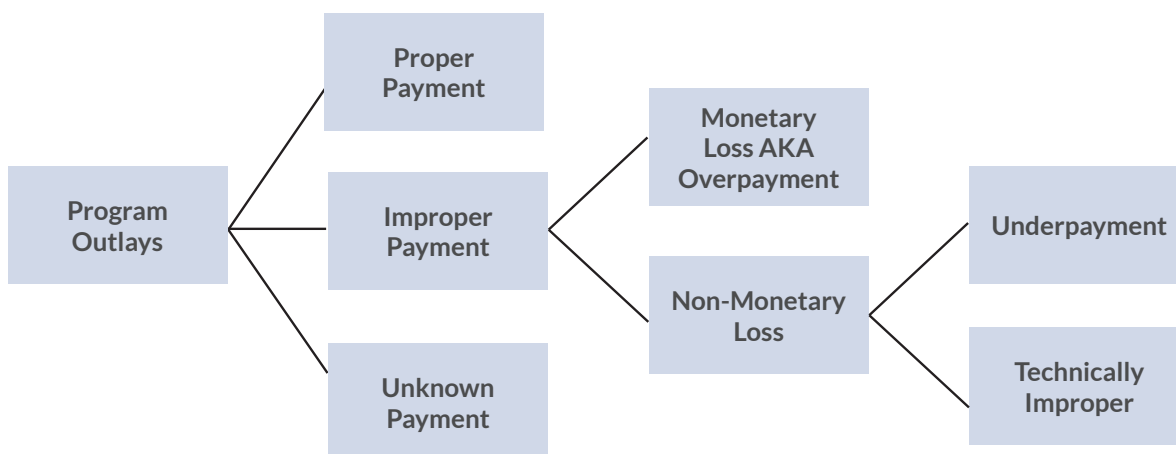
In FY 2022, the Department’s estimated improper payments were reported in three separate categories per OMB guidance (see Exhibit 7):

- Overpayments are payments in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of the overpayment. Overpayments result in monetary or cash losses that should not have been paid and in theory should/could be recovered by the Department.
- Underpayments are payments that are less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount of the underpayment. Underpayments are non-monetary losses to the Department.
- Technically Improper Payments are payments made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements. Technically improper payments are non-monetary losses to the Department.

Additionally, in accordance with OMB memorandum, [“Risk-Based Financial Audits and Reporting Activities in Response to COVID-19.”](#) the Department continued to apply OMB Circular No. A-123, Appendix C, Requirements for Payment Integrity Improvement, during FY 2022 to the Coronavirus Disease 2019 (COVID-19) response funding received in FY 2020 through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the [Families First Coronavirus Response Act](#). The memorandum permitted Payment Integrity programs that received COVID-19 related funding and were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department verified that the financial systems used to account for COVID 19 response funding were included in relevant program sampling plans (e.g., Commercial Pay, Military Health Benefits, DoD Travel Pay).

The estimated improper payment rates reported for all programs were below the PIIA statutory threshold of 10 percent and most of the improper payments identified did not result in monetary losses or incidents of fraud, waste, and abuse.

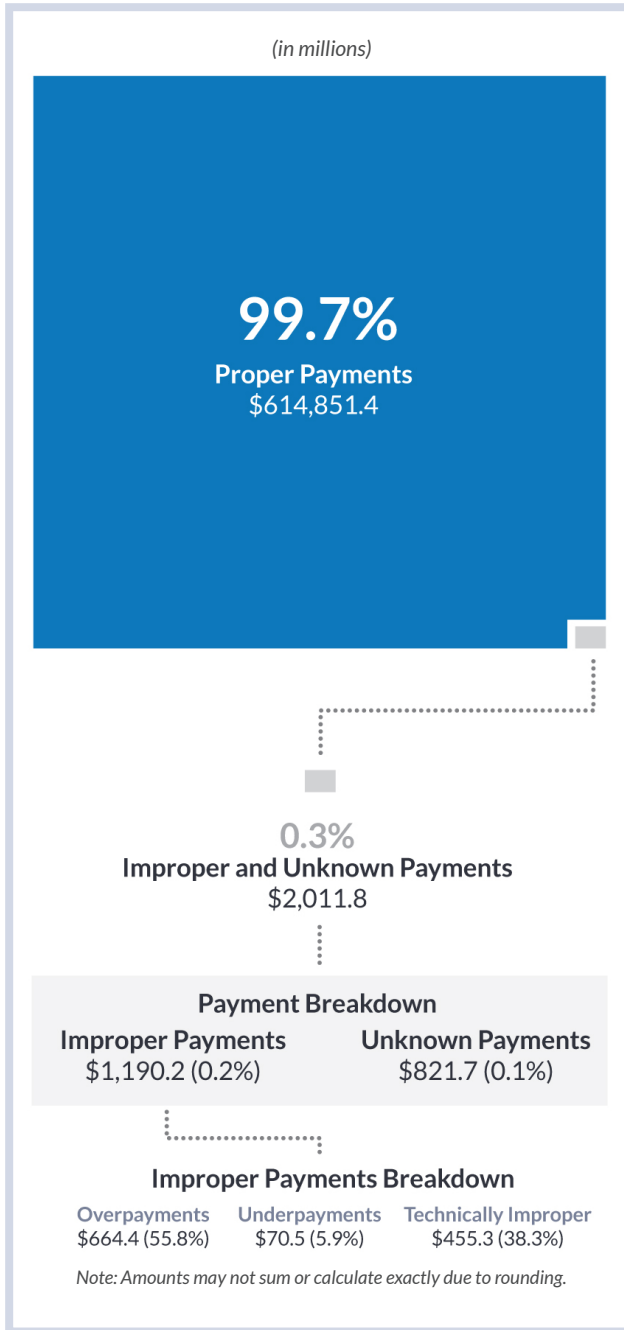
**Exhibit 7. OMB Payment Type and Improper Payment Type Categories**



Overall, the Department identified \$616,863.2 million in payments or outlays<sup>6</sup> subject to testing under the PIIA and estimated a proper payment rate of 99.7 percent (\$614,851.4 million), an improper payment rate of approximately 0.2 percent (\$1,190.2 million), and an unknown payment rate of approximately 0.1 percent (\$821.7 million) (see Exhibit 8).

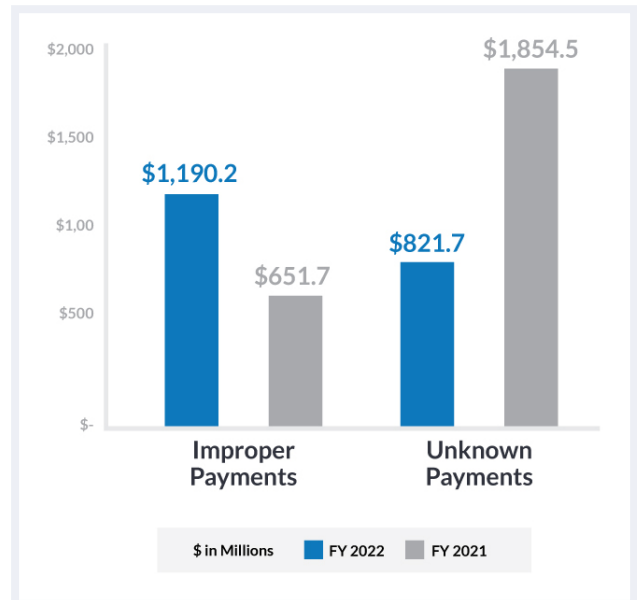
<sup>6</sup>The Independent Auditor’s Report on the DoD FY 2022 and FY 2021 Principal Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions.

**Exhibit 8. Estimated Improper Payments by Payment Type and Improper Payment Category**



In FY 2022, the Department reported a total of \$2,011.8 million in improper and unknown payments for nine programs. The \$1,190.2 million reported in improper payments was approximately an 82.6 percent (\$538.5 million) increase from FY 2021 and the \$821.7 million reported in unknown payments was approximately a 55.7 percent (\$1,032.9 million) decrease from FY 2021 (see Exhibit 9).

**Exhibit 9. Annual Comparison of Improper and Unknown Payments**



*The Blue Angels, the Navy's flight demonstration squadron, performs aerial maneuvers over Ellsworth Air Force Base, S.D., May 15, 2022. Photo By: Air Force Tech. Sgt. Luke Olson*

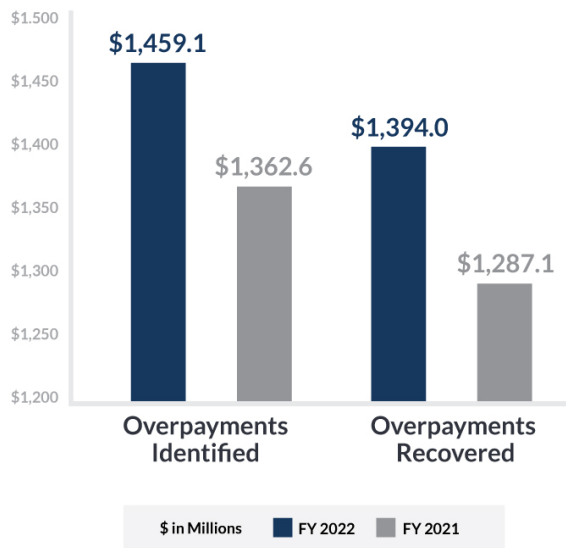
## PAYMENT RECOVERY AUDIT AND ACTIVITIES REPORTING

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

The Department’s PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recovery activities performed by [TRICARE](#) private sector contractors. The Department’s PRA efforts are a summation of actions taken by DoD Components with additional collection activities performed by the Defense Finance and Accounting Service ([DFAS](#)), Defense Health Agency ([DHA](#)), and USACE on behalf of the Department.

In FY 2022, the Department’s PRA program identified \$1,459.1 million in overpayments and recovered \$1,394.0 million or 95.5 percent recovery rate. The amount of overpayments identified was approximately a 7.1 percent (\$96.5 million) increase from FY 2021 and the amount of overpayments recovered was approximately an 8.3 percent (\$106.9 million) increase from FY 2021 (see *Exhibit 10*).

**Exhibit 10. Annual Comparison of Overpayments Identified and Recovered**



# CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The [Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015](#), which amended the [Federal Civil Penalties Inflation Adjustment Act of 1990 \(28 U.S.C. §2461, note\)](#), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department. A civil monetary penalty is defined by 28 U.S.C §2461 as any penalty, fine, or sanction for a specific monetary amount assessed or enforced by an agency pursuant to federal law, an administrative proceeding, or a civil action in the federal courts.

The Department's civil monetary penalty adjustments are published as final rules in the [Federal Register](#) separately for adjustments pertaining to USACE and those related to the remainder of the Department. Exhibit 11 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 87, pages 57145 ([87 FR 57145](#)) and 62987 ([87 FR 62987](#)).



*Army Pfc. Jonathan Castel, an M1 armor crewman assigned to the 1st Battalion, 68th Armor Regiment, 3rd Armored Brigade Combat Team, 4th Infantry Division, mounts an M2 .50-caliber machine gun to the common remotely operated weapon station of an M1A2 Abrams main battle tank for checks prior to upcoming training in Drawsko Pomorskie, Poland, April 21, 2022. The 3/4 ABCT is among the units assigned to V Corps, America's forward deployed corps in Europe that works alongside NATO allies and regional security partners to provide combat-credible forces; execute joint, bilateral and multinational training; and provide command and control for rotational and assigned units in the European theater. Photo By: Army Capt. Tobias Cukale*

## Exhibit 11. FY 2022 Civil Monetary Penalty Adjustments for Inflation

| Statutory Authority   | Penalty Name & Description  | Year Enacted | Latest Year of Adjustment | Current Penalty (Dollar Amount or Range)                 | Agency Component            | Location for Penalty Update                      |
|---|---|--------------|---------------------------|--|-----------------------------|--|
| National Defense Authorization Act for FY 2005, 10 U.S.C §113, note | Unauthorized Activities Directed at or Possession of Sunken Military Craft                          | 2004         | 2022                      | \$144,887  | Department of the Navy      | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 10 U.S.C. §1094(c)(1)   | Unlawful Provision of Health Care   | 1985         | 2022                      | \$12,722   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 10 U.S.C. §1102(k)  | Wrongful Disclosure -Medical Records  | 1986         | 2022                      | \$7,523 (First Offense)<br>\$50,152 (Subsequent Offense) | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 10 U.S.C. § 2674(c)(2)  | Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations | 1990         | 2022                      | \$2,073  | Chief Information Officer   | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 31 U.S.C. §3802(a)(1)   | Violation Involving False Claim   | 1986         | 2022                      | \$12,537   | Office of Inspector General | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 31 U.S.C. §3802(a)(2)   | Violation Involving False Statement   | 1986         | 2022                      | \$12,537   | Office of Inspector General | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a);<br>32 CFR 200.210(a)(1)                      | False claims  | 1996         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a);<br>32 CFR 200.210(a)(1)                      | Claims submitted with a false certification of physician license                                    | 1996         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a);<br>32 CFR 200.210(a)(2)                      | Claims presented by excluded party  | 1996         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a);<br>32 CFR 200.210(a)(2); (b)(2)(ii)          | Employing or contracting with an excluded individual  | 1996         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(1)                       | Pattern of claims for medically unnecessary services/supplies                                       | 1996         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(2)                       | Ordering or prescribing while excluded  | 2010         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(5)                       | Known retention of an overpayment   | 2010         | 2022                      | \$22,426   | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(4)                       | Making or using a false record or statement that is material to a false or fraudulent claim         | 2010         | 2022                      | \$112,131  | Defense Health Agency       | <a href="#">87 FR 57145</a> (September 19, 2022) |

| Statutory Authority                                  | Penalty Name & Description   | Year Enacted | Latest Year of Adjustment | Current Penalty (Dollar Amount or Range)           | Agency Component             | Location for Penalty Update                      |
|--|--|--------------|---------------------------|--|------------------------------|--|
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(6)        | Failure to grant timely access to OIG for audits, investigations, evaluations, or other statutory functions of OIG   | 2010         | 2022                      | \$33,640   | Defense Health Agency        | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.210(a)(3)        | Making false statements, omissions, misrepresentations in an enrollment application  | 2010         | 2022                      | \$112,131  | Defense Health Agency        | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 42 U.S.C. 1320a-7a(a)<br>32 CFR 200.310(a)           | Unlawfully offering, paying, soliciting, or receiving remuneration to induce or in return for the referral of business in violation of 1128B(b) of the Social Security Act | 1996         | 2022                      | \$112,131  | Defense Health Agency        | <a href="#">87 FR 57145</a> (September 19, 2022) |
| 33 U.S.C §555  | Violations of the Rivers and Harbors Appropriation Act of 1922   | 1986         | 2022                      | \$6,270  | U.S. Army Corps of Engineers | <a href="#">87 FR 62987</a> (October 18, 2022)   |
| Clean Water Act, 33 U.S.C. §1319(g)(2)(A)            | Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits   | 1987         | 2022                      | \$23,990 per violation, with a maximum of \$59,974 | U.S. Army Corps of Engineers | <a href="#">87 FR 62987</a> (October 18, 2022)   |
| Clean Water Act, 33 U.S.C. §1344(s)(4)               | Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits   | 1987         | 2022                      | Maximum of \$59,974 per day for each violation     | U.S. Army Corps of Engineers | <a href="#">87 FR 62987</a> (October 18, 2022)   |
| National Fishing Enhancement Act, 33 U.S.C. §2104(e) | Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act  | 1984         | 2022                      | Maximum of \$26,269 per violation                  | U.S. Army Corps of Engineers | <a href="#">87 FR 62987</a> (October 18, 2022)   |

# BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish charges for services and items of value, in accordance with the guidelines that are defined by [31 U.S.C. §9701](#). User fees are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. The [Chief Financial Officers Act of 1990](#) and OMB [Circular No. A-25](#) require federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

During the FY 2022 review of user fees, the Department of the Navy identified adjustments for fees to achieve full-cost recovery and the Department of the Air Force did not identify any material required adjustments. The Department of the Army is currently implementing a methodology to evaluate its user fees. The Department will continue to review and analyze user fees and report any identified findings in the DoD AFR for FY 2024.



*U.S. Air Force F-35A Lightning IIs, F-15E Strike Eagles and Greek air force F-16 Fighting Falcons fly over Naval Support Activity Souda Bay, Greece, July 19, 2022, during Exercise Poseidon's Rage 22. The exercise allowed both countries to bolster readiness and interoperability while demonstrating localized air superiority. Photo By: Air Force Tech. Sgt. Dhruv Gopinath*

# GRANT PROGRAMS

Title 2, Code of Federal Regulations, section 200.344 ([2 CFR 200.344](#)) requires federal agencies that issue grants and cooperative agreements (awards) to close the award once they determine that the required work and applicable administrative actions have been completed. To close the award, the awarding agency collects and reviews the required financial and performance reports from the awardee to ensure the terms and conditions were met (e.g., the appropriate use of awarded funds). Exhibit 12 provides data related to the Department's awards and balances for which the closeout has not yet occurred and the period of performance has elapsed by two or more years.

The Department uses a decentralized grant management process with various DoD Components issuing and administering awards. The DoD Grants Office within the Office of the Under Secretary of Defense for Research and Engineering ([OUSD \(R&E\)](#)) uses data calls to collect the information for Department-wide reporting.

The DoD Components continue to work toward closing out awards as their respective grants and agreements officers now obtain closeout documentation at the time of closing, as well as maintain increased communication with the recipients. Additionally, a contract has been awarded to increase the personnel assisting the grants and agreements officers with closeout activities. Other activities include increased training for grants and agreements officers and widespread usage of a recently developed closeout checklist to streamline the process. Together, these actions have increased the accuracy of the reporting process as well as the data reported.

Challenges preventing the further closeout of awards include increased portfolios for grants and agreements officers, difficulties in communication between different administering offices and systems, unknown points of contact for older awards, and delayed payment requests and performance reports from award recipients.

The Department will continue to pursue additional actions as necessary to progress toward a timelier closeout of awards after the period of performance.

**Exhibit 12. Expired DoD Grant and Cooperative Agreement Awards Requiring Closeout**

| CATEGORY  | 2-3 Years     | 4-5 Years    | More than 5 Years |
|---|---------------|--------------|-------------------|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | 1,758         | 1,177        | 5,926             |
| Number of Grants/Cooperative Agreements with Undisbursed Balances | 1,210         | 709          | 315               |
| Total Amount of Undisbursed Balances                              | \$262,147,060 | \$87,938,023 | \$38,723,066      |



# CLIMATE-RELATED RISK

Climate change will continue to amplify operational demands on the force, degrade installations and infrastructure, increase health risks to our service members, and possibly require modifications to existing and any future equipment the Department may develop or acquire. The Department has identified climate change as a critical national security issue and is committed to integrating climate considerations into its policies, strategies, and investments that enhance operational capability, mission resilience, and operational readiness.

The Department established a Climate Working Group (CWG) which coordinates responses on climate and energy related directives, and tracks their implementation and progress. The CWG is represented by the Chief Sustainability Officer (CSO) who acts as a Senior Advisor to the Secretary on climate and represents the Department on climate and sustainability-related matters in internal and interagency engagements. The DoD CSO has organized a Senior Sustainability Council (SSC), which supports development of an integrated Department-wide Sustainability Plan and leads implementation of departmental sustainability efforts and execution of the Sustainability Plan. Membership of the SSC includes the DoD CSO, the Assistant Secretary of the Army (Installations, Energy and Environment), the Assistant Secretary of the Navy (Energy, Installations and Environment), and the Assistant Secretary of the Air Force (Installations, Environment and Energy). Office of the Assistant Secretary for Energy, Installations, and Environment acts as the Secretariat for the SSC.

Two Executive Orders (EO) direct the Department's action on climate change. [EO 14008, Tackling the Climate Crisis at Home and Abroad](#), highlights the fundamental link between climate change and national security and establishes that climate considerations should be an essential element of United States foreign policy and national security. This EO requires federal agencies to perform a climate risk analysis, develop a climate adaptation plan, and produce annual progress reports regarding the actions taken in support of their climate

adaptation and resilience. [EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability](#), seeks to achieve a carbon pollution-free electricity sector by 2035 and net-zero emissions economy-wide by 2050. This EO requires agencies to adjust their sustainability plans to reflect the actions and progress made toward the goals and requirements of this order.

The [DoD Climate Risk Analysis](#) and the [DoD Climate Adaptation Plan](#) meet the requirements of EO 14008, and outline the Department's efforts to achieve climate change adaptation and resilience while preserving operational capability and enhancing the natural ecosystems and infrastructure essential to the Department's success.

[DoD Sustainability Report and Implementation Plan](#) meets the data and information requirements of EO 14057 and sets forth the Department's planned actions to mitigate climate change and transform how the Department builds, buys, and manages electricity, vehicles, buildings, and other operations to be clean and sustainable.

The following are additional reports with information relevant to climate-related risk that the Department issued or contributed to during FY 2022:

- [DoD Climate Adaptation Plan 2022 Progress Report](#)
- [Comprehensive Annual Energy Data and Sustainability Performance](#)

In alignment with the Department-wide climate-related efforts, the Military Departments have developed and published the following plans or strategies to operationalize climate adaptation and mitigation, with actions to enhance operational readiness, resilience, and capabilities of the force:

- [United States Army Climate Strategy](#)
- [Department of the Navy Climate Action 2030](#)
- [Department of the Air Force Climate Action Plan](#)

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