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MANAGEMENT'S DISCUSSION & ANALYSIS

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

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U.S. Air Force Airman 1st Class Janae Whaley, 9th Security Forces Squadron Tactical Response Team (TRT), poses for a picture in her "greens", her TRT gear, at Beale Air Force Base, California, Aug. 27, 2024. Whaley is the first female member to pass the intense training and be selected for Beale's TRT. (U.S. Air Force photo by Staff Sgt. Frederick A. Brown)

Left:

An Ohio-class submarine approaches the Mubarak Peace Bridge while transiting the Suez Canal, Nov. 5, 2023. The boat is deployed to the U.S. 5th Fleet area of operations to help support maritime security and stability in the Middle East region. (Photo by Navy Mass Communication Specialist 1st Class Jonathan Word)

MISSION OVERVIEW

More than 18 months since its publication, the 2022 National Defense Strategy (NDS) continues to drive all aspects of the Department of Defense's (DoD or the Department) activity. Consistent with the President's National Security Strategy, the Department's National Defense Strategy (NDS) articulates the following priorities, driving the Department's goals, investments, and programmatic decisions:

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

The Department's enduring mission is to ensure the Nation's security by providing military forces to deter our adversaries and prevail in conflict should deterrence fail. The Department continues to advance our priorities through integrated deterrence, campaigning, and actions that build enduring advantages. The Department focuses on safeguarding and advancing vital U.S. national interests and works alongside other agencies and departments to protect the security of the American people, expand economic prosperity and opportunity, and realize and defend the values at the heart of the American way of life.

A strong, principled, and adaptive U.S. military is a central pillar for U.S. leadership, particularly in the face of challenges from new and ongoing changes in the global environment. Some of these challenges continue to stem from interactions between increasingly capable state competitors; a rapidly changing global balance of military power; and emerging capabilities that pose new threats to the U.S. homeland, vital national interests, and strategic stability. The PRC is the only country with both the will and, increasingly, the capacity to dominate the Indo-Pacific and reshape the global order, and it remains the Department's pacing challenge. Russia poses acute threats, as illustrated by its brutal and unprovoked invasion of Ukraine. But the Department must also remain vigilant against other persistent threats—including those from the Democratic People's Republic of Korea (North Korea), the Islamic Republic of Iran (Iran), and violent extremist organizations. Furthermore, changes in global climate and other dangerous transboundary threats, including pandemics and transnational criminal organizations, continue to transform the context in which the Department operates and place pressure on the Joint Force and the systems that support it.

The challenges we face are formidable, but the Department will adapt to these challenges. We will strengthen our integrated deterrence, campaigning, and enduring advantages. We will take necessary actions to increase our resilience—that is, the ability to anticipate, prepare for, and adapt to changing conditions and withstand, respond to, and recover rapidly from disruptions. The U.S. possesses strengths that our competitors cannot match, and we will support a whole-of-nation approach to defense that builds consensus, drives creative solutions to crises, and ensures that America leads from a position of strength that will keep us secure, prosperous, and free.

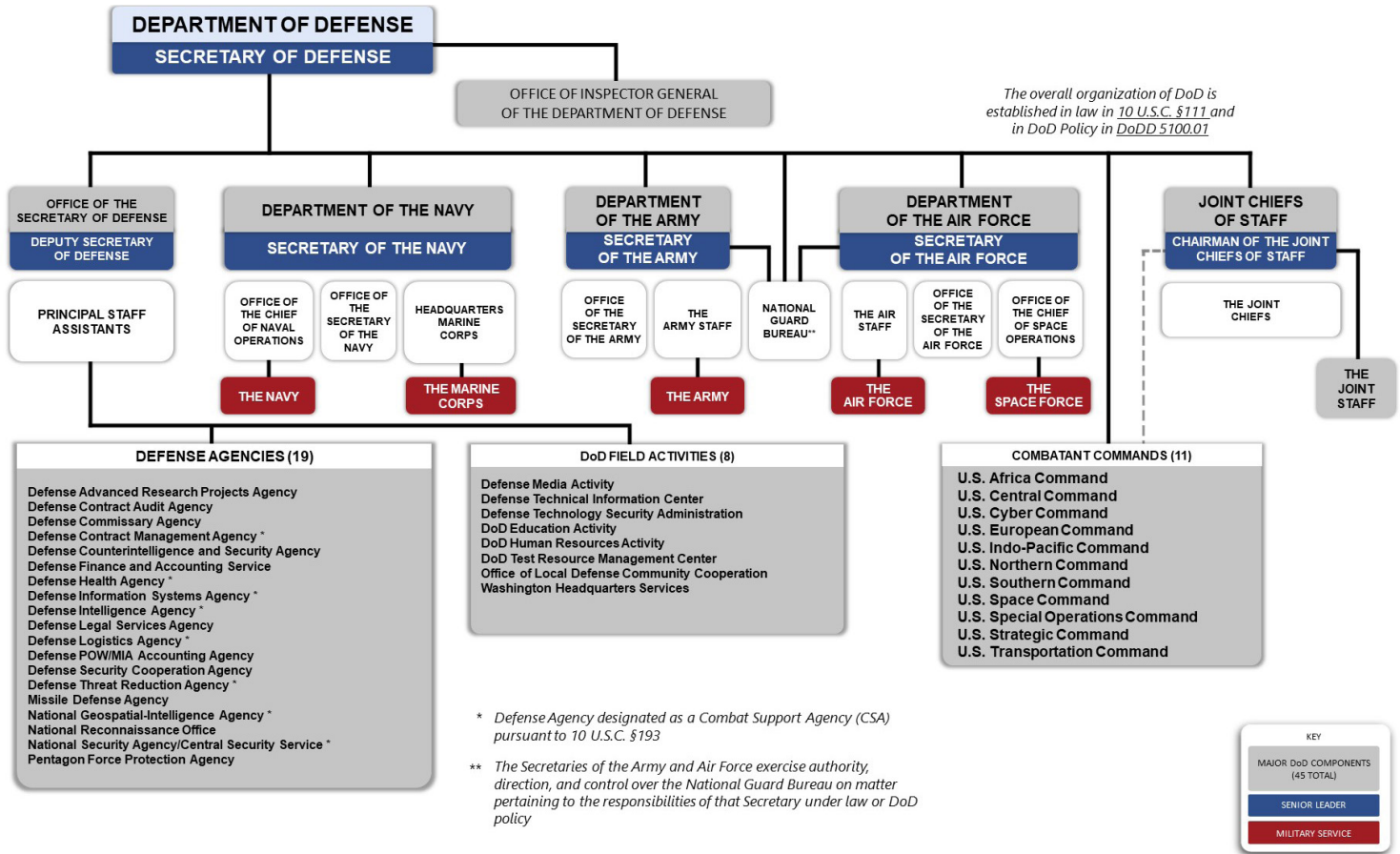
ORGANIZATIONAL STRUCTURE

The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 military personnel serving in the National Guard and Reserve forces, and approximately 811,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In carrying out the Department's mission to protect National Security, Military Service members operate approximately 20,268 aircraft and 296 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 712,250 facilities (buildings; structures; and linear structures, such as utilities, roads, and fences) located on over 4,806 sites worldwide as of the beginning of Fiscal Year (FY) 2024. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. These sites represent a total of nearly 26.7 million acres that individually vary in size from military training ranges with over 3.4 million acres such as [White Sands Missile Range](#), to single weather towers, power line supports, or navigational aids isolated on sites of less than one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (e.g., runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (e.g., public safety, hospital and medical, dining, and religious facilities; community support complexes; family and unaccompanied housing; utility systems; and roadways).

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

Figure 1. Department of Defense Organizational Structure



A Special Tactics Airman assigned to the 24th Special Operations Wing conducts a military free fall over Cannon Air Force Base, New Mexico on March 1, 2024. Supported by U.S. Special Operations Command, Emerald Warrior is a joint special operations exercise that prepares U.S. Special Operations Command forces, Conventional Enablers, Partner Forces, and Interagency Elements to respond to various threats across the spectrum of conflict. (U.S. Air Force Photo by Senior Airman Natalie Vandergriff)

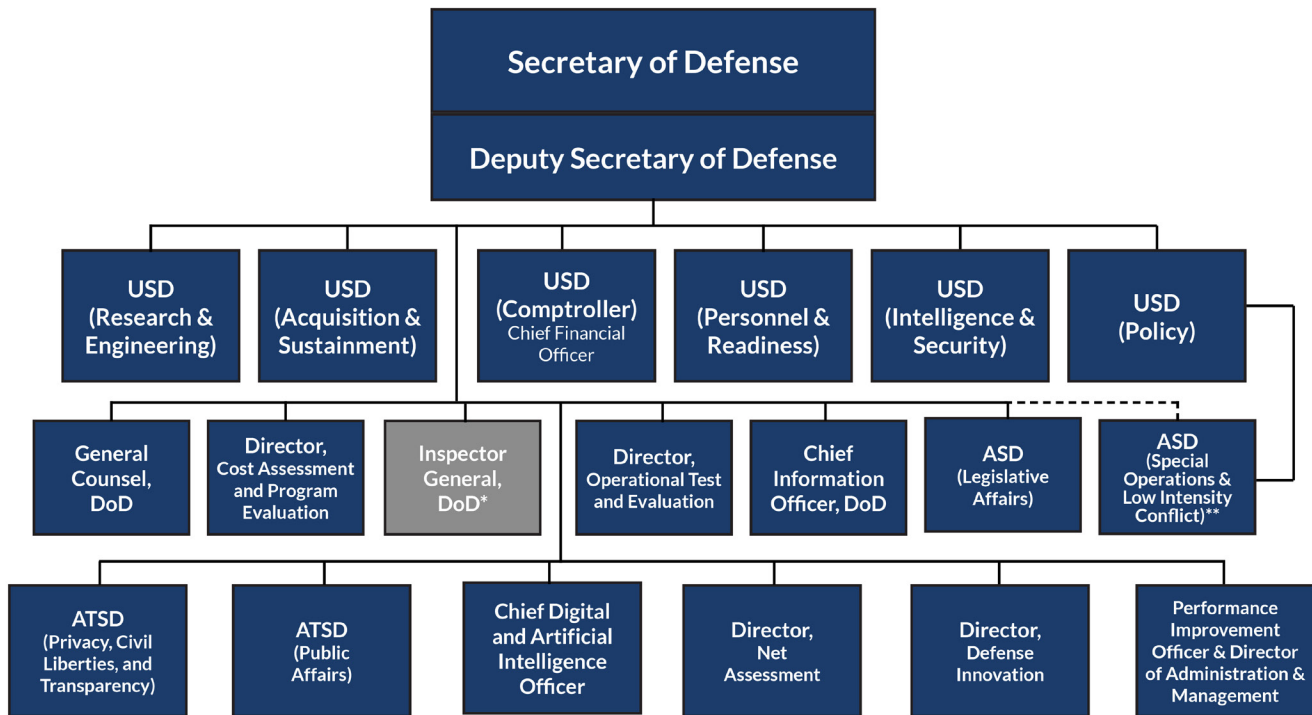
OFFICE OF THE SECRETARY OF DEFENSE

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



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

Figure 2. Principal Staff Assistants



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

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

OFFICE OF INSPECTOR GENERAL

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



DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

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

Figure 3. Defense Agencies and DoD Field Activities



* Eight Defense Agencies are designated as *Combat Support Agencies* with joint oversight by the Chairman of the Joint Chiefs of Staff

Key

Defense Agency

DoD Field Activity

THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

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

COMBATANT COMMANDS

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

Figure 4. Combatant Commands



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

MILITARY DEPARTMENTS

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

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

Figure 5. Reserve Components - Reserve and National Guard



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

RESOURCES

In FY 2024, the Department received total appropriations of \$1,194.2 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Appropriations (\$ in Billions)	FY 2024	Restated FY 2023	FY 2022	FY 2021	FY 2020
Discretionary Budget Authority	\$ 909.7	\$ 851.7	\$ 776.6	\$ 704.8	\$ 723.1
Civil Works Projects Executed by USACE	10.4	11.7	25.9	6.2	6.1
Treasury Contribution for Military Retirement and Health Benefits	181.0	141.1	125.0	114.9	107.0
Trust Fund Receipts	308.2	260.5	283.1	215.9	168.5
Trust Fund Resources Temporarily Not Available	(215.0)	(171.3)	(191.1)	(136.7)	(90.5)
Appropriations (Discretionary and Mandatory) Reported on the Statement of Budgetary Resources	\$ 1,194.2	\$ 1,093.7	\$ 1,019.5	\$ 905.1	\$ 914.2



Space Force officer Professional Military Education graduates pose for a group photo at Johns Hopkins University, in Washington D.C., May 21, 2024. The Space Force has minted its first-ever graduates of the service's debut of independent officer Intermediate Level Education and Senior Level Education programs. These programs were specifically designed to deliver a graduate education to prepare mid-grade and senior uniformed and government civilian leaders for the evolving needs of the Space Force and Joint, Combined Force writ large, according to Johns Hopkins University. (U.S. Air Force photo by Chad Trujillo)

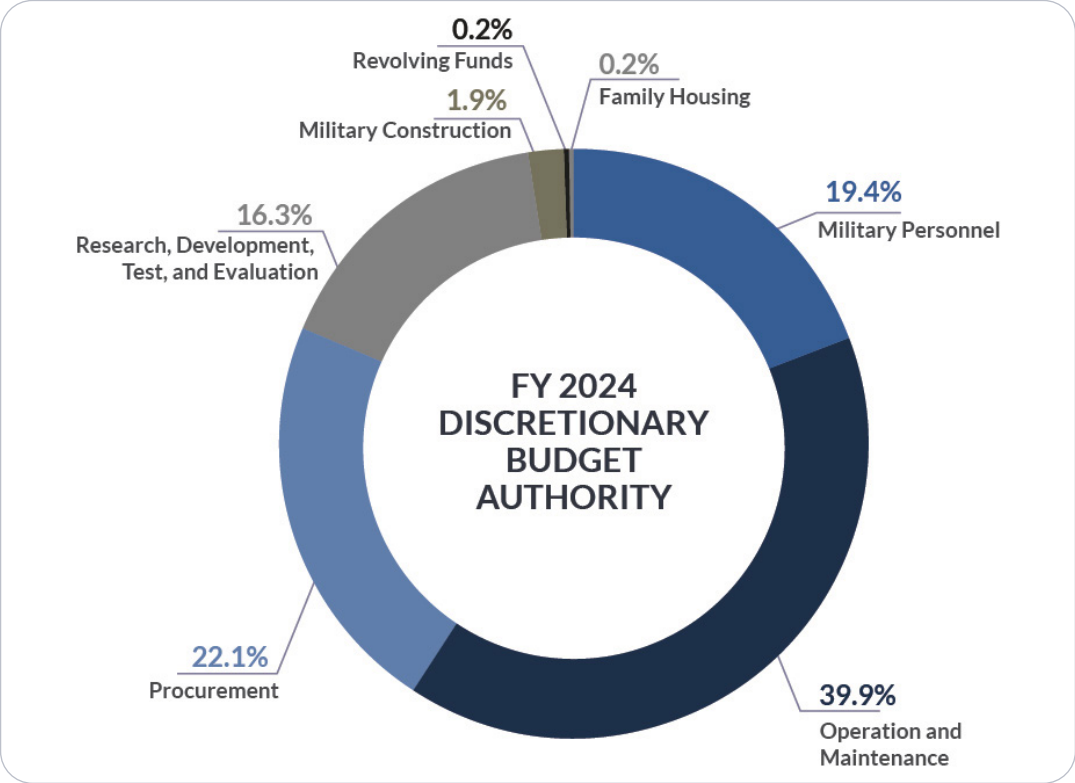
DISCRETIONARY APPROPRIATIONS

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives. The Department's discretionary funds were appropriated or authorized by the [National Defense Authorization Act for Fiscal Year 2024](#), the [Consolidated Appropriations Act, 2024](#), the [Further Consolidated Appropriations Act, 2024](#) and the Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and for Other Purposes. The FY 2024 Discretionary Budget Authority of \$909.7 billion was provided to the Department using seven appropriation categories, which describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2024 Discretionary Budget Authority

Appropriation Category	\$ in Billions	Percentage
Military Personnel	\$ 176.5	19.4%
Operation and Maintenance	\$ 363.2	39.9%
Procurement	\$ 200.9	22.1%
Research, Development, Test, and Evaluation	\$ 148.1	16.3%
Military Construction	\$ 17.0	1.9%
Family Housing	\$ 2.0	0.2%
Revolving Funds	\$ 2.0	0.2%
Total Discretionary Budget Authority	\$ 909.7	100%



Military Personnel

FY 2024 Military Personnel appropriations increased by \$2.3 billion from FY 2023. Generally, funds in this category provide for [military compensation](#) to the Active and Reserve Component members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the [Blended Retirement System](#). Specifically, FY 2024 Military Personnel appropriations included funding for a 5.2 percent military base pay raise effective January 1, 2024.

Operation and Maintenance

FY 2024 Operation and Maintenance (O&M) appropriation increased by \$23.6 billion from FY 2023. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for training and operations, pay of civilians, unaccompanied housing operations, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. Specifically, FY 2024 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, infrastructure, and funding for Combatant Command exercises and engagements (e.g., DEFENDER-Europe, Space Flag, Valient Shield, Combat Archer) to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Procurement

FY 2024 Procurement appropriations increased by \$24.0 billion from FY 2023. Generally, funds in this category provide for the acquisition of equipment. This includes unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Specifically, FY 2024 Procurement appropriations included funding for the two Arleigh Burke-class guided missile destroyers, two Virginia-class fast attack submarines, one frigate, one John Lewis-class T-AO Fleet Oilers, 86 F-35 Joint Strike Fighters, and eight F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2024 Research, Development, Test, and Evaluation (RDT&E) appropriations increased by \$8.3 billion from FY 2023. Generally, funds in this category provide for critical investments in basic and applied technologies, advanced technology development, prototypes, design and development for major acquisition programs, and upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries. Specifically, FY 2024 RDT&E appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance) and space systems development (e.g., the Next Generation Overhead Persistent Infrared Missile Warning/Missile Tracking satellite development). RDT&E also includes strengthening homeland missile defense (e.g., the Ground-based Midcourse Defense and Next-Generation Interceptors), modernizing nuclear enterprise systems, and investing in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, space and hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2024 Military Construction appropriations increased by \$0.3 billion from FY 2023. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, and other buildings to support the DoD mission around the world. Specifically, FY 2024 Military Construction appropriations included funding to support the [European Deterrence Initiative](#) and climate-related investments within the Energy Resilience and Conservation Investment Program.

Family Housing

FY 2024 Family Housing appropriations decreased by \$0.3 billion from FY 2023. Generally, funds in this category provide for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the United States and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Revolving Funds

FY 2024 Revolving appropriations decreased by \$0.2 billion from FY 2023. Direct appropriations into the Defense Working Capital Fund are generally used to purchase operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations also fund the Defense Commissary Agency (DeCA), supporting various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new Defense Working Capital Fund activity is established, its founding cash corpus is established by a direct appropriation.

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

For FY 2024, Civil Works appropriation decreased by \$1.2 billion from FY 2023. The funding received in FY 2024 was used to execute a number of civil works projects that included supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage. The Congress appropriates funding directly to the U.S. Army Corps of Engineers [USACE](#) under the [Consolidated Appropriations Act, 2024](#), [Infrastructure Investment and Jobs Act](#).

MANDATORY APPROPRIATIONS

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

Treasury Contribution for Military Retirement and Health Benefits

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

Trust Fund Receipts

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

Trust Fund Resources Temporarily Not Available

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

Creating Helpful Incentives to Produce Semiconductors

The Department received \$400 million in mandatory funding in the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act of 2022 for FY 2023 - FY 2027 to facilitate the procurement of semiconductors in the U.S. Of the \$400 million appropriated in FY 2024, the Department obligated \$305 million as of September 30, 2024. Cumulative obligations for all CHIPS funding are \$705 million. These funds may not be apportioned or obligated until the enactment of the respective year's appropriation bill.

EMERGENCY RESPONSE FUNDING

During FY 2024, Public Law 118-50, Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and Other Purposes, was passed by the Congress and signed into law by the President. This law provided supplemental appropriations to the Department totaling \$67.3 billion, which are reflected in the FY 2024 total appropriations amounts.

UKRAINE RESPONSE

The Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and Other Purposes provided the Department with an additional \$48.4 billion of supplemental funds across multiple appropriation categories to: replenish DoD equipment stocks sent to Ukraine via Presidential Drawdown Authority; continue military, intelligence, and other defense support; and fund the acquisition of critical defense capabilities and equipment. Of this amount, the act provided \$13.8 billion for the Ukraine Security Assistance Initiative (USAI) to provide training, equipment, logistics support, supplies and services, and intelligence support to the military and national security forces of Ukraine. Funding also supported enhanced U.S. military units in Europe supporting NATO Response Forces and facilities expansion to support enhanced munitions industrial base.

In FY 2024, the Department obligated approximately \$16.4 billion, and \$32.0 billion remains available for future obligation.

PRESIDENTIAL DRAWDOWN AUTHORITY FOR UKRAINE

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



Marine Corps and Ukrainian athletes compete in a wheelchair rugby competition during the Air Force and Marine Corps Trials at Nellis Air Force Base, Nev., March 11, 2024. The event offers wounded, ill or injured athletes an opportunity to further the rehabilitation of the mind, body and spirit through competition and camaraderie. (Photo by Marine Corps Lance Cpl. Ethan Miller)

ISRAEL SECURITY

The Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and Other Purposes provided the Department with an additional \$13.0 billion of supplemental funds across multiple appropriation categories to support Israel in its war against Hamas, as well as to provide humanitarian relief in Gaza.

In FY 2024, the Department obligated approximately \$2.8 billion, and \$10.2 billion remains available for future obligation.

INDO-PACIFIC SECURITY

Funding for Indo-Pacific Security was provided by the Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and Other Purposes. This act provided the Department with an additional \$5.9 billion of supplemental funds across multiple appropriation categories to enhance security capabilities in the Indo-Pacific region.

In FY 2024, the Department obligated approximately \$3.1 billion, and \$2.8 billion remains available for future obligation.

PERFORMANCE OVERVIEW

The Department’s Strategic Management Plan (SMP) articulates the Secretary of Defense’s strategic priorities, consistent with the 2022 National Defense Strategy (NDS), focusing on how the Department plans to implement enduring advantages and management priorities.

The SMP serves as a management tool for senior leaders within the Department to monitor and track performance goals and measures throughout the year. This is enabled by an executive analytics application called “Pulse”, which is DoD’s authoritative performance management platform in Advana. This strategic management tool provides DoD leadership with the opportunity to regularly review DoD Component performance /contribution aligned to Secretary of Defense (SecDef) and Deputy Secretary of Defense (DepSecDef)’s strategic priority areas. Pulse offers a suite of executive level dashboard applications enabling sound decision-making for executive and senior leaders to understand, translate, and act on up-to-date performance measures. Pulse is used to visualize the strategic priorities and objectives outlined in the SMP, the actions the Department is taking to realize those priorities and objectives (performance goals and measures), and the challenges and risks that may hinder achieving desired results. Additionally, the SMP meets the statutory requirements pursuant the Government Performance and Results Act Modernization Act of 2010 and is published every year with the objective of articulating near-term progress on SMP implementation along with the long-term objectives the Department plans to accomplish.

SMP Strategic Framework

The SMP framework includes four logical tiers, with Tier I being the Strategic Priorities listed above set by the Secretary of Defense and Deputy Secretary of Defense. Tier II are the strategic objectives set by the Department’s Principal Staff Assistants (PSAs), Tier III are performance goals and Tier IV are performance measures, which are set by any DoD Component.

The SMP is organized into a tiered structure as described below.

Figure 8. SMP Tiered Structure Outline



**DoD Components include PSA, MILDEP, and DAFA.*

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

Strategic Priorities and Objectives

The strategic priorities and objectives, coupled with the performance goals and measures outlined in the FY 2025 SMP describe how the Department intends to achieve its goals and priorities, and succeed through teamwork with our allies and partners. Complete FY 2024 performance results through the end of fiscal year will be published in the FY 2026 SMP, which will be submitted with the President's Budget for FY 2026 and made available to the public on the website of the Performance Improvement Officer and Director, Administration and Management (PIO/ODA&M) at <https://dam.defense.gov/performance-mgmt>.

Figure 9. FY 2025 Strategic Management Framework

Strategic Priorities	Strategic Objectives
<p>Priority 1 - Take Care of our People and Cultivate the Workforce We Need</p> <p>The Department must continue to focus on attracting, recruiting, retaining, and training its workforce to ensure the Total Force has the right tools to both meet and keep pace with the ever-evolving threats to our Nation. This includes personnel systems and analytics that will provide the best data to support workforce forecasting and development.</p> <p>Enhancing readiness through a diverse and inclusive Total Force will foster innovation and collaboration and enable the Force to best represent the population it is dedicated to protecting. Focusing on readiness will also require the Department to protect the health, safety, and welfare of the Force by ensuring a safe and supportive environment for all, preventing problematic behaviors, supporting victims, and holding offenders appropriately accountable. In particular, we must strive to counter behaviors – such as sexual assault/harassment, and participation in extremist activities – that erode our force readiness. Finally, the Department recognizes the crucial role family members play in sustaining the Total Force and will work to address their needs.</p> <p>In line with DoD leadership's priority to innovate and modernize the Department, we will continue to modernize our healthcare capabilities. An integrated and transformed Military Health System, with a state-of-the-art electronic health record, will achieve the Quadruple Aim for the Total Force and military families: improved readiness, better health, better care, and lower cost.</p>	<p>1.1: Cultivate talent management through the adoption of contemporary workforce development and talent acquisition approaches that positions the Department as an employer of choice for both uniformed and civilian service*</p> <p>1.2: Promote the health, wellbeing, and safety of the Force and families</p> <p>1.3: Change the culture of the Department to build a climate of dignity and respect, eliminate stigma, prevent harmful behaviors – including self-harm, and inculcate Diversity, Equity, Inclusion, and Accessibility principles across all DoD efforts</p>

Strategic Priorities	Strategic Objectives
<p>Priority 2 – Transform the Foundation of the Future Force</p> <p>Building enduring advantages across the enterprise requires overhauling the Department’s force development, design, and business management practices. Our current system is too slow and too focused on acquiring systems not designed to address the most critical challenges. This orientation leaves little incentive to design open systems than can rapidly incorporate cutting-edge technologies, creating longer term challenges with obsolescence, interoperability, and cost effectiveness. The Department is transitioning to processes and systems that instead reward rapid experimentation, acquisition, and fielding. We will align requirements and undertake a campaign of learning to identify the most promising concepts, incorporating emerging technologies in the commercial and military sectors for solving our key operational challenges. These efforts will ensure the Department can sustain and strengthen deterrence and investments that build enduring advantages.</p>	<p>2.1: Deliver, optimize, and/or enable the Department with resilient Enterprise-Wide Information Technology and systems, services, and capabilities at speed of relevance and mission effectiveness</p> <p>2.2: Drive competitive advantage by acquiring effective capabilities to deter and, if necessary, defeat pacing threats</p> <p>2.3: Modernize and sustain the nuclear deterrent and protect against chemical, biological, and radiological threats</p> <p>2.4: Advance strategic readiness**</p> <p>2.5: Provide the Department with a decision advantage over adversaries, paced to the global challenge posed by the PRC**</p> <p>2.6: Provide timely, relevant, highest quality analytic decision support to improve Department outcomes**</p>
<p>Priority 3 – Make the Right Technology Investments</p> <p>To maintain the U.S. military’s technological advantage, the Department continues to champion research, science, technology, engineering, and innovation. The Department will support the innovation ecosystem, both at home and in expanded partnerships with our Allies and partners. Innovation has always been a strength of the United States, and the Department will harness that innovation by focusing development resources on unique capabilities needed by the military and will quickly adopt the best commercial dual use technologies. The DoD will develop and prototype critical technologies and conduct continuous campaigns of joint experimentation to improve those technologies and deliver capabilities to the warfighter.</p>	<p>3.1: Focus on the Joint Mission by investing in information systems and establishing processes for rigorous, threat informed analysis that will better enable the Department to make informed choices in its science and technology investments</p> <p>3.2: Create and field capabilities at speed and scale by fostering a more vibrant defense innovation ecosystem, accelerating the transition of new technology into the field, and communicating effectively inside and outside the Department</p> <p>3.3: Invest in Interoperable, Federated Infrastructure</p>

Strategic Priorities	Strategic Objectives
<p>Priority 4 – Strengthen Resilience and Adaptability of Our Defense Ecosystem</p> <p>The Department will strengthen our Defense Industrial Base to ensure that we produce and sustain the full range of capabilities needed to give U.S. allied and partner forces a competitive advantage. We will bolster support for our unparalleled network of research institutions, both university-affiliated and federally funded research and development centers, as well as small businesses and innovative technology firms. The Department will act urgently to better support advanced manufacturing processes to increase our ability to reconstitute the Joint Force in a major conflict. Industry plays a key role in both the effort to strengthen the defense ecosystem and to project military force: our industry Partners provide critical transportation capability and the global networks we need to meet day-to-day warfighting requirements. The Department’s approach will be eminently proactive, developing vibrant relationships with commercial Partners in order to create sufficient military capacity to satisfy wartime demands at acceptable risk levels.</p>	<p>4.1: Enhance the DoD’s Integrated Installation Resilience*</p>
	<p>4.2: Ensure supply chain resilience through a modernized Defense Industrial Ecosystem</p>
	<p>4.3: Ensure the foundations for research and development by recruiting, retaining, and cultivating talent; revitalizing our physical infrastructure; upgrading our digital infrastructure; and nurturing stronger collaboration across all stakeholders</p>
	<p>4.4: Enhance the DoD’s cybersecurity posture</p>
	<p>4.5: Increase the resiliency of C3 capabilities</p>
	<p>4.6: Deliver Capabilities for Enterprise Business and Joint Warfighting Impact</p>
	<p>4.7: Deliver sustainment outcomes that drive integrated deterrence and enable effective operations in contested logistics environments</p>
	<p>4.8: Operationalize defense intelligence and security partnerships across the Department, U.S. Government, Private Sector, Academia, and International Allies and Partners*</p>

Strategic Priorities	Strategic Objectives
<p>Priority 5 – Address Institutional Management Priorities</p> <p>Building enduring advantages also requires the Department to focus on standardization and simplification to enable productivity, trustworthiness, security, and innovation in DoD's management practice. Through Department-level and Federal Agency-wide priority efforts to address institutional priorities, challenges, and risks, we will improve force readiness, deliver greater impact through innovation, and increase the effectiveness and efficiency of the Department's day-to-day operations. The SMP captures key Department-wide initiatives - such as achievement of an unmodified audit opinion - to tackle existing challenges, streamline business processes, and secure and rationalize defense business systems.</p> <p>When the DoD achieves unmodified audit opinion, we will operate in a secure environment in which financial data and reporting integrity are the norm, providing confidence in the data used for decision-making across the Department. This happens through continued diligence in our audit remediation efforts, which continue to foster an environment that features fewer more capable and secure systems, better data, a proficient analytical workforce, and improved transparency that enables faster insights for mission support.</p>	<p>5.1: Accelerate the path to an unmodified audit opinion</p>
	<p>5.2: Strengthen Data Governance and Remove Policy Barriers</p>
	<p>5.3: Elevate security and counterintelligence to the maximum extent across the Department</p>
	<p>5.4: Modernize DoD Business Systems*</p>
	<p>5.5: Optimize budget to execution and foster a high integrity funds control environment</p>
	<p>5.6: Advance data, AI, analytics ecosystem</p>
	<p>5.7: Establish a Department-wide Performance Management System</p>
	<p>5.8: Strengthen OSD as a Component</p>
	<p>5.9: Improve foundational data management</p>

* Agency Priority Goal (APG).

** Performance Measure information is classified.

Figure 10. DoD Level Agency Priority Goals

DoD Agency Priority Goal (FY 2024 - FY 2025)	Agency Priority Goal Lead	Associated Strategic Objective
Shape an Appropriately Skilled and Ready Future Workforce: Improve Recruitment and Retention of the Civilian Workforce.	Deputy Under Secretary of Defense for Personnel and Readiness, Chief Talent Management Officer, and Defense Civilian Personnel Advisory Service	Cultivate Talent Management through the adoption of contemporary workforce development and talent acquisition approaches that positions the Department as an employer of choice for both uniformed and civilian service.*
Improve Resilience of DoD Installations.	Assistant Secretary of Defense (ASD) for Energy Installations, and Environment and Deputy Assistant Secretary of Defense for Infrastructure Modernization and Resilience	Enhance the DoD's Integrated Installation Resilience.

The SMP strategic objectives marked as APGs are intended to highlight and target priority policy and management areas in which agency leaders plan to achieve near-term performance advancement through focused senior leadership attention (see Figure 10). The anticipated timeline to accomplish these goals is two years. A senior leader within the Department is assigned to each APG and is responsible for providing quarterly progress updates, which are published on [Performance.gov](https://www.performance.gov).

SMP Implementation

The SMP is the result of a collaborative effort among key stakeholders within the Department, which include the OSD Principal Staff Assistants (PSA), Military Departments (MILDEP) Undersecretaries, and Defense Agencies and Field Activities (DAFA) Directors. The SMP articulates the Department's strategic priorities, objectives, and performance goals, measures, and targets for DoD Component implementation.

Beginning with SMP FY 2024, preparation activities are conducted entirely online, utilizing "Pulse," the Department's authoritative data analytics platform for performance management. This transformed the SMP into a dynamic executive dashboard that captures strategic priority metrics and monitors progress toward achieving results.

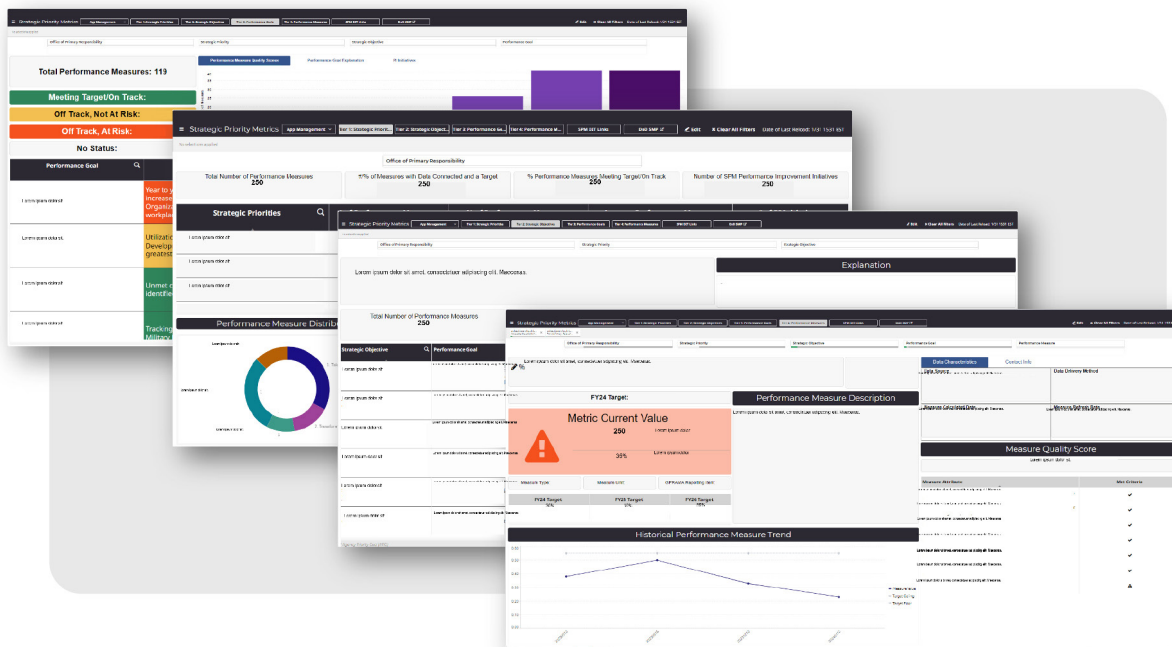
The SMP is governed by the Deputy's Management Action Group (DMAG) and approved and signed by the DepSecDef. As the senior body for governing the Department's SMP, the DMAG assesses Component and enterprise-wide performance, an effort supported by the Defense Performance Improvement Council (DPIC). The DPIC serves as the Department's governance and integration body for matters associated with defense management, defense reform, performance management and improvement, enterprise risk management, and oversight of related resourcing decisions. Chaired by DoD PIO, the DPIC provides oversight for SMP preparation, monitors its implementation, and reports SMP outcomes via Pulse, in partnership with DoD Components. The DPIC is supported by the Strategic Management and Performance Improvement (SMPI) Committee, a senior management body involved in strategic planning, performance management, performance improvement, and related resourcing issues. The SMPI is chaired by the DoD's Deputy Performance Improvement Officer and provides strategic direction and guidance on the SMP and associated strategic performance improvement initiatives, and guidelines and recommendations to the DPIC.

The DepSecDef utilizes the Pulse dashboard to review progress on SMP execution with OSD PSAs. DepSecDef memorandum "Governance Structure for Deputy Secretary Managed Processes (August 8, 2023)," directs OSD PSAs to integrate SMP strategic reviews into the routine activities of the functional governance bodies they oversee, ensuring vertical alignment of strategic objectives with performance goals, measures, and targets provided by Military Departments. Furthermore, the SMP also serves as a management tool on advancing the NDS and demonstrates the Department's continued commitment to transparency and accountability.

In line with the Planning, Programming, Budgeting, and Execution (PPBE) Reform Commission's recommendation, the PIO has partnered with OUSD (Comptroller) and the Director of Cost Assessment and Program Evaluation (CAPE) to improve the collaboration between strategy, resourcing, and execution. The SMP is integrated into the PPBE process by providing a strategy framework and performance assessments and results. Performance improvement initiatives are now identified in OUSD (Comptroller's) authoritative resourcing system and aligned to SMP Strategic priorities, objectives, and performance goals. This information will be collected during the Budget Estimate Submission and execution of funds associated with the performance improvement initiatives will be monitored throughout the year. SMP performance results are shared with OUSD (Comptroller) and CAPE to serve as inputs into their analytical process during Program Budget Review.

SMP as Key Management Tool

The Department uses the SMP in Pulse to monitor, analyze, review, and report progress on implementation of the SMP. This effort supports the DepSecDef's vision to transform DoD into a data-driven organization and empower DoD Components to draw deeper insights from data, drive more efficient processes and procedures, and enable proactive performance tracking and monitoring.



The monitoring of SMP implementation through the Pulse Executive Analytics platform enables the Department to:

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

Each quarter, the PIO requests that DoD Components provide performance measure updates in Pulse, including a comprehensive narrative summary. This summary should describe the root causes for unmet targets or highlight factors of success and best practices for met or exceeded targets. This process allows DoD Components to showcase their accomplishments, describe mitigation strategies, and be held accountable for their performance progress against SMP implementation results.

These quarterly updates are reviewed at the DPIC, where senior leaders gather to review the live dashboard in Pulse. This setting provides transparency and visibility for other DoD components, MILDEPs, and DAFAs, facilitating the sharing of accomplishments. It also allows the lead for the strategic objective to put forward any needs for interagency support and provide recommendations to improve performance desired outcome.

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

FORWARD LOOKING INFORMATION

The Department's mission faces a myriad of emerging risks and challenges. The threats to global security range from competitor doctrines that pose new threats to the U.S. homeland and strategic stability to transboundary challenges like climate change that impose new demands on the Joint Force. Despite these challenges, the Department continues to improve its current readiness posture, while making significant investments in future capabilities and force modernization through FY 2025. The Department is committed to appraising these risks and identifying every opportunity to optimize performance.

The aggression from Russia and security risks posed by the People's Republic of China necessitates sustained vigilance to protect the U.S. homeland and advance global stability.

The Department seeks to prevent the People's Republic of China's (PRC) dominance over key regions, while protecting the U.S. homeland and reinforcing a stable and open international system. In conjunction with global allies and partners, a vital objective is to dissuade the PRC from pursuing aggression as a viable means of advancing goals that threaten interests of the U.S. and our allies.

Even as we focus on the PRC as our pacing challenge, we also account for the acute threat posed by Russia. This is demonstrated by our continued efforts to oppose Russian aggression in Europe and the unprovoked invasion of Ukraine.

We are working closely with the North Atlantic Treaty Organization (NATO) and our partners to provide U.S. leadership, develop critical enabling capabilities, and deepen interoperability. Our goal is to pursue cost imposition deterrence logic for Russian aggression against NATO, while ensuring that Russia suffers a strategic defeat in Ukraine.

The Department continues to focus on preventing conflict, while being prepared to prevail should deterrence fail as a counter measure for the security risks posed by the PRC and the aggression coming out of Russia. This requires the Department to operate forces and synchronize U.S. Government efforts through building enduring advantages, campaigning, and integrated deterrence.

Integrated Deterrence

The combat credibility of the U.S. military to fight and win in defense of our nation's interests is a cornerstone of integrated deterrence. Effective deterrence requires seamless cooperation across domains and theaters and throughout the spectrum of conflict. This requires close collaboration between federal agencies, allies, and partners to ensure the U.S. military makes the costs of aggression clear.

- **Deterrence by Denial** – To deter aggression, especially where potential adversaries could act to rapidly seize territory, the Department will develop asymmetric approaches that optimize our posture for denial.
- **Deterrence by Resilience** – Denying the benefits of aggression also requires resilience – the ability to withstand, fight through, and quickly recover from disruption. The Department will improve its ability to operate in the face of multi-domain attacks and on a growing surface of vital networks and critical infrastructure. These improvements will be made both in the homeland and in collaboration with allies and partners at risk.
- **Deterrence by Direct and Collective Cost Imposition** – Denial and resilience strategies are necessary, but not always sufficient. Effective deterrence may also hinge on the Department's ability to impose costs that exceed the perceived benefits of aggression. To deliver deterrence, the Department will make the following FY 2025 investments:

- » \$61.2 billion for Air Power focused on F-22, F-35, and F-15EX fighters, the B-21 bomber, mobility aircraft, KC-46A tankers, and unmanned aircraft systems
- » \$49.2 billion for Nuclear Enterprise Modernization which includes the Columbia-class ballistic missile submarine, B-21 bomber, Sentinel/Ground Based Strategic Deterrent, Long-Range Standoff Weapon
- » \$48.1 billion for Sea Power investments with new construction of six battle force fleet ships, including one Virginia class submarine, two Arleigh Burke class Destroyers, one Constellation class Guided Missile Frigate, one San Antonio class amphibious warfare ship, and one Medium Landing Ship
- » \$33.7 billion in vital space capabilities, resilient architectures, and enhanced space command and control
- » \$28.4 billion for Missile Defeat and Defense to protect the United States homeland, territories, and allies

Campaigning

Our competitors are increasingly undertaking activities designed to erode U.S. deterrence and advance their own interests. The Department strengthens deterrence, gains military advantage, and counters competitor coercion not only by building Joint Force capability, but also by campaigning. Day after day the Department will strengthen deterrence and gain advantage against competitors' most consequential coercive measures by campaigning- the conduct and sequencing of logically-linked military initiatives aimed at advancing well defined, strategy-aligned priorities over time. The United States will operate forces, synchronize broader Departmental efforts, and align Departmental activities with other instruments of national power to counter forms of competitor coercion, complicate competitors' military preparations, and develop our own warfighting capabilities together with those of our adversaries. These efforts rely on synchronizing broader U.S. government efforts and gaining advantages on "our terms." The efforts will be evidenced by day-to-day activities and actions, overseas operations, readiness training and exercises, and continuous engagement and collaboration with our allies and partners to advance our shared interests. The Department will make the following FY 2025 investments:

- \$147.5 billion for strategic readiness and preparedness of the Joint Force supporting modernizing capabilities for the future fight and sustaining current force readiness
- \$9.9 billion for the Pacific Deterrence Initiative providing critical investments in resilient and distributed basing, new missile warning and tracking architecture, funding for the Defense of Guam, fielding of uncrewed and autonomous systems and other innovative technologies, and multinational information sharing, training, and experimentation
- \$3.9 billion for European deterrence and countering Russian aggression including the European Deterrence Initiative, NATO support, and NATO Security Investment Program

Building Enduring Advantages

The strategy's third approach, to support both integrated deterrence and campaigning, is to build enduring advantages across the defense enterprise. This requires broad and deep change in how the Department produces and manages military capabilities that account for challenges from adversaries and the environment in which we operate. The Department is taking action to affect this change in five ways, by transforming the foundation of the future force, making the right technology investments, adapting and fortifying our defense ecosystem, strengthening resilience and adaptability, and cultivating the workforce we need. Consistent with the direction in the NDS the Department has made investments which aim to leverage "asymmetric American advantages: our entrepreneurial spirit; our diversity and pluralistic system of ideas and technology generation that drives unparalleled creativity, innovation and adaptation; and our military's combined-arms ethos and years of combat-tested operational and coalition experience." The Department will make the following FY 2025 investments:

- \$143.2 billion Research, Development, Test and Evaluation (RDT&E) budget – supports investment across the Department for Responsible Artificial Intelligence, 5G, and Experimentation
- \$17.2 billion for Science and Technology including a \$2.5 billion investment in Basic Research
- \$37.3 billion in facilities investments including Military Construction and Family Housing programs and Facilities Sustainment, Restoration, and Modernization

Changes in global climate have the potential to disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support response and recovery efforts.

Changes in the global climate and other transboundary threats are transforming the context in which we operate. Our climate-related investments will improve readiness and decrease demands on the Joint Force — vital to maintaining an enduring advantage. We have invested more than \$4.7 billion to enhance combat capability and resilience, reduce risk, and deploy new technologies that keep the force on the cutting edge.

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

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

- \$3.6 billion investment for installation resilience and adaptation focused on military facilities to withstand harsh weather conditions and ensure the Department can leverage private sector investments to improve energy and mission resilience
- \$180.2 million in science and technology investments, which includes hybrid tactical vehicles, to enhance capability like extended range and persistence and provide silent watch. It also includes investments in new technologies like blended wing body aircraft, which have the potential to increase range and payload while improving efficiency
- \$850.7 million in operational energy and buying power to improve the efficiency of operational platforms, while increasing their capability and mitigating logistics risk
- \$66.7 million in contingency preparedness that includes incorporating climate risk scenarios in war games and exercises, humanitarian assistance, and disaster relief and defense support to civil authorities' activities

The Department has and will continue to take tangible steps to counter sexual assault and harassment across our Armed Forces. We will not allow problems in our own ranks to undermine our cohesion, performance, and ability to advance our mission.

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

Significant work is already underway to staff a response workforce that will advance victim care and their access to more resources. In addition, the Department is actively building a full-time workforce of over 2,500 dedicated prevention personnel. The FY 2025 President's Budget continues to fund the implementation of recommendations approved by the Secretary that derived from the Independent Review Commission. Examples of these efforts include making significant

changes to the military justice paradigm, establishing an integrated primary prevention workforce, and enabling service members who experience sexual harassment to have access to a sexual assault victim advocate. The Department has developed a Prevention Workforce Model, a Prevention Workforce policy, and has provided training necessary for credentialing the initial cohort of specialized prevention personnel. This is the centerpiece to establishing a robust, integrated prevention system. The end goal is to prevent sexual assault and harassment, and also combat suicide, domestic abuse, child abuse, and other harmful behaviors.

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

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

The FY 2024 cyberspace activities (CA) budget, aligned with the DoD National Defense Strategy (NDS), reaffirms the Department's three enduring cyberspace missions: defend the DoD Information Network, defend the Nation, and prepare to win and fight the Nation's wars. In addition, consistent with the NDS direction to collaborate with a growing network of allies and partners, the 2023 DoD Cyber Strategy identifies a fourth mission to protect the cyber domain with allies and partners. Supporting the Department's 2022 NDS priorities and goals, the FY 2024 CA budget of \$13.5 billion will continue to build on the pathway laid out in the DoD "Fulcrum: DoD IT Advancement Strategy" and DoD Cyber Strategy. The CA budget funds programs and activities that advance cybersecurity, cyberspace operations, and advanced cyber research and development activities.

GAO High Risk List

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

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

Additionally, the Department shares ownership with the following 5 high-risk areas:

- Ensuring the Cybersecurity of the Nation
- Government-wide Personnel Security Clearance Process
- Improving the Management of IT Acquisitions and Operations
- Managing Federal Real Property
- Strategic Human Capital Management

The Department has either “met” or “partially met” each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring) in four of the five DoD-specific high-risk areas (HRA). In FY 2023, DoD’s Leadership Commitment increased from “partially met” to “met” for DoD’s Approach to Business Transformation, the first time in 10 years. For the DoD Business Systems Modernization HRA, the Action Plan rating decreased from “partially met” to “not met”.

The Department, in partnership with GAO, is committed to sustain progress toward addressing the risks identified by GAO in support of more effective and efficient operations. Since issuance of the 2023 GAO High-Risk Series report, the Department successfully closed over 65 GAO recommendations during FY 2024.

FINANCIAL HIGHLIGHTS AND ANALYSIS

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

Financial Performance Summary

The following table summarizes the Department's condensed FY 2024 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see [Figure 11](#)).

Figure 11. Financial Performance Summary (Unaudited)

Dollars in Billions	FY 2024		Restated FY 2023		Increase/(Decrease)	
					\$	%
COSTS						
Gross Program Costs	\$	1,110.3		1,014.2	96.1	9.5%
Less: Earned Revenue		(168.6)		(157.7)	(11.0)	7.0%
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		236.8		89.3	147.4	165.0%
Net Cost of Operations	\$	1,178.4	\$	945.8	\$	232.6 24.6%
NET POSITION						
Assets:						
Fund Balance with Treasury		855.5		768.1	87.5	11.4%
Investments, Net		2,020.8		1,808.9	211.9	11.7%
Accounts Receivable		18.6		14.7	3.9	26.6%
Other Assets *		12.6		14.5	(1.9)	-13.3%
Inventory and Related Property, Net		368.6		348.0	20.6	5.9%
General and Right-to-Use Property, Plant and Equipment, Net		849.5		840.8	8.7	1.0%
Total Assets	\$	4,125.6	\$	3,794.9	\$	330.7 8.7%
Liabilities:						
Accounts Payable		45.8		46.4	(0.6)	-1.3%
Other Liabilities **		41.6		41.9	(0.3)	-0.7%
Federal Employee and Veteran Benefits Payable***		4,145.5		3,768.2	377.4	10.0%
Environmental and Disposal Liabilities		101.1		93.8	7.3	7.7%
Total Liabilities	\$	4,334.0	\$	3,950.3	\$	383.8 9.7%
Net Position (Assets minus Liabilities)	\$	(208.4)	\$	(155.3)	\$	(53.1) 34.2%

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

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

*** Federal Employee and Veteran Benefits Payable includes both Federal Employee Salary, Leave, and Benefits Payable and Veterans, Pensions, and Post Employment-Related Benefits

Rounding may cause small differences in totals

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

BALANCE SHEET

STATEMENT OF NET COST

STATEMENT OF CHANGES IN NET POSITION

STATEMENT OF BUDGETARY RESOURCES



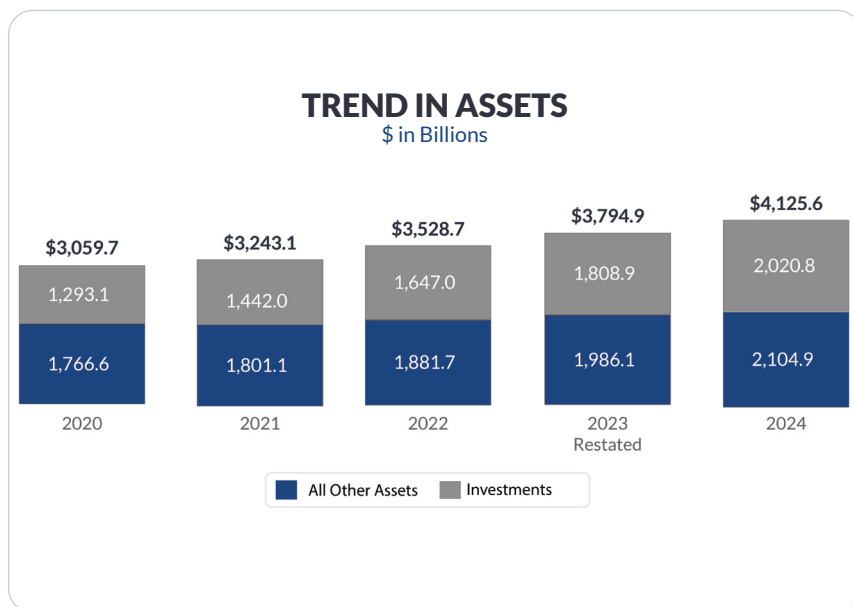
U.S. Marine Corps Lance Cpl. Jack Geels, a team leader assigned to Bravo Company, Battalion Landing Team 1/5, 15th Marine Expeditionary Unit, and native of Iowa, fires an M27 Infantry Automatic Rifle during a live-fire deck shoot aboard the amphibious assault ship USS Boxer (LHD 4) in the Pacific Ocean April 6, 2024. Elements of the 15th MEU are currently embarked aboard the Boxer Amphibious Ready Group conducting routine operations in U.S. 3rd Fleet. (Photo by Cpl. Joseph Helms)

Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2024, and September 30, 2023, reports economic benefits controlled by the Department (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2024, the Department's \$4.1 trillion in assets predominantly comprises Investments; General and Right-to-Use Property, Plant and Equipment, Net (GPP&E); Fund Balance with Treasury (FBwT); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see **Figure 12**).

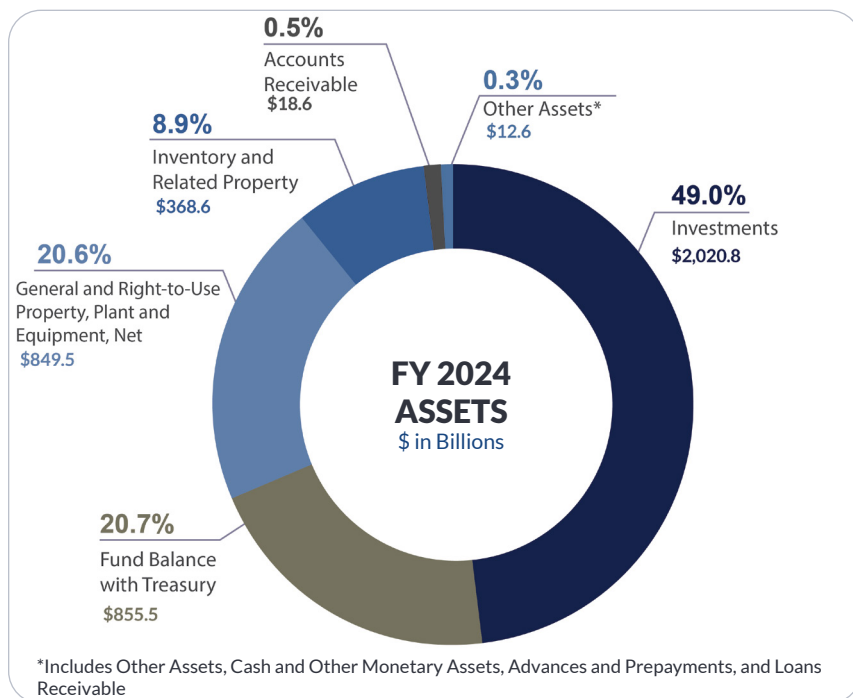
Figure 12. Summary of Total Assets (Unaudited)



The Department restated the FY 2023 Inventory and Related Property, Net; General PP&E; and Investments balances to correct errors, resulting in a \$13.7 billion increase in Total Assets as compared to the balance reported in 4Q FY 2023. See Note 28, *Restatements*, in the Financial Section for more information.

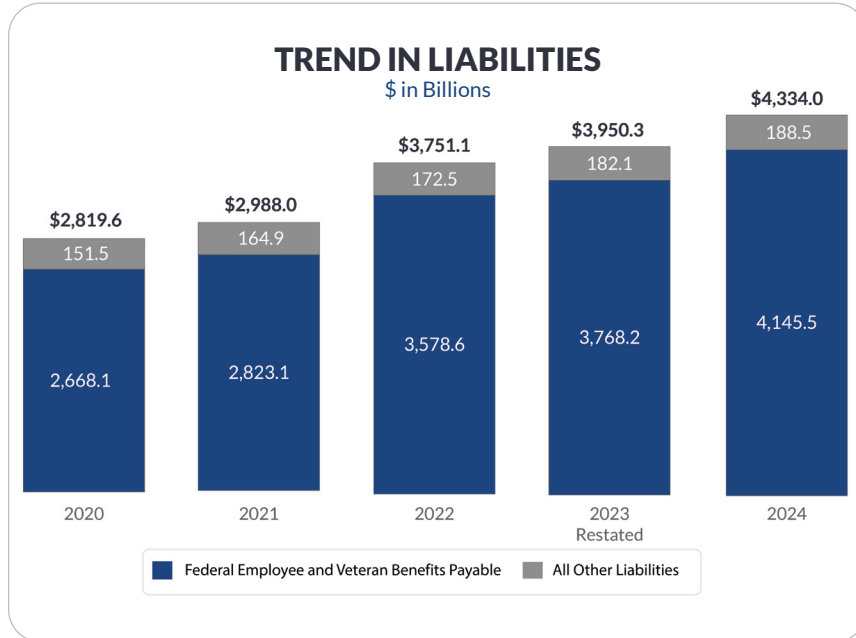
During FY 2024 the Department's total assets increased by \$330.7 billion (8.7 percent) over the FY 2023 (restated) amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by \$211.9 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments, Net*, in the Financial Section for more information.
- FBwT increased \$87.5 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.



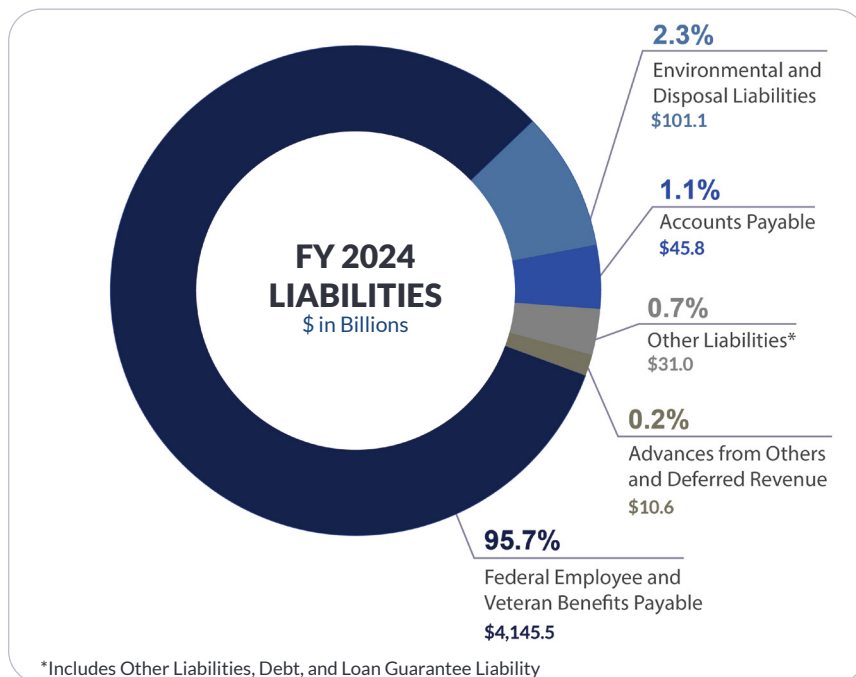
As of September 30, 2024, the Department's \$4.3 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.7 percent of the Department's liabilities (see **Figure 13**). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 13. Summary of Total Liabilities (Unaudited)



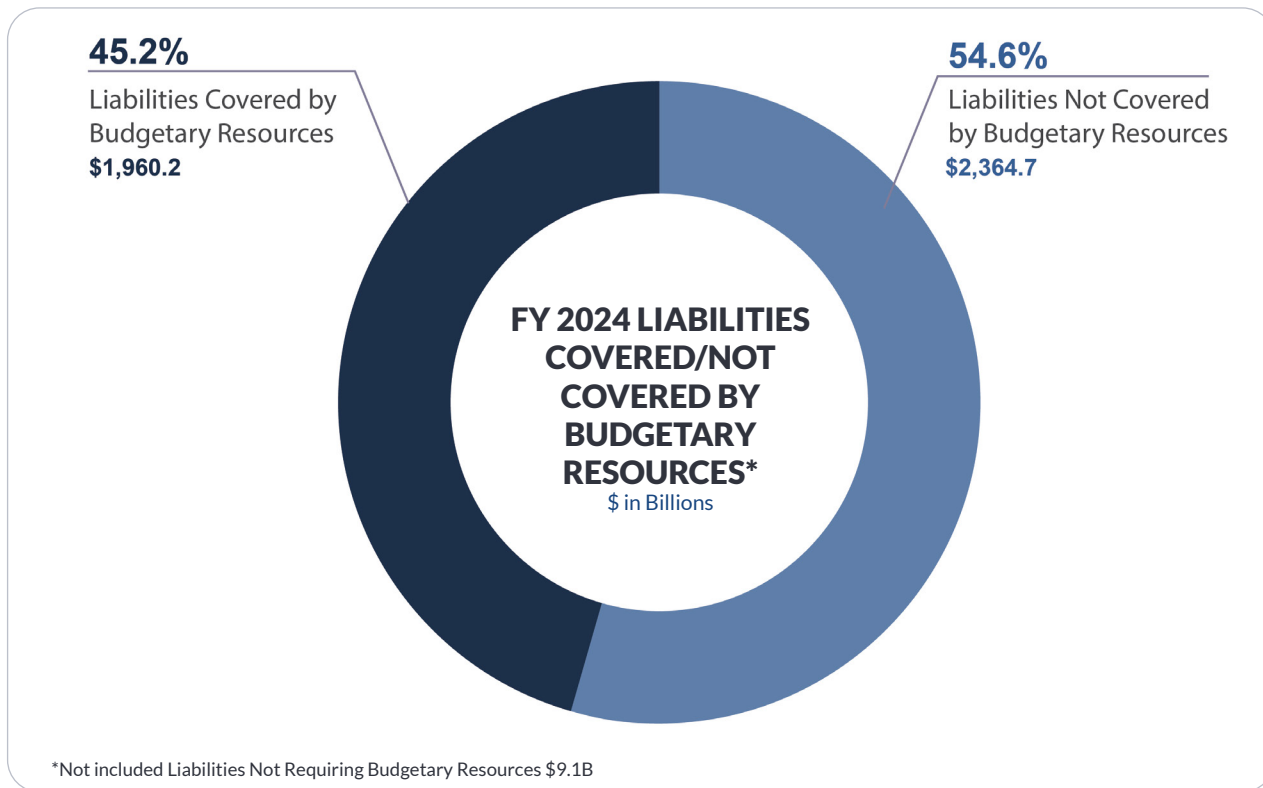
During FY 2024, the Department's total liabilities increased by \$383.8 billion (9.7 percent) over the FY 2023 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by \$377.3 billion, primarily attributable to a \$192.4 billion increase in the actuarial liability of the Military Retirement Fund and a \$126.3 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. See Note 13, *Federal Employee and Veteran Benefits Payable*, in Financial Section for more information.

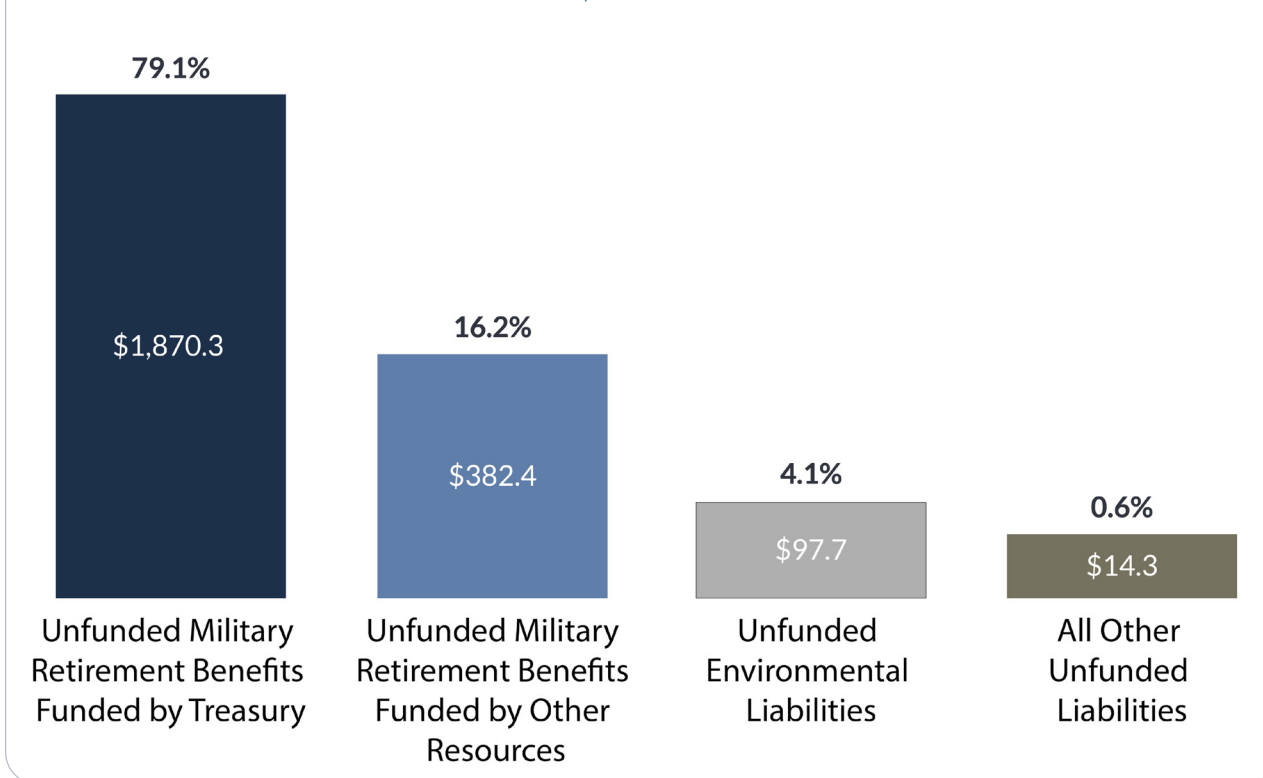


As of September 30, 2024, \$2.4 trillion (54.6 percent) of the Department's liabilities were not covered by budgetary resources (see **Figure 14**). Of this amount not covered by budgetary resources, \$1.9 trillion (79.1 percent) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See Note 11, *Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

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



FY 2024 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES
\$ in Billions



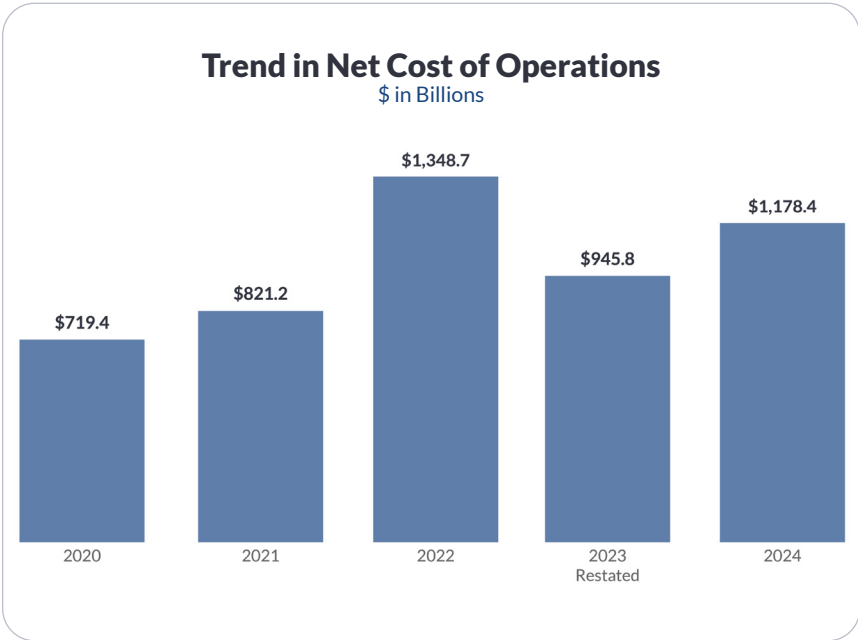
Statement of Net Cost

The Statement of Net Cost presents the net cost of the Department's major programs as of September 30, 2024, and September 30, 2023. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (such as investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant, and equipment. See Note 24, *Reconciliation of Net Cost to Net Outlays*, in the Financial Section for additional information.

Effective in FY 2024, the presentation of the Statement of Net Cost has changed to align with the Department's new definition of major programs. The Department defines the DoD Agency-Wide major programs as follows:

- **Department of Air Force:** Fly, Fight, and Win Airpower. This major program includes the United States Air Force General Fund and Working Capital Fund, and the United States Space Force General Fund;
- **Department of Army:** Deploy, Fight, and Sustain Land Dominance. This major program includes the Department of the Army General Fund and Working Capital Fund;
- **Department of Navy:** Deliver Combat Ready Naval Forces to Win Conflicts and Wars. This major program includes the Navy General Fund, the Department of the Navy Working Capital Fund, and United States Marines Corps General Fund;
- **Civil Works:** Facilitate Commercial Navigation, Flood/Storm Damage Restoration, and Ecosystem Restoration. This major program includes U.S. Army Corps of Engineers Civil Works programs;
- **Support Activities:** Support and prepare DoD Combat Forces. This major program includes Other Defense Organizations with Treasury Index 97 except for the Military Retirement Funds (MRF) and activities under the Military Departments with Treasury Index 97; and
- **Military Retirement Fund:** Support Retired Military Personnel.

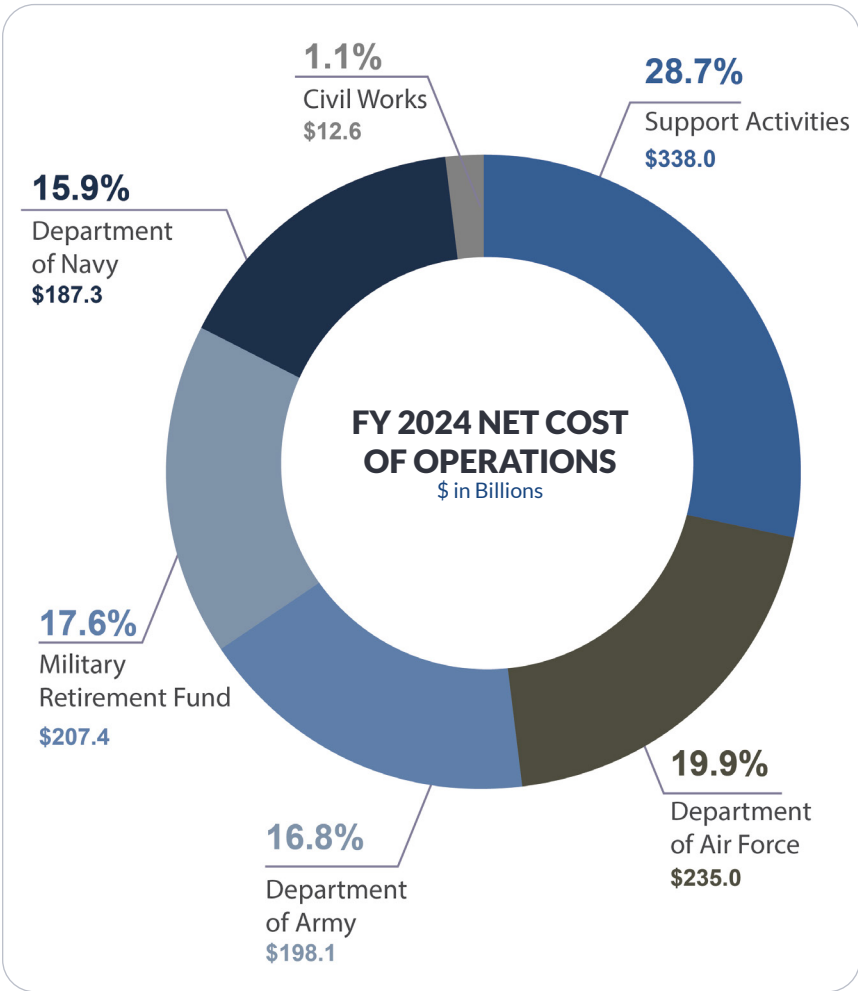
Figure 15. Summary of Net Cost Operations (Unaudited)



The major programs composing the greatest share of the Department's \$1.2 trillion FY 2024 Net Cost of Operations were Department of Air Force; Department of Army; Department of Navy; Support Activities; and Military Retirement Fund which together represented 98.9 percent of the Department's Net Cost of Operations (see Figure 15).

The Department restated the FY 2023 Statement of Net Cost of Operations due to assets found but not previously recorded in the Accountable Property System of Record resulting in a \$1.5 billion increase in Net Cost of Operations as compared to the balance reported in FY 2023. See Note 28, *Restatements*, in the Financial Section for more information.

During FY 2024, the Department's Net Cost of Operations increased \$232.6 billion (24.6 percent) over the FY 2023 (restated) amount.



Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items. In FY 2024, the Department reported \$1.7 trillion in total budgetary resources (see **Figure 16**).

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

Description (\$ in Billions)	FY 2024	Restated FY 2023	FY 2022	FY 2021	FY 2020
Appropriations (Discretionary and Mandatory) Reported on SBR	\$ 1,194.2	\$ 1,093.7	\$ 1,019.5	\$ 905.1	\$ 914.2
Unobligated Balances from Prior Year Budget Authority	288.4	273.4	213.8	211.2	213.3
Spending Authority from Offsetting Collections	140.1	135.8	150.3	153.7	130.3
Contract Authority	90.6	90.7	81.2	74.0	78.7
Total Budgetary Resources	\$ 1,713.3	\$ 1,593.5	\$ 1,464.8	\$ 1,344.0	\$ 1,336.5

Of the \$1.7 trillion in Total Budgetary Resources for FY 2024, \$1.4 trillion was obligated. The remaining Unobligated Balance of \$287.8 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for procurement of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2024, the amount of the Expired Unobligated Balance, End of Year increased by \$0.5 billion to \$25.1 billion in FY 2024 from \$24.6 billion in FY 2023. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with [31 U.S.C. §1553](#).

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

AUDIT OVERVIEW

Tone-at-the-top was a pervasive theme from the Department of Defense (DoD) fiscal year (FY) 2024 financial statement audits. Our leaders translated the Department's financial management goals, philosophy, and methods into the attitudes and actions needed to accelerate efforts toward achieving a Department-wide unmodified audit opinion by December 2028. A prominent and focused tone-at-the-top ensures the prioritization of resources for areas pivotal to achieving an unmodified opinion; encourages innovation by challenging stakeholders to think differently and develop more efficient, alternative resolutions for scope-limiting material weaknesses; and demands accountability by clearly defining expectations and implementation plans, measuring progress, and instilling a sense of responsibility in all stakeholders.

Prioritization. The annual Secretary of Defense (SecDef) financial statement audit priorities focus Department-wide efforts on the areas that matter most and catalyze progress. Audit results demonstrate the effectiveness of this concerted effort. The Department has closed or downgraded most of the documented Fund Balance with Treasury (FBWT) material weaknesses, a SecDef financial statement audit priority since FY 2020, in the last two fiscal years and made significant progress in other priority areas.

Innovation. Technology remains central to the DoD's audit efforts. The Department is replacing noncompliant legacy systems with modern financial management and enterprise resource planning (ERP) systems; maximizing Advana to resolve scope-limiting material weaknesses; and using technology to automate repeat functions and build sustainable business processes. Innovation is not limited to technology. The Department's financial management strategy aims to modernize the workforce by empowering them to improve their knowledge and skills while becoming more agile. Department leaders are challenging stakeholders to think differently to resolve the DoD's most significant challenges, like beginning balances and asset valuation.

Accountability. At the beginning of FY 2024, Secretary of Defense Lloyd J. Austin III issued a memorandum to better hold individuals accountable for audit progress. This memorandum reinforced expectations for the Secretaries of the Military Departments and Principal Staff Assistants (PSAs) on accelerating the Department's path to achieving an unmodified audit opinion. Other DoD leaders followed with their own memoranda directing the inclusion of audit requirements in the annual performance plans of Senior Executive Service (SES) members with responsibility for SecDef audit priorities; requiring General Officers (GOs) and Flag Officer (FOs) nominations certify adherence to the SecDef audit priorities, a first for military leaders; and establishing expectations for other defense organizations included in the DoD-wide consolidated financial statement audit.

The Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) have lauded DoD for its tone-at-the-top and sustained leadership commitment, both essential to achieve a DoD-wide unmodified audit opinion by December 2028. Audit progress is accelerating thanks to the actions of our senior leadership to focus Department resources on the most critical areas, transform processes and systems and empower our workforce, and compel leaders to effect change within their organizations.

Audit Benefits

The Department captures return on its audit investment across five areas essential for achieving and sustaining an unmodified opinion. These five areas are also critical to supporting the priorities outlined in the National Defense Strategy.

- Workforce Modernization – Upskill and maintain a modern and efficient workforce.
- Improved Business Operations – Enhance operational efficiency and stabilize the business environment.
- Quality Decision-Making – Improve timeliness, accuracy, and availability of financial and operational data to increase confidence in that data and support decision-making.

- **Reliable Networks** – Enhance cybersecurity, bring systems into compliance, and achieve greater interoperability between systems to enhance mission effectiveness.
- **Enhanced Public Confidence** – Achieve an unmodified financial statement audit opinion, increase accountability and transparency, and provide greater public confidence in DoD's stewardship of taxpayer dollars.

A MODERNIZED WORKFORCE

- As of the FY 2024 third quarter, DoD has deployed over 800 automations. Approximately 50 percent of these automations support financial management business functions, and around 21 percent assist with compliance or audit activities, such as pulling documentation to support audit responses.
- The Department of the Air Force (DAF) Financial Systems Operations Digital Management Automation System has delivered 76 robotic process automations (RPAs) since the program began in FY 2019. These RPAs have saved roughly 577,000 labor hours and improved the auditability of 76 processes through enhanced documentation and business process execution traceability.

IMPROVED BUSINESS OPERATIONS

- The Department of the Army (Army) continued to improve audit access and timelines within the Integrated Personnel and Pay System, which provides consolidated personnel and pay information from over 50 legacy systems while also promoting secure and consistent processes and data.

QUALITY DECISION-MAKING

- The DAF Working Capital Fund (WCF) created a dashboard to automate the reconciliation of disparate legacy systems and house multiple data sets in one location, providing heightened visibility into cash balances, and helping forecast future cash flow needs.
- The Defense Logistics Agency (DLA) procured a performance management application that unifies, simplifies, and automates critical financial management processes (Planning, Programming, Budgeting, and Execution, account maintenance and control, financial close, consolidation and reporting) and turns financial data into actionable business and decision-making insights.

RELIABLE NETWORKS

- The Department of the Navy (DON) converted \$20 billion in Navy budget authority to the Navy Enterprise Resource Planning system (Navy ERP) through the migration of nine major Navy commands; decommissioned 11 systems; and transitioned three budget submitting offices to Navy ERP. DON also migrated the Bureau of Naval Personnel's (BUPER's) 88,900 roles and over 1,400 end users to Navy ERP.
- The Defense Finance and Accounting Service (DFAS), in collaboration with the Defense Information Systems Agency (DISA), implemented the first DoD financial management system into the Enterprise - Identity, Credential, and Access Management (E-ICAM) for automated account provisioning, which offers fully automated, end-to-end user access provisioning and de-provisioning and is anticipated to resolve four out of five (80 percent) of Defense Information Financial Management System (DIFMS), Naval Air Systems Command Industrial Material Management System (MINNS), and Automated Bill of Materials (ABOM) information technology (IT) notices of findings and recommendations (NFRs).

ENHANCED PUBLIC CONFIDENCE

- The Department is using Advana to track all contingency reporting, evaluating current circumstances to estimate potential future DoD liabilities. Advana was successfully programmed to track historical contingencies.
- The Department is using Advana for new contingency reporting going forward to include military operation carried out by the United States Armed Forces in response to threats, including natural disasters, terrorists, or subversives.

The Secretary's FY 2024 Financial Statement Audit Priorities

The annual financial statement audit priorities named by the SecDef focus Department-wide efforts on the areas that matter most. For FY 2024, the SecDef enhanced and restructured the FY 2023 financial statement audit priorities with specific goals, measurements and added an additional priority, Optimize Asset Valuation. The Department focused efforts on the following SecDef audit priorities in FY 2024 and realizing value from those efforts.

Figure 17. SecDef Financial Statement Audit Priority Results

Priority Area	Goals
Improve Fund Balance with Treasury (FBWT)	<ul style="list-style-type: none"> The National Geospatial-Intelligence Agency (NGA) downgraded its FBwT material. NGA's controls over transactions enabled the successful projection of Treasury Index (TI)-97 balance assignments and allowed NGA to reconcile TI-97 variances with 100% accuracy, significantly reducing TI-97 completeness risk. The DAF General Fund (GF) continued to monitor root cause investigation and sample undistributed transaction variances, and to strengthen upstream controls reporting to Treasury. As of July 2024, the DAF GF FBwT had less than 1% total undistributed transactions and 2.8% undistributed transaction variances aged greater than 60 days.
Strengthen Internal Control Environment	<ul style="list-style-type: none"> In FY 2024, the Army launched the Continuous Monitoring Program (CMP) to centralize Army-wide internal control evaluations and improve consistency. Through CMP, the Army completed risk assessments, and tested design and operating effectiveness over seven material Army business processes, including conducting over 100 process walkthroughs; identifying and documenting 75 IT application controls; and reviewing 136 documented Army controls and documenting seven new key financial controls. The FY 2024 Defense Cash Accountability System (DCAS) Service and Organization Control one report covering transaction distribution and Treasury reporting services through DCAS received an unmodified opinion for the first time since assertion in FY 2016, supporting an improved FBwT control environment for the DoD.
Create a Universe of Transactions (UoT)	<ul style="list-style-type: none"> DON improved its UoT by performing an inception-to-date reconciliation for its key accounting system data. DON is leveraging the design and operational effectiveness of the UoT control environment to support the validity of other tools, such as the Budget Execution Validation tool, which is used to reduce old obligations by early identification of risky obligations unlikely to be expensed or liquidated. Army developed its next generation Advana platform, the Analytics and Reporting Enterprise System (ARES), and migrated all Army WCF solutions from the legacy Advana environment into Advana leveraging the ARES database. ARES reached critical maturity to support all SecDef financial statement audit priorities and nearly all Army material weaknesses. ARES now contains data from nearly all relevant Army and DoD feeder systems and serves as the foundation to develop multiple feeder system reconciliations.

Priority Area	Goals
Optimize Asset Valuations	<ul style="list-style-type: none"> • DAF implemented a modification to its useful life policy by leveraging engineering support and expert opinions to determine reasonable useful life for each aircraft category. DAF made 5,428 adjustments, resulting in approximately \$7 billion adjustment in net book value. To monitor the future population, DAF developed preventative and detective controls to validate modification useful life is input correctly and depreciation is accurately reported. DAF continued to assess materiality yearly and monitored the \$104.6 billion military equipment population for any misstatements in need of correction at year-end.

FY 2024 Audit Results

The Department completed its seventh annual consolidated financial statement audit, covering approximately \$4.1 trillion of the Department's total assets and \$4.3 trillion in total liabilities. The audit comprised 28 standalone audits conducted by independent public accountants (IPAs) and the DoD OIG. The DoD OIG issued a disclaimer of opinion on the Department's FY 2024 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. For more information, see the Independent Audit Report issued by the DoD OIG in the Financial Section of this report.

Teams of auditors as well as the DoD OIG closely examined the financial statements of the Department and its reporting entities. Of the 28 reporting entities undergoing standalone financial statement audits, nine received an unmodified audit opinion, one received a qualified opinion, 15 received disclaimers, and three opinions remain pending. The Defense Threat Reduction Agency (DTRA) achieved an unmodified audit opinion in only its second year under standalone audit. The Independent Auditor Report for each standalone audit is available in the respective Reporting Entity's agency financial report, accessible on the unclassified Agency Financial Report website. Other Reporting Entity and Accounts are audited by the DoD OIG as part of the DoD-wide consolidated financial statement audit.

For the FY 2024 financial statement audit, auditors completed 27 Statement on Standards of Attestation Engagements (SSAE) No. 18 examinations covering 35 systems owned by eight DoD service providers. The Department received 17 unmodified, eight qualified, and two adverse opinions on its SSAE No. 18 examinations. DFAS's Federal Civilian Pay and Disbursing Service systems both achieved their 12th consecutive unmodified opinion, and their Contract Pay system achieved its 11th consecutive unmodified opinion. DLA's Defense Agencies Initiative, the general ledger accounting system for over 25 DoD reporting entities, obtained its eighth consecutive unmodified SSAE No. 18 opinion.

Auditor findings and recommendations help DoD leaders identify issues with systems, prioritize improvements, drive efficiencies, and measure progress in modernizing and enhancing the Department's financial management capabilities. An auditor issues NFRs for controls determined to be not operating as designed or implemented. The auditor then determines the severity of the NFRs and classifies them as control deficiencies, significant deficiencies, or material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected, and corrected timely. The DoD-wide consolidated financial statement audit resulted in the downgrade of the Contingent Legal Liabilities material weakness and the addition of the Leases material weakness in FY 2024, for no net change in the number of DoD-wide material weaknesses.

Eight reporting entities closed or downgraded their FBwT material weakness: Army GF, DON WCF, DAF WCF, DISA GF and DISA WCF, Defense Threat Reduction Agency, the Defense Advanced Research Projects Agency, and the NGA. In addition, the Army GF and Army WCF both closed their Entity Level Controls – Enterprise Responsibilities material weaknesses, and Army WCF downgraded its Property, Plant and Equipment – General Equipment, Property, Plant and Equipment Real Property and Environmental Disposal and Liabilities material weaknesses; the DAF GF downgraded its Military Equipment material weakness; the Defense Health Program closed its Stockpile Materials material weakness and downgraded its Information Systems material weakness; the Defense Intelligence Agency downgraded its Financial IT Controls material weakness, DISA GF downgraded its Financial Reporting material weakness, and the U.S. Army Corps of Engineers – Civil Works downgraded its Construction In Progress – Property, Plant and Equipment material weakness.

Separately, the Department manages the audit of the Security Assistance Account (SAA) and prepares the SAA financial statements, which include the Foreign Military Sales program's financial activity and position. (Note: The SAA financial statements are not consolidated in the Department-wide financial statements but are consolidated directly into the Financial Report of the U.S. Government as a separate standalone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, Appendix 1a). The SAA's FY 2024 financial statement audit resulted in a disclaimer of opinion. See Note 27, SAA, in the Financial Section of this report for additional information.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2024

The Department assessed the effectiveness of internal controls over financial reporting in accordance with section 2 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular No. A 123. Based on this assessment, the Department is unable to provide assurance over the effectiveness of internal controls in place to support reliable financial reporting as of September 30, 2024¹. The Department's management identified 50 material weaknesses across the following 23 areas:

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting Compilation - Security Assistance Accounts
- Financial Reporting Compilation - Beginning Balance
- Financial Reporting Compilation - DoD-wide Oversight and Monitoring
- Financial Reporting Compilation - Budgetary Resources
- Financial Reporting Compilation - Earned Revenue
- Financial Reporting Compilation - Reconciliation of Net Cost of Operation to Outlays
- Financial Reporting Compilation - Service Organization
- Financial Reporting Compilation - Universe of Transactions
- Financial Reporting Compilation - Unsupported Accounting Adjustment
- Financial Reporting Compilation - Gross Cost
- Financial Reporting Compilation - Leases
- Accounts Payable - Contract / Vendor Pay
- Accounts Payable - Healthcare Liabilities
- Intradepartmental Eliminations and Intragovernmental Transactions (includes Reimbursable Work Orders)
- General Property, Plant & Equipment
- Joint Strike Fighter Program
- Real Property Assets
- Environmental and Disposal Liabilities
- Property in the Possession of Contractors
- Inventory
- Operating Materials & Supplies

The Department assessed the effectiveness of internal controls over reporting operations in accordance with FMFIA section 2 and OMB Circular No. A 123. Based on this assessment, the Department provides modified assurance over the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2024. The Department's management identified 44 material weaknesses across the following 9 assessable units:

- Acquisition
- Comptroller and/or Resource Management
- Contract Administration
- Force Readiness
- Financial Systems Modernization (formerly Business System Modernization)
- Manufacturing, Maintenance, and Repair
- Personnel and/or Organizational Management
- Support Services
- Supply Operations

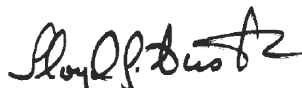
The Department assessed the compliance of DoD financial management systems in accordance with FMFIA section 4; section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA); and OMB Circular No. A 123, Appendix D. Based on this assessment, the Department is unable to provide assurance DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General

¹ Army, DCSA, DLA, OIG and USSOCOM are reporting potential ADA violations for FY 2024 identified during assessments of the applicable processes. Each of the reporting entities are finalizing investigation and will report any deficiencies as appropriate.

Ledger at the transaction level as of September 30, 2024. The Department's management identified three instances of non-conformance in the areas of Financial Management Systems Modernization (Formerly Business System Modernization), Federal Information Systems Control Audit Manual (FISCAM) compliance, and FFMIA compliance.

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

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



Lloyd J. Austin III
Secretary of Defense

MANAGEMENT ASSURANCES

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

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

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD(C)/CFO): The USD(C)/CFO is the principal advisor to the Secretary of Defense and Deputy Secretary of Defense (DepSecDef) for budgetary and fiscal matters including financial management, accounting policy and systems, management control systems, budget formulation and execution, contract and audit administration, and general management improvement programs. USD(C)/CFO oversees improvement and integration of financial information, FM policy and systems, management control systems, budget formulation and execution, financial operations, contract and audit administration, monitoring the Defense Business System (DBS) Audit Remediation Plan, and general management improvement programs.

The Office of the Performance Improvement Officer of the Department of Defense (DoD PIO): The DoD PIO is the principal advisor to the SecDef and DepSecDef for ensuring that the mission and goals of the Department are achieved through strategic and performance planning. In partnership with USD(C)/CFO, the DoD PIO leads Enterprise Risk Management and the implementation of non-financial internal controls over reporting (ICOR-O). The DoD PIO also serves as the Department's Defense Reform Lead, assisting the Secretary of Defense and DepSecDef in the development and oversight of DoD-wide business transformation.

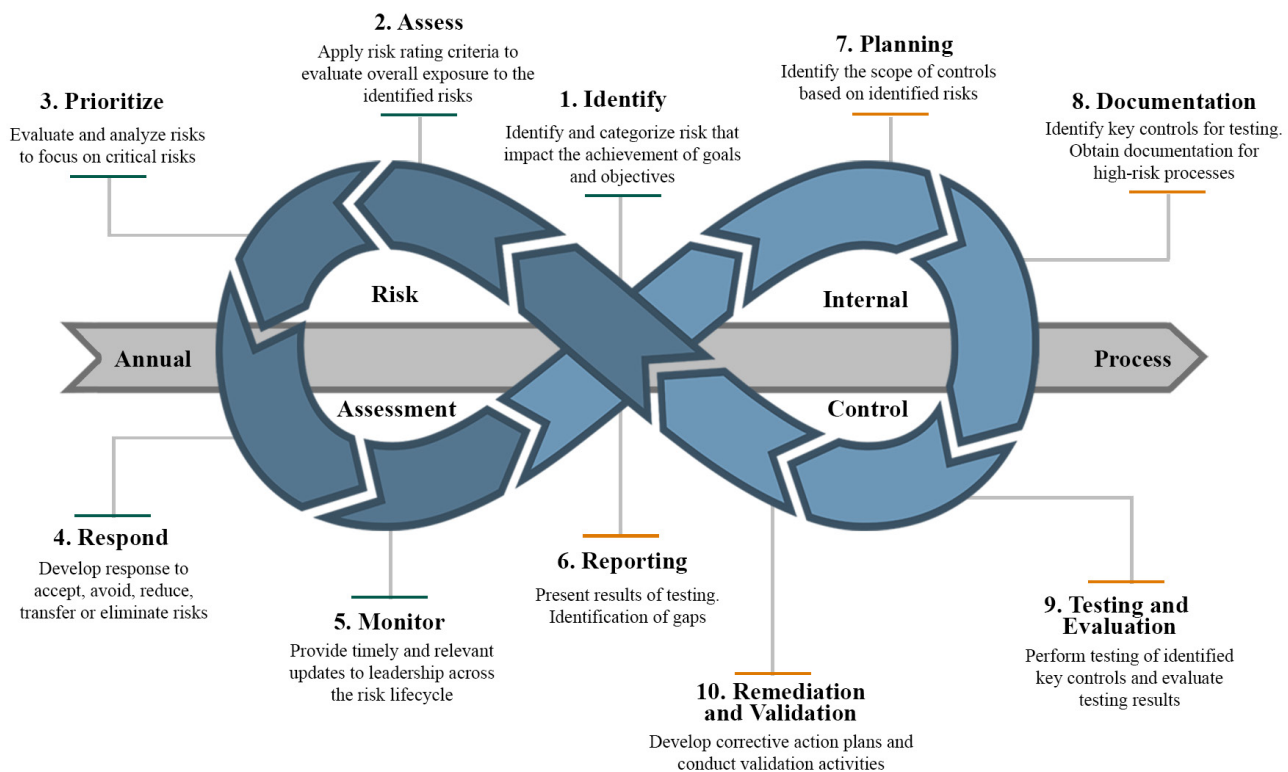
The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Office of the Performance Improvement Officer and Director of Administration and Management (O/PIODA&M) Performance Improvement Directorate partner to lead the Department's efforts in fulfilling this requirement through the Risk Management and Internal Controls (RMIC) Program, which holds both financial and operational managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. The DoD RMIC Program uses a continuous, cyclical, and unified approach for assessing risk and evaluating internal controls to achieve its objectives over operations, reporting, and compliance (see **Figure 18**). The RMIC Program supports the preparation of the Department's Statement of Assurance (SOA) report, outlining the design and effectiveness of key control activities, which is compiled from information reported by all DoD Components. The RMIC Program and the Financial Statement Audit are complementary processes that, when integrated, provide management with the information needed to accelerate and sustain a financial and operations audit remediation posture.

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

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

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

Figure 18. RMIC Program Process



Governance

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

- **Deputy's Management Action Group (DMAG) Audit Deep Dive**: Provides governance for management actions affecting the defense enterprise, including resource management and planning, programming, budgeting, and execution with a focus on the Department's financial statement audits.
- **Defense Performance Improvement Council (DPIC)**: Provides vision, leadership, direction, oversight and accountability on defense management, enterprise-wide performance management, defense reform and business transformation, enterprise risk management and DoD-wide compliance with GAO and OIG open recommendations.

The DPIC also serves as the Senior Management Council for ERM and ICOR-O, in accordance with the GAO Green Book and OMB-A-123. The DPIC is a supporting tier of governance to senior governance bodies, including the DMAG, in accordance with DoD Directive 5105.79.

- **FIAR Governance Board:** Provides vision, leadership, direction, oversight, and accountability in support of achieving an unmodified audit opinion. Through quarterly meetings, the Board, which is a Supporting Tier Forum to the DMAG, prioritizes Department-wide corrective actions that provide the greatest value to the warfighter. In addition to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, other participants include key leaders from the DoD Components under a standalone audit, as well as representatives from the GAO and Office of Inspector General of the DoD.
- **Functional Councils:** Address high-profile and pivotal audit issues related to Financial Reporting, Property, and Information Technology. Functional Councils meet quarterly to review remediation status and develop solutions that may involve changes to DoD policy and procedures.
- **Other Defense Organizations Financial Operations:** Provides oversight and direction for remediation and limited financial operations to the DoD Components at the Tier 2 level undergoing standalone audits and at the Tier 3 and 4 level incorporated into the DoD Consolidated audit.

SYSTEMS COMPLIANCE AND STRATEGY

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

In accordance with [10 U.S.C. §240g](#), the Department submitted an updated defense business system (DBS) Audit Remediation Plan to the Congress in July 2024. The plan is a current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan also established a foundation for a future strategy that will:

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

In addition, the Department executes annual FM systems oversight activities that include assessing FFMIA implementation, system security, and progress of remediating IT NFRs. Assessments are leveraged to track compliance with Federal and DoD standards, which inform the investment review process for business systems and serve as a data-driven catalyst for influencing system improvements, migrations, and retirements that improve DoD's overall auditability. The Department leverages an application within DoD's Advanced Data Analytics (Advana) platform. The application enables continuous monitoring of compliance reporting, more concise identification of improvement areas, and oversight of retiring outdated, non-compliant systems. In FY 2024, the Department retired 10 systems that were relevant to internal controls over financial reporting, further simplifying the portfolio of systems. With the Defense Business Council and the FIAR Governance Board oversight, the Department continues to improve its financial auditability posture by establishing consistent assessment and reporting criteria for systems that impact our financial reporting, and disciplined oversight of the retirement of systems. This progress is continually updated and reported through the DBS Audit Remediation Plans provided to Congress.

Enterprise Resource Planning Systems

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

Department of the Army

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

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

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

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

Department of the Navy

[Navy ERP](#) is an integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is a financial system of record that uses sophisticated business management software to streamline the Navy's financial and supply chain management. The integration of financial and supply solutions on a single platform provides real-time data and decision support to the Navy Enterprise. In FY 2023, the Navy completed consolidation of their Working Capital Fund general ledgers into Navy ERP and is planning to roll all general fund activities from Standard Accounting, Budgeting, and Reporting System to Navy ERP by the end of FY 2026.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions into one seamless COTS system by streamlining existing personnel, pay systems, and processes; and also providing an adaptable solution that meets the complex needs of sailors, human resources personnel, and Navy leaders. Once fully implemented, NP2 will provide a platform for future initiatives such as improved marketplace-style detailing, enhanced performance evaluations

and management, targeted compensation (e.g., bonuses), and automation of time-consuming administrative functions. By streamlining processes and systems, the implementation of NP2 will improve the speed, accuracy, and quality of personnel and pay services.

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

Department of the Air Force

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

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

Other Defense Organization Enterprise Resource Planning

The Defense Agency Initiative (DAI) is an enterprise system dedicated to addressing financial management improvements using a standardized system solution for both the 4th Estate and the Marine Corps. DAI deploys a Commercial-Off-The-Shelf (COTS) system that provides user entities with budget, finance, and accounting operations support capabilities and automation to help achieve the accumulation and reporting of complete and accurate financial information in support of Department of Defense (DoD) financial accountability objectives.

The Enterprise Business System (EBS) is a robust Commercial-Off-The-Shelf (COTS) Enterprise Resource Planning (ERP) system which provides a secure, flexible, and integrated solution to meet the Defense Logistics Agency's business needs. Its primary mission is to provide the core financial system with financial reporting, supply chain management, and logistics support capabilities. EBS is continually updated and refined to meet evolving business needs including improving processes and analysis, implement process area business reengineering opportunities, and offer greater agility in monitoring and tracking operational and fiscal performance.

The Defense Civilian Human Resources Management System (DCHRMS) will be the Department's enterprise civilian Human Resources (HR) automated transactional system. DCHRMS will support the entire civilian HR lifecycle, including acquiring, assigning, training and development, sustaining and managing HR compensation, managing organizations, supporting benefits management, and separation or termination of civilian personnel. Reporting will include leadership-level corporate reporting across the enterprise, as well as individual Military Department and Defense Agency customer information. DCHRMS will establish a single employee record for each member and efficiencies gained through the use of the systems' additional offerings, such as performance management.

DHA E-Commerce (ECS) is a fully integrated Federal Financial ERP and contract management system using COTS based software. DHA ECS supports budget and accounting/finance functions and healthcare claims processing. The accounting/finance function provides support for activities associated with establishing and administering the accounting classification structure, the standard general ledger, the subsidiary account structure, and debt management. The

accounting function interfaces with the contracting functions to obtain contract data for issuing payments and maintaining financial records. DHA ECS is a participant of the TRICARE Retail Pharmacy Refund Program, providing streamline billings, collections, reconciliations, dispute resolutions, and managing pricing changes.

LEGAL COMPLIANCE

Antideficiency Act

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

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

During FY 2024, the Department confirmed one case involving a purpose statute violation. The Department incorrectly provided funding for a service contract resulting in a violation of Title 31, U.S.C. § 1301(a) as RDT&E funds, and not O&M funds, should have been used for the development project.

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

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 ([DATA Act](#)) amended the Federal Funding Accountability and Transparency Act of 2006 ([FFATA](#)) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on the publicly accessible and searchable website, [USAspending.gov](#). USAspending.gov gives the American public access to information on how their tax dollars are being spent. Implementation of the DATA Act held agencies accountable for the completeness, timeliness, quality, and accuracy of the required information for DATA Act reporting, which includes the amount of funding the Department receives; the source of the funding (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); plans for spending the funding; and the actual use of the funding, to include the disclosure of the entities or organizations receiving federal funds through contract and financial assistance awards. The increasing focus on open data transparency continues to steer stakeholders across the Department toward the common goal of producing quality published spending data, while safeguarding sensitive information.

On a monthly basis, the Department publishes summary level appropriation, obligation, and outlay data in USAspending.gov in accordance with the DATA Act. On a quarterly basis, the Department submits additional spending and financial award data for publication on USAspending.gov for obligations and outlays at the contract and financial assistance award level. As of June 2024, the Department reported the alignment of over \$31 billion across 964,371 active contract and financial assistance awards through DATA Act certification. The Department remains fully committed to enabling data transparency, while balancing the need to protect classified data which could compromise operational security.

Payment Integrity Information Act

In accordance with the Payment Integrity Information Act of 2019 ([PIIA](#)) and OMB Circular No. A-123, [Appendix C](#), the Department is required to report the status and recovery of improper and unknown payments to the President and Congress. PIIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient; for an ineligible good or service; as a duplicate payment; for goods or services not received; and any payment that does not account for applicable discounts. Moreover, in accordance with OMB Circular A-123 Appendix C, when an agency is unable to determine whether the payment is proper or improper, as a result of insufficient or lack of documentation, the payment is considered an unknown payment.

Payment Integrity remains a top priority for the Department. Through the strategic implementation of the FY 2024 Payment Integrity Program Structure, the Department is taking proactive measures to address challenges and augment its financial stewardship capabilities. This reinforces our steadfast dedication to achieving compliance with the requirements of the PIIA.

According to OMB Circular A-123 Appendix C, programs with annual outlays exceeding \$10 million fall into either Phase 1 or Phase 2 classifications.

Phase 1: This initial stage involves reviewing Improper Payments (IP) and Unknown Payments (UP). An IP risk assessment occurs at least once every three years to ascertain whether a program is susceptible to significant IP and UP.

In FY 2024, the Department reported 42 programs in Phase 1. Of those, 20 programs completed improper payment risk assessments, resulting in a determination that they were not likely to be susceptible to significant improper and unknown payments. Looking ahead to FY 2025, the Department aims to complete risk assessments for the remaining 19 programs. Furthermore, the Department achieved PIIA compliance on three risk assessments during the FY 2023 PIIA compliance audit, officially placing them on a three-year cycle. The Department's ability to identify low-risk programs and place them in Phase 1 reporting allows for a more efficient allocation of resources, enabling a focused approach on high-risk Phase 2 programs. This strategic targeting helps in establishing internal controls and processes to prevent and recover improper payments.

Phase 2: The subsequent stage in the review process for IP and UP entails using a statistically valid sampling and estimation methodology to report an annual IP and UP estimate. Phase 2 is not obligatory if Phase 1 results indicate that the program is unlikely to be susceptible to significant IP and UP.

The Department reported Phase 2 improper and unknown payment estimates for the following programs in FY 2024:

1. Military Pay Army – National Guard
2. Civilian Pay – Army
3. Civilian Pay – Other Defense Organization
4. DoD Travel Pay Army – DTS
5. DoD Travel Pay Department of Air Force – DTS
6. Commercial Pay – MOCAS

Each fiscal year, the DoD OIG reviews the Department's Agency Financial Report and Payment Integrity portfolio, which is published on [PaymentAccuracy.gov](#), to determine the Department's compliance with the PIIA reporting requirements. The DoD OIG then submits a report to the Secretary of Defense, the U.S. Senate [Committee on Homeland Security and Governmental Affairs](#), the U.S. House of Representatives [Committee on Oversight and Accountability](#), the appropriate authorizing and appropriations committees of Congress, the Comptroller General of the United States, and the [OMB Office of Federal Financial Management Controller](#). The results of the DoD OIG's FY 2024 determination of DoD payment integrity compliance will be published on the [DoD OIG](#) website in May 2025.

Since FY 2020, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review (see **Figure 19**).

Figure 19. DoD Payment Integrity Compliance Review Results

Fiscal Year	Published Payment Integrity Information with the annual financial statement	Conducted Risk assessments (if required)	Accurate Improper and Unknown Payment Estimates	Corrective Action Plans (if required)	Demonstrated improvements toward reduction targets	Improper and Unknown Payments Below 10%
2023	✓	✓	✗	✓	✓	✓
2022	✓	✓	✗	✓	✓	✓
2021	✓	✓	✗	✓	✓	✓
2020	✓	✓	✗	✓	✗	✓

Legend: ✓ Compliant ✗ Not Compliant

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

Prompt Payment Act

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

The Department's goal is to average \$90 or less in interest paid per million (IPPM) PPA dollars disbursed on a monthly basis across all applicable contracts. In FY 2024, the average interest paid per million PPA dollars disbursed on a monthly basis was \$105.28, which represents a \$42.95 reduction from the average interest paid per million PPA dollars disbursed on a monthly basis in FY 23. The Department continues to have recurring challenges, such as invoices without receiving reports, late and insufficient obligation posting, system migrations, prevalidation matching errors, and instant overage. These recurring challenges attribute to a large portion of IPPM and continue to have significant impacts as volume increases. Corrective actions focus on concentrated efforts to prioritize and clear the inventory of overaged invoices, reduce manual payments, and continued efforts to migrate from legacy to ERP systems. The Department's Procure-to-Pay (P2P) process encompasses all business functions necessary to obtain goods and services through the execution of procurement processes and procedures, including procurement requirements, strategy, award management, receipt and acceptance, entitlement, disbursement, and closeout. This process continues to be modernized, through the standardization of electronic data interchange, or "handshakes." These efforts will improve the interoperability and integrity of the end-to-end P2P process, lead to more timely actions overall, and assist in reducing the number of late payments by the Department.



Retired Sgt. Thomas Newton, a Tuskegee Airman, is honored during a ceremony celebrating the 75th anniversary of desegregation in the U.S. military at Rickenbacker Air National Guard Base, Ohio, Dec. 2, 2023. (Photo By Air Force Staff Sgt. Mikayla Gibbs)

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