OTHER INFORMATION

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

Previous photo: An Abrams tank shoots on the move during a display of firepower for the Joint Civilian Orientation Conference's Army Day at Fort Moore, Ga. Sept. 18, 2023. (DoD photo by EJ Hersom)

Left photo: An Air Force G-11B cargo parachute carrying a search and rescue tactical vehicle descends on the Nevada Test and Training Range at Nellis Air Force Base, Nev., Aug. 17, 2023. The cargo drop was part of a certification to evaluate the success and capabilities of the parachute and vehicle. (U.S. Air Force photo by Airman 1st Class Elizabeth Tan)

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Department's management is primarily responsible for developing and implementing new internal controls as well as maintaining existing internal controls to provide reasonable assurance its programs operate as designed and federal resources are optimally used to support the DoD mission.

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

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

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

Left: A convoy of U.S. Army Soldiers and vehicles from 1st Battalion of the 4th Infantry Regiment, playing the role of opposition forces, rolls through a training village with various armored vehicles during Saber Junction 23 at the Joint Multinational Readiness Center near Hohenfels, Germany, Sept. 13, 2023. U.S. and multinational soldiers play the role of enemy forces during the exercise to provide integrated, total force training for combat readiness. Saber Junction 23 is an annual U.S. Army exercise with NATO allies and partners including 4,000 participants from 16 different countries training together from Aug. 28 to Sept. 23, 2023. The primary training audience for the exercise is the 2nd Cavalry Regiment, a U.S. Army Stryker Brigade Combat Team based in Germany. While U.S.-led, this exercise will develop and enhance NATO allies and partners' interoperability and readiness. (U.S. Army photo by 1st Sgt. Michel Sauret)

Right: NORFOLK (Sept. 15, 2023) Sailors participate in the decommissioning ceremony of the guided-missile cruiser USS San Jacinto (CG 56) at Naval Station Norfolk, Sept. 15, 2023. San Jacinto was decommissioned after more than 35 years of service. Modern U.S. Navy guided-missile cruisers perform multiple mission including Air Warfare (AW), Undersea Warfare (USW), Naval Surface Fire Support (NSFS) and Surface Warfare (SUW) surface combatants capable of supporting carrier battle groups, amphibious forces or operating independently and as flagships of surface action groups. (U.S. Navy photo by Mass Communication Specialist 3rd Class Giovannie Otero-Santiago)

The Department also addresses DoD OIG-identified material weaknesses detailed in Exhibit 1.

SUMMARY OF FINANCIAL STATEMENT AUDIT

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

U.S. Army Soldiers with 1st Battalion, 506th Infantry Regiment "Red Currahee," 1st Infantry Brigade Combat Team, 101st Airborne Division (Air Assault), supporting 3rd Infantry Division, conducts live-fire on an M4 Carl Gustaf weapon during exercise Silver Arrow at Camp Adazi, Latvia, Sept. 17. The training focused on AT4-CS and M4 Carl Gustaf assigned teams engaging notional targets. The 3rd Infantry Division's mission in Europe is to engage in multinational training and exercises across the continent, working alongside NATO allies and regional security partners to provide combat-credible forces to V Corps, America's forward deployed corps in Europe. (U.S. Army photo by Capt. H Howey)

Exhibit 1. Summary of DoD OIG Identified Material Weaknesses

Audit Opinion: Disclaimer Restatement: No					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Management Systems Modernization	1				1
Configuration Management	1				1
Security Management	1				1
Access Controls	1				1
Segregation of Duties	1				1
Interface Controls	1				1
Universe of Transactions	1				1
Reporting Entity	1				1
Fund Balance with Treasury	1				1
Inventory and Stockpile Materials	1				1
Operating Materials and Supplies	1				1
General Property, Plant, and Equipment	1				1
Real Property	1				1
Governmental Property in the Possession of Contractors	1				1
Joint Strike Fighter Program	1				1
Contingent Legal Liabilities	1				1
Accounts Payable	1				1
Environmental and Disposal Labilities	1				1
Beginning Balances	1				1
Unsupported Accounting Adjustments	1				1
Intragovernmental Transactions and Intradepartmental Eliminations	1				1
Gross Costs	1				1
Earned Revenue	1				1
Reconciliation of Net Cost of Operations to Outlays	1				1
Budgetary Resources	1				1
Service Organizations	1				1
Component Entity-Level Controls	1				1
DoD-Wide Oversight and Monitoring	1				1
Total Material Weaknesses	28				28

Exhibit 2 represents the crosswalk between the DoD OIG identified material weaknesses as presented in Exhibit 1 and management-identified material weaknesses by assessable unit as presented in Exhibit 3 and Exhibit 5.

**Exhibit 2. Crosswalk between DoD OIG identified material weaknesses
and management identified material weakness areas**

Management-Identified Material Weakness Area	OIG-Identified Material Weakness
Entity Level Control	Component Entity Level Controls
Fund Balance with Treasury	Fund Balance with Treasury
IT Controls (FISCAM) FFMIA Compliance Business System Modernization	Access Controls Configuration Management Security Management Financial Management Systems Modernization Segregation of Duties Interface Controls
Financial Reporting Compilation	Reporting Entity Beginning Balances DoD-Wide Oversight and Monitoring Budgetary Resources Contingent Legal Liabilities Earned Revenue Gross Costs Reconciliation of Net Cost of Operations to Outlays Service Organizations Universe of Transactions Unsupported Accounting Adjustments
Accounts Payable Healthcare Liabilities	Accounts Payable
Intragovernmental Transactions	Intradepartmental Eliminations and Intragovernmental Transactions
Equipment Assets Internal Use Software	General Property, Plant & Equipment
Joint Strike Fighter Program	Joint Strike Fighter Program
Real Property Assets	Real Property
Environmental and Disposal Liabilities	Environmental and Disposal Liabilities
Property in the Possession of Contractors	Government Property in the Possession of Contractors
Inventory	Inventory and Stockpile Materials
Operating Materials & Supplies	Operating Materials & Supplies

SUMMARY OF MANAGEMENT ASSURANCES

FMFIA Section 2, Effectiveness of Internal Control Over Reporting – Financial Reporting

Exhibit 3 list the FY 2023 material weaknesses in internal controls over financial reporting by end-to-end process and material weakness assessable unit, and reports the changes from the material weakness assessable units disclosed in prior year Agency Financial Report (AFR)

Exhibit 3. FY 2023 Effectiveness of Internal Control Over Reporting – Financial Reporting (FMFIA §2)

Statement of Assurance: No assurance						
End-to-End Process	**Material Weakness Assessable Unit**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Budget-to-Report	Entity Level Controls	2				2
	Fund Balance with Treasury	2			1	1
	Financial Reporting Compilation	7	4		3	8
Hire-to-Retire	Health Care Liabilities	1				1
Procure to Pay	Accounts Payable	7				7
	Intragovernmental Transactions	3				3
Acquire-to-Retire	Equipment Assets	2				2
	Joint Strike Fighter Program	1				1
	Real Property Assets	1				1
	Environmental and Disposal Liabilities	1				1
	Property in the Possession of Contractors	1				1
	Internal Use Software	1				1
Plan-to-Stock	Inventory	4				4
	Operating Materials & Supplies	4				4
Total Material Weaknesses		37	4	0	4	37

Internal Control over Financial Reporting – Material Weaknesses and Corrective Actions

Entity Level Controls

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

Material Weaknesses

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

Corrective Actions

- Continue to implement DoD-wide process control narratives (PCNs) that provide baseline guidance for establishing ELCs and refresh existing PCNs, as necessary.
- Continue to revise the template developed to capture the key controls in place for monitoring ELCs and compliance with relevant policy.
- Continue to conduct annual evaluations of ELCs to analyze high-risk areas, develop, and implement corrective actions.
- Develop a year-over-year comparison view in the OUSD(C) "Risk Management and Internal Controls (RMIC) Dashboard" tool to illustrate and track progress over time. Refresh tool to facilitate the monitoring actions above.
- Issue DoD-wide Corrective Action Plan (CAP) guide to instruct Components to enhance root cause analysis when needed to address and resolve deficiencies.

Fund Balance with Treasury

Department-wide; Identified FY 2005; Correction Target: FY 2026 (see note)

Material Weakness

1. The Department does not have effective processes and controls to support the reconciliation of transactions posted to the Department's Fund Balance with Treasury (FBWT) accounts with the Department of the Treasury's records, timely research and resolve FBWT differences, and provide sufficient and accurate documentation to support FBWT transactions and reconciling items.

Corrective Actions

- Support beginning balances through research and documentation or through alternative approaches.
- Identify and coordinate alternate approaches to address beginning balances issues.
- Implement and standardize Advana reconciliations.
- Identify key stakeholders and establish processes to prevent or reduce variance inflow and aging
- Enhance internal controls, processes, and systems involved in FBWT reporting.

Note: The correction target date was adjusted from FY 2025 to FY 2026 to provide additional time for the auditor to validate remediation activities undertaken.

Financial Reporting Compilation

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

Material Weaknesses

1. The DoD Components' and Agency-wide Statement of Budgetary Resources may not be complete and accurate. Specifically, the DoD Components:
   a. did not maintain sufficient and appropriate detailed transactions and supporting documentation over the balances from the Statement of Budgetary Resources; and
   b. did not design their financial reporting monitoring to detect and investigate abnormal balances and to promptly resolve variances over budgetary accounts.
2. DoD Components record offline adjustments that are not captured in either the Agency-wide or Government-wide financial statements.
3. The Department cannot provide historical data to support the completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period. Several Components did not sufficiently implement oversight and monitoring activities to identify and resolve deficiencies that could affect their basic financial statements.
4. The DoD does not present gross costs by major program on the Statement of Net Cost (SNC), nor in Note 19, *General Disclosures Related to the Statement of Net Cost*; instead, gross costs are presented by appropriation group.
5. Service Providers have not designed or implemented reliable controls to provide reasonable assurance to their DoD Component customers, therefore, decreasing the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements. Additionally, the Components have not developed governance and monitoring techniques to identify existing Service Provider relationships and Complementary User Entity Controls (CUECs) applicable to the user entity.
6. The DoD Components were unable to support adjustments made to reconcile budgetary to proprietary data on Component financial statements in accordance with SFFAS No. 7. Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*, in the DoD Agency-Wide Basic Financial Statements did not comply with OMB Circular A-136.
7. The Department and its Components lacked control over the Legal Representation Letters and Management Schedules of Information process that affected the presentation and calculation of contingent legal liabilities at the Agency-Wide level.
8. The Department's Consolidation Entities have issued inconsistent presentation styles for the comparative years within their financial statements.

Corrective Actions

- Maintain monthly reconciliation control of budgetary resources and budget execution information to identify the discrepancies. If any discrepancies are identified, research and identify root causes and perform the necessary corrections.
- Maintain and distribute process documentation and standard operating procedures.
- Continue to provide oversight over DoD Components under a stand-alone audit to ensure they follow the DoD policy to issue comparative year financial statements in accordance with GAAP.
- Collaborate with Components to ensure all year-end adjustments are recorded in the financial reporting system within the appropriate reporting window in accordance with GAAP.
- Issue DoD-wide Corrective Action Plan (CAP) guide to instruct Components to enhance root cause analysis when needed to address and resolve deficiencies.
- Establish a transaction framework universe that can be uniformly applied across the Department Consolidation Entities.
- Ingest all accounting and feeder systems within Advana to have a complete population of transactional details that impact the financial statements. The goal is to have all details ingested in Advana by FY 2025.
- Partner with the financial management community throughout the DoD to build and reconcile the universe of transactions.
- Develop an application in Advana that reconciles the financial statements to the accounting system's transactional details.

- Work with Department of Treasury to standardize Statement of Net Cost across the Department.
- Work with Components to allocate costs and revenues in compliance with OMB A-123.
- Service Organizations will continue to follow their audit remediation roadmaps that outline milestone completion dates, dependencies, and target dates leading to an unmodified audit opinion.
- DoD will maintain oversight over Service Organization progress through regular reviews of updates to the roadmap to confirm the Service Organizations are on target to achieve their milestones.
- DoD Components will establish processes to identify relevant service providers, evaluate the applicable Service and Organization Control (SOC) 1 Reports, and design and implement controls to address the Complementary User Entity Controls by using service provider working group meetings and applying standard baseline controls.
- Require that the DoD Components provide documentation to confirm that variances between budgetary and proprietary data are researched and resolved throughout the reporting period in accordance with SFFAS No.7 and ensure documentation is maintained to explain these variances.
- Establish and implement DoD-wide policy and procedures to confirm that DoD financial statement note disclosures are complete, accurate, consistent, and comply with the requirements in OMB Circular A-136.
- Resume government-wide and DoD working group meetings with the U.S. Treasury Bureau of the Fiscal Service and DoD financial reporting network to further reduce the unreconciled difference between Treasury's Central Accounting Reporting System (CARS) and DoD's Defense Departmental Reporting System (DDRS).
- Continue resolving outstanding accounting scenarios contributing to the unreconciled difference between CARS and DDRS. Provide Components with standard posting entries to resolve the items identified.
- Continue to establish and maintain a relationship with DoD Component management and DoD OGC to ensure that the DoD Components' Management Schedule of Information are complete and accurate.
- Establish a DoD-wide policy requiring the DoD Components to follow U.S. Treasury guidance and properly accrue contingent legal liabilities.
- Establish and implement DoD-wide policy and procedures to confirm that DoD financial statement adjustments require supportable adjustments.
- Utilize Advana to review journal entry data for in-depth analysis and prioritize review of unsupported adjustments.
- Continue resolving outstanding accounting scenarios contributing to the unreconciled difference. Provide Components with standard posting entries to resolve the items identified.

Health Care Liabilities

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

Material Weakness

1. The Medicare-Eligible Retiree Health Care Fund (MERHCF) prospective payments are based on budget execution processes rather than accrual-based accounting. The costs being allocated cannot be related to specific appropriations. In addition, the MERHCF does not have a formalized approach to tracking health care encounters for MERHCF beneficiaries for accounting purposes, resulting in no transactional patient-level data to support the direct care costs recognized by the MERHCF.

Corrective Actions

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

Accounts Payable

Department-wide; Identified FY 2003; Correction Target: FY 2027 (see note)

Material Weaknesses

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

Corrective Actions

- Publish a DoD Instruction setting policies, procedures, and data standards for recording disbursements and report payments.
- Implement scorecards to track compliance with standard procedures and data compliance for all accounting, entitlement, and contract writing systems. This includes ensuring *Purchase Request Data Standard* and *Procurement Data Standard* correctly carry the Standard Line of Accounting.
- Leverage Wide-Area-Workflow invoice acceptance data to expand and improve the posting of accruals within accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.
- Develop a Procure-to-Pay systems roadmap as part of the broader Financial Management Strategy and Implementation Roadmap to ensure system migration plans exist and are implemented to eliminate redundant and antiquated financial management information technology (IT) systems to improve auditability, security, and productivity.
- Design and implement standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e., DATA Act).
- Develop Department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

Note: The correction target date was adjusted from FY 2025 to FY 2027 due several components needing additional time to perform sustainment testing of the internal controls.

Intragovernmental Transactions

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

Material Weaknesses

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

Corrective Actions

- Continue to perform Component-level gap analyses on key processes, develop and enter general terms and conditions agreements in the Department of the Treasury's G-Invoicing system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.
- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing release timeline.
- Develop and document authorization procedures and controls over obligations. Develop compensating controls to confirm obligations are properly authorized in instances where system authorizations cannot be relied upon.
- Continue to leverage deployed enterprise-wide IGT reconciliation tool to support monthly IGT reconciliations.

Equipment Assets

Department-wide; Identified FY 2006; Correction Target: FY 2027 (see note)

Material Weaknesses

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

Corrective Actions

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

Note: The correction target date was adjusted from FY 2025 to FY 2027 due to a delay in the planned remediation activities.

U.S. Air Force Captain David Wagner, 480th Fighter Squadron F-16 Fighting Falcon pilot secures his helmet during a scramble drill at the 86th Air Base, Romania, in support of NATO's enhanced Air Policing (eAP) capabilities, Sept. 23, 2023. U.S. military operations in the region enhance regional stability, combined readiness and capability with our NATO allies and partners. (U.S. Air Force photo by Airman 1st Class Albert Morel)

Joint Strike Fighter Program

Department-wide; Identified FY 2019; Correction Target: FY 2027

Material Weakness

1. The DoD did not account for and report Joint Strike Fighter (JSF) Program government property valued at $2.1 billion. Specifically:
    a. DoD Components, and the DoD as a whole, did not record the property in an accountable property system of record (APSR).
    b. DoD Components, and the DoD as a whole, did not report the JSF Program assets on their financial statements.

Corrective Actions

- Establish and maintain processes and procedures to value JSF Program assets (opening balance and subsequent).
- Establish and maintain an accurate and complete population of JSF Program assets in an APSR.
- Establish process to report JSF Program assets on the DoD Financial Statements.

Real Property Assets

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

Material Weakness

1. Real property processes, controls, and supporting documentation do not substantiate that all assets are correctly and timely recorded, properly valued, supported by adequately maintained Key Supporting Documents (KSDs) and consistently reported on financial statements.

Corrective Actions

- Implement a new enterprise-wide IT solution designed to increase efficiency, improve data accuracy and enhance financial reporting of real property.
- Design new systems that interface general ledger transaction with the Defense Enterprise Accounting and Management Systems (DEAMS).
- Publish policies to support the accuracy and completeness for reporting of real property.
- Increase the fidelity of the real property inventory baseline to support the calculation of plant replacement value in accordance with SFFAS 50.

Environmental and Disposal Liabilities

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

Material Weakness

1. DoD Environmental and Disposal Liabilities (E&DL) did not include all cleanup, closure, or disposal costs. Additionally, at least one Component could not provide supporting records to document that its list of environmental sites was complete.

Corrective Actions

- Continue to convene the joint OUSD(C)/OUSD(A&S) material weakness working group to highlight policy and guidance gaps impacting the completeness, existence and valuation of E&DL, report on quarterly progress, and share lessons learned.
- Develop E&DL policies for real property and general equipment to ensure that asset-driven E&DLs are being reported appropriately.
- Identify methodologies to produce cost estimates consistently between Components, to include standardizing process by using of the Department's cost estimating tools.

Property in the Possession of Contractors

Department-wide; Identified FY 2015; Correction Target: FY 2031 (see note)

Material Weakness

1. The Components cannot identify in their property and financial systems the government property that is in the possession of contractors.

Corrective Actions

- Develop policy supporting reporting and accountability of Government Furnished Property (GFP).
- Develop data standards and automated solutions for reporting GFP.
- Implementation of policy, data standards, and automated solutions by Components.

Note: The correction target date was adjusted from FY 2025 to FY 2031 due to a shift in major weapon system financial reporting responsibility to the Military Services and the accompanying interpretations of the Federal Acquisition Regulation.

Internal Use Software

Department-wide; Identified FY 2015;
Correction Target: FY 2026 (see note)

Material Weakness

1. The Department has not properly addressed the management and financial reporting of internal use software (IUS) as required by SFFAS 10, as amended by SFFAS 50, and has not updated IUS guidance in the *DoD Financial Management Regulation* to consistently segregate capital and non-capital costs.

Corrective Actions

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

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

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

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

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

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

- Continue to promote use of SFFAS 50 for establishing opening balance for IUS.

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

Note: The correction target date was adjusted from FY 2025 to FY 2026 due to a delay in the implementation of corrective actions.

The Idaho Army National Guard hosted its Best Warrior Competition on Sept. 14-17, 2023, at Gowen Field and at the Orchard Combat Training Center near Boise, Idaho. U.S. Army National Guard Soldier, Staff Sgt. Lauren Cox, completes an 11-mile ruck with 40 lbs. of weight carried in a pack during the competition. For four days, 15 Idaho National Guard Soldiers competed for the title of Best Warrior by participating in multiple intensified tests with little sleep and high stress that challenged candidates both physically and mentally while evaluating their ability to shoot, move, communicate and survive. (U.S. National Guard photo by Master Sgt. Becky Vanshur)

Inventory

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

Material Weaknesses

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

Corrective Actions

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

Operating Materials & Supplies

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

Material Weaknesses

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

Corrective Actions

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

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

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

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

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

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

PHILIPPINE SEA (Sept. 12, 2023) Sailors aboard the Arleigh Burke-class guided-missile destroyer USS Dewey (DDG 105) conduct an in-flight refueling with an MH-60R Sea Hawk helicopter from Helicopter Maritime Strike Squadron (HSM) 37 while operating in the Philippine Sea, Sept. 12, 2023. Dewey is assigned to Commander, Task Force 71/Destroyer Squadron (DESRON) 15, the Navy's largest forward-deployed DESRON and the U.S. 7th Fleet's principal surface force. (U.S. Navy photo by Mass Communication Specialist 1st Class Greg Johnson)

FMFIA Section 2, Effectiveness of Internal Control over Operations

Exhibit 4 lists the FY 2023 management identified material weaknesses in the internal controls over operations, captured by assessable units, and reports the changes from the material weaknesses disclosed in the prior year AFR.

Exhibit 4. FY 2023 Effectiveness of Internal Control over Operations (FMFIA §2)

Statement of Assurance: Modified Assurance					
Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Acquisition	3	1	--	--	4
Comptroller and/or Resource Management	2	3	--	--	5
Communication	1	--	1	--	0
Contract Administration	1	3	1	--	3
Force Readiness	3	1	1	--	3
Information Technology - Business System Modernization	2	12	--	11	3
Manufacturing, Maintenance, and Repair	1	--	--	--	1
Personnel and/or Organizational Management	4	13	1	4	12
Support Services	3	5	2	--	6
Supply Operations	3	2	2	--	3
Total Material Weaknesses	23	40	8	15	40

INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

Acquisition

Department-wide; Identified FY 2017 - FY 2023; Correction Target: 2023 - 2025

Material Weaknesses

1. Many DoD acquisition programs do not comply with the Clinger-Cohen Act, 10 USC §2222, DoD Instruction *(DoDI) 5000.74*, and *DoDI 5000.75*; do not have sufficient management and oversight of IT services and defense business systems; and do not always adequately use existing DoD and *Defense Contract Management Agency* controls for generating, monitoring, and closing contracts.
2. The Department's pricing for Blank Purchase Agreements for medical items appears to be well above private sector pricing.
3. The Department lacks internal controls to monitor the shipment and receipt of equipment adequately through the supply system, resulting in unreliable value reported in the financial statements. Equipment records are not maintained within the APSR during the movement across the department (in accordance with *DoDI 5000.64*) and the physical movement of equipment across the department is not facilitated by using Radio-Frequency Identification (RFID) tracking.
4. The Department requires an improvement of its contract management for service acquisitions by validating requirements, forecasting budget needs, and issuing Department-wide guidance for operational contract support.

Corrective Actions

- Continue to drive progress toward Clinger-Cohen Act compliance through implementation of strong controls, checklists, re-organization of duties, and standardization of position descriptions. Also, ensure that DoDI 5000.74, and DoDI 5000.75 include sufficient guidance on management and oversight of DoD IT services and defense business systems.

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

- The Department continues to migrate into the Defense Property Accountability System (DPAS) Warehouse Module which allows it to use the Defense Logistics Management Standard (DLMS) process to successfully transfer all relevant information (Unique Item Identifier, serialization) and provide an electronic transaction back from the Global Combat Support System-Army to DPAS for complete transparency of the asset while in transit. DoD continues to explore the use of Item Unique Identification (IUID) as a way to help with in-transit visibility, specific item's identification, description, location, condition, status, ownership, and that a recorded quantity is not duplicative with any other recorded quantity.

- The Department will publish guidance for category management implementation in the 4th Estate by the end of 2023.

U.S. and Swedish marines conduct a rapid extraction demonstration during Archipelago Endeavor in Sweden, Sept. 13, 2023. The exercise increased operational capability and enhanced strategic cooperation. (U.S. Marine Corps photo Courtesy photo)

Comptroller and/or Resource Management

Department-wide; Identified FY 2015 - 2022; Correction Target: 2023 - 2025

Material Weaknesses

1. Component personnel did not follow procedures to scrutinize invoices and reconcile payments; approved advance payments without necessary contracting financing provisions; accepted invoices without being designated as the official contracting officer representative and did not compare invoice supporting documentation to Wide Area Workflow and contract amounts or service dates, and did not account for government property.
2. DoD Medical Treatment Facilities (MTFs), operating under Uniform Business Office (UBO) guidance issued by the DHA, did not conduct compliance audits, follow-up on outpatient claims, or refer outstanding claims to the legal office for collection when they were open for more than 270 days after initial billing as required by the DoD UBO Manual.
3. Defense Information Systems Agency (DISA) did not fully recover their costs for executing security assistance for the _Foreign Military Sales_ program.
4. The Department of the Navy (DON) did not take a holistic look at risks that impact its ability to achieve its operational, financial reporting, and financial systems objectives as required by OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls.
5. The DON has not established sufficient procedures to provide oversight of the third-party shared service providers (SSP) that process, store, or transmit Navy financial data, does not have a comprehensive set of governance and oversight agreements, lacks service level agreements (SLA), memoranda of understanding (MOU), or other documents to clearly outline roles and responsibilities. Further, DON does not have adequate processes to document and test Third-Party Collection Program medical claims Complementary User Entity Controls (CUEC).

Corrective Actions

- The Department will institute training, direct recruiting service personnel to scrutinize invoices and reconcile payments against contract and supporting documentation, establish controls, accomplish inventories for government property and update property records and contract documentation in accordance with appropriate guidance. The Department will also require service personnel to review the Department of Defense Contracting Officer Handbook.
- Obtain and review DHA UBO guidance, which outlines audits. Coordinate with MTF UBO stakeholders to determine the necessary resources and requirements for establishing a compliance audit program. Revise the National Capital Region (NCR) Market Medical Revenue business process narrative to incorporate policies, procedures, and internal controls surrounding the execution of UBO compliance audits as it aligns with enterprise-level guidance. MTF officials will be required to obtain precertification or preauthorization to allow for claim collection.
- DISA will develop, document, and implement policies and procedures to identify, track, and recover salary expenses for DoD civilians and future security assistance support costs for the FMS program.
- DON has developed a process to address key requirements of a comprehensive OMB Circular A-123 program including, an Enterprise-wide Integrated Testing Program, Shared Service Provider (SSP) Oversight, Fraud Risk Program, MIC Program, and Integrated Risk Management.
- DHA has assumed administrative and management responsibility to ensure that Third Party Collection Program for medical claims is adequate.

Contract Administration

Department-wide; Identified FY2018 - 2021; Correction Target: 2023

Material Weaknesses

1. The Department did not perform contract quality assurance or accept contractor payments in accordance with applicable guidance.
2. The implementation of MHS GENESISs system at a component's Medical Center resulted in an inability to calculate Patient Safety Indicators (PSI-90) to determine if the Medical Center is outperforming, performing the same as, or underperforming compared to other healthcare facilities.
3. The Department has paid more than the pricing benchmarks for services and equipment (durable medical equipment), and did not establish or use existing TRICARE maximum allowable reimbursement rates.

Corrective Actions

- Reinforce internal controls to provide reasonable quality assurance that contracting officers designate a qualified contracting officer representative for all service contracts or retain and execute contract oversight responsibilities, and develop a process that will direct and prevent improper payments and fraud.

- The Department has developed a process to review codes annually for medical equipment and supplies that are paid as billed. Further, DoD will evaluate potential options for the upcoming T-5 TRICARE contracts to mitigate risk posed by excessive billed charges.

- The Department will extract data from the MHS GENESIS system sites that will enable Patient Safety Indicator #90 calculation, evaluate performance, and take appropriate steps to improve performance.

Force Readiness

Department-wide; Identified FY 2016 - 2022; Correction Target: 2023 - 2024

Material Weaknesses

1. The Department needs further analysis of the size, readiness, and efficiency of its medical force.
2. The Department's nuclear enterprise does not appear to have adequate managerial oversight capabilities, an effective self-assessment program, or the ability to produce useful nuclear inspection reports.
3. Shortage of staff affects DoD ability to perform operations at the highest level. Experiencing lack of qualified candidates to fill civilian and contracting vacancies, as well as lack of qualified military replacements for existing positions causes low productivity and safety concerns.

Corrective Actions

- The Department is developing an approach to identify and mitigate limitations concerning its assessment of the requirements necessary to maintain sound standards and the skills of active-duty medical providers and increase active-duty and civilian medical personnel's productivity.
- Implement a plan to conduct independent evaluations of supply chain risk management for the nuclear command, control, and communications systems; develop the criteria and methodology that will be used; and identify timeframes for conducting the evaluations.
- Continue to address critical requests for civilian hiring actions to fill urgent vacancies. Also, hold discussions with functional management about loses and gains in certain sections of the departments to fund and/or extend existing contracts to fill contracting vacancies.

Information Technology – Business System Modernization

Department-wide; Identified FY2016 - 2023; Correction Target: 2023 - 2026

Material Weaknesses

1. The Department continues to experience systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment and address cybersecurity vulnerabilities. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening or encryption) contribute to data protection vulnerabilities. Issues exist in compliance with cybersecurity measures, networks inventory, oversight, and accountability policies.
2. The Department continues to face several data issues to include:
   - Quality metrics data not imported timely and not in correct location.
   - An electronic records management system is not implemented, policies are not updated, and training is not developed, which is preventing accurate records management of data.
   - TRICARE contract was delayed due to delayed system upgrades related to data.
   - Lack of protection of proprietary and technical data.
   - Criminal history data was not reported to the appropriate agencies in the criminal history database.
   - Inconsistent data standards and inaccurate SFIS reporting within DON. DON accounting systems are highly customized leading to inconsistent data standards resulting in interoperability issues between systems and end-to-end processes.
3. The Department has inadequate internal controls, policies, and procedures within the Defense Travel System (DTS).

Corrective Actions

- Continue to strengthen governance and investment certification processes through the Defense Business Council (DBC) and expand review and analysis of proposed IT systems to include non-financial management systems.

- Enhance current processes and ensure stakeholder participation in the cybersecurity scorecard meetings and alignment of component scorecard metrics to audit findings.

- Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring, and public key infrastructure-based authentication/credentials.

- Continue development of an enterprise Identity, Credential, and Access Management (ICAM) solution with nine pilot systems to address access control gaps across the Department.

- Coordinate with DoD Components to confirm that current acquisition and IT purchase contracts and policy require the adoption of established user access controls and encryption/hardening standards.

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

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

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

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

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

- Clearly identify lines of demarcation between acquisition and provisioning.

- Instruct communication squadron commanders to develop and document a process to ensure personnel document network component purchases in the Department's accountable record upon receipt.

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

- Instruct communication squadron commanders to develop and document a process to ensure that network component vulnerabilities which cannot be mitigated are documented in corrective plans.

- DoD will develop a new Electronic Archive and Records Management System with training and establish/update policies and procedures for records management as required by the National Archives and Records Administration (NARA).

- Defense Health Program's (DHP) contractual requirements have been written or revised, including updated timelines for testing and milestones and data transfer specifications.

- Former criminal justice system is being replaced by newer system. Digital fingerprinting hardware and software is installed, and the codification of Department of the Air Force Criminal Justice Information Cell (DAF-CJIC) is underway. Long-term software solution for case management will be implemented.

- The DON will implement SFIS requirements for Navy's Enterprise Risk Management Program (ERP), which will enhance financial reporting capabilities and improve compliance with Treasury, OMB reporting, and other DoD systems requirements. The DON will also establish a Data Governance Dashboard to govern Navy ERP data in support of near-term operational and audit goals.

- The Department will update system business rules with enhanced guidance on permission levels, perform permission and voucher approval audits and annual Staff Assisted Visits (SAVs) at the installation level, establish oversight procedures to ensure implementation of the audit/SAV requirement, and provide oversight for Accountable Official training to ensure segregation of duties and permission levels are addressed.

Manufacturing, Maintenance, and Repair

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

Material Weakness

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

Corrective Actions

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

Personnel and/or Organizational Management

Department-wide; Identified FY 2017 - 2023; Correction Target: 2023 - 2028

Material Weaknesses

1.   The Department's average civilian time-to-hire may negatively affect the Department's ability to attract quality candidates to fill open resource needs on a timely basis.
2.   The large number of personnel systems, pay systems, and special human resources (HR) authorities and flexibilities used to manage the civilian workforce has caused excessive complexity and variability in HR processes.
3.   The Department has not implemented a centralized personnel accountability system and standardized reporting formats to enable consistent management of military personnel HR processes across the geographical Combatant Commands.
4.   The Department needs to implement expanded Mission Support requirement.
5.   The Department of the Air Force (DAF) personnel did not effectively manage the Foreign Government Employment (FGE) approval process. While the Review Board Agency personnel consistently reviewed and approved or denied FGE applications, personnel did not consistently communicate FGE approval requirements to military members during pre-retirement preparation, did not adequately maintain required documentation, and had not taken actions to recoup or discontinue military retirement pay.
6.   The Department does not have a specific a policy on fatigue risk management for Military Health System staff.
7.   Department needs to restructure and improve Medical Treatment Facilities (MTF) and introduce new IT system capabilities to ensure that future MTF assessments use more complete and accurate information about civilian health care quality, access, cost-effectiveness, and establish roles, responsibilities, and progress thresholds for MTF transitions.
8.   DoD lacks the appropriate guidance and collaboration needed to improve DoD's tracking and response to child abuse.

9. Department needs to monitor morphine milligrams equivalent per day by beneficiary, examine data for unusually high opioid prescriptions, and if appropriate, hold providers accountable for overprescribing opioids. In addition, the Department lacks controls that ensure that prescriptions in the Military Health System Data Repository exist and that the dispense date and the metric quantity field for opioid prescriptions in liquid form in the Military Health System Data Repository are accurate and consistent among all systems.

10. Internal control weaknesses exist for TRICARE payments for the administration of COVID-19 vaccines.

11. Opportunity exists to improve access to services supporting caregivers of dependents with special needs. The Director of the Defense Health Agency should communicate in writing to each military branch's Exceptional Family Member Program (EFMP) that there is no TRICARE requirement that another adult remain in the home to access the Extended Care Health Option (ECHO) respite care and determine if additional training is needed to inform EFMP staff on ECHO program requirements.

12. To meet the future needs of the Department of the Navy's Fleet and Sailors and mitigate the threat to the DON's ability to execute future missions vital to national security, the Department needs to transform and overcome the challenges of an antiquated industrial age service model across the MyNavy HR Enterprise.

Corrective Actions

- Develop and implement Component-level action plans to reduce time-to-hire. Foster Department-wide cooperation and information sharing by using data analytics and Defense Business Council governance to improve hiring practices.

- Articulate procedures to simplify, streamline, and standardize HR processes to provide better quality HR hiring services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.

- Automate manpower systems and personnel systems reconciliation; strengthen internal controls; establish business rules for personnel accountability to avoid double counting of personnel.

- Under Secretary of Defense for Acquisition and Sustainment is hiring additional Full Time Equivalents (FTEs) and has assigned Mission Requirement to current FTEs leaving lower priority Mission Requirements unfulfilled.

U.S. Marines from 4th Combat Engineer Battalion, 4th Marine Division, Marine Forces Reserve detonate an explosive to conduct breaching techniques with members of partner nation military services during exercise Bright Star 23 at Mohamed Naguib Military Base (MNMB), Egypt, Sept. 7, 2023. Bright Star 23 is a multilateral U.S. Central Command exercise held with the Arab Republic of Egypt across air, land, and sea domains that promotes and enhances regional security and cooperation, and improves interoperability in irregular warfare against hybrid threat scenarios. (U.S. Marine Corps Photo by Capt. Mark Andries)

- Department of the Air Force (DAF) will ensure recoupment actions are completed for personnel identified during audit employed by a foreign government. In addition, DAF will revise policy to define offices responsible for communicating approval processes, and establish internal control processes (i.e., periodic re-evaluations, communication strategies, documentation, inspection system controls).
- The Defense Health Agency (DHA) Patient Safety Program in coordination with the Assistant Secretary of Defense for Health Affairs, would assess enterprise-wide and Military Health System (MHS) specific factors that influence both healthcare-workforce fatigue risk and resiliency. This assessment will inform a plan for developing and implementing policy on healthcare-workforce fatigue risk and resiliency. This assessment will also inform policy planning including targeted, evidence-based resources for training and education on strategies to mitigate healthcare-workforce fatigue and improve healthcare-workforce resiliency.
- Defense Health Program (DHP) will examine and identify quality of care metrics to be used to monitor provider quality at the individual level, augmenting activities already in place. DHP will Evaluate new metrics for routine assessment of quality of civilian healthcare (providers, facilities, systems) for communities with larger volumes of DoD beneficiaries. DHP will also develop new IT system and requirements for Program Management Office, monitor and enforce existing contract requirements for updates and accuracy of online directories, and educate stakeholders and beneficiaries on the purpose of the directory and how it relates to access to care.
- DHA has established a new Forensic Healthcare Program which is addressing improved care for child abuse/child sexual assault patients in addition to adult/adolescent sexual assault and interpersonal violence/domestic violence patients. New DHA-PI 6310.aa draft titled Forensic Healthcare is nearly complete and ready for coordination.
- DHA will continue to monitor morphine usage and implement new controls to capture unusually high opioid prescriptions and hold providers accountable for overprescribing opioids. Additional controls will be implemented to ensure that prescriptions in the Military Health System Data Repository exist and are accurate.
- Department continues to conduct annual reviews of TRICARE payments. If overpayments are identified, the Department will issue recoupment actions (non-voluntary). However, the Department will also accept refunds on a voluntary basis separate from any recoupment action, in accordance with *TRICARE Operations Manual, Chapter 10*.
- DHA will develop a process to oversee the extent to which Military Treatment Facilities (MTFs) are adhering to DHA's guidelines related to pediatric lead screening, testing, treating, and reporting and ensure that these processes are implemented consistently across all military medical treatment facilities.
- The DON will establish a core suite of Manpower, Personnel, Training & Education (MPT&E) systems, including the implementation of an auditable Commercial off-the-Shelf (COTS) Navy Personnel and Pay (NP2) capability implementing Treasury Direct Deposit.

Support Services

Department-wide; Identified FY 2020 - 2023; Correction Target: 2023 - 2025

Material Weaknesses

1. There are inconsistencies with the staffing approach to deliver behavioral healthcare, thus impacting the number of appointments required to meet patient demand. Improvements in monitoring referral usage, outcomes, and standardized access/measurement tools are needed.
2. There is a backlog of Freedom of Information Act (FOIA) requests. According to *FOIA Improvement Act of 2016, 5 U.S.C.§ 552,* According to FOIA Improvement Act of 2016, 5 U.S.C.§ 552, upon receipt of a perfected request, an agency has 20 business days whether to comply with and make determination on a request and notify the requester immediately of its decision. The DoD FOIA Requester Service Center (RSC) is non-compliant with meeting the statutory requirement.
3. The Assistant Secretary of Defense for Health Affairs, in coordination with the Director of the DHA and the Service Surgeons General need to establish consistent policies and procedures to manage suicide risk screening and referral as part of the medical process for transitioning Service members.
4. The Department lacks a process to effectively and efficiently handle the storage, destruction, and disposal of IT removable media to include, but not limited to hard drives, thumb drives, tapes, and CD/DVDs for NIPRNet and SIPRNet.

5. There is a need for the standardized management of medical histories and line of duty documentation for deployed or temporary duty Reserve Component Service members, across all Services so that both are complete and available to their units in a timely manner.
6. The Defense Security Cooperation Agency (DSCA) does not have a process in place to oversee, coordinate, and monitor the Implementing Agencies' (IA) RMIC activities to ensure that Security Assistance Account (SAA) financial reporting objectives are achieved, being that the majority of SAA's financial activity is performed by IAs in separate and distinct control environments that are outside the scope of DSCA's RMIC program.

Corrective Actions

- DoD is transitioning to a new Electronic Medical Records (EMR) system to facilitate separation health assessment utilization and tracking as Service members' transition from the MHS to care at the VA. DHA will use the inTransition program to connect separating Service members who have received behavioral health care 12 months prior to their separation to behavioral health care at their next health care setting. DHA will also increase MTF leadership and clinician awareness of the inTransition program.
- DHP has initiated a Compliance Risk Assessment to determine staffing level needed to reduce the time to redact and process FOIA requests. DHP will use a multitrack system to process FOIAs, simple/complex/expedited and process easy to process FOIA requests, process front end and back end requests concurrently, train staff on processing FOIA and Privacy Act requests, develop FOIA RSC Standard Operating Procedure (SOP) to standardize processes and procedures for processing FOIA requests, educate stakeholders on the importance of meeting timelines for responding to FOIAs, decrease multiple extensions given to stakeholders, contact Division Chiefs of offices that are nonresponsive, develop baseline report to trend processing of FOIAs, use the Department of Justice Office of Information Policy Self-Assessment to conduct internal audits of the FOIA RSC, and develop a DHA FOIA policy.
- DoD is transitioning to a new Electronic Medical Records (EMR) system. The new EMR system will facilitate separation health assessment utilization and tracking as Service members' transition from the MHS to care at the VA. DHA will use the inTransition program to connect separating Servicemembers who have received behavioral health care 12 months prior to their separation to behavioral health care at their next health care setting. DHA will also increase MTF leadership and clinician awareness of the inTransition.
- Office of the Chief Information Officer staff of the Information Governance Division (IGD), Information Assurance Division (IAD), Customer Support Division (CSD), and the Legislative Management Office (LMO) - Property Management Division (PMD) will develop and implement an SOP to effectively and efficiently handle the storage, destruction, and disposal of IT removable media to include, but not limited to hard drives, thumb drives, tapes, and CD/DVDs for NIPRNet and SIPRNet.
- The Under Secretary of Defense for Personnel and Readiness will establish a standardized DoD form(s) and procedures that provide access for all Reserve Component Service members to line of duty care at all military treatment facilities (MTFs).
- Department needs to develop and implement a process to coordinate, verify and monitor IA SAA ELC practices.

Supply Operations

Department-wide; Identified FY2016 - 2021; Correction Target: 2023

Material Weaknesses

1. The Department did not properly demilitarize consumable parts, transfer them, or document disposal and demilitarization in accordance with guidance.
2. The Defense Logistics Agency (DLA) is unable to process supplier invoices in accordance with financial regulations due to DLA customers not verifying receipt of material..
3. The DON lacks adequate policies and procedures to account for and financially report, property in the possession of contractors, primarily Government Furnished Property (GFP) as well as Contractor Acquired Property (CAP).

Corrective Actions

- Update guidance to clearly require (a) all base-level personnel to follow the Department's guidance for demilitarization and (b) decentralized materiel support personnel to assist maintenance personnel with identification and disposal requirements of consumable items with demilitarization codes. Also, develop and provide training to ensure all users are aware of consumable item demilitarization and disposal requirements and establish oversight to ensure all Air Logistics Complex personnel follow established demilitarization procedures.
- DLA will perform an analysis, develop or update policies and procedures, test controls, and conduct implementation procedures to remediate the deficiencies associated with this finding.
- The DON will develop and implement financial policies, procedures, and controls to ensure a 100% physical inventory is performed for GFP and CAP. Once completed, the DON will update the asset records in an approved Accountable Property System of Record.

FMFIA SECTION 4, CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management system requirements. Exhibit 5 lists the number of instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for the prior fiscal year.

Exhibit 5. FY 2023 Conformance with Federal Financial Management System Requirements (FMFIA §4)

Statement of Assurance: No Assurance					
Non-Conformance	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Business System Modernization	1				1
IT Controls (FISCAM)	1				1
FFMIA Compliance	1				1
Total Material Weaknesses	3				3

FFMIA SECTION 803(A), IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS

Exhibit 6 lists the FY 2023 instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

Exhibit 6. FY 2023 Compliance with Section 803(A) of the Federal Financial Management Improvements Act (FFMIA)

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

Business System Modernization

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

Non-Conformance

1. Delays in achieving business system modernization targets has resulted in degraded DoD business process operations to include efficiency, effectiveness, and non-compliance with certain laws (e.g., FFMIA). In addition, the number of applications, hosting locations, interfaces, and other variations in technology create a complex environment where it is difficult to maintain effective IT general and application controls (including information security). The Department needs to continue to focus on simplifying and modernizing its business systems environment by ensuring existing and future systems are secure, compliant and auditable.

Corrective Actions

- Continue to mature and sustain the integrated Enterprise Financial Management IT Roadmap to identify, prioritize, and track system migrations and retirements that will simplify the Department's business systems environment and increase the security, compliance, and auditability of systems. This includes improving system data quality in authoritative systems, such as the DoD Information Technology Portfolio Repository (DITPR).
- Continue to consolidate DoD general ledger systems by enabling and tracking the Department's migration to enterprise resource planning (ERP) systems and retirement of vulnerable systems to allow for large-scale audit improvements and an enhanced business systems environment.
- Develop and implement assessment(s) and a series of monitoring tools to integrate and evolve the method of evaluating and measuring progress towards achieving a more efficient and auditable defense business system environment. Specifically, the Department will continue to mature and develop new metrics that allow for easy visibility of system planned migration and retirement plans, system compliance, system cost, system dependencies, and system health, etc.
- Leverage the notice of findings and recommendations (NFR) database to monitor and report on the status of corrective action plan and NFR closures.
- Leverage existing working groups and governance bodies to influence business system investment decisions and ensure modernization efforts remain on track.

IT Controls

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

Non-Conformance

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

Corrective Actions

- Continue to implement an enterprise Identity, Credential, and Access Management solution to provide user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to use the Notice of Findings and Recommendations (NFR) database, leverage technology (e.g., Advana) and the IT Functional Council to track remediation status and identify common solutions to material weaknesses and Department-wide issues.
- Continue to analyze the current IT NFRs and prioritize issues with the most significant audit and security impacts, including access control deficiencies to help safeguard sensitive data from unauthorized access and misuse.
- Align the Risk Management Framework (RMF) with audit results, as the DoD RMF is essential to the Department's ability to self-identify issues and sustain improvements. Summarize the results of security control assessment reviews performed and develop a plan to remediate identified issues.
- Revise and publish an updated Financial Management Overlay with integrated assessment procedures by December 2023.

FFMIA Compliance

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

Non-Conformance

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

Corrective Actions

- Continue to focus on reducing vulnerable financial management systems, investing in business systems, evolving the role of service providers, and leveraging machine learning, artificial intelligence, robotics process automation or other automation technologies to improve trust or enhance financial reporting.
- Continue to monitor the deployment of FFMIA-compliant business solutions throughout the Department that enable the reduction of vulnerable financial management systems Implement requirement that non-FFMIA-complaint systems establish a retirement date or modernization plan with milestones on when they will become FFMIA-compliant
- Continue financial systems reviews, integrating results with IT investment decisions associated with DoD's Financial Auditability Requirements to include FFMIA compliance of systems relevant to internal controls over financial reporting, this includes monitoring improvement plans with corrective actions for non-compliant systems that will endure, and ensuring funding is secured to address FFMIA compliance gaps
- Partner with key stakeholders to identify, prioritize, and implement system change requests, prioritizing known system auditability deficiencies (ex: NFRs), by establish clear guidance to address internal controls to enable additional capabilities, standardized processes, and information
- Deploy additional automation compliance tools to measure and track the implementation of DoD's Financial Auditability Requirements (ex: FFMIA) and retain a clear line of sight on the systems within our Enterprise FM IT Roadmap
- Consolidate portfolio management tools and implement tools to improve data quality.

MANAGEMENT AND PERFORMANCE CHALLENGES

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

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2024 rather than FY 2023 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2023 Top DoD Management Challenges as well as similar reports from previous years are available at the _DoD OIG website_.

A U.S. pararescueman, assigned to the 48th Rescue Squadron, discusses tactics with his team during a simulated patient rescue during Exercise RED FLAG-Rescue 23-2 at San Xavier Mines, Ariz., Aug. 3, 2023. RF-R was the Department of Defense's premier combat search and rescue exercise and was hosted by the 355th Wing biannually. (U.S. Air Force photo by Senior Airman William Turnbull)

INSPECTOR GENERAL
U.S. Department of Defense

FISCAL YEAR 2024

TOP DOD MANAGEMENT AND PERFORMANCE CHALLENGES

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

Mission

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

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

October 16, 2023

The DoD Office of Inspector General (DoD OIG) is required by statute to prepare an annual statement on the most serious management and performance challenges facing the DoD, and on the DoD's progress to address those challenges. I am pleased to submit the FY 2024 Top DoD Management and Performance Challenges (TMPC) to fulfill this requirement.

This year, we have identified the same eight overarching challenges identified in FY 2023 due to their continued relevance and persistence. These challenges are complex and enduring, requiring sustained attention from the DoD. While we decided to carry the overall topics forward, the presentation and focus of the challenges differ significantly from prior years, as the discussions of the challenges this year focus heavily on findings independently established by the DoD OIG through our audits and evaluations.

The challenges are neither exhaustive nor listed in order of importance or severity. We identify some, but certainly not all, causes or contributing factors affecting management and performance in each area. In assessing the challenges, we considered completed oversight work by the DoD OIG and other agencies; the status of DoD OIG-issued recommendations, both addressed and unaddressed; the Department's strategic documents, such as the National Defense Strategy and Strategic Management Plan; and input on challenges from DoD officials.

As the TMPC reflects the OIG's assessment of the most significant challenges facing the DoD, it provides a valuable framework for organizing the audits and evaluations described in our forthcoming Annual Oversight Plan. Consistent with our obligations under the law, we remain committed to keeping the Department's leadership informed of issues identified through our oversight work so that DoD officials can take timely corrective actions.

We look forward to continuing to conduct independent and impactful oversight that detects and deters fraud, waste, and abuse; promotes the economy, efficiency, and effectiveness of DoD programs and operations; and helps ensure ethical conduct across the DoD.

Robert P. Storch
Inspector General

Executive Summary

Pursuant to the Reports Consolidation Act of 2000, the DoD Office of Inspector General (DoD OIG) is providing its annual statement summarizing the Department's "most serious management and performance challenges."[1] To fulfill this requirement, the DoD OIG analyzed recently completed oversight work, focusing on findings from our audits and evaluations; ongoing and planned DoD OIG oversight work; closed and open DoD OIG recommendations; notes from external outreach events; and the responses to the DoD OIG's memorandum soliciting input from leaders across the DoD as to the top challenges facing the Department. The DoD OIG also considered the DoD's strategic documents, priorities, and progress reports.

The overall number and general challenge topics remain unchanged from last year. The DoD OIG is presenting eight challenges that it considers the most pressing matters facing the DoD in the upcoming fiscal year and, for each challenge, highlights causes or contributing factors affecting management and performance.

These are the FY 2024 Top DoD Management and Performance Challenges (TMPC) and Challenge Highlights.

Challenges	Highlights
1. Building Enduring Advantages for Strategic Competition	• Challenges in consistently securing and accounting for defense materiel create hurdles in providing assistance to Ukraine. • Inadequate contract execution and oversight, among other factors, affect readiness of prepositioned stocks. • Personnel shortages in the U.S. Indo-Pacific Command contribute to schedule delays and increased costs.
2. Strengthening DoD Cyberspace Operations and Securing Systems, Networks, and Data	• Limited DoD controls over cybersecurity risk management activities increase risk to DoD information networks and systems. • Insufficient assurance that contractors comply with cybersecurity requirements poses risks to contractors' authority to operate.
3. Maintaining Superiority Through a Resilient and Modern Defense Industrial Base	• Current government regulations hinder contracting officers' ability to negotiate fair and reasonable prices with defense contractors. • Contracting officials' misinterpretation of policy, or failure to follow it, expose the DoD to unnecessary risk from excessive costs and foreign counterfeit components.

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[1] The Reports Consolidation Act of 2000, 31 U.S.C. § 3516(d).

*The FY 2024 Top DoD Management and Performance Challenges and Challenge Highlights (cont'd)*

Challenges	Highlights
4. Improving DoD Financial Management and Budgeting	• Scope-limiting material weaknesses hamper auditors' abilities to perform procedures to draw a conclusion on the financial statements. • A lack of coordination among and across personnel, processes, and systems covering the DoD's diverse sub-entities hinders progress toward effective fiscal management. • Lack of clearly defined, established, and consistent identification of reporting entities negatively impacts financial management and audit planning.
5. Adapting to Climate Change and Accelerating Resilience	• Incomplete guidance increases the risk of not adequately assessing the impact of climate change on military installations and readiness. • Limited personnel and financial resources constrain long-term climate planning and action. • Hurdles must be overcome to ensure that equipment is designed and maintained to withstand climate change.
6. Protecting the Health and Wellness of Service Members and Their Families	• Medical personnel shortages impact the Military Health System's ability to meet the needs of Service members and DoD civilians. • Unclear health care policies negatively impact patient care. • Inaccurate or incomplete patient health care information poses risks to treatment and benefits.
7. Recruiting and Retaining a Diverse Workforce	• Lack of consistent, accurate personnel data hampers workforce planning. • Insufficient understanding of policies and procedures related to ideological extremism and talent management may impact recruiting and retention.
8. Accelerating the Transformation to a Data-Centric Organization	• DoD culture does not consistently regard data as a strategic asset and prioritize its management throughout the defense ecosystem. • Implementation of the DoD data strategy is limited by a lack of measurable action plans, management accountability, and funding.

The challenges are not listed in order of importance or severity. They affect the DoD's ability to optimally execute its mission—to provide the military forces needed to deter war and protect the Nation's security. A holistic review of the challenge highlights reveals that several causes or contributing factors cut across challenge areas (Figure 1). Those causes or contributing factors generally relate to:

- Policy and procedures — missing, unclear, contradictory, or misapplied,
- Workforce — gaps in availability or skills,
- Data — missing, unreliable, or not appropriately managed, and
- Funding — adequacy and accounting.

Improvement in each of these areas is essential to enable the DoD to address these fundamental challenges and ensure the success of its quintessentially important efforts on behalf of the American people.

Figure 1. FY 2024 TMPC Cross-Cutting Challenge Areas
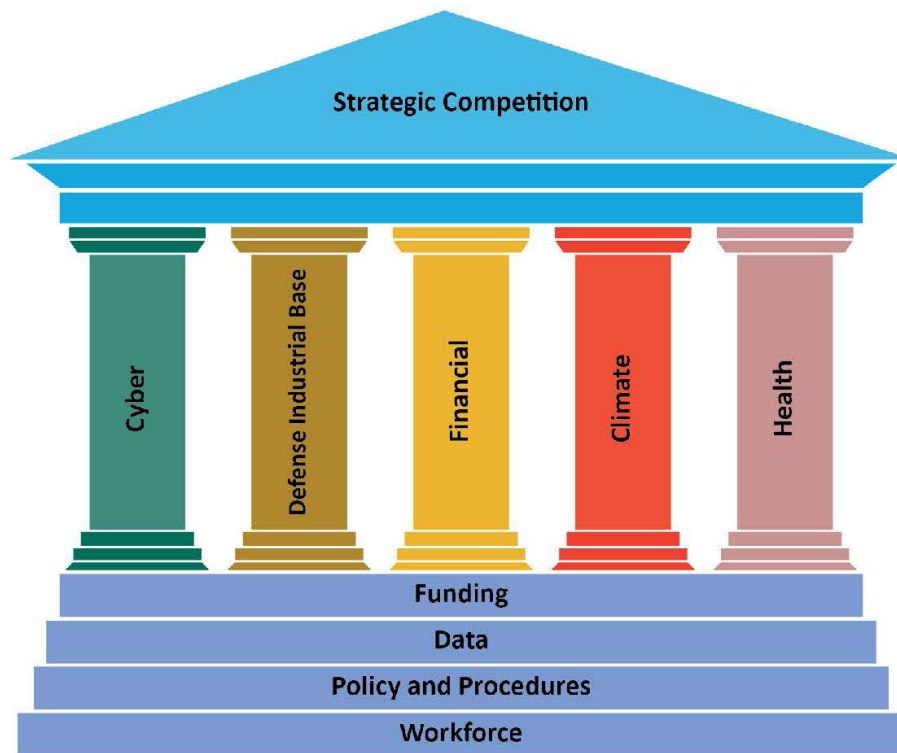
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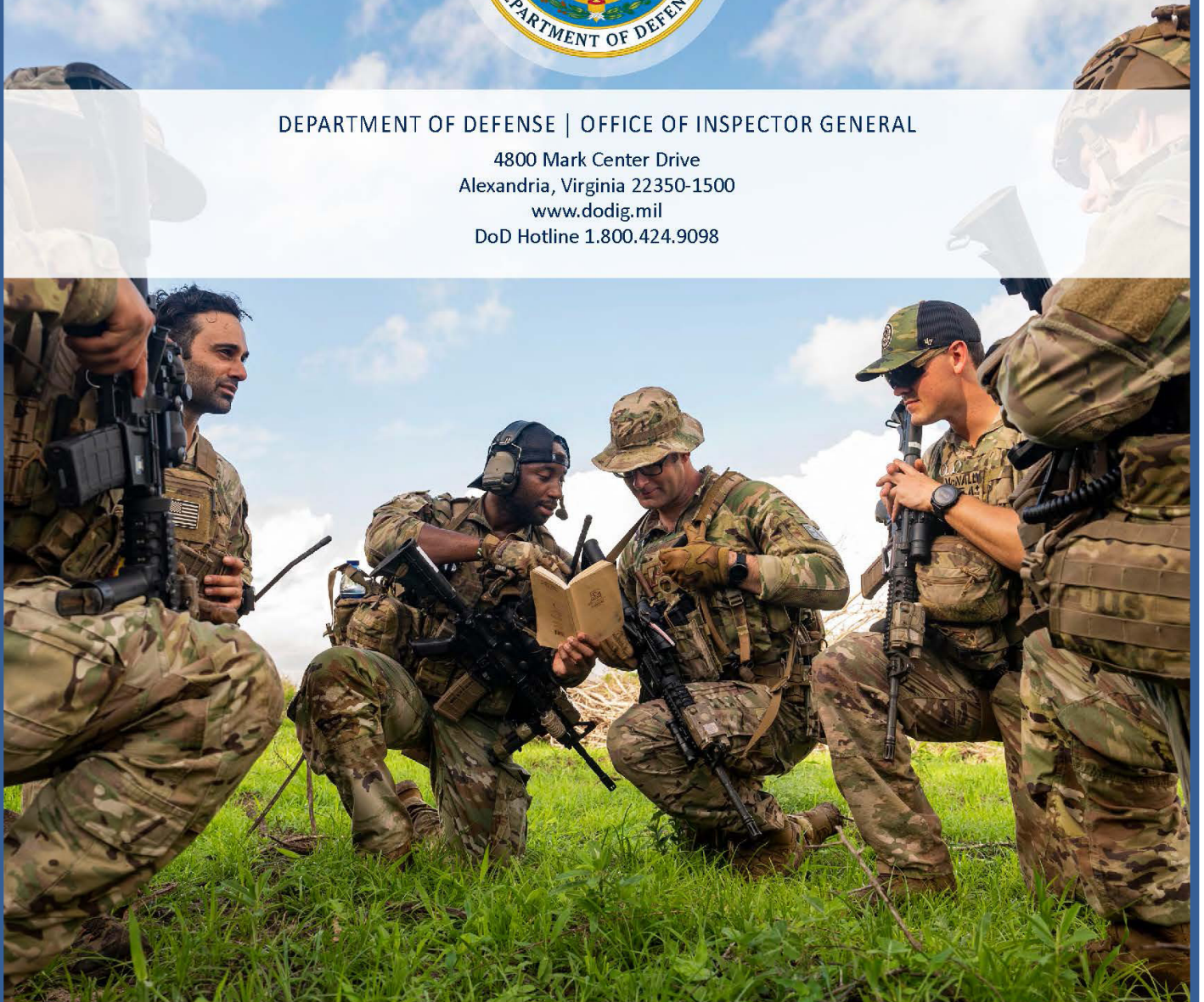**DoD OIG Mailing Lists**
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PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 (*PIIA*) continues to be a top financial management priority for the Department. The Department supports PIIA compliance through the activities of its Payment Integrity program, which comprises 16 separate programs. Collectively, these programs constitute the majority of payments made by the Department annually. This section provides an overview of the FY 2023 results of the Department's Payment Integrity program. See *PaymentAccuracy.gov* for additional information related to program scorecards, corrective actions, and payment recovery efforts.

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

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

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

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

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

During FY 2023, the Department classified eight programs in Phase 1 and eight in Phase 2.

PHASE 1 PROGRAMS

- **U.S. Army Corps of Engineers (USACE) Commercial Pay:** Payments disbursed by the USACE to vendors and contractors for goods and services. It also includes Disaster Relief and COVID-19 response funding payments made by USACE.

- **USACE Travel Pay:** Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes disaster relief and COVID response funding payments made by USACE.

- **Military Health Benefits – Administrative:** Payments disbursed by Defense Health Agency *(DHA)* for *TRICARE* program administrative and other contract costs.

- **Military Health Benefits – TRICARE East Region Program:** Payments disbursed by DHA for TRICARE East Region contractor for medical claims for the beneficiaries.

- **Military Health Benefits – TRICARE West Region Program:** Payments disbursed by DHA for TRICARE West Region contractor for medical claims for the beneficiaries.

- **Military Health Benefits – TRICARE Medicare Eligible Program (TMEP):** Payments disbursed by DHA for TRICARE TMEP Region contractor for medical claims for the beneficiaries.

- **Military Health Benefits – TRICARE Pharmacy Program (TPharm):** Payments disbursed by DHA for TRICARE TPharm Region contractor for medical claims for the beneficiaries.

- **Military Health Benefits – TRICARE Overseas Program (TOP):** Payments disbursed by DHA for TRICARE TOP Region contractor for medical claims for the beneficiaries.

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

PHASE 2 PROGRAMS

- **Civilian Pay:** Payments disbursed by Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.

- **Commercial Pay:** Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and COVID-19 response funding payments made by the Military Services and DoD Components.

- **DoD Travel Pay:** Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes COVID-19 response funding payments made by the Military Services and DoD Components.

- **Military Pay - Army:** Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.

- **Military Pay – Navy:** Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.

- **Military Pay – Air Force:** Payments disbursed by DFAS for the Air Force and Space Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.

- **Military Pay – Marine Corps:** Payments disbursed by the U.S. Treasury for the Marine Corps to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.

- **Military Retirement:** Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and disability entitlements.

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

In FY 2023, the Department's estimated improper payments were reported in three separate categories per OMB guidance (see Exhibit 7):

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

Exhibit 7. OMB Payment Type and Improper Payment Type Categories
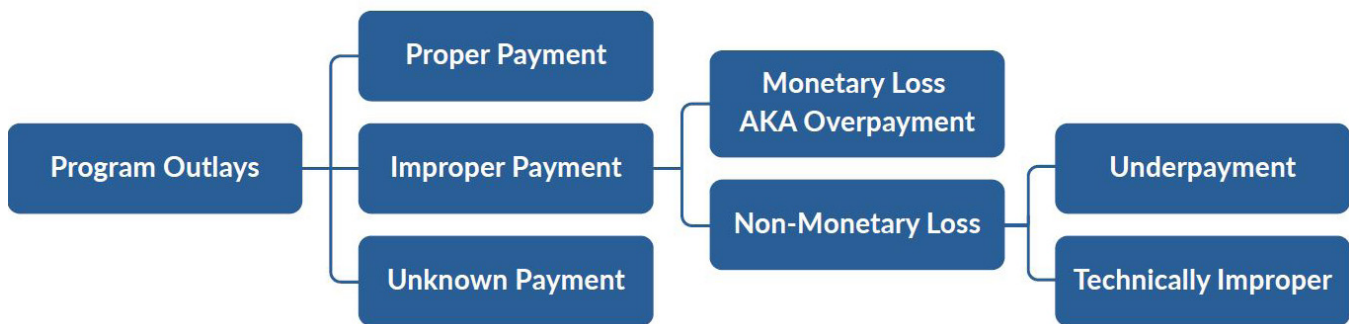
Additionally, in accordance with the OMB memorandum, "*Risk-Based Financial Audits and Reporting Activities in Response to COVID-19*," the Department continued to apply OMB Circular No. A-123, Appendix C, Requirements for Payment Integrity Improvement, during FY 2023 to the Coronavirus Disease 2019 (*COVID-19*) response funding received in FY 2020 through the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and the *Families First Coronavirus Response Act*. The memorandum permitted Payment Integrity programs that received COVID-19 related funding and were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department verified the financial systems used to account for COVID-19 response funding were included in relevant program sampling plans.

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

Overall, the Department Phase 2 programs identified $621,178.2 million in payments or outlays subject to testing under the PIIA and estimated a proper payment rate of 99.7 percent ($619,706.2 million), an improper payment rate of approximately 0.2 percent ($1,039.4 million), and an unknown payment rate of approximately 0.1 percent ($432.6 million) (see Exhibit 8).

[2]*The Independent Auditor's Report on the DoD FY 2023 and FY 2022 Principal Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions.*

Exhibit 8. Estimated Improper Payments by Payment Type and Improper Payment Category
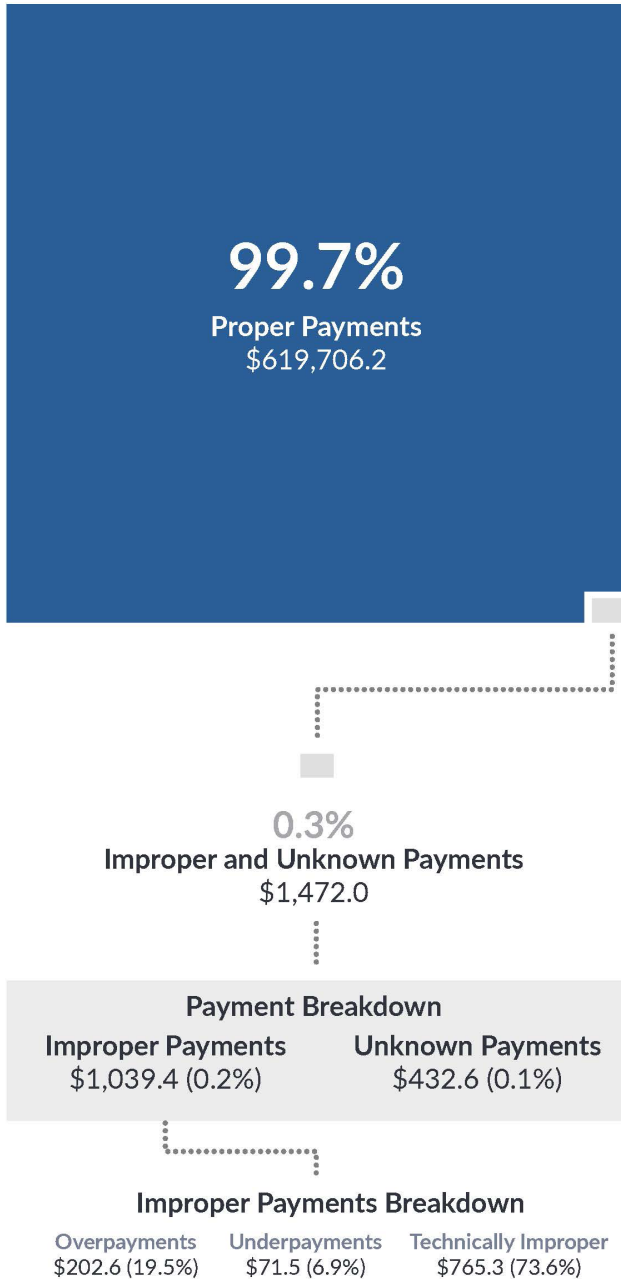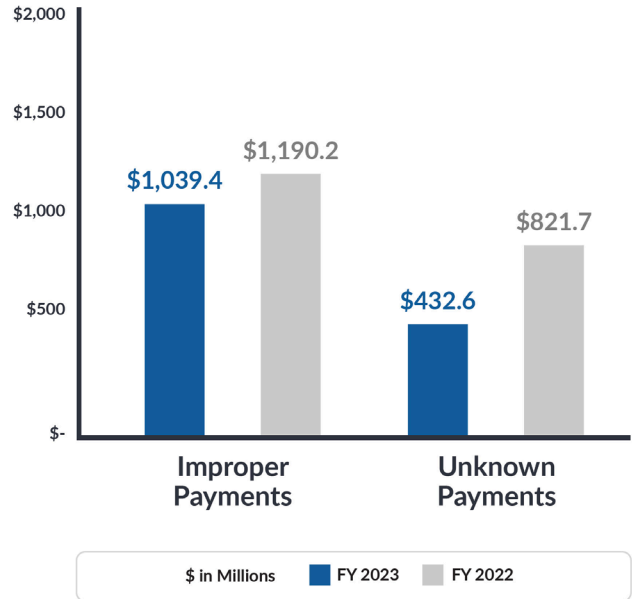
99.7%
Proper Payments
$619,706.2

0.3%
Improper and Unknown Payments
$1,472.0

Payment Breakdown

Improper Payments	Unknown Payments
$1,039.4 (0.2%)	$432.6 (0.1%)

Improper Payments Breakdown

Overpayments	Underpayments	Technically Improper
$202.6 (19.5%)	$71.5 (6.9%)	$765.3 (73.6%)

Exhibit 9. Annual Comparison of Estimated Improper and Unknown Payments

Bar chart: Improper Payments — FY 2023: $1,039.4, FY 2022: $1,190.2. Unknown Payments — FY 2023: $432.6, FY 2022: $821.7. $ in Millions. FY 2023 / FY 2022.

In FY 2023, the Department reported a total of $1,472.0 million in improper and unknown payments for eight programs. The $1,039.42 million reported in improper payments was approximately a 12.7 percent ($150.8 million) decrease from FY 2022 and the $432.6 million reported in unknown payments was approximately a 47.4 percent ($389.0 million) decrease from FY 2022 (see Exhibit 9).

[3]The Independent Auditor's Report on the DoD FY 2023 and FY 2022 Principal Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions.

PAYMENT INTEGRITY HIGH PRIORITY PROGRAMS

A program is designated by OMB as 'high-priority' when its annual improper payments estimate resulted in projected monetary losses that exceeded $100 million. OMB requires high-priority programs to submit semi-annual or quarterly scorecards on PaymentAccuracy.gov. These scorecards describe the root causes of improper payments, lists the planned corrective actions, and tracks the status of the high-priority program's progress towards reducing monetary loss.

For FY 2023, the Department identified three programs as high priority: Military Health Benefits, Military Retirement, and DoD Travel Pay. The Department successfully closed out all three OMB high priority programs in FY 2023 by reducing monetary losses and restructuring programs to better align with program objectives. Furthermore, the Department prevented all of the Phase 2 programs from becoming a high priority program in FY 2024 through its continued efforts to identify error root causes, focus on controls that detect and prevent overpayments, implementation or reinforcement of applicable processes and procedures, and training of staff on travel policy guidance and best practices.

Military Health Benefits

The Military Health Benefits - Healthcare program was reorganized in FY 2023 into five separate programs with similar contractual requirements or performance incentives based on the different TRICARE contracts that process the beneficiary medical claims. The five programs were designated as Phase 1; therefore, an improper payment estimate was not reported for each program, and they do not qualify as high priority. The Defense Health Agency (*DHA*) will conduct risk assessments in FY 2024 to determine if these programs are susceptible to significant improper payments above the statutory threshold outlined in the OMB Circular A-123, Appendix C.

In continued efforts to prevent overpayments, DHA implemented the following processes and procedures:

- Integrating risk-based sampling into its claims audit selection process to identify high-risk payments.
- Monitoring the program offices to ensure contractor claims processors received periodic training and followed guidance on documenting and implementing new rates.
- Performing quarterly compliance reviews to monitor the adequacy of documentation and timely implementation of rate schedules and creating detailed error reports to track high frequency errors and identify root causes in claims processing.
- Conducting annual audits to ensure that overpayments were identified, tracked, and recovered to make the Government whole through the adjudication process.

DHA will continue to collaborate with the program offices to proactively address problem areas, provide information about mitigation efforts, and reduce the likelihood of future improper payments. DHA will continue to monitor the programs through quarterly compliance reviews and plans to assess a contractual disincentive for contractors that fail to meet performance accuracy standards.

Military Retirement

The DoD's Military Retirement program is responsible for retired military and civilian annuitant accounts, including establishment, payment, maintenance, and termination activities. The Military Retirement program estimated improper payments decreased to $123.2 million in FY 2023, compared to $376.5 million in FY 2022. This estimate was based on a sampling methodology with a 90 percent confidence level, which equated to a 0.2 percent improper payment rate. The bulk of the improper payments were identified as high average calculation errors from the Military Retirement program's vast payment distribution calculations and were not tied to a specific payment type.

Estimated monetary losses decreased to $75.5 million in FY 2023, compared to $369.5 million in FY 2022. Due to the Department's efforts to reduce monetary losses under $100 million in FY 2023, the Military Retirement program is no longer a high priority program.

To accomplish these reductions in estimated improper payments and estimated monetary losses, the Military Retirement program took the following actions:

- Completely phased out its cost refund process in accordance with Section 662 of the National Defense Authorization Act of FY 2020 to have annuitants receive the full Survivor Benefit Plan payment from DFAS and the full Dependency and Indemnity Compensation payment from the Department of Veterans Affairs (VA).
- The Military Retirement program also partnered with the Department of Treasury's (Treasury) Payment Integrity Center of Excellence – a community of experts that focuses on the synchronization of interagency efforts to streamline multiple lines of corrective action efforts and effectiveness in reducing improper payments.
- Refined and enhanced the reclamation process, a control to ensure that death overpayments are requested and recovered timely to ensure minimal loss and proper stewardship of Department funds. By receiving timely death notifications, overpayments to deceased retirees were reduced in FY 2023.
- The Military Retirement program continued its efforts to replace the Defense Manpower Data Center's Death Match system by collaborating with Treasury and VA to implement Treasury's Do Not Pay database to increase the frequency of receipts to more than once a month. This effort will reduce the number of overpayments by the DoD and the burden of identifying the resulting monetary loss and establishment of debt for recoupment of funds.

To effectively reduce these improper payments, the Military Retirement program will continue its collaborative efforts to obtain accurate discrepant data prior to the establishment of the Retired Pay account. Additionally, the program will maintain its efforts to replace the Defense Manpower Data Center's Death Match system by collaborating with Treasury and VA to implement Treasury's Do Not Pay database, reducing the number of overpayments by the Department.

DoD Travel Pay

The DoD Travel Pay program estimated improper payments increased to $432.7 million in FY 2023, compared to $359.0 million in FY 2022. This estimate was based on a sampling methodology with a 90 percent confidence level, which equated to a 4.4 percent improper payment rate. Travel Pay improper payments were primarily due to insufficient documentation and certifying officials failing to identify invalid receipts and adhere to DoD regulations prior to approving travel expenses. As such, the Department pursued a collective approach with the Military Departments (Army, Navy, and Air Force) and the Defense Travel Management Office (DTMO) which resulted in a reduction of travel overpayments.

Estimated monetary losses decreased to $99.0 million in FY 2023, compared to $107.2 million in FY 2022. Due to the Department's efforts to reduce monetary losses under $100 million in FY 2023, the DoD Travel Pay program is no longer a high priority program.

In order to promote the reduction in DoD Travel Pay improper payments, the following actions were taken:

- DFAS conducted extensive presentations and trainings (e.g., National Defense Travel Administrators GovTravels Conference, DFAS Customer Workshops, Financial Services Worldwide and Training Workshop) to inform staff of updated processes and procedures, to highlight the most common causes of travel pay errors, and to discuss the proper use of travel pay tools and resources.
- The Department of the Air Force (DAF) conducted several trainings each month for all financial management offices on common Defense Travel System (DTS) improper payments and proper use of the DTS Compliance Tool. Additionally, DAF developed and implemented a robotics program to identify and correct approving officials (AO) in DTS.

- The Department of the Navy met quarterly with the Budget Submitting Office (BSO) DTS Lead Defense Travel Administrators (LDTA) to discuss travel improper payment results and provided those results to the BSO executives to require commands to enforce accountability.
- The Department of the Army hosted a collaborative session for the Army LDTA regarding travel-related policies and procedures.

See *PaymentAccuracy.gov* for additional information related to the Department's high-priority programs.

PAYMENT RECOVERY AUDIT

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

The Department's PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recovery activities performed by TRICARE private sector contractors. The Department's PRA efforts are a summation of actions taken by DoD Components with additional collection activities performed by the DFAS, DHA, and USACE on behalf of the Department.

The Department's PRA program identified $1,735.7 million in overpayments in FY 2023, compared to $1,459.1 in FY 2022. Overpayments recovered totaled $1,711.1 million in FY 2023, compared to $1,394.0 in FY 2022 (See Exhibit 10).

Exhibit 10. Annual Comparison of Actual Overpayments Identified and Recovered
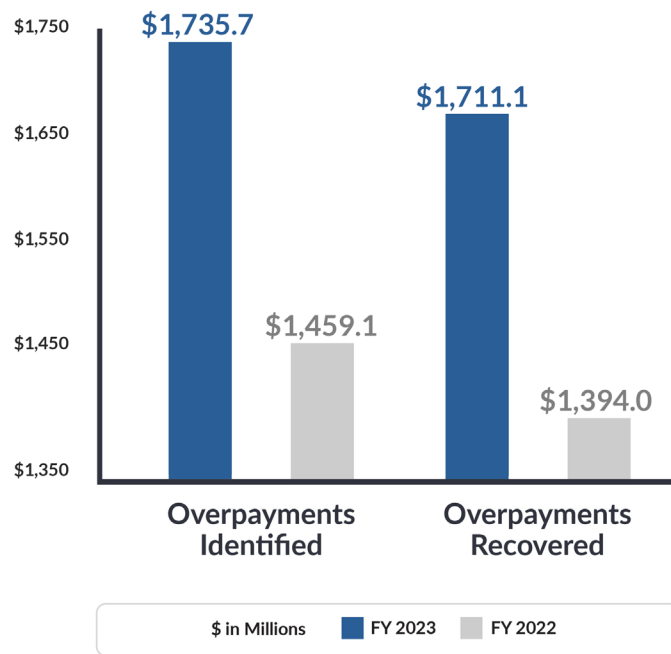
CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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

The Department's civil monetary penalty adjustments are published as final rules in the *Federal Register* separately for adjustments pertaining to USACE and those related to the remainder of the Department. Exhibit 11 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available in the Federal Register Volume 88, pages 2239 (*88 FR 2239*) and 51234 (*88 FR 51234*).

U.S. Marine Cpl. Thomas Lord, an air support operations operator with Marine Air Control Group (MACG) 48, 4th Marine Aircraft Wing, communicates critical information during Northern Lightning 23 at Fort McCoy, Wisconsin, Aug. 16, 2023. Northern Lightning is one of the seven Air National Guard joint accredited readiness exercises that increases military readiness by providing participating units a tactical, joint training environment to execute realistic combat training. Lord is a native of East Longmeadow, Massachusetts. (U.S. Marine Corps photo by Cpl. Ujian Gosun)

Exhibit 11. FY 2023 Civil Monetary Penalty Adjustments for Inflation

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
National Defense Authorization Act for FY 2005, 10 U.S.C §113, note	Unauthorized Activities Directed at or Possession of Sunken Military Craft	2004	2023	$156,108	Department of the Navy	*88 FR 2239* (January 13, 2023)
10 U.S.C. §1094(c)(1)	Unlawful Provision of Health Care	1985	2023	$13,707	Defense Health Agency	*88 FR 2239* (January 13, 2023)
10 U.S.C. §1102(k)	Wrongful Disclosure -Medical Records	1986	2023	$8,106 (First Offense) $54,036 (Subsequent Offense)	Defense Health Agency	*88 FR 2239* (January 13, 2023)
10 U.S.C. § 2674(c)(2)	Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	1990	2023	$2,073	Chief Information Officer	*87 FR 57145* (September 19, 2022)
31 U.S.C. §3802(a)(1)	Violation Involving False Claim	1986	2023	$13,508	Office of Inspector General	*88 FR 2239* (January 13, 2023)
31 U.S.C. §3802(a)(2)	Violation Involving False Statement	1986	2023	$13,508	Office of Inspector General	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	False claims	1996	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	Claims submitted with a false certification of physician license	1996	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2)	Claims presented by excluded party	1996	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2); (b)(2)(ii)	Employing or contracting with an excluded individual	1996	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(1)	Pattern of claims for medically unnecessary services/supplies	1996	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(2)	Ordering or prescribing while excluded	2010	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(5)	Known retention of an overpayment	2010	2023	$24,163	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(4)	Making or using a false record or statement that is material to a false or fraudulent claim	2010	2023	$120,816	Defense Health Agency	*88 FR 2239* (January 13, 2023)

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(6)	Failure to grant timely access to OIG for audits, investigations, evaluations, or other statutory functions of OIG	2010	2023	$36,245	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(3)	Making false statements, omissions, misrepresentations in an enrollment application	2010	2023	$120,816	Defense Health Agency	*88 FR 2239* (January 13, 2023)
42 U.S.C. 1320a-7a(a) 32 CFR 200.310(a)	Unlawfully offering, paying, soliciting, or receiving remuneration to induce or in return for the referral of business in violation of 1128B(b) of the Social Security Act	1996	2023	$120,816	Defense Health Agency	*88 FR 2239* (January 13, 2023)
33 U.S.C §555	Violations of the Rivers and Harbors Appropriation Act of 1922	1986	2023	$6,756	U.S. Army Corps of Engineers	*88 FR 51234* (August 3, 2023)
Clean Water Act, 33 U.S.C. §1319(g)(2)(A)	Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	1987	2023	$25,848 per violation, with a maximum of $64,619	U.S. Army Corps of Engineers	*88 FR 51234* (August 3, 2023)
Clean Water Act, 33 U.S.C. §1344(s)(4)	Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	1987	2023	Maximum of $64,619 per day for each violation	U.S. Army Corps of Engineers	*88 FR 51234* (August 3, 2023)
National Fishing Enhancement Act, 33 U.S.C. §2104(e)	Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	1984	2023	Maximum of $28,304 per violation	U.S. Army Corps of Engineers	*88 FR 51234* (August 3, 2023)

BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish charges for services and items of value, in accordance with the guidelines that are defined by *31 U.S.C. §9701*. User fees are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. The *Chief Financial Officers Act of 1990* and OMB *Circular No. A-25* require federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services. The Department will continue to review and analyze user fees and report any identified findings in the DoD AFR for FY 2024.

U.S. Marine Corps Cpl. Jason Feasal, an Ashley, Ohio native, and electronic warfare operator with the 24th Marine Expeditionary Unit, reviews data during a direction finding exercise on Camp Lejeune, North Carolina, Sept. 29, 2023. (U.S. Marine Corps photo by Lance Cpl. Ryan Ramsammy)

GRANT PROGRAMS

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

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

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1,080	1,051	1,097
Number of Grants/Cooperative Agreements with Undisbursed Balances	767	1,118	523
Total Amount of Undisbursed Balances	$350,536,397	$84,044,293	$23,315,518

The Department uses a decentralized grant management process with various DoD Components issuing and administering awards. The DoD Grants Office within the Office of the Under Secretary of Defense for Research and Engineering (*OUSD (R&E)*) uses data calls to collect the information for Department wide reporting. The Department is committed to formally closing assistance awards and the Components have taken numerous steps to do so, including:

- Conducting office hour training sessions throughout FY 2023 to walk through performance plan templates, answer questions, provide data analysis to help properly track and manage administrative actions, and better prepare for successful closeouts. Over 700 participants attended the office hours in FY 2023, and the sessions will continue in FY 2024.
- Implementing new procedures for obtaining final acceptances shortly after an award's period of performance end date to capture the current points of contact and request necessary concurrences and documents preemptively before closeout.
- Monitoring and addressing closeout actions more actively, as well as prioritizing the backlog of closeout actions.

Challenges to closing out assistance awards include DoD employee transitions, turnover of employees on the recipient side, lingering patent issues, and tracking down points of contact for older awards to confirm final acceptance documentation.

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

CLIMATE-RELATED RISK

Climate change is adversely affecting the Department's national security-related missions and operations by continuing to amplify operational demands on the force, degrade installations and infrastructure, increase health risks to service members, and possibly require modifications to existing and any future equipment that may be developed or acquired. The Department has absorbed high recovery costs from extreme weather events typical of those fueled by climate change, including:

- $1 billion to rebuild Offutt Air Force Base, Nebraska after historic floods;
- $3 billion to rebuild Camp Lejeune, North Carolina after Hurricane Florence; and
- $5 billion to rebuild Tyndall Air Force Base, Florida after Hurricane Michael.

More recently, estimates show that flooding at U.S. Military Academy, West Point due to extreme precipitation in July 2023 caused more than $200 million in damages.

The Department considers climate change a critical national security issue and is committed to integrating climate considerations into its policies, strategies, and investments that enhance operational capability, mission resilience, and operational readiness. To meet this challenge, the Department established a Climate Working Group (CWG) which coordinates responses on climate- and energy-related directives and tracks their implementation and progress. The CWG is led by the Deputy Secretary of Defense with delegation to the Chief Sustainability Officer (CSO) as appropriate.

Two primary Executive Orders (EO) direct the Department's action on climate change.

- *EO 14008, Tackling the Climate Crisis at Home and Abroad*, addresses climate change adaptation, highlights the fundamental link between climate change and national security, and establishes that climate considerations should be an essential element of United States foreign policy and national security. This EO requires federal agencies to perform a climate risk analysis, develop a climate adaptation plan, and produce annual progress reports regarding the actions taken in support of their climate adaptation and resilience. The *DoD Climate Risk Analysis* and the *DoD Climate Adaptation Plan* meet the requirements of EO 14008.
- *EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability*, seeks to achieve a carbon pollution-free electricity sector by 2035 and net-zero emissions economy-wide by 2050. This EO requires agencies to adjust their sustainability plans to reflect the actions and progress made toward the goals and requirements of this order. The *DoD Sustainability Report and Implementation Plan* meets the data and information requirements of EO 14057.

The Department estimates current and future climate hazard exposure using several well-established and continuously updated tools that benefit from a close collaboration with the competitive research conducted in the *Strategic Environmental Development Program* and *Environmental Security Technology Certification Program*. This collaboration also supports updates to the Department's *Unified Facilities Criteria* that provides planning, design, construction technical guidance, and policies necessary to reduce climate impacts and improve resilience to the changing environment.

The *Department of Defense Plan to Reduce Greenhouse Gas Emissions* describes strategies to enhance capability and lethality while increasing the readiness and resilience of the force. Efforts focused on reducing operational and installation energy demand, using distributed alternative energy supplies, and pursuing technology innovation, will help reduce risk in contested environments, improve installation resilience, and enhance operational flexibility while also reducing greenhouse gas emissions.

The following are additional documents with information relevant to climate-related risk that the Department and the Military Departments have issued or contributed to:

- *Department of Defense Budget Fiscal Year (FY 2024): Enhancing Combat Capability – Mitigating Climate Risk*
- *Department of Defense Operational Energy Strategy*
- *Army Climate Strategy Implementation Plan Fiscal Years 2023-2027*
- *Department of the Air Force Climate Campaign Plan*

U.S. Army Soldiers assigned to the 1st Battalion, 506th Infantry Regiment "Red Currahee," 1st Brigade Combat Team, 101st Airborne Division (Air Assault), conduct offensive operations during Exercise Silver Arrow 2023 in Adazi, Latvia, Sept. 23. The training enabled U.S. Soldiers to execute real-world battlefield tactics alongside NATO allies from Canada, Italy, Latvia, and Spain to simulate a combat environment and build interoperability. The 3rd Infantry Division's mission in Europe is to engage in multinational training and exercises across the continent, working alongside NATO allies and regional security partners to provide combat-credible forces to V Corps, America's forward deployed corps in Europe. (U.S. Army photo by Capt. H Howey)

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