

# 01 MANAGEMENT'S DISCUSSION & ANALYSIS

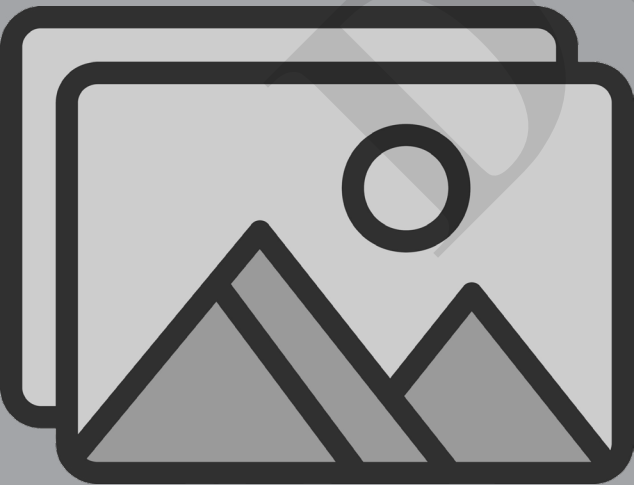
Provides a High Level Overview of the  
Department's Programmatic and Financial  
Performance

- XX** Department of Defense
- XX** Department of the Army
- XX** Department of the Navy
- XX** Department of the Air Force
- XX** Support Activities
- XX** Military Retirement
- XX** Security Assistance
- XX** Civil Works
- XX** Analysis of Systems, Controls,  
and Legal Compliance

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# DEPARTMENT OF DEFENSE

## MISSION

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Introduction to major programs.

## FINANCIAL POSITION & CONDITION

## RESOURCES

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Figure XX. Trend in DoD Appropriations

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

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**Figure XX. FY 2024 Discretionary Budget Authority**

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

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

## Ukraine Response

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

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

## Presidential Drawdown Authority for Ukraine

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

## Israel Security

The Making Emergency Supplemental Appropriations for the Fiscal Year Ending September 30, 2024, and Other Purposes provided the Department with an additional \$13.0 billion of supplemental funds across multiple appropriation categories

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

## Indo-Pacific Security

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

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

## BUDGETARY RESOURCES

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

**Figure XX. Summary of Budgetary Resources (Unaudited)**

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

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

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

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## FINANCIAL PERFORMANCE

**Figure XX. Financial Performance Summary (Unaudited)**

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

**Figure XX. Summary of Total Assets (Unaudited)**



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

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As of September 30, 2024, the Department's \$4.3 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.7 percent of the Department's liabilities (see **Figure XX**).

**Figure XX. Summary of Total Liabilities (Unaudited)**



The Department's liabilities are backed by the full faith and credit of the U.S. Government. During FY 2024, the Department's total liabilities increased by \$383.8 billion (9.7 percent) over the FY 2023 (restated) amount, primarily attributable to the following changes:

**Figure XX. Summary of Net Cost Operations (Unaudited)**



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

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# DEPARTMENT OF THE ARMY

## MISSION

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## FINANCIAL POSITION & CONDITION

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## KEY PERFORMANCE RESULTS

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## SIGNIFICANT OPPORTUNITIES & RISKS

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# DEPARTMENT OF THE NAVY

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## KEY PERFORMANCE RESULTS

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## SIGNIFICANT OPPORTUNITIES & RISKS

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# DEPARTMENT OF THE AIR FORCE

## MISSION

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## FINANCIAL POSITION & CONDITION

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# SUPPORT ACTIVITIES

## MISSION

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# MILITARY RETIREMENT

## MISSION

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# CIVIL WORKS

## MISSION

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# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## MANAGEMENT ASSURANCES

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

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

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

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

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

The risk assessment process provides the DoD Components with specific focus areas for internal control testing and the concentration of remediation activities to increase business process efficiencies and accelerate program efforts. In accordance with [DoD Instruction 5010.40](#), the DoD Components must integrate risk management and adequate internal controls into their business activities as an essential part of managing their organization. Components are responsible for conducting annual comprehensive top-down risk assessments, using the results to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency to OUSD(C). Once this information is submitted, OUSD(C) and DoD PIO coordinate with Department-wide Senior Accountable

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Officials (SAOs)—executive-level subject matter experts selected based on their functional ability to provide oversight and monitoring—to determine which component-level material weaknesses and significant deficiencies, in aggregate, rise to the level of a Department-wide material weakness. Additionally, the SAOs work with the components to establish working groups to address material weaknesses and develop CAPs, monitor CAP implementation, track material weakness remediation progress, and report progress to senior DoD leaders through the RMIC governance process.

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

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

## SYSTEMS COMPLIANCE AND STRATEGY

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

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

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

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

## LEGAL COMPLIANCE

### Antideficiency Act

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

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

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

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

## Digital Accountability and Transparency Act

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

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

## Payment Integrity Information Act

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

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

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

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

In FY 2024, the Department reported 42 programs in Phase 1. Of those, 20 programs completed improper payment risk assessments, resulting in a determination that they were not likely to be susceptible to significant improper and unknown payments. Looking ahead to FY 2025, the Department aims to complete risk assessments for the remaining 19 programs. Furthermore, the Department achieved PIIA compliance on three risk assessments during the FY 2023 PIIA compliance



audit, officially placing them on a three-year cycle. The Department's ability to identify low-risk programs and place them in Phase 1 reporting allows for a more efficient allocation of resources, enabling a focused approach on high-risk Phase 2 programs. This strategic targeting helps in establishing internal controls and processes to prevent and recover improper payments.

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

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

- Military Pay Army – National Guard
- Civilian Pay – Army
- Civilian Pay – Other Defense Organization
- DoD Travel Pay Army – DTS
- DoD Travel Pay Department of Air Force – DTS
- Commercial Pay – MOCAS

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

Since FY 2020, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review.

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

## Prompt Payment Act

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

The Department's goal is to average \$90 or less in interest paid per million (IPPM) PPA dollars disbursed on a monthly basis across all applicable contracts. In FY 2024, the average interest paid per million PPA dollars disbursed on a monthly basis was \$105.28, which represents a \$42.95 reduction from the average interest paid per million PPA dollars disbursed on a monthly basis in FY 23. The Department continues to have recurring challenges, such as invoices without receiving reports, late and insufficient obligation posting, system migrations, prevalidation matching errors, and instant overage. These recurring challenges attribute to a large portion of IPPM and continue to have significant impacts as volume increases. Corrective actions focus on concentrated efforts to prioritize and clear the inventory of overaged invoices, reduce manual payments, and continued efforts to migrate from legacy to ERP systems. The Department's

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

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