



03 OTHER INFORMATION

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

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A South Carolina Army National Guard helicopter conducts aerial water-bucket operations on the Table Rock and Persimmon Ridge wildfires in Pickens County, S.C., March 23, 2025. (Army National Guard Sgt. 1st Class Roberto Di Giovine)

Top Left:

A Falcon 9 rocket carrying the Starlink 13-1 mission launches from Kennedy Space Center, Florida, Jan. 21, 2025. (U.S. Space Force photo by Robert Mason)

Left:

The Arleigh Burke-class guided-missile destroyer USS Dewey (DDG 105) sails alongside the Japan Maritime Self-Defense Force Asahi-class destroyer JS Asahi (DD-119), Feb. 10, 2025. (U.S. Navy photo by Mass Communication Specialist 1st Class Devin Monroe)



SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

DoD management has a fundamental responsibility to develop and maintain effective internal controls providing assurance programs are operating efficiently and effectively to achieve the DoD mission. A strong internal control environment also provides assurance federal resources are used appropriately.

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

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

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

SUMMARY OF FINANCIAL STATEMENT AUDIT

Exhibit 1 (Next Page) lists the FY 2025 material weaknesses in the Department's financial statement reporting as identified by the DoD OIG in the Independent Auditor's Report. These material weaknesses establish a baseline of DoD management identified material weakness as defined by the DoD Risk Management and Internal Control (RMIC) program.



U.S. Army Cavalry Scouts Pvt. Ronaldino Amisial, below, and Spc. Jesse Pickett, above, assigned to 3rd Brigade, 67th Armored Regiment, 1st Armored Division, stay ready to conduct military training missions with an M2 Bradley Fighting Vehicle, Drawsko Combat Training Center, Poland, February 25, 2025. (U.S. Army photo by Sgt. Devin Klecan)



Exhibit 1. Summary of Financial Statement Audit

Audit Opinion: Disclaimer
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management System 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
Security Assistance Accounts	1		(1)		0
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
Government Property in the Possession of Contractors	1				1
Joint Strike Fighter Program	1				1
Accounts Payable	1				1
Environmental and Disposal Liabilities	1				1
Leases	1				1
Beginning Balances	1			(1)	0
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 Operation 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		(1)	(1)	26

SUMMARY OF MANAGEMENT ASSURANCES

The Department maintains consistent categorization with methodologies used by the Independent Auditor and the OIG, ensuring readers have a clear understanding of management-identified material weaknesses.

FMFIA Section 2, Effectiveness of Internal Control Over Financial Reporting

Exhibit 2 (Next Page) lists the FY 2025 material weaknesses in internal controls over financial reporting captured by end-to-end Process, and reports changes from the material weaknesses disclosed in the FY 2024 DoD Agency Financial Report.



Air Force Airman 1st Class Lorraine Tulee prepares an HVAC unit for a circuit board replacement at Joint Base Pearl Harbor-Hickam, Hawaii, Feb. 25, 2025. (Air Force Staff Sgt. Alan Ricker)



Exhibit 2. FY 2025 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: No Assurance

End-to-End Process	Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Budget-to-Report	Entity Level Controls	2				2
	Fund Balance with Treasury	1				1
	Financial Reporting Compilation - Reporting Entity (formerly Security Assistance Accounts)	1		(1)		0
	Financial Reporting Compilation - Beginning Balances	2	1			3
	Financial Reporting Compilation - DoD-wide Oversight and Monitoring	1				1
	Financial Reporting Compilation - Budgetary Resources	2				2
	Financial Reporting Compilation - Earned Revenue	1	2			3
	Financial Reporting Compilation - Reconciliation of Net Cost of Operations to Outlays	1				1
	Financial Reporting Compilation - Service Organization	2				2
	Financial Reporting Compilation - Universe of Transactions	3	1			4
	Financial Reporting Compilation - Unsupported Accounting Adjustments	4	2			6
	Financial Reporting Compilation - Gross Cost	1	1			2
	Financial Reporting Compilation - Leases	1	2			3
Procure-to-Pay	Accounts Payable- Healthcare Liabilities	1				1
	Accounts Payable-Contract/ Vendor Pay	9		(2)		7
	Intragovernmental Transactions and Intradepartmental Eliminations (includes Reimbursable Work Order)	3				3
Plan-to-Stock	Inventory	4	3			7
	Operating Materials & Supplies	4	3		(1)	6
Acquire-to-Retire	General Property Plant and Equipment	2	4			6
	Joint Strike Fighter	1				1
	Real Property	1	4			5
	Environmental and Disposal Liabilities	1				1
	Property in the Possession of Contractors	2				2
Total Material Weaknesses		50	23	(3)	(1)	69

FMFIA Section 2, Effectiveness of Internal Control over Management Operations

Exhibit 3 lists the FY 2025 material weaknesses in the internal controls over management operations, captured by Assessable Units, and reports the changes from the material weaknesses disclosed in the FY 2024 DoD Agency Financial Report.

Exhibit 3. FY 2025 Effectiveness of Internal Control over Management Operations (FMFIA \$2)					
Statement of Assurance: Modified Assurance					
Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Acquisition	4	2	(3)		3
Communications	0	1			1
Comptroller and/or Resource Management	7	5	(3)	(3)	6
Contract Administration	4	4	(1)	(3)	4
Force Readiness	2	3	(2)	(1)	2
Financial Systems Modernization	4	12	(2)	(1)	13
Manufacturing, Maintenance, and Repair	2			(1)	1
Personnel and/or Organizational Management	14	3	(10)		7
Support Services	5		(2)	(1)	2
Supply Operations	2		(2)		0
Total Material Weaknesses	44	30	(25)	(10)	39



The Ohio-class ballistic-missile submarine USS Nevada (SSBN 733) arrives at Naval Base Kitsap-Bangor following routine operations, Feb. 24, 2025. (U.S. Navy photo by Mass Communication Specialist 2nd Class Gwendelyn L. Ohrazda)



FMFIA Section 4, Conformance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, DoD financial management systems are required to be compliant. **Exhibit 4** lists the instances of non-conformance and reports the changes disclosed in the FY 2025 DoD AFR.

Exhibit 4. FY 2025 Conformance with Federal Financial Management System Requirements (FMFIA §4)					
Statement of Assurance: No Assurance					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems 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 5 lists the FY 2025 instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

Exhibit 5. FY 2025 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

REVENUE FORGONE

Defense Logistics Agency (DLA) Energy provides a fuel service to both military and public entities. The price for fuel supplied is determined by OUSD(C). Often, DLA Energy prices do not match full cost or market prices, and therefore, DLA Energy can incur a loss in terms of revenue forgone for a given fiscal year.

Revenue forgone denotes the difference between the price DLA charges in exchange transactions and the full cost or market price. DLA Energy did not incur revenue forgone from fuel sales for the fiscal year ended September 30, 2025. The demand for the quantity of petroleum products did not change as a result of the difference in price. While DLA Working Capital Fund (WCF) calculates the dollar impact of revenue forgone using the Standard Fuel Price (SFP), certain transactions recorded by DLA use the cost-plus method.

Revenue forgone, as disclosed above, is presented on a net basis. However, higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue forgone.



Marine Corps Cpl. Ava Alegria aims a rifle during a Corporals Course culminating event at Marine Corps Recruit Depot Parris Island, S.C., Feb 4, 2025. (Marine Corps Lance Cpl. Ayden Cassano)





An Air Force C-130J Hercules, Marine Corps KC-130J Hercules and an Air Force C-130H Hercules sit on the flightline at Fort Huachuca, Ariz., March 11, 2025. (U.S. Air National Guard photo by Master Sgt. Patrick Evenson)

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 report's forward-looking perspective will be reflected in its FY 2026 designation.

An executive summary of these identified challenges is presented on the following pages. The complete FY 2025 DoD OIG Management and Performance Challenges report, along with historical reports, can be found on the [DoD OIG website](#).



INSPECTOR GENERAL

U.S. Department of Defense

FISCAL YEAR 2026

TOP DOD MANAGEMENT AND PERFORMANCE CHALLENGES



INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY



INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY

Mission

We promote the economy, efficiency, and effectiveness of DoD programs, and the integrity of its workforce and operations, through impactful audits, evaluations, investigations, and reviews.

Vision

We are a high-performing team driving positive change.



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



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



October 29, 2025

This report presents our independent assessment of the DoD's top management and performance challenges for FY 2026.

Today's global security environment is exceptionally complex and volatile. Increasingly rapid technological advances are changing the character of warfare. Our defense industrial base is challenged to meet current demands. Fiscal pressure is unrelenting. Accordingly, the DoD is implementing a broad range of changes to policies, programs, and organizations, with a sense of urgency. While we assess the seven challenges presented in this report to be the Department's most significant enduring challenges, overlaying each are the additional challenges of managing change and heightened fraud risk.

The Department cannot pause to implement change. Our forces must always be ready and able to fight and win our nation's wars. The scale and pace of change across the DoD create opportunities, and risks, that require focused attention to ensure that the Department's capability and capacity to fulfill its core mission stay strong.

The DoD Office of Inspector General will closely monitor changes across the Department and focus our independent and objective oversight on areas where we can best contribute to improving the economy, efficiency, and effectiveness of DoD programs and operations.

A handwritten signature in black ink, reading "Steven A. Stebbins".

Steven A. Stebbins
Acting



Executive Summary

This report identifies the top management and performance challenges facing the DoD in the coming fiscal year. We developed this annual statement in accordance with the Reports Consolidation Act of 2000 (Pub. L. 106–531). It reflects our analysis of a range of sources, including DoD OIG oversight projects (completed, ongoing, and planned); input from DoD leadership and the broader defense oversight community; and review of congressional testimony, independent research, Government Accountability Office reports, and the DoD’s strategic documents. For each challenge, presented without prioritization, we examine potential consequences for DoD programs and assess the Department’s progress in addressing them. Addressing these challenges is crucial to the DoD’s success in fulfilling its national security mission.

CHANGES FROM THE FY 2025 TOP MANAGEMENT AND PERFORMANCE CHALLENGES

This year we established seven enduring management and performance challenges based on our analysis of more than 10 years of DoD management and performance challenges reports. Defining these enduring challenges enables us to track trends and report on progress from past years, as required by the Reports Consolidation Act of 2000. Changes in the total number of challenges do not indicate that previously identified challenges have been resolved or are now less important. Also, within each of the seven enduring challenges we identified specific focus areas that highlight the most significant aspects of each challenge. We will reassess the focus areas annually to ensure their continued relevance.

The FY 2026 Top DoD Management and Performance Challenges and Focus Areas

Challenges	Focus Areas
1. Strengthening Deterrence Through Strategic Capabilities	<ul style="list-style-type: none"> • Nuclear Enterprise and Missile Defense • Unmanned Systems • Space Domain • Electromagnetic Spectrum • Cyber Operations • Critical Technology (Artificial Intelligence and Quantum)
2. Manning the Force	<ul style="list-style-type: none"> • Manning and Readiness of the Medical Force • Specialty Fields—Cyber, Space, and Electromagnetic Spectrum Operations • Military Recruiting and Retention; Non-Active Duty and Civilian Capabilities

The FY 2026 Top DoD Management and Performance Challenges and Focus Areas (cont'd)

Challenges	Focus Areas
3. Maintaining and Improving Materiel Readiness	<ul style="list-style-type: none"> • Maintenance • Storage and Upkeep • Logistical Networks
4. Ensuring Responsive and Responsible Modernization and Procurement	<ul style="list-style-type: none"> • Acquisition Processes • Defense Industrial Base
5. Securing and Sustaining Defense Critical Infrastructure	<ul style="list-style-type: none"> • Cybersecurity • Facilities • Military Construction
6. Supporting Quality of Life for Military Service Members and Their Families	<ul style="list-style-type: none"> • Environmental Safety • Healthcare • Family Support Systems
7. Achieving and Sustaining a Clean Financial Audit	<ul style="list-style-type: none"> • Enterprise-Wide Strategy • Internal Controls • Financial Management Systems

STRATEGIC ENVIRONMENT

As the DoD continues to navigate a complex global security landscape, both familiar challenges and emerging threats require sustained attention. These emerging threats include the increasing sophistication of state-sponsored cyberattacks targeting critical infrastructure, the proliferation of unmanned and autonomous systems, and adversaries leveraging advanced technologies such as artificial intelligence and hypersonic weapons.¹ Great power competition with China and Russia persists, with both nations advancing military modernization and projecting greater assertiveness—China in the Indo-Pacific, and Russia in Europe and beyond. The war in Ukraine continues to impose significant demands on U.S. military assistance and the defense industrial base (DIB), with Russian forces maintaining pressure across multiple fronts. The conflict has demonstrated the importance of robust defense production, resilient supply chains, and effective equipment maintenance.

China's strategic objectives in the Indo-Pacific remain focused on becoming the preeminent regional power, challenging the United States, and unifying Taiwan through rapid military modernization across all domains, including cyber, space, and nuclear. China is also increasing its engagement

¹ Defense Intelligence Agency, "2025 Worldwide Threat Assessment," May 11, 2025.



with countries in Latin America and its pressure campaigns against nations resisting China's territorial claims, such as the Philippines and Taiwan. These advancements and aggressive actions increase the risk of conflict and threaten international air and maritime traffic in the region.

In the Middle East, a surge of cross-border strikes, expanding military operations, and targeted attacks have intensified the already volatile Middle East. This escalation coincides with the ongoing Israel-Gaza conflict and worsening humanitarian crisis. Simultaneously, Iran and its proxies, including Hezbollah, Hamas, and the Houthis, are further destabilizing the region.

Domestically, the Department is prioritizing defense of the homeland. A key priority is developing a multilayered missile defense program designed to protect the U.S. homeland from drone and missile threats. Additionally, actions are underway to broaden the military's role as a rapid-response force to support law enforcement, manage civil unrest, and protect critical infrastructure along the southern border and in American cities. Economic pressures and workforce challenges also impact DoD readiness. Despite improvements in military recruitment, challenges remain, including a shrinking pool of qualified candidates and private sector competition. The DIB faces pressures from complex acquisition processes, supply chain vulnerabilities, and workforce shortages. Increased competition in cyber, space, and electromagnetic operations requires substantial investment in emerging technologies like artificial intelligence (AI) and quantum computing. This competition, coupled with the growing dependence of the United States on space-based assets, highlights the need to secure and maintain a leading position in the space domain. Addressing these challenges requires the DoD to defend against increasingly complex threats, invest in crucial technologies, and maintain the capacity for rapid response to domestic issues.

To fulfill its mission, the DoD must balance current readiness with long-term modernization as it makes resourcing decisions while managing budget uncertainty. Reinforcing alliances and deepening partnerships remain essential to countering traditional state threats and emerging security challenges at home and abroad.

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible fraud, waste, and abuse in Government programs. For more information, please visit the Whistleblower webpage at www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/ or contact the Whistleblower Protection Coordinator at Whistleblowerprotectioncoordinator@dodig.mil

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DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

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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 portfolio, which comprises 49 separate programs. Collectively, these programs constitute the majority of payments made by the Department annually. This section provides an overview of the FY 2025 results of the Department's Payment Integrity program. See [PaymentAccuracy.gov](#) for the Department's complete list of programs and additional information related to corrective actions and payment recovery efforts.

To address a significant deficiency hindering full compliance with the PIIA, the Department has undertaken a strategic reorganization of its payment integrity programs. Specifically, the Phase 2 programs have been subdivided into more concise payment populations. This segmentation is based on identifying groups with similar characteristics, such as the types of payments made (e.g., payroll, contract payments, grants), the recipients of those payments (e.g., employees, vendors, beneficiaries), and the strength of their existing internal control profiles. By focusing on more homogenous groups, the DoD will streamline the risk assessment and remediation processes for each payment population.

The rationale behind this approach is that a "one-size-fits-all" methodology for Phase 2 programs proved too broad to effectively identify and address improper payments and their causes. By separating down these larger programs into smaller, more refined, groups of payments the DoD can accurately assess the specific risks associated with each payment population and tailor its internal controls accordingly. This targeted approach is expected to lead to more efficient and effective efforts to prevent and detect improper payments while also pursuing DoD Component accountability.

This reorganization is designed to facilitate the demonstration of incremental progress towards full PIIA compliance. Instead of attempting concurrent review and assessment of all Phase 2 programs simultaneously, the DoD will now focus on achieving compliance within smaller, more defined segments, demonstrating tangible improvements along the way. This allows for a more balanced implementation of corrective actions and provides greater visibility into the effectiveness of those actions.

As a direct result of the reorganization, the number of programs designated as Phase 1 has increased from eight in FY 2023 to 41 in FY 2025. This strategic initiative has yielded a demonstrable improvement in the Department's PIIA compliance posture at the program level. Specifically, the percentage of programs achieving full PIIA compliance has exhibited a consistent upward trend, increasing from 25.0 percent in FY 2022 to 50.0 percent in FY 2023, and culminating in the most recent compliance rate of 79.0 percent in FY 2024.

PHASE 1: IDENTIFY SUSCEPTIBLE PROGRAMS AND ACTIVITIES WITH AN IMPROPER PAYMENT RISK ASSESSMENT.

Each Phase 1 program conducts a risk assessment to determine susceptibility to improper and unknown payments above the statutory threshold. Programs deemed not susceptible to significant 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 the following fiscal year.

The Department-wide efforts in FY 2025 were focused on performing comprehensive risk assessments to document, identify, and classify the inherent risks and mitigating factors of payment types for each program. The Department completed a total of 19 improper payment risk assessments during the fiscal year. Leveraging these risk assessments, the Department developed and implemented appropriate internal controls to reduce improper and unknown payments and to uphold financial stewardship of taxpayer money. This strategy aligns with the OMB's Joint Financial Management Improvement Program and demonstrates that PIIA compliance is achievable through the Department's current internal control environment.



PHASE 2: REPORT IMPROPER PAYMENT ESTIMATES FOR IDENTIFIED SUSCEPTIBLE PROGRAMS WITH A STATISTICALLY VALID SAMPLING AND ESTIMATION METHODOLOGY.

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

Phase 2 operations target programs anticipated to exceed the OMB statutory threshold for improper and unknown payments. Under the PIIA compliance requirements, the Office of Inspector General of the DoD (DoD OIG) determined that the Department produced unreliable improper payment, and unknown payment estimates for the fourth consecutive year. Although the Department produced statistically valid sampling plans, the Phase 2 programs were non-compliant with the PIIA because the Department could not validate the characteristics of the population variances between the entitlement and disbursing systems. Despite this Universe of Transactions (UoT) validation issue, all Phase 2 programs reporting improper payment and unknown payment estimates achieved reconciliation rates exceeding 99.0 percent in both FY 2024 and FY 2025.

In FY 2025, the Department continued its efforts to develop and implement a standardized process to identify each program's UoT population data characteristics, validate the completeness of the UoT payment population which is greater than 99.0 percent reconciled between entitlement and disbursement systems, and produce reliable improper and unknown payment estimates. Reliable estimates are crucial for DoD to accurately assess the Department's ability to maintain payment integrity. This information guides the direction of the DoD's Payment Integrity efforts, helps identify high risk areas, and determines the appropriate allocation of resources for establishing internal controls and processes to prevent and recover improper payments.

In accordance with [OMB Circular No. A-123, Appendix C, Requirements for Payment Integrity Improvement](#) 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 or failed to follow applicable statute or regulation, 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 2025, the Department's estimated improper payments were reported in three separate categories per OMB Circular No. A-123, Appendix C:

- 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 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.

PHASE 1 PROGRAM RESULTS

In FY 2025, the Department made significant strides in our commitment to financial stewardship and combating improper payments. Through strategic innovation and unwavering dedication, our Payment Integrity Program has achieved remarkable results, solidifying our position as a leader in responsible resource management.

One key to our success was the segmentation of complex Phase 2 programs into smaller newly established Phase 1 programs that are more manageable payment populations with similar risk profiles. This approach allowed us to bring an impressive 14 additional programs into PIIA compliance. This achievement validates our strategy of incremental compliance improvements, enabling tailored internal controls and remediation for programs previously considered unwieldy while also enforcing DoD Component accountability for their payments.

This expansion of Phase 1 programs offers a tremendous advantage: a predictable three-year risk assessment cycle. This, in turn, frees up valuable resources, allowing us to concentrate our expertise on programs with inherently higher risks and a greater likelihood of improper payments. By focusing our attention where it's needed most, we can establish targeted controls with maximum impact in preventing and reducing improper payments.

Our proactive and granular compliance approach has not only strengthened our financial accountability but has also been lauded by the DoD OIG. In May 2025, the DoD OIG released its audit report on the Department's FY 2024 compliance with the PIIA. We are proud to announce that the DoD OIG determined the following 11 newly established programs had performed compliant risk assessments, adequately concluding that the programs were likely to make improper payments below the statutory threshold:

- Civilian Pay – Navy
- DoD Travel Pay Navy – IATS
- Military Pay Navy – Active Duty
- Military Pay Navy – Reserve
- DoD Travel Pay DAF – RTS
- DoD Travel Pay Marine Corps – IATS
- DoD Travel Pay Marine Corps – MCTFS
- Military Pay Marine Corps – Active Duty
- Military Pay Marine Corps – Reserve
- Military Health Benefits – TRICARE Overseas Program
- Military Health Benefits – TRICARE Pharmacy Program

Furthermore, these 11 programs achieved full compliance with PIIA requirements as published in the DoD OIG's May 2025 audit report – a remarkable turnaround from their previously non-compliant status in the former Phase 2 programs.

Four phase 1 risk assessments were deemed non-compliant and one of which, DoD Travel Pay Navy – DTS, was moved back to phase 2 for FY 2026. When the Navy determined its DTS program as low risk, it relied on a previous non-compliant improper and unknown payment estimate that exceeded the statutory threshold. The Navy is implementing additional corrective actions to achieve the PIIA compliance requirements in FY 2026. Three Defense Health Agency (DHA) Phase 1 risk assessments detailed below were deemed non-compliant with the PIIA due to insufficient support for the estimate, third party internal controls and the potential impact of other audit agency findings. DHA originally non-concurred with the DoD OIG's decision regarding the adequacy of the risk assessments. DHA and the DoD OIG resolved the open recommendations by agreeing that DHA will adjust the information presented within the risk assessments to more clearly connect the risks in the program with their associated oversight actions and internal controls, to ensure ease of understanding and clear crosswalk of the information as a 'best practice' and to comply with the DoD OIG's recommendations. The three risk assessments below will be completed and resubmitted to the DoD OIG in FY 2026.



- Military Health Benefits – East Region
- Military Health Benefits – TRICARE Medicare Dual Eligible Program
- Military Health Benefits – West Region

Five programs were completed early. The DoD OIG returned them for further development and resubmission as part of the FY 2025 PIIA compliance audit. Specifically, the following programs:

- Civilian Pay – DAF
- Military Pay – DAF Active Duty
- Military Pay – DAF National Guard
- Military Pay – DAF Reserve
- DoD Travel Pay Marine Corps – DTS

To maintain this momentum, the Department conducted risk assessments on or resubmitted the following additional 19 Phase 1 programs in FY 2025:

- Civilian Pay – DAF
- DoD Travel Pay Marine Corps – DTS
- Military Pay Army – Active Duty
- Military Pay Army – Reserve
- Military Pay – DAF Active Duty
- Military Pay DAF – Air National Guard
- Military Pay – DAF Reserve
- Commercial Pay – DEAMS
- Commercial Pay – EBS
- Commercial Pay – FABS
- Commercial Pay – GFEBS
- Commercial Pay – IAPS
- Commercial Pay – NERP
- Commercial Pay – ONEPAY
- Commercial Pay – SAVES
- Commercial Pay – TFMS
- Military Retirement – Annuitant Pay
- Military Retirement – Combat Related Special Compensation
- Military Retirement – Retired Pay

The Department identified the following two programs as being highly susceptible to significant improper payments:

- Military Retirement – Annuitant Pay
- Military Retirement – Retired Pay

These two programs will be moved to Phase 2 reporting in FY 2026 where they will develop and implement a sampling and estimation methodology plan to produce improper and unknown payment estimates. The remaining 17 newly established programs are considered less risky and will remain in Phase 1. The DoD OIG is currently reviewing those 19 newly established Phase 1 programs as part of the FY 2025 PIIA Compliance audit; those results are anticipated to be final in the summer of 2026.

This is a testament to the DoD's commitment to continuous improvement and a culture of fiscal responsibility. By strategically allocating resources and embracing innovative compliance strategies, the DoD is minimizing improper payment risks across all our operations, ultimately bolstering public trust and ensuring the efficient use of taxpayer dollars. FY 2025 marked a pivotal year in the fight against improper payments, and we are committed to building upon this success in the years to come.

PHASE 2 PROGRAM RESULTS

The Department Phase 2 programs identified \$241,688.7 million in payments or outlays subject to testing under the PIIA and estimated a proper payment rate of 99.13 percent (\$239,583.2 million), an improper payment rate of approximately 0.72 percent (\$1,737.0 million), of which 0.47 percent (\$1,138.8 million) is technically improper, 0.20 percent (\$482.5 million) is underpayments and 0.05 percent (\$115.8 million) is attributed to overpayments. The unknown payment rate of approximately 0.15 percent (\$368.4 million). The below section describes the improper and unknown payment amounts, projected rates, causes and the mitigating actions planned for the Department's Phase 2 programs. Additional information on the Department's plans to come into PIIA compliance are available on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov). The amounts and rates may vary slightly from the DoD AFR and OMB submission due to rounding.

Civilian Pay – ODO: Payments disbursed by DFAS to federal civilian employees within the Other Defense Organizations for salary, benefits, and other compensation entitlements.

In FY 2025, the Department reported an estimated proper payment rate of 98.27 percent (or \$10,935.5 million) and a 1.73 percent (or \$192.4 million) combined improper and unknown payments for the Civilian Pay – ODO program. The majority of which \$160.8 million (or 1.5 percent) is technically improper payments derived from systems waiting to be upgraded accordingly to produce proper digital signatures which were attributed to the Department of Defense Education Activity (DoDEA) civilian payments. DoDEA has put in robust compensating controls to ensure their civilians are paid timely and the correct amount effectively however, those payments will remain technically improper until their systems are updated accordingly. Currently those system corrective actions are ongoing. The unknown payment errors consisted of \$28.9 million (or 0.26 percent) were identified primarily due to missing forms and other supporting documentation from the reorganization of roles and new personnel not familiar with the process for retaining or providing the appropriate documents. There were also a few rate discrepancies from within the combined ODO civilian salary forms, resulting in overpayments projected at \$2.7 million (or 0.02 percent).

DoD Travel Pay Army – DTS: Payments disbursed by the Army, through the Defense Travel System (DTS), to Active, Reserve, and National Guard Military Service members and civilian employees for temporary travel and transportation-related expenses.

In FY 2025, the Department reported an estimated proper payment rate of 88.77 percent (or \$2,248.6 million) and a 11.23 percent (or \$284.6 million) combined improper and unknown payments for the DoD Travel Pay Army – DTS program. Army travelers, reviewing officials, and authorizing officials/certifying officers did not conduct a comprehensive review of every DTS voucher for their Command to ensure it contained the substantiating documentation and valid receipts to support the expenses for their official government travel. This encompassing root cause contributed to the following delegation of improper and unknown payments, specifically; \$125.8 million (or 4.97 percent) of unknown payments, \$97.9 million (or 3.86 percent) of technically improper, \$53.7 million (or 2.12 percent) overpayments and \$7.2 million (or 0.28 percent) of underpayments. The primary cause for the unknown payments were the traveler's DTS claims did not contain the corroborating key supporting documentation to determine the validity of the payment. Although the DTS vouchers had incorrect amounts or lacked proper documentation, the approving officials and certifying officers approved these travel vouchers for reimbursement. The technically improper payments were attributed to Army travelers who failed to provide valid receipts to support authorized travel expenses. Lastly, overpayments and underpayments were due to travelers claiming incorrect amounts and erroneous mileage reimbursements. The Army has developed a robust and anticipatorily effective corrective action plan centered on ensuring the tone at the top of the Army Commands is geared towards achieving OMB regulatory thresholds by ensuring Command emphasis, perpetual collaboration, and targeted training to reduce improper and unknown payments.



DoD Travel Pay DAF – DTS: Payments disbursed by the Air Force, through the DTS, to Active Duty, Reserve, and National Guard Military Service members and civilian employees for temporary travel and transportation-related expenses.

In FY 2025, the Department reported an estimated proper payment rate of 92.43 percent (or \$2,365.2 million) and a 7.57 percent (or \$193.7 million) in combined improper and unknown payments for the DoD Travel Pay DAF – DTS program. While the DAF had a reduction in improper and unknown payments from FY 2024 by \$35.5 million, they are continuing and improving on their corrective actions centered on a robust targeted training for newly appointed Approving Officials and Travel Pay processing personal coupled with remediate training for personal with repeated errors. Specifically, the improper and unknown payment breakdown is as follows; \$105.0 million (or 4.10 percent) of technically improper payments, \$48.5 million (or 1.90 percent) of overpayments, \$28.3 million (or 1.11 percent) of unknown payments, and \$11.9 million (or 0.47 percent) of underpayments. The technically improper payment errors were primarily attributed to the invalid travel receipts that had missing critical information or were not in the proper format. The overpayment and underpayment errors were primarily from meals and incidentals above the allowable per diem rates. Unknown payments were identified primarily by payments that were awaiting corrective action by the traveler or approving official and therefore unable to be determined if the payment was proper or not. For example, the traveler had not attached the correct travel receipt in DTS, or the approving official had not approved the amended DTS voucher. In addition, the DAF will continue their use of a tracking tool to monitor the number of improper payments identified by each approving official and take action to remove permissions as needed.

DoD Travel Pay ODO – DTS: Payments disbursed by the DFAS, through the DTS, for temporary travel and transportation-related expenses.

In FY 2025, the Department reported an estimated proper payment rate of 89.01 percent (or \$369.4 million) and a 10.99 percent (or \$45.6 million) in combined improper and unknown payments for the DoD Travel Pay ODO – DTS program. The bulk of the improper payments \$23.0 million (or 5.54 percent) is attributed to the technically improper payment errors. Which were derived from invalid DTS authorizations such as traveling prior to specified date, or invalid travel receipts that had missing critical information or were not in the proper format. Unknown payments projected \$15.0 million (or 3.60 percent) and were identified where payments that were awaiting corrective action by the traveler or approving official and therefore unable to be determined if the payment was proper or not. Overpayment error projection was \$7.2 million (or 1.73 percent) and underpayments was \$0.5 million (or 0.11 percent) and associated with per diem rates such as meals and mileage being over/under paid. The Department is pursuing three separate corrective action plans aligned to the Department Components with the highest rates contributing to the overall ODO improper and unknown payments. These targeted corrective actions will synchronize training and necessary policy updates, revising operational procedures and creating accountability mechanisms.



Operations Specialist 2nd Class Chris Johnson tracks vessels in the area from the combat information center aboard the Wasp-class amphibious assault ship USS Iwo Jima (LHD 7) in the Atlantic Ocean, Dec. 4, 2024. (U.S. Navy photo by Mass Communication Specialist 2nd Class Savannah Hardesty)

DoD Travel Pay ODO – IATS: Payments disbursed by the DFAS, through the IATS, for temporary and permanent travel and transportation-related expenses.

In FY 2025, the Department reported an estimated proper payment rate of 86.95 percent (or \$12.80 million) and 13.05 percent (or \$1.9 million) in combined improper and unknown payments for the DoD Travel Pay ODO – IATS program. Due to the complex nature of the DoD Travel Pay ODO – IATS workload, high turnover rate for voucher examiners, and challenging production performance standards, processors made calculation errors based on incorrect rates, missing supporting documentation, and/or reimbursed unauthorized entitlements. The primary improper payment driver was identified as a combination of overpayments and underpayments resulting from calculation errors (wrong rate used to compute), missing proper supporting documentation, and/or processing oversight (entitlement paid that was not authorized). These overarching root causes contributed to the following allocation of improper and unknown payments, specifically; \$0.8 million (or 5.56 percent) unknown payments, \$0.7 million (or 4.61 percent) underpayments, \$0.2 million (or 1.67 percent) overpayments and \$0.2 million (or 1.21 percent) of technically improper payments.

To improve accuracy and efficiency in travel payment processing, management is implementing several key initiatives: launching an “Audit the Auditor” process with a defined performance standard and supporting checklist to proactively detect and address errors; conducting “back-to-basics” training on common error types; exploring eLearning modules for travel pay processing; establishing recurring meetings with personnel to emphasize proper claim submission procedures; and deploying the SmartVoucher tool for Temporary Duty (TDY) claims and Civilian Permanent Change of Station (PCS) claims, providing built-in validation to minimize submission errors.



A U.S. Army Soldier, scans the horizon with an M240 Bravo machine gun reflected in his visor as he flies in a UH-60 Blackhawk during a live fire training exercise on Schofield Barracks on Oahu, Hawaii, Nov. 25, 2024. (U.S. Army photo by Spc. Charles Clark)



Commercial Pay – MOCAS: Payments disbursed by DFAS, through the Mechanization of Contract Administration Services (MOCAS) system, to vendors and contractors for goods and services.

In FY 2025, the Department reported an estimated proper payment rate of 99.38 percent (or \$223,651.70 million) and 0.62 percent (or \$1,387.2 million) in combined improper and unknown payments for the Commercial Pay – MOCAS program. The following is the categorized projection of improper and unknown payments; \$751.8 million (or 0.33 percent) of technically improper payments, \$462.2 million (or 0.21 percent) of underpayments, \$169.6 million (or 0.08 percent) of unknown payments and \$3.5 million (or 0.002 percent) of overpayments. The main payment errors were net credit disbursements and short paying invoices based on business decisions, both contributing to a material amount of improper and unknown payments exceeding \$100M. The net credit disbursement issue arises from allowing vendors to bill credits without a net debit, causing complex calculations and errors due to inaccurate obligation balances. Short payments are intentional underpayments implemented to reduce late payment penalties, preserve funds, and maintain purchasing power, with the understanding that these underpayments can be rectified later.

The Department's strategy to mitigate improper payments centers around enhanced tracking, data analysis, and system improvements across multiple areas. A primary focus is on underpayments ("short pays"), where a comprehensive tracking system will be established to categorize and monitor all instances, enabling quarterly analysis to identify root causes and inform process adjustments within a defined risk appetite. Simultaneously, the plan aims to improve Standard Line of Accounting (SLOA) compliance and procure-to-pay (P2P) handshakes through a phased system modernization, ensuring all applicable feeder systems are included, providing complete and compliant data, and utilizing new metrics to assess data accuracy. This will be achieved through phased implementation over several quarters.

In addition to these systemic improvements, the Department will directly address technically improper payments and unknown payments. A detailed analysis of error root causes will drive the development and implementation of targeted corrective actions, including process improvements, training enhancements, and system modifications. Concurrently, a review of documentation retention processes, system conversions, and upgrades will be conducted to improve the tracking of unknown payments. By combining these efforts, the Department aims to significantly reduce improper payments through enhanced data visibility, streamlined processes, and targeted corrective actions.

DoD Pauses Improper Payment Reporting for Focused Improvement

While the Civilian Pay – Army and Military Pay Army – National Guard programs demonstrated strong performance in FY 2024, reporting improper and unknown payment estimates and rates well below the statutory threshold, the Department has made a strategic decision not to report improper payment or unknown payment estimates for these programs in FY 2025. This proactive measure addresses the DoD OIG's ongoing concern regarding the establishment of a complete UoT, a challenge consistently identified as a barrier to full PIIA compliance across the Department. By strategically reallocating resources to address the root cause identified by the DoD OIG's audit findings and recommendations, the Department is actively working to avoid the continuous loop of non-compliance and ensure that future estimates are based on a solid foundation of data integrity, in which past attempts to produce estimates without a complete UoT have proven unreliable and unproductive. This decision allows for a focused effort to implement necessary controls and methodologies to ensure the accuracy and reliability of future estimates, ultimately leading to improved financial stewardship and compliance. The Department recognizes the need for a reliable UoT and the reporting of estimates to aid in strategic decision making. The Department coordinated with OMB and DoD OIG in FY 2025 to agree with the decision to move these two programs to Phase 1 reporting in FY 2026, in which they will each complete an improper payment risk assessment in FY 2026.



NASA astronaut and Space Force Guardian Col. Nick Hague, Expedition 72 flight engineer, conducts a six-hour spacewalk in support of science experiments and maintenance on the International Space Station, Jan. 16, 2025. (U.S. Air Force photo courtesy of NASA)

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.

In FY 2025, the Department's PRA program identified \$1,369.46 million in overpayments and recovered \$1,284.86 million or 93.82 percent recovery rate.



CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The [Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015](#), as amended, requires federal agencies to adjust the level of civil monetary penalties for inflation annually to efficiently maintain their deterrent effect. Additionally, 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, as defined by [28 U.S.C §2461](#), is any penalty, fine, or sanction for a specific monetary amount assessed or enforced by an agency under federal law, an administrative proceeding, or a civil action in the federal courts.

The Department publishes these adjustments as final rules in the Federal Register, separately for USACE and the rest of the Department. **Exhibit 6** (Next Page) details the maximum penalties the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the agency component affected. Additional supporting details about these penalties are available in the Federal Register Volume 90 [FR 3693](#) and [FR 38403](#).



A U.S. Marine Corps CH-53E Super Stallion Helicopter, attached to the 31st Marine Expeditionary Unit, lands at Oyama park for Iron Fist 24 at Okinoerabu, Japan, March 11, 2024. (U.S. Marine Corps photo by Captain Pawel Puczek)

Exhibit 6. 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	2025	\$165,355	Department of the Navy	90 FR 3693
10 U.S.C. §1094(c)(1)	Unlawful Provision of Health Care	1985	2025	\$14,519	Defense Health Agency	90 FR 3693
10 U.S.C. §1102(k)	Wrongful Disclosure-Medical Records	1986	2025	\$8,586 Medical Records (First Offense) \$57,237 (Subsequent Offense)	Defense Health Agency	90 FR 3693
10 U.S.C. § 2674(c)(2)	Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	1990	2025	\$2,366	Chief Information Officer	90 FR 3693
31 U.S.C. §3802(a)(1)	Violation Involving False Claim	1986	2025	\$14,308	Office of Inspector General	90 FR 3693
31 U.S.C. §3802(a)(2)	Violation Involving False Statement	1996	2025	\$14,308	Office of Inspector General	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	False claims	1996	2025	\$25,594	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	Claims submitted with a false certification of physician license	1996	2025	\$25,594	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2)	Claims presented by excluded party	1996	2025	\$25,594	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2); (b)(2)(ii)	Employing or contracting with an excluded individual	1996	2025	\$25,594	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	Pattern of claims for medically unnecessary services/supplies	1996	2025	\$25,594	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2)	Ordering or prescribing while excluded	2010	2025	\$25,594	Defense Health Agency	90 FR 3693



Exhibit 6. 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
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(5)	Known retention of an overpayment	2010	2025	\$25,594	Defense Health Agency	90 FR 3693
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	2025	\$127,972	Defense Health Agency	90 FR 3693
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	2025	\$38,392	Defense Health Agency	90 FR 3693
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(3)	Making false statements, omissions, misrepresentations in an enrollment application	2010	2025	\$127,972	Defense Health Agency	90 FR 3693
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	2025	\$127,972	Defense Health Agency	90 FR 3693
33 U.S.C §555	Violations of the Rivers and Harbors Appropriation Act of 1922	1986	2025	\$7,156 per violation	U.S. Army Corps of Engineers	90 FR 38403
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	2025	\$27,379 per violation, with a maximum of \$68,446	U.S. Army Corps of Engineers	90 FR 38403
Clean Water Act, 33 U.S.C. §1344(s)(4)	Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	1987	2025	Maximum of \$68,446 per day for each violation	U.S. Army Corps of Engineers	90 FR 38403
National Fishing Enhancement Act, 33 U.S.C. §2104(e)	Civil Administrative Penalties for Violations of Section 205 of the National Fishing Enhancement Act	1984	2025	Maximum of \$29,980 per violation	U.S. Army Corps of Engineers	90 FR 38403

BIENNIAL REVIEW OF USER FEES

Under [31 U.S.C. §9701](#), the Department has the authority to establish charges for services and items of value. Those user fees are intended to reduce taxpayer burden by financing the portion 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 biennially review user 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. This review aims to adjust existing charges to reflect unanticipated changes in costs or market values, and to review programs where fees for government services or the use of government goods may need to be assessed.

In line with these requirements, a comprehensive review of user fees was completed by the Department and reflected in the FY 2024 AFR, which identified adjustments responsive to evolving market conditions. The Department will ensure continuous assessment of user fee adjustments, thereby maintaining accurate market value. Although the review is not required for FY 2025, the next biennial review is planned for FY 2026.



Army Command Sgt. Maj. Thomas J. Davenport, right, the incoming command sergeant major assigned to 2nd Battalion, 18th Field Artillery Regiment, hugs Command Sgt. Maj. David N. Chastain, the outgoing command sergeant major, during a unit change of responsibility ceremony at Fort Sill, Okla., Feb. 19, 2025. (Army Sgt. Christian Carrillo)





A U.S. Air Force F-15E Strike Eagle performs a flare check over the U.S. Central Command area of responsibility, March 9, 2025. (U.S. Air Force photo by Senior Airman Zachary Willis)

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 7** 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 7. 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	861	380	285
Number of Grants/Cooperative Agreements with Undisbursed Balances	707	214	129
Total Amount of Undisbursed Balances	\$156,470,295	\$68,940,681	\$15,154,627

The Department is committed to formally closing assistance awards, and has taken numerous steps to do so, including:

- Increasing management focus on the importance of closing out expired assistance awards. Several Components have taken advantage of new or updated software applications that make finding expired grants, especially with Unliquidated Obligations, much easier.
- Standardizing and streamlining the closeout process has also been a focus within the Department.

Challenges with closing out assistance awards continue to be related to personnel issues, lingering patent issues, and tracking people and documents for older awards. Reduced personnel availability resulting from the Deferred Resignation Program has impacted workload capacity across the Department. One Component reported losing almost half of its warranted grants officers. This, coupled with increased overall workload, has created challenges in dedicating sufficient resources to award closeout activities. Other challenges impacting closing out of expired awards include difficulty of locating points of contact for older awards to obtain completion/final acceptance documentation, securing contractor concurrence for de-obligating unexpended funds, and migrating to new software systems.

The Department aims to make further progress in reducing these numbers, taking advantage of the abovementioned improvements, and striving to find additional innovations.

U.S. Marines and Japanese service members conduct bilateral flight operations in an MV-22B Osprey and a V-22 Osprey above Nagasaki, Japan, during Iron Fist 25, an annual bilateral exercise, Feb. 21, 2025. (Marine Corps Sgt. Tyler Andrews)



FEDERAL ENTITY TRADING PARTNER INFORMATION

The DoD continues pursuing full implementation of the U.S. Department of the Treasury's mandate to use Government-Wide Invoicing (G-Invoicing) for Buy/Sell Intra-Governmental Transactions (IGTs). The original deadline was October 1, 2022. However, the Treasury Financial Manual extended the G-Invoicing implementation deadline to October 1, 2025. While several DoD Components have accomplished full compliance, those that did not meet the deadline continue to address system compatibility and integration challenges. The DoD drove broader adoption by implementing procedures to identify, reconcile, and resolve intra-governmental balance differences with trading partners.

Components are developing and enforcing standard operating procedures for reconciliation and elimination to:

- Define the Buy/Sell IGT population through precise buyer and seller criteria and transaction mapping to establish traceability.
- Conduct reciprocal balance analysis across Components by comparing buyer and seller records to detect and resolve variances.
- Identify unsupported journal vouchers, detect missing documentation, and resolve discrepancies as part of exception management to uphold audit integrity.
- Engage with trading partners to collaboratively resolve disputes and support alignment of reconciliation outcomes.

The G-Invoicing's structured workflows and internal controls have contributed to reducing the DoD's long-standing reporting discrepancies and have improved the traceability of federal expenditures. These improvements are critical to resolving persistent audit challenges and advancing audit readiness.

Throughout the transition period, G-Invoicing:

- Facilitated standardized order creation and acceptance between trading partners.
- Enabled real-time visibility into transaction status and financial obligations.
- Supported reconciliation and elimination of Buy/Sell activity through reciprocal data validation.
- Enhanced reporting accuracy by integrating system controls and audit trails.





U.S. East coast-based Naval Special Warfare Operators (SEALs) conduct dive operations to increase maritime lethality during training off the coast of Key Largo, Florida, Feb. 19, 2025. (U.S. Navy photo by Senior Chief Navy Diver Greg Cuchens)

FINANCIAL REPORTING RELATED LEGISLATION

Significant reporting entities and components must report agency-specific legislative provisions enacted in the prior or current year that address agency-specific financial accounting, reporting, or auditing issues. **Exhibit 8** (and Next Page) provides the name of the Act and Public Law citation, along with the associated hyperlink and the purpose of the legislation.

Exhibit 8. Financial Reporting-Related Legislation

Act Name	Citation and Hyperlink	Purpose
Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025	Public Law 118-159; 138 Stat. 1773 https://www.congress.gov/118/plaws/publ159/PLAW-118publ159.pdf	<p>The Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025 authorizes appropriations for FY 2025 for military activities of the Department, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes.</p> <p>Section 1005 Revision of DoD Financial Management Regulation (FMR) requires the Under Secretary of Defense (Comptroller) to revise FMR 7000.14-R no later than September 30, 2026, to ensure the regulation is consistent, clear, and current with respect to all requirements and does not include any guidance that is subject to change in an annual appropriations act. Special attention should be given to prioritizing clarity, adopting modern financial practices, considering IT solutions that improve usability, and considering the recommendations of the Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform.</p> <p>To improve accountability, the Department must brief Congress not later than March 24, 2025, and then once every 180 days thereafter during the three-year period following the date of the enactment.</p> <p>Section 1006 PPBE Reform Implementation Team, requires the Department to establish a dedicated cross-functional implementation team to execute recommendations from the Commission on PPBE Reform, with the head of the team reporting directly to the Deputy Secretary of Defense. Additionally, the team must be fully operational and resourced, and Congress briefed on the team composition and charter, by February 22, 2025.</p> <p>To improve accountability, the Department must brief Congress not later than March 24, 2025, and then once every 180 days thereafter during the three-year period following the date of the enactment of the Act.</p> <p>Section 1007 Requires, to the greatest extent practicable, the use of artificial intelligence or machine learning to facilitate financial statement audits.</p>



Exhibit 8. Financial Reporting-Related Legislation

Act Name	Citation and Hyperlink	Purpose
The National Defense Authorization Act for Fiscal Year 2024	Public Law 118–31; 137 Stat. 528 https://www.congress.gov/118/plaws/publ31/PLAW-118publ31.pdf	<p>The National Defense Authorization Act for Fiscal Year 2024 authorizes appropriations for the Department of Defense for the titled fiscal year.</p> <p>Section 1413 of the National Defense Authorization Act for Fiscal Year 2024 (Public Law 118–31; 137 Stat. 528) was used to establish beginning balances for the National Defense Stockpile Transaction Fund, which is enabling Defense Logistics Agency (DLA) to obtain an unmodified audit opinion.</p> <p>The DLA spent more than five years attempting to obtain or recreate transactional detail to support receipts of funding, collections, disbursements, and transfers in Fund Balance with Treasury from beginning with 2006 for the National Defense Stockpile Transaction Fund. Despite extensive efforts, DLA was unable to provide sufficient evidentiary matter to establish an ending balance for Fund Balance with Treasury (FBwT). Legislative language allowed for management to assert to those balances and enabled the auditors to be comfortable with the ending balances for FBwT.</p>