SECURITY ASSISTANCE ACCOUNTS

AGENCY FINANCIAL REPORT

FISCAL YEAR 2022

Dover AFB conducts Ukraine security assistance mission.
U.S. Air Force photo by Airman 1st Class Cydney Lee

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Preface

The Security Assistance Accounts (SAA) Fiscal Year (FY) 2022 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2021, and ending on September 30, 2022, with comparative prior year data, where appropriate. Unless otherwise designated, all use of a year indicates fiscal year, e.g., 2022 equals Fiscal Year 2022. The AFR demonstrates the Security Assistance (SA) community's commitment to its mission and accountability to Congress, the President, and the public.

This report satisfies the reporting requirements contained in the following legislation:

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA) – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls, and whether financial management systems comply with federal financial management systems requirements;

CHIEF FINANCIAL OFFICERS ACT OF 1990, AS AMENDED – established the position of Chief Financial Officer (CFO), requires audited financial statements for each major executive agency, and requires the Director of the Office of Management and Budget to prescribe the form and content of the financial statements;

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) – requires financial statement audits to assess the compliance of an agency's financial management systems with Federal requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL); and

REPORTS CONSOLIDATION ACT OF 2000 – permits agencies to consolidate certain statutorily required reports into a single annual report and requires certain information be contained in the consolidated report.

Dover AFB supports US, Ukraine strategic partnership.
U.S. Air Force photo by Mauricio Campino

HOW THIS REPORT IS ORGANIZED

The Defense Security Cooperation Agency (DSCA) acts as the steward of the SAA, providing mission information and financial management oversight. The AFR begins with a message from the Director of DSCA, James A. Hursch. This introduction is followed by three main sections.

SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS

Section I provides an overview of the SAA performance and financial information. It introduces the mission of the DSCA, includes a brief history, and describes SAA's stakeholders. The section also highlights the SAA financial results and provides management's assurances on the internal controls.

SECTION II

FINANCIAL SECTION

Section II begins with a message from the CFO. This section details the SAA financial status and includes the audit transmittal letter from the Department of Defense Inspector General (DoDIG), the independent auditor's report, and the financial statements and notes. The Required Supplementary Information (RSI) included in this section provides a combining statement of budgetary resources.

SECTION III

OTHER INFORMATION

Section III provides a summary of financial statement audit and management assurances, as well as management challenges pertaining to SAA.

MESSAGE FROM THE DIRECTOR OF THE DEFENSE SECURITY COOPERATION AGENCY

On behalf of the Defense Security Cooperation Agency and all those serving our nation through Security Cooperation activities, I am honored to present the Agency Financial Report for the Security Assistance Accounts for Fiscal Year 2022. This report provides a financial and operational overview of the SAA and reflects the transparent, comprehensive, and in-depth review of DSCA's and the collective Security Cooperation enterprise's finances and operations.

As it celebrates its 50th anniversary, DSCA reflects on its ever-evolving mission. It encompasses a wide range of activities that advance the United States (U.S.) national security, defense, and foreign policy objectives by enhancing the security, capacity, and capability of our Allies and Partners across the globe.

The SAA reflects the important Security Cooperation (SC) initiatives that DSCA leads, including the administration of Foreign Military Sales (FMS) on behalf of the U.S. Department of State and the Executive Office of the President (EOP), the provision of International Military Education and Training (IMET), Institutional Capacity Building, disaster relief, humanitarian assistance, and much more. This report includes analysis of the SAA financial statements and audit findings as well as the Security Assistance community's effort to improve the veracity and quality of financial data and performance metrics.

The SC community continues to be tactical and calculated in our strategy to strengthen alliances and build partnerships by effectively defining the right, full-spectrum solutions (capacity and capability) for each partner. The SC community strives for excellence in every facet of our mission through a cohesive and collaborative team effort across the government – from the individual program offices up through policymakers in the Department of Defense and the Department of State. Integrating, aligning, and unifying our efforts with partners across the government while continuing to develop a diverse, certified, and adaptable SC workforce is essential to achieve our mission and to meet shared U.S. and international security challenges.

As with every other aspect of our mission, the SC community strives for excellence in meeting our audit goals and remains committed to improving the efficacy of the SC enterprise's business operations, which will in turn lead to audit successes. The SAA has known limitations in financial management processes and systems that may impact the reliability and accuracy of financial information. Our first standalone audit resulted in a Disclaimer of Opinion due to the identification of multiple material weaknesses. The complete description of the material weaknesses can be found within the Management's Discussion and Analysis (MD&A) section and within the Report from the Independent Public Accountant. The related audit findings and recommendations continue to provide us with invaluable information and an opportunity to improve our financial-reporting process and data in support of the SA mission. The SC community is committed to addressing these findings and advancing the SAA to meet its audit goal.

James A. Hursch

James A. Hursch | Director
Defense Security Cooperation Agency (DSCA)

Meeting strengthens partnership through security assistance. *Photo by Tim Hanson*

SECTION I

Management's Discussion and Analysis (MD&A)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

SECURITY ASSISTANCE ACCOUNTS OVERVIEW

The Department of Defense (DoD) defines the SC as activities undertaken by the U.S. Government to encourage and enable international partners to work with the United States to achieve strategic objectives. SC encompasses a combination of legal authorities, annual appropriations, organizations, and initiatives from within DoD, Department of State (DoS), or EOP resources. As a subset of SC, SA encompasses a group of programs, authorized by law, through which the DoD or commercial contractors provide defense articles, services, and training in support of national security policies and objectives. An overview of the Security Assistance Accounts is provided in Table 1 below and in Note 1, Summary of Significant Accounting Policies.

The table below provides information about the SAA; each account includes a detailed description and the type of funding.

TABLE 1: SAA FUNDING OVERVIEW

ACCOUNTS	DESCRIPTION	FUNDING TYPE
FOREIGN MILITARY SALES (FMS) TRUST FUND: 11 X 8242	The FMS Trust Fund is used for payments received from purchasers and disbursements made against implemented FMS cases. This fund is cited directly on contracts for the procurement of defense articles and/or services for the purchaser, or is used to reimburse DoD Component appropriations for deliveries from DoD stocks or services performed by DoD employees. DSCA manages the FMS Trust Fund and is responsible for the solvency of each purchaser's FMS Trust Fund account. The FMS Trust Fund also includes the following three accessorial accounts to support the execution of the FMS program: • FMS Administrative Surcharge Account: Generates funds via a surcharge applied to FMS cases to cover the costs of operating the FMS program, including civilian employee salaries, facilities, and information systems. • Contract Administration Services Cost Clearing Account: Generates funds via a surcharge applied to FMS cases used to cover the costs of quality assurance and inspection, contract management, and contract audits. • Transportation surcharge, which is used to cover the cost to the United States of transporting purchaser material using the Defense Transportation System (DTS) or a Bill of Lading.	Non-revolving Trust Fund

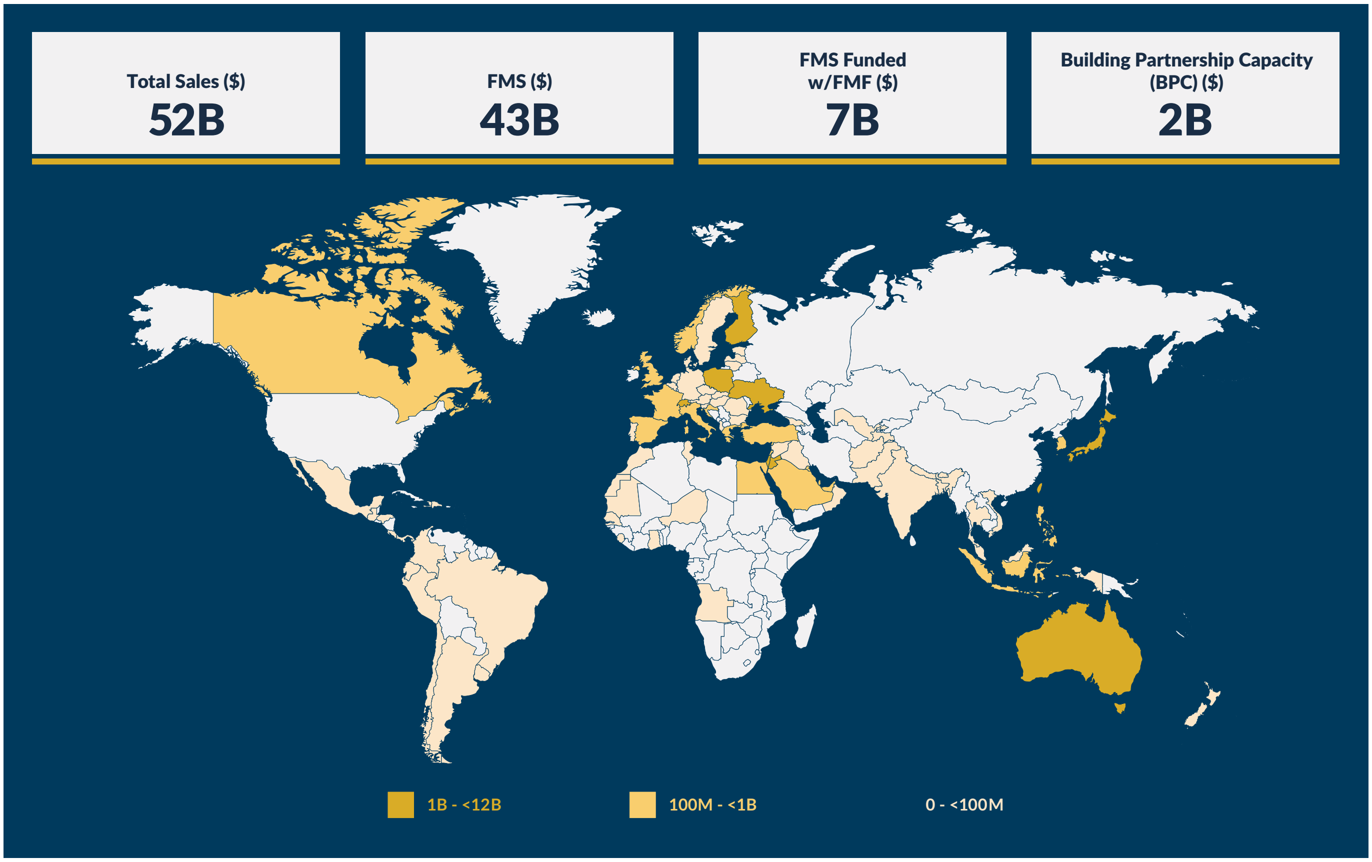
ACCOUNTS	DESCRIPTION	FUNDING TYPE
FOREIGN MILITARY FINANCING (FMF) PROGRAM: **11 1082** **11 X 1082**	The FMF Program Account is used to record the receipt and use of appropriated grant funds to finance U.S. defense sales to selected foreign friends and allies, primarily through the FMS program. The fund also includes appropriated administrative funds used to cover the DSCA costs of operating the FMF program.	General Fund
SPECIAL DEFENSE ACQUISITION FUND (SDAF): **11 4116** **11 X 4116**	SDAF is used to facilitate the delivery of material in advance of normal procurement lead times, enhancing readiness by reducing the need to divert assets from U.S. forces when partners have urgent requirements that cannot otherwise be satisfied. The SDAF operates as a financially independent, revolving fund. The primary source of funding to grow or capitalize the SDAF is the monetary collections received from the sale and transfer of FMS-procured defense articles and services to foreign governments and international organizations where funds are identified as excess. In accordance with Section 51(b) of the Arms Export Control Act of 1976 (AECA), the Fund may be capitalized with monies authorized and appropriated or otherwise made available for the purposes of the SDAF for charges on export sales by the U.S. Government and its contractors.	Revolving Fund
INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET): **11 1081** **11 X 1081**	IMET is used to record the receipt and use of appropriated grant funds for the training of selected foreign military and related civilian personnel worldwide.	General Fund
SECURITY ASSISTANCE AND INTERNATIONAL PROGRAMS (SAIP), DEPOSIT ACCOUNT: **11 X 6147**	SAIP is used to record collections from foreign governments to reimburse the DoD for goods and services not acquired through the FMS program, or for FMS customers to use the Air Force Parts and Repair Ordering System to acquire non-standard items, and to provide advance funding to support acquisitions.	Deposit Account

ACCOUNTS	DESCRIPTION	FUNDING TYPE
FMF DIRECT LOAN ACCOUNT: 11 X 4122	The FMF Direct Loan Account is used to receive the payments for the subsidy cost from the program account, 11 (FY) 1085, and includes all other cash flows to and from the United States Government (USG) resulting from post-FY 1991 foreign military direct loans. This appropriation is for new loans with original disbursement dates on or after October 1, 1991.	Revolving/ Financing Fund
MILITARY DEBT REDUCTION FINANCING ACCOUNT: 11 X 4174	The Military Debt Reduction Financing Account is used to record the rescheduling of loans and to collect loan repayments on those loans rescheduled from 11X4121. These loans have pre-FY 1992 original disbursement dates.	Revolving/ Financing Fund
FMF DIRECT LOAN PROGRAM ACCOUNT: 11 X 1085	The FMF Direct Loan Program Account is used to record the appropriation that subsidizes the estimated long-term cost to the USG of post-FY 1991 foreign military direct loan obligations.	General Fund/ Subsidy Program
FMLLA (FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT): 11 X 4121	The FMLLA is used to record the receipt and use of appropriated funds to finance credit sales under 22 U.S.C. § 2763 and credit sales guarantees for pre-FY 1992 loan obligations under 22 U.S.C. § 2764.	Revolving/ Liquidating Fund

The largest of the SA accounts is the FMS Trust Fund, which is used for payments received from purchasers and disbursements made against implemented FMS cases.

Figure 1 identifies foreign partners that implemented new FMS cases in FY 2022.

FIGURE 1: FMS SALES MAP



SAA LEGAL AUTHORITIES

The SAA authorizations and appropriations are provided primarily under Title 22 of the US Code in the following three public laws:

1. The Foreign Assistance Act of 1961 (FAA), as amended: an act to promote the foreign policy, security, and general welfare of the United States by assisting people of the world in their efforts toward economic and social development, internal and external security, and for other purposes. The FAA organizes assistance programs and details policies governing all SA provided to foreign governments. (22 U.S.C. ch. 32 § 2151)
2. The Arms Export Control Act of 1976, an Act to amend the FAA. The amendment to the original act focuses on regulations and documentation for arms sales. (22 U.S.C. ch. 39 § 2751)
3. Annual appropriation acts for the Foreign Operations, Export Financing and Related Program Appropriations Act (H.R. 4373)

Each year, a SA appropriations budget is requested as part of the President's budget submission. Legislative amendments may also be requested for authorization and appropriation laws from Congress. Congress then reviews requests, authorizes and appropriates the funds, and enacts the necessary legislative amendments to carry out SA programs. Appropriations may also be requested to reimburse the DoD for the value of items furnished under a Military Assistance Drawdown. In the event appropriations are not enacted prior to the beginning of the fiscal year, essential activities are typically carried out under a Continuing Resolution Authority (CRA) for applicable appropriated accounts. The CRA is a temporary or stopgap appropriation made by Congress and contains special rules regarding expenditures.

U.S. Army Central strengthens partnership with the Deputy Assistant Secretary of the Army for Defense Experts and Cooperation. *U.S. Army Photo by Sgt. Amber Cobena*

DSCA MISSION

DSCA leads a Security Cooperation (SC) enterprise of more than 20,000 personnel and provides policy, legal, financial, legislative, programmatic, and weapons system expertise to stakeholders across the U.S. interagency. The DSCA mission is to advance U.S. defense and foreign policy interests by building the capacity of foreign partners in order to encourage and enable Allies and Partners to respond to shared challenges. Such programs build relationships with foreign countries and international organizations that promote the U.S. interests, develop allied and partner capacities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces. DSCA accomplishes its responsibilities for SAA in concert with DoS, Military Departments (MILDEPs), Other Defense Agencies, other U.S. Government organizations, U.S. industry, and non-governmental organizations. Together, the SC community provides financial and technical assistance, provision of defense articles and services via nationally-funded cases, FMF for defense articles and services, including training, provided through the FMS program, as well as training provided and funded under IMET authorities.

ORGANIZATIONAL STRUCTURE

While DSCA manages the SAA, the DoS is responsible for continuous supervision and general direction of SA programs. DSCA directly manages the SAA and the MILDEPs and applicable Defense Agencies, collectively known as the Implementing Agencies (IA), to execute the majority of SAA funds. The three MILDEPs account for the majority of sales, and Air Force led the IAs in FMS with $27 billion in sales in FY 2022 comprising nearly 52% of FMS sales for the year. Each Secretary of the Military Department advises the Secretary of Defense on SA issues pertaining to their Departments and perform the following major actions in support of the SC mission:

- Provide price, source, availability, and lead time data of requested defense articles to develop and implement FMS cases;
- Acquire and deliver defense articles and services to eligible countries and international organizations; and
- Conduct training for foreign military and civilian personnel.

The following Military Department offices lead their respective Departments as IAs in support of the SC mission:

NAVY (INCLUDING U.S. MARINE CORPS AND U.S. COAST GUARD)

The Navy International Programs Office

ARMY

The Office of the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation

AIR FORCE (INCLUDING U.S. SPACE FORCE)

The Deputy Under Secretary of the Air Force for International Affairs

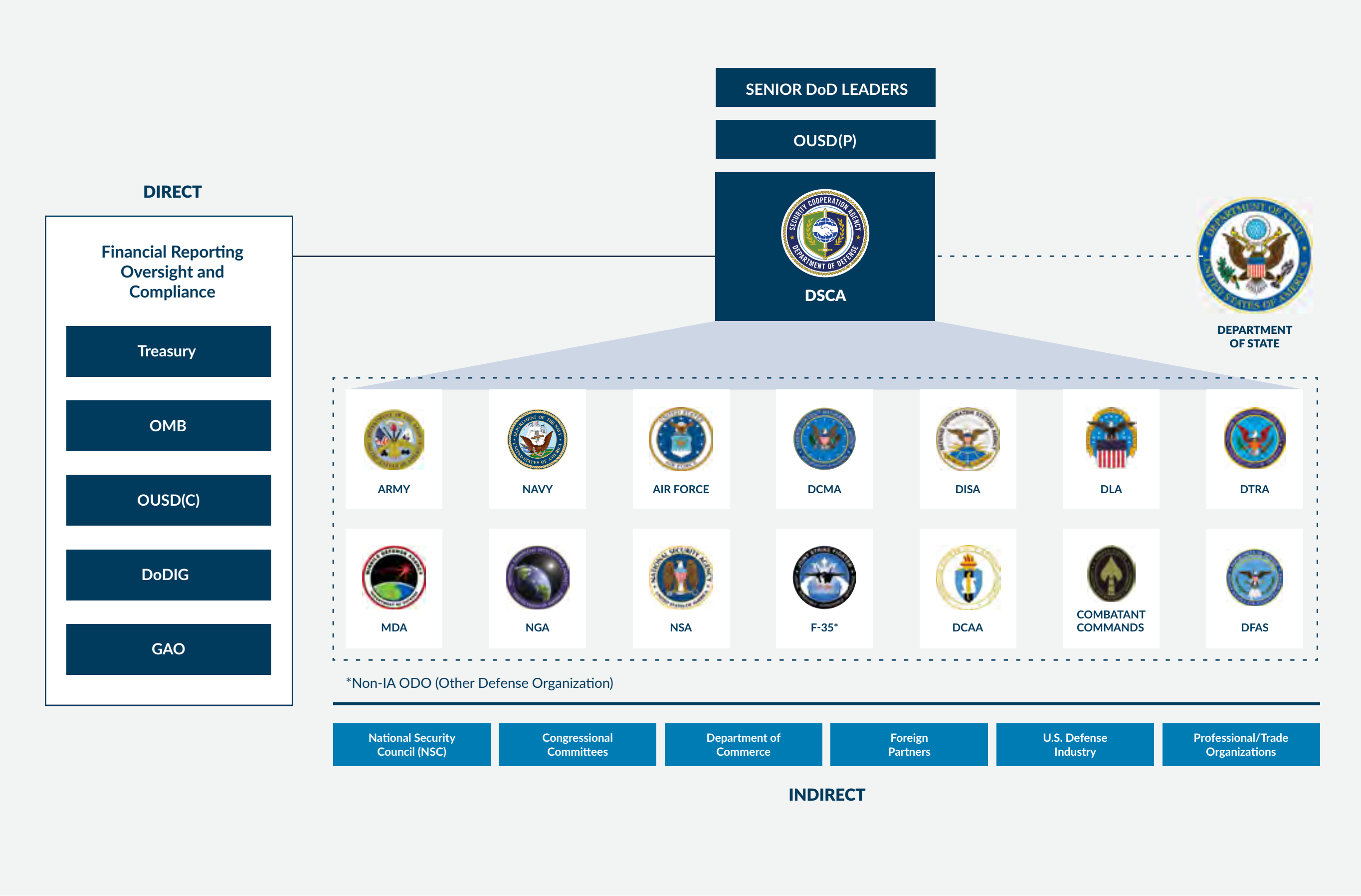
In addition to the MILDEPs, other Defense Agencies also serve as IAs which manage and execute FMS cases in contribution to the SC mission. For example, the Defense Logistics Agency (DLA) supports the MILDEPs to supply FMS orders from items in stock at DLA distribution centers and also executes FMS cases to provide cataloguing services and transfer Excess Defense Articles (EDA) to foreign partners.

Defense Finance and Accounting Service (DFAS) is a service provider for the SAA and performs accounting, billing, disbursing, and collecting functions in support of the SC mission. Further, DFAS prepares the financial statements on behalf of the SAA. DSCA and DFAS maintain a Mission Work Agreement, which details the specific services that DFAS performs on behalf of the SAA.

SAA STAKEHOLDERS

The graphic below shows the relationships between the primary SAA stakeholders.

FIGURE 2: SAA STAKEHOLDERS



RESPONSIBILITIES AND RELATIONSHIPS

Congress authorizes and appropriates funds for the USG-financed portions of SA as well as providing Contract Authority approval. Congress has a keen interest in the sale and transfer of defense articles and services to foreign countries and international organizations. Executive Branch agencies such as the Office of Management and Budget (OMB), United States Department of Treasury (USDT), and others have responsibilities related to SA. However, aside from the President, the principal legislated responsibilities fall to the Department of State and the Department of Defense.

DEPARTMENT OF STATE (DoS)

Under the FAA, AECA, and Executive Order 13637 the Secretary of State is responsible for continuous supervision and general direction of SA programs. This includes determining whether (and when) there will be a program or sale for a particular country or activity (to include IMET) and, if so, its size and scope. It also includes the determination of budget requests and allocation of funds for military assistance. The DoS reviews and approves export license requests for direct commercial sales of items on the United States Munitions List of the International Traffic in Arms Regulations. The DoS also reviews and approves third party transfers of exported defense articles and services. The DoS ensures FAA, section 503 (22 U.S.C. 2311) eligibility and obtains the assurances from recipient countries and organizations required by FAA, section 505 (22 U.S.C. 2314) prior to most grant transfers of defense articles. The DoS prepares the Mission Strategic Resource Plan and reviews and submits to Congress the Congressional Budget Justification, which includes an annual estimate of the total amount of sales and licensed commercial exports expected to be made to each foreign nation as required by AECA 25(a)(2) (22 U.S.C. 2765(a)(2)), and annual arms sale proposal (Javits Report) as required by AECA 25(a)(1) (22 U.S.C. 2765(a)(1)).

DEFENSE SECURITY COOPERATION AGENCY (DSCA)

DSCA directs, administers, and provides guidance to the DoD Components and DoD representatives to U.S. missions, for the execution of DoD SC programs for which DSCA has responsibility.

The Director of DSCA is responsible for the execution and administration of all security cooperations programs and activities of the DoD involving the provision of defense articles, military training, and other defense-related services by grant, loan, cash sale, or lease.

DSCA ensures Secretary of Defense and Office of the Under Secretary of Defense (Policy) (OUSD(P)) interests in SA matters are represented; identifies requirements, criteria, and procedures for the selection and training of personnel engaged in SA activities in DoD SC programs over which DSCA has responsibility; communicates directly with the Heads of the DoD Components on SC matters over which DSCA has responsibility; in coordination with the OUSD(P) and the Office of the Under Secretary of Defense (Acquisition and Sustainment) (OUSD(A&S)), as appropriate.

DSCA also supports the development of technology security and foreign disclosure and sales policies and procedures for defense information, technology, and systems; jointly establishes appropriate agreements and procedures with the Director, Defense Intelligence Agency (DIA), and with the Combatant Commands (CCMDs) for Senior Defense Officials (SDOs) and Defense Attachés (DATTs) to provide guidance and oversees SC programs for which DSCA is responsible, in accordance with applicable laws and regulations.

Additionally, in coordination with the Chairman of the Joint Chiefs of Staff, DSCA approves Security Cooperation Organizations (SCOs) joint manpower programs involving the establishment of new SCOs or changes in manpower authorizations or organizational structure; jointly, with the Director of the DIA, approves changes to the grade or Military Department affiliation of the SDO or DATT; reports to the Under Secretary of Defense for Personnel and Readiness in the Defense Readiness Reporting System readiness of personnel for SA activities in DoD SC programs over which DSCA has responsibility; and acts as the Executive Agent for DoD Regional Centers for Security Studies.

Authorities conferred on the Secretary of Defense by the FAA and AECA pertaining to SA and authorities under those acts delegated by the President to the Secretary of Defense are re-delegated through the OUSD(P) to the Director of DSCA.

DEPARTMENT OF DEFENSE (DoD) ORGANIZATIONS

The Office of the Under Secretary of Defense, (Comptroller) (OUSD(C)) establishes military requirements and implements programs to transfer defense articles and services to eligible foreign countries and international organizations. Within DoD, the principal responsible agencies for SC are DSCA, the CCMDs, Other Defense Agencies, the Joint Staff, the SCOs, and the MILDEPs.

OUSD(C) establishes policies and procedures for SC activities involving financial management, fiscal matters, accounting, pricing, budgeting for reimbursements to DoD appropriation accounts and revolving funds, international payments, and matters affecting the DoD budget.

THE MILITARY DEPARTMENTS (MILDEPs)

The MILDEPs serve as IAs to conduct SC programs and activities. In coordination with the OUSD(P), they serve as advisors to the Secretary of Defense on all matters of SC affecting or related to their respective Departments' support to the Combatant Commanders (CCDRs); and provide recommendations to the Secretary of Defense to ensure the successful conduct of SC programs. They conduct international armaments cooperation with eligible friendly foreign countries and international organizations in accordance with policies and criteria established by the OUSD(A&S). They conduct military education and training and sales of defense articles and defense services to eligible foreign countries and international organizations in accordance with policies and criteria established by the OUSD(P) and the Director of DSCA and provide the technical information and data, upon request, on weapons systems, tactics, doctrine, training, capabilities, logistic support, price, source, availability, and lead-time for developing and reviewing SC programs. They maintain appropriate records and furnish prescribed reports as requested. They provide qualified military and civilian personnel to carry out SC assignments according to approved tables of distribution and other authorizations, directives, and requests. They ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities. They assist OUSD(A&S) and the Director of DSCA, as requested, in government-to-government or interdepartmental discussions or negotiations involving SC.

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)

The DFAS mission is to lead customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information. As one of the world's largest finance and accounting operations, DFAS supports military and civilian customers. The DFAS mission emphasizes the importance of DFAS' role as a primary contributor in standardizing and improving finance and accounting activities across the DoD.

DFAS performs accounting, billing, disbursing, and collecting functions for SC programs. DFAS, including Security Cooperation Accounting (SCA), other mission areas, and various DFAS sites, leads the SC community in accounting and financial management by delivering timely, accurate, and meaningful information to global partners. They leverage the DoD-wide Defense Departmental Reporting System (DDRS) solution for financial reporting based on reconciled Trial Balances from the MILDEPs and Defense Agencies. DFAS performs a key role for certain IAs in FMS case management, starting with the Letter of Offer and Acceptance (LOA), implementation, continuing to case execution, and concluding with case closure. DFAS has work agreements with individual IAs to support the following Assessable Units including, but not limited to the following:

- Civilian Pay
- Contract Pay
- Travel Pay
- Commercial Pay
- FMS Trust Fund Cash Management
- Country and FMS Case Financial Management
- Departmental Level Accounting and Reporting
- Field Level Accounting Services

OTHER IMPLEMENTING AGENCIES (IAs)

In addition to the MILDEPs, certain other agencies also prepare and execute FMS cases, and other SA sources such as FMS Administrative Surcharge, FMF and SDAF as applicable. In coordination with the OUSD(P), IAs serve as advisors to the Secretary of Defense on all matters of SC affecting or related to their respective support to the CCDRs and provide recommendations to the Secretary of Defense to ensure the successful conduct of SC programs. They conduct military education and training and sales of defense articles and defense services to eligible foreign countries and international organizations in accordance with policies and criteria established by the OUSD(P) and the Director of DSCA and provide the technical information and data, upon request, on weapons systems, tactics, doctrine, training, capabilities, logistic support, price, source, availability, and lead-time for developing and reviewing SC programs. They maintain appropriate records and furnish prescribed reports as requested. They ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities. They assist the OUSD(A&S) and the Director of DSCA, as requested, in government-to-government or interdepartmental discussions or negotiations involving SC.

MISSILE DEFENSE AGENCY (MDA)

MDA is a research, development, and acquisition agency within the DoD. Its workforce includes government civilians, military service members, and contractor personnel in multiple locations across the United States. MDA develops, tests, and fields an integrated Missile Defense System (MDS) and works closely with the combatant commanders who rely on the system to defend the U.S., U.S. forward deployed forces, and friends and allies from missile attack. MDA's mission is to develop and deploy a layered MDS to defend the United States, its deployed forces, allies, and friends from missile attacks in all phases of flight.

NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY (NGA)

NGA delivers world-class geospatial intelligence that provides a decisive advantage to policymakers, military service members, intelligence professionals and first responders. NGA is a unique combination of intelligence agency and combat support agency. It is the world leader in timely, relevant, accurate and actionable geospatial intelligence. NGA enables the U.S. intelligence community and the DoD to fulfill the president's national security priorities to protect the nation. NGA also anticipates its partners' future needs and advances the geospatial intelligence discipline to meet them.

NATIONAL SECURITY AGENCY (NSA)

NSA leads the U.S. Government in cryptology that encompasses both signals intelligence insights and cybersecurity products and services, and enables computer network operations to gain a decisive advantage for the nation and its allies. The NSA is part of the DoD, serving as a combat support agency. To support military customers, the NSA has deployed personnel to all of the major military commands and to locations around the globe where there is a U.S. military presence. NSA analysts, linguists, engineers and other personnel deploy to hostile areas to provide actionable signals intelligence and cybersecurity support to warfighters on the front lines.

DEFENSE INFORMATION SYSTEMS AGENCY (DISA)

DISA is a combat support agency of the DoD. The agency provides, operates, and assures command and control and information-sharing capabilities and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of military operations.

DEFENSE LOGISTICS AGENCY (DLA)

The Director of DLA advises the Secretary of Defense on all SC matters impacting DLA and acts for the Secretary of Defense when responsibility has been delegated. DLA prepares FMS cases for cataloging services at the DLA Defense Logistics Information Service and EDA at the DLA Disposition Services. DLA coordinates on MILDEP FMS cases exclusively for medical equipment and supplies (except for U.S. Army cases prepared by U.S. Army Medical Materiel Agency), clothing and textiles, subsistence, and bulk petroleum. As the item manager for consumable stock-funded secondary items, DLA supply centers work with the MILDEPs to fill requisitions, process Supply Discrepancy Reports, and close cases when supply is complete.

DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA)

DCMA performs contract administration and management, quality assurance, product acceptance and other acquisition services for the DoD and other federal agencies, in addition to foreign governments and international organizations, as authorized. The combat support agency manages more than 225,000 contracts performed at more than 15,000 contractor locations world-wide. This includes contracts that support FMS cases.

DEFENSE THREAT REDUCTION AGENCY (DTRA)

DTRA enables the DoD, the USG and International partners to counter and deter weapons of mass destruction and emerging threats. As a Combat Support Agency, DTRA supports the CCMDs and the military services with both defensive and offensive capabilities. With a focus on the combat support mission, and through leveraging and expanding collaboration with interagency and international partners, DTRA is uniquely prepared to address some of the most immediate, consequential and non-conventional weapon threats to national security. As the DoD's research and development leader focused on weapons of mass destruction and improvised threats, DTRA facilitates innovation as it combines traditional research with unconventional means to develop and quickly field solutions to the most complex, deadly and urgent threats facing the U.S. and the rest of the world.

Dover AFB delivers helicopters; bolsters US, Australian alliance. *U.S. Air Force photo by Tech. Sgt. J.D. Strong II*

NON-IA DEFENSE ORGANIZATIONS

DEFENSE CONTRACT AUDIT AGENCY (DCAA)

DCAA performs all necessary contract auditing for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all the DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. This includes contracts that support FMS cases.

F-35 PROGRAM

The F-35 Program (previously referred to as Joint Strike Fighter or JSF Program) is recognized as a non-IA Other Defense Organization and is the DoD's focal point for defining affordable next generation strike aircraft weapon systems for the Navy, Air Force, Marines, and our Allies and Partners. The focus of the program is affordability - reducing the development cost, production cost, and cost of ownership of the JSF family of aircraft.

COMBATANT COMMANDS (CCMDs)

The CCMDs develop campaign plans to conduct SC programs and activities; complete campaign plan and campaign support plan assessments, as appropriate; provide appropriate assistance as requested by the OUSD(P) or the Director of DSCA; and supervise the SCOs in matters related to execution of the Guidance for Employment of the Force, including the provision of necessary technical assistance and administrative support to the SCOs.

DSCA TRAINING HOUSES

The Defense Security Cooperation University (DSCU) is the Department of Defense's Center of Excellence for security cooperation education, training, development, research, and institutional capacity building and is universally recognized as the leading academic institution for security cooperation knowledge and practice. A component of DSCA, DSCU itself is comprised of multiple components, including the Defense Institute of International Legal Studies (DIILS) and the Institute for Security Governance (ISG).

DIILS plans and executes professional legal education and international engagement focused on human rights, international humanitarian law, and the law of armed conflict. DIILS' mission is to advance US national security and foreign policy interests by building the capacity of foreign security forces to respond to shared challenges.

ISG is the Department of Defense's lead implementer for Institutional Capacity Building (ICB) internationally and within the US. ISG's mission and vision are to further align ICB innovation, leadership, and objectives to maximize DSCA's capacity and flexibility to execute its mission as mandated by Congress and the Secretary of Defense.

EXECUTION OF SAA FUND TYPES

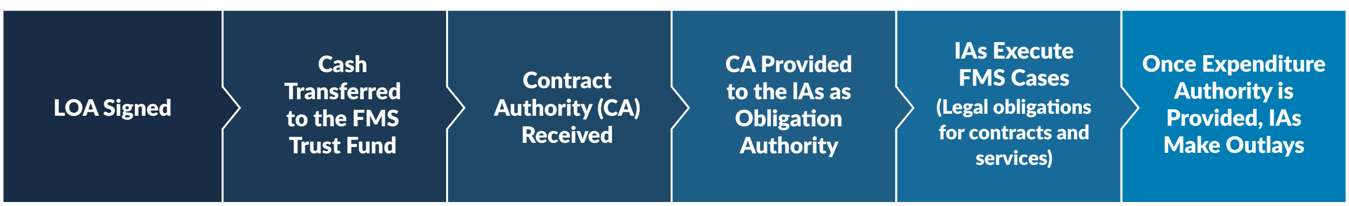
FOREIGN MILITARY SALES CASE FUNDING

The figure below provides a high-level overview of the general FMS Case process from signing the LOA to disbursement/outlays. At the start of the financial process when the LOA is signed by the Partner and USG, funds are deposited into the FMS Trust Fund in accordance with the payment schedule found in the LOA. Funds can also be deposited into the Federal Reserve Bank or Commercial Bank Accounts for select countries. Once the LOA is signed and the initial deposit has been deposited, the FMS Case is implemented and Contract Authority for the full case value is received. Obligation Authority is then provided to the IAs on either FMS or BPC cases.

The BPC programs encompass security cooperation and security assistance activities funded with USG appropriations and administered as FMS cases, also called BPC cases, utilizing the existing FMS process. These programs provide defense articles and/or services to other USG departments and agencies under the authority of the Economy Act or other transfer authorities for the purpose of building the capacity of partner nation security forces and enhancing their capability to conduct counterterrorism, counter drug, and counterinsurgency operations, or to support U.S. Military and stability operations, multilateral peace operations, and other programs. DoD appropriated funds are made available to DSCA and moved into the FMS Trust Fund to fund BPC cases, and then executed through the existing FMS infrastructure using Security Assistance systems and a case developed by the IAs.

DSCA is leading an effort to decouple BPC transactions from the FMS Trust Fund and instead report financial activity for BPC cases on the DoD Financial Statements. This effort is designed to support accurate reporting of DoD Appropriated funding and maintain or enhance financial and programmatic report capabilities for BPC programs.

FIGURE 3: GENERAL FMS CASE FLOW



FOREIGN MILITARY SALES ADMINISTRATIVE SURCHARGE FUNDING

The genesis of the DSCA funds distribution for FMS Administrative Surcharge-funded activities is the section 43(b) of the AECA, which states "*(b) Administrative expenses incurred by any department or agency of the United States Government (including any mission or group) in carrying out functions under this Act which are primarily for the benefit of any foreign country shall be fully reimbursed from amounts received for sales under sections 21 and 22.*"

Figure 4 below provides a high-level end to end overview of the FMS Administrative surcharge funding flow. This process begins when a department or agency incurs an expense while carrying out functions under AECA. Each department and agency will then claim amounts to be reimbursed which are then placed on the Annual Funding Plan. Distribution amounts are determined in the Annual Funding Plan, which is issued to claimants by DSCA Headquarters at the beginning of each fiscal year. DSCA will then substantiate amounts requested to be reimbursed on a Transmittal Letter (TL) and will distribute the appropriate amounts. With the funds distribution process complete, claimants are able to execute the FMS Administrative funding.

Additional accessorial surcharges include:

- Contract Administrative Services (CAS) surcharge which is used to fund three basic elements: quality insurance and inspection, contract management and contract audit.
- Transportation surcharge, which is used to cover the cost to the United States of transporting purchaser materials using DTS or a Bill of Lading.

FIGURE 4: FMS ADMINISTRATIVE FUND FLOW

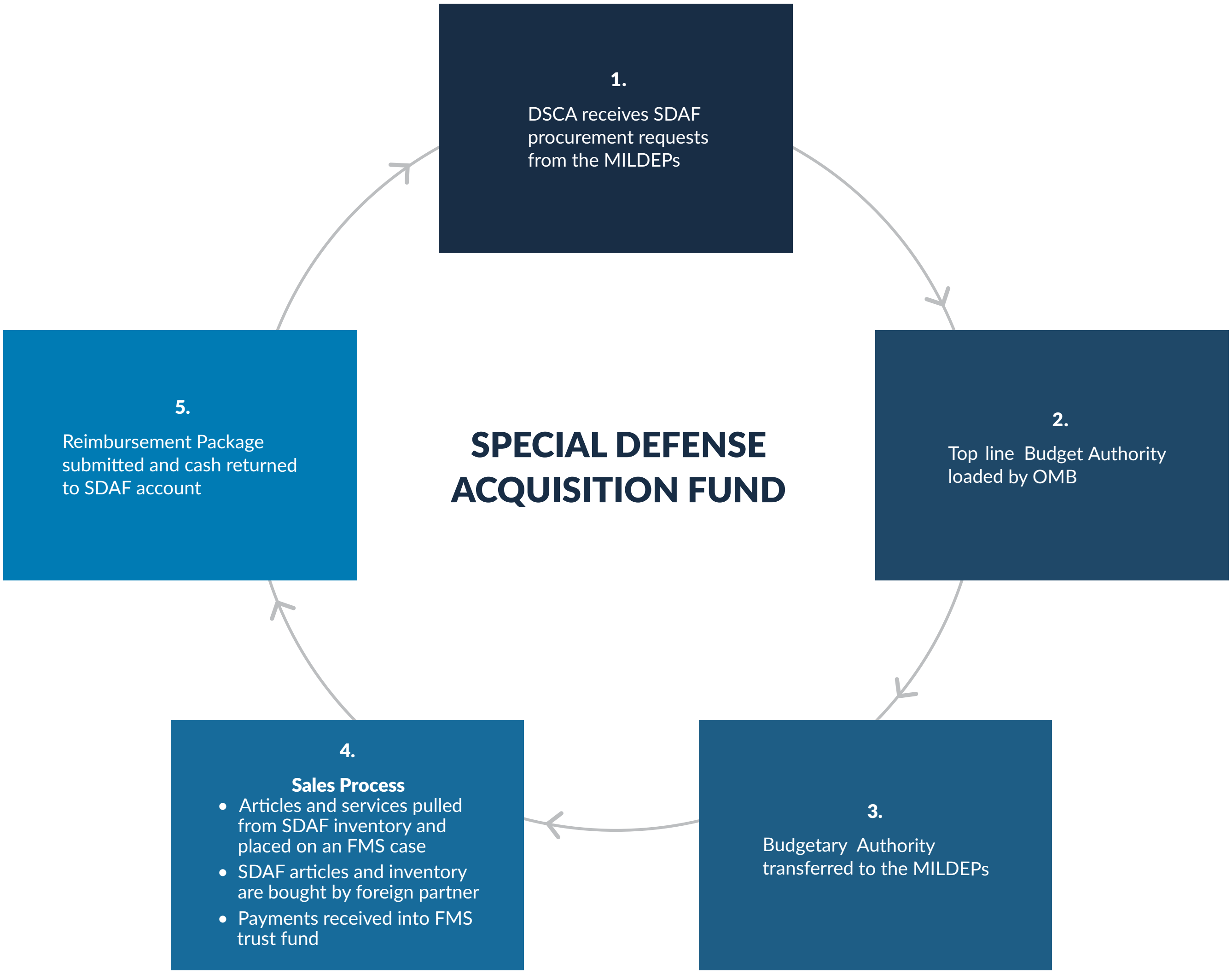
SPECIAL DEFENSE ACQUISITION FUND

SDAF is used as a revolving fund separate from other accounts, to finance the acquisition of defense articles and services in anticipation of transfer to eligible foreign countries and international organizations. This provides the DoD with the flexibility required in planning for anticipated foreign procurements of U.S. defense materiel. Through its ability to buy military equipment to meet future requirements, the SDAF permits the U.S. to act in anticipation of an emerging defense export environment. The objective of SDAF is to procure high demand, long lead-time defense equipment in anticipation of future sales to be conducted on a government to government basis through the FMS Program. These acquisitions result in accelerated deliveries once FMS cases are signed. The availability of SDAF assets reduces pressure on the DoD to meet urgent requirements through withdrawals from U.S. inventories or through diversions from production.

The authority which provides the SDAF the ability to operate comes from Section 114(c) of Title 10 of the U.S.C. The authorization dates back decades, well before the 1980’s, but was dormant for a number of years. In 2012, Congress approved the Administration’s request to recapitalize the SDAF for $100M with the enactment of the Department of State, Foreign Operations, and Related Programs Appropriation Act, 2012 (Public Law 112-74). This law also provided the obligation authority the funds needed to exercise its requirements, making SDAF initially a four-year fund.

Figure 5 provides a high-level flow of the SDAF process beginning with the MILDEPs submitting SDAF procurement requests to DSCA. The DoD, in consultation with DoS, must determine the most effective and efficient use of the funds through a jointly chaired board called the SDAF Procurement Board. Once the Procurement Board selects the top proposals, budgetary authority is provided through the Foreign Operations and Consolidated Appropriations Act. During the sales process, articles and services are pulled from the SDAF inventory and placed on an FMS case also known as an LOA. All LOAs and SDAF sales are executed through the FMS system. This process requires that all articles/services be directly procured from the SDAF inventory, once requested by a foreign partner. Upon delivery of SDAF articles to the foreign partner, payment is received into the FMS Trust Fund. Finally, a reimbursement package must be submitted to replenish cash back into the SDAF account and to maintain the revolving nature of the account.

FIGURE 5: SDAF FUND FLOW



INTERNATIONAL MILITARY EDUCATION AND TRAINING FUNDING

The IMET program is a DoS program, jointly managed by the DSCA and the DoS, that funds military education and training courses for international military, and related civilian personnel of foreign countries. It is a key SC component, promoting regional stability and defense capabilities through professional military and technical courses and specialized instruction. The IMET courses are provided primarily at military schoolhouses in the United States, exposing international students to the U.S. culture, military students, practices, standards, and professionalism.

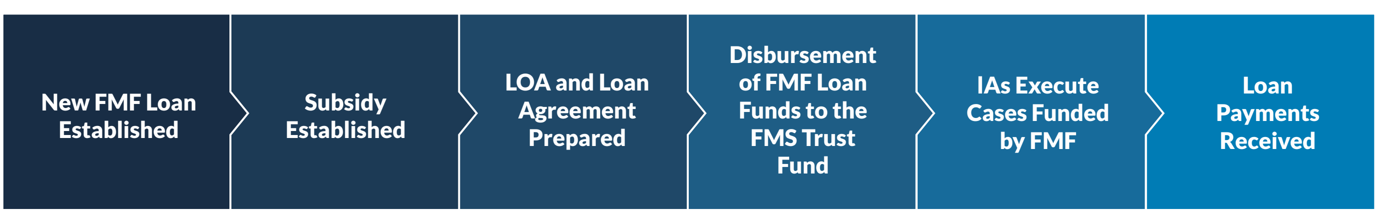
The IMET funding flow shown in figure 6 begins with the DoS receiving an IMET appropriation. A Transmittal Letter is then consolidated with training requirement submissions from all three MILDEPs for determination of which events to fund. Upon this determination, the Transmittal Letter is approved and a non-expenditure transfer is completed by USDT. DSCA will then generate a Funding Authorization Document and distribute the corresponding amounts to the MILDEPs receiving IMET funding. Finally, the MILDEPs are able to execute the funding consistent with the training requirements previously submitted.

FIGURE 6: IMET FUND FLOW

FOREIGN MILITARY FINANCING DIRECT LOAN FUNDING

The FMF Direct Loan Financing account was established to allow for a subsidy to fund and make disbursements of FMF funds for approved procurements and for subsequent collections for the loans. The FMF Direct Loan process begins when the DoS approves funds for the FMF Direct Loan program and OMB establishes the subsidy. The FMF Direct Loan Financing account subsidizes the estimated long-term cost to the U.S. Government. This subsidy is for the risk of defaults and the difference in interest rates that the country pays on its loans and the interest the government must pay on U.S. Treasury borrowings. When FMS cases being funded by a FMF Direct Loan are accepted, an LOA is prepared to support the case and a disbursement is made by the USDT into the FMS Trust Fund. IAs are able to execute these cases once the funds have been disbursed into the FMS Trust Fund. See figure 7 for an end-to-end FMF Direct Loan fund flow.

FIGURE 7: FMF DIRECT LOAN FUND FLOW



FOREIGN MILITARY FINANCING GRANTS FUNDING

The FMF Grants process begins when Congress appropriates FMF funds in the Foreign Operations Appropriations to the DoS, who allocates funds for eligible partner nations. Similar to the FMF Direct Loan process, an LOA is prepared for FMS cases being funded by a FMF Grant. A funds transfer will then occur to disburse FMF Grant funds to the FMS Trust Fund, allowing IAs to execute cases.

FIGURE 8: FMF GRANTS FUND FLOW

PERFORMANCE SUMMARY AND HIGHLIGHTS

DSCA's Strategic Plan aligns key tenets of the National Security Strategy and NDS with the Agency's Strategic Goals. This enables a direct linkage between national security guidance and DSCA measurable objectives and action. This demonstrates DSCA's critical role in implementing national security and defense strategy.

DSCA's values-based approach, including human rights, rule of law, civilian harm mitigation, and women, peace, and security initiatives, is what distinguishes the United States from our strategic competitors. DSCA will continue to identify and implement SC enterprise improvements with an emphasis on cost, schedule, and performance. DSCA will ensure that authorities and policies are implemented and updated to facilitate all aspects of Security Cooperation. Finally, DSCA will empower the SC workforce by ensuring they have the training and tools to excel as SC professionals.

In service of, and in alignment with, enduring national defense strategic goals, in April 2021 DSCA developed its 2025 Strategic Plan, which contained five Strategic Goals. The five strategic Goals begin with a focus on external SC stakeholders to enable decision-making that is mutually beneficial for the U.S., DSCA, and the partner nations.

STRATEGIC GOAL 1

Align and integrate department SC activities to influence partner capability development and acquisition decisions to mutual benefit.

STRATEGIC GOAL 2

Standardize and lead SC program planning such that activities and resources are prioritized, aligned, and executed within a structured, full-spectrum approach focused on developing capabilities.

STRATEGIC GOAL 3

Improve the effectiveness and efficiency of the SC enterprise's business operations.

STRATEGIC GOAL 4

Improve our ability to strengthen alliances and attract new partners by obtaining and refining authorities and policies.

STRATEGIC GOAL 5

Develop a diverse, certified, adaptable, and resilient SC workforce to meet shared U.S. and international security challenges.

In FY 2022, DSCA worked to develop objectives to further enhance these five strategic goals. These objectives are designed to reflect an incremental approach to codify the ways that DSCA and the SC Community meet current and future demands and the corresponding Implementation Plan will support reporting progression on fulfilling these FY 2023 Objectives.

ANALYSIS OF FINANCIAL STATEMENTS

The principal financial statements include the Consolidated Balance Sheets (BS), Consolidated Statements of Net Cost (SNC), Consolidated Statements of Changes in Net Position (SCNP), and Combined Statements of Budgetary Resources (SBR). Due to limitations of SAA financial management processes and systems, there is a possibility that not all elements of U.S. Generally Accepted Accounting Principles (U.S. GAAP) and OMB Circular No. A-136 have been fully implemented. DSCA is developing corrective action plans to resolve financial management issues identified during the reporting period that were highlighted by the SAA audit.

The financial summary and highlights that follow provide a brief description of the nature of each financial statement and significant fluctuations from FY 2021 to FY 2022. A summary of key financial measures from the Balance Sheets and Statements of Net Cost and Budgetary Resources is provided in Tables 2-4, respectively. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Section.

CONSOLIDATED BALANCE SHEETS

The Balance Sheets, which provide a snapshot of SAA's financial position as of September 30, 2022, and September 30, 2021, report current and future economic benefits owned or managed by SAA (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

TABLE 2: TABLE OF KEY FINANCIAL MEASURES - BALANCE SHEETS (AMOUNTS IN THOUSANDS)

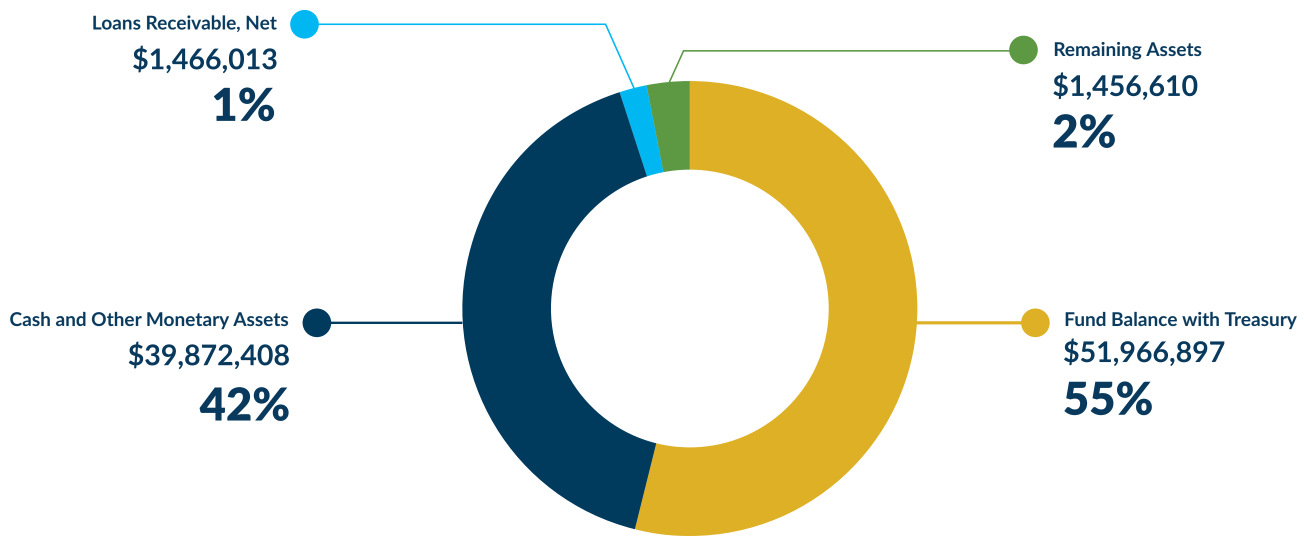
SUMMARY CONSOLIDATED BALANCE SHEETS DATA	2022	2021	CHANGE	% CHANGE
Fund Balance with Treasury	$51,966,897	$45,412,296	$6,554,601	14%
Cash and Monetary Assets	39,872,408	38,554,491	1,317,917	3%
Loans Receivable	1,446,013	2,046,177	(600,164)	(29)%
Remaining Assets	1,456,610	472,920	983,690	208%
Total Assets	$94,741,928	$86,485,884	$8,256,044	10%
Accounts Payable	$18,333,442	$18,089,841	$243,601	1%
Advances from Others and Deferred Revenue	167,950,103	126,153,289	41,796,814	33%
Other Liabilities	40,379,697	39,053,458	1,326,239	3%
Remaining Liabilities	1,041,841	1,668,726	(626,885)	(38)%
Total Liabilities	$227,705,083	$184,965,314	$42,739,769	23%
Unexpended Appropriations	$12,504,726	$7,766,181	$4,738,545	61%
Cumulative Results of Operations	(145,467,881)	(106,245,611)	(39,222,270)	37%
Total Net Position	$(132,963,155)	$(98,479,430)	$(34,483,725)	35%
Total Liabilities and Net Position	$94,741,928	$86,485,884	$8,256,044	10%

ASSETS

The SAA's Total Assets were $94.7 billion as of September 30, 2022, an increase of $8.3 billion (10%) over the 2021 total. The majority of this increase is attributed to SAA's largest asset, Fund Balance with Treasury (FBwT), which increased $6.6 billion (14%) over the 2021 total. This increase is primarily due to the funding received in support of Ukraine in FY 2022 to the Foreign Military Financing Grant Account.

FY 2022 SAA ASSETS

(AMOUNTS IN THOUSANDS)

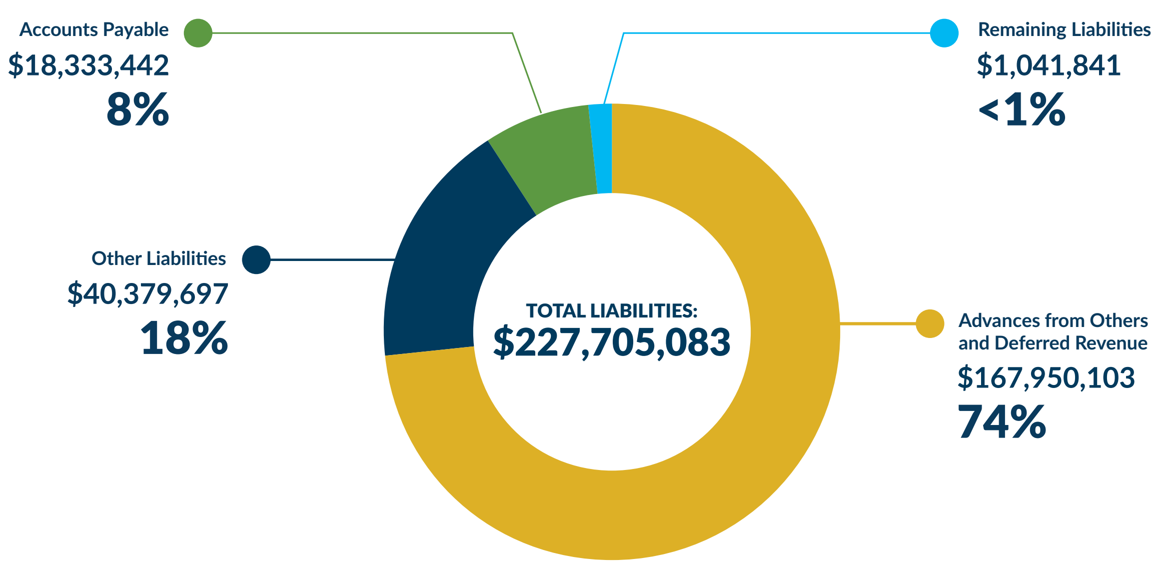


LIABILITIES

The SAA's Total Liabilities were $227.7 billion as of September 30, 2022, an increase of $42.7 billion (23%) over the 2021 total. The majority of this increase is from Advances from Others and Deferred Revenue, which increased by $41.8 billion (33%). The $41.8 billion increase in Advances from Others and Deferred Revenue is primarily driven by adjustments to FMS cash collections from systems that do not directly feed into DDRS, and the funds advanced from the Department of State that were previously recognized as revenue.

FY 2022 SAA LIABILITIES

(AMOUNTS IN THOUSANDS)



ENDING NET POSITION

The SAA's Net Position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased $34.5 billion (35%) between 2022 and 2021. Cumulative Results of Operations decreased $39.2 billion, and Unexpended Appropriations increased by $4.7 billion, largely attributed to SAA's FMF program receiving an additional $4.6 billion in appropriations related to the ongoing conflict in Ukraine.

CONSOLIDATED STATEMENTS OF NET COST

The Statements of Net Cost present the net cost of SAA's major programs for the years ended September 30, 2022, and September 30, 2021. The net cost is computed by subtracting earned revenue from gross cost and adjusted by the (gain)/loss from changes in assumptions, as applicable.

TABLE 3: TABLE OF KEY FINANCIAL MEASURES - STATEMENTS OF NET COST (AMOUNTS IN THOUSANDS)

SUMMARY CONSOLIDATED STATEMENTS OF NET COST DATA	2022	2021	CHANGE	% CHANGE
Gross Costs	$102,322,370	$95,684,584	$6,637,786	7%
Less Total Revenue	(19,467,727)	(17,320,368)	(2,147,359)	12%
Total Net Cost	$82,854,643	$78,364,216	$4,490,427	6%

SAA's Net Cost of Operations increased $4.5 billion (6%) between 2022 and 2021. This increase is a result of a $6.6 billion increase (7%) in Gross Costs and a $2.1 billion (12%) increase in Total Revenue. The increase in Gross Costs is driven by activity in the FMS Trust Fund, consisting of an increase of $4.6 billion in Distributed Offsetting Receipts and an increase of $2.0 billion in Disbursements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Statements of Changes in Net Position identify all financing sources available to, or used by, SAA to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end.

The SAA's Total Unexpended Appropriations increased $4.7 billion (61%), primarily due to an increase in appropriations related to the ongoing conflict in Ukraine.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

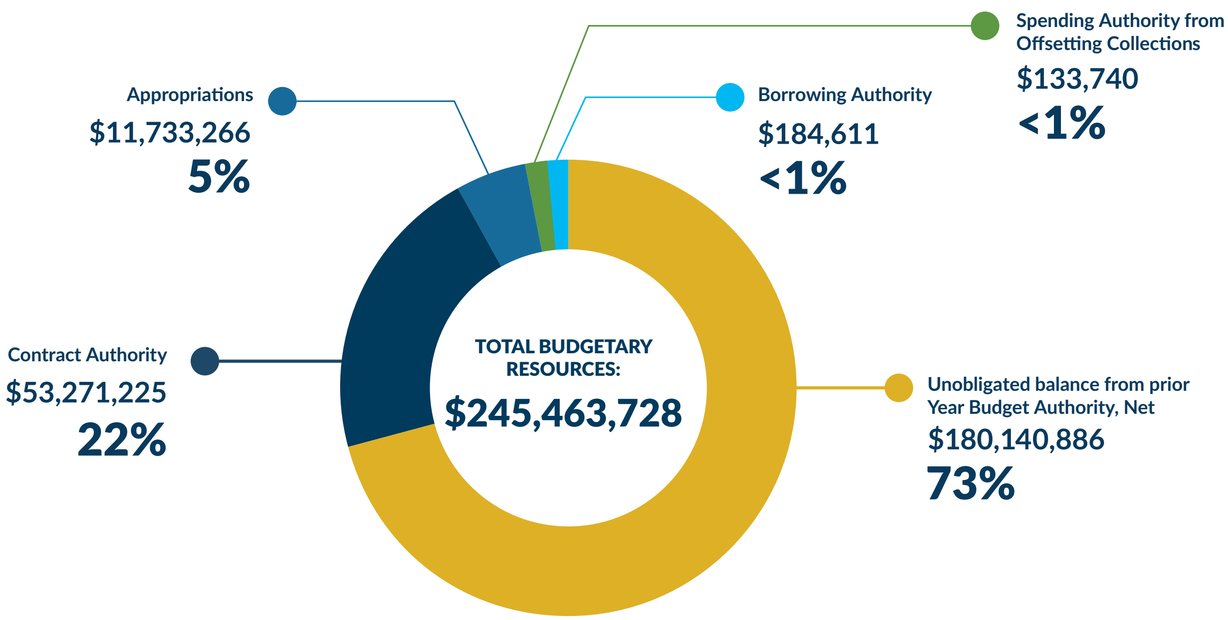
The Combined Statements of Budgetary Resources present SAA's total budgetary resources, their status at fiscal year-end, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items.

TABLE 4: TABLE OF KEY FINANCIAL MEASURES - STATEMENTS OF BUDGETARY RESOURCES (AMOUNTS IN THOUSANDS)

SUMMARY COMBINED STATEMENTS OF BUDGETARY RESOURCES DATA	2022	2021	CHANGE	% CHANGE
Unobligated Balance from Prior Year Budget Authority, Net	$180,140,886	$176,934,990	$3,205,896	2%
Appropriations	11,733,266	11,878,103	(144,837)	(1)%
Borrowing Authority	184,611	645,684	(461,073)	(71)%
Contract Authority	53,271,225	34,385,748	18,885,477	55%
Spending Authority from Offsetting Collections	133,740	204,318	(70,578)	(35)%
Total Budgetary Resources	$245,463,728	$224,048,843	$21,414,885	10%

SAA's Budgetary Resources increased 10% between FY 2022 and FY 2021. The increase in Budgetary Resources is primarily due to an $18.9 billion (55%) increase in Contract Authority, driven by sales activity and increased collections in the FMS Trust Fund.

FY 2022 SAA TOTAL BUDGETARY RESOURCES
(AMOUNTS IN THOUSANDS)



SAA BUDGET AUTHORITY

The SAA receives budget authority in multiple ways. For FY 2022, overall SAA budget authority was $245 billion. The following list breaks down the types of budget authority with descriptions of each, as well as which SAA funds align with each. Most accounts are funded solely through appropriations, with a few accounts funded through contracts, borrowing from the USDT, or through offsetting collections.

TABLE 5: SAA BUDGET AUTHORITY BREAKDOWN

FORM OF BUDGET AUTHORITY	FUND	CHARACTERISTICS
APPROPRIATION	IMET – 1081 FMF – 1082 FMF Program – 1085 FMS Administrative Surcharge Account – 8242	An allocated amount of resources authorized by Congress in the annual appropriations act and provided to agencies via Treasury warrants.
CONTRACT AUTHORITY	FMS Case and Material – 8242	Permits agencies to incur obligations in advance of an appropriation, offsetting collections, or receipts that enable you to make outlays to liquidate the obligations.
BORROWING AUTHORITY	FMF Financing – 4122 Military Debt Reduction – 4174	Permits agencies to incur obligations and authorizes agencies to borrow funds to liquidate the obligations. Usually, the law authorizing the borrowing specifies that you must borrow from the Treasury, but in a few cases it authorizes borrowing directly from the public.
SPENDING AUTHORITY FROM OFFSETTING COLLECTIONS	SDAF – 4116 FMF Liquidating - 4121	Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, to incur obligations, and to make payments using offsetting collections.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

On behalf of the SAA, DSCA is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA. DSCA conducted its assessment of risk and internal controls in accordance with the OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control and the Green Book, GAO-14-704G, Standards for Internal Control in the Federal Government. These requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls, with objectives to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the FFMIA.

The evaluation of internal controls extends to every responsibility and activity undertaken by DSCA and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

FMFIA AND OMB CIRCULAR NO. A-123 COMPLIANCE - REPORTING

DSCA conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular No. A-123. Based on the results of the assessment, DSCA was unable to provide assurance that internal controls over financial reporting for the SAA are operating effectively as of September 30, 2022 due to six self-identified material weaknesses in the following areas:

1. Lack of Fund Balance with Treasury Reconciliation
2. Inadequate Financial Statement Compilation and Reporting, including incomplete Universe of Transactions and supportable Beginning Balances
3. Lack of Adequate Controls and Documentation over SAA Business Processes
4. Lack of Adequate Controls over Property, Plant, and Equipment and Inventory
5. Lack of Adequate Controls over the Transportation Account
6. Lack of Adequate Controls over Building Partner Capacity Appropriated Funds Transferred to the Foreign Military Sales Trust Fund

FMFIA AND OMB CIRCULAR NO. A-123 COMPLIANCE - SYSTEMS

Also, in accordance with OMB Circular No. A-123, SAA conducted its assessment of the effectiveness of internal controls over financial systems in accordance with OMB Circular No. A-123. Based on the results of the assessment, DSCA was unable to provide assurance that internal controls over financial systems for the SAA are operating effectively as of September 30, 2022 due to three self-identified material weaknesses in the following areas:

1. Lack of Adequate Access Controls over SAA Financial Systems
2. Lack of Adequate Policies and Procedures Governing SAA Financial Systems
3. Lack of Standard Financial Information Structure Compliant Accounting

DSCA is engaging with the SC community to remediate these weaknesses by devising and implementing corrective action plans (CAPs) to strengthen internal controls over financial reporting and systems. The SC Community remains committed towards financial excellence and improving its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

A full list of material weaknesses over Financial Reporting and Financial Systems identified by both Management and the Independent Public Accountant (IPA) can be found in the Other Information Section of the AFR.

U.S. and partner nation students graduate during IAAFA training cycle. *U.S. Air Force photo by Vanessa R. Adame*

LEGAL COMPLIANCE

The Anti-Deficiency Act (ADA), which is codified in 31 U.S. Code §§ 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 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 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 (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States.

During FY 2022, no SAA violations or potential violations of the ADA were identified. Furthermore, DSCA is not aware of any instances of non-compliance or suspected non-compliance with laws, regulations, contracts, and grant agreements whose effects should be considered when preparing the SAA financial statements.

UNCLASSIFIED

DEFENSE SECURITY COOPERATION AGENCY
2800 Defense Pentagon
Washington, DC 20301-2800

SEP 26 2022

MEMORANDUM FOR OFFICE OF THE UNDERSECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) for Fiscal Year 2022

- As Director of the Defense Security Cooperation Agency (DSCA), I recognize DSCA is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). DSCA conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. The DSCA internal control environment supports two sets of financial statements: those for Title 10 Department of Defense (DoD) Appropriated Funds and Title 22 SAA.

- In particular, DSCA conducted its assessment in accordance with the "Internal Control Evaluation" guidance within Appendix C to OMB Circular No. A-123 ("Requirements for Effective Estimation and Remediation of Improper Payments")). This internal review also included an evaluation of the internal controls around DSCA's Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DSCA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2022, for both DoD Appropriated Funds and the SAA.

- DSCA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A ("Internal Control over Reporting"). DSCA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the FMFIA and OMB Circular No. A-123, Appendix D ("Compliance with the FFMIA").

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- Based on the results of the assessment, DSCA can provide reasonable assurance that internal controls over reporting (including internal and external reporting) and compliance, as well as internal controls over the integrated financial management systems for the Title 10 DoD Appropriated Funds are operating effectively as of September 30, 2022, except for the following material weakness over financial reporting as described further in the "Material Weaknesses and Significant Deficiencies Template":

  1. Defense Finance and Accounting Service (DFAS) Internal Controls over Financial Reporting

  DSCA self-identified the material weakness listed above based upon our Service Provider DFAS's material weakness reporting. DSCA will continue to engage with DFAS in support of its remediation efforts for Material Weakness.

- DSCA is unable to provide assurance that the internal controls over reporting (including internal and external reporting) and compliance, as well as internal controls over the integrated financial management systems for the Title 22 SAA are operating effectively as of September 30, 2022, due to nine material weaknesses in the following areas:

  Internal Controls over Financial Reporting Material Weaknesses

  1. Lack of Fund Balance with Treasury Reconciliation
  2. Inadequate Financial Statement Compilation and Reporting, including incomplete Universe of Transactions and supportable Beginning Balances
  3. Lack of Adequate Controls and Documentation over SAA Business Processes
  4. Lack of Adequate Controls over Property, Plant, and Equipment and Inventory
  5. Lack of Adequate Controls over the Transportation Account
  6. Lack of Adequate Controls over Building Partner Capacity Appropriated Funds Transferred to the Foreign Military Sales Trust Fund

  Internal Controls over Financial Systems Material Weaknesses

  7. Lack of Adequate Access Controls over SAA Financial Systems
  8. Lack of Adequate Policies and Procedures Governing SAA Financial Systems
  9. Lack of Standard Financial Information Structure Compliant Accounting

  DSCA self-identified the findings above as material weaknesses after considering the results of internal reviews, the 2019 DoD Inspector General Audit of the Defense Security Cooperation Agency—Security Assistance Accounts, previous financial statement examinations performed by an independent public auditor, and initial findings from the first financial statement audit. DSCA is engaging with the Security Cooperation (SC) community to implement corrective actions necessary to remediate the material weaknesses identified.

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- DSCA has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019 (Public Law 117-117), and "A Framework for Managing Fraud Risks in Federal Programs" (GAO-15-593SP), dated July 2015. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DSCA is unable to provide assurance that entity-level controls including fraud controls are operating effectively relating to the SAA activities as of September 30, 2022.

- DSCA is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding the Statement of Assurance for FY 2021, my point of contact is Kenneth Hittel, and can be reached at the office at: 703-697-9256, on his mobile at: 703-459-6617, or kenneth.d.hittel.civ@mail.mil.

James A. Hursch
Director

Attachment:
DATA Act Quality Controls Matrix

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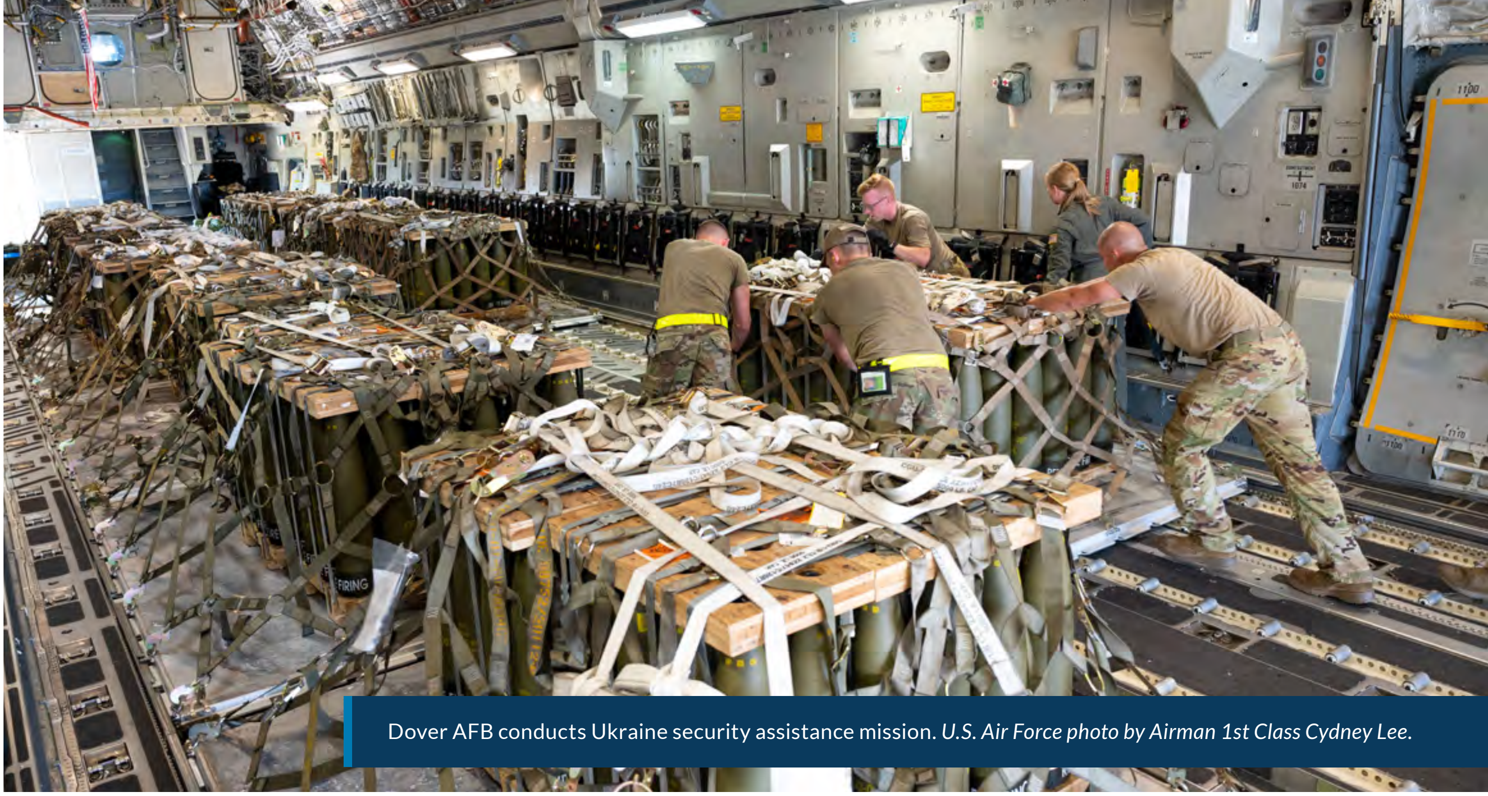

Dover AFB conducts Ukraine security assistance mission. *U.S. Air Force photo by Airman 1st Class Cydney Lee.*

FORWARD-LOOKING INFORMATION

ONGOING CONFLICT IN UKRAINE

Events in Ukraine have encouraged Allies and Partners to significantly accelerate their defense capability modernization; pressure on Russian defense industry has increased demands on the U.S. infrastructure to be postured to support.

The DoD will prioritize the challenges posed by the People's Republic of China followed by Russia. As Russia continues to pose an acute threat, as illustrated by its brutal and unprovoked invasion of Ukraine, DSCA and the SC Community will collaborate with North Atlantic Treaty Organization (NATO) Allies and Partners to reinforce robust deterrence in the face of Russian aggression. Ukraine and other security challenges have revealed the urgent need for U.S. defense capability—at scale. The defense industry is undergoing a multi-year process to backfill arms transfers to Ukraine in partnership with the DoD. This acute crisis reveals that the DoD has created a system for defense production with constrained surge capacity and resiliency. To build a defense production system that can surge and stockpile items like munitions excess to the immediate need, the United States must evaluate the incentives and structures that have governed defense development and procurement in recent decades. The United States must be able to support our Allies and Partners both diplomatically and militarily, including through the provision of weapons and munitions necessary to defend themselves to maintain global order and peace.

Answering this "call to action", DSCA and the SC Community will incorporate ally and partner perspectives, competencies, and advantages at every stage of security cooperation planning. To ensure U.S Allies and Partners have the best fighting forces possible to deter aggression while being prepared to prevail in conflict when necessary, they need integrated defense capabilities well beyond current or legacy systems. The United States will work with our Allies and Partners to forecast and prioritize defense modernization through a full spectrum capability approach, working with the industrial base across the globe to increase capacity, leveraging the Alliances and partnerships that have been an enduring strength for the United States and are critical to achieving our objectives. To do that, we need to ensure we have a certified and adequate workforce to proactively leverage all the available tools and resources necessary to be postured and capable of supporting the defense modernization of our Allies and Partners.

To support the DoD's first Security Cooperation Learning and Evaluation Agenda for Partnerships (LEAP), DoD has prioritized analyses of the effectiveness of ongoing SC efforts in Ukraine. These efforts will provide the SC community with a deeper understanding of the sustainability of SC program effects and help inform future SC planning approaches.

IMPACTS OF CLIMATE CHANGE

Increasing temperatures, changing precipitation patterns, and more frequent, intense, and unpredictable extreme weather conditions caused by climate change pose new risks to U.S., ally, and partner interests and are altering strategic and operational requirements for militaries. Changing climate and extreme weather events can adversely impact both ally and partner military infrastructure, operational readiness, and supply chains. The U.S. defense industrial base faces similar challenges. Natural disasters resulting from changing climate and extreme weather events can jeopardize military installations, manufacturing plants, and research and development facilities due to recurrent flooding, drought, desertification, or wildfires. This can require both militaries and industry to expend significant resources to recover from these events in the near term and impact long-term readiness. The necessary time for industry to reconstitute the ability to produce and deliver defense articles and services can also significantly impact production and procurement timelines. Climate change and extreme weather events will also likely contribute to political instability as national actors, institutions and populations react to an increasingly volatile cycle of events that negatively impacts resiliency resulting in insufficient periods for recovery and substantial, cumulative, long-term impacts. As the DoD develops activities to address these challenges, the DoD will incorporate appropriate assessment, monitoring, and evaluation procedures and processes. The FY 2022 DoD Climate Adaption Plan, which DSCA and SAA leverages, can be found here: https://www.defense.gov/spotlights/tackling-the-climate-crisis/.

WORLDWIDE ECONOMIC AND BUDGETARY CHALLENGES

Budgetary challenges continue to be a significant risk to U.S. security assistance efforts as Allies and Partners must balance military funding and acquisition decisions with domestic program expenses such as infrastructure and social economic projects. The global economy continues to face challenges as it recovers from the effects of the COVID-19 pandemic, increasing negative impacts of inflation, and currency exchange volatility. The strong U.S. dollar further complicates decision making as the purchasing power of our Allies and Partners may be reduced. The threat of a global recession may deter governments from acquiring essential military capabilities from the U.S., instead shifting their focus to domestic military development programs to bolster economic security and assuage public concern. In response to global economic and security challenges, Allies and Partners may increasingly seek U.S. security assistance funding, grant aid, and financing, or turn to lower cost international sources for defense and military equipment, training and support. Forecasting the international demand for U.S. origin systems, support, and training will be highly variable in this dynamic environment. As countries face a multitude of competing demands - recovery from global pandemic, natural disasters, energy insecurity, and security threats - increased reactivity in budgetary decision making is expected. Demand for defense systems may continue to grow as public recognition of significant security threats supports military expenditures for some countries. Other countries may be forced to defer strategic investments as the reduced purchasing power of their available budgets is realigned to meet near term, unforeseen, or emergent requirements.

INDUSTRIAL CHALLENGE

The current strains on U.S. and international stockpiles are symptomatic of underlying challenges. The U.S. Defense Industrial Base (DIB) must contend with budgetary pressures, inconsistency in demand and orders causing fluctuations in production line stability and availability and scalability of niche components sourced from sub-tier suppliers, and compression of the DIB through off-shoring and consolidation. As demand for

Uploading UH 60 for FMS customer. *US Army photo by Richard Bumgardner, USASAC Public Affairs.*

certain capabilities increase, current suppliers are further overstretched to meet delivery schedules while experiencing production constraints attributed to factors ranging from COVID-19 pandemic related manpower shortages to increased energy and materiel costs. Additionally, the rapid recapitalization of U.S. and Allies and Partners weapons inventories, following the widespread international donations of equipment to Ukraine, could drive continued supply chain issues for the U.S. warfighter, and our Allies and Partners. This scenario presents an opportunity for innovation and development of alternative solutions and sources to help meet the acquisition timeline needs of our Allies and Partners. However, alternative systems, sources, or solutions may not yield the benefits typically associated with DoD programs of record, such as cost savings through economic order quantity or demand consistency.

ANALYSIS OF EMERGING TYPES OF RISK IN PARTNER NATIONS' OPERATING ENVIRONMENTS

As part of the Operational Environment Risk Analysis (OPERA) framework, the Administration Office within DSCA is developing a risk index that measures the extent to which Cyber Security; Space Exploration; Civilian Harm and Protection; and Women, Peace and Security pose risks and provide potential opportunities to measure the effectiveness of Security Cooperation in partner nations across the globe. This index consists of indicators that capture threats to partner nations' defense and security infrastructure, U.S. military bases in the partner nation, and partner nation stability. Once developed and integrated into the SC Risks and Opportunities Dashboard, OPERA will provide a more comprehensive understanding for not only the Department of Defense, but also the Department of State to visualize types and level risks to Security Assistance programming and U.S. assets abroad.

LIMITATION TO FINANCIAL STATEMENTS

The financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with U.S. GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government, a sovereign entity.

Valiant Shield 22 | EA 18G Growler Refuel.
U.S. Marine Corps photo by Lance Cpl. Gadiel Zaragoza.

SECTION II

Financial Section (Unaudited)

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am honored to join Director Hursch in presenting the first ever Agency Financial Report for the Security Assistance Accounts. This report is the result of years of devoted work by DSCA, the Implementing Agencies, Office of the Under Secretary of Defense (Comptroller) [OUSD(C)], Defense Finance and Accounting Services, and other stakeholders that facilitated the implementation of an aggressive audit strategy for the SAA to go under audit in Fiscal Year (FY) 2022. I am proud of the tremendous progress achieved to date and am ultimately focused on developing and executing against compressive corrective actions that progresses the SAA toward achieving a clean audit opinion. While this report is the culmination of years of dedicated work to advance the Security Cooperation mission through sound financial management, the real work is just now beginning. Going forward, the SC community will not be evaluated on getting ready for audit, but rather on the progress made remediating findings identified and driving the SAA towards its ultimate audit goal.

A disclaimer of opinion is not the audit result we were looking for, but DSCA and the SC Community are fully committed to not only remediating findings identified by our auditors but also addressing self-identified deficiencies. Through our readiness efforts over the past six years, DSCA and the SC Community have been aware of the challenges involved in producing audit ready financial statements and look forward to our continued partnership with DFAS and the IAs to resolve material weaknesses identified. A clean audit opinion for the SAA is the top objective for SC leadership as this not only further promotes trust from our foreign partners but continues to demonstrate that the U.S. Government is the partner of choice for Foreign Military Sales and SC.

The results of the SAA audit are closely aligned to the results of the Department of Defense audit, as the SAA is executed on the infrastructure of many DoD processes and systems. We are committed to ensuring our audit remediation and roadmap strategies are aligned to the Department's overall financial management goals, and leveraging its remediation progress to the maximum extent possible. DSCA will continue to coordinate closely with OUSD(C) leadership to ensure SAA challenges are addressed in DoD-wide remediation efforts, especially in areas of system integration and legacy system migration.

Given the SC community's continued commitment to these established priorities, I am confident in our ability to take the necessary steps to eventually achieve a clean audit opinion and I look forward to continued improvement through our annual financial statement audit in the years to come.

J. Aaron Harding | Chief Financial Officer
Defense Security Cooperation Agency

FINANCIAL SECTION (UNAUDITED)

REPORT OF INDEPENDENT AUDITORS

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

November 7, 2022

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY

SUBJECT: Transmittal of the Independent Auditor's Report on the Defense Security Cooperation Agency Security Assistance Accounts Financial Statements and Related Notes for FY 2022 (Project No. D2022-D000FP-0069.0000, Report No. DODIG-2023-022)

We contracted with the independent public accounting firm of Cotton & Company Assurance and Advisory, LLC (Cotton) to audit the Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) Financial Statements and related notes as of and for the fiscal year ended September 30, 2022.[1] The contract required Cotton to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DSCA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Cotton to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). Cotton's Independent Auditor's Report is attached.

Cotton's audit resulted in a disclaimer of opinion. Cotton could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DSCA SAA's Financial Statements. As a result, Cotton could not conclude whether the financial

[1] Cotton was contracted to express an opinion on the DSCA SAA's Financial Statements starting in the fiscal year ended September 30, 2022.

statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Cotton did not express an opinion on the DSCA SAA's FY 2022 Financial Statements and related notes.

Cotton's report, "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters," discusses 12 material weaknesses related to the DSCA SAA's internal controls over financial reporting.[2] Specifically, Cotton concluded that the DSCA did not:

- have transaction-level detail populations to support material beginning balance general ledger accounts;
- have a consistent and complete universe of transactions in Advana;
- design and implement entity-level controls that included monitoring its implementing agencies' internal control and reviewing the scope of the information systems impacting the DSCA SAA financial statements;
- record accounts payable accruals to report liabilities in the correct accounting period;
- consistently recognize, measure, record, and report contract authority from security assistance activities;
- consistently recognize, measure, record, and report revenue earned from security assistance activities;
- perform monthly Fund Balance With Treasury reconciliations for Treasury accounts that had SAA balances;
- recognize, value, record, and report General Property, Plant, and Equipment procured with security assistance funds;
- recognize, value, record, and report Inventory & Related Property procured with security assistance funds;

[2] A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

- accurately identify SAA intragovernmental transactions, fully reconcile these transactions with all federal trading partners, and did not perform receipt and acceptance procedures for intragovernmental transactions;
- record various journal vouchers with proper support; or
- establish policies and procedures that govern third-party service providers monitoring, and complementary user entity controls at the entity-wide level.

Cotton's report, also discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Cotton's report describes instances in which the DSCA did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Manager's Financial Integrity Act of 1982.

In connection with the contract, we reviewed Cotton's report and related documentation and discussed them with Cotton's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DSCA SAA FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DSCA's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Cotton did not comply, in all material respects, with GAGAS. Cotton is responsible for the attached November 7, 2022 report, and the conclusions expressed within the report.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachment:
As stated

Cotton
A SIKICH. COMPANY
333 John Carlyle Street, Suite 500 | Alexandria, VA 22314
P: 703.836.6701 | F: 703.836.0941 | www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

Director, Defense Security Cooperation Agency (DSCA)

In our engagement to audit the FY 2022 DSCA Security Assistance Accounts (SAA) financial statements, we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found 12 material weaknesses and 4 significant deficiencies in internal control over financial reporting as of September 30, 2022.
- Found noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Federal Managers' Financial Integrity Act of 1982 (FMFIA) as of September 30, 2022.

The following sections contain:

1. Our report on the DSCA SAA financial statements and required supplementary information included with the financial statements.
2. Other reporting required by *Government Auditing Standards*, which is our report on the DSCA SAA's (a) internal control over financial reporting and (b) compliance and other matters. This section also includes a summary of DSCA's comments on our report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Disclaimer of Opinion

We were engaged to audit the accompanying DSCA SAA financial statements, which comprise the consolidated balance sheet as of September 30, 2022, the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the FY then ended, and the related notes to the financial statements (collectively, the basic financial statements).

We do not express an opinion on the accompanying DSCA SAA financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion subsection of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The DSCA SAA transaction-level detail does not support material beginning balance general ledger accounts that comprise the balance sheet and the statement of budgetary resources as of September 30, 2021. See material weakness 1 in Appendix A of our report for a discussion of this matter and our recommendations for improvement. As a result of this matter, we were unable to determine whether any adjustments might have been necessary related to the FY 2022 beginning balances reported on the accompanying DSCA SAA financial statements.

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Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements
Our responsibility is to conduct an audit of the DSCA SAA financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS); standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and guidance contained in Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion subsection of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DSCA SAA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements,* require that the Management's Discussion and Analysis (MD&A) and other required supplementary information be presented to supplement the basic financial statements. Such required supplementary information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Because of the significance of the matters described in the Basis for Disclaimer of Opinion subsection, we did not perform any procedures related to required supplementary information, including the MD&A; accordingly, we do not express an opinion or provide any assurance on the required supplementary information.

Other Matters
We did not audit, review, or compile the accompanying consolidated balance sheet as of September 30, 2021, and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the FY then ended; therefore, we do not express an opinion or any other form of assurance on them.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Internal Control over Financial Reporting
In connection with our engagement to audit the DSCA SAA FY 2022 financial statements, upon which we disclaimed an opinion because of the matters described above, we attempted to consider the SAA's internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinion

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on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SAA's internal control over financial reporting. We did not consider all internal controls relevant to operating objectives broadly defined by the criteria established under FMFIA.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Appendix A, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over financial reporting* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the first 12 deficiencies described in Appendix A to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the last four deficiencies described in Appendix A to be significant deficiencies.

<u>Inherent Limitations of Internal Control over Financial Reporting</u>
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Compliance and Other Matters
In connection with our engagement to audit the DSCA SAA FY 2022 financial statements, we performed tests of the SAA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. Our tests included testing whether the SAA's financial management systems substantially comply with the requirements of the FFMIA. These requirements are: (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the U.S. Government Standard General Ledger (USSGL) at the transaction level. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in Appendix B. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

DSCA's Comments
DSCA's comments on our report are included in Appendix C. DSCA concurred with the findings in our report. We did not audit DSCA's comments, and accordingly, we express no opinion on the comments.

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Purpose of the Other Reporting Required by Government Auditing Standards
The purpose of the "Other Reporting Required by *Government Auditing Standards"* is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This other reporting is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this other reporting is not suitable for any other purpose.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

Melinda J. DeCorte, CPA
Partner
Alexandria, VA
November 7, 2022

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APPENDIX A: MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

During our engagement to audit the FY 2022 Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) financial statements, we identified deficiencies in internal control over financial reporting. These deficiencies constitute 12 material weaknesses and 4 significant deficiencies, as described in this Appendix. These results are consistent with the DoD agency-wide deficiencies. DSCA management was aware of many of these deficiencies and had already begun implementing corrective action plans (CAPs). For brevity and clarity, we do not provide all the details related to specific programs, systems, or account balances in this Appendix. We provided those details separately to DSCA management and other stakeholders through Notices of Findings and Recommendations.

MATERIAL WEAKNESS 1: BEGINNING BALANCES

Condition: Material beginning balance general ledger (GL) accounts that comprise the balance sheet and the statement of budgetary resources are not supported by transaction-level detail populations (i.e., GL amounts in the Advana system and non-GL amounts in the Defense Departmental Reporting System–Budgetary [DDRS-B]) or by DDRS-B journal vouchers (JVs) as of September 30, 2021.

Criteria:

- U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*

Cause: DSCA has not fully implemented CAPs to reconcile financial statement line-item balances to supporting transaction-level detail populations. Furthermore:

- Systems do not always contain sufficient historical data to support material beginning balance GL accounts.
- The data in the systems is not always sufficient to support material beginning balance GL accounts at the transaction level. For example, the data may be at a summary level or may not always contain certain data elements, such as the document number.
- DSCA has material unsupported adjusting entries that impact material beginning balance GL accounts.

Effect: The total unsupported amount of the material beginning balance GL accounts is greater than materiality for the financial statements taken as a whole and contributes to a scope limitation with respect to testing the related FY 2022 beginning balances.

Recommendations: We recommend that:

- DSCA, in coordination with the Defense Finance and Accounting Service (DFAS), review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.

- To the extent required, DSCA, in coordination with DFAS, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, system owners, and implementing agencies (IAs), prepare new CAPs that include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus

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on determining the extent to which DSCA can support material beginning balance GL accounts with sufficient transaction-level detail.

MATERIAL WEAKNESS 2: UNIVERSE OF TRANSACTIONS

Condition: SAA financial data in the transaction-level detail populations from the Advana system is inconsistent and incomplete. Specifically:

- DSCA self-identified material variances between GL amounts in the Advana system and related data in the DDRS-B unadjusted trial balance.
- Transactions do not always include required data elements, or the data elements are inconsistent or inaccurate across source systems. Data elements that are incomplete, inconsistent, or inaccurate include, for example, unique transaction identifiers, funding centers, and source systems.
- Populations contain debit and credit activity that was unable to be summarized at a document level to represent final amounts recorded in the DDRS-B unadjusted trial balance.
- Data from the Financial Accounting and Corporate Tracking System had not been ingested into the Advana system as of the beginning of FY 2022.
- Cash collections recorded in the Defense Integrated Financial System (DIFS) and in the General Accounting and Finance System (GAFS) are not included in the populations.
- The Advana system does not include financial transactions for proprietary GL accounts from the Management Information System for International Logistics.

Criteria:

- Federal Financial Management Improvement Act of 1996 (FFMIA)
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- GAO's *Standards for Internal Control in the Federal Government*
- DoD Financial Management Regulation (FMR), Volume 6A, Chapter 2, *Internal Controls*

Cause: The DSCA SAA financial statements are comprised of balances, activities, and disclosures pertaining to DSCA and 12 IAs, which collectively operate 13 GL systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for compliance with Standard Financial Information Structure (SFIS) and for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The information systems' (IS) noncompliance with SFIS, compounded by the legacy nature of the IS in use, has created a complex financial reporting environment, resulting in financial data that are incomplete and inconsistent.

Additionally, cash collections recorded in DIFS and GAFS are not included in the populations because DIFS is not a GL system and cash collections recorded in GAFS are not ingested into the Advana system.

Effect: Lack of quality information may prevent DSCA from making informed decisions and evaluating SAA programs and activities' performance in achieving key objectives and addressing risks, including objectives and risks related to financial reporting.

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Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements and the U.S. Government Standard General Ledger (USSGL) at the transaction level, or with FMFIA requirements.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- Prepare a new CAP that considers how common corrective actions can address the causes of the conditions reported in both this material weakness and material weakness 1.
- Develop a detailed understanding of financial data across SAA programs and activities, including all GL systems and material non-financial systems.
- Based on this understanding, develop logic for each material GL account that can be applied to produce, on a repeatable basis, reliable populations that support trial balance amounts.
- Perform internal testing to validate the reliability of populations and refine the developed logic, as needed, based on the results of testing.
- Coordinate with system owners for all GL systems and material non-financial systems to develop and implement standardized data practices. Data practices should include full SFIS compliance and complete and consistent use of financial transaction data elements across systems.
- Modernize or replace material legacy GL systems and material legacy non-financial systems to achieve full SFIS compliance and consistent data practices.

MATERIAL WEAKNESS 3: ENTITY-LEVEL CONTROLS

Condition: DSCA has designed and implemented entity-level controls (ELCs) through its Risk Management and Internal Control (RMIC) program. However, the majority of the SAA's financial activity is performed by IAs in separate and distinct control environments that are outside the scope of the DSCA RMIC program. DSCA does not have a process in place for overseeing, coordinating, and monitoring IA RMIC activities to ensure that it achieves the SAA's financial reporting objectives.

Furthermore, DSCA, in coordination with the IAs and DFAS, is reviewing the scope of materially relevant IS supporting the DSCA SAA financial statements.

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

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- DoD FMR, Volume 1, Chapter 3, *Federal Financial Management Improvement Act Compliance*
- DoD Instruction 5010.04, *Managers' Internal Control Program Procedures*

Cause: DSCA has not fully implemented corrective actions to assess the entire SAA control environment and to implement SAA-wide monitoring controls. Because previous Office of the Secretary of Defense guidance did not direct DoD components to include the SAA ELCs in their annual Statements of Assurance (SOAs), DoD does not have a policy to direct how each IA sustains its RMIC program. DoD is currently undergoing an effort to align RMIC processes and procedures pertaining to the SAA.

Regarding IS, DSCA, in coordination with the IAs and DFAS, has not yet completed its review of the scope of materially relevant IS supporting the DSCA SAA financial statements.

Effect: Without effective oversight, coordination, and monitoring by DSCA, the decentralized SAA control environment increases the risk that DSCA, in coordination with the IAs and service providers, will not identify and respond to relevant financial reporting risks in an effective manner. As a result, management may not identify and disclose all material weaknesses in internal control within its SOA in accordance with FMFIA. Further, missing or ineffective monitoring controls impede management's ability to detect and correct misstatements in the DSCA SAA financial records during the normal course of business.

Regarding IS, DSCA, in coordination with the IAs, may not:

- Identify and consider (1) material business processes and IAs within its audit readiness strategy, and (2) the IS that process the transactions reported on the DSCA SAA financial statements.
- Design appropriate IS control activities to achieve objectives and respond to risks.

Recommendations: We recommend that DSCA, in coordination with the IAs:

- Review its existing CAP related to ELCs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update its existing CAP related to ELCs to include additional corrective action milestones for designing and implementing effective ELCs across SAA programs.
- Continue its progress in reviewing the scope of materially relevant IS supporting the DSCA SAA financial statements.

MATERIAL WEAKNESS 4: ACCOUNTS PAYABLE

Condition: DSCA, in coordination with the IAs and DFAS, does not record an accounts payable (AP) accrual to report liabilities in the accounting period in which the SAA incurred the liabilities.

Criteria:

- FFMIA

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- Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*
- DoD FMR, Volume 4, Chapter 9 *Accounts Payable*

Cause: DSCA does not have policies and procedures in place that prescribe an overall AP accrual methodology and monitoring process across the SAA programs and IAs.

Effect: DSCA may be unable to prevent material misstatement of AP and related expenses reported in the DSCA SAA financial statements. DSCA, in coordination with the IAs and DFAS, cannot assert to the accuracy and completeness of reported AP on the SAA balance sheet, expenses on the statement of net cost, and related obligation activity on the statement of budgetary resources. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.

- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing policies and procedures for recording an AP accrual to ensure that DSCA reports liabilities in the accounting period in which the SAA incurred the liabilities, consistent with the accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB).

MATERIAL WEAKNESS 5: BUDGETARY RESOURCES

Condition: According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not consistently recognize, measure, record, and report contract authority and contract authority liquidated from Security Assistance (SA) activities in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, OMB Circular No. A-11, and the requirements of FFMIA.

Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*

Cause: According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet developed and implemented policies and procedures requiring appropriate accounting and reporting practices for contract authority and contract authority liquidated from SA activities across the SAA.

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Effect: The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.

- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing and implementing policies and procedures to consistently recognize, measure, record, and report contract authority and contract authority liquidated from SA activities in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, OMB Circular No. A-11, and the requirements of FFMIA.

Material Weakness 6: Earned Revenue

Condition: DSCA, in coordination with the IAs, does not consistently recognize, measure, record, and report revenue earned from SA activities, including deferred revenue and advances and prepayments, in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 7
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 16, *Revenue, Other Financing Sources, Gains and Losses*

Cause: According to DSCA management, DSCA, in coordination with the IAs, has not yet developed and implemented policies and procedures requiring appropriate accounting and reporting practices for revenue earned, including deferred revenue and advances and prepayments, from SA activities across the SAA.

Effect: The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

Recommendations: We recommend that DSCA, in coordination with the IAs:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.

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- To the extent required, update existing CAPs or prepare a new CAP to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on developing and implementing policies and procedures to consistently recognize, measure, record, and report revenue earned from SA activities, including deferred revenue and advances and prepayments, in the DSCA SAA financial statements in accordance with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

Material Weakness 7: Fund Balance With Treasury

Condition: DSCA, in coordination with the IAs and DFAS, does not perform monthly Fund Balance with Treasury (FBWT) reconciliations for all parent and child Treasury Account Symbols (TAS) that have SAA balances.

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 5100, *Fund Balance with Treasury Accounts*
- DoD FMR, Volume 4, Chapter 2, *Accounting for Cash and Fund Balances with Treasury*

Cause: DSCA, in coordination with the IAs and DFAS, does not have policies, processes, and procedures in place that prescribe FBWT reconciliations for all parent and child TAS that have SAA balances.

Effect: DSCA may be unable to prevent material misstatement of FBWT reported in the DSCA SAA financial statements. DSCA, in coordination with the IAs and DFAS, cannot assert to the accuracy and completeness of reported FBWT on the DSCA SAA financial statements. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on performing monthly FBWT reconciliations for all parent and child TAS that have SAA balances.

Material Weakness 8: General Property, Plant, and Equipment

Condition: According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not recognize, value, record, and report General Property, Plant & Equipment (PP&E) procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

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Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 10, *Accounting for Internal Use Software*
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 25, *General Equipment*, and Chapter 27, *Internal Use Software*

Cause: According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet developed and implemented policies and procedures requiring appropriate accounting and reporting practices for General PP&E procured with SA funds across the SAA. Although DSCA, in coordination with the IAs, began evaluating potential sources of General PP&E applicable to the DSCA SAA financial statements in FY 2021, DSCA is still in the process of determining the proper financial reporting for SAA General PP&E.

Effect: The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.

- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on recognizing, valuing, recording, and reporting General PP&E procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

MATERIAL WEAKNESS 9: INVENTORY & RELATED PROPERTY

Condition: According to DSCA management, DSCA, in coordination with the IAs and DFAS, does not recognize, value, record, and report Inventory & Related Property (I&RP) procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA. Although DSCA, in coordination with the U.S. Army, U.S. Navy, and U.S. Air Force, began reporting certain defense articles procured through the Special Defense Acquisition Fund (SDAF) as I&RP in the DSCA SAA financial statements in FY 2019, this is the only fund for which the SAA currently reports I&RP.

Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*

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- SFFAS 3, *Accounting for Inventory and Related Property*
- OMB Circular No. A-123, Appendix D
- DoD FMR, Volume 4, Chapter 4, *Inventory and Related Property*

Cause: According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not yet developed and implemented policies and procedures that require appropriate accounting and reporting practices for I&RP procured with SA funds across the SAA.

Effect: The DSCA SAA financial statements may be materially misstated. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related CAP and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on recognizing, valuing, recording, and reporting I&RP procured with SA funds in the DSCA SAA financial statements consistent with the accounting standards issued by FASAB, the DoD FMR, and the requirements of FFMIA.

MATERIAL WEAKNESS 10: INTRAGOVERNMENTAL TRANSACTIONS AND ELIMINATIONS

Condition: DSCA, in coordination with the IAs, cannot accurately identify most SAA intragovernmental transactions and is unable to fully reconcile SAA intragovernmental transactions with all federal trading partners.

Furthermore, DSCA, in coordination with the IAs, does not always perform receipt and acceptance procedures for intragovernmental transactions.

Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- TFM Volume I, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of The United States Government*
- DoD FMR, Volume 6A, Chapter 2, *Financial Reports, Roles and Responsibilities;* Volume 6B, Chapter 13, *Adjustments, Eliminations and Other Special Intragovernmental Reconciliation;* Volume 11a, *Reimbursable Operations Policy*

Cause: As noted above, the DSCA SAA financial statements are comprised of balances, activities, and disclosures pertaining to DSCA and 12 IAs, which collectively operate 13 GL systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for the preparation of financial

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statements in accordance with GAAP and do not track the buyer and seller data needed to reconcile intragovernmental transactions.

Furthermore, DSCA, in coordination with the IAs, has not yet fully implemented processes to perform receipt and acceptance procedures for intragovernmental transactions.

The DoD is in the process of enhancing its systems with the SFIS needed to enable it to correctly report, reconcile, and eliminate intragovernmental balances. The DoD is also implementing the G-Invoicing platform as a long-term solution to manage intragovernmental buy/sell transactions.

Effect: Absent reliable data sufficient to identify and match intragovernmental transactions, DSCA may be unable to ensure that intragovernmental eliminations reported in the DSCA SAA financial statements are complete and accurate.

Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements and the USSGL at the transaction level.

Absent processes to perform receipt and acceptance procedures for intragovernmental transactions, DSCA and the IAs do not have assurance that trading partners provided the goods and/or services before receiving reimbursement from the SAA and may be unable to demonstrate that the resulting expended authority transactions occurred and were properly recorded in the DSCA SAA financial statements.

Recommendations: We recommend that DSCA, in coordination with the IAs:

- Assess financial management systems used across SAA programs and activities that do not completely and accurately incorporate trading partner information for intragovernmental transactions.
- Where needed, work with system owners to require the inclusion of trading partner information within financial management systems.
- Assess existing policies and procedures and update them as necessary to ensure that trading partner information is recorded completely and accurately in the financial management systems.
- Assess existing policies and procedures and update them as necessary to ensure that DSCA and the IAs apply processes for trading partner coordination and reconciliations, as well as for the review and approval of adjustments and eliminations, consistently and accurately across SAA programs and activities.
- Review its existing CAPs related to receipt and acceptance for intragovernmental transactions and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus on implementing the G-Invoicing platform as a long-term solution to manage intragovernmental buy/sell transactions.

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Material Weakness 11: Unsupported Accounting Adjustments

Condition: DSCA, in coordination with the IAs and DFAS, recorded material unsupported JVs within DDRS-B and DDRS–Audited Financial Statements (DDRS-AFS) in FY 2022.

Criteria:

- FFMIA
- GAO's *Standards for Internal Control in the Federal Government*
- DoD FMR, Volume 6A, Chapter 2, *Financial Reports Roles and Responsibilities*

Cause: As noted above, the DSCA SAA financial statements are comprised of balances, activities, and disclosures pertaining to DSCA and 12 IAs, which collectively operate 13 GL systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for the preparation of financial statements in accordance with GAAP. The abundance of IS, compounded by the legacy nature of the IS in use, has created a complex financial reporting environment, necessitating a large volume of JVs to prepare financial statements. Specific reasons for unsupported JVs include:

- Balances that do not pass Government-wide Treasury Account Symbol (GTAS) edit checks, resulting in forced balancing entries.
- Differences between activity interfaced to DDRS from source systems and activity reported from the U.S. Department of the Treasury's Central Accounting Reporting System (CARS), resulting in forced balancing entries.
- The accounting systems' inability to capture trading partner information at the transaction level, resulting in adjustments to agree recorded balances to seller-side activity.
- Systemic beginning balance JVs to bring forward and summarize JV amounts from prior years.
- Balances from source GL systems that have invalid USSGL information.

Effect: The DSCA SAA financial statements may be materially misstated. Furthermore, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements and the USSGL at the transaction level.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Analyze unsupported JVs affecting the DSCA SAA financial statements to determine the nature of the adjustments.
- Use the results of this analysis to develop a remediation plan. The remediation plan should include updating accounting processes to record financial activity completely and accurately in source GL systems to reduce the number of JVs. Where reducing JVs is not feasible or practical, the remediation plan should include identifying missing support and implementing requirements to properly support the JVs.
- Based on the remediation plan, update and/or implement policies and procedures and Memoranda of Understanding for changes to accounting practices or JV requirements.

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MATERIAL WEAKNESS 12: OVERSIGHT OF SERVICE PROVIDERS

Condition: DSCA has not established DSCA-specific entity-wide policies and procedures related to third-party service provider monitoring. Furthermore, DSCA has not established DSCA-specific entity-wide policies and procedures related to the implementation of Complementary User Entity Controls (CUECS) specified in Service Organization Controls (SOC) reports for third-party service providers.

Criteria:

- GAO's *Standards for Internal Control in the Federal Government*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5, *Security and Privacy Controls for Information Systems and Organizations*
- DoD Instruction 8500.01, *Cybersecurity*

Cause: DSCA followed federal and DoD guidance rather than developing and implementing DSCA-specific entity-wide policies and procedures for third-party service providers and implementation of CUECs.

Effect: The absence of DSCA-specific entity-wide policies and procedures for third-party service providers and CUECs may prevent DSCA management from standardizing its oversight for third-party service providers and the DSCA SAA's system of internal control.

Recommendations: We recommend that DSCA, in coordination with the IAs:

- Review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this material weakness.
- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions reported in this material weakness.

SIGNIFICANT DEFICIENCY 1: ACCESS CONTROLS

Condition: DSCA has not established DSCA-specific entity-wide policies and procedures related to access control management for DSCA-owned and operated systems.

Criteria:

- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5
- DoD Instruction 8510.01, *Risk Management Framework for DoD Systems*
- DoD Instruction 8520.03, *Identity Authentication for Information Systems*

Cause: DSCA followed federal and DoD guidance rather than developing and implementing DSCA-specific entity-wide policies and procedures for access control management.

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Effect: The absence of DSCA-specific access control management policies and procedures increases the risk of inappropriate and unauthorized access to systems if DoD guidance does not completely cover a control requirement.

Recommendation: We recommend that DSCA review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this significant deficiency.

SIGNIFICANT DEFICIENCY 2: SEGREGATION OF DUTIES

Condition: DSCA has not established DSCA-specific entity-wide policies and procedures related to segregation of duties for DSCA-owned and operated systems.

Criteria:

- GAO's *Standards for Internal Control in the Federal Government*
- NIST SP 800-53, Revision 5
- DoD Instruction 8510.01
- DoD Instruction 8520.03

Cause: DSCA followed federal and DoD guidance rather than developing and implementing DSCA-specific entity-wide policies and procedures related to segregation of duties.

Effect: The absence of DSCA-specific segregation of duties policies and procedures increases the risk that fraud, waste, or abuse may occur without detection if DoD guidance does not completely cover a control requirement.

Recommendation: We recommend that DSCA review its existing related CAPs and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions reported in this significant deficiency.

SIGNIFICANT DEFICIENCY 3: CONTINGENT LIABILITIES

Condition: DSCA has not effectively designed and implemented internal control activities to ensure that actual and contingent legal liabilities, as well as other contingent liabilities, are presented completely and accurately in the DSCA SAA financial statements. Specifically, DSCA has not formally designed and implemented internal controls to identify and monitor legal liabilities and contingent liabilities across the SAA, assess these liabilities for recognition or disclosure, and report these liabilities in the DSCA SAA financial statements and note disclosures in accordance with federal accounting standards.

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD FMR, Volume 4, Chapter 12, *Other Liabilities*

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Cause: DSCA does not have policies and procedures in place that prescribe internal control activities designed to ensure that DSCA presents actual and contingent legal liabilities, as well as other contingent liabilities, completely and accurately in the DSCA SAA financial statements.

Effect: DSCA may not be able to prevent material misstatement of actual or contingent legal liabilities, as well as other contingent liabilities, and related expenses reported in the DSCA SAA financial statements and related notes. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

Recommendations: Regarding the actual and contingent legal liabilities, we recommend that DSCA, in coordination with the DSCA Office of General Counsel (OGC) and IAs:

- Develop policies and procedures that require DSCA, the OGC, and the IAs to implement internal control activities designed to ensure that DSCA identifies, assesses, and reports actual and contingent legal liabilities in the DSCA SAA financial statements.

Regarding the other contingent liabilities, we recommend that DSCA, in coordination with the IAs:

- Perform a documented assessment of SAA programs and activities to identify the types and sources of contingent liabilities that may exist related to SAA programs and activities. The assessment should include treaties and other international agreements, warranties related to foreign military sales, and any other items determined by DSCA.

- Develop policies and procedures that require DSCA and the IAs to implement internal control activities designed to ensure that DSCA reports contingent liabilities completely and accurately in the DSCA SAA financial statements.

Significant Deficiency 4: Environmental and Disposal Liabilities

Condition: DSCA has not developed and implemented policies and procedures that prescribe internal control activities designed to identify and assess whether environmental and disposal liabilities pertain to the DSCA SAA financial statements and should be reported on the DSCA SAA financial statements in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment.*

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD FMR, Volume 4, Chapter 13, *Environmental and Disposal Liabilities*

Cause: DSCA has not fully implemented its existing CAP to identify and report PP&E balances across the SAA and IAs, as discussed in material weakness 8. Until DSCA validates the completeness of the PP&E balances, it is unable to establish requirements for assessing and reporting environmental and disposal liabilities associated with SAA PP&E.

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Effect: DSCA may be unable to prevent material misstatement of environmental and disposal liabilities reported in the DSCA SAA financial statements and related notes. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Continue its efforts to implement its existing CAP related to PP&E.
- Develop policies and procedures that require DSCA and the IAs to implement internal control activities designed to identify, assess, and report environmental and disposal liabilities in the DSCA SAA financial statements.

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APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the FY 2022 Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) financial statements, we identified instances of noncompliance, as described in this Appendix.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the DSCA SAA financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level. During FY 2022, we identified instances in which the DSCA SAA financial management systems did not substantially comply with each of the three elements required by FFMIA Section 803(a).

1. Federal Financial Management Systems Requirements
We identified instances of noncompliance with federal financial management systems requirements, as communicated in Appendix A under material weaknesses 2, 10, and 11. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with federal financial management systems requirements as part of Appendix A.

2. Federal Accounting Standards
We identified instances of noncompliance with federal accounting standards, as communicated in Appendix A under material weaknesses 4, 5, 6, 8, and 9. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with federal accounting standards as part of Appendix A.

3. USSGL at the Transaction Level
We identified instances of noncompliance with the USSGL at the transaction level, as communicated in Appendix A under material weaknesses 2, 10, and 11. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with the USSGL at the transaction level as part of Appendix A.

Additionally, we identified further instances of noncompliance, as described below.

Condition: According to DSCA management, DSCA, in coordination with the implementing agencies (IAs) and the Defense Finance and Accounting Service (DFAS), does not consistently record accounting events related to Security Assistance (SA) activities in the applicable financial management systems, in accordance with the USSGL and FFMIA.

Criteria:

- FFMIA
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*

- DoD Financial Management Regulation, Volume 1, Chapter 3, *Federal Financial Management Improvement Act Compliance*

Cause: According to DSCA management, DSCA, in coordination with the IAs and DFAS, has not fully updated and implemented the approved posting models to record the accounting events related to SA activities in the applicable financial management systems, in accordance with the USSGL and FFMIA. Although the U.S. Department of the Treasury (Treasury) and OMB approved these posting models in FY 2021, Treasury and OMB have not yet updated the USSGL to include certain transactions that are unique to SA activities. Accordingly, DSCA has not yet disseminated the posting logic requirements for SA activities to the IAs and DFAS, and the IAs and DFAS have not yet submitted system change requests to incorporate the posting logic requirements into the applicable financial management systems.

Effect: The DSCA SAA financial statements may be misstated. Furthermore, DSCA, the IAs, and DFAS may use inconsistent posting logic to record transactions for the same type of accounting events.

Recommendations: We recommend that DSCA, in coordination with the IAs and DFAS:

- Review its existing related corrective action plan (CAP) and determine the extent to which corrective action milestones already underway are sufficient to address the causes of the conditions for this instance of noncompliance.

- To the extent required, update existing CAPs or prepare a new CAP that includes corrective action milestones designed to further address the causes of the conditions for this instance of noncompliance, with a focus on consistently recording the accounting events related to SA activities in the applicable financial management systems in accordance with the USSGL and FFMIA.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the head of each executive agency to establish internal accounting and administrative controls that reasonably ensure that (A) obligations and costs comply with applicable law; (B) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (C) revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

In its FY 2022 Statement of Assurance, as required under FMFIA, DSCA reported that it is unable to provide assurance that the internal controls over reporting (including internal and external reporting) and compliance, as well as internal controls over the integrated financial management systems, for the Title 22 SAA are operating effectively as of September 30, 2022.

Because each of the material weaknesses and significant deficiencies described in Appendix A represent deficiencies in internal control, they also represent instances of noncompliance with FMFIA. We have provided conditions, criteria, causes, effects, and specific recommendations to help ensure FMFIA compliance as part of Appendix A.

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APPENDIX C: DSCA COMMENTS

DEFENSE SECURITY COOPERATION AGENCY
2800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2800

7 November 2022

Ms. Melinda DeCorte
Partner
Cotton & Company Assurance and Advisory, LLC
333 John Carlyle Street
Suite 500

Dear Ms. DeCorte,

The Defense Security Cooperation Agency (DSCA), in coordination with the Security Cooperation (SC) community, has reviewed the Independent Auditor Report prepared for the fiscal year 2022 Security Assistance Accounts (SAA) financial statements (FS) and related notes. We acknowledge and concur with the auditor's conclusions and findings as presented, and are committed to implementing remediation efforts to drive the SAA towards an unmodified audit opinion.

Since the Department of Treasury determined that the SAA are material to the United States Government financial statement and should undergo a full FS audit, DSCA and the SC community have aggressively remediated issues as identified, including those from limited scope examinations and internal assessments. We are aware of existing deficiencies and material weaknesses identified by the auditor and these findings are consistent with findings identified in the Department wide FS audit. The SAA is executed on the backbone of the DoD Title 10 financial management and system infrastructure and in turn is reliant upon the DoD to resolve its financial and control deficiencies. With that in mind, the SAA can't precede the Title 10 audit in reaching an unmodified audit opinion. However, the SC community will continue to focus on the development and implementation of needed corrective action plans to address identified SAA audit issues as well as staying aligned with Department wide audit remediation goals. DSCA continues to advance efforts with the Defense Finance and Accounting Service, Office of the Under Secretary of Defense (Comptroller), the Implementing Agencies and additional SC stakeholders to remediate findings and to obtain an unmodified opinion as close to as possible after our Title 10 counterparts.

While we have made significant progress with remediation, we understand that many challenges still lie ahead as the SAA financial statements continue to go under audit. DSCA and the SC community will continue to embrace the findings and resolve any issues identified by the auditor as their duty to our foreign partners and the American taxpayers. We are committed to aligning our audit remediation priorities with those of the Secretary of Defense and thank you for your efforts, professionalism and due diligence you have demonstrated throughout the audit process.

HARDING.JOSEPH.AARON.1254662891
Digitally signed by

J. Aaron Harding
Chief Operating Officer and Chief Financial Officer

Vice Adm. Brad Cooper, commander of U.S. Naval Forces Central Command, U.S. 5th Fleet and Combined Maritime Forces, meets with members of the Lebanese Armed Forces during the start of exercise Resolute Union 22, at Jounieh Naval Base, Lebanon, July 12. Resolute Union 22 is an annual exercise between the U.S. 5th Fleet and Lebanese Armed Forces to enhance security cooperation. *(U.S. Army photo by Spc. Ian Miller)*

FINANCIAL STATEMENTS

SECURITY ASSISTANCE ACCOUNTS CONSOLIDATED BALANCE SHEETS

As of September 30, 2022 and 2021

(Amounts in Thousands)

	2022	2021
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 51,966,897	$ 45,412,296
Accounts Receivable, Net (Note 6)	3,490	2,821
Other Assets (Note 10)	893	10,654
Total Intragovernmental	$ 51,971,280	$ 45,425,771
Other Than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	$ 39,872,408	$ 38,554,491
Accounts Receivable, Net (Note 6)	(19,132)	(80,984)
Loans Receivable, Net (Note 7)	1,446,013	2,046,177
Inventory and Related Property, Net (Note 8)	684,429	525,908
Advances and Prepayments (Note 10)	786,930	14,521
Total Other Than Intragovernmental	$ 42,770,648	$ 41,060,113
Total Assets	$ 94,741,928	$ 86,485,884
Stewardship PP&E (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 852,575	$ 634,511
Debt (Note 12)	1,021,773	1,652,162
Advances from Others and Deferred Revenue (Note 15)	265,922	-
Other Liabilities (Notes 13 and 15)	451,657	449,718
Total Intragovernmental	$ 2,591,927	$ 2,736,391
Other Than Intragovernmental:		
Accounts Payable	$ 17,480,867	$ 17,455,330
Federal Employee and Veteran Benefits Payable (Note 13)	20,068	16,564
Advances from Others and Deferred Revenue (Note 15)	167,684,181	126,153,289
Other Liabilities (Notes 15, 16 and 17)	39,928,040	38,603,740
Total Other Than Intragovernmental	$ 225,113,156	$ 182,228,923
Total Liabilities	$ 227,705,083	$ 184,965,314
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Funds Other than Dedicated Collections	$ 12,504,726	$ 7,766,181
Total Unexpended Appropriations (Consolidated)	$ 12,504,726	$ 7,766,181
Cumulative Results of Operations - Funds Other than Dedicated Collections	(145,467,881)	(106,245,611)
Total Cumulative Results of Operations (Consolidated)	$ (145,467,881)	$ (106,245,611)
Total Net Position	$ (132,963,155)	$ (98,479,430)
Total Liabilities and Net Position	$ 94,741,928	$ 86,485,884

The accompanying notes are an integral part of these statements

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)

	2022	2021
Program Costs (Note 19)		
Gross Costs		
Operations, Readiness & Support	$ 102,322,370	$ 95,684,584
(Less: Earned Revenue)	(19,467,727)	(17,320,368)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 82,854,643	$ 78,364,216
Net Program Costs Including Assumption Changes	$ 82,854,643	$ 78,364,216
Net Cost of Operations	$ 82,854,643	$ 78,364,216

The accompanying notes are an integral part of these statements

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)

	2022	2021
Unexpended Appropriations		
Beginning Balances	$ 7,766,181	$ 7,244,366
Prior Period Adjustments:		
Beginning Balances, as Adjusted	$ 7,766,181	$ 7,244,366
Appropriations Received (Note 20)	$ 10,803,349	$ 6,288,449
Appropriations Transferred in/out	(21,379)	(31,291)
Other Adjustments (+/-)	(14,691)	(41,215)
Appropriations Used	(6,028,734)	(5,694,128)
Net Change in Unexpended Appropriations	$ 4,738,545	$ 521,815
Total Unexpended Appropriations, Ending Balance	$ 12,504,726	$ 7,766,181
Cumulative Results of Operations		
Beginning Balances	$ (106,245,611)	$ (60,487,427)
Prior Period Adjustments:		
Beginning Balances, as Adjusted	$ (106,245,611)	$ (60,487,427)
Appropriations Used	$ 6,028,734	$ 5,694,128
Non-exchange Revenue	38,739,388	38,548,120
Donations and Forfeitures of Cash and Cash Equivalents	292,653	273,027
Transfers in/out Without Reimbursement	(11,228)	-
Other	(1,417,174)	(11,909,243)
Net Cost of Operations (+/-)	82,854,643	78,364,216
Net Change in Cumulative Results of Operations	$ (39,222,270)	$ (45,758,184)
Cumulative Results of Operations, Ending	$ (145,467,881)	$ (106,245,611)
Net Position	$ (132,963,155)	$ (98,479,430)

The accompanying notes are an integral part of these statements

SECURITY ASSISTANCE ACCOUNTS
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)

	2022		2021	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 180,093,699	$ 47,187	$ 176,902,203	$ 32,787
Appropriations (Discretionary and Mandatory) (Note 20)	11,733,266	-	11,878,103	-
Borrowing Authority (Discretionary and Mandatory)	-	184,611	-	645,684
Contract Authority (Discretionary and Mandatory)	53,271,225	-	34,385,748	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	127,920	5,820	114,942	89,376
Total Budgetary Resources (Note 21)	$ 245,226,110	$ 237,618	$ 223,280,996	$ 767,847
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$ 50,073,705	$ 210,200	$ 44,807,911	$ 712,087
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	149,441,211		106,684,127	
Unapportioned, Unexpired Accounts	45,599,951	27,418	71,608,478	55,760
Unexpired Unobligated Balance, End of Year	$ 195,041,162	$ 27,418	$ 178,292,605	$ 55,760
Expired Unobligated Balance, End of Year	111,243	-	180,480	-
Unobligated Balance, End of Year (Total)	$ 195,152,405	$ 27,418	$ 178,473,085	$ 55,760
Total Budgetary Resources (Note 21)	$ 245,226,110	$ 237,618	$ 223,280,996	$ 767,847
Outlays, Net:				
Outlays, Net (Total) (Discretionary and Mandatory)	$ 41,431,775	$ -	$ 39,438,639	$ -
Distributed Offsetting Receipts (-)	(42,187,077)	-	(37,718,884)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (755,302)	$ -	$ 1,719,755	$ -
Disbursements, Net:				
Disbursements, net (Total) (Mandatory)	$ -	$ (613,274)	$ -	$ (128,091)

The accompanying notes are an integral part of these statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The SAA is a group of programs authorized under Title 22 authorities, by which the United States provides defense articles, military education and training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives. The security assistance programs are subject to the continuous supervision and general direction of the Secretary of State to best serve U.S. foreign policy interests.

B. MISSION OF THE REPORTING ENTITY

The mission of the reporting entity is to lead, direct and manage Security Cooperation programs and resources to support the U.S. national security objectives. Such programs build relationships with foreign countries and international organizations that promote the U.S. interests, develop allied and partner capacities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces.

C. BASIS OF PRESENTATION

These financial statements have been prepared to report the financial position and results of operations of the SAA, which include analysis of the FMS Trust Fund and several other accounts that are, identified in the President's Budget Request, appropriated through Department of State, Foreign Operations, and Related Programs Appropriations Act. These accounts include those that contain U.S. government funds appropriated for Title 22 security assistance and funds deposited by foreign countries and international organizations, or by other entities for the use of foreign countries and international organizations. See note 1.D, Appropriations and Funds, for a list of these accounts. The FMS Trust Fund and other accounts for funds appropriated for security assistance are managed by DSCA on behalf of DoD in accordance with the authority delegated from the EOP, the requirements of the CFO Act of 1990, as expanded by the Government Management Reform Act of 1994 (GMRA), and other applicable laws and regulations.

The financial statements were prepared from accounting records that are maintained by the IAs consisting of the MILDEPs, Other Defense Organizations, and DFAS in accordance with, and to the extent possible U.S. GAAP, promulgated by the Federal Accounting Standards Advisory Board (FASAB); the OMB Circular No. A-136, Financial Reporting Requirements; and the DoD Financial Management Regulation (FMR).

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. The accompanying financial statement information encompasses all SAA unless otherwise noted. Information relating to classified programs and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The DoD accounting processes used to compile SAA financial data are unable to fully implement all elements of U.S. GAAP and OMB Circular No. A-136 due to limitations of financial management processes, financial systems, and nonfinancial systems and processes that support the financial statements. Many of the accounts derive their reported values and other information for major asset and liability categories largely from nonfinancial systems, such as the SAA's case management systems. Such legacy systems were designed to support reporting requirements for maintaining asset accountability and reporting the status of federal appropriations rather than preparing financial statements consistent with U.S. GAAP. There are ongoing system modernization efforts to implement process and system improvements addressing these limitations. The SAA relies heavily on the DoD infrastructure; therefore, the success of the SAA is dependent on the DoD's ability to mitigate known material weaknesses.

D. APPROPRIATION AND FUNDS

The FMS Trust Fund is a U.S. Treasury account (Treasury Account Symbol (TAS) 8242) which contains deposits from FMS foreign country and international organization customers, as well as funds transferred into the account from U.S. Government appropriations, for use in carrying out specific programs in accordance with the AECA (22 U.S.C. § 2751 et seq.), the FAA (22 U.S.C. § 2151 et seq.), and other legal authorities. The monies in the FMS Trust Fund are subject to U.S. Treasury account system controls from the date of receipt to the date of expenditure or refund. At the country or customer level there are distinct subsidiary accounts used by DoD through DSCA and DFAS to separately and individually account for each FMS customer's deposits, other collections or deposits, payments of bills, refunds, and adjustments. At the U.S. Treasury level, the corpus of the FMS Trust Fund represents the total aggregation of balances (receipts minus disbursements) for all activities and programs.

The SAA is a group of USDT accounts, authorized under Title 22 authorities, that the DoD uses to execute the SA programs for which DoD has responsibility. DSCA is responsible for the management of the SAA. These accounts collectively referred to as the "Security Assistance Accounts", which are granted to the EOP pursuant to the AECA, as amended are:

- Foreign Military Sales Trust Fund (TAS 8242)
- International Military Education and Training (TAS 1081)
- Foreign Military Financing Program Account (TAS 1082)
- Special Defense Acquisition Fund (TAS 4116)
- Security Assistance and International Programs, Deposit Account (TAS 6147)
- Foreign Military Financing, Direct Loan Program Account (TAS 1085)
- Foreign Military Loan Liquidating Account (TAS 4121)
- Foreign Military Financing, Direct Loan Financing Account (TAS 4122)
- Military Debt Reduction Financing Account (TAS 4174)

The SAA designates funds as general, revolving and trust funds. The SAA uses these appropriations and funds to execute its mission and subsequently reports on resource usage.

The FMS Trust Fund accounts for receipts and expenditures of funds held in trust by the U.S. Government for use in carrying out specific purposes or programs in accordance with applicable laws, regulations, and agreements. Pursuant to the Federal Credit Reform Act of 1990 (FCRA), certain General Fund Receipt Accounts associated with loan accounts are consolidated into SAA financial statements for reporting purposes.

The SAA is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. OMB and Treasury Fiscal Service have determined that SAA meets parent reporting requirements based on OMB Circular No A-136 guidance that "agencies (other than shared service providers) with administrative or programmatic responsibility for accounts with an account identification code of 011 (Executive Office of the President) must include all such accounts in their AFR."

E. BASIS OF ACCOUNTING

The legacy financial management systems utilized by IAs to execute SAA activities are not fully compliant with full accrual accounting requirements. Many of the IA's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of U.S. GAAP guidance. These legacy systems were not designed to collect and record financial information on a full accrual accounting basis as required by U.S. GAAP.

The SAA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the IAs. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated SAA level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The SAA, with the IAs, is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One such action is the current revision of accounting systems to record transactions based on the USSGL. Until all IA systems and related processes are able to collect and report financial information as required by U.S. GAAP, there will be instances when the reported financial data is based on budgetary transactions data from nonfinancial feeder systems.

F. REVENUES AND OTHER FINANCING SOURCES

As authorized by the FAA and AECA, payments for the sales of defense articles and services are deposited into the FMS Trust Fund. FMF appropriations provided on an annual or multiyear basis for security assistance are a financing source and are transferred into the FMS Trust Fund, or deposited into the accounts for funds appropriated for security assistance. Pricing for defense articles and services, including training, is established to recover costs as required by the AECA, the FAA, and OMB Circular A-25, "User Charges". The SAA recognizes revenue when earned within the constraints of current system capabilities.

The SAA participates in assistance in-kind agreements in its overseas presence. The assistance in kind provided in support of security cooperation programs includes the use of facilities and personnel (guards and drivers) at a small number of Security Cooperation Offices worldwide.

The SAA collects payments from foreign customers in advance of delivery of goods or services and records unearned revenue accordingly. Revenue is considered earned once goods or services have been provided to the foreign partner.

G. RECOGNITION OF EXPENSES

U.S. GAAP requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems utilized by SAA were not designed to collect and record transactions on an accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable and unbilled revenue. The SAA continues to implement process and system improvements to remediate these limitations.

H. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

The reporting entity is a component of the U.S Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because assets and liabilities of another U.S. Government entity offset them. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the SAA cannot accurately identify most of its intragovernmental transactions because IA systems do not track buyer and seller data needed to match related transactions. The DoD is enhancing systems and a standard financial information structure incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2- Chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. The funds within the SAA are unable to fully reconcile intragovernmental transactions with all federal agencies; however, the SAA is able to reconcile balances pertaining to borrowing from the U.S. Treasury and the Federal Employees' Compensation Act (FECA) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the FMS Trust Fund by the Office of Personnel Management for employee pension, post-retirement health, and life insurance benefits; and the Department of Labor for post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under FECA.

I. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

To best serve U.S. foreign policy interests around the world, funds within the SAA are used to transact defense articles and services with foreign governments and international organizations. The signed agreements between the U.S, and foreign governments and international organizations form the basis for the use of the funds.

J. FUNDS WITH THE U.S. TREASURY

For monetary financial resources maintained in U.S. Treasury accounts, the disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State financial service centers process the majority of SAA cash collections, disbursements, and adjustments. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable FBwT account. On a monthly basis, the FBwT for the SAA is reviewed and adjusted as required to agree with the U.S. Treasury accounts.

The SAA monies are held in U.S. Treasury accounts, with the Federal Reserve Bank in individual accounts established by the U.S. for foreign countries and approved commercial banks. Funds held in the Federal Reserve Bank are transferred to the FMS Trust Fund account to be disbursed for FMS purposes.

K. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of the SAA including coin, paper currency, negotiable instruments, which are held for deposit in banks or other financial institutions and is classified as "nonentity" and is restricted.

The FMS Trust Fund only accepts U.S. dollars for payment of defense articles and services per DSCA 5105.38-M Security Assistance Management Manual; Chapter 9, "Financial Policies and Procedures".

L. ACCOUNTS RECEIVABLE

The SAA accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. Gross receivables must be reduced to net realizable value by an allowance for doubtful accounts in accordance with the Statement of Federal Financial Accounting Standard (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities" and Technical Bulletin 2020-1, "Loss Allowance for Intragovernmental Receivables."

M. DIRECT LOANS AND LOAN GUARANTEES

FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees. As required by SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees", the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

Direct loans and loan guarantees are authorized by sections 23 and 24 of the AECA, Public Law 90-269, as amended; section 503(a) of the FAA; and other specific legislation. These loans and guarantees assist friendly foreign countries and international organizations in purchasing U.S. defense articles and services. There has been no new loans or loan guarantees in FY 2022.

N. INVENTORIES AND RELATED PROPERTY

The SAA maintain inventories in the SDAF until they are placed on a FMS case. For FMS Trust Fund, the defense articles are provided to FMS customers from the U.S. Government or the contractor pursuant to a contract with the U.S. Government. Defense articles sold from the DoD or the U.S. Coast Guard are assets of the providing component until title is transferred to foreign customer. Currently, the FMS Trust fund does not maintain inventories however, a corrective action plan has been developed to remediate this condition.

O. ADVANCES AND PREPAYMENTS

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all implementing agencies executing on behalf of the SAA have implemented this policy primarily due to system limitations.

P. LEASES

The SAA does not report capital leases and currently is not able to reliably estimate the value of operating leases.

Q. OTHER ASSETS

Other assets include civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the SAA Balance Sheet.

The SAA conduct business with commercial contractors using two primary types of contracts: fixed price and cost reimbursable. Contract financing payments are defined in the Federal Acquisition Regulation, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. The DoD FMR states to record certain contract financing payments as other assets.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. Defense Federal Acquisition Regulation Supplement (Subpart 232.102(e)(2)) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

R. CONTINGENCIES AND OTHER LIABILITIES

SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, “Recognition of Contingent Liabilities Arising from Litigation”, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The SAA recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The SAA risk of loss due to contingencies arise as a result of pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

S. ACCRUED LEAVE

For personnel compensation and benefits, the issue is usually the "timing" of the obligation and not the "amount" of the obligation. The amount is prescribed by laws that cover the civil service and the uniformed service and determined by well-established personnel procedures. As for the timing of the obligation, the amounts generally are recorded as obligations as the amounts are earned during the reporting pay period, with the following exception:

> Annual leave at the time it becomes due and payable as terminal leave or taken in lieu of a lump sum payment because normally, annual leave is unfunded.

The balance of the liabilities for annual leave and other leave (compensatory time and credit hours), including fringe benefit costs associated with the leave, must be assessed and, as needed, adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes. For General funds, unused annual leave is typically unfunded until the leave is used.

The FMS Trust Fund reports liabilities for accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

T. NET POSITION

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred. Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfer in and out of assets that were not reimbursed.

U. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation generally supporting the summary level adjustment made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions. However, both supported and unsupported adjustments may have been made to the SAA trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the SAA is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the SAA is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

NOTE 2. NON-ENTITY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Intragovernmental Assets		
Fund Balance with Treasury	$19,919,746	$20,712,710
Total Intragovernmental Assets	$19,919,746	$20,712,710
Other than Intragovernmental Assets		
Cash and Other Monetary Assets	$39,872,408	$38,554,491
Accounts Receivable	451,657	449,775
Total Other than Intragovernmental Assets	$40,324,065	$39,004,266
Total Non-Entity Assets	$60,243,811	$59,716,976
Total Entity Assets	$34,498,117	$26,768,908
Total Assets	$94,741,928	$86,485,884

Nonentity Assets are assets for which the SAA maintain stewardship accountability and reporting responsibility but are not available for the SAA operations.

Fund Balance with Treasury and Cash and Other Monetary Assets consist of advance deposits from friendly countries and international organizations to facilitate the purchase of U.S. defense articles and services based on future requirement forecasts. The corresponding liabilities associated with non-entity cash are disclosed in note 15.

Accounts Receivable consist of amounts for interest, fines, and penalties due on debt from loans and nonfederal funds owed to the FMS Trust Fund country accounts in litigation at Department of Justice or collection status at DFAS. Some portion of these uncollected funds may be payable to the FMS Administrative Surcharge account but are not discernible prior to collection.

NOTE 3. FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Unobligated Balance		
Available	$149,441,211	$106,684,126
Unavailable	45,824,899	71,923,797
Total Unobligated Balance	$195,266,110	$178,607,923
Obligated Balance Not Yet Disbursed	$63,133,500	$58,639,145
Non-Budgetary FBwT		
Deposit Funds	$17,839	$16,669
Total Non-Budgetary FBwT	$17,839	$16,669
Non-FBwT Budgetary Accounts		
Contract Authority	$(206,450,557)	$(191,851,441)
Receivables and Other	5	-
Total Non-FBwT Budgetary Accounts	$(206,450,552)	$(191,851,441)
Total FBwT	$51,966,897	$45,412,296

The Status of FBwT, as presented above, reflects the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations. Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance is not apportioned for current use because it is temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds. Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

FBwT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBwT upon receipt of the budget authority.

Contract Authority does not increase the FBwT when initially posted, but does provide budgetary resources. FBwT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBwT upon receipt of the budget authority.

The FBwT reported in the financial statements has been adjusted to reflect the SAA's balance as reported by Treasury. The difference between FBwT in the SAA's general ledgers and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate detailed accounts within the IA's general ledger systems and flow into the SAA financial statements.

NOTE 4. CASH AND OTHER MONETARY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Cash	$ 39,872,408	$ 38,554,491
Total Cash and Other Monetary Assets	$ 39,872,408	$ 38,554,491

The Cash balance as of September 30, 2022 and 2021 includes advance deposits from foreign nations and organizations in the Federal Reserve Bank and Commercial Banking Accounts which have not been transferred to the FMS Trust Fund and are not available for agency use (non-entity cash).

NOTE 5. INVESTMENT AND RELATED INTEREST

SAA reported no Investments and Related Interest in FY 2022 and FY 2021.

NOTE 6. ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$3,490	$ -	$3,490
Non-Federal Receivables (From the Public)	(19,024)	(108)	(19,132)
Total Accounts Receivable	$(15,534)	$(108)	$(15,642)

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2,821	$ -	$2,821
Non-Federal Receivables (From the Public)	(80,906)	(78)	(80,984)
Total Accounts Receivable	$(78,085)	$(78)	$(78,163)

Accounts Receivable represent the FMS Trust Fund claim for payment from other entities. Allowances for uncollectible accounts are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

The abnormal balance in Non-Federal Accounts Receivables of $19 million and $81 million in FY 2022 and FY 2021 respectively, is due to improper reporting from feeder accounting systems. The effort to remediate and address SAA abnormal balances is ongoing.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

The SAA operates the following direct loan programs:

AECA authorizes funds to be appropriated to the President for financing the sales of defense articles and defense services to eligible foreign countries. Each loan is reviewed in the light of the purchasing country's financial condition, its need for credit, U.S. economic or military assistance programs in the country and region, and other proposed arms purchases by the country. The President delegates to the Secretary of Defense the authority to issue and guarantee loans through the designated administering agency, DSCA. The loans are issued to friendly, less economically developed countries. Pursuant to the authority contained in the Act, the following four funds are reported in the SAA Financial Statements:

Foreign Military Loan Liquidating Account (FMLLA), for pre-1992 loans

Foreign Military Financing Direct Loan Program Account (FMFDLPA), for post-1991 loans

Foreign Military Financing Direct Loan Financing Accounts (FMFDLFA), for post-1991 loans

Military Debt Reduction Financing Account (MDRFA) for reducing loan receivables for eligible countries.

The FMLLA is a liquidating account including all assets, liabilities, and equities for loan balances recorded prior to FY 1992. No new loan disbursements are made from this account. Certain collections made into this account are made available for default claim payments. The FCRA provides permanent indefinite authority to cover obligations for default payments in the event the funds in the liquidating account are otherwise insufficient.

The FMFDLPA is a program account established pursuant to the FCRA to provide the funds necessary for the subsidy element of loans. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the FMFDLFA to make required loan disbursements for approved Foreign Military Sales or commercial sales.

The FMFDLFA is a financing account used to make disbursements of Foreign Military Loan funds for approved procurements and for subsequent collections for the loans after September 30, 1991. The account uses permanent borrowing authority from the U.S. Treasury combined with transfers of appropriated funds from FMFDLPA to make the required disbursements to loan recipient country borrowers for approved procurements. Receipts of debt service collections from borrowers are used to repay borrowings from U.S. Treasury.

The MDRFA is a financing account established for the debt relief of certain countries as established by Public Law 103-87. The MDRFA buys the portfolio of loans from the FMLLA, thus transferring the loans from the FMLLA account to the MDRFA account. The Paris Club negotiates the debt forgiveness with Highly Indebted Poor Countries (HIPC). The Paris Club has twenty-two member countries that negotiate rescheduling or refinancing of debt for HIPC. The Paris Club provides debt reduction initially on payments coming due over a specific period corresponding to the length of an International Monetary Fund (IMF) supported economic reform program. Reduction then is staged, with each successive stage contingent upon debtor country compliance with its IMF-support program. Under Naples Terms, stock of debt reduction is provided after three years of good performance with respect to IMF reform programs and payments to Paris Club creditors. The United States incurs the budget cost of the eventual stock of debt reduction when it agrees to the initial "maturities" reduction of payments coming due, since bilateral agreements commit us to stock reduction once the Paris Club agrees to provide them.

The FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees. The SAA loans are reported at the present value basis for post-credit reform loans and under the allowance-for-loss method for pre-credit reform of the following projected cash flows: (1) loan disbursements, (2) repayments of principal, and (3) payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries. There has been no new loans or loan guarantees in FY 2022.

SUMMARY OF DIRECT LOANS AND LOAN GUARANTEES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
LOANS RECEIVABLE, NET		
DIRECT LOANS		
Foreign Military Loan Liquidating Account	$449,219	$449,775
Foreign Military Financing Account	957,349	1,557,704
Military Debt Reduction Financing Account	39,445	38,698
Total Direct Loans	$1,446,013	$2,046,177
Total Loans Receivable, Net	$1,446,013	$2,046,177

DIRECT LOANS OBLIGATED

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
DIRECT LOANS OBLIGATED PRIOR TO FY 1992 (ALLOWANCE FOR LOSS METHOD)		
Foreign Military Loan Liquidating Account		
Loans Receivable, Gross	$211,430	$219,859
Interest and Fees Receivable	1,795,499	1,734,141
Present Value Allowance/ Allowance for Loan Losses	(1,557,710)	(1,504,225)
Direct Loans, Net	$449,219	$449,775
DIRECT LOANS OBLIGATED AFTER FY 1991 (NET PRESENT VALUE METHOD)		
Foreign Military Financing Account		
Loans Receivable, Gross	$1,224,821	$1,923,818
Interest and Fees Receivable	15,908	24,511
Allowance for Subsidy Cost (Present Value)	(283,380)	(390,626)
Direct Loans, Net	$957,349	$1,557,703
Military Debt Reduction Financing Account		
Loans Receivable, Gross	$38,637	$38,636
Allowance for Subsidy Cost (Present Value)	808	62
Direct Loans, Net	$39,445	$38,698
TOTAL DIRECT LOANS RECEIVABLES, NET		
Loans Receivable, Gross	$1,474,888	$2,182,313
Interest and Fees Receivable	1,811,407	1,758,652
Allowance for Subsidy Cost (Present Value) /Allowance for Loan Losses	(1,840,282)	(1,894,788)
Direct Loans, Net	$1,446,013	$2,046,177

The SAA bills the countries semiannually for loan repayments. Applying terms of the loans with the countries, accrued interest receivable is calculated using the simple interest method.

The allowance for credit subsidy account for the FMFDLFA account is calculated taking into consideration three transactions: (1) transfers of subsidy from the program account to the financing account (the subsidy is the difference between the expected cash outlays from the U.S. Government and the present value of the expected collections); (2) interest payments from the U.S. Treasury to the financing fund; and (3) upward adjustments due to re-estimates as U.S. Treasury borrowing rates change over time from the loan repayment rate and an increase in estimated defaults on the loan.

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST-1991)

The SAA reported no Direct Loans Disbursed (Post 1991) for FY 2022 or FY 2021.

SUBSIDY EXPENSE FOR DIRECT LOAN BY PROGRAM

The SAA reported no Subsidy Expense for Direct Loan by Program for FY 2022 or FY 2021.

BUDGET SUBSIDY RATES FOR DIRECT LOANS BY PROGRAM FOR THE CURRENT YEAR'S COHORTS

The SAA reported no Budget Subsidy Rates for Direct Loans Program for the Current Year's Cohorts for FY 2022 and FY 2021.

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Beginning Balance of the Subsidy Cost Allowance	$390,564	$857,426
Adjustments		
Subsidy Allowance Amortization	(107,992)	(466,862)
Ending Balance of the Subsidy Cost Allowance before Reestimates	$282,572	$390,564
Ending Balance of the Subsidy Cost Allowance	$282,572	$390,564

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

SAA reported no Guaranteed Loans from Post-1991 Guarantees in FY 2022 and FY 2021.

LOAN GUARANTEE LIABILITIES

GUARANTEED LOANS OUTSTANDING

The SAA reported no Guaranteed Loans Outstanding in FY 2022 and FY 2021.

LIABILITIES FOR LOAN GUARANTEES (PRESENT VALUE)

The SAA reported no Liabilities for Loan Guarantees (Present Value) for FY 2022 and FY 2021.

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM

The SAA reported no Subsidy Expense for Loan Guarantees by Program for FY 2022 and FY 2021.

BUDGET SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM FOR THE CURRENT YEAR'S COHORTS

The SAA reported no Budget Subsidy Rates for Loan Guarantees by Program for the current Year's Cohort.

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES (POST-1991 LOAN GUARANTEES)

The SAA reported no Reconciling Loan Guarantee Liability Balances (Post 1991 Loan Guarantees) for FY 2022 or FY 2021.

CHANGE IN LOANS RECEIVABLE, NET

Below is a summary table showing the change in net Loans Receivable for FY 2022. Pursuant to OMB Circular No. A-136, comparative information is not required in the first year of implementation.

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022
Beginning Balance of Loans Receivable, Net	$2,046,177
Less Principal and Interest Payments Received	(820,260)
Add Interest Accruals	323,893
Less Interest Revenue on Uninvested Funds	(775)
Add Interest Expense on Entity Borrowings	26,336
Less Downward Reestimates	(183,864)
Less Subsidy Allowance	107,992
Allowance for Loan and Interest Loss Adjustments	(53,486)
Ending Balance of Loans Receivable, Net	$1,446,013

ADMINISTRATIVE EXPENSES

Administrative expenses for loans are insignificant and as such not funded within the loan program account.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Inventory, Net	$684,429	$525,908
Total Inventory and Related Property, Net	$684,429	$525,908

DSCA is continuing ongoing audit remediation efforts to determine if additional inventory that should be reported in the SAA financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

INVENTORY, NET

INVENTORY CATEGORIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021	VALUATION METHOD
Held for Sale	$680,871	$522,079	LAC, MAC
Work-in-Process	3,558	3,829	LAC, MAC
Total	$684,429	$525,908	

LEGEND FOR VALUATION METHODS: LAC = Latest Acquisition Cost | **MAC** = Moving Average Cost

GENERAL COMPOSITION OF INVENTORY

Inventory is tangible personal property such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. SAA assigns inventory items to a category based on asset type and condition.

INVENTORY RESTRICTIONS

There are no known restrictions on inventory.

OPERATING MATERIAL AND SUPPLIES, NET

OPERATING MATERIAL AND SUPPLIES CATEGORIES

The SAA reported no Operating Material and Supplies for FY 2022 and FY 2021.

STOCKPILE MATERIAL, NET

STOCKPILE MATERIAL CATEGORIES

The SAA reported no Stockpile Material, Net for FY 2022 or FY 2021.

NOTE 9. STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT (PP&E)

The SAA currently does not report any stewardship PP&E, general PP&E and heritage assets. However, DSCA is continuing ongoing audit remediation efforts to determine if PP&E should be reported in the SAA financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

NOTE 10. OTHER ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Intragovernmental		
Advances and Prepayments	$893	$10,654
Total Intragovernmental	$893	$10,654
Other than Intragovernmental		
Outstanding Contract Financing Payments	$10,843	$10,843
Advances and Prepayments	776,087	3,678
Subtotal	$786,930	$14,521
Less: “Outstanding Contract Financing Payments” and “Advances and Prepayments” Totaled and Presented on the Balance Sheet as “Advances and Prepayments”	(786,930)	(14,521)
Net Other than Intragovernmental	$ -	$ -
Total Other Assets	$893	$10,654

NON-FEDERAL OTHER ASSETS

Contract terms and conditions for certain types of contract financing payments convey certain rights to the FMS Trust Fund that protect the contract work from state or local taxation, liens or attachment by the contractor’s creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor’s work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the FMS Trust Fund is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The FY 2022 $10.8 million of Outstanding Contract Financing payments consist of estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Intragovernmental Liabilities		
Other	$451,657	$449,775
Total Intragovernmental Liabilities	$451,657	$449,775
Other than Intragovernmental Liabilities		
Accounts Payable	$ -	$(82)
Federal Employee and Veteran Benefits Payable	4,382	1,217
Other Liabilities	39,872,419	38,554,502
Total Other than Intragovernmental Liabilities	$39,876,801	$38,555,637
Total Liabilities Not Covered by Budgetary Resources	$40,328,458	$39,005,412
Total Liabilities Covered by Budgetary Resources	$187,358,786	$145,943,233
Total Liabilities Not Requiring Budgetary Resources	$17,839	$16,669
Total Liabilities	$227,705,083	$184,965,314

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds. Other Liabilities consists primarily of the liability to offset Other Cash currently in Federal Reserve Bank and Commercial Banking Account which have not been transferred to the Foreign Military Sales Trust Fund and are not available for agency use (nonentity cash).

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, budgetary resources cover liabilities if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

Liabilities Not Covered by Budgetary Resources require congressional action before budgetary resources can be provided. Liabilities Not Requiring Budgetary Resources have not in the past and will not in the future require the use of budgetary resources.

NOTE 12. DEBT

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022		
	BEGINNING BALANCE	NET BORROWING	ENDING BALANCE
Source of Debt (Intragovernmental)			
Debt Owed to: Treasury Other than the Federal Financing Bank	$1,652,162	$(630,389)	$1,021,773
Total Debt	$1,652,162	$(630,389)	$1,021,773

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021		
	BEGINNING BALANCE	NET BORROWING	ENDING BALANCE
Source of Debt (Intragovernmental)			
Debt Owed to: Treasury Other than the Federal Financing Bank	$1,756,478	$(104,316)	$1,652,162
Total Debt	$1,756,478	$(104,316)	$1,652,162

The FCRA provides financing accounts with indefinite authority to borrow from the U.S. Treasury to fund disbursements of loans made to sovereign nations for security assistance. This debt to the U.S. Treasury is reflected in the Foreign Military Financing Direct Loan Financing Account and the Military Debt Reduction Account.

The FCRA governs all direct loan obligations and loan guarantee commitments made after FY 1991. Beginning in 1992, based on the FCRA, the security assistance program began borrowing the funds from the U.S. Treasury.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

FEDERAL EMPLOYEE AND VETERAN BENEFITS LIABILITY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Federal Employee and Veteran Benefits Payable	$20,068	$(15,686)	$4,382
Total Federal Employee and Veteran Benefits Payable	$20,068	$(15,686)	$4,382

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Federal Employee and Veteran Benefits Payable	$16,564	$(15,347)	$1,217
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	(57)	57	-
Total Federal Employee and Veteran Benefits Payable	$16,507	$(15,290)	$1,217

RECONCILIATION OF BEGINNING AND ENDING LIABILITY BALANCES FOR MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYEE BENEFITS

The SAA reported no Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Employee Benefits for FY 2022 or FY 2021.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The SAA reported no Environmental and Disposal Liabilities in FY 2022 or FY 2021. DSCA is continuing ongoing audit remediation efforts to determine if there are Environmental and Disposal Liabilities that should be reported in the financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

NOTE 15. OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022		
	CURRENT LIABILITY	NON CURRENT LIABILITY	TOTAL
Intragovernmental			
Liabilities for Non-Entity Assets	$ -	$451,657	$451,657
Total Intragovernmental	$ -	$451,657	$451,657
Other than Intragovernmental			
Accrued Funded Payroll and Leave	$41,181	$ -	$41,181
Withholdings Payable	(66)	-	(66)
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	17,840	-	17,840
Contract Holdbacks	(3,345)	-	(3,345)
Other Liabilities without Related Budgetary Obligations	11	39,872,408	39,872,419
Other Liabilities with Related Budgetary Obligations	11	-	11
Total Other than Intragovernmental	$55,632	$39,872,408	$39,928,040
Total Other Liabilities	$55,632	$40,324,065	$40,379,697

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021		
	CURRENT LIABILITY	NON CURRENT LIABILITY	TOTAL
Intragovernmental			
Liabilities for non-entity assets	$ -	$ 449,775	$ 449,775
Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	(57)	-	(57)
Total Intragovernmental	$(57)	$449,775	$449,718
Other than Intragovernmental			
Accrued funded payroll and leave	$33,664	$ -	$ 33,664
Withholdings payable	(66)	-	(66)
Liability for non-fiduciary deposit funds and undeposited collections	16,669	-	16,669
Contract holdbacks	(1,040)	-	(1,040)
Other liabilities without related budgetary obligations	11	38,554,491	38,554,502
Other liabilities with related budgetary obligations	11	-	11
Total Other than Intragovernmental	$49,249	$38,554,491	$38,603,740
Total Other Liabilities	$49,192	$39,004,266	$39,053,458

NON-FEDERAL OTHER LIABILITIES

Nonfederal Advances from Others are related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The SAA is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the SAA has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance.

ADVANCES FROM OTHERS AND DEFERRED REVENUE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Intragovernmental	$265,922	$ -
Other than Intragovernmental	$167,684,181	$126,153,289

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

NOTE 16. LEASES

CAPITAL LEASES

The SAA reported no Capital Leases in FY 2022 or FY 2021. DSCA is continuing ongoing audit remediation efforts to determine if capital leases should be reported in the SAA's financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

OPERATING LEASES

The SAA reported no Operating Leases in FY 2022 or FY 2021. DSCA is continuing ongoing audit remediation efforts to determine if operating leases that should be reported in the SAA's financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future periods.

NOTE 17. COMMITMENTS AND CONTINGENCIES

SAA has not recorded any contingent liabilities for litigations for FY 2022 or FY 2021. DSCA is continuing ongoing audit remediation efforts on contingencies. As DSCA continues to assess its data, reporting and accounting treatment may change in future periods.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

The SAA reported no Funds from Dedicated Collections in FY 2022 or FY 2021. DSCA is continuing ongoing audit remediation efforts to determine if Funds from Dedicated Collections should be reported in the SAA's financial statements and related footnotes. As DSCA continues to assess this data, reporting and accounting treatment may change in future period.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

COSTS AND EXCHANGE REVENUE BY APPROPRIATION CATEGORY

YEARS ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Operations, Readiness & Support		
Gross Cost	$102,322,370	$95,684,584
Less: Earned Revenue	(19,467,727)	(17,320,368)
Net Program Costs	$82,854,643	$78,364,216
Consolidated		
Gross Cost	$102,322,370	$95,684,584
Less: Earned Revenue	(19,467,727)	(17,320,368)
Losses/(Gains) from Actuarial Assumption		
Total Net Cost	$82,854,643	$78,364,216

The SNC represents the net cost of programs and organizations of the SAA supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. Intragovernmental costs and revenue represent transactions between two reporting entities within the Federal Government. Public costs and exchange revenues are transactions made between the reporting entity and a nonfederal entity.

The SAA's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act (GPRA) Modernization Act of 2010. The SAA is in the process of reviewing available data and developing a cost reporting methodology required by SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" as amended by SFFAS No. 55, "Amending Inter-Entity Cost Provisions".

The systems utilized by the SAA do not fully meet accounting standards. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items, such as payroll expenses and accounts payable.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

The below table presents the reconciliation of appropriations in the Statement of Budgetary Resources to appropriations received in the Statement of Changes in Net Position. The Appropriations on the SBR does not agree with the Appropriations Received on the Statement of Changes in Net Position. The reconciling items are attributed to Contract Authority, Transfers and Temporary Reductions.

RECONCILIATION OF APPROPRIATIONS ON THE STATEMENT OF BUDGETARY RESOURCES TO APPROPRIATIONS RECEIVED ON THE STATEMENT OF CHANGES IN NET POSITION

YEARS ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Appropriations, Statement of Budgetary Resources	$11,733,266	$11,878,103
Less: Appropriations Received, Statement of Changes in Net Position	10,803,349	6,288,449
Total Reconciling Amount	$929,917	$5,589,654
Items Reported as a Decrease/(Increase) to Appropriations, Statement of Budgetary Resources		
Temporary Reductions	$(7,208)	$(685)
Transfers	(23,318)	(29,918)
Contract Authority	960,443	5,620,257
Total Reconciling Items	$929,917	$5,589,654

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

Net adjustments to the FY 2022 unobligated balance brought forward were $1.6 billion which included recoveries of prior year unpaid obligations and BPC canceled funds returned to Treasury.

TERMS OF BORROWING AUTHORITY USED

The SAA utilizes borrowing authority for the FMF Initiatives. Borrowing authority is used in compliance with OMB Circular No. A-129, “Policies for Federal Credit Programs and Non-Tax Receivables”. See Note 7, Direct Loans and Loan Guarantees, for additional information related to FMF.

AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing authority remaining for the years ended September 30, 2022 and 2021.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

YEARS ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022	2021
Intragovernmental		
Unpaid	$1,327,598	$1,055,439
Total Intragovernmental	$1,327,598	$1,055,439
Non-Federal		
Unpaid	$41,168,065	$37,269,609
Prepaid/Advanced	787,822	25,177
Total Non-Federal	$41,955,887	$37,294,786
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$43,283,485	$38,350,225

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the SAA's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The SAA operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

FOR THE YEAR ENDED SEPTEMBER 30 (AMOUNTS IN MILLIONS)	2021			
	BUDGETARY RESOURCES	NEW OBLIGATIONS & UPWARD ADJUSTMENTS (TOTAL)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	$224,049	$45,520	$(37,719)	$39,311
Differences:				
Expired Accounts that are Excluded from the Budget of the U.S. Government	385	205	-	-
Other	(4)	(5)	(37,719)	61
Budget of the U.S. Government	$223,668	$45,320	$ -	$39,250
The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.				

The reconciliation of the Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government (Budget) as of September 30, 2021 is presented in the table above. Since these financial statements are published before the Budget, this reconciliation is based on the 2021 Combined Statement of Budgetary Resources because actual amounts for 2021 are in the most recently published Budget. The FY 2024 Budget will display the FY 2022 actual values and will be available at a later date at **https://www.whitehouse.gov/omb/budget**.

CONTRIBUTED CAPITAL

There was no infusion of capital received in FY 2022 or FY 2021.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The SAA reported no disclosures related to Incidental Custodial Collections in FY 2022 or FY 2021.

NOTE 23. FIDUCIARY ACTIVITIES

The SAA reported no Fiduciary Activities in FY 2022 or FY 2021.

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ 4,840,320	$ 78,014,323	$ 82,854,643
Components of Net Cost Not Part of Net Budgetary Outlays			
Change in Inventory and Related Property, Net	$ -	$158,521	$158,521
Increase/(Decrease) in Assets			
Accounts Receivable, Net	673	61,847	62,520
Loans Receivable, Net	-	(600,165)	(600,165)
Other Assets	(9,762)	2,090,328	2,080,566
(Increase)/Decrease in Liabilities			
Accounts Payable	(218,065)	(25,536)	(243,601)
Federal Employee and Veteran Benefits Payable	-	(3,504)	(3,504)
Other Liabilities	(267,861)	(42,854,021)	(43,121,882)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$(495,015)	$(41,172,530)	$(41,667,545)
Components of Net Budgetary Outlays Not Part of Net Cost			
Financing Sources: Donated Revenue	$ -	$(292,653)	$(292,653)
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$(292,653)	$(292,653)
Miscellaneous Reconciling Items			
Other	$2,621,791	$ -	$2,621,791
Total Other Reconciling Items	$2,621,791	$ -	$2,621,791
Total Net Outlays	$6,967,096	$36,549,140	$43,516,236
Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$(755,302)
Unreconciled Difference			$44,271,538

YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$2,419,651	$75,944,565	$78,364,216
Components of Net Cost Not Part of Net Budgetary Outlays			
Change in Inventory and related property, net	$ -	$(124,373)	$(124,373)
Increase/(decrease) in Assets			
Accounts receivable, net	(99,334)	25,457	(73,877)
Loans receivable, net	-	(360,976)	(360,976)
Other assets	10,655	(8,118,380)	(8,107,725)
(Increase)/Decrease in Liabilities			
Accounts payable	(56,319)	(15,930,131)	(15,986,450)
Federal employee and veteran benefits payable	-	2,529	2,529
Other liabilities	233,744	(30,004,348)	(29,770,604)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$88,746	$(54,510,222)	$(54,421,476)
Components of Net Budgetary Outlays Not Part of Net Cost			
Financing sources: Donated Revenue	$ -	$(273,027)	$(273,027)
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$(273,027)	$(273,027)
Miscellaneous Reconciling Items			
Distributed offsetting receipts	$ -	$(781,987)	$(781,987)
Other	606,987	(1,671,421)	(1,064,434)
Total Other Reconciling Items	$606,987	$(2,453,408)	$(1,846,421)
Total Net Outlays	$3,115,384	$18,707,908	$21,823,292
Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$1,652,418
Unreconciled Difference			$20,170,874

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the SAA's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the SAA's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the SAA. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The reconciling difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the SNC and SBR. Additionally, the SAA's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is ongoing to resolve the reconciling difference.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

The SAA reported no Public-Private Partnerships in FY 2022 or FY 2021. DSCA is continuing ongoing efforts to determine if there are any Public-Private Partnerships that should be reported in the financial statements and related footnotes. As DSCA continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The SAA reported no disclosure entities or related parties in FY 2022 or FY 2021. In accordance with FASAB SFFAS No. 47 "Reporting Entity", DSCA is continuing ongoing efforts to determine if any should be reported in the financial statements and related footnotes. As DSCA continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 27. RESTATEMENTS

The SAA reported no restatements for FY 2022 or FY 2021.

NOTE 28. COVID-19 ACTIVITY

The SAA reported no COVID-19 activity for FY 2022 or FY 2021.

NOTE 29. SUBSEQUENT EVENTS

The SAA reported no subsequent events or transactions that occurred after the date of the Balance Sheet but before the issuance of the audited financial statements that have a material effect on the financial statements and, therefore, require adjustments to or disclosure in the statements.

NOTE 30. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

The SAA financial statements are included in the Financial Report of the U.S. Government. The FY 2022 Financial Report will be published by The Bureau of Fiscal Service upon its release.

To prepare the Financial Report, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements.

The following tables display the relationship between each of the SAA's financial statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items.

"Non-Federal" transactions are with individuals, businesses, non-profit entities, and state, local, and foreign governments.

FY 2022 SAA STATEMENT OF NET COST		LINE ITEMS USED TO PREPARE FY 2022 GOVERNMENT WIDE STATEMENT OF NET COST		LINE ITEMS USED TO PREPARE FY 2022 GOVERNMENT WIDE STATEMENT OF NET COST			
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statement Line
Gross Costs							
Gross Costs	$ 97,311,295			$ 97,311,295		$ 97,311,295	Non-federal Gross Cost
Total Non-Federal Gross Cost	$ 97,311,295			$ 97,311,295		$ 97,311,295	**Total non-federal gross cost**
Intragovernmental Costs							**Intragovernmental Costs**
Gross Costs	4,984,739			4,984,739		4,984,739	Buy/Sell cost
Gross Costs	26,336			26,336		26,336	Borrowing and other interest expense
Total Intragovernmental Costs	$ 5,011,075			$ 5,011,075		$ 5,011,075	Total Intragovernmental Costs
Total Gross Costs	**$ 102,322,370**			**$ 102,322,370**		**$ 102,322,370**	**Total Reclassified Gross Costs**
Earned Revenue							
Non-Federal Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	$ (19,296,973)			$ (19,296,973)		$ (19,296,973)	Non-federal earned revenue
Intragovernmental Earned Revenue							**Intragovernmental Earned Revenue**
(Less: Earned Revenue)	(169,979)			(169,979)		(169,979)	Buy/sell revenue (exchange)
(Less: Earned Revenue)	(775)			(775)		(775)	Borrowing and other interest revenue (exchange)
Total Intragovernmental Earned Revenue	$ (170,754)			$ (170,754)		$ (170,754)	Total Intragovernmental Earned Revenue
Total Earned Revenue	$ (19,467,727)			$ (19,467,727)		$ (19,467,727)	Total Reclassified Earned Revenue
Net Cost of Operations	**$ 82,854,643**			**$ 82,854,643**		**$ 82,854,643**	**Net Cost of Operations**

FY 2022 SAA STATEMENT OF CHANGES IN NET POSITION		LINE ITEMS USED TO PREPARE FY 2022 GOVERNMENT WIDE STATEMENT OF CHANGES IN NET POSITION		LINE ITEMS USED TO PREPARE FY 2022 GOVERNMENT WIDE STATEMENT OF CHANGES IN NET POSITION			
Financial Statements Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statements Line
Beginning Balances	$ (98,479,430)			$ (98,479,430)		$ (98,479,430)	**Net position, beginning of period**
Non-Federal Non-exchange Revenue:							
Non-Exchange Revenue	38,732,147			38,732,147		38,732,147	Other taxes and receipts
Donations and Forftures of Cash and Cash Equilents	292,653			292,653		292,653	Other taxes and receipts
Others	1,206,500			1,206,500		1,206,500	Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	$ 40,231,300			$ 40,231,300		$ 40,231,300	Total non-federal non-exchange revenue
Federal Non-Exchange Revenue:							Federal Non-Exchange Revenue:
Total Federal Non-Exchange Revenue	$ 7,241			$ 7,241		$ 7,241	Total federal non-exchange revenue
Budgetary Financing Sources:							**Budgetary Financing Sources:**
Appropriations Received	$ 10,788,657			$ 10,788,657		$ 10,788,657	Appropriations received as adjusted (rescissions and other adjustments) (RC 41) /1
Appropriations Used	6,028,733			6,028,733		6,028,733	Appropriations used (RC 39)
Appropriations Used	(6,028,733)			(6,028,733)		(6,028,733)	Appropriations expended (RC 38) /1
Appropriations Transferred in/out	15,458,879			15,458,879		15,458,879	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08) /1
Appropriations Transferred in/out	(15,480,258)			(15,480,258)		(15,480,258)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08) /1
Appropriations Transferred in/out	179,572			179,572		179,572	Expenditure transfers-in of financing sources (RC 09) /1
Appropriations Transferred in/out	(179,572)			(179,572)		(179,572)	Expenditure transfers-out of financing sources (RC 09) /1
Transfers-In/Out without Reimbursement	2,437,927			2,437,927		2,437,927	Non-expenditure transfer-in of financing sources - capital transfers (RC 11)
Transfers-In/Out without Reimbursement	(2,449,155)			(2,449,155)		(2,449,155)	Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
Transfers-In/Out without Reimbursement (+/-)	183,864			183,864		183,864	Transfers-in without reimbursement (RC 18) /1
Transfers-in/out without Reimbursement (+/-)	(183,864)			(183,864)		(183,864)	Transfers-out without reimbursement (RC 18) /1
Other (+/-)	**(2,621,791)**			**(2,621,791)**		**(2,621,791)**	**Non-entity collections transferred to the General Fund of the U.S. Government (RC 44)**
Other (+/-)	**(1,882)**			**(1,882)**		**(1,882)**	**Accrual for non-entity amounts to be collected and tranferred to the Gener Fund of the U.S. Govern-ment (RC 48)**
Total Financing Sources	**$ 8,132,377**			**$ 8,132,377**		**$ 8,132,377**	**Total Financing Sources**
Net Cost of Operations (+/-)	**$ 82,854,643**			**$ 82,854,643**		**$ 82,854,643**	**Net cost of operations (+/-)**
Net Position, End of Period	**$ (132,963,155)**			**$ (132,963,155)**		**$ (132,963,155)**	**Net Position, End of Period**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

COMBINING STATEMENT OF BUDGETARY RESOURCES, BUDGETARY FOR THE YEAR ENDED SEPTEMBER 30, 2022 (AMOUNTS IN THOUSANDS)	Foreign Military Sales Trust Fund	Foreign Military Financing Progam Account	Special Defense Acquisition Fund	International Military Education and Training	Total
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$176,243,932	$3,003,785	$731,929	$114,053	$180,093,699
Appropriations (Discretionary and Mandatory)	953,235	10,667,106	-	112,925	11,733,266
Contract Authority (Discretionary and Mandatory)	53,271,225	-	-	-	53,271,225
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	-	127,927	(7)	127,920
Total Budgetary Resources	$230,468,392	$13,670,891	$859,856	$226,971	$245,226,110
Status of Budgetary Resources					
New Obligations and Upward Adjustments (Total) Unobligated Balance, End of Year	$39,167,791	$10,329,769	$439,788	$136,357	$50,073,705
Unobligated Balance, End of Year:					
Apportioned, Unexpired Accounts	$149,285,744	$-	$146,327	$9,140	$149,441,211
Unapportioned, Unexpired Accounts	42,014,856	3,306,000	252,192	26,903	45,599,951
Unexpired Unobligated Balance, End of Year	$191,300,600	$3,306,000	$398,519	$36,043	$195,041,162
Expired Unobligated Balance, End of Year	-	35,122	21,549	54,572	111,243
Unobligated Balance, End of Year (Total)	$191,300,600	$3,341,122	$420,068	$90,615	$195,152,405
Total Budgetary Resources	$230,468,391	$13,670,891	$859,856	$226,972	$245,226,110
Outlays, Net					
Outlays, Net (Total) (Discretionary and Mandatory)	$34,745,436	$6,743,333	$(164,705)	$107,711	$41,431,775
Distributed Offsetting Receipts (-)	(42,007,505)	-	(179,572)	-	(42,187,077)
Agency Outlays, Net (Discretionary and Mandatory)	$(7,262,069)	$6,743,333	$(344,277)	$107,711	$(755,302)

COMBINING STATEMENT OF BUDGETARY RESOURCES, NON-BUDGETARY CREDIT REFORM FINANCING FOR THE YEAR ENDED SEPTEMBER 30, 2022 (AMOUNTS IN THOUSANDS)	Foreign Military Financing, Direct Loan Financing Account	Military Debt Reduction Financing Account	Foreign Military Loan Liquidating Account	Total
Non-Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$47,187	$ -	$ -	$47,187
Borrowing Authority (Discretionary and Mandatory)	183,864	747	-	184,611
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	3,381	-	2,439	5,820
Total Budgetary Resources	$234,432	$747	$2,439	$237,618
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total) Unobligated Balance, End of Year	$209,453	$747	$ -	$210,200
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	$24,979	$-	$2,439	$27,418
Unexpired Unobligated Balance, End of Year	$24,979	-	$2,439	$27,418
Unobligated Balance, End of Year (Total)	$24,979	-	$2,439	$27,418
Total Budgetary Resources	$234,432	$747	$2,439	$237,618
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	$(600,355)	$747	$(13,666)	$(613,274)

Dover AFB delivers helicopters; bolsters US,Australian alliance.
U.S. Air Force photo by Tech. Sgt. J.D. Strong II

SECTION III

Other Information

OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

DSCA management has a fiduciary responsibility to develop and maintain effective internal controls to provide assurance that its resources are used effectively, and its programs operate efficiently to achieve the mission. Managers throughout the SC community are accountable for ensuring effective internal controls in their areas of responsibility.

Table 6 lists the material weaknesses identified by the Independent Public Accountant during the SAA financial statement audit.

TABLE 6. FISCAL YEAR 2022 SUMMARY OF FINANCIAL STATEMENT AUDIT

AUDIT OPINION: DISCLAIMER OF OPINION					
RESTATEMENT: NO					
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Beginning Balances	-	1	-	-	1
Universe of Transactions	-	1	-	-	1
Entity-Level Controls	-	1	-	-	1
Accounts Payable	-	1	-	-	1
Budgetary Resources	-	1	-	-	1
Earned Revenue	-	1	-	-	1
Fund Balance with Treasury	-	1	-	-	1
General Property, Plant, and Equipment	-	1	-	-	1
Inventory & Related Property	-	1	-	-	1
Intragovernmental Transactions and Eliminations	-	1	-	-	1
Unsupported Accounting Adjustments	-	1	-	-	1
Oversight of Service Providers	-	1	-	-	1
Total Material Weaknesses	-	12	-	-	12

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Manager's Financial Integrity Act of 1982, the Federal Financial Management Improvement Act of 1996, and Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Assessment of internal controls 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

Table 7 provides those areas where material weaknesses were identified by DSCA in the above categories and where remediation work continues. In addition, it includes the status of 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 Standard General Ledger at the transaction ledger. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DSCA.

TABLE 7. SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING (FMFIA SECTION 2)						
STATEMENT OF ASSURANCE: NO ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Lack of Fund Balance with Treasury Reconciliation	1	-	-	-	-	1
Ineffective Financial Statement Compilation process and Unreliable Universe of Transactions for the SAA	1	-	-	-	-	1
Lack of Adequate Controls and Documentation over SAA Business Processes	1	-	-	-	-	1
Lack of Adequate Controls over Property, Plant, and Equipment and Inventory	1	-	-	-	-	1
Lack of Adequate Controls over the Transportation Account	1	-	-	-	-	1
Lack of Adequate Controls over Building Partner Capacity Appropriated Funds Transferred to the Foreign Military Sales Trust Fund	1	-	-	-	-	1
Total Material Weaknesses	6	-	-	-	-	6

EFFECTIVENESS OF INTERNAL CONTROLS OVER OPERATIONS (FMFIA SECTION 2)						
STATEMENT OF ASSURANCE: UNMODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
No Material Weaknesses Identified	-	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-	-

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA SECTION 4)						
STATEMENT OF ASSURANCE: FEDERAL SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Lack of Adequate Access Controls over SAA Financial Systems	1	-	-	-	-	1
Lack of Adequate Policies and Procedures Governing SAA Financial Systems	-	1	-	-	-	1
Lack of Standard Financial Information Structure Compliant Accounting	1	-	-	-	-	1
Total Material Weaknesses	2	1	-	-	-	3

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	Agency	Auditor
Federal Financial Management System Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
United States Standard General Ledger at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

DEFINITION OF TERMS

- **Beginning Balance:** The beginning balance, which reflects weaknesses that were first identified in prior fiscal years, must agree with the ending balance from the prior year.
- **New:** The total number of material weakness/non-conformances identified during the current year.
- **Resolved**: The total number of material weaknesses/non-conformances that dropped below the level of materiality in the current year.
- **Consolidated:** The combining of two or more findings.
- **Reassessed:** The removal of any finding not attributable to corrective actions (e.g. management has re-evaluated and determined that a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading).
- **Ending Balance:** The year-end balance, which reflects both new and previously identified material weaknesses that remain as of fiscal year end, that will be the beginning balance next year.

Dover AFB supports US, Ukraine partnership. *U.S. Air Force photo by Airman 1st Class Cydney Lee.*

MANAGEMENT CHALLENGES

As required by the *Reports Consolidation Act of 2000*, the Office of the Inspector General (OIG) should prepare an annual statement that summarizes what they consider to be the most serious management and performance challenges facing the Agency and provide a brief assessment of progress made to address these identified challenges. DSCA does not have its own OIG and the DoDIG refers SAA Management to the DoDIG's *FY 2022 Top DoD Management Challenges* report which identified ten challenges related to the DoD mission and its execution.

The SAA is reliant on DoD systems, employees, and infrastructure to complete its mission and all DoD Management challenges and associated responses will impact SAA performance. SAA funds are executed in 13 general ledger accounting systems and over 140 feeder systems, which produces a uniquely complex financial reporting and systems environment. The execution of SAA funding occurs in many DoD owned systems in addition to SAA specific systems. DSCA is leading an IT modernization effort to modernize the legacy information technology systems but is heavily reliant on the DoD's financial systems strategy. These complexities add additional challenges for SAA Management in addition to the DoDIG Management Challenges noted below.

From the DoDIG report, the FY 2022 Top DoD Management Challenges are:

1. Maintaining the Advantage in Strategic Competition
2. Assuring Space Dominance, Nuclear Deterrence, and Missile Defense
3. Strengthening DoD Cyberspace Operations and Securing Systems, Networks, and Data
4. Reinforcing the Supply Chain While Reducing Reliance on Strategic Competitors
5. Increasing Agility in the DoD's Acquisition and Contract Management
6. Improving DoD Financial Management and Budgeting
7. Building Resiliency to Environmental Stresses
8. Protecting the Health and Wellness of Service Members and their Families
9. Recruiting and Retaining a Modern Workforce
10. Preserving Trust and Confidence in the DoD

The FY 2022 Top Management Challenges Report can be found here:
https://www.dodig.mil/Reports/Top-DoD-Management-Challenges/Article/2842057/top-dod-management-challenges-fiscal-year-2022/

Appendix

GLOSSARY OF ACRONYMS

AECA	Arms Export Control Act of 1976
AFR	Agency Financial Report
BPC	Building Partnership Capacity
BS	Balance Sheet
CAP	Corrective Action Plan
CAS	Contract Administrative Services
CCDR	Combatant Commander
CCAD	Combatant Command
CFO	Chief Financial Officer
CRA	Continuing Resolution Authority
DATT	Defense Attaché
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
DIILS	Defense Institute of International Legal Studies
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
DoS	Department of State
DSCA	Defense Security Cooperation Agency
DSCU	Defense Security Cooperation University
DTRA	Defense Threat Reduction Agency
DTS	Defense Transportation System
EDA	Excess Defense Articles
EOP	Executive Office of the President
FAA	Foreign Assistance Act of 1961
FAD	Funding Authorization Document
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FAST	Federal Account Symbols and Titles
FBwT	Fund Balance with Treasury
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act of 1996
FMF	Foreign Military Financing
FMFDLFA	Foreign Military Financing Direct Loan Financing Accounts
FMFDLPA	Foreign Military Financing Direct Loan Program Accounts
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMLLA	Foreign Military Loan Liquidating Account

FMR	Financial Management Regulation
FMS	Foreign Military Sales
FY	Fiscal Year
GAFS	General Accounting and Finance System
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GMRA	Government Management Reform Act of 1994
HIPC	Highly Indebted Poor Countries
IA	Implementing Agency
IMET	International Military Education and Training
IMF	International Monetary Fund
ISG	Institute for Security Governance
JSF	Joint Strike Fighter
LEAP	Learning and Evaluation Agenda for Partnerships
LOA	Letter of Offer and Acceptance
MDA	Missile Defense Agency
MDRFA	Military Debt Reduction Financing Account
MDS	Missile Defense System
MILDEP	Military Department
NATO	North Atlantic Treaty Organization
NDS	National Defense Strategy
NGA	National Geospatial-Intelligence Agency
NSA	National Security Agency
ODO	Other Defense Organizations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPERA	Operational Environment Risk Analysis
OUSD(A&S)	Office of the Under Secretary of Defense (Acquisition and Sustainment)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
OUSD(P)	Office of the Under Secretary of Defense (Policy)
PP&E	Property, Plant, and Equipment
RSI	Required Supplementary Information
SA	Security Assistance
SAA	Security Assistance Accounts
SAIP	Security Assistance and International Programs
SBR	Statements of Budgetary Resources
SC	Security Cooperation
SCA	Security Cooperation Accounting
SCNP	Statement of Changes in Net Position
SCO	Security Cooperation Organization
SDAF	Special Defense Acquisition Fund
SDO	Senior Defense Official
SFFAS	Statement of Federal Financial Accounting Standard
SNC	Statement of Net Cost
TAS	Treasury Account Symbol
USACE	U.S. Army Corps of Engineers
USDT	United States Department of Treasury
USG	United States Government
U.S. GAAP	United States Generally Accepted Accounting Principles
USSGL	United States Standard General Ledger

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