SECURITY ASSISTANCE ACCOUNTS

AGENCY FINANCIAL REPORT

FISCAL YEAR 2023

Emergency Management Battlefield Expeditionary Response (EMBER) Course.
– Photo by Staff Sgt. Joseph Pagan

CONTENTS

F/A-18E Super Hornets taxi on the flight deck of the Nimitz-class aircraft carrier USS George Washington (CVN 73) in the Atlantic Ocean.
– Photo by Seaman Tyler Crowley

U.S. Marines in formation
– *Photo by Curioso.Photography*

PREFACE

The Security Assistance Accounts (SAA) Agency Financial Report (AFR) provides financial and performance information for the fiscal year (FY) beginning October 1, 2022, and ending on September 30, 2023, with comparative prior-year data where appropriate. Unless otherwise designated, each reference to a year indicates a fiscal year—e.g., "2023" refers to FY 2023. 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):** 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:** This act established the position of Chief Financial Officer (CFO). It requires audited financial statements for each major executive agency and designates the Director of the Office of Management and Budget (OMB) to prescribe the form and content of the financial statements.
- **Federal Financial Management Improvement Act of 1996 (FFMIA):** 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).
- **Reports Consolidation Act of 2000:** This act permits agencies to consolidate certain statutorily required reports into a single annual report and requires certain information be contained in the consolidated report.

How This Report Is Organized

The Idaho National Guard conducted night training operations Sept. 23, 2021.
– Photo by Master Sgt. Becky Vanshur

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. This 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 (SBR) by major fund.

Section III
OTHER INFORMATION

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

MESSAGE FROM THE DIRECTOR

DEFENSE SECURITY COOPERATION AGENCY

On behalf of the Defense Security Cooperation Agency (DSCA), I proudly present the Fiscal Year 2023 Security Assistance Accounts (SAA) Agency Financial Report (AFR). This is the principal means by which we share with our stakeholders – the Office of Management and Budget, the U.S. Department of the Treasury, the U.S. Department of State, the Congress, multiple Department of Defense (DoD) agencies, and the American people – the status and operations of the SAA. It is a transparent, in-depth review of SAA's finances and reflects our commitment to sound financial management.

DSCA is releasing this report against the backdrop of significant world events in which our community is asked to play a supporting role. Security Assistance programs are being used to support Ukraine's ability to defend itself and deter further Russian aggression, Israel in its conflict against Hamas, and allies and partner nations across the Indo-Pacific area of responsibility.

As the SAA continues its audit journey, we anticipate future audit findings to remain in line with DoD-wide material weaknesses that will require a cohesive and collaborative team effort across the Government to remediate – from the individual program offices up through policymakers in the Department of Defense and Department of State.

While the SAA received a disclaimer of opinion for our second full financial statement audit, as stated within the Report of Independent Auditors, DSCA and the entire security cooperation community continue to strive for a clean audit opinion by prioritizing financial management activity and technological advancements that foster audit remediation and material weakness reduction. 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 DSCA mission to foster enduring partnerships worldwide for years to come.

James A. Hursch | Director
Defense Security Cooperation Agency

Section I

MANAGEMENT'S DISCUSSION AND ANALYSIS

Representatives from government agencies attend the Defense Logistics Agency/Defense Security Cooperation Agency Foreign Military Sales summit. – *Photo by Christopher Lynch*

SECURITY ASSISTANCE ACCOUNTS OVERVIEW

The security cooperation (SC) comprises activities undertaken by the Department of Defense (DoD) 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 the DoD, the Department of State (DoS), or the Executive Office of the President (EOP). 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.

Table 1 provides an overview of the SAA as well as a detailed description of the funding type for each account. This information is also contained within *Note 1*, *Summary of Significant Accounting Policies*.

TABLE 1: SAA FUNDING OVERVIEW

Accounts	Description	Funding Type
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
Foreign Military Financing (FMF) Program Account: 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 Foreign Military Sales (FMS) program. The fund also includes appropriated administrative funds used to cover the DSCA costs of operating the FMF program.	General 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 United States government (USG) of post-FY-1991 FMF Direct Loan obligations.	General Fund / Subsidy Program

U.S. Airmen assigned to 353rd Special Operations Wing (SOW) U.S. Air Force Special Operations Command. – *U.S. Marine Corps photo by Cpl. Lance Kell*

Accounts	Description	Funding Type
Special Defense Acquisition Fund (SDAF): 11 4116 11 X 4116	SDAF is used to facilitate the delivery of materiel 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), as amended, 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 USG and its contractors.	Revolving Fund
Foreign Military Loan Liquidating Account (FMLLA): 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
FMF Direct Loan Financing Account: 11 X 4122	The FMF Direct Loan Financing Account, which is used to receive the payments for the subsidy cost from the program account 11 (FY) 1085, includes all other cash flows to and from the 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.	Revolving/ Financing 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.	Deposit Account

Accounts	Description	Funding Type
Advances, Foreign Military Sales (FMS), Funds Appropriated to the President 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. Alternatively, the fund 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 used to execute 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 (CAS) 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:** Used to cover the cost to the United States of transporting purchaser materiel using the Defense Transportation System (DTS) or a bill of lading.	Non-Revolving Trust Fund

SAA Legal Authorities

SAA authorizations and the appropriations that fund SA activities are provided primarily under Title 22 of the U.S. Code:

1. The Foreign Assistance Act of 1961 (FAA), as amended, was enacted 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 and internal and external security, in addition to other purposes. The FAA authorizes assistance programs and legal parameters governing all SA provided to foreign governments and international organizations (22 U.S.C. § 2151 et seq.).

2. The Arms Export Control Act of 1976, as amended, was enacted to amend the FAA. The act provides the authority to export defense articles and defense services to foreign countries and international organizations (22 U.S.C. § 2751 et seq.).

3. Congress also appropriates annual SA funding under the Foreign Operations, Export Financing, and Related Programs Appropriations Act each fiscal year.

Each year, an SA appropriations budget is requested as part of the President's budget submission. Legislative amendments may also be requested for congressional authorization and appropriation. 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 Program drawdown.

DSCA Mission

DSCA leads an SC enterprise of more than 16,000 personnel who provide policy, legal, financial, legislative, programmatic, and weapons system expertise to interagency stakeholders across the United States. DSCA's vision is to lead the SC enterprise in delivering effective, enduring, and timely solutions. The agency serves as the source for SC expertise and innovation for our defense and foreign policy stakeholders, ensuring the United States remains the global partner of choice. The DSCA mission is to advance U.S. defense and foreign policy interests by building the capacity of foreign partners. This support encourages and enables 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 the SC in concert with the DoS, Military Departments (MILDEPs), other USG organizations, U.S. industry, and non-governmental organizations. Together, the SC community provides financial and technical assistance; provisions defense articles and services via nationally funded cases; issues financing for defense articles and services, including training, that are provided through the FMS program; and delivers training funded under IMET authorities.

Organizational Structure

While DSCA manages the SAA, the DoS is responsible for the continuous supervision and general direction of SA programs. DSCA directly manages the SAA, MILDEPs, and applicable DoD agencies—collectively known as the Implementing Agencies (IAs)—to execute most SAA funds.

The Secretary of each MILDEP advises the Secretary of Defense (SecDef) on SA issues pertaining to their department and performs the following major actions in support of the SC mission:

- Provides price, source, availability, and lead-time data of requested defense articles to develop and implement FMS cases;
- Sells and delivers defense articles and services to eligible countries and international organizations; and
- Conducts training for foreign military and civilian personnel.

The following MILDEP offices lead their respective departments as IAs in support of the SC mission:

- **Department of the Air Force**: Office of the Deputy Under Secretary of the Air Force for International Affairs

- **Department of the Army**: Office of the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation
- **Department of the Navy (including the U.S. Marine Corps and U.S. Coast Guard)**: Navy International Programs Office

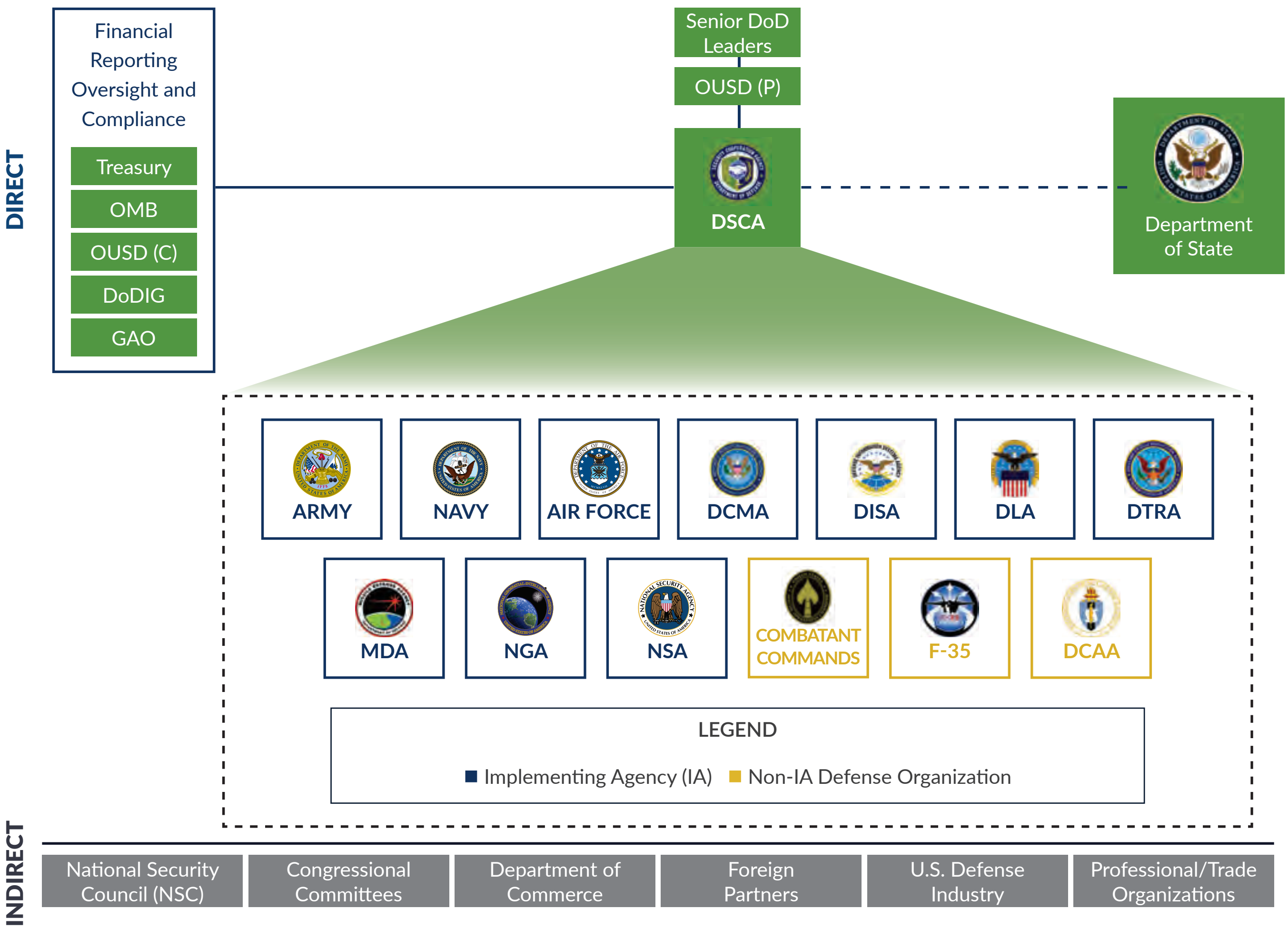
In addition to the MILDEPs, other DoD agencies serve as IAs that manage and execute FMS cases that contribute to the SC mission.

The Defense Finance and Accounting Service (DFAS) is a service provider for the SAA. DFAS performs accounting, billing, disbursing, and collecting functions in support of the SC mission. Furthermore, DFAS prepares the SAA financial statements on behalf of DSCA. DSCA and DFAS maintain a mission work agreement that details the finance and accounting services that DFAS performs on behalf of DSCA.

SAA Stakeholders

Figure 1 depicts the relationships among the SAA stakeholders.

FIGURE 1: SAA STAKEHOLDERS



Responsibilities and Relationships

Congress has a keen interest in the sale and transfer of defense articles and services to foreign countries and international organizations. Congress authorizes and appropriates funds for the portions of SA financed by the U.S. government (USG) and provides contract authority to SA stakeholders. Executive Branch agencies such as the Office of Management and Budget (OMB), the United States Department of the Treasury (hereafter referred to as "Treasury"), and others have responsibilities related to SA; however, aside from the President, the principal legislated responsibilities fall to the DoS and the DoD.

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; and
- Third-party transfers of exported defense articles and services.

In addition, the DoS performs the following functions:

- Verifies 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;
- Prepares the Mission Strategic Resource Plan;
- 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
- Reviews and submits the annual arms sale proposal (Javits Report) as required by AECA 25(a)(1) (22 U.S.C. 2765(a)(1)).

DEPARTMENT OF DEFENSE (DoD)

The Secretary of Defense establishes military requirements and implements programs to transfer defense articles and services to eligible foreign countries and international organizations. Within the DoD, the principal responsible agencies for the SC are DSCA, the Joint Staff, SCOs, and the MILDEPs.

The Office of the Under Secretary of Defense for Policy (OUSD(P)) serves as the principal staff assistant and advisor to the Secretary of Defense on SC matters.

In that capacity, OUSD(P):

- Develops and coordinates DoD guidance which disseminates the SecDef's SC goals and priorities;
- Articulates the SecDef's SC goals, policies, and priorities to other USG agencies to help shape national security objectives and enable greater unity of effort;
- Oversees the direction and administration of DoD-wide policy guidance for the execution of SA and additional DoD SC program; and
- Represents the SecDef's interests in SC matters and serves as the DoD point of contact and representative for the SC.

DEFENSE SECURITY COOPERATION AGENCY (DSCA)

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

The Director of DSCA is responsible for the execution and administration of all SC 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.

In coordination with the OUSD(P) and the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)), as appropriate, DSCA performs the following functions:

- Ensures the interests of the SecDef and OUSD(P) are represented in SA matters;
- 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; and
- Communicates directly with the heads of DoD components on SC matters over which DSCA has responsibility.

DSCA also supports the development of policies and procedures for technology security; foreign disclosure and sales; and defense agreements and procedures with the Director, Defense Intelligence Agency (DIA) and the combatant commands (CCMDs) for senior defense officials and defense attachés to provide guidance in accordance with applicable laws and regulations. In addition, the agency oversees SC programs for which it is directly responsible.

Furthermore, DSCA coordinates with other defense agencies to perform the following functions:

- In coordination with the Chairman of the Joint Chiefs of Staff, approves joint manpower programs involving the establishment of new security cooperation organizations (SCOs) or changes in manpower authorizations or organizational structure;
- Along with the Director of the DIA, jointly approves changes to the grade or MILDEP affiliation of the senior defense officials or defense attachés;
- Reports to the Under Secretary of Defense for Personnel and Readiness in the Defense Readiness Reporting System the readiness of personnel for SA activities in DoD SC programs over which DSCA has responsibility; and
- Acts as the executive agent for the DoD Regional Centers for Security Studies.

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

Implementing Agencies (IAs)

Other agencies 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 SecDef on all SC matters affecting or related to their respective support to the combatant commanders (CCDRs). IAs also perform the following functions:

- Provide recommendations to the SecDef to ensure the successful conduct of SC programs;
- 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;
- 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;
- Maintain appropriate records and furnish prescribed reports as requested;
- Ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities; and
- Assist the OUSD(A&S) and the Director of DSCA, as requested, in government-to-government or interdepartmental discussions or negotiations involving the SC.

DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA)

DCMA performs contract administration and management, quality assurance, and inspection for the DoD, other federal agencies, and foreign governments and international organizations, as authorized. This function includes contracts that support FMS cases.

DEFENSE INFORMATION SYSTEMS AGENCY (DISA)

DISA is a combat support agency of the DoD composed of more than 20,000 service members, civilians, and contractors. 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. DISA's international programs provides products and services such as interoperability testing, software licensing and technical support to allies, coalition partners, and selected foreign nations, as determined to be in the national interest of the United States.

DEFENSE LOGISTICS AGENCY (DLA)

The Director of DLA advises the SecDef on all SC matters impacting DLA and acts for the SecDef when responsibility has been delegated. DLA prepares FMS cases to be catalogued at the DLA Logistics Information Service and excess defense articles to be processed 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 the U.S. Army Medical Materiel Agency), clothing and textiles, subsistence, and bulk petroleum. As the item managers 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 THREAT REDUCTION AGENCY (DTRA)

DTRA provides cross-cutting solutions to enable the DoD, the USG, and international partners to deter strategic attacks against the United States and its allies; prevent, reduce, and counter weapons of mass destruction (WMDs) and emerging threats; and prevail against WMD-armed adversaries in crisis and conflict.

THE MILITARY DEPARTMENTS (MILDEPs)

In coordination with the OUSD(P), the MILDEPs develop campaign support plans, as appropriate; serve as IAs to conduct SC programs and activities; and complete campaign support plan assessments contributing to CCMD campaign plans, as appropriate. Additionally, the MILDEPs perform the following functions:

- Serve as advisors to the SecDef on all SC matters affecting or related to their respective department's support to the CCDRs;
- Provide recommendations to the SecDef to ensure the successful conduct of SC programs;
- Conduct international armaments cooperation with eligible, friendly foreign countries and international organizations in accordance with policies and criteria established by the OUSD(A&S);
- Conduct military education, training, and sales of defense articles and services to eligible foreign countries and international organizations in accordance with policies and criteria established by the OUSD(P) and the Director of DSCA;
- Provide 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;
- Maintain appropriate records and furnish prescribed reports as requested;
- Provide qualified military and civilian personnel to carry out SC assignments according to approved tables of distribution and other authorizations, directives, and requests;
- Ensure conformance with technology transfer, classified military information release, and disclosure policies for their respective areas of responsibility while conducting SC activities; and
- Assist 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). The agency works closely with the CCDRs who rely on the system to accomplish its mission to develop and deploy a layered MDS to defend the United States as well as 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 USG in cryptology that encompasses both signals intelligence insights and cybersecurity products and services. The agency 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 major military commands and 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.

Non-IA Defense Organizations

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.

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, including contracts that support FMS cases.

F-35 PROGRAM

Previously referred to as the Joint Strike Fighter (JSF) program, the F-35 program is the DoD's focal point for defining affordable, next-generation strike aircraft weapon systems for the Navy, Air Force, Marines, and our allies. The focus of the program is affordability—reducing the development cost, production cost, and cost of ownership of the JSF family of aircraft.

Execution of SAA Fund Types

FMS Case Funding

Figure 2 provides a high-level overview of the general FMS case process from signing the Letter of Offer and Acceptance (LOA) to disbursement/outlays. At the start of the financial process, when the LOA is signed by the partner and the 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 has been signed and the initial deposit has been made, the FMS Case is implemented and contract authority for the full case value is received. Obligational authority is then provided to the IAs on either FMS or Building Partner Capacity (BPC) cases.

The BPC programs, which encompass SC and SA activities funded with USG appropriations, are executed leveraging FMS case processes and systems. These programs provide defense articles and/or services to other USG departments and agencies under 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 and DoS appropriated funds are made available to DSCA, transferred to the FMS Trust Fund to fund BPC cases, and then distributed to the IAs for execution.

Per OMB Circular No. A-11, agencies receiving funds via an interagency agreement are required to track the funding by the period of availability. Due to the FMS Trust Fund's inability to track funding by period of availability, the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) has requested that BPC funds no longer be transferred into the FMS Trust Fund. In FY 2022, DSCA initiated an effort to decouple BPC funds from the FMS Trust Fund. As a short-term solution, the IAs will track all BPC funding by fiscal year. All article/service accounting will continue to be recorded using the FMS Trust Fund and current case management systems through FY 2024. Indirect charges will be eliminated from the articles/services case. The IAs will create a direct cost support BPC case for each BPC authority to pay all previous indirect costs (FMS Admin, Transportation, Packing Crating & Handling, and CAS) as direct charges. The estimated costs on this new direct cost support case will be listed as a line on the BPC case. DSCA will continue to oversee, report, and track activity as currently being accomplished.

DSCA is currently collaborating with the DoS to develop a long-term solution to decouple all BPC financial transactions from the FMS process. This long-term solution will be implemented once IT and financial system changes/updates have occurred.

FIGURE 2: GENERAL FMS CASE FLOW

FMS Administrative Funding

The legal authority for collecting the FMS Administrative Surcharge is 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 3 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 and distribute the appropriate amounts. With the funds distribution process complete, claimants can execute the FMS Administrative funding.

Additional accessorial surcharges include:

- A CAS surcharge, which is used to fund three basic elements: quality assurance and inspection, contract management, and contract audit.
- A transportation surcharge, which is used to cover the cost to the United States of transporting purchaser materiels using the DTS or a Bill of Lading.

FIGURE 3: FMS ADMIN FUND FLOW

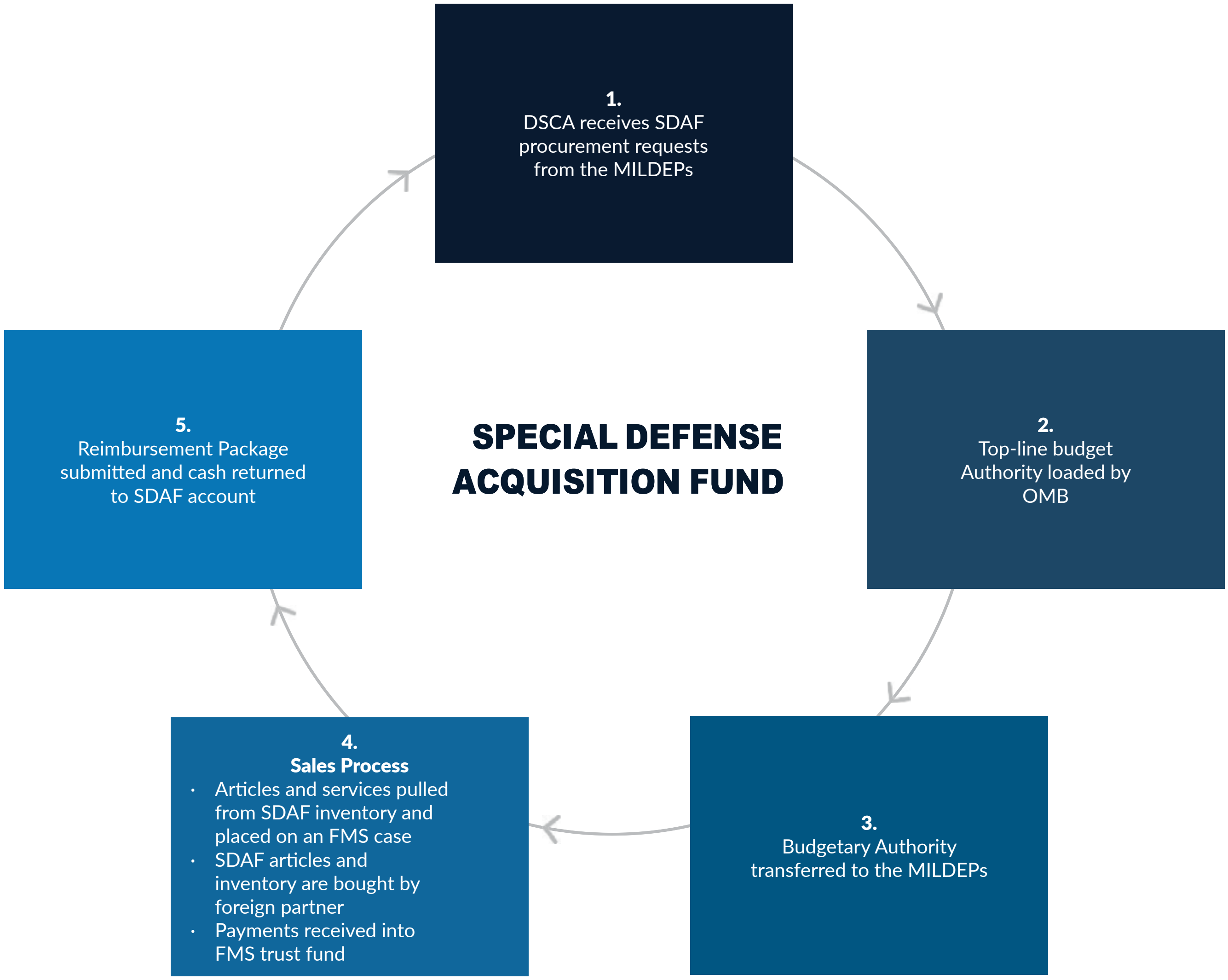
Special Defense Acquisition Fund

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 to plan 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 statutory authority for SDAF is section 51 of the AECA, while 10 U.S.C. Section 114(c) establishes a ceiling on the size of the Fund. The SDAF 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 with $100 million of FMF funding pursuant to Section 7090 of the Department of State, Foreign Operations, and Related Programs Appropriation Act, 2012 (Public Law 112-74). This law also provided a four-year obligation authority for funds in the account.

Figure 4 provides a high-level flow of the SDAF process beginning with the MILDEPs submitting SDAF procurement requests to DSCA. The DoD, in consultation with the 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 4: SDAF FUND FLOW

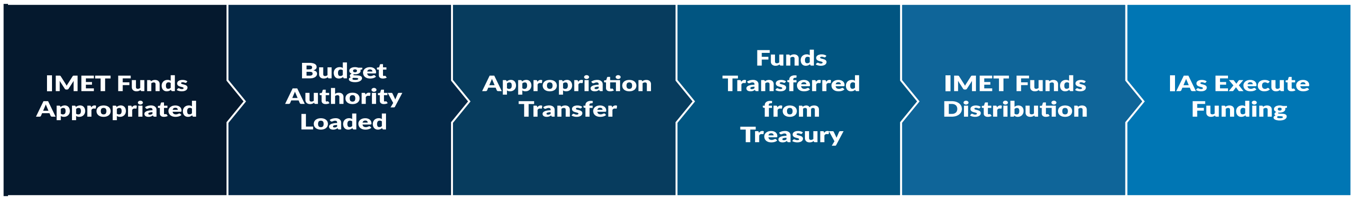


International Military Education and Training Funding

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 as well as military students, practices, standards, and professionalism.

The IMET funding flow shown in figure 5 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 Treasury. 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 5: IMET FUND FLOW

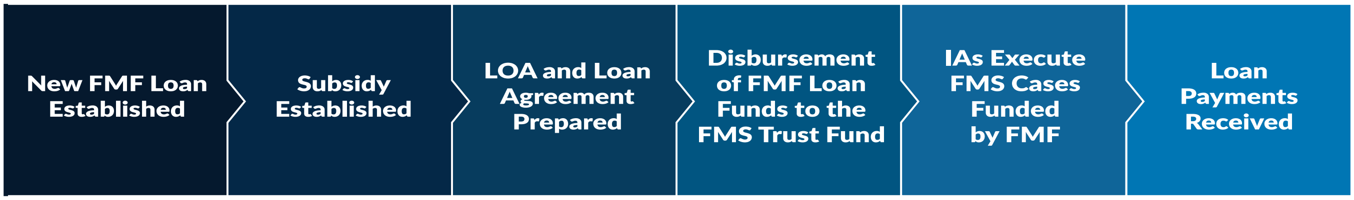


Foreign Military Financing Direct Loan Funding

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 with the appropriation of funds for FMF direct loans. The DoS then approves and allocates 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 USG. 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 Treasury borrowings. When FMS cases being funded by an FMF Direct Loan are accepted, an LOA is prepared to support the case and a disbursement is made by Treasury into the FMS Trust Fund. IAs can execute these cases once the funds have been disbursed into the FMS Trust Fund. See figure 6 for an end-to-end FMF Direct Loan fund flow.

A C-17 Globemaster III assigned to Dover Air Force Base, Delaware. – *U.S. Air Force photo by Senior Airman Faith Barron*

FIGURE 6: FMF DIRECT LOAN FUND FLOW



Foreign Military Financing Program (Grants) Funding

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

FIGURE 7: 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 nation.

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 2023, 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 to support reporting progression on fulfilling these FY 2024 objectives.

ANALYSIS OF FINANCIAL STATEMENTS

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

One of the SAA's biggest financial management challenges is the disparate system and stakeholder environment used to process SAA transactions. SAA transactions are executed across multiple general ledger accounting systems, each of which may have its own business rules and posting logic. Because of these differences, there may be inconsistent application of accounting principles across the SAA. DSCA management has several efforts underway to address the root causes of these disparate environments. To increase auditability and provide transaction detail support for financial statement lines, DSCA is using Advana, the DoD's platform for advanced analytics, as a key tool to ingest and standardize data from across the SAA environment to create a universe of transactions. DSCA management is also working on efforts to standardize accounting data through system modernization and posting logic implementation initiatives.

There are ongoing challenges with Information Technology (IT) for the SAA. DSCA is leaning forward on resolving the control gaps over IT controls and managing the dependencies on other DoD systems with IT findings that impact the SAA audit. DSCA management continues to work across the DoD to align system modernization efforts to consolidate IT risk mitigation efforts, reduce redundancies for IT supporting SAA financial transactions, and ensure legacy SC systems are compliant with the appropriate requirements, such as National Institute of Standards and Technology (NIST) 800-53, FFMIA, FMFIA, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and OMB Circular No. A-130, *Managing Information as a Strategic Resource*.

Lastly, DSCA management identified SAA's inability to accurately recognize, value, record, and report inventory or Property, Plant, and Equipment (PP&E) procured by SAA funds as a key financial management challenge. DSCA plans to continue to develop and execute corrective actions to address all policy and system dependencies related to the recording and monitoring of inventory and PP&E, restructure various contracts to allow IAs to allocate major end items or services to individual defense articles, and develop processes, internal controls, and standard operating procedures to identify, value, record, manage, and report SAA assets.

The following financial summary and highlights provide a brief description of the nature of each financial statement and significant fluctuations from FY 2022 to FY 2023. 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, 2023, and September 30, 2022, report current and future economic benefits owned or managed by SAA (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

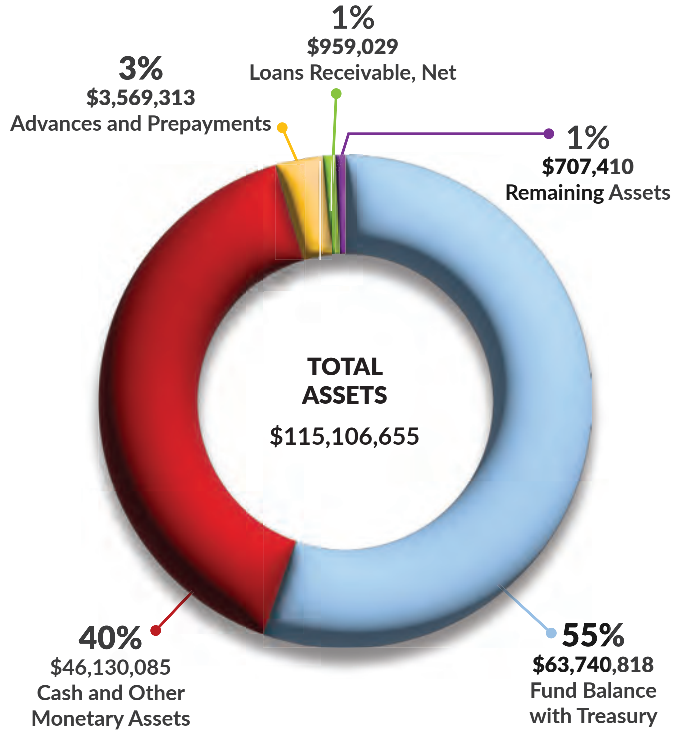
TABLE 2: TABLE OF KEY FINANCIAL MEASURES - BALANCE SHEETS (AMOUNTS IN THOUSANDS)

SUMMARY CONSOLIDATED BALANCE SHEETS DATA	2023	2022	CHANGE	% CHANGE
Fund Balance with Treasury	$ 63,740,818	$ 51,966,897	$ 11,773,921	23%
Cash and Monetary Assets	46,130,085	39,872,408	6,257,677	16%
Loans Receivable, Net	959,029	1,446,013	(486,984)	(34%)
Advances and Prepayments	3,569,313	786,930	2,782,383	354%
Remaining Assets	707,410	669,680	37,730	6%
Total Assets	$ 115,106,655	$ 94,741,928	$ 20,364,727	21%
Accounts Payable	$ 18,102,774	$ 18,333,442	$ (230,668)	(1%)
Advances from Others and Deferred Revenue	224,608,718	167,950,103	56,658,615	34%
Other Liabilities	46,636,706	40,379,697	6,257,009	15%
Remaining Liabilities	562,776	1,041,841	(479,065)	(46%)
Total Liabilities	$ 289,910,974	$ 227,705,083	$ 62,205,891	27%
Unexpended Appropriations	$ 12,214,219	$ 12,504,726	$ (290,507)	(2%)
Cumulative Results of Operations	(187,018,538)	(145,467,881)	(41,550,657)	29%
Total Net Position	$ (174,804,319)	$ (132,963,155)	$ (41,841,164)	31%
Total Liabilities and Net Position	$ 115,106,655	$ 94,741,928	$ 20,364,727	21%

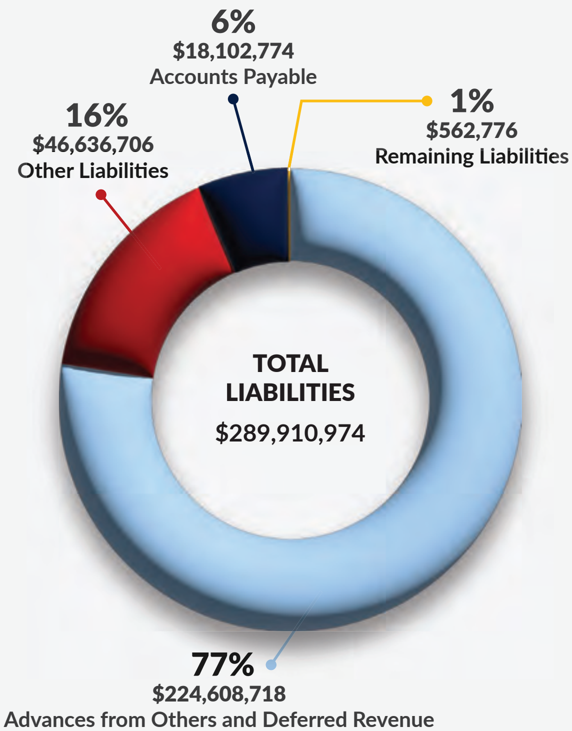
Assets

The SAA's Total Assets were $115.1 billion as of September 30, 2023, an increase of $20.4 billion (21 percent) over the 2022 total. Most of this increase is attributed to SAA's largest asset, Fund Balance with Treasury (FBwT), which increased $11.8 billion (23 percent) over the 2022 total. This was primarily due to increased cash collections and surcharges in the FMS trust fund that resulted from higher valued FMS cases implemented in FY 2023 than in FY 2022.

FY 2023 SAA Assets
(amounts in thousands)



FY 2023 SAA Liabilities
(amounts in thousands)



Liabilities

The SAA's Total Liabilities were $289.9 billion as of September 30, 2023, an increase of $62.2 billion (27 percent) over the 2022 total. Most of this increase is from Advances from Others and Deferred Revenue, which increased by $56.7 billion (34 percent). The $56.7 billion increase in Advances from Others and Deferred Revenue is primarily driven by an increase in cash collections received from foreign partners.

Ending Net Position

The SAA's Net Position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, decreased $41.8 billion (31 percent) between 2023 and 2022. Cumulative Results of Operations decreased $41.6 billion, due to higher valued FMS cases implemented in FY 2023.

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, 2023 and 2022. 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	2023	2022	CHANGE	% CHANGE
Gross Costs	$ 123,439,000	$ 102,322,370	$ 21,116,630	21%
Less Earned Revenue	(20,197,941)	(19,467,727)	(730,214)	4%
Total Net Cost of Operations	**$ 103,241,059**	**$ 82,854,643**	**$ 20,386,416**	**25%**

SAA's Net Cost of Operations increased $20.4 billion (25 percent) between 2023 and 2022. This is a result of a $21.1 billion increase (21 percent) in Gross Costs, largely driven by a significant increase in the value of new FMS cases implemented in FY 2023.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

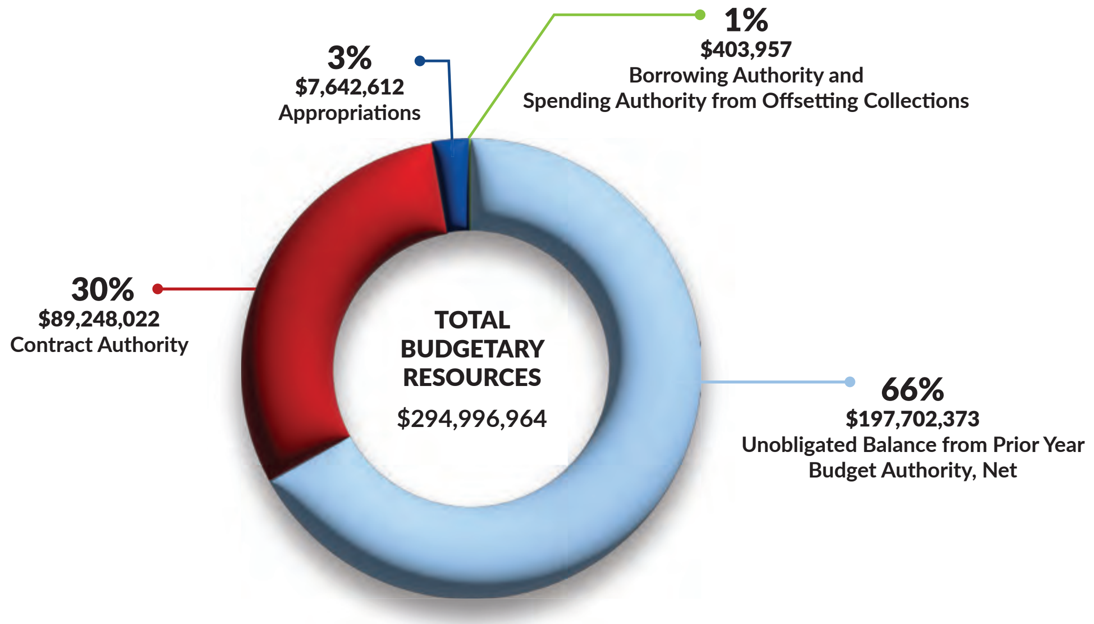
The Combined Statements of Budgetary Resources present SAA's total budgetary resources, their status at fiscal year-end, and the relationship between the budgetary resources and the outlays made against them. Per federal statutes and related regulations, obligations may be incurred, and payments made 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	2023	2022	CHANGE	% CHANGE
Unobligated Balance from Prior Year Budget Authority, Net	$ 197,702,373	$ 180,140,886	$ 17,561,487	10%
Appropriations	7,642,612	11,733,266	(4,090,654)	(35%)
Borrowing Authority	219,721	184,611	35,110	19%
Contract Authority	89,248,022	53,271,225	35,976,797	68%
Spending Authority from Offsetting Collections	184,236	133,740	50,496	38%
Total Budgetary Resources	**$ 294,996,964**	**$ 245,463,728**	**$ 49,533,236**	**20%**

SAA's Budgetary Resources increased 20 percent between FY 2023 and FY 2022. Contract Authority increased by $36.0 billion (68 percent) due to higher FMS case values implemented in FY 2023 compared to FY 2022.

FY 2023 Total Budgetary Resources
(amounts in thousands)



SAA Budget Authority

The SAA receives budget authority in multiple ways. The overall SAA budget authority was $295 billion for FY 2023. The following table describes the types of budget authority for each of SAA's funds. Most accounts are funded solely through appropriations, with a few accounts funded through contracts, borrowing from Treasury, or through offsetting collections.

TABLE 5: SAA BUDGET AUTHORITY BREAKDOWN

FORM OF BUDGET AUTHORITY	FUND	CHARACTERISTICS
Appropriation	IMET – 1081 FMF Program – 1082 FMF Direct Loan – 1085 FMF Admin – 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 Materiel – 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 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, 2023, due to six self-identified material weaknesses in the following areas:

1. Lack of FBwT 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 FMS Trust Fund

FMFIA and OMB Circular No. A-123 Compliance – Systems

Also, in accordance with OMB Circular No. A-123, DSCA conducted its assessment of the effectiveness of internal controls over financial systems, per OMB Circular No. A-123. Based on the assessment results, DSCA was unable to provide assurance that internal controls over financial systems for the SAA are operating effectively as of September 30, 2023, 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 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.

Legal Compliance

The Anti-Deficiency Act (ADA), 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 OMB Director, Congress, and the Comptroller General of the United States.

DSCA management has identified three potential violations of the ADA as reported in the FY 2023 Audit Report. These potential violations are in various stages of the investigation process and thus, there have been no final determinations made as to whether these potential violations are, in fact, ADA violations. Therefore, they were not reported in the FY 2023 Statement of Assurance.

DEFENSE SECURITY COOPERATION AGENCY
2800 DEFENSE PENTAGON
WASHINGTON, DC 20301-2800

DATE: October 02, 2023

TO: Office of the Undersecretary of Defense (Comptroller) Deputy Chief Financial Officer

FROM: Director of the Defense Security Cooperation Agency

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2023

- 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.

- 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 SAA activities. Based on the results of the assessment, DSCA can provide reasonable assurance that internal controls over DoD Appropriated Funds operations and compliance are operating effectively as of September 30, 2023.

  DSCA is unable to provide assurance that internal controls over the SAA operations and compliance are operating effectively as of September 30, 2023. DSCA is in the first stages of corrective action implementation to address coordination, verification, and monitoring of SAA practices.

- 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."

- 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, 2023, 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 on DFAS' material weakness reporting and will continue to engage with DFAS in support of its remediation efforts.

- 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, 2023, 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 SAA Community to implement corrective actions to remediate the material weaknesses identified.

- DSCA is developing corrective action plans to resolve financial management issues identified during the reporting period that were highlighted by the SAA audit. Several efforts are underway to address the root causes of these disparate environments. To increase auditability and provide transaction detail support for financial statement lines, DSCA is utilizing Advana, the DoD's platform for advanced analytics, as a key tool to ingest and standardize data from across the SAA environment to create a universe of transactions (UoT). DSCA management is also working on efforts to standardize accounting data through system modernization and posting logic implementation initiatives.

- DSCA management identified SAA's inability to accurately recognize, value, record, and report inventory or Property, Plant, and Equipment (PP&E) procured by SAA funds as a key financial management challenge. DSCA plans to continue to develop and execute corrective actions to address all policy and system dependencies related to the recording and monitoring of inventory and PP&E, restructure various contracts to allow Implementing Agencies (IAs) to allocate major end items or services to individual defense articles, and develop processes, internal controls, and standard operating procedures (SOPs) to identify, value, record, manage, and report SAA assets.

- DSCA management continues to work cross-functionally with other DoD entities to consolidate IT risk mitigation efforts and reduce redundancies that support SAA financial transactions. Furthermore, DSCA management will continue to leverage the DoD community to streamline service provider oversight and guidance to minimize risk and negative impacts to the enterprise.

- DSCA has conducted an assessment of internal 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 GAO-15-593SP, "A Framework for Managing Fraud Risks in Federal Programs," dated July 2015. This internal review also included an evaluation of the internal controls around our SAA activities.

- Based on the results of the assessment, DSCA can provide reasonable assurance that entity-level controls, including fraud controls, are operating effectively relating to the Title 10 DoD Appropriated Funds activities as of September 30, 2023.

- DSCA is unable to provide assurance that entity-level controls, including fraud controls, are operating effectively relating to the Title 22 SAA activities within the Implementing Agencies as of September 30, 2023. DSCA has coordinated with the IAs to initiate a corrective action plan (CAP) to address coordination, verification, and monitoring in support of SAA oversight practices.

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

- DSCA demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority (PDA).

If there are any questions regarding this Statement of Assurance for fiscal year 2023, my point of contact is Mr. Frederick Dennison, who can be reached in the office at 703-697-9260, on his mobile at 757-575-6560, and by email at Frederick.r.dennison2.civ@mail.mil.

James A. Hursch

James A. Hursch, Director
Defense Security Cooperation Agency

Page | 4

FORWARD-LOOKING INFORMATION

The FMS program is a critical tool used to achieve U.S. foreign policy objectives and strategic outcomes identified in the 2022 National Defense Strategy (NDS). The department advances NDS priorities through integrated deterrence, campaigning, and actions that build enduring advantages.

Integrated deterrence requires close collaboration with allies and partners and deepens interoperability across the full spectrum of capabilities enabling the militaries to meet shared security interests. DSCA administers the SAA, in close collaboration with offices across the DoD and the national security apparatus, addressing longstanding challenges that affect the implementation and administration of the FMS program and inherent DoD acquisition system relationships and dependencies.

Acquisition sourcing facilitates SA as a subset of DoD SC via the DoD acquisition system. Cumulative U.S. and international demand on the acquisition system impacts FMS availability, cost, schedule, and delivery. Increased cost of systems and infrastructure to meet future technology, energy and resiliency demands will make systems less affordable and competitive in comparison with adversarial global competitors such as China and Russia.

China

The NDS highlights the encroachment by the People's Republic of China (PRC) as the pacing global security threat. Furthermore, the NDS positions the United States to develop new operational concepts and enhanced future warfighting capabilities against potential PRC aggression, highlighting that collaboration with allies and partners will cement joint capability.

The United States, treaty allies, and partners are continuing to develop interoperable capabilities for integrated deterrence, driving increasing demand for the entire range of defense articles, services and training facilitated through FMS.

Russia

Unprecedented drawdown from U.S. stocks and partner nations' similar actions drawing from their arsenals to provide Ukraine with armaments to aid military resistance against Russia's unprovoked invasion have created an increased demand for recapitalization of U.S. and partners' and allies' arsenals. The end of Russian hostilities and the war in Ukraine is unknowable, and restocking U.S., European, and extra-regional partners is expected to extend for many years into the future.

Demand for Commercial Solutions / Non-Program of Record

Non-program of record/commercially available systems, enabling capabilities such as cyber, operational and maintenance training systems, and technologically complex systems remain in high demand. The global security environment conditions will require the United States, partners and allies to balance investments in their defense inventories with operational requirements and the use of emerging technologies while maintaining interoperability and integrated deterrence to effectively thwart adversarial actors.

Resiliency

Increased resiliency against risk in cyber, energy, and climate change threats will incur additional costs. These costs, if deferred, will create risk of potentially catastrophic impacts to vulnerable partner nations and allies, especially with regards to cybersecurity, and climate change. Investments in unproven technology may be costly and ineffective. Transition to proven technology solutions will likely be accomplished via disparate long-term efforts. Success of these solution sets will require U.S. investment for U.S. warfighter needs, design for interoperability and exportability, and where applicable, FMS cases with partners and allies, funded by partner nations, to procure and implement solutions.

Climate

Climate impacts to the United States and partners and allies are likely to be reflected as an increased indirect acquisition cost for defense systems and training due to higher infrastructure and energy costs to public and private sector entities. Increased volatility in weather patterns will also drive higher pre-delivery storage requirements and long-term sustainment costs for the U.S. military and partner nations' militaries. The SAA leverages the DoD's Climate Resilience Portal at **https://www.climate.mil** to obtain scientifically credible, neutral, authoritative, and actionable climate change information.

LIMITATIONS OF THE 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 Federal 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 USG.

Advisors from 2nd Security Force Assistance Brigade practice the react to contact battle drill during a live-fire exercise on Fort Bragg, NC, Jan. 05, 2023. – *U.S. Army photo by Spc. Jonathan Vitale*

Section II

FINANCIAL SECTION (UNAUDITED)

Members of the 72d Aerial Port Squadron and the Brazilian Air Force load and tie down Mark 82 munitions on a K-loader. – *Brazilian Bomb Lift photo by Master Sgt. Grady Epperly*

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

It is my privilege to join Director Hursch in presenting the FY 2023 Agency Financial Report for the SAA. This in-depth report provides financial and performance information to provide insights to the public on SAA activities as we execute the SC mission to advance national security, defense, and foreign policy objectives for both the United States and our global allies.

In FY 2023, the SAA underwent its second financial statements audit and received a disclaimer of opinion from the independent auditors. We take this invaluable feedback as an opportunity to continue to focus on key areas for improvement and to develop strategies that will only strengthen the SC community in the years to come. Progress towards a clean audit opinion for the SAA is a top objective for SC leadership to further promote trust from our foreign partners and to demonstrate that the USG is the partner of choice for FMS and SC.

To achieve our top objective of a clean audit opinion, DSCA and the SC community have developed CAPs with over 500 distinct milestones to address the Notices of Findings and Recommendations issued by the auditors during FY 2022. DSCA also developed the first annual SAA audit roadmap to keep the DoD community updated on the status and progress towards a clean audit opinion. Furthermore, DSCA has continued to lead the implementation of operational, programmatic, and systemic changes throughout the SC community to decouple BPC transactions from the FMS Trust Fund by FY 2025.

I am honored to work alongside DSCA, the implementing agencies, OUSD(C), Defense Financial and Accounting Services, and all other stakeholders that helped support the SAA for audit and provide the necessary information to develop this report. I am confident that through our collaboration and continued remediation efforts, we will achieve a clean audit opinion.

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

REPORT OF INDEPENDENT AUDITORS

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

November 8, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
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 2023 and FY 2022
(Project No. D2023-D000FP-00035.000, Report No. DODIG-2024-013)

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 years ended September 30, 2023, and 2022. 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 SAA'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," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. 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 statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Cotton did not express an opinion on the DSCA SAA's FY 2023 and FY 2022 Financial Statements and related notes.

Cotton's report, "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters," discusses 14 material weaknesses related to the DSCA

SAA's internal controls over financial reporting.* Specifically, Cotton's report stated that the DSCA SAA did not:

- have transaction-level detail populations to support material beginning balances in general ledger accounts;
- have a consistent and complete universe of transactions in Advana;
- design and implement entity-level controls to monitor the implementing agencies' internal control, and review the scope of the information systems that impacted 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, and provide sufficient supporting documentation to substantiate selected new obligations transactions;
- 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;
- accurately identify SAA intragovernmental transactions, fully reconcile these transactions with all Federal trading partners, perform receipt and acceptance procedures for intragovernmental transactions, and provide sufficient supporting documentation to determine whether the correct Federal or

* 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.

non-Federal indicator was used for selected operating expenses and new obligations transactions;

- record various journal vouchers with proper support;
- establish policies and procedures that govern the monitoring of third-party service providers, and complementary user entity controls at the entity-wide level;
- provide sufficient supporting documentation to substantiate selected operating expense transactions; or
- accurately account for funds held outside of Treasury in accordance with applicable guidance, or completely and accurately account for specific SAA cases activity in the general ledger.

Cotton's report, also discusses four instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Cotton's report describes instances in which the DSCA SAA did not comply with the Federal Financial Management Improvement Act of 1996, the Federal Manager's Financial Integrity Act of 1982, and 31 U.S.C. § 1514(a), the Administrative Division of Apportionments. In addition, Cotton's report discloses potential violations to the Antideficiency Act, which are under ongoing investigations.

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's FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DSCA SAA'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 8, 2023, report and the conclusions expressed within the report.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

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 | www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

Director, Defense Security Cooperation Agency (DSCA)

In our engagement to audit the FYs 2023 and 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 14 material weaknesses and 8 significant deficiencies in internal control over financial reporting as of September 30, 2023.
- Found noncompliance with:
  - The Federal Financial Management Improvement Act of 1996 (FFMIA);
  - 31 U.S.C. § 3512(c) and (d), commonly referred to as the Federal Managers' Financial Integrity Act of 1982 (FMFIA); and
  - 31 U.S.C. § 1514(a); as well as potential violations of the Antideficiency Act, as of September 30, 2023.

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 sheets as of September 30, 2023 and 2022; the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the FYs 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.

Cotton
A SIKICH COMPANY

Basis for Disclaimer of Opinion
Management did not provide sufficient appropriate audit evidence to support the amounts in the consolidated financial statements due to insufficient processes, controls, and records to support transactions and account balances. As a result of these matters, we were unable to determine whether any adjustments might have been necessary related to the FYs 2023 and 2022 balances reported on the accompanying DSCA SAA financial statements.

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; 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. 24-01, *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 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 FYs 2023 and 2022 financial statements, upon which we disclaimed an opinion because of the matters described above, we attempted to consider the DSCA 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 on the financial statements, but not for the purpose of expressing an

Cotton
A SIKICH COMPANY

opinion on the effectiveness of the DSCA SAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DSCA 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 14 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 eight deficiencies described in Appendix A to be significant deficiencies.

Inherent Limitations of Internal Control over Financial Reporting
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 FYs 2023 and 2022 financial statements, we performed tests of the DSCA 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 DSCA 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 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 generally concurred with the findings in our report. We did not audit DSCA's comments, and accordingly, we express no opinion on the comments.

Cotton
A SIKICH COMPANY

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the "Other Reporting Required by *Government Auditing Standards"* section of our report 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 8, 2023

Cotton
A SIKICH COMPANY

Appendix A: Material Weaknesses and Significant Deficiencies

During our engagement to audit the FYs 2023 and 2022 Defense Security Cooperation Agency (DSCA) Security Assistance Accounts (SAA) financial statements, we identified deficiencies in internal control over financial reporting. These deficiencies constitute 14 material weaknesses and 8 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 *(Repeat Finding)*

Condition: Material beginning balance general ledger (GL) accounts that comprise the balance sheets and the statements 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, 2022 and 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 are 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 FYs 2023 and 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 the Office of the Under Secretary of Defense (Comptroller), DFAS, system owners, and implementing agencies (IAs), update its existing related CAP to include corrective action milestones designed to further address the causes of the conditions reported in this material weakness, with a focus 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 *(REPEAT FINDING)*

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 has not been ingested into the Advana system.
- 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 the 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.

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 validation to assess 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 *(REPEAT FINDING)*

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*

Cotton
A SIKICH COMPANY

- 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 *(REPEAT FINDING)*

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

Cotton
A SIKICH COMPANY

- 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 *(REPEAT FINDING)*

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.

Additionally, DSCA and the IAs were unable to provide sufficient supporting documentation by the established due date for certain transactions that we selected in our nonstatistical selection of new obligations.

Criteria:

- FFMIA
- FMFIA
- 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, *Management of Financial Management Systems – Risk and Compliance*

- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- USSGL Part 1, FY 2023 Reporting, Section II, *Accounts and Definitions*

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.

Regarding supporting documentation, DSCA and the IAs do not have an effective process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support recorded transactions by the established due date.

Effect: The DSCA SAA financial statements may be materially misstated. New obligations recorded as of March 31, 2023, may not have occurred, or may not have been completely and accurately recorded. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards or with FMFIA requirements.

Recommendations: Regarding contract authority and contract authority liquidated, 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.

Regarding supporting documentation, we recommend that DSCA, in coordination with the IAs:

- Analyze the nature and type of new obligation transactions and determine the related assessable unit (e.g., contract/vendor pay, reimbursable work orders, travel).
- For each significant type of transaction within each assessable unit, identify the key supporting documentation that substantiates the recorded transaction. In determining whether key supporting documentation substantiates the recorded transaction, consider whether the documentation evidences (1) the recorded transaction actually occurred (existence/occurrence assertion), (2) the period in which the transaction occurred (existence/occurrence assertion and completeness assertion), (3) the amount of the recorded transaction (accuracy/valuation/allocation assertion), and (4) the recorded transaction pertains to the SAA (rights/obligation assertion).
- Document the key supporting documentation that substantiates each significant type of transaction within each assessable unit in the form of a matrix.

Cotton
A SIKICH COMPANY

- Provide training on the matrix to business process owners such that the business process owners are using the matrix to identify, accumulate, and retain supporting documentation of SAA recorded new obligation transactions.

- For each significant type of transaction within each assessable unit, perform periodic testing of selected transactions to evaluate whether business process owners are able to readily provide sufficient supporting documentation of SAA recorded new obligation transactions in response to audit requests.

MATERIAL WEAKNESS 6: EARNED REVENUE *(REPEAT FINDING)*

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.

- 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.

Cotton
A SIKICH COMPANY

MATERIAL WEAKNESS 7: FUND BALANCE WITH TREASURY *(REPEAT FINDING)*

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 *(REPEAT FINDING)*

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.

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 *(REPEAT FINDING)*

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*
- 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.

Cotton
A SIKICH COMPANY

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 *(REPEAT FINDING)*

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.

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

Furthermore, for certain transactions that we selected in our nonstatistical selection of new obligations and operating expenses (i.e., gross costs), DSCA and the IAs were either unable to provide sufficient supporting documentation by the established due date to determine whether DSCA and the IAs used the correct federal/non-federal indicator, or the federal/non-federal indicator field in Advana was blank or populated as “NA” for “not applicable.” One transaction was also incorrectly recorded as a non-federal transaction.

Criteria:

- FFMIA
- FMFIA
- 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*
- USSGL Part 1, FY 2023 Reporting, Section II, *Accounts and Definitions*
- 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 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.

Regarding the federal/non-federal indicator, DSCA and the IAs do not have an effective process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support recorded transactions by the established due date, and do not have sufficient internal control activities in place to ensure that they used the correct federal/non-federal indicator for recorded transactions. Additionally, the federal/non-federal indicator field in Advana is set to "NA" for transactions ingested from GAFS because there is no related field in GAFS.

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. Additionally, DSCA and the IAs are unable to ensure that amounts owed from federal entities represent intragovernmental transactions and are reported separately from amounts owed to the public in the DSCA SAA financial statements and related notes.

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.

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

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.
- Work with system owners, where needed, 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 DSCA and the IAs record trading partner information 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 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.

- Continue to improve its process to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support new obligation and gross cost transactions.

- Identify, design, and implement control activities to help ensure that the correct federal/non-federal indicator is used for recorded transactions.

MATERIAL WEAKNESS 11: UNSUPPORTED ACCOUNTING ADJUSTMENTS *(REPEAT FINDING)*

Condition: DSCA, in coordination with the IAs and DFAS, recorded material unsupported JVs within DDRS-B and DDRS–Audited Financial Statements (DDRS-AFS) in FYs 2023 and 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 (Treasury) Central Accounting Reporting System (CARS), resulting in what are known as forced balancing entries.
- The accounting systems' inabilities to capture trading partner information at the transaction level, resulting in adjustments to agree recorded balances to seller-side activity.

Cotton
A SIKICH COMPANY

- 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.

MATERIAL WEAKNESS 12: OVERSIGHT OF SERVICE PROVIDERS *(REPEAT FINDING)*

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.

Cotton
A SIKICH COMPANY

- 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.

MATERIAL WEAKNESS 13: GROSS COSTS *(NEW FINDING)*

Condition: DSCA and the IAs were unable to provide sufficient supporting documentation by the established due date for certain transactions that we selected in our nonstatistical selection of operating expenses (i.e., gross costs).. Furthermore, two transactions in our nonstatistical selection were recorded in FY 2023; however, the expenses were incurred in FY 2022.

Criteria:

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- USSGL Part 1, FY 2023 Reporting, Section II, *Accounts and Definitions*

Cause: DSCA and the IAs do not have an effective process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support recorded transactions by the established due date. Additionally, two of the IAs do not have sufficient internal control activities in place to ensure that they record transactions timely and in the correct accounting period.

Effect: Gross costs recorded as of March 31, 2023, may not have occurred, or may not have been completely and accurately recorded. In addition, the DSCA SAA is not compliant with FFMIA requirements related to applicable federal accounting standards or with FMFIA requirements.

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

- Analyze the nature and type of gross cost transactions and determine the related assessable unit (e.g., contract/vendor pay, reimbursable work orders, travel).

- For each significant type of transaction within each assessable unit, identify the key supporting documentation that substantiates the recorded transaction. In determining whether key supporting documentation substantiates the recorded transaction, consider whether the documentation evidences (1) the recorded transaction actually occurred (existence/occurrence assertion), (2) the period in which the transaction occurred (existence/occurrence assertion and completeness assertion), (3) the amount of the recorded transaction (accuracy/valuation/allocation assertion), and (4) the recorded transaction pertains to the SAA (rights/obligation assertion).

- Document the key supporting documentation that substantiates each significant type of transaction within each assessable unit in the form of a matrix.

- Provide training on the matrix to business process owners such that the business process owners are using the matrix to identify, accumulate, and retain supporting documentation of SAA recorded gross cost transactions.

- For each significant type of transaction within each assessable unit, perform periodic testing of selected transactions to evaluate whether business process owners are able to readily provide sufficient supporting documentation of SAA recorded gross cost transactions in response to audit requests.

- Identify, design, and implement control activities to help ensure the IAs record transactions timely and in the correct accounting period.

MATERIAL WEAKNESS 14: ACCOUNTING FOR CASE ACTIVITY IN THE GL *(NEW FINDING)*

Condition: DSCA is not consistent in its method of accounting for purchaser funds. Specifically, although DSCA reports purchaser funds held by Treasury as Advances from Others and Deferred Revenue, it reports purchaser funds held outside of Treasury as Other Liabilities. Reporting purchaser funds held outside of Treasury as Other Liabilities is not in accordance with SFFAS 1 and the USSGL.

In addition, DSCA and the IAs do not always completely or accurately account for case activity. In summary, DSCA and the IAs:

- Do not always record economic events in the GL systems; or they record the events but do not always properly classify the events in accordance with the USSGL.
- Are unable to substantiate the account balances recorded in the GL systems and the GL systems include abnormal account balances.
- Cannot always provide GL transaction history for cases.

Criteria:

- FFMIA
- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 1
- USSGL Part 1, FY 2023 Reporting, Section III, *Account Transactions*
- DSCA Office of General Counsel (OGC) legal opinion, July 2023

Cause: The procedures that DFAS performs on behalf of DSCA to record liabilities for purchaser funds held outside of Treasury are inconsistent with SFFAS 1 and the USSGL. Additionally, DSCA has not developed accounting practices specific to purchaser funds held outside of Treasury. DSCA is currently working with OMB and Treasury to develop these practices.

Regarding accounting for case activity in the GL systems:

- 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 case activities in accordance with the USSGL and FFMIA.

Cotton
A SIKICH COMPANY

- DSCA's policies pertaining to case reconciliation and closure do not require personnel to review the appropriateness of recorded balances across all GL system accounts.
- IAs are unable to provide a complete USSGL transaction history and reliable GL account balances for selected cases due to a lack of historical GL system data.
- IAs are unable to complete case reconciliations and closures in a timely manner due to backlogs in case closures caused by staffing shortages combined with missing information, high transaction volumes, and complex transactions.

Effect: Liabilities pertaining to purchaser funds are not properly classified and presented in the DSCA SAA financial statements.

Absent a complete and accurate record of accounting events pertaining to case activity in the GL systems, DSCA may be unable to ensure that balances reported in the DSCA SAA financial statements are complete and accurate. Improperly recorded balances may result in material misstatement of the DSCA SAA financial statements.

Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Recommendations: We recommend that DSCA:

- Continue to work with OMB and Treasury to develop SAA accounting practices for purchaser funds held outside of Treasury.
- Update procedures, in coordination with DFAS, to require DFAS to report purchaser funds held outside of Treasury and the related liabilities in accordance with the newly established SAA accounting practices.
- Perform a retrospective analysis to identify, research, and resolve open or abnormal balances recorded across all GL system accounts for closed cases.
- Update DSCA policies regarding case reconciliation and closure processes to require a comprehensive review of the completeness and accuracy of account balances across all GL accounts, and timely remediation of any variances.
- Perform a comprehensive assessment of the underlying reasons for delays in the reconciliation and closure of cases, then develop and implement a CAP to resolve these delays. The CAP should consider the quantity and qualifications of human resources, the availability of complete and reliable information, and any opportunities to streamline or simplify the reconciliation and closure of complex transactions.

SIGNIFICANT DEFICIENCY 1: ACCESS CONTROLS *(REPEAT FINDING)*

Condition: DSCA and the IAs are not completing adequate account recertifications for SAA applications. In addition, review of user access authorization forms are not effective.

Criteria:

- FFMIA

Cotton
A SIKICH COMPANY

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

Cause: DSCA and the IAs do not have effective processes in place for conducting account recertifications. Further, DSCA and the IAs are not fully reviewing user access request forms to validate that the approval signatures are appropriate.

Effect: The absence of DSCA-specific access control procedures increases the risk of inappropriate and unauthorized access to systems. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements.

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

- 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.

- Update user authorization processes to ensure appropriate approval of user access authorization forms.

- Update current policy to require annual recertification of all user accounts and develop system-level procedures to facilitate annual account recertifications.

SIGNIFICANT DEFICIENCY 2: SEGREGATION OF DUTIES *(REPEAT FINDING)*

Condition: DSCA has not developed a segregation of duties matrix, and management did not consider segregation of duty conflicts across SAA systems when granting users access to SAA applications.

Criteria:

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

Cause: Management has not defined its sensitive activities or transactions and has not identified incompatible duties and responsibilities. In addition, DSCA has not considered the risks of segregation of duties across DSCA and IA systems.

Effect: The absence of effective policies and procedures surrounding segregation of duties increases the risk that fraud, waste, or abuse may occur without detection. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements.

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 significant deficiency.

- Develop, document, and implement procedures for incorporating segregation of duties into the account provisioning process across SAA systems.

SIGNIFICANT DEFICIENCY 3: CONTINGENT LIABILITIES *(REPEAT FINDING)*

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*

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 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 FMS, and any other items determined by DSCA.

Cotton
A SIKICH COMPANY

- 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 *(Repeat Finding)*

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 SAA 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.

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.

Significant Deficiency 5: Security Management (*New Finding*)

Condition: DSCA has not ensured that it performs annual control assessments of SAA applications using a team that includes financial specialists.

Criteria:

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

Cause: DSCA does not involve financial specialists as part of its system control assessments.

Effect: Without a process in place to ensure that it completes its annual control assessments in an effective manner, DSCA may be unable to identify internal control weaknesses and mitigate them to an acceptable level, or to help prevent future control deficiencies or material weaknesses from occurring. Additionally, the DSCA SAA is not compliant with FFMIA requirements related to federal financial management systems requirements.

Recommendations: 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 6: REPORTING ENTITY (*NEW FINDING*)

Condition: DSCA has not effectively designed and implemented internal control activities to periodically identify, assess, and report related parties, disclosure entities, and public-private partnerships in the DSCA SAA financial statements and related footnotes in accordance with federal accounting standards.

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- SFFAS 47, *Reporting Entity*
- SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*
- OMB Circular No. A-123

Cause: DSCA does not have policies or procedures in place that prescribe internal control activities designed to periodically identify and assess related parties, disclosure entities, and public-private partnerships and to ensure that it properly reports these items in the DSCA SAA financial statements and related footnotes.

Effect: There is a risk that the DSCA SAA financial statements may be materially misstated, and the related footnotes may be missing required disclosures. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

Recommendations: We recommend that DSCA:

- Develop policies and procedures prescribing internal control activities across the SAA designed to periodically identify and assess related parties, disclosure entities, and public-private partnerships. Additionally, develop policies and procedures to ensure that it properly reports these items in the DSCA SAA financial statements.
- Coordinate with IAs to ensure that they effectively implement DSCA's policies and procedures prescribing internal control activities.

SIGNIFICANT DEFICIENCY 7: FINANCIAL REPORTING (*NEW FINDING*)

Condition: The DSCA SAA did not fully implement all elements of OMB Circular No. A-136, *Financial Reporting Requirements*, and GAAP in its FY 2023 Agency Financial Report (AFR).

Cotton
A SIKICH COMPANY

Criteria:

- Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*
- OMB Circular No. A-136, *Financial Reporting Requirements*

Cause: DSCA did not fully implement all elements of OMB Circular No. A-136 and GAAP due to limitations in its financial management processes, financial systems, and nonfinancial systems and processes that support the financial statements. DSCA is currently performing remediation efforts to correct these matters.

Effect: The DSCA SAA's FY 2023 AFR did not contain all elements prescribed by OMB Circular No. A-136 and GAAP. 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:

- Assess the root cause for each instance of noncompliance and develop CAPs to address the issues identified.

- Update policies and procedures to require annual completion of a draft AFR for the period ended June 30 to facilitate timely quality control inspection and remediation before preparing the final year-end AFR.

SIGNIFICANT DEFICIENCY 8: TREATIES AND OTHER INTERNATIONAL AGREEMENTS (*NEW FINDING*)

Condition: DSCA has not effectively designed and implemented internal control activities to identify treaties and other international agreements across the SAA programs that it is responsible for reporting in the DSCA SAA financial statements.

Further, DSCA has not effectively designed and implemented internal control activities to ensure that it properly reports treaties and other international agreements in the DSCA SAA financial statements, including related liabilities and note disclosures, for both liabilities covered by budgetary resources and liabilities not covered by budgetary resources.

Criteria:

- FMFIA
- GAO's *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- TFM Volume I, Part 2, Chapter 4700
- DoD Instruction 5530.03, *International Agreements*

Cause: DSCA does not have policies and procedures in place that prescribe internal control activities designed to identify, assess, and report liabilities and note disclosures pertaining to treaties and other international agreements in the DSCA SAA financial statements.

Effect: There is a risk that the DSCA SAA financial statements may be materially misstated. Specifically, DSCA may have improperly omitted liabilities and note disclosures pertaining to

Cotton
A SIKICH COMPANY

treaties and other international agreements from the DSCA SAA financial statements. Additionally, the DSCA SAA is not compliant with FMFIA requirements.

Recommendations: We recommend that DSCA:

- Develop policies and procedures prescribing internal control activities designed to provide assurance that it has properly reported liabilities and disclosures in the DSCA SAA financial statements, including liabilities covered by budgetary resources and liabilities not covered by budgetary resources. The prescribed internal control activities should include performing and documenting the following items at least annually:
  - Identify treaties and other international agreements relating to the SAA programs that DSCA is responsible for reporting in the DSCA SAA financial statements.
  - Perform and document an assessment, for each treaty and other international agreement identified, to determine the appropriate category consistent with TFM Volume 1, Part 2, Chapter 4700.
  - Review with the General Counsel of the DoD the treaties and other international agreements relative to FASAB standards to identify, monitor, and report any related commitments or contingencies.
  - Validate the completeness and accuracy of any required liabilities and note disclosures in the DSCA SAA financial statements.
- For SAA programs or activities involving foreign partners that do not constitute treaties or other international agreements, document the basis for that conclusion in the policies and procedures.

Cotton
A SIKICH COMPANY

APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the FYs 2023 and 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 (*REPEAT FINDING*)

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 2023, 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, 11, and 14 and under Significant Deficiencies 1, 2, and 5. 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, 9, 10, 13, and 14 and under Significant Deficiency 7. 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, 11, and 14. 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, *Management of Financial Management Systems – Risk and Compliance*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*

- DoD Financial Management Regulation (FMR), 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 (*REPEAT FINDING*)

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 2023 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, 2023.

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.

Cotton
A SIKICH COMPANY

ADMINISTRATIVE DIVISION OF APPORTIONMENTS (*NEW FINDING*)

31 U.S.C. § 1514, *Administrative division of apportionments*, requires the head of each executive agency to prescribe, by regulation, a system of administrative control of funds. Specifically, subsection (a) states, "The system shall be designed to (1) restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation; and (2) enable the official or the head of the executive agency to fix responsibility for an obligation or expenditure exceeding an apportionment or reapportionment." Additionally, DoD FMR Volume 15, Chapter 3, Section 12.1, *Antideficiency Act* (*ADA) Violations*, requires the Foreign Military Sales (FMS) Trust Fund to be treated as appropriated funds, to which the ADA applies.

We identified one instance of noncompliance with 31 U.S.C. § 1514(a), as described below.

Condition: DSCA has not sufficiently clarified the level of SAA funds distribution at which an ADA violation may occur.

Criteria:

- 31 U.S.C. § 1514, *Administrative Division of Apportionments*
- OMB Circular No. A-11
- DoD FMR, Volume 15, Chapter 3, *Accounting*

Cause: DSCA has not developed and implemented a fund control regulation governing SAA funds that designates the funding distribution level to which ADA violations apply.

Effect: The SAA is not in full compliance with 31 U.S.C. § 1514(a), which indicates a weakness in the SAA control environment. In addition, a lack of clearly defined guidance as to which organizational level is subject to the ADA increases the risk of an ADA violation.

Recommendations: We recommend that DSCA:

- Designate and document the organizational level of SAA funds control within DSCA and the IAs at which DSCA and the IAs are subject to an ADA violation.

- Assess the effectiveness of its internal controls in monitoring and preventing ADA violations at the newly designated organizational level across the SAA and update its internal controls as necessary.

At the newly designated organizational level subject to SAA funds control within the IAs, we recommend that DSCA:

- Assess the effectiveness of the IAs' internal controls in monitoring and preventing ADA violations.

- If necessary, based on DSCA's assessment, coordinate with the IAs to update their internal controls.

Cotton
A SIKICH COMPANY

THE ANTIDEFICIENCY ACT (*NEW FINDING*)

The ADA prohibits federal agencies from: (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. DSCA management has identified three potential violations of the ADA. These potential violations are in various stages of the investigation process.

Cotton
A SIKICH COMPANY

APPENDIX C: DSCA COMMENTS

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

8 November 2023

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 FY23 Security Assistance Accounts (SAA) financial statements (FS) and related notes. We affirm the majority of the auditor's conclusions, recognizing their critical role in refining our financial stewardship. However, we offer a nuanced perspective on the significant deficiency regarding access controls, particularly related to user access authorization forms where it was cited that the DSCA was not in compliance with NIST Special Publication (SP) 800-53 Revision 5, Access Control (AC)-2. We believe our current controls are robust, appropriate and align with our interpretation of the guidelines. Despite this, we are unwavering in our commitment to rectify all remaining findings, propelling the SAA towards achieving an unmodified audit opinion.

Since the Department of Treasury's directive to subject the SAA to a FS audit, our response has been proactive and resolute. We have not only addressed issues highlighted by the audit but have also preemptively addressed findings from limited scope examinations and internal assessments. It is important to note that the SAA is executed within the Department of Defense's (DoD) Title 10 financial management framework, and thus, our progress is inherently linked to the DoD's resolution of its broader financial and control deficiencies. We are cognizant that the SAA's path to an unmodified audit opinion is sequential to that of the Title 10 audit. Nevertheless, our dedication to rectifying audit issues remains steadfast. We are actively collaborating with the Defense Finance and Accounting Service, the Office of the Under Secretary of Defense (Comptroller), Implementing Agencies, and other SC stakeholders to address and remediate findings. Our goal is to secure an unmodified opinion as expeditiously as possible, subsequent to our Title 10 counterparts.

The progress we have made this fiscal year is tangible, with a notable 20.6% reduction in unsupported beginning balance amounts from FY22 to FY23. This achievement is complemented by the closure of one IT Notice of Findings and Recommendation (NFR) by Cotton & Company and an additional 21 self-identified deficiencies. We are under no illusion about the challenges that lie ahead as we continue to undergo rigorous financial statement audits. The DSCA and the SC community are resolute in our obligation to both our foreign partners and American taxpayers to address and resolve any issues identified by the auditor. We are aligned with the Secretary of Defense's audit remediation priorities and are grateful for the professionalism and thoroughness you have exhibited throughout the audit process. Your efforts are invaluable in our pursuit of excellence and accountability.

HARDING.JOSEPH
AARON.125468289
1

J. Aaron Harding
Chief Operating Officer and Chief Financial Officer

DSCA

FINANCIAL STATEMENTS

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2023 and 2022

(amounts in thousands)

	Note		2023		2022
Assets	2				
Intragovernmental:					
Fund Balance with Treasury	3	$	63,740,818	$	51,966,897
Accounts Receivable, Net	6		–		3,490
Other Assets	10		–		893
Total Intragovernmental		$	63,740,818	$	51,971,280
Other than Intragovernmental:					
Cash and Other Monetary Assets	4		46,130,085		39,872,408
Accounts Receivable, Net	6		(50,642)		(19,132)
Loans Receivable, Net	7		959,029		1,446,013
Inventory and Related Property, Net	8		758,052		684,429
Advances and Prepayments	10		3,569,313		786,930
Total Other Than Intragovernmental		$	51,365,837	$	42,770,648
Total Assets		**$**	**115,106,655**	**$**	**94,741,928**
Stewardship PP&E	9				
Liabilities	11				
Intragovernmental:					
Accounts Payable		$	1,234,214	$	852,575
Debt	12		543,858		1,021,773
Advances from Others and Deferred Revenue	15		266,072		265,922
Other Liabilities	13, 15		441,355		451,657
Total Intragovernmental		$	2,485,499	$	2,591,927
Other than Intragovernmental:					
Accounts Payable			16,868,560		17,480,867
Federal Employee and Veteran Benefits Payable	13		18,918		20,068
Advances from Others and Deferred Revenue	15		224,342,646		167,684,181
Other Liabilities	15, 16		46,195,351		39,928,040
Total Other than Intragovernmental		$	287,425,475	$	225,113,156
Total Liabilities		**$**	**289,910,974**	**$**	**227,705,083**
Commitments and Contingencies	17				
Net Position:					
Unexpended Appropriations - Funds from Other than Dedicated Collections		$	12,214,219	$	12,504,726
Total Unexpended Appropriations (Consolidated)		$	12,214,219	$	12,504,726
Cumulative Results of Operations - Funds from Other than Dedicated Collections			(187,018,538)		(145,467,881)
Total Cumulative Results of Operations (Consolidated)		$	(187,018,538)	$	(145,467,881)
Total Net Position		**$**	**(174,804,319)**	**$**	**(132,963,155)**
Total Liabilities and Net Position		**$**	**115,106,655**	**$**	**94,741,928**

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2023 and 2022

(amounts in thousands)

	Note	2023	2022
Gross Program Costs	19		
Foreign Military Sales Trust Fund		$ 117,088,218	$ 95,808,237
Foreign Military Financing Program Account		6,273,004	6,743,688
Special Defense Acquisition Fund		172,943	(176,367)
International Military Education and Training		107,631	104,340
Military Debt Reduction Financing Account		761	747
Foreign Military Financing Direct Loan (Program and Financing) Accounts		(203,557)	(158,275)
Total Gross Program Costs		**$ 123,439,000**	**$ 102,322,370**
Less: Earned Revenue		(20,197,941)	(19,467,727)
Net Cost of Operations		**$ 103,241,059**	**$ 82,854,643**

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Years Ended September 30, 2023 and 2022

(amounts in thousands)

		2023		2022
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$	12,504,726	$	7,766,181
Appropriations Received		6,245,974		10,803,349
Appropriations Transferred in/out		(202,944)		(21,379)
Other Adjustments (+/-)		(70,454)		(14,691)
Appropriations Used		(6,263,083)		6,028,734
Net Change in Unexpended Appropriations	$	(290,507)	$	4,738,545
Total Unexpended Appropriations	**$**	**12,214,219**	**$**	**12,504,726**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	(145,467,881)	$	(106,245,611)
Appropriations Used		6,263,083		6,028,734
Non-exchange Revenue		51,330,099		38,739,388
Donations and Forfeitures of Cash and Cash Equivalents		314,279		292,653
Transfers in/out Without Reimbursement		(24,259)		(11,228)
Other		3,807,200		(1,417,174)
Net Cost of Operations (+/-)		103,241,059		82,854,643
Net Change in Cumulative Results of Operations	$	(41,550,657)	$	(39,222,270)
Total Cumulative Results of Operations	**$**	**(187,018,538)**	**$**	**(145,467,881)**
Net Position	**$**	**(174,804,319)**	**$**	**(132,963,155)**

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2023 and 2022

(amounts in thousands)

		2023		2022	
	Note	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)	20	$ 197,677,394	$ 24,979	$180,093,699	$ 47,187
Appropriations (Discretionary and Mandatory)		7,642,612	–	11,733,266	–
Borrowing Authority (Discretionary and Mandatory)		–	219,721	–	184,611
Contract Authority (Discretionary and Mandatory)		89,248,022	–	53,271,225	–
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		167,629	16,607	130,359	3,381
Total Budgetary Resources		**$ 294,735,657**	**$ 261,307**	**$245,228,549**	**$ 235,179**
Status of Budgetary Resources:					
New Obligations and Upward Adjustments (Total)		$ 61,047,052	$ 235,123	$ 50,073,705	$ 210,200
Unobligated Balance, End of Year:					
Apportioned, Unexpired Accounts		149,168,330	–	149,441,211	–
Unapportioned, Unexpired Accounts		84,335,503	26,184	45,602,390	24,979
Unexpired Unobligated Balance, End of Year		$ 233,503,833	$ 26,184	$195,043,601	$ 24,979
Expired Unobligated Balance, End of Year		184,772	–	111,243	–
Unobligated Balance, End of Year (Total)		$ 233,688,605	$ 26,184	$195,154,844	$ 24,979
Total Budgetary Resources		**$ 294,735,657**	**$ 261,307**	**$245,228,549**	**$ 235,179**
Outlays, Net and Disbursements, Net:					
Outlays, Net (Total) (Discretionary and Mandatory)		$ 46,669,517		$ 41,418,109	
Distributed Offsetting Receipts (-)		(49,857,058)		(42,187,077)	
Agency Outlays, Net (Discretionary and Mandatory)		**$ (3,187,541)**		**$ 768,968**	
Disbursements, Net (Total) (Mandatory)			**$ (479,121)**		**$ (599,608)**

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 SC 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 the DoS, Foreign Operations, and Related Programs Appropriations Act. These accounts include those that contain USG 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 the DoD in accordance with the authority delegated from the EOP, the requirements of the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, 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's 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.

Certain reclassifications have been made to the FY 2022 financial statements and notes to be in accordance with the guidance set by the Treasury Financial Manual and OMB Circular A-136. The reclassifications include:

- A change in the presentation of SAA's comparative Statement of Net Costs and its associated disclosure, *Note 19, Disclosures Related to the Statement of Net Cost*, by major program with intra-agency eliminations applied. This update did not impact the net cost of operations reported in FY 2022.
- A change to the FY 2022 amounts in the "Change in Loans Receivable, Net" table within Note 7 to conform with current year presentation. The reclassification of the line items did not impact the total change in loans receivable, net reported in FY 2022. For additional information, see *Note 7, Loans Receivable, Net and Loan Guarantee Liabilities.*
- The reclassification of the FY 2022 Foreign Military Loan Liquidating Account from the Non-Budgetary Credit Reform Financing Account into the Budgetary Account and the corresponding Net Disbursements to Net Outlays. This update did not impact the overall Total Budgetary Resources for FY 2022. For additional information, see the Combined SBR, *Note 23, Reconciliation of Net Cost to Net Outlays*, and the Combining SBR within the RSI section.

D. APPROPRIATION AND FUNDS

The FMS Trust Fund is a 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 USG appropriations, for use in carrying out specific programs in accordance with 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 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 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 Treasury 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:

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

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 USG 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 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 the 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 Agency Identifier of 011 (Executive Office of the President) must include all such accounts in their Agency Financial Report (AFR)".

E. BASIS OF ACCOUNTING

The legacy financial management systems used 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 IAs systems and related processes can 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 Foreign Appropriations Act 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 No. 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 SC programs includes the use of facilities and personnel (guards and drivers) at a small number of SC 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 used by the 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 USG. 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 USG entity offset them. These financial statements should be read with the realization that they are for a component of the USG, 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 can reconcile balances pertaining to borrowing from 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 United States, and foreign governments and international organizations form the basis for the use of the funds.

J. FUNDS WITH THE TREASURY

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

In addition, DFAS and the USACE Finance Center submit reports to Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. 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 Treasury accounts.

The SAA monies are held in Treasury accounts, with the Federal Reserve Bank in individual accounts established by the United States for foreign countries and approved commercial banks. Funds held in the Federal Reserve Bank and commercial banks are transferred to the FMS Trust Fund account to be disbursed for FMS purposes. For additional information, see *Note 3, Fund Balance with Treasury.*

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*. For additional information, see *Note 4*, *Cash and Other Monetary Assets.*

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.* For additional information, see *Note 6*, *Accounts Receivable*, *Net*.

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 help friendly foreign countries and international organizations to purchase U.S. defense articles and services. For additional information, see *Note 7*, *Loans Receivable*, *Net and Loan Guarantee Liabilities.*

N. INVENTORIES AND RELATED PROPERTY

The SAA maintains inventories in the SDAF until they are placed on an FMS case. For FMS Trust Fund, the defense articles are provided to FMS customers from the USG or the contractor pursuant to a contract with the USG. 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. For additional information, see *Note 8*, *Inventory and Related Property*, *Net*.

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 IAs executing on behalf of the SAA have implemented this policy primarily due to system limitations. For additional information, see *Note 10: Other Assets*.

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 conducts 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 (FAR), 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. For additional information, see *Note 10, Other Assets*.

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 contingencies arise because 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. For additional information, see *Note 17: Commitments and Contingencies*.

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 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)	2023	2022
Intragovernmental Assets		
Fund Balance with Treasury	$ 18,040,042	$ 19,919,746
Total Intragovernmental Assets	$ 18,040,042	$ 19,919,746
Cash and Other Monetary Assets	$ 46,130,085	$ 39,872,408
Loans Receivable, Net	441,356	451,657
Total Non-Entity Assets	$ 64,611,483	$ 60,243,811
Total Entity Assets	$ 50,495,172	$ 34,498,117
Total Assets	$ 115,106,655	$ 94,741,928

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

FBwT 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 liabilites associated with non-entity cash are disclosed in *Note 15, Other Liabilities*. See additional information in *Note 4, Cash and Other Monetary Assets.*

NOTE 3. FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (amounts in thousands)	2023		2022	
Unobligated Balance:				
Available	$	149,168,330	$	149,441,211
Unavailable		84,639,953		45,824,899
Total Unobligated Balance	$	233,808,283	$	195,266,110
Obligated Balance Not Yet Disbursed	$	74,342,777	$	63,133,500
Non-Budgetary FBwT:				
Deposit Funds		19,698		17,839
Total Non-Budgetary FBwT	$	19,698	$	17,839
Non-FBwT Budgetary Accounts:				
Contract Authority		(244,429,942)		(206,450,557)
Receivables and Other		2		5
Total Non-FBwT Budgetary Accounts	$	(244,429,940)	$	(206,450,552)
Total FBwT	$	63,740,818	$	51,966,897

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. Deposit Funds represent SAA funds without budgetary 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 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)	2023		2022	
Cash	$	46,130,085	$	39,872,408
Total Cash and Other Monetary Assets	$	46,130,085	$	39,872,408

The Cash balance as of September 30, 2023 and 2022 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). For additional information, see *Note 2, Non-Entity Cash.*

NOTE 5. INVESTMENTS

The SAA reported no Investments and Related Interest as of September 30, 2023 and 2022, respectively.

NOTE 6. ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (amounts in thousands)	2023					
	Gross Amount Due		Allowance For Estimated Uncollectibles		Accounts Receivable, Net	
Non-Federal Receivables (From the Public)	$	(50,537)	$	(105)	$	(50,642)
Total Accounts Receivable	$	(50,537)	$	(105)	$	(50,642)

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)

Accounts Receivable represent the FMS Trust Fund claim for payment from other entities. Allowances for uncollectible accounts are based on an estimation methodology using 3 years of historical collection data and is calculated on consolidated receivable balances.

The abnormal balance in Non-Federal Accounts Receivables of $51 million and $19 million in FY 2023 and FY 2022, respectively, is due to unmatched collections from receivables. 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:

- FMLLA for pre-1992 loans;
- Foreign Military Financing Direct Loan Program Account (FMFDLPA) for post-1991 loans;
- Foreign Military Financing Direct Loan Financing Account (FMFDLFA) for post-1991 loans; and
- 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 FMS 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 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 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 debt forgiveness with Highly Indebted Poor Countries (HIPC). The Paris Club has 22 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 is then 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 3 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.

DIRECT LOANS OBLIGATED

AS OF SEPTEMBER 30 (amounts in thousands)	2023		2022	
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):				
Foreign Military Loan Liquidating Account				
Loans Receivable, Gross	$	190,967	$	211,430
Interest and Fees Receivable		1,856,708		1,795,499
Present Value Allowance/Allowance for Loan Losses		(1,606,319)		(1,557,710)
Direct Loans, Net	$	441,356	$	449,219
Direct Loans Obligated Post-1991:				
Foreign Military Financing, Direct Loan Financing Account				
Loans Receivable, Gross	$	588,952	$	1,224,821
Interest Receivable		7,806		15,908
Allowance for Subsidy Cost (Present Value)		(119,292)		(283,380)
Direct Loans, Net	$	477,466	$	957,349
Military Debt Reduction Financing Account				
Loans Receivable, Gross	$	38,637	$	38,637
Allowance for Subsidy Cost (Present Value)		1,570		808
Direct Loans, Net	$	40,207	$	39,445
Total Direct Loans Receivable, Net				
Loans Receivable, Gross	$	818,556	$	1,474,888
Interest and Fees Receivable		1,864,514		1,811,407
Allowance for Subsidy Cost (Present Value)/ Allowance for Loan Losses		(1,724,041)		(1,840,282)
Total Direct Loan Receivable, Net	**$**	**959,029**	**$**	**1,446,013**

The SAA bills countries semi-annually 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 USG and the present value of the expected collections); (2) interest payments from Treasury to the financing fund; and (3) upward adjustments due to re-estimates as 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

No new direct loans were disbursed in FY 2023 or FY 2022.

SUBSIDY EXPENSE FOR DIRECT LOAN BY PROGRAM

The SAA reported no Subsidy Expense for Direct Loan by Program for FY 2023 and FY 2022.

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 2023 and FY 2022.

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

AS OF SEPTEMBER 30 (amounts in thousands)	2023	2022
Beginning Balance of the Subsidy Cost Allowance	$ 282,572	$ 390,564
Adjustments:		
Subsidy Allowance Amortization	(164,850)	(107,992)
Ending Balance of the Subsidy Cost Allowance	$ 117,722	$ 282,572

LOAN GUARANTEES

The SAA reported no guaranteed loans as of September 30, 2023 and 2022, respectively

ADMINISTRATIVE EXPENSES

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

CHANGE IN LOANS RECEIVABLE, NET

Below is a summary table showing the change in net Loans Receivable for FY 2023 and FY 2022.

AS OF SEPTEMBER 30 (amounts in thousands)	2023	2022
Beginning Balance of Loans Receivable, Net	$ 1,446,013	$ 2,046,177
Less Principal and Interest Payments Received	(736,480)	(820,260)
Add Interest Accruals	107,593	140,029
Less Interest Revenue on Uninvested Funds	(924)	(775)
Add Interest Expense on Entity Borrowings	16,163	26,336
Add Downward Reestimates	218,959	183,864
Less Subsidy Allowance	(43,686)	(75,872)
Allowance For Loan and Interest Loss Adjustments	(48,609)	(53,486)
Ending Balance of Loans Receivable, Net	$ 959,029	$ 1,446,013

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

AS OF SEPTEMBER 30 (amounts in thousands)	2023	2022
Inventory, Net	$ 758,052	$ 684,429
Total Inventory and Related Property, Net	$ 758,052	$ 684,429

DSCA is continuing ongoing audit remediation efforts to determine if additional inventory 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)	2023	2022	Valuation Method
Held for Sale	$ 754,463	$ 680,871	LAC, MAC
Work-in-Process	3,589	3,558	LAC, MAC
Total	$ 758,052	$ 684,429	

LEGEND FOR VALUATION METHODS: LAC = Latest Acquisition Cost, adjusted for holding gains and losses
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. The SAA assigns inventory items to a category based on asset type or condition.

INVENTORY RESTRICTIONS

There are no known restrictions on inventory.

OPERATING MATERIEL AND SUPPLIES, NET

The SAA reported no Operating Materiel and Supplies for FY 2023 or FY 2022.

STOCKPILE MATERIEL, NET

The SAA reported no Stockpile Materiel for FY 2023 or FY 2022.

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

The SAA currently does not report 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)	2023	2022
Intragovernmental		
Advances and Prepayments	$ –	$ 893
Total Intragovernmental	$ –	$ 893
Other than Intragovernmental		
Outstanding Contract Financing Payments	$ 32,266	$ 10,843
Advances and Prepayments	3,537,047	776,087
Subtotal	$ 3,569,313	$ 786,930
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$ (3,569,313)	$ (786,930)
Net Other than Intragovernmental	$ –	$ –
Total Other Assets	$ –	$ 893

The FY 2023 $32.3 million and 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*. The majority of the $3.5 billion in Advances and Prepayments for FY 2023 are from FMS sales to foreign partners.

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 been transferred to the USG. The USG 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.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 (amounts in thousands)	2023	2022
Intragovernmental Liabilities		
Other	$ 438,099	$ 451,657
Total Intragovernmental Liabilities	$ 438,099	$ 451,657
Federal Employee and Veteran Benefits Payable	$ 4,685	$ 4,382
Other Liabilities	46,130,096	39,872,419
Total Liabilities Not Covered by Budgetary Resources	$ 46,572,880	$ 40,328,458
Total Liabilities Covered by Budgetary Resources	$ 243,315,139	$ 187,358,786
Total Liabilities Not Requiring Budgetary Resources	$ 22,955	$ 17,839
Total Liabilities	$ 289,910,974	$ 227,705,083

INTRAGOVERNMENTAL LIABILITIES

Other Intragovernmental Liabilities consists primarily of unfunded liabilities for Federal Employees Compensation Act and Unemployment Insurance.

OTHER THAN INTRAGOVERNMENTAL LIABILITIES

Federal employee and veteran benefits payable consist of various employee actuarial liabilities not due and payable during the current fiscal year.

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 covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurred, when the liabilities are liquidated, Treasury will finance the liquidation. 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)	2023		
	Beginning Balance	Net Borrowing/ (Repayment)	Ending Balance
Source of Debt (Intragovernmental)			
Debt owed to: Treasury other than the Federal Financing Bank	$ 1,021,773	$ (477,915)	$ 543,858
Total Debt	$ 1,021,773	$ (477,915)	$ 543,858

AS OF SEPTEMBER 30 (amounts in thousands)	2022		
	Beginning Balance	Net Borrowing/ (Repayment)	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

The FCRA provides financing accounts with indefinite authority to borrow from Treasury to fund disbursements of loans made to sovereign nations for security assistance. This debt to Treasury is reflected in the FMFDLFA and the MDRFA.

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 Treasury.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

AS OF SEPTEMBER 30 (amounts in thousands)	2023		
	Liabilities	Assets Available to Pay Benefits	Unfunded Liabilities
Federal Employee and Veteran Benefits Payable	$ 18,918	$ (14,233)	$ 4,685
Total Federal Employee and Veteran Benefits Payable	$ 18,918	$ (14,233)	$ 4,685

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

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

The SAA reported no liability balances for Military Retirement and Other Employee Benefits for FY 2023 or FY 2022.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The SAA reported no Environmental and Disposal Liabilities as of September 30, 2023 and 2022, respectively. 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)	2023		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Liabilities for Non-Entity Assets	$ –	$ 441,355	$ 441,355
Total Intragovernmental	$ –	$ 441,355	$ 441,355
Other than Intragovernmental			
Accrued Funded Payroll And Leave	$ 45,546	$ –	$ 45,546
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	19,698	–	19,698
Other Liabilities without Related Budgetary Obligations	11	46,130,085	46,130,096
Other Liabilities with Related Budgetary Obligations	11	–	11
Total Other than Intragovernmental	$ 65,266	$ 46,130,085	$ 46,195,351
Total Other Liabilities	$ 65,266	$ 46,571,440	$ 46,636,706

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

INTRAGOVERNMENTAL OTHER LIABILITIES

Liabilities for non-entity assets represent offsetting liabilities for non-entity assets primarily non-entity receivables that, upon collection, will be remitted to Treasury. See additional information in *Note 2, Non-Entity Assets.*

OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Accrued funded payroll and leave is the estimated liability for salaries and wages of civilians and military members that have been earned but are unpaid and amounts of funded annual leave, sick leave, and other employee benefits that have been earned but unpaid. The FY 2023 and FY 2022 unfunded accrued annual leave as of September 30 is $4.7 million and $4.4 million, respectively.

Liability for non-fiduciary deposit funds and undeposited collections represent liabilities that offset undistributed disbursements. The net amount of these may present as an overall positive or negative balance.

ADVANCES FROM OTHERS AND DEFERRED REVENUE

AS OF SEPTEMBER 30 (amounts in thousands)	2023	2022
Intragovernmental	$ 266,072	$ 265,922
Other than Intragovernmental	$ 224,342,646	$ 167,684,181

INTRAGOVERNMENTAL

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

OTHER THAN INTRAGOVERNMENTAL

Nonfederal Advances from Others are related to contracts authorizing progress payments based on cost as defined in the FAR. In accordance with contract terms, specific rights to the contractors' work vest with the USG 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 is estimable, the SAA has recognized a liability for estimated future payments, which are conditional pending delivery and government acceptance.

NOTE 16. LEASES

CAPITAL LEASES

The SAA reported no Capital Leases as of September 30, 2023 and 2022, respectively. 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 as of September 30, 2023 and 2022, respectively. DSCA is continuing ongoing audit remediation efforts to determine whether operating 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.

NOTE 17. COMMITMENTS AND CONTINGENCIES

As authorized under U.S. law at section 2606 of the Ukraine Supplemental Appropriations Act, 2022 (Div. N, P.L. 117-103), section 504 of the Additional Ukraine Supplemental Appropriations Act, 2022 (P.L. 117-128), and section 23 of the Arms Export Control Act (AECA) (22 U.S.C. § 2763), the USG is committed to provide a direct loan, not to exceed $2 billion dollars, to a foreign partner to finance FMS purchases, in a period no greater than twenty-four months from September 22, 2023. Upon satisfactory receipt of the conditions specified in the agreement, in form and substance, the first disbursement of loan proceeds are projected to be disbursed by the second quarter of FY 2024.

For FY 2023, the DSCA Office of General Counsel (OGC) reviewed legal actions involving the SAA threatened or asserted against DSCA and consulted with Implementing Agencies concerning their respective legal actions involving the SAA. As of September 30, 2023, DSCA OGC assessed no material threatened or pending legal actions which require recognition in the consolidated financial statements or require further disclosure exist.

No non-legal contingent liabilities were identified during FY 2023. As DSCA continues to assess the SAA contingent liabilities reporting process, the disclosure process may change in future reporting periods.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

The SAA reported no Funds from Dedicated Collections as of September 30, 2023 and 2022, respectively. 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 periods.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

SAA discloses gross costs and revenue by program group.

COSTS AND EXCHANGE REVENUE BY PROGRAM

YEARS ENDED SEPTEMBER 30 (amounts in thousands)	2023	2022
Foreign Military Sales Trust Fund		
Gross Cost	$ 117,088,218	$ 95,808,237
Less: Earned Revenue	(22,361,645)	(21,679,766)
Net Program Costs	$ 94,726,573	$ 74,128,471
Foreign Military Financing Program Account		
Gross Cost	$ 6,273,004	$ 6,743,688
Less: Earned Revenue	2,185,331	2,242,902
Net Program Costs	$ 8,458,335	$ 8,986,590
Special Defense Acquisition Fund		
Gross Cost	$ 172,943	$ (176,367)
Less: Earned Revenue	(2,974)	(1,591)
Net Program Costs	$ 169,969	$ (177,958)
International Military Education and Training		
Gross Cost	$ 107,631	$ 104,340
Less: Earned Revenue	(46)	(241)
Net Program Costs	$ 107,585	$ 104,099
Military Debt Reduction Financing Account		
Gross Cost	$ 761	$ 747
Less: Earned Revenue	(761)	(747)
Net Program Costs	$ –	$ –
Foreign Military Financing Direct Loan (Program and Financing) Accounts		
Gross Cost	$ (203,557)	$ (158,275)
Less: Earned Revenue	(15,402)	(25,589)
Net Program Costs	$ (218,959)	$ (183,864)
Foreign Military Loan Liquidating Account		
Gross Cost	$ –	$ –
Less: Earned Revenue	(2,444)	(2,695)
Net Program Costs	$ (2,444)	$ (2,695)
Consolidated		
Gross Cost	$ 123,439,000	$ 102,322,370
Less: Earned Revenue	(20,197,941)	(19,467,727)
Total Net Cost of Operations	**$ 103,241,059**	**$ 82,854,643**

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

The net adjustments to the unobligated balance brought forward were $2.5 billion and $1.6 billion for FY 2023 and FY 2022, respectively, which included recoveries of prior year unpaid obligations and BPC canceled funds returned to Treasury.

TERMS OF BORROWING AUTHORITY USED

The SAA uses 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, Loans Receivable, Net and Loan Guarantee Liabilities*, for additional information related to FMF.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

YEARS ENDED SEPTEMBER 30 (amounts in thousands)	**2023**	**2022**
Intragovernmental:		
Unpaid	$ 1,761,721	$ 1,327,598
Total Intragovernmental	$ 1,761,721	$ 1,327,598
Non-Federal:		
Unpaid	$ 52,281,388	$ 41,168,065
Prepaid/Advanced	1,070,813	787,822
Total Non-Federal	$ 53,352,201	$ 41,955,887
Total Budgetary Resources Obligated for Undelivered Orders, End of the Year	$ 55,113,922	$ 43,283,485

PERMANENT INDEFINITE APPROPRIATIONS

The SAA has permanent indefinite appropriations available for costs incurred under the credit reform programs. It covers subsidy re-estimates in the program account and insufficient funds in the liquidating account.

These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years.

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 USG

FOR THE YEAR ENDED SEPTEMBER 30 (amounts in millions)	2022			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Outlays, Net
Combined Statement of Budgetary Resources	**$ 245,464**	**$ 50,284**	**$ (42,187)**	**$ 41,432**
Differences:				
Expired accounts that are excluded from the Budget of the U.S. Government	(259)	(148)	–	–
Net disbursements from Credit financing accounts (SAA Loan Financing Accounts 4122 and 4174)	–	–	–	(600)
Other[1]	7	5	42,187	(6)
Budget of the U.S. Government	**$ 245,212**	**$ 50,141**	**$ –**	**$ 40,826**

1. The difference reported above for Budgetary Resources, New Obligations and Upward Adjustments, and Net Outlays is due to different reporting requirements on the SBR versus the Budget. The difference reported for Distributed Offsetting Receipts are collections attributed to receipts in the FMS and SDAF programs. Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts and other amounts.

The reconciliation of the Combined Statement of Budgetary Resources and the actual amounts reported in the Budget of the USG (Budget) as of September 30, 2022, is presented in the table above. Since these financial statements are published before the Budget, this reconciliation is based on the 2022 Combined Statement of Budgetary Resources because actual amounts for 2022 are in the most recently published Budget. The FY 2025 Budget will display the FY 2023 actual values and will be available at a later date at www.whitehouse.gov/omb/budget.

CONTRIBUTED CAPITAL

There was no infusion of capital received for the years ended September 30, 2023 and 2022.

NOTE 21. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The SAA reported no Incidental Custodial Collections for FY 2023 or FY 2022.

NOTE 22. FIDUCIARY ACTIVITIES

The SAA reported no fiduciary activities for the years ended September 30, 2023 and 2022, respectively.

NOTE 23. RECONCILIATION OF NET COST TO NET OUTLAYS

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	**2023**		
	Federal	**Non-Federal**	**Total**
Net Cost of Operations	$ (7,747,302)	$ 110,988,361	$ 103,241,059
Components of Net Cost Not Part of Net Budgetary Outlays			
Change in Inventory and related property, net	$ –	$ 73,623	$ 73,623
Increase/(decrease) in Assets:			
Accounts receivable, net	(3,492)	(31,531)	(35,023)
Loans receivable, net	–	(486,984)	(486,984)
Other assets	(893)	9,040,083	9,039,190
(Increase)/Decrease in Liabilities:			
Accounts payable	(379,882)	612,306	232,424
Federal employee and veteran benefits payable	–	1,151	1,151
Other liabilities	10,151	(62,923,918)	(62,913,767)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (374,116)	$ (53,715,270)	$ (54,089,386)
Components of Net Budgetary Outlays Not Part of Net Cost			
Financing sources: Donated Revenue	$ –	$ (314,279)	$ (314,279)
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ –	$ (314,279)	$ (314,279)
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	$ (1,340)	$ –	$ (1,340)
Other	525,315	–	525,315
Total Other Reconciling Items	$ 523,975	$ –	$ 523,975
Total Net Outlays	$ (7,597,443)	$ 56,958,812	$ 49,361,369
Budgetary Agency Outlays, Net			$ (3,187,541)
Unreconciled Difference			**$ 52,548,910**

YEAR ENDED SEPTEMBER 30 (amounts in thousands)	2022					
	Federal		Non-Federal		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					$	(768,968)
Unreconciled Difference					**$**	**44,285,204**

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 SBR. 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 Treasury of debt principal.

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

NOTE 24. PUBLIC-PRIVATE PARTNERSHIPS

The SAA reported no Public-Private Partnerships for FY 2023 or FY 2022. 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 25. DISCLOSURE ENTITIES AND RELATED PARTIES

The SAA reported no disclosure entities or related parties for FY 2023 or FY 2022. 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 26. RESTATEMENTS

The SAA reported no restatements for FY 2023 or FY 2022.

NOTE 27. CORONAVIRUS DISEASE 2019 (COVID-19) ACTIVITY

The SAA reported no COVID-19 activity for FY 2023 or FY 2022.

NOTE 28. SUBSEQUENT EVENTS

The SAA reported no significant 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 29. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

The SAA financial statements are included in the Financial Report of the USG.

To prepare the Financial Report, 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 to develop a 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.

This note shows the SAA's FY 2023 financial statements and the SAA's FY 2023 reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2022 USG Financial Report can be found at www.fiscal.treasury.gov/reports-statements/ and a copy of the 2023 USG Financial Report will be published by the Bureau of Fiscal Service upon its release.

FY 2023 SAA STATEMENT OF NET COST		LINE ITEMS USED TO PREPARE FY 2023 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	$ 117,134,438			$ 117,134,438		$ 117,134,438	Non-Federal Gross Cost
Total Non-Federal Gross Cost	$ 117,134,438			$ 117,134,438		$ 117,134,438	Total Non-Federal Gross Cost
Federal Gross Cost							**Federal Gross Cost**
Gross Costs	$ 6,288,398			$ 6,288,398		$ 6,288,398	Buy/Sell Cost
Gross Costs	16,164			16,164		16,164	Borrowing and Other Interest Expense
Total Federal Cost	$ 6,304,562			$ 6,304,562		$ 6,304,562	Total Federal Cost
Total Gross Costs	**$ 123,439,000**			**$ 123,439,000**		**$ 123,439,000**	**Departmental Total Gross Costs**
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	$ (6,146,077)			$ (6,146,077)		$ (6,146,077)	Non-Federal Earned Revenue
Federal Earned Revenue							**Federal Earned Revenue**
(Less: Earned Revenue)	(14,050,940)			(14,050,940)		(14,050,940)	Buy/Sell Revenue (Exchange)
(Less: Earned Revenue)	(924)			(924)		(924)	Borrowing and Other Interest Revenue (Exchange)
Total Federal Earned Revenue	$ (14,051,864)			$ (14,051,864)		$ (14,051,864)	Total Federal Earned Revenue
Total Earned Revenue	**$ (20,197,941)**			**$ (20,197,941)**		**$ (20,197,941)**	**Department Total Earned Revenue**
Net Cost of Operations	**$ 103,241,059**			**$ 103,241,059**		**$ 103,241,059**	**Net Cost of Operations**

FY 2023 SAA STATEMENT OF CHANGES IN NET POSITION		LINE ITEMS USED TO PREPARE FY 2023 GOVERNMENT-WIDE STATEMENT OF CHANGES IN NET POSITION	
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations
Beginning Balances	**$ (132,963,155)**		
Net Position, Beginning of Period - Adjusted	**$ (132,963,155)**		
Non-Federal Non-Exchange Revenue			
Non-Exchange Revenue	$ 51,330,099		
Donations and forfeitures of Cash and Cash Equivalents	314,279		
Other (+/-)	4,322,214		
Total Non-Federal Non-Exchange Revenue	**$ 55,966,592**		
Financing Sources			
Appropriations Received	$ 6,245,974		
Other Adjustments (+/-)	(70,454)		
Appropriations Used	(6,263,083)		
Appropriations Used	6,263,083		
Appropriations Transferred-In/Out (+/-)	11,926,454		
Appropriations Transferred-In/Out (+/-)	(12,129,398)		
Transfers-In/Out without Reimbursement (+/-)	287,194		
Transfers-In/Out without Reimbursement (+/-)	(287,194)		
Transfers-In/Out without Reimbursement (+/-)	306,356		
Transfers-In/Out without Reimbursement (+/-)	(331,955)		
Transfers-In/Out without Reimbursement (+/-)	220,663		
Transfers-In/Out without Reimbursement (+/-)	(219,323)		
Other (+/-)	(525,315)		
Other (+/-)	10,301		
Total Financing Sources	**$ 5,433,303**		
Net Cost of Operations (+/-)	$ 103,241,059		
Net Position, End of Period	**$ (174,804,319)**		

LINE ITEMS USED TO PREPARE FY 2023 GOVERNMENT-WIDE STATEMENT OF CHANGES IN NET POSITION			
Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total	Reclassified Financial Statement Line
$ (132,963,155)		**$ (132,963,155)**	**Net position, beginning of period**
$ (132,963,155)		**$ (132,963,155)**	**Net Position, Beginning of Period - Adjusted**
			Non-Federal Non-exchange Revenue
$ 51,330,099		$ 51,330,099	Other taxes and receipts
314,279		314,279	Other taxes and receipts
4,322,214		4,322,214	Other taxes and receipts
$ 55,966,592		**$ 55,966,592**	**Total non-federal non-exchange revenue**
			Financing Souzrces
$ 6,245,974		$ 6,245,974	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
(70,454)		(70,454)	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
(6,263,083)		(6,263,083)	Appropriations used (RC 39)
6,263,083		6,263,083	Appropriations expended (RC 38)
11,926,454		11,926,454	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
(12,129,398)		(12,129,398)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)
287,194		287,194	Expenditure transfers-in of financing sources (RC 09)
(287,194)		(287,194)	Expenditure transfers-out of financing sources (RC 09)
306,356		306,356	Non-expenditure transfer-in of financing sources - capital transfers (RC 11)
(331,955)		(331,955)	Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
220,663		220,663	Transfers-in without reimbursement (RC 18)
(219,323)		(219,323)	Transfers-out without reimbursement (RC 18)
(525,315)		(525,315)	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
10,301		10,301	Other non-budgetary financing sources for debt accruals/ amortization (RC 37)
$ 5,433,303		**$ 5,433,303**	**Total Financing Sources**
$ 103,241,059		$ 103,241,059	Net Cost of Operations
$ (174,804,319)		**$ (174,804,319)**	**Net Position, End of Period**

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES						
BUDGETARY FOR THE YEAR ENDED SEPTEMBER 30, 2023 (amounts in thousands)	**FMS Trust Fund**	**FMF Program Account**	**SDAF**	**IMET**	**FMFDLPA/ FMLLA**	**Total**
Budgetary Resources:						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 193,219,717	$ 3,473,036	$ 812,547	$ 112,094	$ 60,000	$ 197,677,394
Appropriations (Discretionary and Mandatory)	1,402,584	6,127,103	–	112,925	–	7,642,612
Contract Authority (Discretionary and Mandatory)	89,248,022	–	–	–	–	89,248,022
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	–	–	165,869	4	1,756	167,629
Total Budgetary Resources	**$ 283,870,323**	**$ 9,600,139**	**978,416**	**$ 225,023**	**$ 61,756**	**$ 294,735,657**

Status of Budgetary Resources:						
New Obligations and Upward Adjustments (Total)	$ 52,986,725	$ 7,460,973	$ 410,175	$ 129,179	$ 60,000	$ 61,047,052
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	$ 149,161,393	$ –	$ –	$ 6,937	$ –	$ 149,168,330
Unapportioned, Unexpired Accounts	81,722,205	2,030,000	548,958	32,584	1,756	84,335,503
Unexpired Unobligated Balance, End of Year	$ 230,883,598	$ 2,030,000	$ 548,958	$ 39,521	$ 1,756	$ 233,503,833
Expired Unobligated Balance, End of Year	–	109,166	19,283	56,323	–	184,772
Unobligated Balance, End of Year (Total)	$ 230,883,598	$ 2,139,166	$ 568,241	$ 95,844	$ 1,756	$ 233,688,605
Total Budgetary Resources	**$ 283,870,323**	**$ 9,600,139**	**$ 978,416**	**$ 225,023**	**$ 61,756**	**$ 294,735,657**

Outlays, Net:						
Outlays, Net (Total) (Discretionary and Mandatory)	$ 39,700,425	$ 6,857,492	$ 28,443	$ 108,074	$ (24,917)	$ 46,669,517
Distributed Offsetting Receipts (-)	(49,857,058)	–	–	–	–	(49,857,058)
Agency Outlays, Net (Discretionary and Mandatory)	**$ (10,156,633)**	**$ 6,857,492**	**$ 28,443**	**$ 108,074**	**$ (24,917)**	**$ (3,187,541)**

COMBINING STATEMENT OF BUDGETARY RESOURCES						
NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2023 (amounts in thousands)	**FMFDLFA**		**MDRFA**		**Total**	
Non-Budgetary Resources:						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandataroy)	$	24,979	$	–	$	24,979
Borrowing Authority (Discretionary and Mandatory)		218,960		761		219,721
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		16,607		–		16,607
Total Budgetary Resources	**$**	**260,546**	$	761	**$**	**261,307**

Status of Budgetary Resources:						
New Obligations and Upward Adjustments (Total)	$	234,362	$	761	$	235,123
Unobligated Balance, End of Year						
Unapportioned, Unexpired Accounts		26,184		–		26,184
Unexpired Unobligated Balance, End of Year	$	26,184	$	–	$	26,184
Unobligated Balance, End of Year (Total)	$	26,184	$	–	$	26,184
Total Budgetary Resources	**$**	**260,546**	$	761	**$**	**261,307**

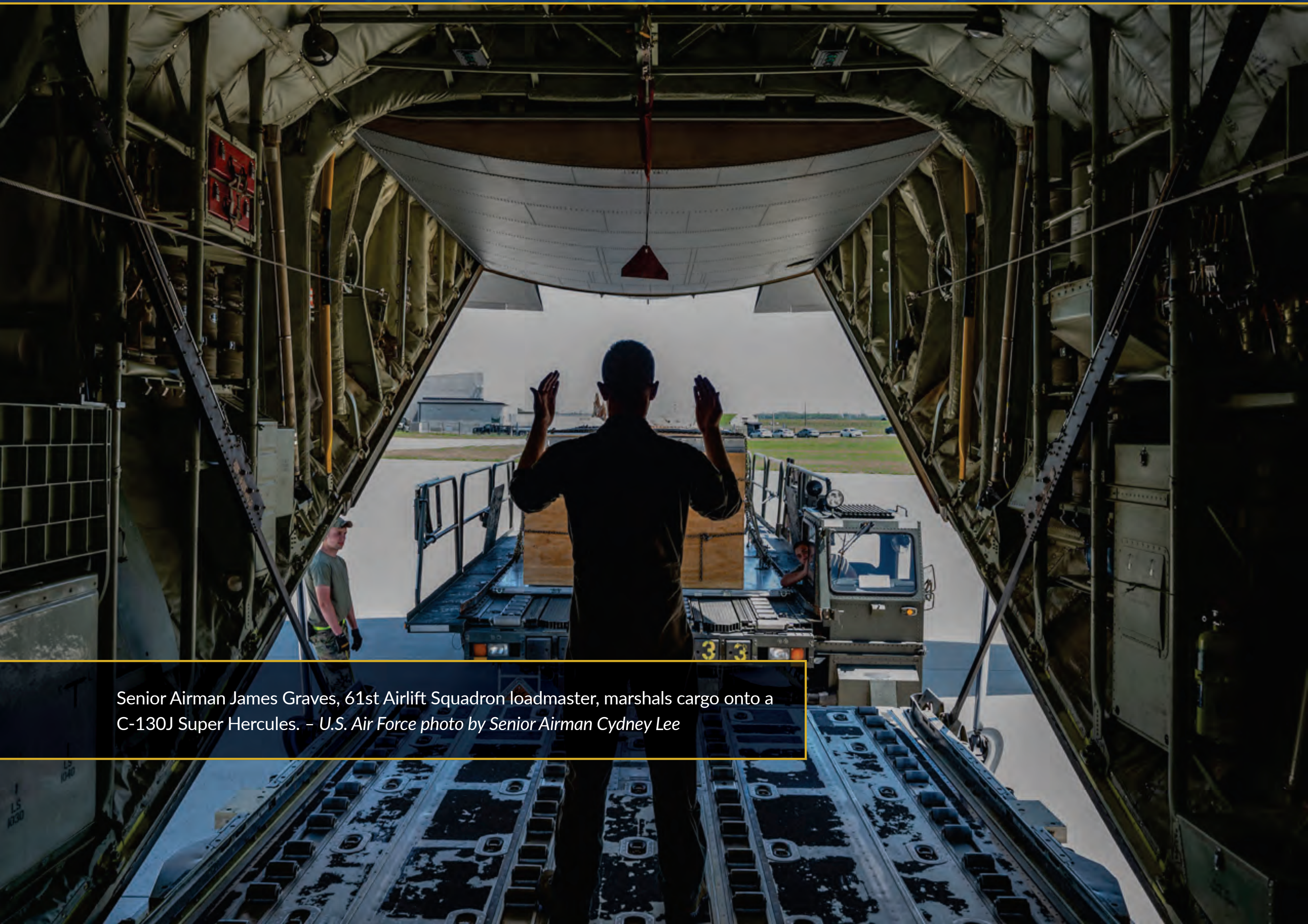
Disbursements, Net:						
Disbursements, Net (Total) (Mandatory)	**$**	**(479,882)**	**$**	**761**	**$**	**(479,121)**

COMBINING STATEMENT OF BUDGETARY RESOURCES						
BUDGETARY FOR THE YEAR ENDED SEPTEMBER 30, 2022 (amounts in thousands)	**FMS Trust Fund**	**FMF Program Account**	**SDAF**	**IMET**	**FMFDLPA/ FMLLA**	**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)	953,234	10,667,106	–	112,926	–	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)	2,439	130,359
Total Budgetary Resources	**$ 230,468,391**	**$ 13,670,891**	**$ 859,856**	**$ 226,972**	**$ 2,439**	**$ 245,228,549**
Status Of Budgetary Resources:						
New Obligations and Upward Adjustments (Total)	$ 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	2,439	45,602,390
Unexpired Unobligated Balance, End of Year	$ 191,300,600	$ 3,306,000	$ 398,519	$ 36,043	$ 2,439	$ 195,043,601
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	$ 2,439	$ 195,154,844
Total Budgetary Resources	**$ 230,468,391**	**$ 13,670,891**	**$ 859,856**	**$ 226,972**	**$ 2,439**	**$ 245,228,549**
Outlays, Net:						
Outlays, Net (Total) (Discretionary and Mandatory)	$ 34,745,436	$ 6,743,333	$ (164,705)	$ 107,711	$ (13,666)	$ 41,418,109
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**	**$ (13,666)**	**$ (768,968)**

COMBINING STATEMENT OF BUDGETARY RESOURCES			
NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2022 (amounts in thousands)	**FMFDLFA**	**MDRFA**	**Total**
Non-Budgetary Resources:			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandataroy)	$ 47,187	$ –	$ 47,187
Borrowing Authority (Discretionary and Mandatory)	183,864	747	184,611
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	3,381	–	3,381
Total Budgetary Resources	**$ 234,432**	**$ 747**	**$ $235,179**
Status Of Budgetary Resources:			
New Obligations and Upward Adjustments (Total)	$ 209,453	$ 747	$ 210,200
Unobligated Balance, End of Year			
Unapportioned, Unexpired Accounts	24,979	–	24,979
Unexpired Unobligated Balance, End of Year	$ 24,979	$ –	$ 24,979
Unobligated Balance, End of Year (Total)	$ 24,979	$ –	$ 24,979
Total Budgetary Resources	**$ 234,432**	**$ 747**	**$ 235,179**
Disbursements, Net:			
Disbursements, Net (Total) (Mandatory)	**$ (600,355)**	**$ 747**	**$ (599,608)**

Section III

OTHER INFORMATION



Senior Airman James Graves, 61st Airlift Squadron loadmaster, marshals cargo onto a C-130J Super Hercules. – *U.S. Air Force photo by Senior Airman Cydney Lee*

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 IPA during the SAA financial statement audit.

TABLE 6. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Disclaimer of Opinion					
Restatement: No					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Unsupported Beginning Balances	1	0	0	0	1
Universe of Transactions (UoT)	1	0	0	0	1
Entity Level Controls	1	0	0	0	1
Accounts Payable	1	0	0	0	1
Budgetary Resources	1	0	0	0	1
Earned Revenue	1	0	0	0	1
Fund Balance with Treasury	1	0	0	0	1
General Property, Plant, and Equipment	1	0	0	0	1
Inventory & Related Property	1	0	0	0	1
Intragovernmental Transactions and Eliminations	1	0	0	0	1
Unsupported Accounting Adjustments	1	0	0	0	1
Oversight of Service Providers	1	0	0	0	1
Gross Costs	0	1	0	0	1
Accounting for Case Activity in the GL	0	1	0	0	1
Total Material Weaknesses	12	2	0	0	14

Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Manager's Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and OMB Circular No. 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*

DSCA will continue to address the findings identified by the IPA by executing the audit firm's recommendations and implementing CAPs through active collaboration with the DFAS, the OUSD(C), IAs, and other SC stakeholders to address and remediate findings. DSCA remains committed to remediating deficiencies and material weaknesses as outlined in the report and looks to secure an unmodified opinion as expeditiously as possible, subsequent to our Title 10 counterparts. Implementing and closing CAPs as soon as possible is a top objective of U.S. Security Cooperation leadership and is aligned with the Secretary of Defense's audit remediation priorities.

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	0	0	0	0	1
Ineffective Financial Statement Compilation process and Unreliable UoT for the SAA	1	0	0	0	0	1
Lack of Adequate Controls and Documentation over SAA Business Processes	1	0	0	0	0	1
Lack of Adequate Controls over Property, Plant, and Equipment and Inventory	1	0	0	0	0	1
Lack of Adequate Controls over the Transportation Account	1	0	0	0	0	1
Lack of Adequate Controls over Building Partner Capacity Appropriated Funds Transferred to the Foreign Military Sales Trust Fund	1	0	0	0	0	1
Total Material Weaknesses	6	0	0	0	0	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	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

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	0	0	0	0	1
Lack of Adequate Policies and Procedures Governing SAA Financial Systems	1	0	0	0	0	1
Lack of Standard Financial Information Structure Compliant Accounting	1	0	0	0	0	1
Total Material Weaknesses	3	0	0	0	0	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.

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 DoD OIG refers SAA Management to the DoD OIG's *FY 2023 Top DoD Management Challenges* report which identified eight 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's performance.

From the DoDIG report, the FY 2023 Top DoD Management Challenges are:

1. Building Enduring Advantages for Strategic Competition
2. Strengthening Cyberspace Operations and Securing Systems, Networks, and Data
3. Maintaining Superiority Through a Resilient Defense Industrial Base
4. Improving Financial Management and Budgeting
5. Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment
6. Protecting the Health and Wellness of Service Members and Their Families
7. Recruiting and Retaining a Diverse Workforce
8. Accelerating the Transformation to a Data-Centric Organization

The FY 2023 Top Management Challenges Report can be found here:

https://www.dodig.mil/reports.html/Article/3219066/fy-2023-top-dod-management-challenges/

An F-16C Fighting Falcon assigned to the 93rd Fighter Squadron flies over Central Florida, September 2, 2023.
– U.S. Air Force photo by Senior Airman Joshua Hastings

APPENDIX

GLOSSARY OF ACRONYMS

AECA	Arms Export Control Act
AFR	Agency Financial Report
BPC	Building Partner Capacity
CAPs	Corrective Action Plans
CAS	Contract Administration Services
CCDRs	Combatant Commanders
CCMDs	Combatant Commands
CFO	Chief Financial Officer
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
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
DTRA	Defense Threat Reduction Agency
EOP	Executive Office of the President
FAA	Foreign Assistance Act
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FCRA	Federal Credit Reform Act

FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
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
FMLLA	Foreign Military Loan Liquidating Account
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FY	Fiscal Year
GAO	Government Accountability Office
HIPC	Highly Indebted Poor Countries
IA	Implementing Agency
IMET	International Military Education and Training
IMF	International Monetary Fund
IPA	Indedependent Public Accountant
IT	Information Technology
JSF	Joint Strike Fighter
LAC	Latest Acquisition Cost
LOA	Letter of Offer and Acceptance
MAC	Moving Average Cost
MDA	Missile Defense Agency
MDRFA	Military Debt Reduction Financing Account
MDS	Missile Defense System
MILDEPs	Military Departments
NATO	North Atlantic Treaty Organization
NDS	National Defense Strategy
NIST	National Institute of Standards and Technology
NGA	National Geospatial – Intelligence Agency

NSA	National Security Agency
NSC	National Security Council
OGC	Office of General Counsel
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
PRC	People's Republic of China
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
SCOs	Security Cooperation Organizations
SDAF	Special Defense Acquisition Fund
SecDef	Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standard
SNC	Statement of Net Cost
TAS	Treasury Account Symbol
USACE	U.S. Army Corps of Engineers
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
USG	United States Government
U.S. GAAP	United States Generally Accepted Accounting Principles
USSGL	United States Standard General Ledger
UoT	Universe of Transactions
WMDs	Weapons of Mass Destruction

ACKNOWLEDGEMENTS

Thank you for your interest in the Security Assistance Accounts and its Fiscal Year 2023 Agency Financial Report. This report was prepared with the energies and talents of many employees within DSCA and across the Security Cooperation. To these individuals, we offer our sincerest thanks and acknowledgment.

We are interested in your feedback.
Please send your comments, suggestions, or requests to:
dsca.ncr.obo.mbx.saa-afr@mail.mil

An electronic version of this document is published online at:
https://www.dsca.mil/resources/reports

A U.S. Marine with 1st Battalion, 7th Marines provides security during Jungle Warfare Exercise 23 in the Central Training Area on Okinawa, Japan, Feb. 15, 2023. – *Photo by Sgt. Mario Ramirez*

DEFENSE SECURITY COOPERATION AGENCY

Security Through Global Partnerships