United States Department of Defense

AGENCY FINANCIAL REPORT

FISCAL YEAR 2023

DEPARTMENT OF DEFENSE AT A GLANCE

BRIEF HISTORY

In 1775, the Continental Congress established three Military Services – the Army, Navy, and Marine Corps – to wage the Revolutionary War. Following ratification of the Constitution of the United States, Congress formed the Department of War in 1789, to administer the Army, and the Department of the Navy in 1790. Also in 1790, Congress established the Revenue-Marine, the predecessor of today's Coast Guard (which is now part of the Department of Homeland Security during peacetime). The National Security Act of 1947 split the Department of War into the Department of the Army and the Department of the Air Force. Further, the law unified the leadership of all three Military Departments under the National Military Establishment (NME), led by a Secretary of Defense who would be advised by the Joint Chiefs of Staff (JCS). The JCS, in turn, received the statutory authority to establish what today are known as Combatant Commands. The National Security Act Amendments of 1949 transformed the NME into the Department of Defense and created the position of the Chairman of the Joint Chiefs of Staff. Over time, the Department has consolidated certain common functions into Defense Agencies and Department of Defense Field Activities. In 2019, Congress established the newest Military Service, the Space Force, under the Department of the Air Force.

A U.S. Army Soldier assigned to the 165th Quartermaster Brigade Aerial Delivery Company-Airborne Det 1 conducts post airborne procedures during a U.S. Army and Qatar Joint Special Forces airborne insertion exercise in Doha, Qatar, Aug. 17, 2023. The exercise provided an avenue for practicing tactics, techniques, and procedures in a joint environment, while building partnerships between the U.S. and Qatari military. The U.S. Army 165th Quartermaster BADC-A Det 1 teamed up with U.S. Air Force Special Operations Command Central to demonstrate their capabilities in the U.S. Central Command area of responsibility. (U.S. Air Force photo by Tech. Sgt. Devin Boyer)

Headquarters

The Department of Defense is headquartered at the Pentagon, located in Arlington, Virginia. The Pentagon is one of the world's largest office buildings – it has 17.5 miles of hallways, three times the floor space of the Empire State Building, and houses about 26,000 employees.

For Pentagon Tour information, click *here*.

Mission

To provide the military forces needed to deter war and protect the Nation's security.

Employees

The Department of Defense is the country's largest employer, with more than 2.1 million Military Service members and over 778 thousand civilian employees.
For information on the armed forces, click *here*.
For information on military rank insignia, click *here*.

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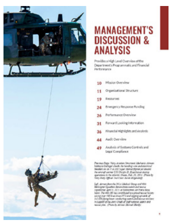

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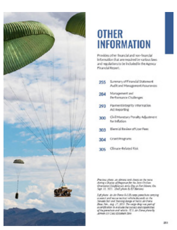

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ABOUT THE DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2023 provides an overview of the Department's financial information as well as preliminary summary-level performance results. The AFR demonstrates to Congress, the President, and the public the Department's commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – 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 (CFO) Act of 1990, as amended – established the position of Chief Financial Officer, requires audited financial statements for each major executive agency, and requires the Director of the Office of Management and Budget to prescribe the form and content of the financial statements;
- Federal Financial Management Improvement Act (FFMIA) of 1996 – 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 Government General Ledger;
- Reports Consolidation Act of 2000 – permits agencies to consolidate certain statutorily required reports into a single annual report and requires certain information be contained in the consolidated report; and
- Payment Integrity Information Act (PIIA) of 2019 – requires agencies to improve their efforts to identify and reduce government-wide improper payments.

Pursuant to Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, the Department produces two separate annual reports in lieu of a combined Performance and Accountability Report (PAR):

- An AFR, published in November 2023, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2024, which details DoD strategic goals, performance measures, and results.

The estimated cost of the AFR for the Department is $475,892 in Fiscal Years 2023 – 2024. This includes $190,992 in expenses and $284,900 in DoD labor. The estimated cost of the AFR was generated on November 8, 2023 (cost estimate report reference ID: 2-751C4EE).

Marine Corps Capt. Sean Rusaw fires an M27 infantry automatic rifle alongside a Kuwaiti service member during live-fire training at Udairi Range Complex, Kuwait, Sept. 4, 2023. (U.S. Marine Corps photo by Gunnery Sgt. Jeffrey Cordero)

WEBSITES AND MEDIA PLATFORMS

NEWS SERVICES

DoD News is the Defense Media Activity's news service. It delivers news stories, photos, video products, and live broadcasts pertaining to senior defense leaders and U.S. military forces around the world.

American Forces Network (AFN) is the Defense Media Activity's broadcast information service. It provides command information from all DoD levels to the authorized audience stationed outside of the United States and its territories and possessions. The service is available via direct satellite reception, cable distribution on installations, streaming audio on mobile and desktop computers, and a streaming video-on-demand app for mobile devices and in-home media platforms. Twenty-four manned AFN stations on military installations in 11 countries directly serve commands and communities in the Americas, Asia, Europe, and the Middle East with over-the-air radio service. More than 200 U.S. Navy, Military Sealift Command, and U.S. Coast Guard vessels receive the signal via satellite when they are underway outside the range of terrestrial U.S. broadcast signals.

Stars and Stripes is a DoD-authorized daily news and information media organization servicing the U.S. military community. Independent of interference from any outside chain of command, Stars and Stripes provides commercially available U.S. and world news and objective staff-produced stories relevant to the military community in a balanced, fair, and accurate manner. Stars and Stripes is part of the Defense Media Activity, however it retains its editorial independence and is congressionally mandated to be governed by First Amendment principles.

OPPORTUNITIES:

Join the Military

- Army
- Navy
- Marine Corps
- Air Force
- Space Force

- DoD Civilian careers
- Contract opportunities for small business

MEDIA PLATFORMS

@DeptofDefense (Twitter)

@DeptofDefense (Facebook)

@DeptofDefense (Instagram)

@DeptofDefense (YouTube)

@DeptofDefense (LinkedIn)

Subscribe to DoD RSS Feeds.

Access DoD photos, videos, podcasts, and more at the Defense Visual Information Distribution Service.

RESOURCES

- Military OneSource provides robust online information and resources to connect Military Service members, their families, survivors, and the military community to a wide range of programs, services, and products developed for military life.
- National Resource Directory provides a database of validated resources that supports recovery, rehabilitation, and reintegration for Military Service members, veterans, family members, and caregivers.
- USA.gov is the U.S. Government's official web portal which provides information by topic for citizens, business and non-profit concerns, government employees, and U.S. visitors. Also, learn more about help for veterans and service members, joining the military, and more.

MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2023

Americans rightly expect the Department of Defense (DoD) to account correctly for every taxpayer dollar entrusted to it. The DoD Agency Financial Report for Fiscal Year 2023 details areas where we have made progress in our annual financial statement audit, reflective of our resource and asset stewardship, and places where we have fallen short. As we improve our auditability, the Department remains firmly committed to transparency and to responsible stewardship of taxpayer dollars as an important means to keep our country safe and secure.

The Department continues to be guided by three priorities: defending the United States; taking care of our people; and succeeding through teamwork. I am pleased with the progress we have made in these areas, including supporting our partners in Ukraine and Israel, deepening the alliances that reinforce our security, staying vigilant against persistent threats to our nation, providing generous support to our military families, and much more. None of this work would be possible without the men and women of the Department of Defense. They are the best team in the world, and we will continue to provide the support they need and deserve.

Because of the Department's global scale—we have three million people on our payrolls; a health-care system that serves more than nine million troops, retirees, and family members; and assets that are worth more than those of the ten largest U.S. companies combined—our systems and processes were designed to track resources and assets at the local level. Only in the past six years has the Department of Defense begun to update our systems to conduct audits at the enterprise level.

Achieving a Department-wide unmodified (clean) audit opinion will take time, but we are committed to reaching this milestone. We owe American taxpayers a clean and comprehensive financial bill of health. I have zero tolerance for fraud, waste, and abuse, whether in the Pentagon, elsewhere in the Department, or in the industrial base that builds U.S. military capabilities. As we accelerate our audit remediation and business transformation, we are making sure that our internal controls are sound. We must get this right, and we will get this right.

There are no easy solutions to audit success, but I expect that the Department's audit priorities will generate measurable progress from our agencies and departments. We will focus on resolving key issues that are preventing us from achieving our goal of an unmodified audit opinion. In fiscal year 2024, I am committed to four audit priorities: reconciling our balances with the U.S. Treasury; strengthening our internal control environment; completing the creation of an authoritative database that captures all accounting system transactions; and optimizing asset valuation. For all of these, we will continue to measure progress and hold people accountable.

This report identifies areas where we need to do better. The Statement of Assurance in the Management's Discussion and Analysis section outlines my assessment of the effectiveness of internal controls over financial reporting, including the material weakness areas impeding the completeness and reliability of our performance and financial data, as well as compliance with relevant laws and regulations. The Independent Auditor's Report details results of this year's audit, which includes a disclaimer of opinion that identified multiple areas for improvement. Auditor recommendations will help us improve our financial reporting process and data. Modernizing and improving our business practices and systems will help us to better defend the United States and protect U.S. interests around the world.

The Department is grateful to Congress for its support and investment in our mission. This year's report demonstrates the strides made to meet our audit goals—and underscores our commitment to give taxpayers the transparency and confidence in DoD stewardship they deserve.

Lloyd J. Austin III

MANAGEMENT'S DISCUSSION & ANALYSIS

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

Previous Page: Navy Aviation Structural Mechanic Airman Makayla Gallegol checks the banding wire and electrical breakers on an F/A-18E Super Hornet fighter jet aboard the aircraft carrier USS Dwight D. Eisenhower during operations in the Atlantic Ocean, Feb. 28, 2023. (Photo by Navy Petty Officer 2nd Class Jacob Hilgendorf)

Left: Airmen from the 341st Medical Group and 40th Helicopter Squadron demonstrate search and rescue capabilities April 6, 2023, at Malmstrom Air Force Base, Mont. The 40th HS has contributed to a proud rescue history saving over 400 lives since 1973 and logging upwards of 145,000 flying hours conducting search-and-rescue missions in support of the Joint Chiefs of Staff national search and rescue plan. (Photo by Airman Hannah Hardy)

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to ensure the Nation's security by providing military forces to deter our adversaries and prevail in conflict should deterrence fail. The Department advances our priorities through integrated deterrence, campaigning, and actions that build enduring advantages. A strong, principled, and adaptive U.S. military is a central pillar for U.S. leadership, particularly in the face of challenges arising from dramatic geopolitical, technological, economic, and environmental change. The Department focuses on safeguarding and advancing vital U.S. national interests and works alongside other agencies and departments to protect the security of the American people, expand economic prosperity and opportunity, and realize and defend the values at the heart of the American way of life.

Today, the United States faces strategic challenges stemming from complex interactions between increasingly capable state competitors; a rapidly changing global balance of military power; and emerging capabilities of adversaries that pose new threats to the U.S. homeland, vital national interests, and strategic stability. The People's Republic of China (PRC or China) is the most consequential strategic competitor of the United States and the pacing challenge for the Department, while the Russian Federation (Russia) poses acute threats, as illustrated by its brutal and unprovoked invasion of Ukraine. At the same time, the Department must remain vigilant against other persistent threats including those from the Democratic People's Republic of Korea (North Korea), the Islamic Republic of Iran (Iran), and violent extremist organizations, to remain focused on our priorities and avoid strategic distraction. Furthermore, changes in global climate and other dangerous transboundary threats, including pandemics and transnational criminal organizations, are transforming the context in which the Department operates and will increasingly place pressure on the Joint Force and the systems that support it. Recognizing growing kinetic and non-kinetic threats to the homeland from our strategic competitors, the Department will take necessary actions to increase resilience—that is, the ability to withstand, fight through, and recover quickly from disruption.

Consistent with the President's National Security Strategy, the Department's National Defense Strategy (NDS) articulates the following priorities, driving the Department's goals, investments, and programmatic decisions:

1. Defending the homeland, paced to the growing multi-domain threat posed by the PRC.
2. Deterring strategic attacks against the United States, allies, and partners.
3. Deterring aggression, while being prepared to prevail in conflict when necessary, prioritizing the PRC challenge in the Indo-Pacific, then the Russia challenge in Europe.
4. Building a resilient Joint Force and defense ecosystem.

The challenges we face are formidable, but the United States possesses strengths that our competitors cannot match. The Department will adapt to these challenges, which increasingly place pressure on the Joint Force and the entire defense enterprise. We will support a whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, and ensures the Nation leads from a position of strength that will keep America secure, prosperous, and free.

ORGANIZATIONAL STRUCTURE

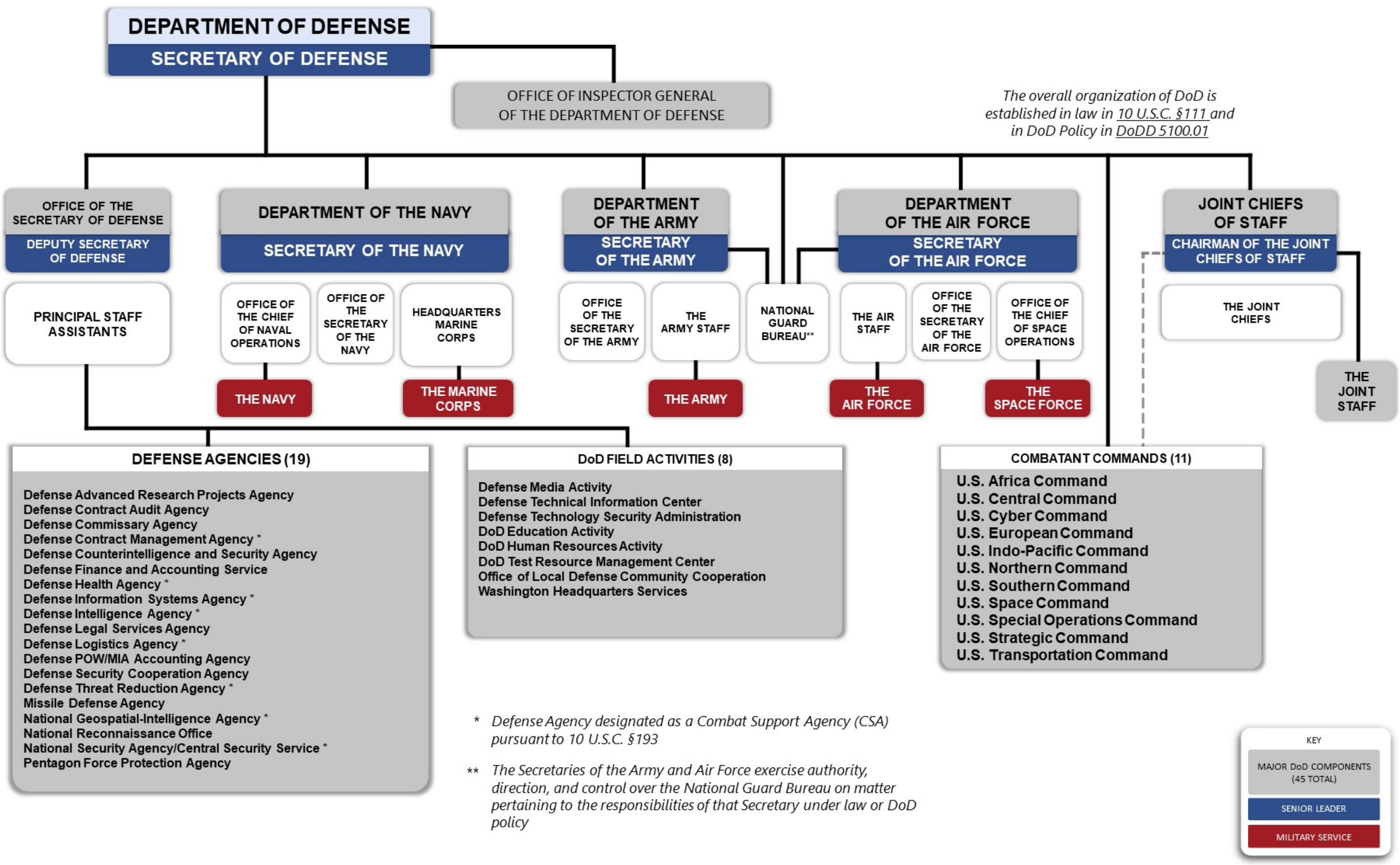
The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 military personnel serving in the National Guard and Reserve forces, and approximately 778,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In carrying out the Department's mission to protect National Security, Military Service members operate approximately 20,319 aircraft and 290 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 667,760 assets (buildings; structures; and linear structures, such as utilities, roads, and fences) located on over 4,686 sites worldwide as of the beginning of Fiscal Year (FY) 2023. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. These sites represent a total of nearly 25.7 million acres that individually vary in size from military training ranges with over 3.4 million acres such as *White Sands Missile Range*, to single weather towers, power line supports, or navigational aids isolated on sites of less than one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (e.g., runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (e.g., public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

The *Secretary of Defense* is the principal assistant and advisor to the President in all matters relating to the Department and exercises authority, direction, and control over the Department—in accordance with Title 10, United States Code (U.S.C.), section 113(b) (*10 U.S.C. §113(b)*). The Department comprises the Office of the Secretary of Defense; Joint Chiefs of Staff; Joint Staff; Combatant Commands; Military Departments; Office of Inspector General of the DoD; Defense Agencies; DoD Field Activities; and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense (see Figure 1).

Indiana National Guard soldiers present the national and state flags during the opening ceremony of the Indianapolis Colts final preseason game at Lucas Oil Stadium in Indianapolis, Sunday, Sept. 10, 2023. From left: Pfc. Benjamin Beaver, Sgt. Batak Strahan, Spc. Denise Loza, Spc. Jonathan Lanning. (Photo by Sgt. Jonah Alvarez)

Figure 1. Department of Defense Organizational Structure



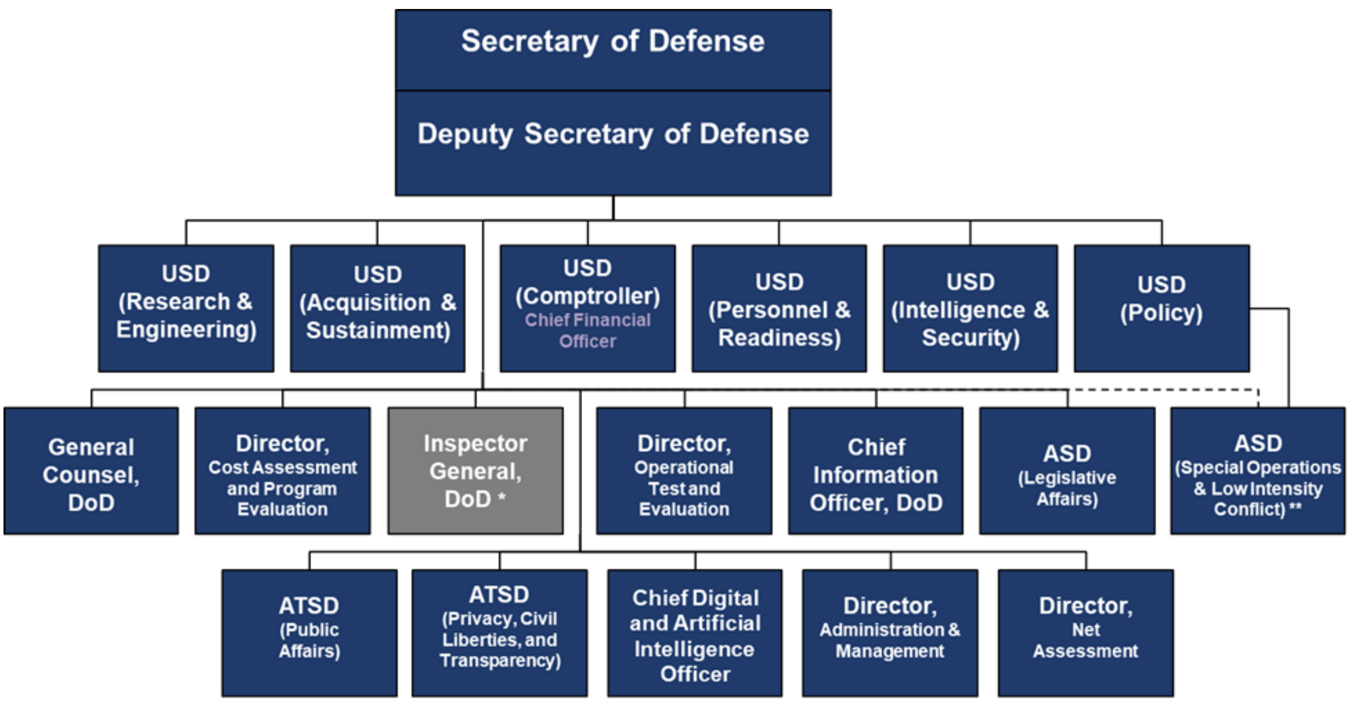
Soldiers assigned to the 2nd Cavalry Regiment conduct a convoy during Exercise Dragoon Ready 23 at the Joint Multinational Readiness Center in Hohenfels, Germany, Jan. 21, 2023. (Photo by: Army Spc. Micah Wilson)

OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out his duties and responsibilities as prescribed by law. The OSD comprises the Deputy Secretary of Defense, Under Secretaries of Defense (USDs), General Counsel of the DoD, Assistant Secretaries of Defense (ASDs), Inspector General of the DoD, and other senior officials and positions established by law or by the Secretary of Defense along with their supporting staffs.

The Principal Staff Assistants (PSAs) are those designated officials in OSD responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing the Defense Agencies and DoD Field Activities under their purview (see Figure 2).

Figure 2. Principal Staff Assistants



* *Although the IG DoD is statutorily part of OSD and for most purposes is under the general supervision of the SD, the Office of the IG DoD (OIG) functions as an independent and objective unit of the DoD.*

** *The ASD(SOLIC) is under the USD(P), but is in the administrative chain of command over USSOCOM and reports directly to the SD for those specific matters.*

The fast attack submarine USS Alexandria prepares to depart the floating dry dock after completing a successful regularly scheduled maintenance period at Naval Base Point Loma, Calif., April 5, 2023. (Photo by: Navy Petty Officer 1st Class Thomas Gooley)

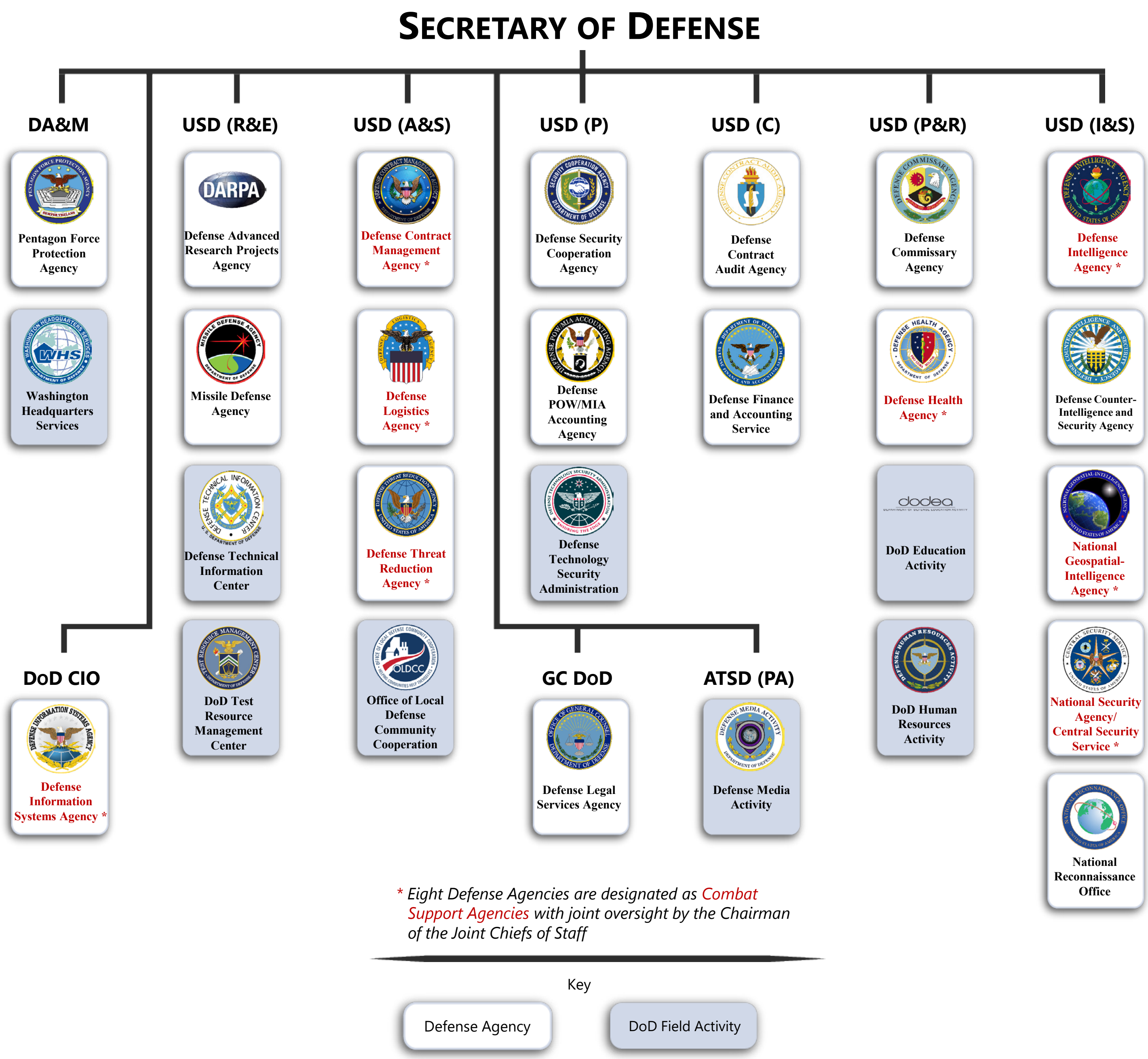
OFFICE OF INSPECTOR GENERAL

The Office of Inspector General of the DoD (DoD OIG) is an independent and objective unit within the Department that conducts and supervises audits, investigations, evaluations, and special reviews of the Department's programs and operations. The Inspector General of the DoD serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

Defense Agencies and DoD Field Activities are DoD Components established by law, the President, or the Secretary of Defense to provide—on a Department-wide basis—a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies providing direct support to operating forces. Each Director or Administrator of the 19 Defense Agencies and 8 DoD Field Activities exercises authority, direction, and control over their agency under the authority, direction, and control of a PSA (see Figure 3).

Figure 3. Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

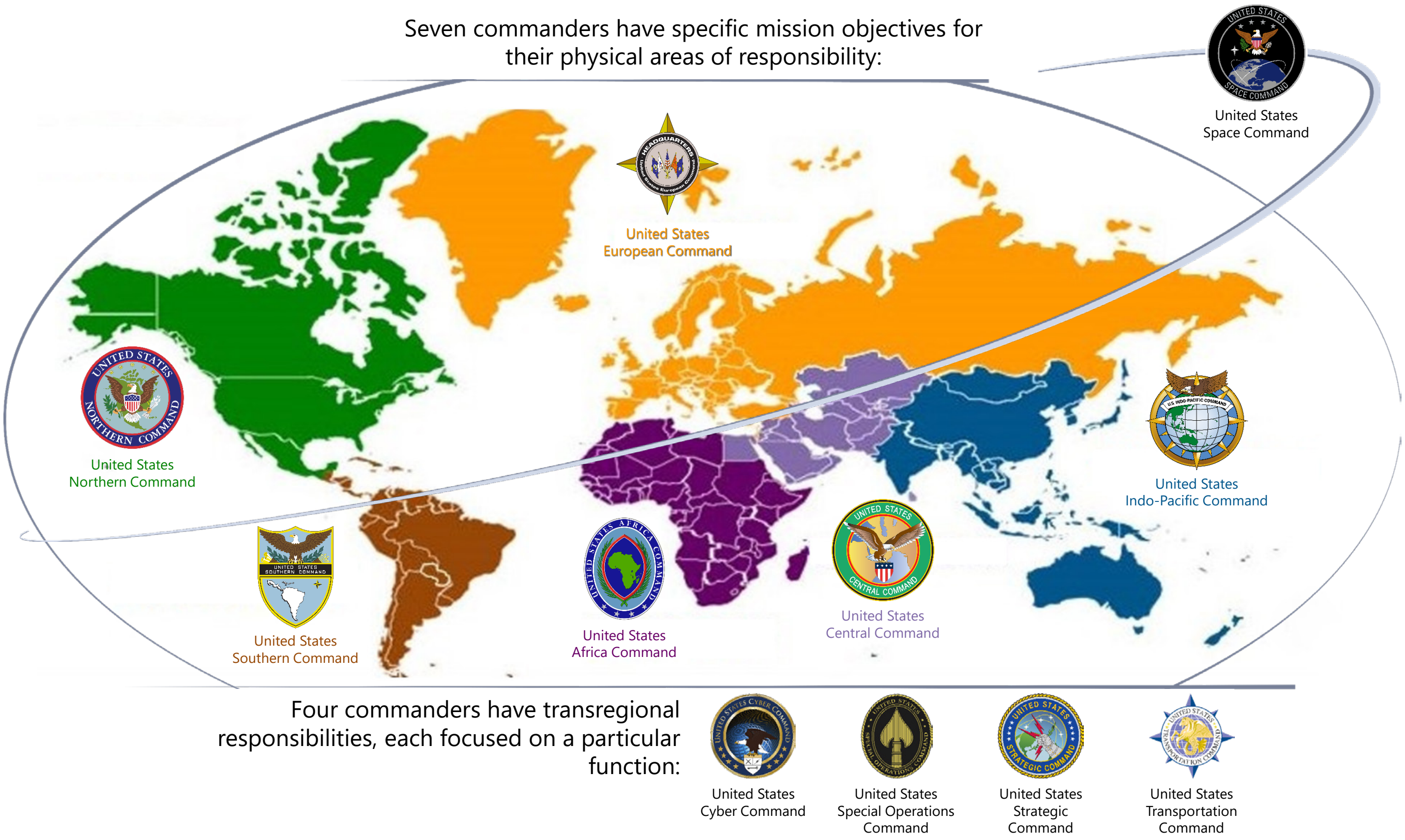
The Joint Chiefs of Staff (JCS) are the principal military advisors to the President, National Security Council, Homeland Security Council, and Secretary of Defense. The JCS consists of the Chairman (CJCS), the Vice Chairman (VCJCS), the Chief of Staff of the Army (CSA), the Chief of Naval Operations (CNO), the Chief of Staff of the Air Force (CSAF), the Commandant of the Marine Corps (CMC), the Chief of Space Operations (CSO), and the Chief of the National Guard Bureau (CNGB). The CJCS is supported in this role by the Joint Staff. The Joint Staff may not operate or be organized as an overall Armed Forces General Staff and shall have no executive authority.

Army Capt. Kahill Lucero rides a camel during a cultural day event at Prince Sultan Air Base, Saudi Arabia, Dec. 11, 2022. (Photo By: Air Force Staff Sgt. Shannon Bowman)

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them within their areas of responsibility (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The chain of command runs from the President, to the Secretary of Defense, to the Commanders of the Combatant Commands. While the CJCS may not exercise military command over any of the armed forces, the CJCS functions within the chain of command by communicating the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4. Combatant Commands



Among Combatant Commands, the U.S. Special Operations Command (USSOCOM) and the U.S. Cyber Command (USCYBERCOM) have additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments. These responsibilities include programming; budgeting; acquisition; training, organizing, equipping, providing special operations forces and cyberspace operations forces, respectively; and developing strategy, doctrine, tactics, and procedures. However, the USSOCOM and USCYBERCOM, similar to the other Combatant Commands, rely on the Military Departments for resourcing of equipment, base support, military pay, and recruitment.

MILITARY DEPARTMENTS

The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force (of which the Space Force is a component). Upon the declaration of war, if the Congress so directs in the declaration or when the President directs, the Coast Guard becomes a service in the Department of the Navy; otherwise, it is part of the Department of Homeland Security. The Army, Navy, Marine Corps, Air Force, and Space Force are referred to as the Military Services (and the Armed Services when including the Coast Guard). The three Military Departments organize, train, and equip the five Military Services (or six Armed Services when including the Coast Guard) and provide administrative and logistics support to the Combatant Commands by managing operational costs and execution.

The Military Departments include both Active and Reserve Components. The Active Component comprises units under the authority of the Secretary of Defense, staffed by active duty Military Service members. The Reserve Component includes the National Guard and the Reserve of each Military Service, with the exception of the Space Force (see Figure 5). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (e.g., storms, drought, and civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each state or territory.

Figure 5. Reserve Components - Reserve and National Guard

When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve of the Military Services are placed under the operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve are recognized as indispensable and integral parts of the Nation's defense and are fully part of the respective Military Department.

RESOURCES

In FY 2023, the Department received total appropriations of $1,093.7 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Appropriations ($ in Billions)	FY 2023	Restated FY 2022	FY 2021	FY 2020	FY 2019
Discretionary Budget Authority	$ 851.7	$ 776.6	$ 704.8	$ 723.1	$ 687.8
Civil Works Projects executed by USACE	11.7	25.9	6.2	6.1	8.2
Treasury contribution for Military Retirement and Health Benefits	141.1	125.0	114.9	107.0	101.6
Trust Fund Receipts	260.5	283.1	215.9	168.5	172.5
Trust Fund Resources Temporarily not Available	(171.3)	(191.1)	(136.7)	(90.5)	(95.7)
Appropriations (Discretionary and Mandatory) Reported on Statement of Budgetary Resources	**$ 1,093.7**	**$ 1,019.5**	**$ 905.1**	**$ 914.2**	**$ 874.4**

Forty-nine F-16 Vipers and MQ-9 Reapers assigned to the 49th Wing line up on the runway during an elephant walk at Holloman Air Force Base, N.M., April 21, 2023. The 49th Wing is the Air Force's largest F-16 and MQ-9 formal training unit, building combat aircrew pilots and sensor operators ready for any future conflicts. (Photo by: Tech. Sgt. Victor J. Caputo)

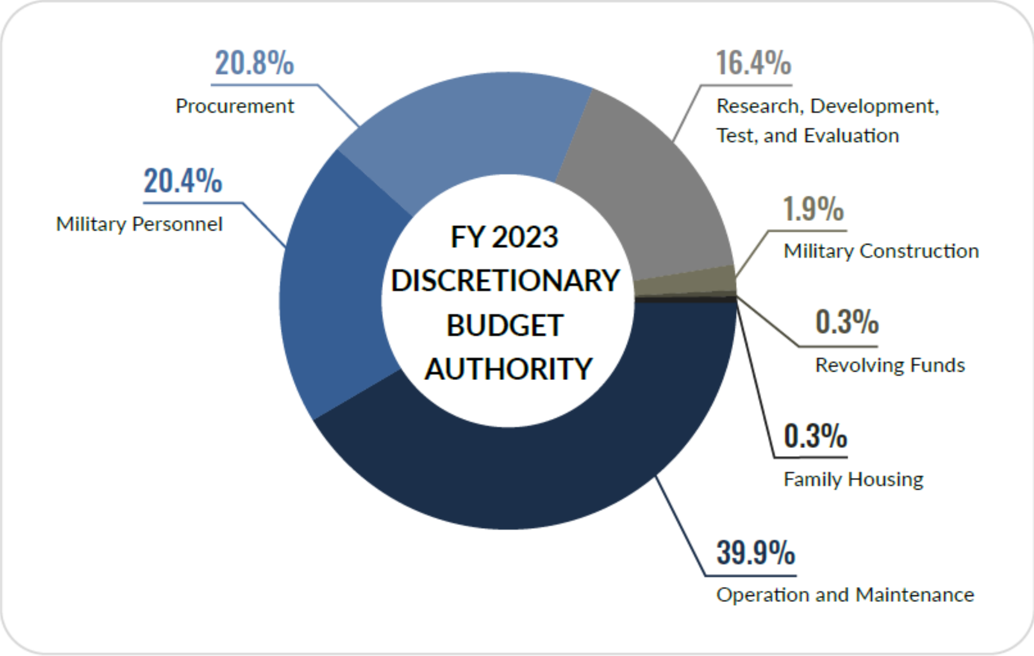
DISCRETIONARY APPROPRIATIONS

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives. The Department's discretionary funds were appropriated or authorized by the *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*, the *National Defense Authorization Act for Fiscal Year 2023*, the *Consolidated Appropriations Act, 2023*; and the *Fiscal Responsibility Act, 2023*. The FY 2023 Discretionary Budget Authority of $851.7 billion was provided to the Department using seven appropriation categories, which describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2023 Discretionary Budget Authority

Appropriation Category	$ in Billions	Percentage
Military Personnel	$ 174.2	20.4%
Operation and Maintenance	$ 339.6	39.9%
Procurement	$ 176.9	20.8%
Research, Development, Test, and Evaluation	$ 139.8	16.4%
Military Construction	$ 16.7	1.9%
Family Housing	$ 2.3	0.3%
Revolving Funds	$ 2.2	0.3%
Total Discretionary Budget Authority	$ 851.7	100.0%



Military Personnel

FY 2023 Military Personnel appropriations increased by $6.7 billion from FY 2022. Generally, funds in this category provide for *military compensation* to the Active and Reserve Component members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the *Blended Retirement System*. Specifically, FY 2023 Military Personnel appropriations included funding for a 4.6 percent military base pay raise effective January 1, 2023.

Operation and Maintenance

FY 2023 Operation and Maintenance (O&M) appropriation increased by $20.4 billion from FY 2022. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for training and operations, pay of civilians, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. Specifically, FY 2023 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, infrastructure, and funding for Combatant Command exercises and engagements (e.g., Operation Pathways, Griffin Shock, Formidable Shield, Balikatan) to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Procurement

FY 2023 Procurement appropriations increased by $23.7 billion from FY 2022. Generally, funds in this category provide for the acquisition of equipment. This includes unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Specifically, FY 2023 Procurement appropriations included funding for the 3 Arleigh Burke-class guided missile destroyers, 2 Virginia-class fast attack submarines, 1 frigate, 1 John Lewis-class T-AO Fleet Oilers, 69 F-35 Joint Strike Fighters, and 8 F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2023 Research, Development, Test, and Evaluation (RDT&E) appropriations increased by $20.7 billion from FY 2022. Generally, funds in this category provide for critical investments in basic and applied technologies, advanced technology development, prototypes, design and development for major acquisition programs, and upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries. Specifically, FY 2023 RDT&E appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance) and space systems development (e.g., the Next Generation Overhead Persistent Infrared Missile Warning/Missile Tracking satellite development). RDT&E also includes strengthening homeland missile defense (e.g., the Ground-based Midcourse Defense and Next-Generation Interceptors), modernizing nuclear enterprise systems, and investing in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, space and hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2023 Military Construction appropriations increased by $3.3 billion from FY 2022. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Specifically, FY 2023 Military Construction appropriations included funding to support the *European Deterrence Initiative* and climate-related investments within the Energy Resilience and Conservation Investment Program.

Family Housing

FY 2023 Family Housing appropriations increased by $0.8 billion from FY 2022. Generally, funds in this category provide for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the United States and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Revolving Funds

FY 2023 Revolving appropriations decreased by $0.5 billion from FY 2022. Generally, funds direct appropriations into the Defense Working Capital Fund to buy operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations support the Defense Commissary Agency (*DeCA*), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new Defense Working Capital Fund activity is established, its founding cash corpus is established by a direct appropriation. Reprogramming associated with increased fuel cost also contributes to the Defense Working Capital Fund.

Civil Works Projects Executed by U.S. Army Corps of Engineers (USACE)

For FY 2023, $8.3 billion was received, compared to $8.3 billion in FY 2022. The funding received in FY 2023 was used to execute a number of civil works projects that included supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage. The Congress appropriates funding directly to the *USACE* under the *Consolidated Appropriations Act, 2023*, *Infrastructure Investment and Jobs Act*, and *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*.

MANDATORY APPROPRIATIONS

In addition to the discretionary budget authority received from annual appropriation acts, the Department also receives mandatory appropriations from the provisions of previously enacted laws. The amounts the Department receives for these mandatory appropriations are generally stipulated by statutorily defined criteria.

Treasury Contribution for Military Retirement and Health Benefits

The Department of the Treasury (*Treasury*) is required to contribute payments to the Military Retirement Fund (MRF), under the provisions of *10 U.S.C. §1413a* and *10 U.S.C. §1414*, and the Medicare-Eligible Retiree Health Care Fund (MERHCF), under the provisions of *10 U.S.C. §1116(a)(1)*, to cover (1) a portion of the present value of future benefits payments to be paid to eligible retirees, and (2) the fiscal year's amortization of the funds' unfunded liability. The *DoD Office of the Actuary* determines the amounts of these contributions based on projection models that rely on data (e.g., average force strength) and assumptions (e.g., future inflation rates).

Trust Fund Receipts

Funds are paid into multiple DoD trust funds, primarily MRF and MERHCF, from various sources including the Treasury contributions, described above, and payments from the Uniformed Services (i.e., the Military Services, the *National Oceanic and Atmospheric Administration*, and the *Commissioned Corps of the U.S. Public Health Service* to cover the cost of benefits earned in the current year, and interest earned on Treasury investments held by the trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources (SBR)*, in the Financial Section, for additional information.

Trust Fund Resources Temporarily Not Available

Certain resources that were appropriated in the current year are precluded from obligation during the current year by a provision of law, such as a benefit formula or limitation. The Department will obligate these resources in future years to pay the current unfunded liabilities of the corresponding trust funds.

Creating Helpful Incentives to Produce Semiconductors (CHIPS)

The Department received $400 million in mandatory funding in the CHIPS Act of 2022 for FY 2023 - FY 2027 to facilitate the procurement of semiconductors in the United States. Of the $400 million appropriated in FY 2023, the Department obligated $38.5 million as of September 30, 2023. These funds may not be apportioned or obligated until the enactment of the respective year's appropriation bill.

EMERGENCY RESPONSE FUNDING

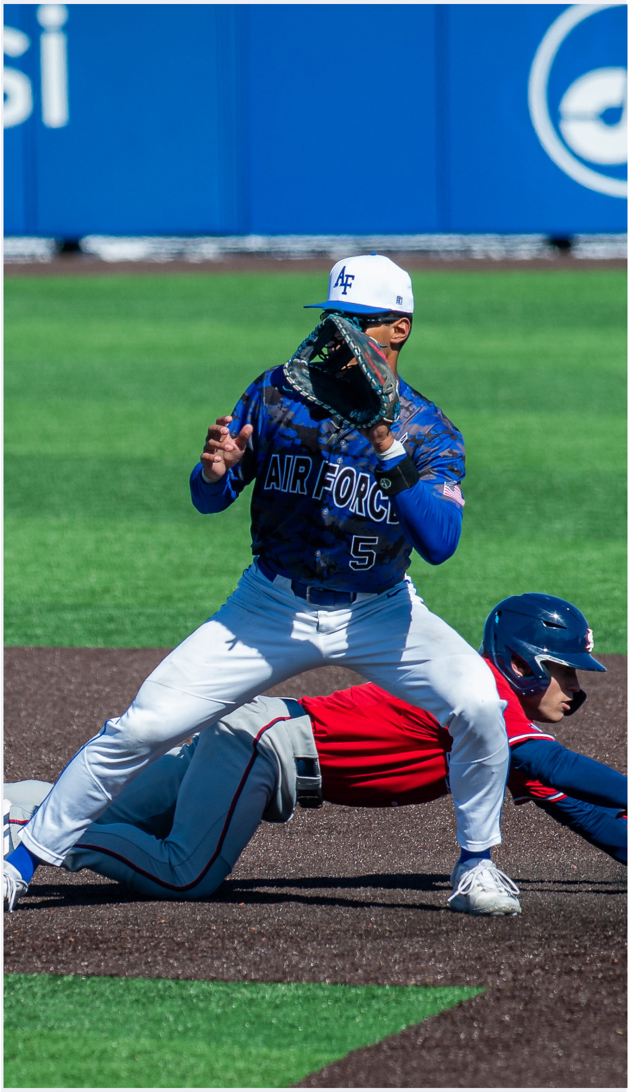
COVID-19 RESPONSE

The Department acted boldly and quickly to support the Federal Government's fight against the Coronavirus Disease 2019 (*COVID-19*) pandemic and will continue to work with domestic and international partners to protect the Nation from potential novel and deadly viruses of the future. The Department anticipates COVID-19 costs will continue to decrease, driving a reduction in the Defense Health Program (DHP) budget in Direct Care and Private Sector Care. The Department continues to invest in testing, genomic sequencing, and integrating health information technology systems to protect against and treat COVID-19, while applying lessons learned to prepare for future biological threats and other major public health emergencies.

As of September 30, 2023, the Department obligated a cumulative total of $10.1 billion of the total Families First Coronavirus Response Act (*FFCRA*) and Coronavirus Aid, Relief, and Economic Security Act (*CARES Act*) supplemental funding.

The DHP COVID-19 funds budgeted and executed in FY 2023 are baseline funding and not FFCRA and CARES Act supplemental funding. The FY 2023 DHP's President's Budget includes $485.0 million to support COVID-19 Private Sector Care claims, vaccine, testing, and surveillance health activities for the pandemic level of effort not covered in the base budget. This funding sources COVID-19 diagnostic, surveillance, and screening tests. The funding also provides COVID-19 booster vaccines, expanded public health efforts, and whole genomic sequencing and bio-informatics capabilities for pandemic preparedness and response for infectious disease threats.

FY 2023, the DHP obligated a cumulative total of $500.8 million in support of COVID-19 requirements.



U.S. Air Force Academy cadet Sam Kulasingam attempts to force out Fresno State during a game at Falcon Field in Colorado Springs, Colo., on April 6, 2023. The Falcons beat Fresno State in a 13-4 Friday afternoon win. (Photo by: Justin R. Pacheco)

UKRAINE RESPONSE

During FY 2023, in response to Russia's invasion of Ukraine, multiple laws were passed by the Congress and signed into law by the President in support of Ukraine. These laws provided supplemental appropriations to the Department totaling $35.7 billion, which are reflected in the FY 2023 total appropriations amounts:

- On September 30, 2022, the *Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023*, was signed into law. This act provided the Department with an additional $7.8 billion of supplemental funds across multiple appropriation categories to replenish DoD equipment stocks sent to Ukraine via presidential drawdown authority; and to continue military, intelligence and other defense support. The act provides additional funding for the Ukraine Security Assistance Initiative (USAI), which directly funds the acquisition of critical defense capabilities and equipment.
- On December 29, 2022, the *Consolidated Appropriations Act, 2023*, was signed into law, providing an additional $27.9 billion to continue to provide military capabilities and equipment to Ukraine. The Act provided supplemental funds across multiple appropriation categories and included $9 billion for the USAI to provide training, equipment, logistics support, supplies and services, and intelligence support to the military and national security forces of Ukraine. Funding also supported enhanced U.S. military units in Europe supporting NATO Response Forces, replenishment of DoD stocks provided to Ukraine under presidential drawdown authority, and funds for facilities expansion to support enhanced munitions industrial base.

As of FY 2023, the Department obligated a cumulative total of $48.7 billion, and $14.2 billion remains available for future obligation.

PRESIDENTIAL DRAWDOWN AUTHORITY FOR UKRAINE

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

During the Department's oversight of its execution of Presidential drawdowns, inconsistencies were discovered in how the Military Departments were establishing the value of defense articles they were drawing down from their inventories and providing to Ukraine. After a reassessment was conducted, it was concluded that the amounts for drawdowns directed during FY 2023 and FY 2022 were overvalued by $3.6 billion and $2.6 billion, respectively. These overvaluations have since been corrected, resulting in identification of $6.2 billion in remaining drawdown authority available for support to Ukraine.

The Department's valuation of assets for the purposes of PDA, and any subsequent corrections, does not have an impact on the Department's valuation of assets for the purposes of financial reporting. For financial reporting purposes, the Department follows the valuation methodology promulgated by Federal Financial Accounting Advisory Board (FASAB) in their Statements of Federal Financial Accounting Standards (SFFAS).

Currently, audits are underway by GAO and DoDIG to assess the Department's methodology for valuation of assets for the purposes of PDA.

PERFORMANCE OVERVIEW

The Department's Strategic Management Plan (SMP) for FY 2022 – FY 2026 articulates the Secretary of Defense's strategic management priorities, consistent with the National Defense Strategy (NDS), with an emphasis on building enduring advantages. The SMP presents the Department's strategic management objectives by providing a framework for describing general and long-term goals, what actions the Department will take to realize those goals, and how the Department will address challenges and risks that may hinder achieving results. The SMP meets statutory requirements pursuant to the Government Performance and Results Act of 1993 (GPRA), GPRA Modernization Act of 2010 (GPRAMA), and OMB Circular No. A-11, requiring federal agencies to develop and submit an Agency Strategic Plan in concurrence with the President's budget request. This plan serves as the blueprint on advancing the NDS in the present and in the years ahead and demonstrates the Department's continued commitment to transparency and accountability.

In addition to the SMP, each year the Department communicates its commitment to strategic planning and performance management by publishing an Annual Performance Plan (APP) and Annual Performance Report (APR). The APP complements the SMP's longer-term planning outlook by linking its strategic goals and objectives to shorter-term operational performance goals, measures, and targets for the upcoming fiscal year. The APR consolidates prior year performance results across all DoD Components and communicates overall implementation progress against the SMP.

Performance Monitoring and Tracking

The Department is a performance-based organization committed to using performance data and results to drive decision-making and accountability for achieving outcomes. The Department monitors, reviews, and reports progress on its strategic priorities, objectives, and associated performance goals and measures on a quarterly basis, following specific targets identified in the APP for the upcoming fiscal year. The Deputy's Management Action Group (DMAG) is the senior body for governing the Department's SMP, including assessing component and enterprise-wide performance. These efforts are supported by the Defense Performance Improvement Council (DPIC) which serves as the Department's governance and integration body for matters associated with defense management, defense reform, performance management and improvement, enterprise risk management, and oversight of related resourcing decisions. The DPIC, chaired by the DoD Performance Improvement Officer (PIO), meets on a monthly basis and also focuses on the preparation and monitoring of the SMP, APP, and APR implementation, and conducts quarterly progress reviews of Agency Priority Goals (APG). These performance measures provide a comprehensive view of the "health" of enterprise management operations for the Department.

Data-Driven Performance Management

The Department is committed to using data and analytics to track progress on strategic priorities in an outcome-driven, metrics-based manner that drive improved performance. To enable the shift to a data-driven approach for performance management, the Chief Digital and Artificial Intelligence Officer (CDAO), in partnership with the PIO and Undersecretary of Defense for Policy (USD(P)), designed an executive analytics capability in Advana, called "Pulse," that uses metrics informed by authoritative data to give DoD senior leaders a strategic view of how the Department is performing against its top priorities. Pulse refers to both the integrated data and analytics layer for performance management in Advana, as well as the governance structure for overseeing progress and escalating risks.

The Pulse applications support the Deputy Secretary of Defense's vision to transform the Department into a data-driven organization, to ensure alignment of performance improvement activities with Secretary of Defense priorities, and to foster better decision-making around performance. This initiative empowers DoD Components to draw deeper insights from data, drive more efficient processes and procedures, and enable proactive performance tracking and monitoring.

With the increased visibility of authoritative data, the Department also has better insight into ongoing reform efforts to address identified areas of underperformance.

Through the Pulse framework, the Department aims to:

- Develop and integrate data-informed, outcome-based metrics to show how the Department is performing against Secretary of Defense/Deputy Secretary of Defense strategic priorities.
- Enable the Secretary of Defense/Deputy Secretary of Defense to proactively monitor how the Department is performing and be notified if there are areas where they need to engage.
- Ensure performance improvement efforts across the Department align to Secretary of Defense/Deputy Secretary of Defense top strategic priorities and performance goals/objectives.

Pulse is a collaborative effort across the Department that will evolve and mature over time. As DoD Components increasingly use Pulse in day-to-day management decisions, the quality of the data and the maturity of available measures will increase. By using Pulse in management discussions at the highest levels, the Department will be able to translate core business objectives into measurable outcomes that change behaviors and improve overall performance.

Performance Management Framework

The SMP for FY 2022 – FY 2026 is the result of a collaborative effort among subject matter experts across the Department and aligns every strategic objective to a strategic priority (see Figure 8). To achieve the objectives outlined in the SMP, the Deputy Secretary of Defense and PIO engage with senior leaders across the Department to promote enhanced management processes, systems, and practices. The SMP provides the Deputy Secretary of Defense and PIO with effective levers to identify, oversee, and report on a series of tangible and measurable activities ensuring diligence in the Department's management of resources assigned to those priorities. The implementation of each strategic objective in the SMP is in the purview of one or more of the Office of the Secretary of Defense (OSD) Principal Staff Assistants (PSAs) who are delegated with the Secretary of Defense's authority to carry out their assigned responsibilities and functional areas.

Strategic Goals and Objectives

The strategic priorities and objectives, coupled with the performance goals and measures outlined in the FY 2024 APP describe how the Department intends to achieve its goals and priorities and succeed through teamwork with our allies and partners. Complete FY 2023 performance results through fiscal year-end will be published in the FY 2023 APR, which will be released with the President's Budget in February 2024, and made available to the public through the Office of the DA&M's website at *https://dam.defense.gov/performance*.

The strategic management framework as defined in the FY 2022 – FY 2026 SMP is presented below. Each Strategic Priority (SP) is tied to one or more Strategic Objectives (SO), which are tied to a Performance Goal (PG) or Agency Priority Goal (APG).

Figure 8. DoD Strategic Goals and Objectives

Strategic Goals	Strategic Objectives
GOAL 1 - Transform the Foundation of the Future Force Building enduring advantages across the enterprise requires overhauling the Department's force development, design, and business management practices. Our current system is too slow and too focused on acquiring systems not designed to address the most critical challenges. This orientation leaves little incentive to design open systems that can rapidly incorporate cutting-edge technologies, creating longer term challenges with obsolescence, interoperability, and cost effectiveness. The Department is transitioning to processes and systems that instead reward rapid experimentation, acquisition, and fielding. We will align requirements and undertake a campaign of learning to identify the most promising concepts, incorporating emerging technologies in the commercial and military sectors for solving our key operational challenges. These efforts will ensure the Department can sustain and strengthen deterrence and investments that build enduring advantages.	**1.1:** Drive competitive advantage by acquiring effective capabilities to deter and, if necessary, defeat pacing threats **1.2:** Modernize and sustain the nuclear deterrent and protect against chemical and biological threats **1.3:** Deliver and optimize the Department's enterprise, information, and technology infrastructure to drive mission effectiveness
GOAL 2 - Make the Right Technology Investments To maintain the U.S. military's technological advantage, the Department continues to champion research, science, technology, engineering, and innovation. The Department will support the innovation ecosystem, both at home and in expanded partnerships with our Allies and partners. Innovation has always been a strength of the United States, and the Department will harness that innovation by focusing development resources on unique capabilities needed by the military and will quickly adopt the best commercial dual use technologies. The DoD will develop and prototype critical technologies and conduct continuous campaigns of joint experimentation to improve those technologies and deliver capabilities to the warfighter.	**2.1:** Build a strong foundation for future science and technology through modernized laboratories and test facilities **2.2:** Collaborate with public/private sector partners in support of innovative, interoperable solutions **2.3:** Leverage technology innovation to build enduring performance advantage
GOAL 3 - Strengthen Resiliency and Adaptability of Our Defense Ecosystem The Department will strengthen our Defense Industrial Base (DIB) to ensure that we produce and sustain the full range of capabilities needed to give U.S. allied and partner forces a competitive advantage. We will bolster support for our unparalleled network of research institutions, both university-affiliated and federally funded research and development centers, as well as small businesses and innovative technology firms. The Department will act urgently to better support advanced manufacturing processes to increase our ability to reconstitute the Joint Force in a major conflict. Industry plays a key role in both the effort to strengthen the defense ecosystem and to project military force: our industry Partners provide critical transportation capability and the global networks we need to meet day-to-day warfighting requirements. The Department's approach will be eminently proactive, developing vibrant relationships with commercial Partners in order to create sufficient military capacity to satisfy wartime demands at acceptable risk levels.	**3.1:** Shape a 21st century Defense Industrial Base (DIB)* **3.2:** Reduce operation and sustainment costs to maximize readiness **3.3:** Enhance the DoD's ability to combat 21st century climate, energy, and environmental challenges* **3.4:** Enhance the DoD's cybersecurity posture **3.5:** Increase the resiliency of C3 capabilities **3.6:** Engage in co-development, research, testing, and evaluation with Allies and partners

Strategic Goals	Strategic Objectives
GOAL 4 - Take Care of Our People and Cultivate the Workforce We Need The Department must continue to focus on attracting, recruiting, retaining, and training its workforce to ensure the Total Force has the right tools to both meet and keep pace with the ever-evolving threats to our Nation. This includes personnel systems and analytics that will provide the best data to support workforce forecasting and development. Enhancing readiness through a diverse and inclusive Total Force will foster innovation and collaboration, and enable the Force to best represent the population it is dedicated to protecting. Focusing on readiness will also require the Department to protect the health, safety, and welfare of the Force by ensuring a safe and supportive environment for all, preventing problematic behaviors, supporting victims, and holding offenders appropriately accountable. In particular, we must strive to counter behaviors – such as sexual assault/harassment, and participation in extremist activities – that erode our force readiness. Finally, the Department recognizes the crucial role family members play in sustaining the Total Force and will work to address their needs. In line with DoD leadership's priority to innovate and modernize the Department, we will continue to modernize our healthcare capabilities. An integrated and transformed Military Health System, with a state of the art electronic health record, will achieve the Quadruple Aim for the Total Force and military families: improved readiness, better health, better care, and lower cost.	**4.1:** Cultivate Talent Management* **4.2:** Change the culture **4.3:** Promote the health, wellbeing, and safety of the Force and families
GOAL 5 - Address Institutional Management Priorities Building enduring advantages also requires the Department to focus on standardization and simplification to enable productivity, trustworthiness, security, and innovation in DoD's management practice. Through Department-level and Federal Agency-wide priority efforts to address institutional priorities, challenges, and risks, we will improve force readiness, deliver greater impact through innovation, and increase the effectiveness and efficiency of the Department's day-to-day operations. The SMP captures key Department-wide initiatives - such as achievement of an unmodified audit opinion - to tackle existing challenges, streamline business processes, and secure and rationalize defense business systems. When the DoD achieves audit, we will operate in a secure environment in which financial data and reporting integrity are the norm, providing confidence in the data used for decision making across the Department. This happens through continued diligence in our audit remediation efforts, which continue to foster an environment that features fewer more capable and secure systems, better data, a proficient analytical workforce, and improved transparency that enables faster insights for mission support.	**5.1:** Accelerate the path to an unmodified audit opinion **5.2:** Optimize budget to execution and foster a high integrity funds control environment **5.3:** Modernize DoD business systems **5.4:** Accelerate the adoption of trusted data and analytics across the Department

**Indicates a strategic objective tied to an agency priority goal.*

Some performance goals are considered APGs, which are intended to highlight target priority policy and management areas in which agency leaders plan to achieve near-term performance advancement through focused senior leadership attention (see Figure 9). The anticipated timeline to accomplish these goals is two years. A senior leader within the Department is assigned to each APG and is responsible for updating the DBC on a quarterly basis. Quarterly progress updates on the APGs are published on Performance.gov.

Figure 9. DoD Level Agency Priority Goals

Agency Priority Goal (FY 2022 - FY 2023)	Agency Priority Goal Lead	Associated Strategic Objective
Ensure Supply Chain Resilience	Assistant Secretary of Defense (ASD) for Industrial Base Policy	Shape a 21st century Defense Industrial Base
Reduce Climate Impacts to DoD Installations	Deputy Assistant Secretary of Defense (DASD) for Environment and Energy Resilience	Enhance the DoD's ability to combat 21st century climate, energy, and environmental challenges
Shape an Appropriately Skilled and Ready Future Workforce: Improve Recruitment and Retention of the Civilian Workforce	Deputy Assistant Secretary of Defense (DASD) for Civilian Personnel Policy	Cultivate Talent Management

Financial Management Strategy Goals and Objectives

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) published the Financial Management (FM) Strategy to unify the FM workforce in achieving common goals throughout the DoD FM community. The FM Strategy for FY 2022 – FY 2026 aims to simplify and standardize DoD's FM environment to accelerate budget confidence, operational effectiveness, cybersecurity protection, auditability, transparency, and affordability. This strategy incorporates input from leaders, budget analysts, data analysts, accountants, and auditors throughout the Department as well as partners of the FM community. Many goals and objectives from the FM Strategy are developed in conjunction with related objectives found within the SMP, as the strategic objectives and performance goals are the result of a collaborative effort with subject matter experts.

The DoD FM community's highest priorities are to deliver world-class, responsive financial management that ensures the Department remains the premier global military and accomplishes its mission in a fiscally responsible manner, while inspiring trust with our civilian and military leaders, Congress, and the American taxpayer. The five strategic goals of the FM Strategy are:

1. Cultivate a skilled and inspired workforce
2. Optimize taxpayer dollars for the highest value outcomes
3. Increase the integrity of financial results
4. Simplify and optimize our end-to-end business environment
5. Empower data-driven, fiscally informed decision-making

Effective DoD financial management adds value to the warfighter's ability to achieve mission success. The Department's ability to be agile and pivot to integrate financial and operational data empowers global force decision-making and enables the FM Community to efficiently support the warfighter.

FORWARD LOOKING INFORMATION

The Department continues to make great strides to improve its current readiness, while making significant investments in future capabilities and force modernization through FY 2024. Given the complexity of its mission, the Department faces a myriad of emerging risks and challenges. Nevertheless, the Department is committed to the appraisal of these risks and in identifying every opportunity to optimize its operational performance.

The aggression from Russia and security risks posed by China necessitates protecting the U.S. homeland and reinforcing a stable and open international system.

The Department advances our priorities through integrated deterrence, campaigning, and actions that build enduring advantages. The Department is implementing a strategy anchored in allies and partners that focuses on deterring the PRC, while campaigning to gain military advantage, enhance deterrence logics, and address gray zone challenges. Our strategy seeks to prevent the PRC's dominance of key regions, while protecting the U.S. homeland and reinforcing a stable and open international system. A key objective is to dissuade the PRC from considering aggression as a viable means of advancing goals that threaten vital U.S. national interests.

Even as the Department focuses on the PRC as our pacing challenge, we are accounting for the acute threat posed by Russia, demonstrated most recently by Russia's unprovoked further invasion of Ukraine. We are working closely with the North Atlantic Treaty Organization (NATO) and our partners to provide U.S. leadership, develop key enabling capabilities, and deepen interoperability to pursue a deterrence by cost imposition logic for Russian aggression against NATO, while ensuring that Russia suffers a strategic defeat in Ukraine.

Marines assigned to the Combat Logistics Battalion 2, Combat Logistics Regiment 2, 2nd Marine Logistics Group, conduct a hike during Marine Rotational Force- Europe 23.1 in Setermoen, Norway, Jan. 29, 2023. The mission focuses on regional engagements throughout Europe by conducting various exercises, mountain-warfare training, and military-to-military engagements which enhance the overall interoperability of the Marine Corps with allies and partners. (Photo by: Marine Corps Sgt. Christian Garcia)

To counter both the security risks posed by the PRC and the aggression coming out of Russia, the Department continues to focus on preventing conflict, while being prepared to prevail should deterrence fail. This requires the Department to operate forces and contribute to synchronizing broader U.S. Government efforts through integrated deterrence, campaigning, and building enduring advantages.

Integrated Deterrence

The combat credibility of the U.S. military to fight and win in defense of our Nation's interests is a cornerstone of integrated deterrence. Effective deterrence requires working seamlessly across domains and theaters and throughout the spectrum of conflict in close cooperation with federal agencies, allies, and partners to ensure the U.S. military makes the cost of aggression clear.

- Deterrence by Denial – To deter aggression, especially where potential adversaries could act to rapidly seize territory, the Department will develop asymmetric approaches and optimize our posture for denial, where adversaries assess that they lack the capability to achieve their objectives through force.
- Deterrence by Resilience – Denying the benefits of aggression also requires resilience – the ability to withstand, fight through, and recover quickly from disruption. The Department will improve its ability to operate in the face of multi-domain attacks on a growing surface of vital networks and critical infrastructure, both in the homeland and in collaboration with allies and partners at risk.
- Deterrence by Direct and Collective Cost Imposition – Denial and resilience strategies are necessary, but not always sufficient. Effective deterrence may also hinge on the Department's ability to impose costs in excess of the perceived benefit of aggression, such that adversaries assess that they have the capability to achieve an objective by force but lack the resolve to incur the perceived costs of doing so. Enabled by combat-credible forces backstopped by a safe, secure, and effective nuclear deterrent, the Department made the following investments:
    - $61.1 billion for air power to continue developing, modernizing, and procuring lethal air forces, including a focus on fighters, including F-22, F-35, F-15EX; the B-21 bomber, mobility aircraft, including KC-46A; specialized support aircraft; and unmanned aircraft systems.
    - $48.1 billion for sea power including new construction of nine battle force fleet ships and continued funding for the incremental construction of Ford class nuclear powered aircraft carriers and Columbia ballistic missile submarines.
    - $37.7 billion for Nuclear Enterprise Modernization, including continued development and procurement of the B-21 program, production of the second Columbia ballistic missile submarine, first-year advance procurement funding for the LGM-35A Sentinel program, and development efforts supporting nuclear command, control, and communications systems.
    - $29.8 billion to enhance Missile Defeat and Defense, including development of the Next Generation Interceptor for Ground-Based Midcourse Defense, increased investments in regional missile defense network, development of a resilient overhead persistent infrared capability in low earth orbit and medium earth orbit, and integration of the Terminal High Altitude Area Defense (THAAD) Battery capability into the Army's Integrated Air and Missile Defense Battle Command System planning process.

Campaigning

Our competitors are increasingly undertaking activities designed to erode U.S. deterrence and advance their own interests. The Department strengthens deterrence, gains military advantage, and counters adversary coercion not only by building Joint Force capability, but also by campaigning—the conduct and sequencing of logically-linked military activities to achieve strategy-aligned objectives over time. Through its campaigning, the Department will tie together the breadth of U.S. defense activities and those of our allies and partners to deter aggression and counter adversary gray zone activities by operating forces, synchronizing broader U.S. Government efforts, and gaining advantages on our terms. Evidenced by day-to-day activities and actions, overseas operations, readiness training and exercises, and continuous engagement and collaboration with our allies and partners to advance our shared interests, the Department made the following investments:

- $146.0 billion for strategic readiness and preparedness of the Joint Force supporting modernizing capabilities for the future fight and sustaining current force readiness.
- $9.1 billion for the Pacific Deterrence Initiative (PDI) providing critical investments in resilient and distributed basing, new missile warning and tracking architecture, funding for the Defense of Guam, and multinational information sharing, training and experimentation.
- $4.8 billion for European deterrence and countering Russian aggression including the European Deterrence Initiative (EDI), NATO support and security investment programs, and the Ukraine Security Assistance Initiative (USAI).

Building Enduring Advantages

The strategy's third approach, to support both integrated deterrence and campaigning, is to build enduring advantages across the defense enterprise which requires broad and deep change in how we produce and manage military capabilities that account for challenges from adversaries and the environment in which we operate. The Department is taking action to affect this change in five ways, by transforming the foundation of the future force, making the right technology investments, adapting and fortifying our defense ecosystem, strengthening resilience and adaptability, and cultivating the workforce we need. With an eye towards leveraging asymmetric American advantages such as our entrepreneurial spirit; the diversity and pluralism of our ideas, creativity and innovation; and the military's combined-arms and joint ethos and years of combat-proven operational experience, the Department made the following investments:

- $145.0 billion Research, Development, Test and Evaluation (RDT&E) budget – supports investment across the Department for Responsible Artificial Intelligence, 5G, and Experimentation.
- $35.9 billion in facilities investments, including Military Construction and Family Housing programs and for Facilities Sustainment, Restoration and Modernization (FSRM).
- $17.8 billion for Science and Technology, including investment in Basic Research.
- $5.1 billion to enhance combat capability and mitigate climate risk by investing in solutions that are mission essential and provide climate benefits, such as increasing platform efficiencies to mitigate logistics risk in contested environments, hardening critical infrastructure, and deploying new technologies that strengthen capability.

The global climate crisis has the potential to disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support response and recovery efforts.

Climate change is transforming the context in which we operate. Our climate-related investments will improve readiness and decrease demands on the Joint Force – vital to maintaining an enduring advantage. We have invested more than $5 billion to enhance combat capability and resilience, mitigate risk, and deploy new technologies that keep the force on the cutting edge.

Increasing temperatures, changing precipitation patterns, and more frequent, intense, and unpredictable weather conditions are impacting military readiness and imposing significant costs on the Department, while exacerbating risk and creating new challenges to U.S. interests around the world. To train, fight, and win in this increasingly complex environment, the Department must consider the effects of climate change across the enterprise and invest accordingly. In responding to this challenge, the Department is prioritizing investments that enhance operational capability, mission resilience, and readiness.

Through increasing platform efficiencies to mitigate logistics risk in contested environments, hardening critical infrastructure, and deploying new technologies that strengthen capability, the Department is committed to solutions that are mission essential. The budget request reflects that commitment and will bolster U.S. security in the near term and lay the groundwork for a more capable future force.

- $3.7 billion investment for installation resiliency and adaptation focused on military facilities to withstand harsh weather conditions and ensure the Department can leverage private sector investments to improve energy and mission resilience.
- $1.3 billion in science and technology investments, which includes hybrid tactical vehicles, to enhance capability like extended range and persistence and provide silent watch. It also includes investments in new technologies like blended wing body aircraft, which have the potential to increase range and payload while improving efficiency.
- $106.2 million in operational energy and buying power to improve the efficiency of operational platforms, while increasing their capability and mitigating logistics risk.
- $54.6 million in contingency preparedness that includes incorporating climate risk scenarios in war games and exercises, humanitarian assistance, and disaster relief and defense support to civil authorities' activities.

Sexual Assault and Harassment threaten the physical and mental well-being of our Total Force and detracts from a healthy organizational climate.

The Department aspires to be an employer of choice where all can contribute their individual capacities and capability to the collective defense of our Nation. To realize that ideal, we remain committed to countering sexual misconduct and other harmful behaviors that have persisted for too long. Sexual assault and harassment are not only damaging to individual Service members, but these behaviors also harm our military readiness and must be prevented. The Total Force–active and reserve Service members, and the civilian employees and contractors that support them–deserve to work in an inclusive culture built on dignity and respect. Ridding the Department of sexual assault and harassment requires courage and commitment from leaders at all organizational levels.

Significant work is already in motion to staff, resource, and professionalize the response workforce to advance victim care and access to resources. In addition, hiring is underway to build a full-time workforce of over 2,500 dedicated prevention personnel. The FY 2024 President's Budget continues to fund implementation of the recommendations of the Independent Review Commission as approved by the Secretary. Examples of these efforts include seminal changes to the military justice paradigm, establishment of an integrated primary prevention workforce, and enabling service members who experience sexual harassment to access services from a sexual assault victim advocate. The Department has developed a Prevention Workforce Model, prevention workforce policy, and has provided training necessary for credentialing the initial cohort of specialized prevention personnel, the centerpiece to establishing a robust, integrated prevention system that defeats multiple harmful, readiness detracting behaviors to include sexual assault and harassment, but also suicide, domestic and child abuse, and other harmful behaviors.

Advanced cyber threats may leave the DoD's data, applications, assets and services with limited protection from unauthorized internal and external parties.

The United States faces multiple cyberspace threats, attributable to both state and non-state entities. Foreign states conduct cyber operations to accelerate their military force modernization and advance their global influence. Meanwhile, non-state actors and criminals are becoming more sophisticated and continue to exploit data and conduct lucrative operations for financial gain. Terrorist organizations continue to organize and plot attacks using the internet.

The FY 2024 cyberspace activities (CA) budget, aligned with the DoD National Defense Strategy (NDS), reaffirms the Department's three enduring cyberspace missions: defend the DoD Information Network, defend the Nation, and prepare to win and fight the Nation's wars. Supporting the Department's 2022 NDS priorities and goals, the FY 2024 CA budget of $13.5 billion will continue to build on the pathway laid out in the Digital Modernization Strategy (DMS) and DoD Cyber Strategy. The CA budget funds programs and activities that advance cybersecurity, cyberspace operations, and advanced cyber research and development activities.

GAO High Risk List

The Government Accountability Office (GAO) issues a biennial report listing programs and operations across the Federal Government that it determines to be high risk due to vulnerabilities to fraud, waste, abuse, and mismanagement or that need broad transformation or reform. The FY 2023 GAO High-Risk Series report (*GAO-23-106203*) lists 37 high-risk areas, five of which are specifically related to the Department:

- DoD Weapon Systems Acquisition;
- DoD Financial Management;
- DoD Business Systems Modernization;
- DoD Approach to Business Transformation; and
- DoD Contract Management.

The Department has either "met" or "partially met" each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring) in four of the five DoD-specific high-risk areas. In FY 2023, DoD's action plan rating decreased from "partially met" to "not met" for DoD Business Systems Modernization because the Department is revisiting its approach to its business enterprise architecture. Additionally, DoD's capacity plan in Operational Contract Support (OCS) improved from "partially met" to "met" because it addressed OCS capability shortfalls that previously created risks to operational effectiveness, timelines, and resource expenditures.

The Department, in coordination with GAO, is dedicated to continual progress toward addressing the risks identified by the GAO in support of more effective and efficient operations.

FINANCIAL HIGHLIGHTS AND ANALYSIS

The financial statements are prepared to report the financial position, financial condition, and results of operations of the Department - pursuant to the requirements of *31 U.S.C. §3515(b)*. The statements are prepared from the records of the Department and, to the extent possible, in accordance with the formats prescribed by Office of Management and Budget (OMB) *Circular No. A-136* and U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). Reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government. Although the Department received a disclaimer of opinion on its financial statements, the Department continues to improve data reliability and timeliness through the ongoing audit remediation effort.

Financial Performance Summary

The following table summarizes the Department's condensed FY 2023 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 10).

Figure 10. Financial Performance Summary (Unaudited)

Dollars in Billions	FY 2023	Restated FY 2022	Increase/(Decrease) $	Increase/(Decrease) %
COSTS				
Gross Program Costs	$ 1,012.6	$ 1,040.9	$ (28.3)	-2.7%
Less: Earned Revenue	(157.7)	(219.1)	61.4	-28.0%
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	89.4	526.9	(437.5)	-83.0%
Net Cost of Operations	**$ 944.3**	**$ 1,348.7**	**$ (404.4)**	**-30.0%**
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 768.1	$ 692.9	$ 75.2	10.9%
Investments, Net	1,808.8	1,647.0	161.8	9.8%
Accounts Receivable	14.7	14.9	(0.2)	-1.3%
Other Assets *	16.5	17.6	(1.1)	-6.3%
Inventory and Related Property, Net	341.1	337.7	3.4	1.0%
General Property, Plant and Equipment, Net	832.0	818.6	13.4	1.6%
Total Assets	**$ 3,781.2**	**$ 3,528.7**	**$ 252.5**	**7.2%**
Liabilities:				
Accounts Payable	$ 48.2	$ 41.2	$ 7.0	17.0%
Other Liabilities **	48.6	40.7	7.9	19.4%
Federal Employee and Veteran Benefits Payable	3,761.4	3,578.6	182.8	5.1%
Environmental and Disposal Liabilities	93.8	90.6	3.2	3.5%
Total Liabilities	**$ 3,952.0**	**$ 3,751.1**	**$ 200.9**	**5.4%**
Net Position (Assets minus Liabilities)	**$ (170.8)**	**$ (222.4)**	**$ 51.6**	**-23.2%**

* Other Assets includes Other Assets, Cash & Other Monetary Assets, Advances & Prepayments, and Loans Receivable

** Other Liabilities includes Other Liabilities, Debt, Loan Guarantee Liability, and Advances from others and Deferred Revenue

The DoD Agency-wide financial statements and accompanying notes, which are located in the Financial Section of this report, are consolidated from the financial records of the consolidation entities listed in Appendix A. The financial statements include:

Balance Sheet	**Statement of Net Cost**
Statement of Changes in Net Position	**Statement of Budgetary Resources**

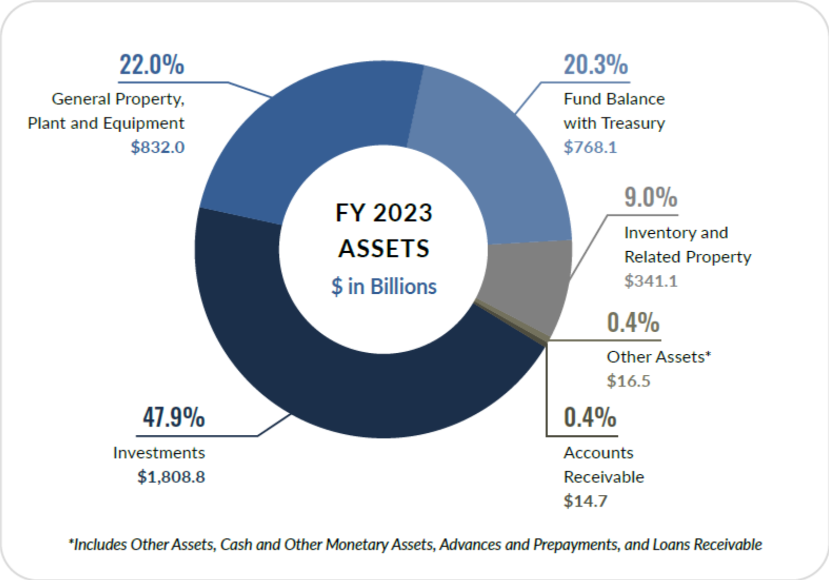
Marines fire an M240B machine gun during a training exercise at Marine Corps Air Ground Combat Center Twentynine Palms, Calif., Jan. 28, 2023. (Photo by: Marine Corps Sgt. Patrick King)

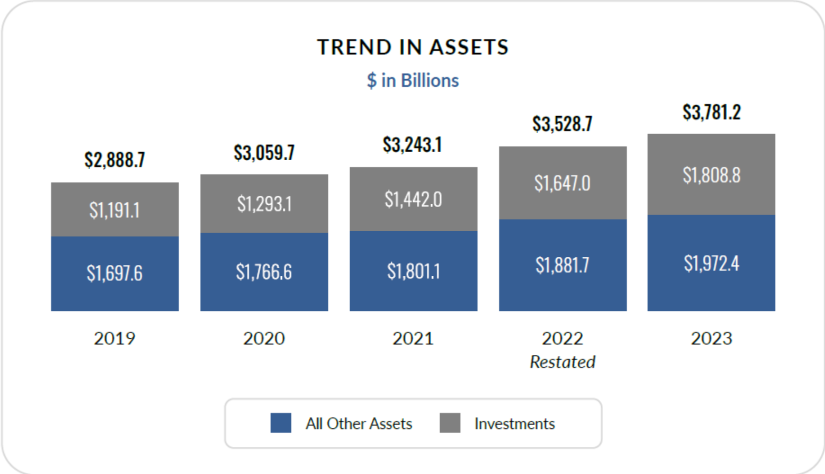
Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2023, and September 30, 2022, reports economic benefits controlled by the Department (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2023, the Department's $3.8 trillion in assets predominantly comprises Investments; General Property, Plant, and Equipment (PP&E); Fund Balance with Treasury (FBWT); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see Figure 11).

Figure 11. Summary of Total Assets (Unaudited)





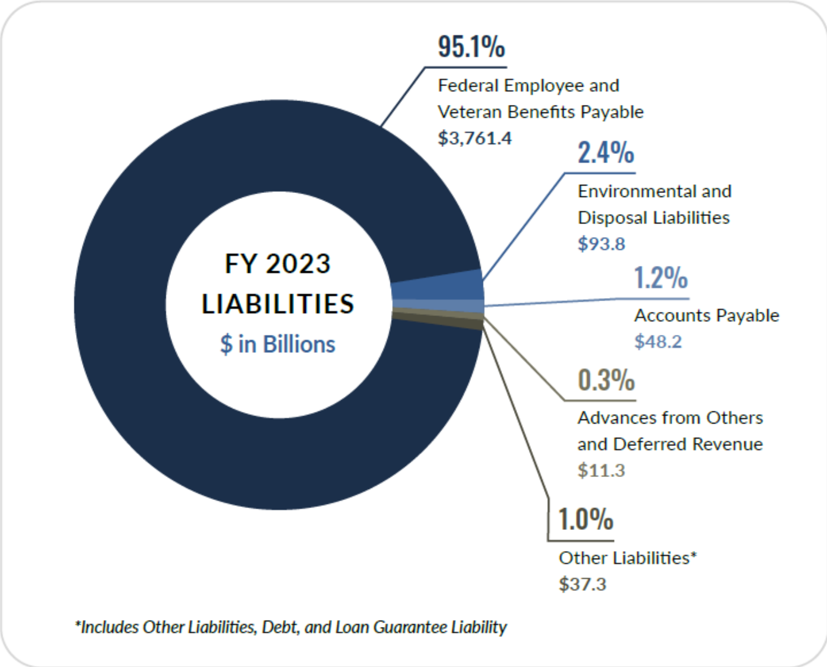
The Department restated the FY 2022 Accounts Receivable; Inventory and Related Property, Net; General PP&E; and Other Assets balances to correct errors, resulting in a $6.9 billion increase in Total Assets as compared to the balance reported in 4Q FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

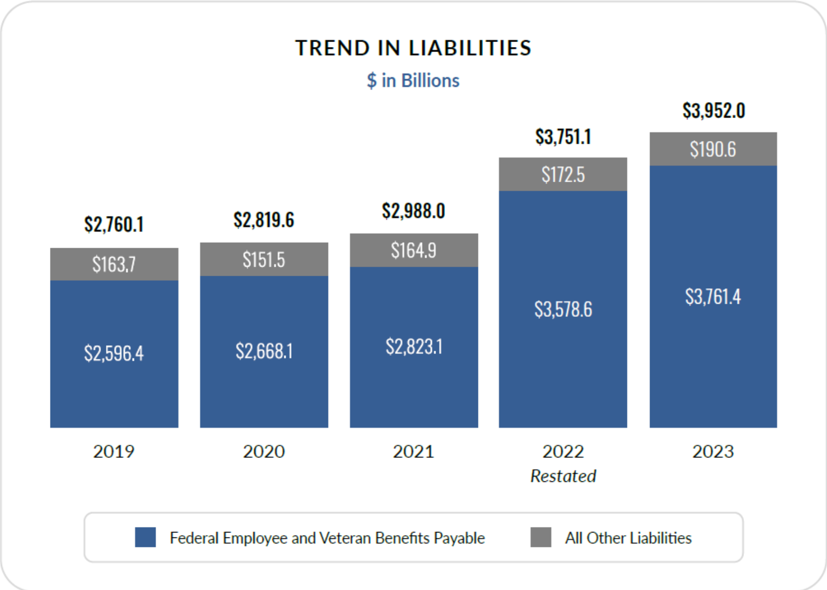
During FY 2023 the Department's total assets increased by $252.5 billion (7.2 percent) over the FY 2022 (restated) amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by $161.8 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments, Net*, in the Financial Section for more information.
- FBWT increased $75.1 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.

As of September 30, 2023, the Department's $4.0 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.1 percent of the Department's liabilities (see Figure 12). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 12. Summary of Total Liabilities (Unaudited)





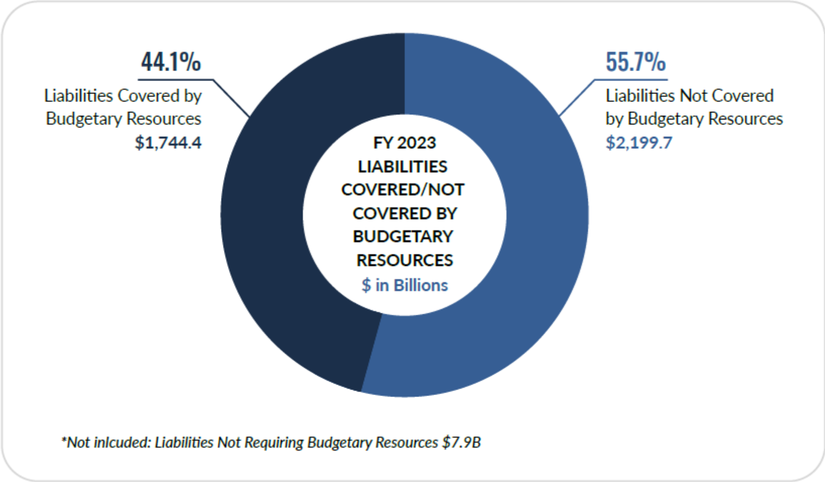
The Department restated the FY 2022 Other Liabilities balances to correct errors, resulting in a $2.5 billion increase in Total Liabilities as compared to the balance reported in FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

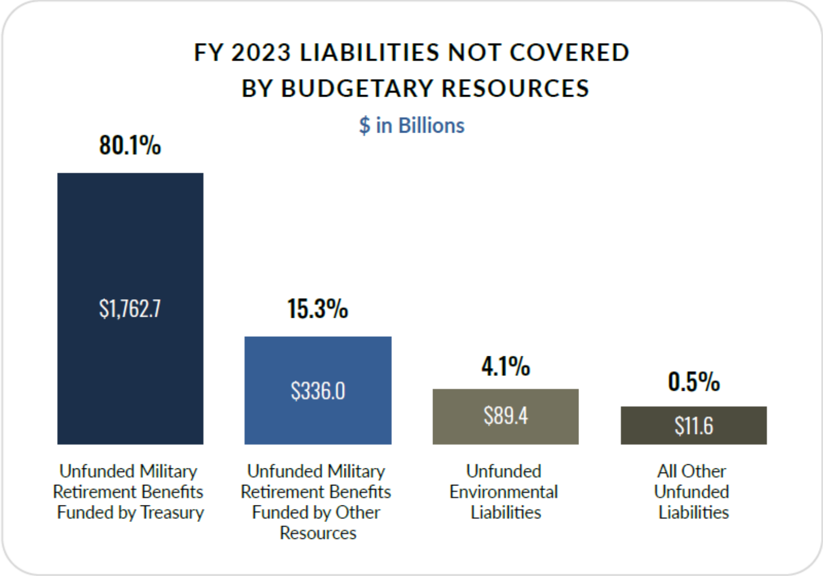
During FY 2023, the Department's total liabilities increased by $200.8 billion (5.4 percent) over the FY 2022 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by $182.8 billion, primarily attributable to a $102.9 billion increase in the actuarial liability of the Military Retirement Fund and a $59.7 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. See Note 13, *Federal Employee and Veteran Benefits Payable*, in Financial Section for more information.

As of September 30, 2023, $2.2 trillion (55.7 percent) of the Department's liabilities were not covered by budgetary resources (see Figure 13). Of this amount not covered by budgetary resources, $1.8 trillion (80.1 percent) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See Note 11, *Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 13. Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)





Statement of Net Cost

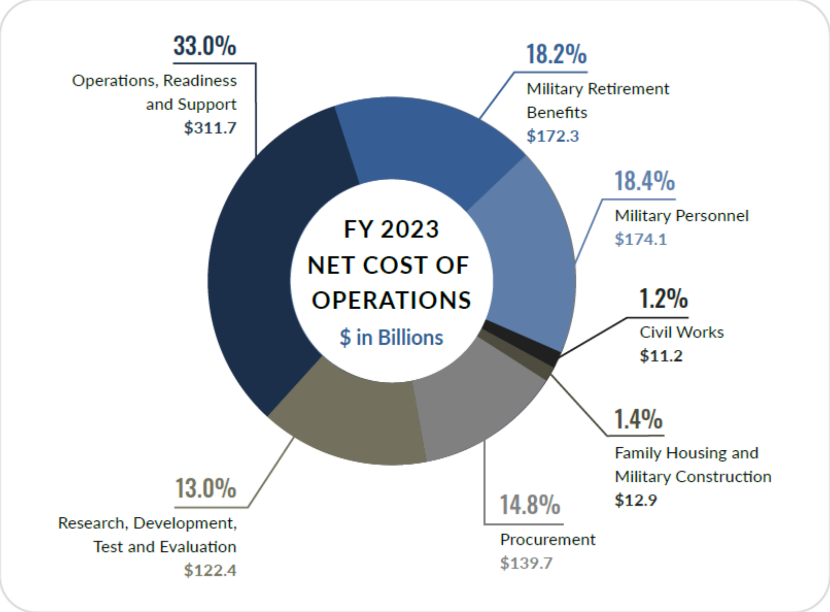
The Statement of Net Cost presents the net cost of the Department's major programs as of September 30, 2023, and September 30, 2022. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (such as investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant, and equipment. See Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*, in the Financial Section for additional information.

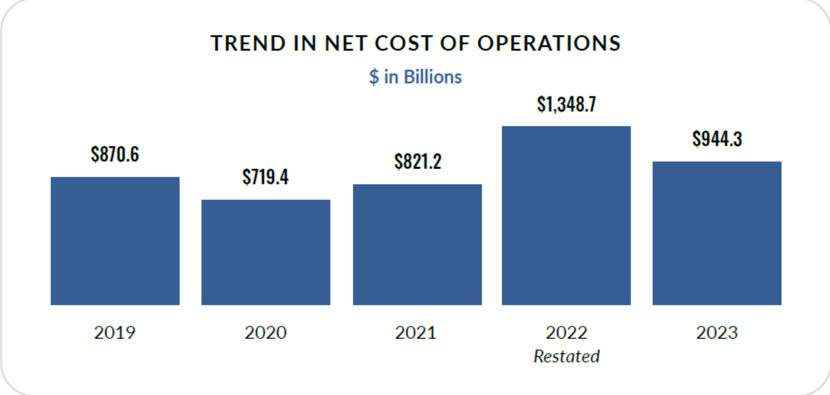
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

- **Military Retirement Benefits:** This program includes expenditures that cover eligible members' retirement pay, disability retirement pay, and healthcare benefits for Medicare-eligible members and their dependents or survivors.
- **Civil Works:** This program includes expenditures related to Energy and Water Development programs executed by the U.S. Army Corps of Engineers (USACE) that primarily fulfill three mission areas: commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration.
- **Military Personnel:** This program includes expenditures for military compensation to the Active and Reserve members of the Military Services. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services for future benefits under the Medicare-Eligible Retiree Health Care Fund (MERHCF).
- **Operations, Readiness, and Support:** This program includes expenditures providing benefits that are derived for a limited period, such as civilian salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), and day-to-day base operations.
- **Procurement:** This program includes expenditures for the acquisition of items that provide long-term benefits such as costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation:** This program includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These expenditures include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- **Family Housing and Military Construction:** This program includes expenditures associated with purchasing, improvements, and support services for property that house Military Service members and their families. Costs are also related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

The major programs composing the greatest share of the Department's $944.3 billion FY 2023 Net Cost of Operations were Operations, Readiness, and Support; Military Personnel; Military Retirement Benefits; Procurement; and Research, Development, Test & Evaluation; which together represented 97.4 percent of the Department's Net Cost of Operations (see Figure 14).

Figure 14. Summary of Net Cost Operations (Unaudited)





The Department restated the FY 2022 General PP&E balances to correct errors, resulting in a $36.1 million decrease in Net Cost of Operations as compared to the balance reported in FY 2022 See Note 28, *Restatements*, in the Financial Section for more information.

During FY 2023, the Department's Net Cost of Operations decreased $404.4 billion (30.0 percent) over the FY 2022 (restated) amount, primarily attributable to the Military Retirement Fund. In FY 2022, the Military Retirement Fund reported a $376.7 billion loss related to changes in actuarial long-term economic and non-economic assumptions. In FY 2023, the loss related to actuarial assumption changes was only $11.1 billion, which is closer to historical amounts.

See Note 13, *Federal Employee and Veteran Benefits Payable* and Note 19, *Disclosures Related to the Statement of Net Cost*, in the Financial Section for additional information.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2023, the Department reported $1.6 trillion in total budgetary resources (see Figure 15).

Figure 15. Composition of DoD Total Budgetary Resources (Unaudited)

Description ($ in Billions)	FY 2023	FY 2022 Restated	FY 2021	FY 2020	FY 2019
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 1,093.7	$ 1,019.5	$ 905.1	$ 914.2	$ 874.4
Unobligated Balances from Prior Year Budget Authority	273.2	213.8	211.2	213.3	226.8
Spending Authority from Offsetting Collections	135.8	150.3	153.7	130.3	113.0
Contract Authority	90.6	81.2	74.0	78.7	86.8
Total Budgetary Resources	$ 1,593.3	$ 1,464.8	$ 1,344.0	$ 1,336.5	$ 1,301.0

The Department restated the FY 2022 Statement of Budgetary Resources due to the obligations and de-obligations of direct loans that occurred within the Defense Production Act Direct Loan Program, resulting in a $32.0 million increase as compared to the balance reported in FY 2022. See Note 28, *Restatements*, in the Financial Section for more information.

Of the $1.6 trillion in Total Budgetary Resources for FY 2023, $1.4 trillion was obligated. The remaining Unobligated Balance of $231.9 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for procurement of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2023, the amount of the Expired Unobligated Balance, End of Year increased by $2.2 billion to $24.5 billion in FY 2023 from $22.3 billion in FY 2022. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with 31 U.S.C. §1553.

See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.

AUDIT OVERVIEW

The annual financial statement audits are vital to the Department's data transformation and business reform efforts. They provide objective, independent assessments of the Department's internal controls, financial reporting practices, and reliability of financial information. Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, and measure progress in modernizing and enhancing the Department's financial management capabilities.

The 2022 National Defense Strategy (NDS) is directly supported by the DoD Strategic Management Plan (SMP) for Fiscal Years (FY) 2022 – FY 2026; the Annual Performance Plan, which links strategic goals and objectives from the SMP to performance goals; and the Comptroller-led DoD Financial Management (FM) Strategy for FY 2022 – FY 2026. These interrelated strategies establish the way forward for the Department and intersect with the need to improve operations and accelerate the path to an audit opinion on the DoD consolidated financial statements.

The financial statement audits along with other high-priority and long-term financial management goals and objectives are established in the DoD FM Strategy for FY 2022 – FY 2026. The DoD FM Strategy defines the Department-wide financial management mission, vision, and goals to energize and transform the financial management workforce. The DoD FM Strategy specifically identifies accelerating the path to an audit opinion as an objective, summarizes why it matters, and establishes ways the Department can measure progress.

The cumulative impact of the Department's audit investment is a catalyst for business process and business systems reform across the Department, resulting in greater financial integrity, increased transparency, and ultimately, a better supported warfighter.

Audit Progress Measurement

The Department identified five areas essential for achieving and sustaining an audit opinion: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. Progresses made for these five areas are noted below.

A MODERNIZED WORKFORCE

The scale of the Department's business processes, and volume of its transactions are becoming less burdensome as the annual audits mature. Our workforce is building, deploying, and managing data analytics, robotic process automations or "bots," and other intelligent automation technology, such as machine learning to automate functions that would be cost-prohibitive when performed manually. The audits are driving an increase in bot adoption, allowing personnel to execute basic functions in a fraction of the time it would take a person to complete, making time for other more complex tasks.

- The Defense Logistics Agency (*DLA*) has deployed 160 bots, 41 have undergone full cycle enhancements and 153 are designed to execute in an unattended manner. These bots are projected to save over 288,000 hours annually, which can be refocused on the DLA's mission.
- The Defense Finance and Accounting Service (*DFAS*) placed 90 enterprise and tactical bots into production to automate a wide variety of tasks with an estimated annual benefit of over $6 million.
- The Defense Information Systems Agency (*DISA*) used bots to process nearly 46,000 transactions, saving an estimated 18,860 labor hours.

IMPROVED BUSINESS OPERATIONS

The audits are providing a positive return on investment from value gained through independent auditor insight into the Department's business processes; to assess what is performing well and what areas still need improvement.

- The Army construction-in-progress (CIP) account monitoring control was tested in FY 2023 by their auditors. As of September 30, 2023, auditors for the Army found zero unresolved transactions in the clearing account for the first time since the Army Working Capital Fund's migration to the Logistics Modernization Program. The control improved Army visibility into open CIP projects and helped Army Working Capital Fund sites resolve issues timely. The Army also enhanced the standard operating procedures and monitoring control to include additional CIP accounts.

QUALITY DECISION-MAKING

One of the best cases for value being derived from the audits comes from the extensive improvements in the timeliness, accuracy, and availability of financial and operational data.

- The Navy expanded the Budget Execution Validation (BEV) process and Commanders Enterprise Resource Management Council (CERMC). This action established a governance structure for executing a consistent and repeatable process for monitoring the status of funds across DON. The process provides greater insight into funds management, optimizes the usage of budgetary resources for mission-critical objectives, identifies root causes of unexpended funds, and supports overall audit readiness initiatives. Through the BEV/CERMC process, the Navy reviewed $17 billion of unliquidated obligations; validating 97 percent of the balances met audit requirements, while uncovering $330 million available for deobligation.

RELIABLE NETWORKS

The audits highlight the derived value gained from turning management's attention toward cyberspace by focusing on strengthening the Department's IT controls. Auditors test the Department's processes and procedures for controlling system access and the levels of access given to users (e.g., access to the core coding and configuration functions of a system). The audits test physical and logical controls, provide specific feedback on the areas to improve security, and controls to prevent foreign and domestic hacks and cyberattacks.

- The Air Force continues to implement an Identity, Credential, and Access Management (ICAM) solution for relevant priority audit systems. Executing the ICAM roadmap includes a prioritized schedule for onboarding financial management and relevant feeder systems to centralize ICAM services and address the root causes behind multiple audit-identified issues.

Members of the Defense POW/MIA Accounting Agency participate in a disinterment ceremony at the National Memorial Cemetery of the Pacific in Honolulu, Jan. 9, 2023. The ceremony was part of DPAA's efforts to disinter the remains of service members lost on the Enoura Maru, a Japanese cargo ship used by the Imperial Japanese navy during World War II as a troop and prisoner of war transport ship. The agency's mission is to achieve the fullest possible accounting for missing and unaccounted-for U.S. personnel to their families and the nation. (Photo by: Army Staff Sgt. John Miller)

ENHANCED PUBLIC CONFIDENCE

The audits deliver value to the Department by enabling the capability to accurately and timely account for defense resources.

- The Defense Advanced Research Projects Agency (DARPA) underwent its first standalone financial statement audit. In preparation for the audit DARPA improved financial information by updating business processes and implementing task management technology to manage and communicate audit inquiries, prepared by client items, and sample requests from the auditor. As a result, DARPA was able to access thousands of key supporting documents, flowcharts, and process narratives in a timely manner, and explain complex business processes performed by its service providers.
- The Defense Intelligence Agency (DIA) established acquisition guidance on the use of contract line-item numbers when accounting for contractor-acquired property. This allowed DIA to better account for and manage contractor acquired property assets; support the complete and accurate financial reporting of equipment; and demonstrate accountability of worldwide capital assets.

FY 2023 Audit Priorities

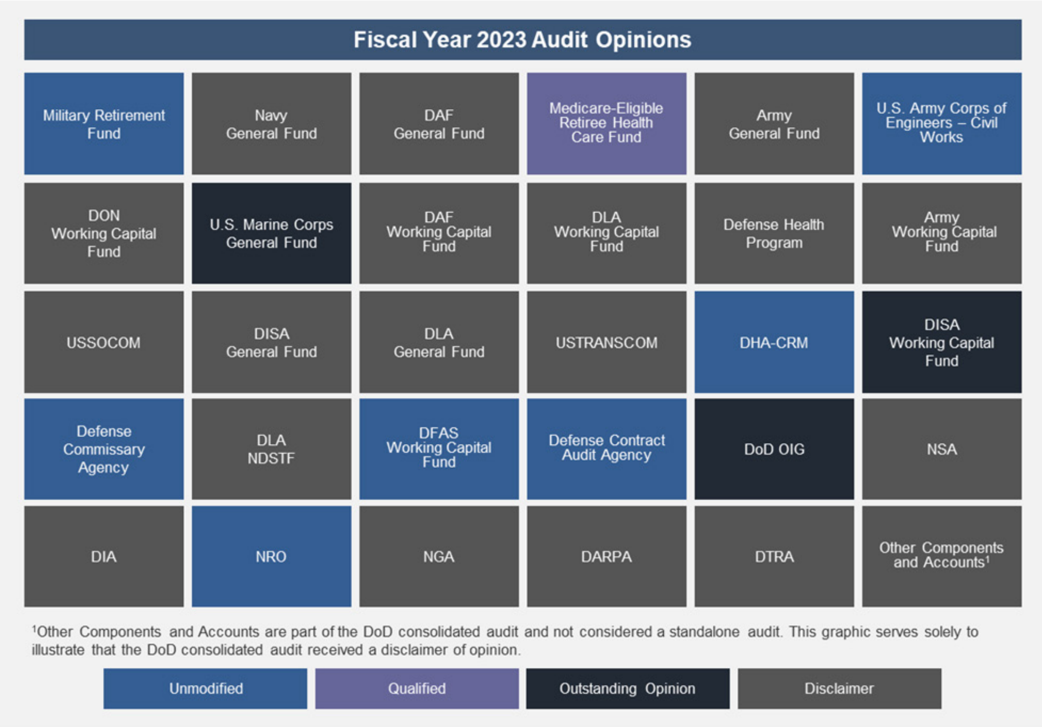
The annual audit priorities named by the Secretary of Defense focus Department-wide efforts on the areas that matter most. For FY 2023, the Secretary of Defense recommitted efforts by maintaining the FY 2022 financial statement audit priorities, with some enhancements to the specific goals and measurements to align remediation resources to areas of expected audit results in FY 2023. As such, the Department focused efforts on the following Secretary's audit priorities:

- Improve Fund Balance with Treasury (FBWT)
  - » Post undistributed transactions to the appropriate line of accounting within 60 days.
  - » Reduce the inception-to-date value of undistributed transaction balances to 1 percent or less of the total FBWT.
  - » Migrate all FBWT reconciliations to Advana.
- Establish User Access Controls
  - » Remediate privileged access control deficiencies for internal controls over financial reporting (ICOFR)-relevant systems through an effective internal control framework.
  - » Provide a schedule for when ICOFR-relevant systems will be onboard to an identity credential and access management solution.
- Create a Universe of Transactions (UoT)
  - » Compile a list of ICOFR-relevant feeder and accounting systems.
  - » Produce a supportable UoT for financial statement line-item balances on each of the principal financial statements.
  - » Demonstrate effective complementary user entity controls for financial reporting processes identified as material to the Component or Service Provider organizations.
  - » Process intragovernmental reimbursable transactions using the Department of the Treasury G-Invoicing application for new orders in accordance with Treasury guidance.

FY 2023 Audit Results

The Department completed its sixth annual consolidated financial statement audit covering approximately $3.8 trillion of the Department's total assets, involved approximately 1,600 auditors, and included nearly 700 site visits. The audit comprised 29 standalone audits conducted by independent public accountants (IPAs) and the Office of Inspector General of the DoD (DoD OIG) (see Figure 16). The DoD OIG issued a disclaimer of opinion on the Department's FY 2023 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. See the DoD OIG's independent audit report in the Financial Section.

Figure 16. FY 2023 Audit Results



Of the 29 component standalone audits, 7 received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with GAAP), 3 had an outstanding opinion, 1 received a qualified opinion (i.e., auditors concluded there were misstatements or potentially undetected misstatements that were material but not pervasive to the financial statements), and 18 received disclaimers of opinion. The standalone audits for the DoD OIG, the DISA Working Capital Fund, and the U.S. Marine Corps General Fund are scheduled to conclude after the date of this publication. The independent auditor's report for each non-classified standalone audit is available in the respective component's financial report accessible on the *Agency Financial Report* website. Other Components and Accounts are not undergoing a standalone audit as they are audited by the DoD OIG as part of the consolidated audit.

As of FY 2023, 19 financial management and feeder systems are currently in the onboarding process. Auditors completed 30 Statement on Standards of Attestation Engagement (SSAE) No. 18 examinations covering 37 systems owned by 8 DoD service providers. The Department received positive (14 unmodified and 13 qualified) audit opinions on 27 of 30 of its SSAE No. 18 examinations. There were 1 adverse and 2 outstanding opinions. DFAS Vendor Pay-Navy Enterprise Resource Planning (ERP) obtained an unmodified opinion in FY 2023, its first year undergoing an SSAE-18 audit.

Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, and measure progress in modernizing and enhancing the Department's financial management capabilities. Auditors issue Notices of Findings and Recommendations (NFRs) for controls determined to be not operating as designed or implemented. The auditor then determines the severity of the NFRs and classifies them as control deficiencies, significant deficiencies, or material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected and corrected on a timely basis. The audits resulted in the consolidation of two Department-wide material weaknesses into one, and the separation of one Department-wide material weakness into two. No new Department-wide material weaknesses were reported resulting in no net change in the number of material weaknesses. The Department of the Army Working Capital Fund and the Department of the Navy General Fund downgraded their Fund Balance with Treasury material weaknesses, and the Department of the Air Force General Fund closed their Fund Balance with Treasury material weakness. The Department of the Navy Working Capital Fund and General Fund downgraded their Oversight and Monitoring material weaknesses. The DISA General Fund downgraded its Property, Plant, and Equipment material weakness. The U.S. Transportation Command downgraded its Reporting Entity Definition and Imputed Costs material weakness. See the summary of DoD OIG-identified material weaknesses in the Other Information section of this report.

Separately, the Department manages the audit of and prepares the Security Assistance Accounts (SAA) financial statements, which include the Foreign Military Sales program's financial activity and position. (Note: The SAA financial statements are not consolidated in the Department-wide financial statements but are consolidated directly into the Financial Report of the United States Government as a separate standalone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, Appendix 1a). The SAA completed its second annual consolidated financial statement audit during FY 2023 covering approximately $115.1 billion in total assets. The audit was conducted by IPAs who issued a disclaimer of opinion. See Note 27, *Security Assistance Accounts*, in the Financial Section for additional information.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2023

The Department of Defense assessed the effectiveness of internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), section 2, and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting as of September 30, 2023. The Department's management identified 37 material weaknesses across the following 14 assessable units:

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting Compilation
- Health Care Liabilities
- Accounts Payable
- Intragovernmental Transactions
- Equipment Assets
- Joint Strike Fighter Program
- Real Property Assets
- Environmental and Disposal Liabilities
- Property in the Possession of Contractors
- Internal Use Software
- Inventory
- Operating Materials & Supplies

The Department assessed the effectiveness of internal controls over operations in accordance with FMFIA section 2 and OMB Circular No. A-123. Based on this assessment, the Department provides modified assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2023. The Department's management identified 40 material weaknesses across the following 10 assessable units:

- Acquisition
- Comptroller and/or Resource Management
- Communication
- Contract Administration
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Information Technology – Business System Modernization (formerly Information Technology)
- Personnel and/or Organizational Management
- Support Services
- Supply Operation

The Department assessed the compliance of DoD financial management systems in accordance with FMFIA section 4; section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA); and OMB Circular No. A-123, Appendix D. Based on this assessment, the Department is unable to provide assurance DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level as of September 30, 2023. The Department's management identified three instances of non-conformance in the areas of Business System Modernization, Federal Information Systems Control Audit Manual compliance, and FFMIA compliance.

Further information about the management-identified FMFIA section 2, FMFIA section 4, and FFMIA section 803(a) material weaknesses, relevant corrective actions to resolve the material weaknesses, and a comparison of the management-identified financial reporting material weaknesses to the auditor-identified financial reporting material weaknesses is provided in the Other Information section.

Management will continue to conduct annual assessments of controls to reduce risks, including fraud risk and risk of not achieving an entity's objectives related to operations, financial reporting, financial systems, and compliance. The Department remains committed towards financial excellence and improving upon its ability to provide accurate and reliable financial and managerial information to support reporting objectives.

Lloyd J. Austin III
Secretary of Defense

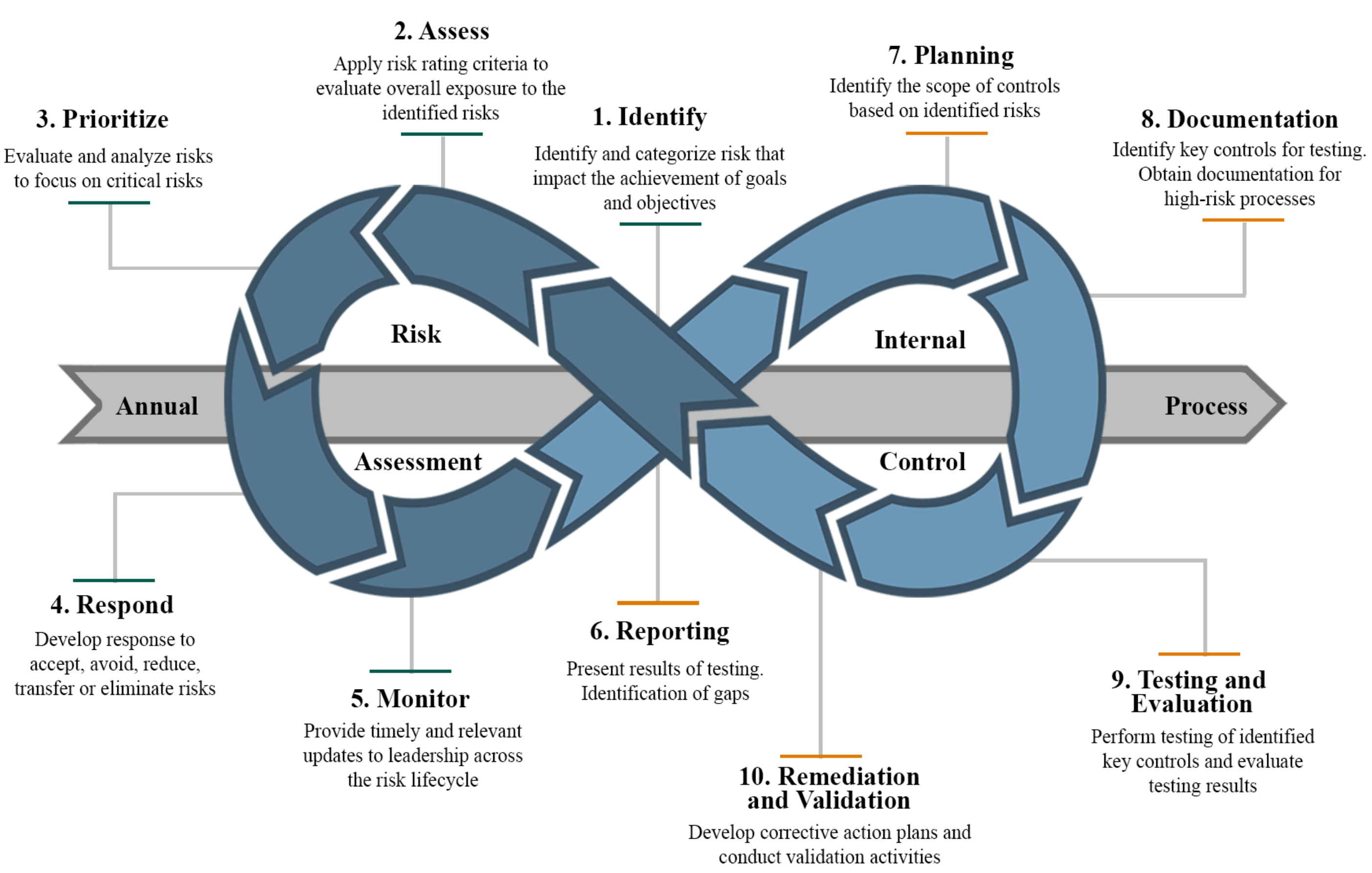
MANAGEMENT ASSURANCES

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

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

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Office of the Director of Administration and Management (ODA&M) Performance Improvement Directorate (PID) partner to lead the Department's efforts in fulfilling this requirement through the Risk Management and Internal Controls (RMIC) Program, which holds both financial and operational managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. The DoD RMIC Program uses a continuous, cyclical, and unified approach for assessing risk and evaluating internal controls to achieve its objectives over operations, reporting, and compliance (see Figure 17). The RMIC Program supports the preparation of the Department's report, SOA, on the design and effectiveness of key control activities, which is compiled from information reported by all DoD Components. The RMIC Program and the Financial Statement Audit are complementary processes that, when integrated, provide management with the information needed to accelerate and sustain a financial and operations audit remediation posture.

Figure 17. RMIC Program Process



The risk assessment process provides the DoD Components with specific focus areas for internal control testing and the concentration of remediation activities to increase business process efficiencies and accelerate program efforts. In accordance with *DoD Instruction 5010.40*, the DoD Components must integrate risk management and adequate internal controls into their business activities as an essential part of managing their organization. Components are responsible for conducting annual comprehensive top-down risk assessments, using the results to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency to OUSD(C). Once this information is submitted, OUSD(C) and ODA&M coordinate with Department-wide Senior Accountable Officials (SAOs)—executive-level subject matter experts selected based on their functional ability to provide oversight and monitoring—to determine which component-level material weaknesses and significant deficiencies, in aggregate, rise to the level of a Department-wide material weakness. Additionally, the SAOs work with the components to establish working groups to address material weaknesses and develop CAPs, monitor CAP implementation, track material weakness remediation progress, and report progress to senior DoD leaders through the RMIC governance process.

In FY 2023, ODA&M collaborated with OUSD(C) to design and implement new Enterprise Risk Management (ERM) and Risk Management and Internal Control for Operations (RMIC-O) capabilities for the Department. The Department's new ERM and RMIC-O capabilities are being integrated with the RMIC Program to provide senior leadership a holistic view of significant financial and non-financial risks to the strategic priorities and objectives articulated in DoD's FY2022-2026 Strategic Management Plan (SMP). Additionally, the Department issued substantial updates to the Fraud Risk Management (FRM) Strategy. Specifically, the Department has identified a robust set of baseline controls and strategies for components to effectively identify, prevent, and combat fraud.

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

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

Governance

The Financial Improvement and Audit Remediation (FIAR) governance structure establishes a forum to provide financial management leaders and workforce the information and support to continue making progress toward solving the Department's most complex audit-related financial management issues. The FIAR governance structure comprises the following governing bodies and functions:

- **Deputy's Management Action Group (DMAG) Audit Deep Dive:** Provides governance for management actions affecting the defense enterprise, including resource management and planning, programming, budgeting, and execution with a focus on the Department's financial statement audits.
- **FIAR Governance Board (FGB):** Provides vision, leadership, direction, oversight, and accountability in support of achieving an unmodified audit opinion. Through quarterly meetings, the Board, which is a Supporting Tier Forum to the DMAG, prioritizes Department-wide corrective actions that provide the greatest value to the warfighter. In addition to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, other participants include key leaders from the DoD Components under a standalone audit, as well as representatives from the GAO and Office of Inspector General of the DoD.
- **Functional Councils:** Address high-profile and pivotal audit issues related to Financial Reporting, Property, and Information Technology. Functional Councils meet quarterly to review remediation status and develop solutions that may involve changes to DoD policy and procedures.

- **Other Defense Organizations Financial Operations:** Provides oversight and direction for remediation and limited financial operations to the DoD Components at the Tier 2 level undergoing standalone audits and at the Tier 3 and 4 level incorporated into the DoD Consolidated audit.

SYSTEMS COMPLIANCE AND STRATEGY

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

In accordance with *10 U.S.C. §240g*, the Department submitted an updated defense business system (DBS) Audit Remediation Plan to the Congress in June 2023. This plan, which is a living document and submitted to Congress annually, provides an integrated view of the enterprise roadmap for audit-relevant DBSs. The plan is a current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan also established a foundation for a future roadmap that will:

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

In addition, the Department executes annual FM systems reviews that include assessing FFMIA implementation, system security, and progress of remediating IT NFRs. Assessments are leveraged to track compliance with Federal and DoD standards, which inform the investment review process for business systems and serve as a data-driven catalyst for influencing system improvements, migrations, and retirements that improve DoD's overall auditability. The Department leverages an automated Enterprise FM IT Roadmap within DoD's Advanced Data Analytics (Advana) platform. The Advana FM IT Roadmap enables continuous monitoring of compliance reporting, more concise identification of improvement areas, and oversight of retiring outdated, non-compliant systems. In FY 2023, the Department retired 10 systems that were relevant to internal controls over financial reporting, further simplifying the portfolio of systems. With the Defense Business Council and the FIAR Governance Board oversight, the Department continues to improve its financial auditability posture by establishing consistent assessment and reporting criteria for systems that impact our financial reporting, and disciplined oversight of the retirement of systems. This progress is continually updated and reported through the DBS Audit Remediation Plans provided to Congress.

U.S. Air Force Senior Airman Takeira Ayala speaks with Alconbury Elementary School students during Camp Kudos at Royal Air Force Alconbury, United Kingdom, April 14, 2023. The camp gave military children the opportunity to experience and learn about various aspects of deployment preparation. (Photo by: Staff Sgt. Eugene Oliver)

Enterprise Resource Planning Systems

Enterprise Resource Planning (ERP) systems are integral to implementing the FM business process improvements, achieving the planned target environment, reducing the number of vulnerable systems, and sustaining an auditable systems environment. The ERP Systems provide a broad range of functionality to support DoD business operations in areas such as supply chain management, logistics, human resource management, and financial management.

Department of the Army

The General Fund Enterprise Business System (*GFEBS*) is a fully-deployed General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web-based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

The Logistics Modernization Program (*LMP*) is a fully-deployed system that is one of the world's largest integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the national-level logistics support solution. By improving both the systems and processes associated with managing the Army's supply chain at the national and installation levels, LMP allows for the planning, forecasting, and rapid order fulfillment to supply lines. It also improves distribution, reduces theater footprint (e.g., required storage space), and ensures the warfighter is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (*GCSS-A*) is a fully-deployed acquisition system that provides enterprise-wide visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A absorbed the outdated Standard Army Management Information System that was not financially compliant and integrated about 40,000 local supply and logistics databases into a single, enterprise-wide authoritative system. GCSS-A integrates tactical logistics enterprise information for leaders and decision-makers to provide a single maneuver sustainment picture to manage combat power. GCSS-A provides the warfighter with supply, maintenance, and property accountability as well as an integrated materiel management center, management functionality, and support for financial processes. The enterprise system is the key component for the Army Enterprise strategy for compliance with federal financial management and reporting requirements.

Integrated Personnel Pay System – Army (*IPPS-A*) is an ERP software solution designed to deliver integrated personnel and pay capability for Army military personnel. To achieve this, the Army incrementally builds and deploys IPPS-A using four primary releases. Once fully-deployed, IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army human resources processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and improves support to soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

Department of the Navy

Navy ERP is an integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is a financial system of record that uses sophisticated business management software to streamline the Navy's financial and supply chain management. The integration of financial and supply solutions on a single platform provides real-time data and decision support to the Navy Enterprise.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions into one seamless COTS system by streamlining existing personnel, pay systems, and processes; and also providing an adaptable solution that meets the complex needs of sailors, human resources personnel, and Navy leaders. Once fully implemented, NP2 will provide a platform for future initiatives such as improved marketplace-style detailing, enhanced performance evaluations and management, targeted compensation (e.g., bonuses), and automation of time-consuming administrative functions. By streamlining processes and systems, the implementation of NP2 will improve the speed, accuracy, and quality of personnel and pay services.

Global Combat Support System – Marine Corps (GCSS-MC) is a fully deployed system that serves as the Marine Corps' current official Accountable Property System of Record and logistics system, providing supply, maintenance management, inventory, and equipment accountability as well as rapid equipment task organization capabilities. As the Marine Corps' primary logistics system and the centerpiece of the logistics modernization, GCSS-MC provides advanced expeditionary logistics capabilities and functionality to ensure future combat efficiency. Additionally, GCSS-MC executes the Acquire-to-Retire, Plan-to-Stock, and Procure-to-Pay business mission functions, ensuring resources are effectively managed to optimize mission success and enable the warfighter.

In FY 2023, the Navy completed consolidation of their Working Capital Fund general ledgers through the migration of Military Sealift Command-Financial Management Systems to Navy ERP. Additionally, the Navy completed the migration of General Fund activities from Standard Accounting and Reporting System (STARS)-Field Level (FL) to both Standard Accounting, Budgeting, and Reporting System (SABRS) and Navy ERP. The Navy is planning to roll all general fund activities from SABRS to Navy ERP by the end of FY 2026.

Department of the Air Force

The Defense Enterprise Accounting and Management System (*DEAMS*) is a partially-deployed enterprise system that uses a COTS software suite to provide accurate and timely financial information using standardized business processes in compliance with applicable federal laws, regulations, and policies. DEAMS is the core accounting and financial management solution and the financial foundation for all enterprise business system modernization efforts across the Air Force General Fund and U.S. Space Force.

Air Force Integrated Personnel and Pay System (*AF-IPPS*) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout an airman's career. AF-IPPS is expected to be an audit-compliant financial management system that will enhance general and application controls.

Other Defense Organization ERPs

DAI is an enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by COTS software. Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire (including the DAI-OTL module) capabilities for Other Defense Organizations (i.e., OSD, Defense Agencies, and DoD Field Activities) and the Marine Corps.

Enterprise Business System (EBS) is a robust COTS-based ERP system which is secure, flexible, and integrated. Its primary mission is to provide Defense Logistics Agency's (DLA) core financial system with financial reporting, supply chain management, and logistics support capabilities. The DLA EBS uses COTS products to provide an ERP solution approach to manage all of DLA's supply chains.

LEGAL COMPLIANCE

Antideficiency Act

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

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

During FY 2023, the Department reported one case involving multiple purpose statute violations that was identified during assessments of the applicable processes. Further information about the Department's reported ADA violations and remedial actions taken are included in GAO's annual compilation of *Antideficiency Act Reports*.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020, in response to the COVID-19 pandemic. The CARES Act provided economic stimulus support in the form of direct cash payments to individuals; increased unemployment benefits; forgivable paycheck protection loans to small businesses; financial support for American industry; and assistance to state, local, and tribal governments. The provisions of the CARES Act additionally provided $10.6 billion to the Department in emergency supplemental funding to prevent, prepare for, and respond to the COVID-19 pandemic.

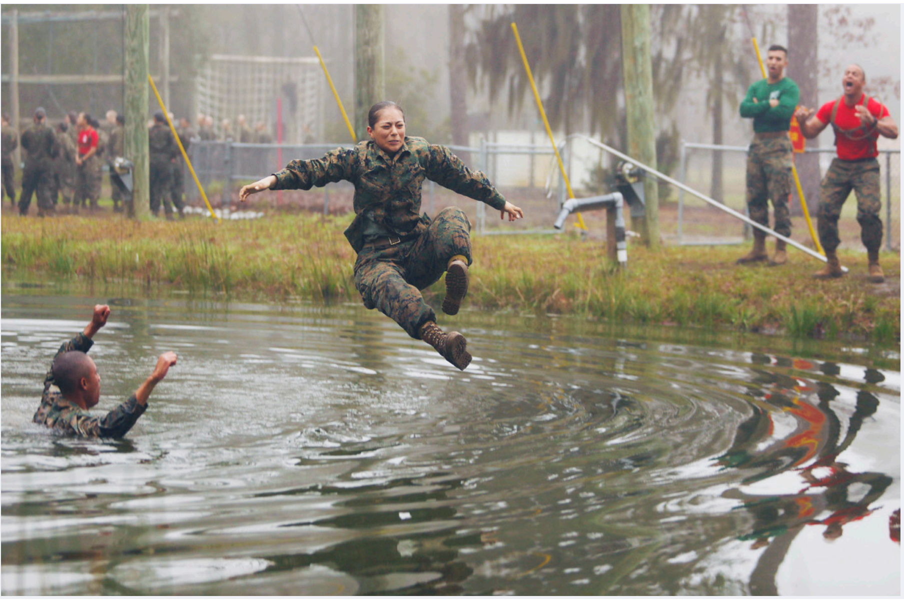
On April 10, 2020, OMB issued *Memorandum M-20-21*, "Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)." In balancing speed with transparency, OMB directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. Further, OMB instructed agencies to consider three core principles: mission achievement by using data and evidence to meet program objectives, expediency in issuing awards to meet crucial needs, and transparency and accountability to the public.

Under the CARES Act, federal agencies are required to submit a monthly report to OMB, the Treasury, the *Pandemic Response Accountability Committee*, and the appropriate congressional committees that detail how the supplemental funds were used. To fulfill this obligation, the Department issued several memoranda requiring the weekly cost reporting of CARES Act funding. Over the past three years, the Department executed over 5.75 million accounting transactions from 23 general ledger accounting systems with CARES Act funding. On a recurring basis, weekly or daily, the CARES Act transactions details are populated into Advana to facilitate compilation, oversight and monitoring, and data analytics. In addition, the Department leveraged the existing Digital Accountability and Transparency Act of 2014 reporting mechanism to provide the monthly status of all CARES Act and other COVID-19 related execution. This data is published for full public transparency, while still protecting operational security concerns, on *USAspending.gov*.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (*DATA Act*) amended the Federal Funding Accountability and Transparency Act of 2006 (*FFATA*) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on USAspending.gov. Implementation of the DATA Act improved the ability of the public to track and understand how the Federal Government is spending taxpayer funds. The required information includes the amount of funding the Department receives; the source of the funding (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); plans for spending the funding; and the actual use of the funding, to include the disclosure of the entities or organizations receiving federal funds through contract and financial assistance awards. The increasing focus on open data transparency continues to steer stakeholders across the Department toward the common goal of producing quality published spending data, while safeguarding sensitive information. In accordance with OMB Circular No. A-123, *Appendix A*, the Department reviewed and updated its DoD DATA Act Data Quality Plan.

On a monthly basis, the Department publishes summary level appropriation, obligation, and outlay data in USAspending.gov in accordance with the DATA Act. On a quarterly basis, the Department submits additional spending and financial award data for publication on USAspending.gov for obligations and outlays at the contract and financial assistance award level. As of June 2023, the Department reported the alignment of over $22 billion across over 598,994 active contract and financial assistance awards through DATA Act certification. The Department remains fully committed to enabling data transparency, while balancing the need to protect classified data and that which could compromise operational security.



Marine Corps recruits participate in the confidence course at Marine Corps Recruit Depot Parris Island, S.C., Feb. 2, 2023. (Photo by: Marine Corps Lance Cpl. Brenna Ritchie)

Payment Integrity Information Act

In accordance with the Payment Integrity Information Act of 2019 (PIIA) and OMB Circular No. A-123, Appendix C, the Department is required to report the status and recovery of improper and unknown payments to the President and Congress. The Department reports improper and unknown payments in the following categories:

- Civilian Pay
- Commercial Pay
- Military Pay
- Military Retirement Pay
- Travel Pay

PIIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient; for an ineligible good or service; as a duplicate payment; for goods or services not received; and any payment that does not account for applicable discounts. Moreover, in accordance with OMB Circular A-123 Appendix C, when an agency is unable to determine whether the payment is proper or improper, as a result of insufficient or lack of documentation, the payment is considered an unknown payment.

Each fiscal year, the DoD OIG reviews the Department's Payment Integrity portfolio, which is published on PaymentAccuracy.gov, to determine the Department's compliance with the PIIA reporting requirements. The DoD OIG then submits a report to the Secretary of Defense, the U.S. Senate Committee on Homeland Security and Governmental Affairs, the U.S. House of Representatives Committee on Oversight and Reform, the appropriate authorizing and appropriations committees of Congress, the Comptroller General of the United States, and the OMB Office of Federal Financial Management Controller. The results of the DoD OIG's FY 2023 determination of DoD payment integrity compliance will be published on the DoD OIG website in May 2024.

Since FY 2017, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review (see Figure 18).

Figure 18. DoD Payment Integrity Compliance Review Results

Fiscal Year	Published Payment Integrity Information with the annual financial statement	Conducted Risk Assessments (if required)	Accurate Improper and Unknown Payment Estimates	Corrective Action Plans (if required)	Demonstrated improvements toward reduction targets	Improper and Unknown Payments Below 10%
2022	✓	✓	✗	✓	✓	✓
2021	✓	✓	✗	✓	✓	✓
2020	✓	✓	✗	✓	✗	✓
2019	✓	✓	✗	✓	✗	✓
2018	✓	✓	✗	✗	✗	✓
2017	✗	✓	✗	✗	✗	✓
2016	✗	✗	✗	✗	✗	✓

Legend: ✓ Compliant ✗ Not Compliant

Preventing and recovering improper payments are among the top financial management priorities of the Department. See the Other Information section and PaymentAccuracy.gov for additional information on PIIA compliance.

Prompt Payment Act

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

The Department's goal is to average $90 or less in interest paid per million (IPPM) PPA dollars disbursed on a monthly basis across all applicable contracts. In FY 2023, the average interest paid per million PPA dollars disbursed on a monthly basis increased to $148.23, compared to $60.30 in FY 2022. The Department continues to have recurring challenges, such as invoices without receiving reports, late and insufficient obligation posting, system migrations, prevalidation matching errors, and instant overage. These recurring challenges attribute to a large portion of IPPM and continue to have significant impacts as volume increases. Corrective actions focus on concentrated efforts to prioritize and clear the inventory of overaged invoices, reduce manual payments, and continued efforts to migrate from legacy to ERP systems. In addition, Prompt Payment interest rate fluctuations can impact performance against goal, as Prompt Payment interest rates, set by Treasury, change twice a year.

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

Army Maj. Gen. Allan M. Pepin, left, speaks with former Staff Sgt. Darrell Bush, a World War II veteran of the Battle of the Bulge, at Arlington National Cemetery, Va., Jan. 25, 2023. Bush attended a wreath-laying ceremony at the cemetery to commemorate the anniversary of the ending of the battle in 1945. (Photo by: Elizabeth Fraser, Army)

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FINANCIAL SECTION
(UNAUDITED)

The Financial Section provides detailed information regarding the Department's financial position, financial condition, and results of operations.

PREVIOUS PAGE: U.S. Marine Corps Lance Cpl. Matthew Kemp, a native of McKinney, Texas, a radio operator with Bravo Company, 3d Littoral Combat Team, 3d Marine Littoral Regiment, 3d Marine Division, disembarks a Medium Tactical Vehicle Replacement in a simulated exfiltration during Force Design Integration Exercise (FDIE) on Kahuku Training Area, Hawaii, on September 28, 2023. FDIE provides Pacific Marines an opportunity to demonstrate its capabilities as the stand-in-force, its contribution to Force Design 2030, and its collaboration with U.S. Pacific Fleet and other joint partners. (U.S. Marine Corps photo by Lance Cpl. Blake Gonter)

LEFT: A U.S. Air Force F-16 Fighting Falcon refuels from a U.S. Air Force KC-10 Extender assigned to the 908th Expeditionary Air Refueling Squadron during Exercise Bright Star 23 over Egypt, Sept. 2, 2023. Bright Star 2023 is a multilateral U.S. Central Command exercise held with the Arab Republic of Egypt across air, land and sea domains that promotes and enhances regional security and cooperation, and improves interoperability in irregular warfare against hybrid threat scenarios. (U.S. Air Force photo by Staff Sgt. Emily Farnsworth)

MESSAGE FROM THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER

November 15, 2023

I join the Secretary of Defense in underscoring the Department's commitment to transparency and our effective stewardship of taxpayer dollars as we work to keep our country safe and secure. The fiscal year (FY) 2023 financial statements and accompanying information reflect our continuing efforts to advance the Department of Defense (DoD) mission through the Secretary's priorities and deliver transparent financial reporting in support of the National Defense Strategy.

This is the sixth consecutive year the entire DoD enterprise has undergone a financial statement audit performed by various independent public accounting firms and the DoD Office of Inspector General. Auditing the Department's $3.8 trillion in assets and $4.0 trillion in liabilities is a massive undertaking, but what we are working toward affects every soldier, sailor, airman, marine, guardian, and DoD civilian. The audits operate on a large scale, but the improvements and changes we are making every day because of these audits have very human outcomes.

We measure the benefits of audit across several areas: Workforce Modernization, Business Operations, Quality Decision-Making, Reliable Networks, and Enhanced Public Confidence. Examples include:

- The Army uses a bot to retrieve 96 percent of documents needed for testing, replacing five to ten manual days of work;
- A modernized Air Force governance, risk, and compliance system reduced reporting agencies from 6,500 to 57;
- Improved National Geospatial-Intelligence Agency data helped identify $43 million in contract deobligations; and
- The Department of the Navy deployed modern system access controls, automating reviews for 83,000 users.

I especially note the pending completion of the United States Marine Corps (USMC) FY 2023 Agency Financial Report and accompanying independent audit report. Although the complete results of the Marine Corps' two-year audit are forthcoming, I have been impressed by the extraordinary progress the USMC has made over the last two years to adopt the Defense Agency Initiative financial management system, as well as its tireless efforts in mitigating numerous key barriers to a clean audit opinion. The Marines are an example for other Components to emulate in our drive for continued audit success.

Still, we must all do more, and I call on Congress and our industry partners to help.

- Congress can help by stabilizing the budget process and avoiding continuing resolutions and threats of government shutdowns; ensuring timely continuity and confirmation of leaders;

and providing adequate and consistent resources for replacing DoD legacy systems. We appreciate the continued support of our oversight committees for the financial statement audit effort.

- Industry partners can help by introducing innovative, time-saving enterprise solutions; bringing property in the possession of contractors into audit compliance; providing transparency into the location and condition of DoD assets; providing compliant, innovative, and affordable enterprise solutions; and supporting audit progress by complying timely with all audit requirements and requests.

In turn, I commit to accelerating our audit efforts. Fiscal readiness accelerates mission readiness. I thank Congress for its support and investment in our mission, my DoD partners and colleagues for their commitment to good stewardship, the DoD financial management workforce for all of its hard work, and all those who serve in uniform to keep us safe.

Michael McCord

Michael McCord

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

November 15, 2023

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Reports on the DoD FY 2023 and FY 2022 Financial Statements (Project No. D2023-D000FV-0054.000, Report No. DODIG-2024-027)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2023 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Financial Statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022, and should not be disseminated separately from these financial statements.

We conducted our audit in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 24-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[1] Our attached Independent Auditor's Reports consist of the:

- Report on the Financial Statements;
- Report on Internal Control over Financial Reporting; and
- Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Our audit resulted in a disclaimer of opinion. We were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we did not express an opinion on the financial statements.

[1] Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," August 2022. (Replaced by Office of Management and Budget Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," effective October 2023).
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," May 2023, Volume 1 (Updated May 2023), Volume 2 (Updated May 2023), and Volume 3 (Updated June 2023).

The Report on Internal Control over Financial Reporting includes a description of 28 material weaknesses and 3 significant deficiencies related to the DoD's internal controls over financial reporting.[2] This year, we expanded the content of the report to provide additional information on the conditions, causes, and related recommendations for each material weakness and significant deficiency. This additional information provides more transparency into the areas in which the DoD should improve its financial management and ultimately obtain an opinion on its financial statements. The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements includes a description of seven instances of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements.

Financial management is the responsibility of management at every level in the DoD, and while necessary to produce reliable financial statements, the operational value comes in better information for decision making and ensuring the careful stewardship of taxpayer dollars. Without effective internal controls, the DoD risks not having accurate and reliable information related to key issues such as inventory, equipment, and available funds, which have a negative impact on operational readiness. We appreciate the cooperation and assistance received during the audit. My team and I look forward to continuing our work in this critically important area.

Robert P. Storch
Inspector General

[2] 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

November 15, 2023

Report on the Financial Statements

Disclaimer of Opinion

The DoD Agency-Wide Financial Statements include the Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures in its Agency Financial Report. These statements are referred to as the financial statements in this report. We were engaged to audit the financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022, as required by the Chief Financial Officers Act of 1990.[1]

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on the accompanying financial statements. Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

Basis for Disclaimer of Opinion

Independent Public Accounting firms that were engaged to perform audits of the following DoD reporting entities issued disclaimers of opinion:[2]

- Department of the Army General Fund
- Department of the Army Working Capital Fund

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[1] Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

[2] Office of Management and Budget Bulletin No. 24-01 lists the U.S. Marine Corps as a DoD Component that is required to prepare audited financial statements. Following a 2-year audit cycle, FY 2022 through FY 2023, the U.S. Marine Corps is expected to prepare audited financial statements. However, as of the date of this audit report, the U.S. Marine Corps has not published the Agency Financial Report. As a result, we did not consider any results from the U.S. Marine Corps audit when issuing our disclaimer of opinion.

A DoD Component is a Military Department, Defense agency, or DoD field activity, such as the Defense Logistics Agency, a Combatant Command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

- U.S. Navy General Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force General Fund
- Department of the Air Force Working Capital Fund
- U.S. Special Operations Command General Fund
- U.S. Transportation Command Transportation Working Capital Fund
- Defense Intelligence Agency
- National Geospatial-Intelligence Agency
- National Security Agency
- Defense Health Program General Fund
- Defense Information Systems Agency General Fund
- Defense Logistics Agency General Fund
- Defense Logistics Agency Working Capital Fund
- Defense Logistics Agency Stockpile Transaction Fund
- Defense Advanced Research Projects Agency
- Defense Threat Reduction Agency

The DoD reporting entities that received disclaimers of opinion on their financial statements, when combined, account for at least 46 percent of the DoD's total assets and at least 72 percent of the DoD's total budgetary resources. These combined balances are material to the Agency-Wide Financial Statements.

Additionally, we identified the following material misstatements during our audit.

- DoD management did not report material balances in the Agency-Wide Financial Statements in accordance with the Statement of Federal Financial Accounting

Standards (SFFAS) No. 47.[3] Specifically, the DoD did not report the Security Assistance Accounts financial activity within the Agency-Wide Financial Statements. This omission resulted in a material misstatement on the Agency-Wide Financial Statements, which is reported in the Reporting Entity material weakness identified within our Report on Internal Control over Financial Reporting.

- The Joint Strike Fighter Program is a multiservice, multinational acquisition that develops and fields F-35 fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, DoD management did not account for, manage, or report Joint Strike Fighter Program Government property, which is composed of Global Pooled Inventory and Support Equipment, in the Agency-Wide Financial Statements, as required by Office of Management and Budget (OMB) Circular No. A-136 and SFFAS No. 6.[4] This omission resulted in a material misstatement in DoD's assets on the Agency-Wide Financial Statements. However, since the DoD is unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program Government property, we could not quantify the material misstatement in the DoD's assets on the Agency-Wide Financial Statements.

We considered the matters described previously as a scope limitation in forming our conclusions on the financial statements. As a result, our work may not have identified all issues that could affect the financial statements.

Other Matters

DoD management referenced information on websites or other forms of interactive data within the Agency Financial Report. This information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Accounting Board. As a result, this information was not subjected to our audit procedures. Accordingly, we do not express an opinion or provide any assurance on the websites, data, or information referred to on these websites, or other forms of interactive data included in the Agency Financial Report.

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[3] Federal Accounting Standards Advisory Board, "Handbook of Federal Accounting Standards and Other Pronouncements" (Handbook), SFFAS No. 47, "Reporting Entity," December 2014.

[4] OMB Circular No. A-136, "Financial Reporting Requirements," May 2023.
Federal Accounting Standards Advisory Board Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995.

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing financial statements that conform with generally accepted accounting principles; (2) preparing, measuring, and presenting the Required Supplementary Information, which includes the Management's Discussion and Analysis, in accordance with Generally Accepted Accounting Principles; and (3) maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility for the Agency Financial Report

Our responsibility is to express an opinion on the financial statements based on our performance of the audit, and to review the Management's Discussion and Analysis section within the Agency Financial Report in accordance with generally accepted government auditing standards (GAGAS); OMB Bulletin 24-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual." However, because of the significance of matters described in the "Basis for Disclaimer of Opinion" section, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements.[5]

GAGAS requires that we exercise professional judgment and maintain professional skepticism throughout the audit. Additionally, GAGAS requires us to be independent of the DoD and to meet our other ethical responsibilities in accordance with the relevant ethical principles relating to our audit.

Required Supplementary Information

The OMB mandates that the Required Supplementary Information, which includes the Management's Discussion and Analysis, be presented in the Agency Financial Report to supplement the financial statements. The Required Supplementary Information is the responsibility of management and, although not a part of the financial statements, it is required by the OMB and Federal Accounting Standards Advisory Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply

[5] Government Accountability Office GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," August 2022. (Replaced by OMB Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," effective October 2023).
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," May 2023, Volume 1(Updated May 2023), Volume 2 (Updated, May 2023), and Volume 3 (Updated, June 2023).

certain limited procedures to the Required Supplementary Information in accordance with GAGAS because of the matters described in the previous "Basis for Disclaimer of Opinion" section.[6] Accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 24-01, we also issued reports dated November 15, 2023, on our consideration of the DoD's internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing; it is not to provide an opinion on the effectiveness of the DoD's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audit.

Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel did not provide formal comments.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

[6] As of the date of this audit report, the Agency Financial Reports for the U.S. Marine Corps and Defense Information Systems Agency Working Capital Fund have not been published. As a result, we were unable to confirm accuracy or consider amounts or disclosures directly attributed to the U.S. Marine Corps and Defense Information Systems Agency Working Capital Fund within the Agency Financial Report.

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

November 15, 2023

Report on Internal Control over Financial Reporting

We were engaged to audit the DoD Agency-Wide Financial Statements in accordance with generally accepted government auditing standards; the Office of Management and Budget (OMB) Bulletin No. 24-01; and the Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency (CIGIE), "Financial Audit Manual (FAM)."[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2023, and September 30, 2022. Our Report on the Financial Statements, dated November 15, 2023, disclaims an opinion on the financial statements because we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including 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, abuse, or error; and (2) evaluating the effectiveness of internal control over financial reporting based on criteria established under the "Federal Managers' Financial Integrity Act of 1982."[2]

The recommendations included in this report have been previously communicated to DoD and DoD Component management through notices of findings and recommendations provided by the auditors to address identified findings. Additionally, the recommendations included in this report are addressed to DoD management as a whole, including functional areas such as the Office of the Under Secretary of Defense

[1] GAO-21-368G, "Government Auditing Standards," April 2021.

OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," August 2022. (Replaced by OMB Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," October 2023).

GAO/CIGIE, "Financial Audit Manual," Volume 1 (Updated May 2023), Volume 2 (Updated May 2023), and Volume 3 (Updated June 2023).

[2] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.

(Comptroller)/Chief Financial Officer, Office of the DoD Chief Information Officer, Office of the Under Secretary of Defense for Acquisition and Sustainment, and the Office of the General Counsel.

Auditor's Responsibilities

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the financial statements, we considered the DoD's internal control over financial reporting to design audit procedures that were appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD's internal control over financial reporting. Additionally, we performed audit procedures at the Agency-Wide level and considered the results of the DoD reporting entities' audits to identify material weaknesses and significant deficiencies in internal control over financial reporting.[3] Based on the scope and limitations of our work and the effects of these limitations noted throughout this audit report, we did not design our internal control work to identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

Identified Material Weaknesses

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 in a timely manner. Descriptions of the 28 material weaknesses we identified through our audit and our recommendations to address them are as follows.

1. Financial Management Systems Modernization

The "Federal Financial Management Improvement Act of 1996" (FFMIA) requires the DoD to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (the general ledger) at the

[3] A DoD Component is a Military Department, Defense agency, or DoD field activity such as the Defense Logistics Agency, a combatant command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.

transaction level.[4] The DoD's information technology environment is complex as the DoD uses thousands of systems, hundreds of which are relevant to internal controls over financial reporting. The financial reporting systems are used to report data in the DoD Component and Agency-Wide Financial Statements. Many of these systems do not comply with the FFMIA, and the DoD first identified its noncompliance with the FFMIA in FY 2001.

Through our audit procedures, we identified that DoD management:

- maintains outdated financial management systems that will never be FFMIA compliant, and as some of these systems are not scheduled to retire until FY 2031, which contribute to the DoD's noncompliance with the FFMIA; and

- did not have a complete and accurate list of financial management systems.

These conditions occurred because DoD management did not:

- have plans for financial management system modernization that were aggressive enough to ensure the timely remediation of its FFMIA non-compliance and the plans did not integrate and modernize the DoD's financial management system environment by fully using the DoD's enterprise resource planning systems, or[5]

- coordinate with DoD Components to fully understand their business processes and identify all financial management systems that are relevant to internal controls over financial reporting.

As a result, without a modern financial management systems environment, DoD management remained at an increased risk of not being able to produce accurate, reliable, and timely financial management information or achieve compliance with the FFMIA. This will continue to impede the DoD and its Components' ability to achieve an unmodified opinion.

[4] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

[5] A modern enterprise resource planning system is a system that is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system.

Recommendations

We recommended that DoD management:

- develop a comprehensive plan with detailed milestones for each DoD financial management system to become FFMIA compliant;
- expedite the modernization of systems the DoD intends to continue using to make them FFMIA complaint;
- expedite the retirement of systems that the DoD does not intend to modernize to make them FFMIA compliant;
- document and review all end-to-end business processes to identify all financial management systems that are relevant to internal controls over financial reporting; and
- develop and implement internal controls to ensure the completeness and accuracy of the data necessary to track financial management systems.

2. Configuration Management

The GAO/CIGIE FAM states that configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. Configuration management controls are designed and implemented to prevent unauthorized or untested changes to critical information system resources and provide reasonable assurance that systems are securely configured and operated as intended. In addition, configuration management controls are designed and implemented to provide reasonable assurance that software programs and changes to software programs go through a formal, documented systems development process that identifies all changes to the baseline configuration. Furthermore, the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to configuration management controls.[6]

[6] NIST SP 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020.

Through our audit procedures, we identified that the DoD's financial management systems did not comply with NIST SP 800-53 guidance related to configuration management. Specifically, the DoD and its Components did not:

- develop, document, and disseminate configuration management plans and procedures to facilitate the implementation of configuration management policies;
- perform reviews, monitor activities, or maintain documentation associated with configuration-controlled changes to DoD Component financial management systems; or
- define, document, approve, or enforce physical and logical access restrictions for making changes to DoD Component financial management systems.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of configuration management control policies, procedures, and processes over the financial management systems affecting the Agency-Wide Financial Statements.

As a result, without proper configuration management controls to reduce the risk of unauthorized or inappropriate changes to financial management systems, DoD management may not be able to rely on the data in those systems. Therefore, configuration management control weaknesses increased the risks of financial management systems not functioning as intended or reporting data that is incomplete or inaccurate in the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that financial management systems have comprehensive sets of configuration management policies, plans, and procedures that allow for system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Component configuration management policies and procedures, once implemented; and
- resolve previously issued configuration management deficiencies within DoD Component financial management systems.

3. Security Management

The GAO/CIGIE FAM states that security management is the foundation of a security-control structure and is a reflection of senior management's commitment to addressing security risks. Security management programs should provide a framework and continuous cycle of activity for managing risk, develop and implement effective security policies, assign responsibilities, and monitor the adequacy of an entity's information system controls. Without a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. Furthermore, NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to security management controls.

Through our audit procedures, we identified that the DoD's financial management systems did not comply with NIST SP 800-53 guidance related to security management controls. Specifically, the DoD and its Components did not:

- develop, document, and periodically review security policies and procedures; or
- develop and update plans of actions and milestones across their systems with identified weaknesses and vulnerabilities.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient security management controls over DoD's financial management systems affecting the Agency-Wide Financial Statements.

As a result, the lack of proper security management controls increased the risk that the confidentiality, integrity, and availability of data will not be maintained throughout the DoD's and its Component's financial management systems. Therefore, DoD management may not be able to rely on the data within those systems or verify the legitimacy of data, users, applications, and systems.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that financial management systems have comprehensive sets of security management policies, plans, and procedures that allow system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Components security management policies and procedures, once implemented; and
- resolve previously issued security management deficiencies within DoD financial management systems.

4. Access Controls

The GAO "Federal Information System Controls Audit Manual" states that access controls provide reasonable assurance that access to computer resources such as data, equipment, and facilities is reasonable and restricted to authorized, authenticated individuals.[7] Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. NIST SP 800-53 provides a framework, required by OMB No. A-130, for the DoD to establish policies and procedures to identify and address risks related to access controls.[8]

Through our audit procedures, we identified that the DoD did not develop and implement access controls over its financial management systems that comply with NIST SP 800-53 guidance. Specifically, the DoD and its Components did not:

- establish, periodically review, or update access control policies and procedures for access provisioning;[9]
- properly review user access before providing additional system access or monitor user access to determine whether such access remained necessary for a user's job function;

[7] GAO-09-232G, "Federal Information System Controls Audit Manual," February 2009.
[8] OMB Circular No. A-130, "Managing Information as a Strategic Resource," July 2016.
[9] Access provisioning refers to a set of activities performed in creating user accounts and granting permissions.

- develop formal policies that outline requirements for identifying security events and processes, maintaining systems that can generate reports for all applicable events, and maintaining a consistent frequency of management's review of security events; or

- remove user access from terminated and separated employees with access to financially significant systems in a consistent, timely manner.

These conditions occurred because DoD management did not:

- coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient access controls over the financial management systems affecting the Agency-Wide Financial Statements; and

- fully implement a uniform and reliable off-boarding process for terminated and separated employees across DoD Components, such as the Identity, Credential, and Access Management solution.[10]

As a result of the lack of proper access controls, the DoD increased risk that users may gain or retain unauthorized, excessive, or otherwise inappropriate access to DoD financial management systems. Without proper event logging and review, the DoD risked being unable to promptly detect, investigate, and address unauthorized activities or errors in its financial management systems. Lastly, the DoD increased the risk of unauthorized users retaining access to DoD financial management systems, which increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that financial management systems have comprehensive access control policies and procedures;

- review and provide feedback for improving DoD Component access control policies, plans, and procedures, once implemented;

[10] The Identity, Credential, and Access Management solution is key for achieving DoD goals such as secure information sharing, cloud migration, and financial management audit findings remediation.

- establish, implement, and monitor a baseline frequency of how often user accounts in financial management systems should be reviewed; and
- monitor the continued implementation of the Identity Credential Access Management solution.

5. Segregation of Duties

NIST SP 800-53 states that Segregation of Duties (SoD) addresses the potential for abuse of authorized privileges and helps to reduce the risk of malicious activity without collusion. NIST SP 800-53 establishes mandatory controls for Federal information systems to protect information by identifying and addressing risks related to SoD controls. Additionally, the GAO/CIGIE FAM states that SoD includes policies, procedures, and an organizational structure to manage who can control key aspects of computer-related operations and, thereby, preventing unauthorized actions or unauthorized access to assets or records. SoD involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective SoD is achieved by splitting responsibilities between two or more individuals or organizational units. In addition, dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.

Through our audit procedures, we identified that the DoD's financial management systems did not comply with NIST SP 800-53 guidance related to SoD controls. Specifically, the DoD and its Components did not:

- identify and document SoD at an organizational level,
- define system access authorizations to support SoD controls,
- employ the use of least privilege within DoD Component financial management systems to complete organizational tasks,[11]
- define and document types of user accounts and account privilege, or
- review accounts for compliance with account management requirements at an organizationally defined frequency.

[11] Least privilege is the principle that a security architecture should be designed so that each entity is granted the minimum system resources and authorizations needed to perform its function.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient SoD controls over the DoD and its Component financial management systems that affect the Agency-Wide Financial Statements.

As a result, without proper SoD controls within DoD financial management systems, users may have inappropriate access to critical systems, where user changes can affect the DoD financial management systems and increase the chances of security incidents within the system if left unresolved. Additionally, users with the ability to perform functions outside of their job responsibilities or incompatible duties without proper monitoring increased the risk of inaccurate, invalid, or unauthorized transactions being processed. Furthermore, without proper controls over least privilege, risks existed that users may have more access than is necessary to reasonably perform their job responsibilities. Such access may result in unauthorized access to data, negatively affecting the confidentiality and integrity of DoD financial management systems.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that financial management systems have comprehensive sets of SoD policies, plans, and procedures that allow for system owners to achieve their objectives, address risks, and support the internal control environment;
- review and provide feedback for improving DoD Component SoD policies and procedures, once implemented; and
- resolve previously issued SoD deficiencies within DoD financial management systems.

6. Interface Controls

The "Federal Information System Controls Audit Manual" states that interface controls are those controls over the timely, accurate, and complete exchange of information between systems and applications on an ongoing basis, and complete and accurate migration of clean data during conversion. Interfaces are periodic and recurring, and interface controls may be performed manually or automated and may be scheduled or event-driven. NIST SP 800-53, which is required by OMB No. A-130, provides a framework for the DoD to establish policies and procedures to identify and address risks related to interface controls.

Through our audit procedures, we identified that the DoD's financial management systems did not comply with NIST SP 800-53 guidance related to interface controls. Specifically, the DoD and its Components did not:

- document the minimum requirements for establishing, designing, maintaining, tracking, and terminating information exchanges;
- determine a complete and accurate population of interface edits and validations and identify, review, and remediate errors in a timely manner; or
- maintain a complete and accurate population of interface processing results and errors.

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes that include sufficient interface controls that require data transmitted to interface files are reconciled, all interface file errors are logged, and errors are resolved in a timely manner.

As a result, without proper interface controls, DoD management was unable to validate the completeness and accuracy of data exchanged. Additionally, DoD management's inability to promptly detect, investigate, and address errors in DoD financial management systems impacted the DoD's ability to determine whether significant edits and validations were operating as intended. Therefore, this increased the risk that the financial management systems reported data that is incomplete or inaccurate in the Agency-Wide Financial Statements.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that interfaces with financial management systems have proper documentation that captures the minimum requirements, including the interface characteristics, security and privacy requirements, controls, and responsibilities for each system, and the impact level of the information communicated; and

- review and provide feedback for improving DoD Component interface control policies and procedures, once implemented.

7. Universe of Transactions

OMB Bulletin No. 24-01 states that internal control over financial reporting includes ensuring transactions are properly recorded, processed, and summarized to allow for reliable financial statements preparation.

Through our audit procedures, we identified that the DoD and its Components did not:

- provide transaction-level populations supporting material line items, or
- have sufficient documentation to reconcile data presented within the trial balances to underlying transaction-level detail. For example, DoD Components performed reconciliations at a summary level, rather than the transaction level, and did not always perform these reconciliations before preparing their financial statements.

These conditions occurred because the DoD did not:

- have internal controls, policies, and procedures in place to maintain a complete universe of transactions (UoT) to support material line items within the Agency-Wide Financial Statements; or
- ensure that the controls, policies, and procedures in place at the DoD Component level were consistently implemented.

As a result of the lack of a UoT, the DoD and its Components were unable to verify the completeness and accuracy of data reported in their respective financial statements; therefore, this increased the risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish and implement a DoD-wide plan to ensure that a complete UoT supporting material line items within the DoD Agency-Wide Financial Statements is available;

- include in the DoD-wide plan a strategy to ensure that DoD Components develop and implement internal controls to confirm the accuracy and completeness of data reported on their financial statements; and

- coordinate with the DoD Components to design or enhance controls within the existing systems for preparation, recording, and review of general ledger transactions to ensure that DoD Components' systems can provide a complete UoT to support their financial statement balances.

8. Reporting Entity

The Federal Accounting Standards Advisory Board (FASAB), "Handbook of Federal Accounting Standards and Other Pronouncements" (FASAB Handbook), Statement of Federal Financial Accounting Standards (SFFAS) No. 47 assists the DoD in determining which entities it should disclose and report in the Agency-Wide Financial Statements.[12] According to SFFAS No. 47, the DoD is responsible for reporting all entities that it is accountable for, including all entities administratively assigned to the DoD. A reporting entity is an organization that issues its own financial statements, either due to a statutory or administrative requirement or because it chooses to prepare them. A consolidation entity is an organization that the reporting entity consolidates in its financial statements. For example, the Army General Fund is considered a reporting entity because the OMB requires it to produce stand-alone financial statements; it is also considered a Component reporting entity and consolidation entity because it is reported within the Agency-Wide Financial Statements. The DoD comprises more than 60 consolidation entities; many are also considered Component reporting entities because they produce their own financial statements.

Through our audit procedures, we identified several deficiencies related to the implementation of SFFAS No. 47 in the Agency-Wide Financial Statements, including the following.

- The DoD did not report Security Assistance Accounts financial activity in the FY 2023 Agency-Wide Financial Statements, as required by SFFAS No. 47.

- The DoD did not have an adequate process to identify all Agency-Wide disclosure entities and related parties.

[12] FASAB Handbook, SFFAS No. 47, "Reporting Entity," December 2014.

- The DoD could not identify who had managerial responsibility for material balances presented in the Agency-Wide Financial Statements for the DoD Component Level Accounts entity.

These conditions occurred because the DoD did not:

- correctly implement and apply SFFAS No. 47 principles,
- review or document DoD Component disclosure entities and related parties to determine whether they were Agency-Wide disclosure entities and related parties, or
- update the memorandum that established management for the Other Defense Organizations (ODOs) since FY 2015 and did not have any other documentation that established which entity had managerial responsibility for the DoD Component Level Accounts entity.[13]

Improper implementation and application of SFFAS No. 47 affected the reliability of information published by the DoD. Additionally, by not reporting the Security Assistance Accounts financial activity, the DoD did not report approximately $115.1 billion in assets within the FY 2023 DoD Agency-Wide Financial Statements.[14] The omission of this material activity from the Agency-Wide Financial Statements will continue to impede the DoD's ability to achieve a clean audit opinion.

Recommendations

We recommended that DoD management:

- consolidate the Security Assistance Accounts financial activity in the Agency-Wide Financial Statements;
- apply SFFAS No. 47 requirements correctly when determining which entities to consolidate into the Agency-Wide Financial Statements each year;

[13] The ODOs comprise Defense agencies, Defense-wide appropriations and programs, and trust funds.

[14] Although these FY 2023 Security Assistance Accounts financial statements are under audit, the auditor expressed a disclaimer of opinion. Therefore, these Security Assistance Accounts amounts may be materiality misstated. Additionally, the FY 2023 Security Assistance Accounts are currently reported as a part of the Governmentwide Financial Statements.

- issue and implement policies to DoD Components to consolidate the Security Assistance Accounts into DoD Components accounting and financial reporting procedures;
- design and implement procedures to identify and document all potential disclosure entities and related parties, including procedures to review all DoD Component disclosure entities and related parties to determine whether they should be included in the DoD Agency Financial Report;
- document in the Reporting Entity SFFAS No. 47 Financial Statement Breakdown the basis for determining all potential disclosure entities and related parties as disclosure entities, related parties, or parties not to be included in the DoD Agency Financial Report; and
- establish and issue a memorandum identifying managerial responsibility for the balances within the DoD Component Level Accounts entity and review this memorandum on a regular and reoccurring basis to ensure it is accurate and updated with any changes.

9. Fund Balance with Treasury

As of September 30, 2023, the DoD reported a Fund Balance with Treasury (FBwT) balance of $768.1 billion. SFFAS No. 1 defines FBwT as the aggregate amount of funds in the DoD's accounts with the U.S. Treasury for which the DoD is authorized to make expenditures and pay liabilities.[15] SFFAS No. 1 and the "Treasury Financial Manual" (TFM) require the DoD to reconcile its FBwT and explain any discrepancies between balances reported by the DoD and the Treasury to ensure the integrity and accuracy of the DoD and Government-wide Financial Statements.[16] Additionally, the "DoD Financial Management Regulation" (FMR) requires DoD Components to reclassify suspense transactions to the correct line of accounting and properly report them in the accounting system within 60 days.[17] Suspense accounts, also referred to as clearing accounts, are accounts that temporarily hold unidentifiable general, special, or trust fund collections that belong to the Government until the suspense accounts are classified to the proper receipt or expenditure account by the DoD.

[15] FASAB Handbook, SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.
[16] TFM, volume 1, part 2, chapter 5100, "Fund Balance with Treasury."
[17] DoD Regulation 7000.14-R, DoD FMR, volume 12, chapter 1, "Funds."

Through our procedures, we identified several material deficiencies related to the DoD's FBwT reconciliation, including the following.

- The DoD did not reconcile its FBwT ending balances from its general ledger directly to the U.S. Treasury.[18] Specifically, the DoD could not:
    - substantiate, monitor, and resolve FBwT variances in a timely manner;
    - ensure that personnel record Statement of Differences (SOD) transactions for the Defense Finance and Accounting Services (DFAS)-managed disbursing stations in a timely manner in the correct entity's accounting systems; or
    - support the Cash Management Report (CMR) creation process, which negatively impacted the ability of ODOs to support the completeness and accuracy of their FBwT balances.[19] Additionally, unresolved and unidentified differences existed between the CMR and U.S. Treasury.
- DoD Components and DFAS did not sufficiently monitor funds in suspense accounts. Specifically, DoD Components and DFAS did not research suspense transactions to resolve account variances in accordance with the 60-day requirement or they improperly attributed and cleared transactions to the incorrect DoD Component.
- The DoD was unable to produce a timely, complete, and accurate UoT for the DoD's CMR and suspense accounts. Additionally, these UoTs were not available until more than 50 days after quarter- and year-end.

These conditions occurred because the DoD and DFAS lacked internal controls over the FBwT reconciliation for DoD Components. A few examples follow.

- The DoD did not sufficiently document its internal controls and processes for reconciling its FBwT.

[18] The general ledger is the uniform chart of accounts as defined in the TFM. The TFM states that the Chart of Accounts provides the basic structure for the general ledger, and it incorporates both proprietary and budgetary accounts. The proprietary and budgetary sets of general ledger accounts are self-balancing (total debits equal total credits).

[19] The CMR is similar to a commercial bank statement in that it provides a summary cash position for each ODO's FBwT account by appropriation, fiscal year, basic symbol, and limit.

- DoD Components and DFAS were not able to produce complete and accurate support for SOD transactions.
- The CMR reconciliation process was not sufficient to produce a complete and accurate reconciliation between the ODOs' general ledgers and the U.S. Treasury balances.
- Funding provided by the U.S. Treasury was not divided below the Treasury Index (TI) level; as a result, all items for TI-97 (ODOs) were reported in aggregate.[20]
- DFAS did not identify and resolve root causes of the reconciling items and unidentified differences included in the CMR.
- The SOD, CMR, and suspense accounts management analyses were not available until after the financial statements are prepared, which did not allow sufficient time to perform financial reporting analysis on these management analyses.
- DFAS manually prepared the suspense accounts and CMR UoTs.

As a result, the lack of effective reconciliation processes for the SOD, CMR, and the clearance of suspense accounts for FBwT increased the risk that the FBwT line item may be unsupported, incomplete, or inaccurate. Additionally, DFAS's manual preparation of the UoTs for the FBwT line item increased the risk that errors or omissions in the data could occur, which also increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- establish and document procedures to ensure that DoD Components and the ODOs produce complete and accurate FBwT reconciliations and resolve the unresolved, unidentified variances identified each month in accordance with SFFAS No. 1, the TFM, and the DoD FMR;

[20] The TI (also known as Treasury Account Symbols) is a code assigned to Federal entities by the U.S. Treasury to report individual appropriations, receipt, and other fund accounts. However, the U.S. Treasury accounts for funding at the TI level and does not divide funding below the TI level. The DoD uses the TI-97 to report Defense agencies, Defense-wide appropriations and programs, and trust funds (ODOs) funding activity.

- coordinate with the Treasury to request unique U.S. Treasury accounts for each DoD Component so accounts are not shared, allowing for individual financial reporting for the ODOs, or another alternative method to track transactions at the DoD level to help decrease unresolved variances;
- establish, implement, oversee, and coordinate a DoD-wide action plan to ensure DoD Components and DFAS:
  - prepare complete and accurate SOD populations and ensure all SOD transactions are complete and reliable;
  - follow the requirements in the TFM when placing transactions into suspense accounts;
  - research and reclassify suspense transactions to the correct line of accounting within 60 days, in accordance with the TFM, and properly report suspense transactions in their respective accounting system; and
  - perform a root cause analysis when researching suspense transactions to determine the correct line of accounting and what caused the transaction to go into suspense, and use this analysis to develop controls to prevent transactions from processing into suspense;
- establish and implement a plan to ensure that DFAS is able to produce CMR and suspense accounts UoTs before the quarterly and year-end financial statements are prepared and published, so that the auditors can review the financial information contained within the ODO's FBwT line item; and
- assign sufficient resources to implement and validate corrective actions related to FBwT in a timely manner.

10. Inventory and Stockpile Materials

As of September 30, 2023, the DoD reported an Inventory and Stockpile Materials balance of $120.3 billion.[21] SFFAS No. 3 requires the DoD to value its inventory and stockpile material on the basis of historical cost or on a basis that reasonably approximates historical cost.[22] SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to

[21] Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line Item on the Balance Sheet.

[22] FASAB Handbook, SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.[23]

Through our audit procedures, we identified several deficiencies related to the DoD's inventory and stockpile practices. Specifically, DoD Components did not:

- account for inventory and stockpile materials according to SFFAS No. 3 or an alternative valuation method allowable by SFFAS No. 48;
- substantiate the existence, completeness, and valuation of inventory and stockpile materials reported on the Balance Sheet;
- record transactions completely within an accountable property system of record; or
- monitor the inventory counts to ensure the inventory and stockpile materials activity was reported accurately.

These conditions occurred because the DoD did not:

- design its control environment and business processes to:
  - consistently and accurately report the value of inventory and stockpile materials in accordance with SFFAS No. 3, and
  - accurately account for the balances in accordance with SFFAS No. 48; or
- have internal controls, policies, procedures, or procedures to maintain key supporting documentation to substantiate the existence, completeness and valuation of the DoD's inventory.

As a result, the DoD was unable to support a material portion of its Inventory and Stockpile Materials balance. As such, this increased the risk that the Inventory and Stockpile Materials balance in the Agency-Wide Financial Statements may be materially misstated.

[23] FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

Recommendation

We recommended that DoD management establish and implement DoD-wide policies and procedures for recording inventory and stockpile materials transactions that substantiate existence, completeness, and reporting to confirm that DoD Components appropriately and consistently value Inventory and Stockpile Materials in accordance with SFFAS No. 3 and No. 48.

11. Operating Materials and Supplies

As of September 30, 2023, the DoD reported an Operating Materials and Supplies (OM&S) balance of $220.8 billion.[24] SFFAS No. 3 requires the DoD to value OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost. SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. Furthermore, SFFAS No. 3 requires that OM&S be categorized as: (1) held for use; (2) held in reserve for future use; or (3) excess, obsolete, and unserviceable (EOU). Excess OM&S is inventory that exceeds the amount expected to be used in normal operations and does not meet management's criteria to be held in reserve for future use. Obsolete OM&S is inventory that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S is inventory that is physically damaged and cannot be consumed in operations. SFFAS No. 3 also states that EOU OM&S should be valued at its estimated net realizable value.[25]

Through our audit procedures, we identified the following material deficiencies related to the DoD's accounting and reporting of OM&S. Specifically, the DoD and its Components did not ensure they could:

- account for OM&S in accordance with SFFAS No. 3 or accurately use the alternative valuation method allowable by SFFAS No. 48,
- substantiate the existence and completeness of the OM&S assets reported on financial statements, or
- support the EOU OM&S balances reported on financial statements accurately.

[24] Inventory, Operating Materials and Supplies, and Stockpile Materials are all reported within the Inventory and Related Property line Item on the Balance Sheet.

[25] Net Realizable Value is the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding, and disposal.

These conditions occurred because the DoD and its Components did not:

- establish controls to successfully implement OM&S guidance related to SFFAS No. 3 and SFFAS No. 48,
- use Accountable Property Systems of Record to record OM&S activity accurately and completely, or
- have controls to properly record and report EOU OM&S material.

As a result, this increased the risk that the OM&S balance in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- develop policies and procedures to ensure DoD Components follow SFFAS No. 48 standards related to the alternative valuation method for opening balances and ensure DoD Components have the ability to comply with SFFAS No. 3 standards once the alternative valuation method has been implemented;
- ensure DoD Components use Accountable Property Systems of Record, or other appropriate systems, that have the ability to accurately account for OM&S activity in accordance with SFFAS No. 3 and No. 48; and
- develop procedures and controls to ensure DoD Components can accurately identify EOU OM&S and properly record the material at its net realizable value.

12. General Property, Plant, and Equipment

As of September 30, 2023, the DoD reported a General Equipment and Internal Use Software balance of $464.1 billion.[26] SFFAS No. 6 requires the DoD to value its General Property, Plant, and Equipment (PP&E) on the basis of historical cost or on a basis that reasonably approximates historical cost.[27] SFFAS No. 10 allows the DoD to value internally developed software on the basis of historical cost or on a basis that

[26] General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

[27] FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

reasonably approximates historical cost.[28] SFFAS No. 50 amends both SFFAS No. 6 and No. 10 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the DoD makes an unreserved assertion that its financial statements are presented in accordance with generally accepted accounting principles.[29]

Through our audit procedures, we identified that DoD Components were unable to:

- provide and maintain appropriate documentation supporting the valuation of a material amount of the General PP&E reported on the Agency-Wide Financial Statements;
- substantiate the existence and completeness of General PP&E reported on DoD Component financial statements; or
- adequately demonstrate that the procedures related to the support of the management and reporting of General PP&E are designed or operating effectively.

These conditions occurred because the DoD did not:

- have adequate business processes and did not maintain key supporting documentation, and therefore, the DoD's controls were designed and implemented poorly; or
- use control environment and business processes that consistently and accurately established the historical acquisition cost of General PP&E in accordance with SFFAS No. 6 and No. 10 or the one-time alternative valuation method allowed under SFFAS No. 50.

As a result, the DoD did not accurately report and value the General PP&E amounts reported in the Agency-Wide Financial Statements. As such, this increased the risk that the General PP&E balance in the Agency-Wide Financial Statements may be materially misstated.

[28] FASAB Handbook, SFFAS No. 10, "Accounting for Internal Use Software," October 1998, as amended.

[29] FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

Recommendation

We recommended that DoD management establish and implement a DoD-wide process to confirm that DoD Components appropriately and consistently adopt SFFAS No. 6 and No. 10 historical cost reporting requirements and follow SFFAS No. 50.

13. Real Property

As of September 30, 2023, the DoD reported a Real Property balance of $367.6 billion.[30] The DoD FMR states that real property assets consist of buildings, structures, facilities, land, and land rights.[31] The DoD FMR requires DoD reporting entities to properly recognize, account for, and report real property on the appropriate financial statements. Furthermore, the DoD FMR requires that DoD reporting entities ensure real property activity is supported, and the accountable property systems of record that account for real property can be reconciled to the DoD reporting entities' financial statements.

Through our audit procedures, we identified that:

- the DoD did not provide a complete UoT for the real property of all DoD reporting entities' real property,
- DoD Components could not support real property balances reported on their financial statements, and
- DoD Components could not substantiate the existence and completeness of their real property assets.

These conditions occurred because the DoD did not have internal controls, policies, procedures, or supporting documentation to substantiate the existence, completeness, valuation, presentation, and disclosure of real property assets.

As a result, the lack of proper internal controls increased the risk that the real property balances reported in the General PP&E line item in the Agency-Wide Financial Statements may be materially misstated.

[30] General Equipment, Internal Use Software, and Real Property are all reported in the General PP&E line item on the Balance Sheet.

[31] DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 24, "Real Property."

Recommendation

We recommended that DoD management establish and implement internal controls, policies, and procedures to ensure that the DoD can maintain an accurate and complete real property balance and ensure consistent implementation of these controls, policies, and procedures at the Component level.

14. Government Property in the Possession of Contractors

According to the Federal Acquisition Regulation, Government property is all property owned or leased by the Government, including material and property the Government furnished to contractors for performance of a contract.[32] The DoD is required to: (1) recognize and account for government-furnished materials in accordance with SFFAS No. 3 and No. 48, and (2) recognize and account for government-furnished property in accordance with SFFAS No. 6 and No. 50.

Through our audit procedures, we identified that:

- DoD Components were unable to reconcile the Government Property in the Possession of Contractors balances reported on their financial statements to an accountable property system of record; and
- the DoD was unable to substantiate the existence, completeness, valuation, presentation, and disclosure of Government Property in Possession of Contractors reported on the Balance Sheet.

These conditions occurred because DoD Components:

- did not have the policies, procedures, and internal controls in place to consistently and accurately report Government Property in the Possession of Contractor in accordance with SFFAS No. 3, No. 48, No. 6, and No. 50 and properly report balances on their financial statements; and
- relied on contractors to account for government-furnished material and property and did not have the policies, procedures, and internal controls in place to provide effective oversight of the contractors that managed material and property on the Government's behalf.

[32] Federal Acquisition Regulation Part 45, "Government Property."

As a result, the DoD was unable to accurately record and report Government Property in the Possession of Contractors balances on its financial statements. As such, this increased the risk that the Agency-Wide Financial Statements may be incomplete or inaccurate, and therefore, materially misstated.

Recommendations

We recommended that DoD management:

- establish and implement DoD-wide policies and procedures for identifying and reporting Government Property in Possession of Contractors in an accountable property system of record to confirm that DoD Components appropriately and consistently account for Government Property in Possession of Contractors in accordance with SFFAS No. 3, No. 48, No. 6, and No. 50; and

- incorporate standard inventory management policies, procedures, and metrics into all DoD contracts and develop procedures to ensure the policies and procedures are implemented consistently across all contractor-managed warehouses for proper DoD contractor's oversight.

15. Joint Strike Fighter Program

OMB Circular No. A-136 states that management is responsible for providing complete and reliable information.[33] SFFAS No. 6 requires property and equipment to be reported in the Balance Sheet and the Statement of Net Cost. The Joint Strike Fighter Program, which has an estimated total lifecycle cost of $1.7 trillion, is a multiservice, multinational acquisition that develops and fields the F-35 strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.[34]

Through our audit procedures, we identified that the DoD did not account for, manage, or report Joint Strike Fighter Program Government property, which is composed of Global Pooled Inventory and Support Equipment, or accurately record this property in an accountable property system of record. Despite ongoing remediation efforts, the DoD was unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program Government property, and did not report Joint Strike Fighter Program assets on its financial statements as of

[33] OMB Circular No. A-136, "Financial Reporting Requirements," May 2023.

[34] Lifecycle cost includes the costs of Acquisition, such as Research, Development, Test, and Evaluation; Procurement; Military Construction; and the costs of Operation and Support.

September 30, 2023. This occurred because DoD officials did not use contracting mechanisms to request financial data to support the valuation of Government property or implement procedures to account for and manage Government property in accordance with SFFAS No. 6.

As a result, the lack of internal controls resulted in the omission of the Joint Strike Fighter Program assets, resulting in a material misstatement on the Agency-Wide Financial Statements.

Recommendation

We recommended that DoD management establish and implement DoD-wide procedures and controls to ensure that all Joint Strike Fighter Program assets are appropriately and consistently recorded, reported, and valued.

16. Accounts Payable

As of September 30, 2023, the DoD reported an Accounts Payable balance of $48.2 billion. SFFAS No. 1 defines Accounts Payable as amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents. Furthermore, SFFAS No. 1 states that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. In addition, the DoD FMR states that DoD Components must maintain internal controls to ensure that data used in financial reports are accurate, complete, supportable, and entered into the finance and accounting systems in a timely manner.[35]

Through our audit procedures, we identified that the DoD did not:

- have sufficient documentation to support the existence of its Accounts Payable balances; or
- record expense transactions appropriately and accurately in the period that the transactions occurred.

[35] DoD Regulation 7000.14-R, DoD FMR, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities."

These conditions occurred because the DoD did not:

- develop and implement internal controls to ensure that accurate Accounts Payable amounts were included in its financial statements and that DoD Components effectively implemented accounting standards; or
- follow SFFAS and DoD policy when reporting Accounts Payable balances on its financial statements. Specifically, DoD Component management did not maintain supporting documentation or ensure Accounts Payable liabilities were recorded in the appropriate accounting period for the receipt of goods or services ordered as required by the DoD FMR.

As a result, the DoD has an increased risk of unsupported Accounts Payable transactions and this increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement a DoD-wide action plan to ensure that accurate Accounts Payable amounts are included in the financial statements and that DoD Components are appropriately and consistently implementing SFFAS No. 1 and the DoD FMR.

17. Environmental and Disposal Liabilities

As of September 30, 2023, the DoD reported an Environmental and Disposal Liabilities (E&DL) balance of $93.8 billion. SFFAS No. 5 defines a liability as a probable future outflow or other sacrifice of resources resulting from past transactions or events.[36] Furthermore, Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[37] SFFAS No. 6 defines cleanup costs associated with the closure or shutdown of General PP&E as the costs of removing, containing, or disposing hazardous waste. According to the TFM, the E&DL

[36] FASAB Handbook, SFFAS No.5, "Accounting for Liabilities of the Federal Government," December 1995.

[37] FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 1998.

amount should be calculated as total estimated life cycle Program Costs less actual life cycle Operating Expenses.[38] Generally, Operating Expenses and Accounts Payable should be recorded when goods or services are received.

Through our audit procedures, we identified that the DoD did not:

- report all cleanup, closure, or disposal costs within its E&DL line item;
- provide supporting documentation to demonstrate the completeness of the lists of environmental sites for all DoD Components;
- fully implement procedures to correctly reduce E&DL amounts by Operating Expenses; or
- use life cycle Operating Expenses to reduce E&DL balances.

These conditions occurred because the DoD did not ensure that DoD Components followed accounting standards to estimate a complete calculation of E&DL. For example, DoD Components did not:

- develop a methodology to estimate future environmental disposal costs for General PP&E,
- develop a complete and reasonable estimate across all General PP&E categories, or
- provide sufficient documentation to support that the assessments of contaminated environmental sites were complete.

Additionally, the DoD did not have clear, consistent guidance for calculating reported E&DL amounts in the DoD FMR.[39] The DoD also did not adequately coordinate with DoD reporting entities and DFAS to ensure all E&DL amounts and Future Funded Expenses reported in the Agency-Wide Financial Statements were correctly recorded.

As a result, the DoD has an increased risk that E&DL and related balances may be incomplete or inaccurate. As such, this increased the risk that the Agency-Wide Financial Statements may be materially misstated.

[38] Bulletin No. 2023-08, "U.S. Standard General Ledger — A TFM Supplement," Part 1, Section III: Account Transactions, June 2023.

[39] DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 13, “Environmental and Disposal Liabilities.”

Recommendations

We recommended that DoD management:

- implement controls to ensure that DoD Components use a complete population of cleanup, closure, and disposal costs to ensure that the E&DL calculation is complete and accurate;
- obtain and review all DoD reporting entities and DFAS procedures related to accounting for E&DL to ensure they comply with applicable accounting standards; and
- monitor the reduction of E&DL and Future Funded Expenses, as part of the quarterly financial statement review process, to ensure DoD reporting entities reduce those reported amounts on delivery of related goods or services.

18. Contingent Legal Liabilities

The TFM requires the DoD Office of the General Counsel to prepare a Legal Representation Letter (LRL), which summarizes legal actions against the DoD and its Components.[40] In addition, DoD management must prepare a Management Schedule that summarizes the content of the LRL. The Management Schedule must support disclosures in the financial statements.

Through our audit procedures, we identified that DoD management did not:

- ensure that DoD Components provided complete LRL documentation[41],
- receive consistent documentation for aggregated legal cases from DoD Components, or
- ensure that Agency-Wide Management Schedules were detailed enough to report all existing, pending, and threatened litigation and unasserted claims consistently from year to year.

[40] TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," June 2021.

[41] The DoD OIG provides LRL documentation.

These conditions occurred because DoD management:

- did not have documented processes for receiving and submitting case summaries, Management Schedules, and LRLs, or for reporting similar aggregate legal cases among DoD Components; and
- was not consistent from year to year on decisions and rationale in handling the LRL and Management Schedule process.

As a result, this created a risk that the LRL documentation and Agency-Wide Management Schedules may be inconsistent and incomplete, which may materially impact the Agency-Wide Note 17, "Commitments and Contingencies."

Recommendations

We recommended that DoD management:

- establish and document a process to ensure LRL submissions provided by DoD Components are consistently reported, tracked, and reviewed for completeness and accuracy;
- revise the existing Management Schedule standard operating procedure to ensure that it is detailed enough to ensure complete and accurate reporting of all existing, pending, and threatened litigation and unasserted claims; and
- establish a DoD-wide policy requiring DoD Components to follow Treasury guidance to ensure DoD Components consistently and properly accrue contingent legal liabilities and report aggregated legal cases.

19. Beginning Balances

SFFAS No. 48 defines beginning balances as account balances that exist at the beginning of the reporting period. Beginning balances are based on the closing balances of the prior period and reflect the effects of transactions and accounting policies applied in prior periods. The independent public accounting firms conducting audits for DoD Components' FY 2023 financial statements stated within their findings that DoD Components were not able to prepare complete and accurate populations at the transaction level for beginning balances for the financial statements.

Through our audit procedures, we identified that the DoD did not have complete and accurate populations at the transaction level for beginning balances on its financial statements. This occurred because DoD Components had system limitations and did not maintain sufficient and appropriate detailed transactions and historical data to support beginning balances on their financial statements.

As a result of unsupported beginning balances, auditors cannot confirm the completeness and accuracy of the amounts reported on the financial statements; therefore, this increased the risk that the financial statements may be materially misstated.

Recommendation

We recommended that DoD management establish and implement a DoD-wide procedure to monitor, report, and ensure that DoD Components establish complete and accurate beginning balances, have reliable systems, and maintain supporting documentation in accordance with the DoD FMR.

20. Unsupported Accounting Adjustments

The GAO "Standards for Internal Control in the Federal Government" (Green Book) requires the DoD to promptly and accurately record transactions.[42] Additionally, the DoD FMR states that DoD Components must ensure all adjustments are researched and traceable to supporting documents as instructed in the TFM.[43] Supporting documentation is necessary to provide an audit trail.

Through our audit procedures, we identified the DoD did not provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting systems and the general ledger systems. DoD Components recorded manual and system-generated accounting adjustments that did not have supporting documentation and proper approval. In the last two quarters of FY 2023, the DoD recorded more than 1,573 unsupported adjustments totaling more than $192.7 billion.

These conditions occurred because the DoD did not:

- design and implement an effective system of internal controls to ensure adjustments were adequately reviewed and approved at the appropriate levels; or

[42] GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014

[43] DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury."

- have effective controls to ensure adjustments recorded in accounting systems were properly supported by relevant documentation, or that the adjustments were valid, complete, and accurate.

As a result, there is a risk that controls are not operating effectively to provide reasonable assurance that the DoD prevented, detected, and corrected material misstatements. As such, this increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management establish effective control procedures to provide reasonable assurance that manual and system-generated adjustments are adequately reviewed, approved at the appropriate levels, and contain sufficient supporting documentation to ensure that adjustments are valid, complete, and accurately recorded in its accounting systems and the general ledger systems.

21. Intragovernmental Transactions and Intradepartmental Eliminations

The TFM explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State. These entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund, which are both DoD reporting entities. The DoD is required to report intragovernmental balances on its financial statements and eliminate intradepartmental balances from its financial statements. The Treasury eliminates intragovernmental balances, identified by the DoD, from the Government-Wide Financial Statements. For proper eliminations to occur, it is essential that the DoD captures accurate trading partner data for intragovernmental and intradepartmental transactions.

Through our audit procedures, we identified that the DoD:

- could not provide a UoT for DoD eliminations and intragovernmental balances for Buy/Sell intragovernmental transactions;
- did not include proper documentation when recording journal voucher adjustments to match buyer-side to seller-side records; and

- did not record or report all necessary trading partner information, in multiple-DoD reporting entities, at the transaction level in accordance with TFM requirements.

These conditions occurred because the DoD did not have effective controls to:

- capture all the trading partner information required for elimination entries or produce the data necessary to reconcile corresponding buyer and seller transactions because the DoD relied on outdated systems;

- properly capture trading partner information at the transaction level or produce the data necessary to reconcile corresponding buyer and seller transactions; or

- always obtain transaction-level support for trading partner transactions that did not match.

As a result, DoD intragovernmental transaction journal voucher adjustments and eliminations were incomplete, inaccurate, and unsupported, and this increased the risk that intragovernmental balances in the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- develop and implement a process to ensure that all trading partner data is captured so intragovernmental balances and elimination entries are supported with transaction-level details;

- determine whether each DoD reporting entity is able to obtain, from source accounting systems or the G-Invoicing system, the level of support necessary to reconcile trading partner differences in accordance with guidance;[44]

- identify all DoD reporting entity accounting systems that do not capture the necessary trading partner information at the transaction level;

[44] G-invoicing is a Treasury initiative that is being implemented Government-wide, and while not an accounting system, it will be a central repository to support the accounting of Buy/Sell transaction events that offers a data exchange platform for Federal entities to communicate with one another.

- obtain and oversee the implementation of corrective action plans from any DoD reporting entities that maintain systems that do not capture trading partner information at the transaction level;

- monitor the implementation of the G-Invoicing system to ensure that the DoD will be able to provide UoT-level details for DoD intragovernmental balances and elimination entries; and

- implement controls to ensure that adjustments and journal vouchers related to the reconciliation of buyer- and seller-side data are supported by transaction-level details.

22. Gross Costs

As of September 30, 2023, the DoD reported a Gross Costs balance of $1,012.6 billion. SFFAS No. 4 states that the DoD should report the full costs of outputs in financial reports and that reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[45] Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 states that the DoD should provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost (SNC).[46] SFFAC No. 2 also states that the SNC should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. Additionally, OMB Circular No. A-136 states that the SNC should show the net cost of operations as a whole and by “major” programs as defined by the entity.

Through our audit procedures, we identified that the DoD did not:

- comply with generally accepted accounting principles and did not have sufficient support for transactions related to Gross Costs, or

- present Gross Costs by major program in the SNC and the related Note 19, “General Disclosures Related to the SNC.”

These conditions occurred because the DoD did not have:

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[45] FASAB Handbook, SFFAS No. 4, “Managerial Cost Accounting Standards and Concepts,” July 1995, as amended.
[46] FASAB Handbook, SFFAC No. 2, “Entity and Display,” June 1995.

- adequate procedures or internal controls for recording Gross Costs, or
- financial systems that supported tracking of Gross Costs by major programs. Instead, the DoD's current processes and systems capture costs based on appropriation groups.

As a result, the DoD did not fully comply with SNC presentation requirements, as outlined in SFFAC No. 2 or OMB Circular No. A-136. Additionally, DoD management did not have reliable financial information to effectively assess the performance of the DoD's major programs. As a result, this increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management develop and implement internal controls and follow revised policies and procedures to ensure Gross Costs are accounted for by major program in the SNC and the related Note 19.

23. Earned Revenue

As of September 30, 2023, the DoD reported an Earned Revenue balance of $157.7 billion. SFFAS No. 7 states that Earned Revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[47] In addition, SFFAS No. 7 requires Earned Revenue to be reported by major program in the SNC.

Through our audit procedures, we identified that the DoD did not:

- accurately record transactions related to Earned Revenue; or
- report Earned Revenue by major program in the SNC and the related Note 19, "General Disclosures Related to the SNC."

These conditions occurred because the DoD did not have:

- adequate procedures or internal controls to record transactions related to Earned Revenue in accordance with generally accepted accounting principles;

[47] FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

- adequate processes and internal controls established when recording Earned Revenue; or

- financial systems that supported the tracking of Earned Revenue by major programs. Instead, the DoD's current systems captured costs, and in turn Earned Revenue, based on appropriation groups.

As a result, DoD management did not fully comply with SNC presentation requirements, as outlined in SFFAS No. 7. Additionally, DoD management did not have reliable financial information to properly report Earned Revenue and effectively evaluate performance of the DoD's major programs. Therefore, this increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendation

We recommended that DoD management develop and implement internal controls and follow revised policies and procedures to ensure Earned Revenue is accounted for by major program in the SNC and the related note.

24. Reconciliation of Net Cost of Operations to Outlays

SFFAS No. 7 requires the DoD to perform a reconciliation of its proprietary and budgetary data. Additionally, OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements.

Through our audit procedures, we identified that:

- DoD Components were unable to support adjustments made to reconcile budgetary and proprietary data on the Component financial statements; and

- the DoD's Note 24, "Reconciliation of Net Cost to Net Outlays," did not comply with OMB Circular No. A-136. Specifically, the DoD reported a $1.8 billion reconciling difference between the budgetary and proprietary accounts in Note 24, "Reconciliation of Net Cost to Net Outlays."

These conditions occurred because:

- the DoD and its Components lacked procedures to research and resolve variances between budgetary and proprietary data; and

- DoD management did not document procedures to aid preparers of the financial statements and related notes to ensure that disclosures were complete, accurate, and consistent throughout the DoD.

As a result, the Agency-Wide Financial Statements and Note 24 may not accurately reflect the financial position of the DoD. As such, this increased the risk that balances in the Agency-Wide financial statements may be materially misstated.

Recommendations

We recommended that DoD management:

- ensure that DoD Components provide documentation to confirm variances between budgetary and proprietary data are researched and resolved throughout the reporting period in accordance with SFFAS No. 7 and that documentation is maintained to explain these variances; and

- establish and implement DoD-wide policy and procedures to ensure that the Agency-Wide Financial Statement note disclosures are complete, accurate, and consistent and comply with the requirements in OMB Circular No. A-136.

25. Budgetary Resources

SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources (SBR). The statement presents total budgetary resources available to the DoD during the period, and the status and outlays of those resources. The DoD FMR details policy for formatting the SBR and includes a requirement to format the SBR to align with the Standard Form 133, Report of Budget Execution and Budgetary Resources, and Standard Form 132, Apportionment and Reapportionment Schedule, using budget execution guidance published in OMB Circular No. A-11.[48] OMB Circular No. A-123 describes management responsibilities in establishing and operating an effective system of internal control, correcting internal control deficiencies, and meeting corrective action plan requirements.[49]

[48] DoD Regulation 7000.14-R, DoD FMR, volume 6B, chapter 7, "Statement of Budgetary Resources."
OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," August 2022.

[49] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

Through our audit procedures, we identified that DoD Components, and the DoD as a whole, did not prepare a complete and accurate SBR. Specifically, DoD Components did not:

- maintain sufficient detailed transactions and supporting documentation over the balances reported in the SBR, or
- design financial reporting processes to detect and investigate abnormal balances and promptly resolve variances over budgetary accounts.

These conditions occurred because the DoD did not have effective controls to ensure that DoD Components prepared, accounted for, and reconciled their budgetary resources in accordance with the DoD FMR, OMB Circular No. A-11, and OMB Circular No. A-123. A few examples follow.

- The DoD did not have adequate procedures to appropriately transfer funds to the Foreign Military Sales Trust Fund. Specifically, the DoD reported supplemental funding it received during FY 2022 as disbursed, but did not receive any goods or services in exchange for these funds.
- DoD Components did not have effective controls to prepare complete, accurate, or supported populations of transactions recorded within the budgetary accounts.
- DoD Components did not have controls in place to ensure the prompt resolution of abnormal balances detected after comparing amounts from the report on Budget Execution and Budgetary Resources (SF-133) to the amounts from the SBR and the Apportionment and Reapportionment Schedule (SF-132).
- DoD Components did not have adequate procedures to fully implement corrective actions to provide and reconcile budgetary accounts recorded in the DoD Component trial balances.

As a result, the lacks of controls increased the risk that the DoD and its Components may not be able to accurately determine and monitor total budgetary resources available and the status of those resources during the reporting period. The inability to monitor the status of budgetary resources created the potential for violations of the Antideficiency Act and increased the risk that the Agency-Wide SBR may be materially misstated.

Recommendations

We recommended that DoD management:

- establish and implement DoD-wide controls to ensure that DoD Components maintain supporting documentation over balances reported in the SBR in accordance with the DoD FMR; and
- establish controls to ensure that DoD Components are preparing, accounting for, and reconciling their budgetary resources in accordance with the DoD FMR and OMB Circulars No. A-11 and No. A-123.

26. Service Organizations

The Green Book states that management may engage service organizations to perform certain operational processes for the entity. However, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. If the processes provided by a service organization are significant to a user entity's internal control objectives, then the user entity is responsible for establishing controls that complement the service organization's controls. Service organizations perform critical activities across the DoD, such as inventory management and financial services. For example, DFAS is a service organization that provides accounting services to the DoD and its Components.

Through our audit procedures, we identified that the DoD and its Components did not:

- adequately monitor the use of service organizations or the design and implementation of complementary user entity controls (CUECs) to ensure compliance with the Green Book;[50]
- fully document, implement, test, and monitor their CUECs; or
- provide corrective action plans to remediate service organization notices of findings and recommendations or consider the impact of service organizations within the DoD's existing internal control environment.

[50] CUECs are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities, and are necessary to achieve the control objectives stated in management's description of the service organization's systems.

In addition, System and Organization Controls 1 auditors expressed multiple qualified opinions, an adverse opinion, or could not form timely opinions in their reports.[51]

These conditions occurred because DoD management did not coordinate with DoD Components to ensure the development and implementation of a comprehensive set of policies, procedures, and processes with sufficient service organization controls over System and Organization Controls 1 reports and the CUECs.

As a result, the DoD did not implement or assess CUECs for operating effectiveness that resulted in the DoD's inability to sufficiently assess the risk to applicable financial reporting processes impacted by the service organization. Additionally, control deficiencies identified at service organizations, in conjunction with those identified at the user entities, increased the risk that the Agency-Wide Financial Statements may be materially misstated.

Recommendations

We recommended that DoD management:

- develop and implement processes to ensure that DoD Components have completed a comprehensive evaluation of the System and Organization Controls 1 reports to identify the relevant service organizations and developed comprehensive business process documentation to identify relevant CUECs;
- review and provide feedback for implementing DoD Component policies and procedures to improve the process of identifying, documenting, and testing relevant CUECs;
- review DoD Component corrective action plans and risk acceptance documentation and provide feedback on implementation timelines; and
- correct the root cause of delays in the System and Organization Controls 1 report issuances to ensure the reports provide a benefit to the end user entities.

27. Component Entity-Level Controls

The "Federal Managers' Financial Integrity Act of 1982" requires the DoD to establish internal control and the Green Book defines the standards for internal control in the

[51] The DoD typically manages the risks of Service Organizations through Service Organization Control 1 Type 2 Reports. This report discusses the description and suitability of the design and operating effectiveness of those controls.

Federal government. The Green Book states that internal control is a process used by management to help an entity achieve its objectives. The Green Book also states that the five components of internal control—Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring—must be designed, implemented, and operating together for an internal control system to be effective.

Through our audit procedures, we identified that DoD Components had material deficiencies related to two internal control components, Control Activities and Monitoring. According to the Green Book, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Monitoring involves the activities established and used to assess the quality of performance and to resolve findings. Specifically, DoD Components did not:

- complete an assessment of the risks that existed in the internal control system;
- have documented policies and procedures in place to respond to risks in the internal control system; or
- perform and document proper reconciliations, reviews, or corrective actions to ensure quality of controls and outputs.

These conditions occurred because:

- DoD Components did not have or did not effectively design, implement, or operate internal controls to prevent or detect identified material misstatements; and
- DoD management did not have proper policies and procedures in place to monitor, identify, and resolve internal control deficiencies that could impact DoD Component financial statements.

As a result, the DoD could not achieve the objectives of reliable financial reporting or operating efficiency and effectiveness. Ineffective design and implementation of Component Entity-Level controls increased the risk of ineffective internal controls and misstatement of DoD Component financial reporting, which increased the risk that the Agency-Wide Financial Statements may also be materially misstated.

Recommendations

We recommended that DoD management:

- coordinate with DoD Components to design and implement effective control activities that prevent and detect identified risks of material misstatement; and
- ensure monitoring and documenting of internal control procedures by establishing criteria, completing regular reviews, and performing analyses of all relevant controls to demonstrate how the internal controls will prevent or detect and correct material misstatements.

28. DoD-Wide Oversight and Monitoring

The "Federal Managers' Financial Integrity Act of 1982" establishes management's responsibility for producing reliable financial reports and ensuring financial transactions are recorded in accordance with generally accepted accounting principles. OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations and to continuously monitor, assess, and improve the effectiveness of those internal controls. The DoD FMR states that DoD management is responsible for directing, managing, and providing policy guidance and oversight of DoD financial management activities, including establishing financial management policies for DoD Components and ensuring compliance throughout the DoD with applicable accounting policies and standards.[52] Additionally, the DoD FMR states that accounting policies and procedures must be applied consistently throughout the financial statements.[53] DoD Manual 5200.01 states that the responsible Original Classification Authority shall issue security classification guidance for each system, plan, program, project, or mission involving classified information.[54]

Through our audit procedures, we identified several deficiencies related to DoD management's oversight and monitoring of the Agency-Wide Financial Statements, including the following.

- DoD management lacked sufficient documentation over processes for reporting financial data included in the DoD Component Level Accounts, a DoD consolidation entity.
- DoD management did not issue a Security Classification Guide for the DoD Agency-Wide Financial Statements, as required by DoD Manual 5200.01.

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[52] DoD Regulation 7000.14-R, DoD FMR, volume 1, chapter 1, "Chief Financial Officer of the DoD."

[53] DoD Regulation 7000.14-R, DoD FMR, volume 6b, chapter 2, "General Instructions for the Financial Statements."

[54] DoD Manual 5200.01, volume 1, "DoD Information Security Program: Overview, Classification, and Declassification," July 2020.

- DoD Components did not present long-range ballistic missiles in the Agency-Wide Financial Statements consistently or in accordance with the DoD FMR.

These conditions occurred because DoD management did not:

- design effective internal controls to ensure complete and accurate reporting of financial data within the DoD Component Level Accounts;
- enforce their own policy memorandum, "DoD Component Agency Financial Report Requirement," or
- provide oversight of DoD financial management activities. Specifically, DoD management did not provide policy guidance to DoD Components for consistent reporting and presentation of financial data and to ensure compliance throughout the DoD with applicable accounting policy and standards.

As a result, DoD management may be improperly classifying information related to the Agency-Wide Financial Statements. Additionally, the lack of controls over financial reporting increased the risk that the data reported within the Agency-Wide Financial Statements may be inconsistently reported or incomplete, and therefore materially misstated.

Recommendations

We recommended that DoD management:

- develop, document, and implement adequate internal controls over the DoD Component Level Accounts consolidation entity;
- enforce the policy memorandum, "DoD Component Agency Financial Report Requirement";
- develop, document, and implement adequate policies and procedures that ensure consistent presentation, or documentation for inconsistent presentation, of DoD Components' long-range ballistic missiles in the Agency-Wide Financial Statements; and
- issue a Security Classification Guide for the Agency-Wide Financial Statements.

Identified Significant Deficiencies

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A description of the three significant deficiencies we identified through our audit and our recommendations to address them are as follows.

1. Risk Management Framework

The “Federal Information Security Modernization Act of 2014” requires the DoD to provide adequate controls over information security considering the risk of not having those controls in place.[55] The Risk Management Framework (RMF) provides a disciplined, structured, and flexible process for managing security risk. The RMF includes information security categorization; control selection, implementation, and assessment; system and common control authorizations; and continuous monitoring. The DoD’s RMF process adopts the NIST RMF to comply with “Federal Information Security Modernization Act of 2014” requirements and to carry out DoD missions and business functions.[56] Success of the missions and functions depends on protecting the confidentiality, integrity, and availability of information processed, stored, and transmitted by those systems. Executing RMF tasks links essential risk management processes at the system level to risk management processes at the organization level.

Through our audit procedures, we identified that the DoD did not fully implement the RMF for DoD financial management systems. Specifically, the DoD did not fully:

- conduct control assessments,
- conduct system risk assessments, or
- implement continuous monitoring capabilities.

These conditions occurred because DoD management did not coordinate with DoD Components to monitor and ensure the implementation of RMF.

As a result of the DoD not fully implementing the RMF, DoD Components may not have all of the information necessary to assess risks and may not be able to resolve deficiencies that impact internal control over financial reporting in a timely manner.

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[55] Public Law 113-283, “Federal Information Security Modernization Act of 2014,” December 2014.

[56] NIST SP 800-37, “RMF for Information Systems and Organizations,” December 2018.

The lack of internal controls increased the risk of impact to the completeness and accuracy of financial reporting, which increase the risk that the Agency-Wide Financial Statements may be misstated.

Recommendations

We recommended that DoD management develop and implement processes to ensure each DoD Component has:

- implemented adequate control assessment procedures,
- implemented a system-level risk assessment, and
- developed and implemented a continuous monitoring program.

2. Accounts Receivable

As of September 30, 2023, the DoD reported a non-Federal Accounts Receivable balance of $12.3 billion.[57] SFFAS No. 1 requires the DoD to recognize a receivable when the DoD establishes a claim to cash or other assets against other entities, based either on legal provisions, such as a payment due date, or goods or services provided. The DoD FMR states that a receivable must be established when a payment is not received in advance or at the time revenue is recognized.[58] In addition, receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to the DoD, that is, in the applicable accounting system during the month the receivables occur. DoD Components must maintain accounting records for receivables so that all transactions affecting the receivables are included in the reporting period of occurrence. Furthermore, the Green Book requires management to design the entity's information system to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks.

Through our audit procedures, we identified that DoD Components did not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. Specifically, DoD Components:

[57] Non-Federal Accounts Receivable are amounts that the DoD collects on behalf of the U.S. Government or other entities and amounts for which the DoD is not authorized to spend.
[58] DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 3, "Receivables."

- were unable to provide an Accounts Receivable subsidiary ledger at the invoice level that reconciles to the general ledger, and

- did not properly record or report aging Accounts Receivable transactions.

These conditions occurred because the DoD did not develop or implement effective internal controls to prevent or detect misstatements of non-Federal Accounts Receivable balances. For example:

- DoD Component accounting systems did not have effective controls to record relevant financial data and to properly record transactions, and

- DoD Components did not implement sufficient controls and procedures to report Accounts Receivables in the financial statements in accordance with SFFAS No. 1 or the DoD FMR.

As a result, DoD management's inability to provide adequate documentation to show the completeness, existence, or validity of non-Federal Accounts Receivable balances created a significant risk that balances presented in the Agency-Wide Financial Statements may be misstated.

Recommendation

We recommended that DoD management improve its oversight of non-Federal Accounts Receivable balances by ensuring that DoD Components have detailed transactions to support balances, have and regularly review aging reports, and are appropriately and consistently implementing SFFAS No. 1 and the DoD FMR.

3. Military Housing Privatization Initiative

As of September 30, 2023, the DoD reported a Military Housing Privatization Initiative (MHPI)-related Other Investments balance of $9.4 billion. The Financial Accounting Standards Board, in Accounting Standards Codification 323, requires the DoD to report private entity investee profits and losses allocated to the DoD as increases or decreases to Other Investments, respectively.[59] Furthermore, the DoD FMR requires the DoD to measure and recognize real property and land leased as changes to Other Investments.[60] Additionally, SFFAS No. 49 requires certain additional disclosures about MHPI private entities, such as Public-Private Partnerships.[61]

Through our audit procedures, we identified that the DoD did not:

- record accurate profit and loss amounts allocated to the DoD as changes to Other Investments;
- establish a standard operating procedure to annually record profits and losses allocated to the DoD in the Other Investments account;
- report the measurement subsequent to the initial measurement and recognition of real property conveyed to MHPI partnerships where DoD Components received a legal claim to the real property as changes to Other Investments;
- measure and recognize the land leased to MHPI partnerships; or
- report complete and accurate MHPI information within the Agency-Wide Financial Statements notes in accordance with SFFAS No. 49.

These conditions occurred because the DoD did not implement its own DoD-wide MHPI policy and did not ensure that the MHPI information reported in the Agency-Wide Financial Statement notes reconciled to the DoD Components' financial statement related notes that reported MHPI information.

As a result, this increased the risk that balances and related notes reporting MHPI information in the Agency-Wide Financial Statements may be misstated.

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[59] Financial Accounting Standards Board, Accounting Standards Codification 323, "Investments–Equity Method and Joint Ventures," August 22, 2022.

[60] DoD Regulation 7000.14-R, DoD FMR, volume 4, chapter 7, "Investments and Other Assets."

[61] FASAB Handbook, SFFAS No. 49, "Public-Private Partnerships: Disclosure Requirements," April 2016.

Recommendations

We recommended that DoD management:

- implement DoD-wide policy, which has been agreed to by the Treasury and FASAB, to:
  - support accurate profit and loss amounts allocated to the DoD as changes to Other Investments,
  - create a standard operating procedure to document the process for recording changes in profits and losses on an annual basis with complete support for the amounts, and
  - report the initial measurement and recognition of real property conveyed to MHPI partnerships when the DoD Components received a legal claim to the real property as changes to Other Investments;
- coordinate with the U.S. Treasury and FASAB to develop DoD-wide guidance on how to record land leased to private entities for all MHPI projects; and
- develop and implement procedures for reconciling the Agency-Wide Financial Statement notes that report MHPI information to the corresponding DoD Components' financial statement related notes that report MHPI information.

Recommendations

The recommendations included in this report have been previously communicated to DoD and DoD Component management through notices of findings and recommendations provided by the auditors to address the reported material weaknesses and significant deficiencies.

Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel provided informal comments that we incorporated, as appropriate.

Purpose of This Report

The Report on Internal Control over Financial Reporting is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of internal control over financial reporting, not to provide an opinion on the effectiveness of internal control over financial reporting. This report is not suitable for any other purpose.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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November 15, 2023

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

We were engaged to audit the Agency-Wide Financial Statements in accordance with generally accepted government auditing standards (GAGAS); the Office of Management and Budget (OMB) Bulletin No. 24-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2023, and September 30, 2022. Our Report on the Financial Statements, dated November 15, 2023, disclaims an opinion on the financial statements because we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for complying with provisions of applicable laws, regulations, contracts, and grant agreements related to financial reporting and ensuring that the DoD's financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996 (FFMIA).[2]

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws, regulations, contracts, and grant agreements. In connection with our audit of the Agency-Wide Financial Statements, we performed tests at the Agency-Wide level and considered the results of DoD reporting entity audits to determine whether the DoD complied substantially with provisions of applicable laws,

[1] Government Accountability Office, GAO-21-368G, "Government Auditing Standards," April 2021.
OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," August 2022. (Replaced by OMB Bulletin No. 24-01, "Audit Requirements for Federal Financial Statements," Updated October 2023.)
Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023.
[2] Public Law 104-208, Title VIII, "Federal Financial Management Improvement Act of 1996," September 1996.

regulations, contracts, and grant agreements.[3] The instances of noncompliance identified below could have a direct and material effect on the financial statements, as well as the requirements referred to in Section 803(a) of the FFMIA. We identified instances of noncompliance that could have a direct and material effect on the determination of financial statement amounts the DoD is required to report under GAGAS and the provisions of OMB Bulletin No. 24-01. However, providing an opinion on compliance with the provision of applicable laws, regulations, contracts, and grant agreements was not an objective of our engagement; accordingly, we do not express such an opinion. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, then other instances of noncompliance or other matters may have been identified and reported herein.

Identified Instances of Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.[4] It states that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of suspected ADA violations within 15 months.[5] The DoD reported one confirmed ADA to the President and Congress, totaling $5.7 million in FY 2023. Additionally, the DoD identified three ongoing ADA investigations as of September 30, 2023, and had no cases open for more than 15 months.

Federal Financial Management Improvement Act of 1996. The FFMIA requires the DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas of FFMIA noncompliance, OMB Circular No. A-136 requires the agency to identify

[3] A DoD Component is a Military Department, Defense agency, or DoD field activity such as the Defense Logistics Agency, a Combatant Command, or other organizational entity within the DoD. A reporting entity is the financial statement entity, such as the Defense Logistics Agency general fund.
[4] Public Law 97-258, "Antideficiency Act," September 1982.
[5] DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process."

remediation activities that are planned or underway and describe target dates and offices responsible for bringing systems into compliance.[6] DoD management identified many systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA; accordingly we determined that the DoD and its Components did not substantially comply with the FFMIA. In addition, DoD management plans for becoming FFMIA compliant did not include an accurate determination of whether systems would be retired and replaced or modernized and did not include estimated timelines and costs.

The Federal Managers' Financial Integrity Act of 1982. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.[7] OMB Circular No. A-123, which implemented the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.[8] We identified DoD Components that did not substantially comply with the FMFIA. For example, DoD Components did not perform sufficient risk assessments and prioritize implementation of all FMFIA requirements when designing their internal control assessments or did not monitor the status of remediation efforts and implement corrective actions in a timely manner. In addition, we reported multiple material weaknesses related to FMFIA noncompliance in our Report on Internal Control over Financial Reporting.

The Federal Information Security Modernization Act. The Federal Information Security Modernization Act (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place.[9] We identified multiple DoD Components that did not comply with certain aspects of the FISMA. For example, DoD Components did not fully implement security controls, such as policies and procedures for configuration management and security management, managing and monitoring access controls, using proper segregation of duties, and fully implementing Complementary User Entity Controls.

The Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires the DoD to report to the Treasury any nontax debts or claims owed to the

[6] OMB Circular No. A-136, "Financial Reporting Requirements," May 2023.
[7] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.
[8] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016.
[9] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

U.S. Government that are delinquent for over 120 days.[10] We identified one DoD Component that may be noncompliant with the Debt Collection Improvement Act. Specifically, the DoD Component showed an inability to sufficiently support the validity of recorded debts, which limited the extent of audit procedures that could be performed over Debt Collection Improvement Act requirements.

The Prompt Payment Act. The Prompt Payment Act states that the head of an agency will owe an interest penalty if the agency does not pay for delivered property or services by established payment dates.[11] It also states that the head of an agency must pay this interest penalty out of amounts made available to carry out the program for which the penalty occurred. We identified one DoD Component that may be noncompliant with the Prompt Payment Act. Specifically, the DoD Component did not pay interest from the appropriate Treasury Account Symbol.

The Coronavirus Aid, Relief, and Economic Security Act. Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the coronavirus disease–2019 pandemic national emergency.[12] The CARES Act appropriated $10.6 billion in supplemental appropriations to the DoD for the fiscal year ending September 30, 2020. The CARES Act requires the DoD to report certain obligations and expenditures to the OMB, Treasury, and Congress. We identified that the DoD did not comply with related provisions of the CARES Act. Specifically, DoD management represented that it did not have the mechanisms within its financial reporting systems to track transactions and separately report the impact of the CARES Act funding on the DoD's assets, liabilities, costs, revenues, and net position.

Recommendations

This report does not include recommendations to correct identified noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Auditors provided notices of findings and recommendations to management for the DoD and DoD Components to address reported instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements. In addition, auditors of the DoD reporting entities' financial statements included recommendations

[10] Public Law 104-134, "Debt Collection Improvement Act of 1996," as amended by Public Law 113-101, "Digital Accountability and Transparency Act of 2014," May 2014.

[11] Public Law 97-177, "Prompt Payment Act," May 1982.

[12] Public Law 116-136, "Coronavirus Aid, Relief, and Economic Security Act," March 2020.

within their Reports on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

Agency Comments

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. Its personnel did not provide formal comments.

Purpose of this Report

The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements is an integral part of our audit. The purpose of this report is to describe the scope and results of our testing of compliance with provisions of applicable laws, regulations, contracts, and grant agreements, not to provide an opinion on compliance. This report is not suitable for any other purpose.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

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PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) (31 U.S.C. § 3515(b)). The statements are prepared from the accounting records of the Department and, to the extent possible, in accordance with the formats prescribed by *Office of Management and Budget* (OMB) Circular No. A-136 and, U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the *Federal Accounting Standards Advisory Board* (FASAB). Reports used to monitor and control budgetary resources are prepared from the same records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described below.

1 CONSOLIDATED BALANCE SHEETS

Presents the Department's financial position as of September 30, 2023, and September 30, 2022. Assets reflect the economic benefits controlled by the Department, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.

2 CONSOLIDATED STATEMENTS OF NET COST

Presents the Net Cost of the Department's operations by major program for the years ended September 30, 2023, and September 30, 2022. The Department's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.

3 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

Presents the change in the Department's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the years ended September 30, 2023, and September 30, 2022.

4 COMBINED STATEMENTS OF BUDGETARY RESOURCES

Presents information about the Budgetary Resources available to the Department, the year-end status of the resources, and the outlays of resources for the years ended September 30, 2023, and September 30, 2022. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are reflected in the amounts reported on the statement.

Department of Defense
Consolidated Balance Sheets

As of September 30, 2023 and 2022 *(dollar in millions)*	2023 (Unaudited)	Restated 2022 (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 768,075.7	$ 692,942.6
Investments (Note 5)	1,799,411.8	1,635,629.5
Accounts Receivable, Net (Note 6)	2,454.6	3,232.2
Other Assets (Note 10)	1,450.7	769.3
Total Intragovernmental Assets	2,571,392.8	2,332,573.6
Total Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	868.0	1,045.0
Accounts Receivable, Net (Note 6)	12,263.5	11,673.7
Loans Receivable, Net (Note 7)	1,933.3	1,653.5
Inventory and Related Property, Net (Note 8)	341,136.5	337,649.9
General Property, Plant and Equipment, Net (Note 9)	831,995.4	818,576.1
Advances and Prepayments (Note 10)	12,206.7	14,164.5
Investments (Note 5)	9,393.6	11,361.7
Other Assets (Note 10)	23.2	8.9
Total Other than Intragovernmental	1,209,820.2	1,196,133.3
Total Assets	3,781,213.0	3,528,706.9
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	4,174.8	3,853.9
Debt (Note 12)	1,910.1	1,597.7
Advances from Others and Deferred Revenue (Note 15)	4,440.1	3,859.4
Other Liabilities (Notes 13 and 15)	8,286.1	8,801.0
Total Intragovernmental Liabilities	18,811.1	18,112.0
Other Than Intragovernmental:		
Accounts Payable	43,978.1	37,375.4
Federal Employee and Veteran Benefits Payable (Note 13)	3,761,422.5	3,578,625.6
Environmental and Disposal Liabilities (Note 14)	93,792.2	90,555.6
Loan Guarantee Liabilities (Note 7)	27.5	31.0
Advances from Others and Deferred Revenue (Note 15)	6,844.4	6,194.3
Other Liabilities (Notes 15, 16, and 17)	27,109.1	20,248.3
Total Other Than Intragovernmental	3,933,173.8	3,733,030.2
Total Liabilities	3,951,984.9	3,751,142.2

As of September 30, 2023 and 2022 *(dollar in millions)*	2023 (Unaudited)	Restated 2022 (Unaudited)
Commitments and Contingencies (Note 17)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	0.0	0.0
Unexpended Appropriations - Funds Other Than Dedicated Collections	667,872.7	612,867.3
Total Unexpended Appropriations (Consolidated)	667,872.7	612,867.3
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	14,198.3	14,314.4
Cumulative Results of Operations - Funds Other Than Dedicated Collections	(852,842.9)	(849,617.0)
Total Cumulative Result of Operations (Consolidated)	(838,644.6)	(835,302.6)
Total Net Position	(170,771.9)	(222,435.3)
Total Liabilities and Net Position	$ 3,781,213.0	$ 3,528,706.9

The accompanying notes are an integral part of these statements.

Department of Defense
Consolidated Statements of Net Cost

For Years Ended September 30, 2023 and 2022 *(dollar in millions)*		2023 (Unaudited)		Restated 2022 (Unaudited)
Gross Program Costs (Note 19)				
Military Retirement Benefits	$	172,946.2		227,354.6
Civil Works		14,329.6		12,631.9
Military Personnel		175,329.3		169,083.1
Operations, Readiness & Support		332,390.5		316,017.8
Procurement		148,262.0		141,880.9
Research, Development, Test & Evaluation		149,023.1		157,464.9
Family Housing & Military Construction		20,356.4		16,454.0
Total Gross Program Costs		1,012,637.1		1,040,887.2
Less: Earned Revenue		(157,659.5)		(219,097.0)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		854,977.6		821,790.2
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 13)		89,344.5		526,951.8
Net Cost of Operations	$	944,322.1	$	1,348,742.0

The accompanying notes are an integral part of these statements.

Department of Defense
Consolidated Statements of Changes in Net Position

For Years Ended September 30, 2023 and 2022 *(dollar in millions)*	2023 (Unaudited)	Restated 2022 (Unaudited)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections of $0.0 in FY 2023 and $0.0 in FY 2022 - See Note 18)	$ 612,867.3	$ 552,868.5
Prior Period Adjustments:		
Corrections of Errors	-	-
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2023 and $0.0 in FY 2022 - See Note 18)	612,867.3	552,868.5
Appropriations Received	1,003,941.7	940,310.4
Appropriations Transferred In/Out	(2,833.7)	178.0
Other Adjustments (+/-)	(13,621.4)	(14,391.3)
Appropriations Used	(932,481.2)	(866,098.3)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.0 in FY 2023 and $0.0 in FY 2022 - See Note 18)	55,005.4	59,998.8
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections of $0.0 in FY 2023 and $0.0 in FY 2022 - See Note 18)	667,872.7	612,867.3
Cumulative Results of Operations		
Beginning Balance	(835,302.6)	(297,802.6)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-) (Note 28)	(928.9)	(4,517.3)
Corrections of Errors (+/-) (Note 28)	-	4,040.6
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $14,314.4 in FY 2023 and $15,166.4 in FY 2022 - See Note 18)	(836,231.5)	(298,279.3)
Other Adjustments (+/-)	(7.5)	(1,232.4)
Appropriations Used	932,481.2	866,098.3
Nonexchange Revenue (Note 20)	3,105.5	2,445.5
Donations and Forfeitures of Cash and Cash Equivalents	133.5	109.6
Transfers In/Out Without Reimbursement	(1,261.3)	(67,191.4)
Donations and Forfeitures of Property	16.8	0.1
Imputed Financing	7,758.5	5,136.5
Other (+/-)	(317.7)	6,352.5
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of $508.6 in FY 2023 and $210.8 in FY 2022 - See Note 18)	944,322.1	1,348,742.0
Net Change in Cumulative Results of Operations Dedicated Collections of $(116.1) in FY 2023 and $(852.0) in FY 2022 - See Note 18)	(2,413.1)	(537,023.3)
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections of $14,198.3 in FY 2023 and $14,314.4 in FY 2022 - See Note 18)	(838,644.6)	(835,302.6)
Net Position	$ (170,771.9)	$ (222,435.3)

The accompanying notes are an integral part of these statements.

Department of Defense
Combined Statements of Budgetary Resources

For Years Ended September 30, 2023 and 2022 *(dollar in millions)*	2023 (Unaudited) Budgetary	2023 (Unaudited) Non-Budgetary Credit Reform Financing Account	2022 (Unaudited) Budgetary	2022 (Unaudited) Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 273,243.3	$ 38.5	$ 213,767.1	$ 45.2
Appropriations (Discretionary and Mandatory)	1,093,647.1	-	1,019,527.2	-
Borrowing Authority (Discretionary and Mandatory)	-	151.1	-	878.1
Contract Authority (Discretionary and Mandatory)	90,653.1	-	81,232.0	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	135,790.6	60.7	150,322.5	35.1
Total Budgetary Resources	1,593,334.1	250.3	1,464,848.8	958.4
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,361,472.9	218.5	1,237,156.1	919.9
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	202,221.2	-	200,951.6	-
Exempt from Apportionment, Unexpired Accounts	4,029.0	-	3,770.9	-
Unapportioned, Unexpired Accounts	1,113.4	31.8	662.7	38.5
Unexpired Unobligated Balance, End of Year	207,363.6	31.8	205,385.2	38.5
Expired Unobligated Balance, End of Year	24,497.6	-	22,307.5	-
Unobligated Balance, End of Year (Total)	231,861.2	31.8	227,692.7	38.5
Total Budgetary Resources	1,593,334.1	250.3	1,464,848.8	958.4
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	1,003,304.1	-	942,950.7	-
Distributed Offsetting Receipts (-)	(150,745.2)	-	(151,392.2)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 852,558.9	$ -	$ 791,558.5	$ -
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	$ -	$ 319.7	$ -	$ 2.3

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of Defense (*Department* or *DoD*) includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), DoD Office of the Inspector General (DoD OIG), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the *Army*, the *Navy* (of which the *Marine Corps* is a component), and the *Air Force* (of which the *Space Force* is a component). Appendix A of the AFR provides a list of the Consolidation Entities which comprise the Department's reporting entity for the purposes of these consolidated/combined financial statements.

The reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for the Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization they are for a component of the U.S. Government.

B. Mission of the Reporting Entity

The Department was established by the *National Security Act of 1947*. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States (U.S.) by deterring war and ensuring our nation's security.

C. Basis of Presentation

The financial statements have been prepared to report the financial position, financial condition, and results of DoD operations, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994* and other applicable legislation. The financial statements account for all resources for which the Department is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

To the extent possible, the financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget *(OMB) Circular A-136*, *Financial Reporting Requirements*, and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The Department is unable to fully comply with all elements of GAAP and OMB Circular A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards *(SFFAS) 47*, *Reporting Entity*, in Note 26, *Disclosure Entities and Related Parties*, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

D. Basis of Accounting

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the consolidation entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the consolidation entities therefore, intradepartmental activity has not been eliminated. DoD financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department is continuing to evaluate the effects of adopting the below recent accounting standards and other authoritative guidance issued by FASAB.

1. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016.

   The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

2. SFFAS 49, *Public-Private Partnerships*: Disclosure Requirements Issued on April 27, 2016; Effective for periods after September 30, 2018.

   The Department identified Military Housing Privatization Initiative (MHPI) agreements as public-private partnerships (P3s) requiring disclosure. Accordingly, in concurrence with the considerations of SFFAS 47, the Department performed assessments of the MHPI P3s and has determined that they meet the criteria for disclosure entities. DoD Components are still assessing agreements to determine if there are additional P3s to disclose. See *Notes 25*, *Public Private Partnerships* and 26, *Disclosure Entities and Related Parties* for additional disclosure details and information. The Department continues to assess agreements to determine if there are additional P3s to disclose.

3. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

   The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment*, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to the GPP&E line item.

4. SFFAS 53, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

5. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted. For additional information, see SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics* Technical Release 20, *Implementation Guidance for Leases, and* Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*.

6. SFFAS 57, *Omnibus Amendments*: Issued September 27, 2019; Effective dates vary based on the paragraph number.

7. SFFAS 59, *Accounting and Reporting of Government Land*: Issued September 30, 2021; Effective dates vary based on the paragraph number.

8. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019.

9. Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.

The Department has not recorded all transactions consistent with GAAP. The Department continues transitioning to systems that can produce GAAP compliant financial statements. The transactions not recorded consistent with GAAP and are believed to be materially misstated in the financial statements include, but are not limited to:

1. Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.

2. Transactions that should have been recorded in prior years, were recorded in the current year.

E. Accounting for Intragovernmental and Intergovernmental Activities

Intragovernmental Activities: Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a reduced cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with SFFAS 55, Amending Inter-entity Cost Provisions, the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (FECA); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

For additional information, see Note 19, *Disclosures Related to the Statement of Net Cost*.

F. Non-Entity Assets

The Department classified assets as either entity or non-entity. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes.

For additional information, see Note 2, *Non-Entity Assets*.

G. Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) represents the aggregate amount of the Department's available budget spending authority available to pay current liabilities and finance future authorized purchases. The Department's monetary resources of collections and disbursements are maintained in Department of the Treasury (Treasury) accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers currently process the majority of the DoD's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using DoD's disbursing systems instead of Treasury's system is recognized by Treasury as Non-Treasury Disbursing Office (NTDO). DoD is actively migrating NTDO transactions to Treasury Disbursing Offices (TDO) under the TDO Enterprise Strategy effort. TDO is DoD's target end state of executing payments and collections directly between DoD and Treasury using Treasury's systems and Treasury as the Service Provider. This posture will allow DoD to achieve FBWT accountability and traceability through daily reconciliation and reporting directly with Treasury.

FBWT is an asset of the Department and a liability of the U.S. Government General Fund. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the Department and liabilities of the U.S. Government General Fund. In both cases, the amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

When the Department seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, if in cases of a budget deficit.

In addition, the Department reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account.

For additional information, see Note 3, *Fund Balance with Treasury*.

H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the *Treasury prevailing rate of exchange*. The TFM Volume I, Part 2, *Chapter 3200*, provides guidance for accounting and reporting foreign currency.

The Department conducts a significant portion of its operations overseas. Congress established a special appropriations account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance, (2) military personnel, (3) military construction, (4) family housing operations and maintenance, and (5) family housing construction. The gains and losses are calculated as the difference between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

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

I. Investments

The Department reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method yielding similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, no provision is made for unrealized gains or losses on these securities.

For additional information, see Note 5, *Investments*.

J. Accounts Receivable

Accounts receivable from other federal entities or the public include reimbursements, receivables, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history.

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

K. Loans Receivable, Net and Loan Guarantee Liabilities

The Department operates a direct loan and loan guarantee program authorized by the National Defense Authorization Act (NDAA) for FY 1996, which provides the Department with the authorities to operate guarantees (both loan and rental), conveyance, and leasing of existing property and facilities, differential lease payments, investments (both limited partnerships, and stock and bond ownership), and direct loans to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 (FCRA).

The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers; to attract private lending, expertise, and innovation; and provide housing more efficiently.

As required by SFFAS 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.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Part 5 and OMB Circular A-136, specify disclosure requirements for government direct loans and loan guarantees.

For additional information, see Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*.

L. Inventories and Related Property

The Department values substantially all inventory available at historical cost using the moving average cost flow assumption. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 48. Inventory held for sale includes consumable spare and repair parts and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory requiring repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process encouraging the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness to defend the nation. The Department's policy for accounting and reporting for Inventory Held for Repair is to use the allowance method as described in SFFAS 3. Inventory Work-in-Process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term relating to military force management and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Related property includes Operating Materiel and Supplies (OM&S) and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchases method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, materiel and supplies are expensed when consumed. The purchase method expenses OM&S when purchased. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

OM&S are recognized at net realizable value through an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency (DLA) Disposition Services, the net realizable value will generally be zero. The net realizable value of EOU disposed of through a Qualified Recycling Program or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU inventory, such as buyer quotes, or other reasonable means.

For additional information, see Note 8, *Inventory and Related Property, Net*.

M. General Property, Plant and Equipment

The Department generally records General PP&E at the estimated historical cost. Some consolidating entities used the alternative valuation methods from SFFAS 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand with the following exceptions:

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	$1 million
Department of the Air Force General Fund (General Equipment)	$1 million
Office of the Director of National Intelligence (ODNI) DoD Members only	$1 million
USACE Civil Works General PP&E assets, other than buildings and structures related to hydropower projects	$25 thousand
USACE Civil Works buildings and structures related to hydropower projects	Capitalized regardless of cost

Except for those related to USACE Civil Works, ODNI, and Department of Navy General Fund (Real Property), these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds ($100 thousand for general equipment and $20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. The Department depreciates all General PP&E assets, other than land, on a straight-line basis.

The Department provides government-owned or leased General PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract, for which the Department must recognize the GFP for accountability and financial reporting purposes.

Contactor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, GAAP requires the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department.

For additional information, see Note 9, *General PP&E, Net*.

N. Other Assets

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. 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. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (DFARS) 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. 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.

For additional information, see Note 10, *Other Assets*.

O. Leases

Lease payments for the rental of equipment, internal use software, and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the Department (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department either records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the Department. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases.

For additional information, see Note 16, *Leases*.

P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, see Note 11, *Liabilities Not Covered by Budgetary Resources*.

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered and non-nuclear powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

For additional information, see Note 14, *Environmental and Disposal Liabilities*.

R. Other Liabilities

Other Liabilities includes:

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The *FECA* provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (*DOL*), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

SFFAS 51, *Insurance Programs*, established accounting and financial reporting standards for insurance programs. The Office of Personnel Management (*OPM*) administers insurance benefit programs available for coverage to the Department's civilian employees; however, they are not required to participate. These programs include life, health, and long term care insurance.

The life insurance program, Federal Employee Group Life Insurance (*FEGLI*) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (*FEHB*) program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (*FEDVIP*). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program (*FLTCIP*) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB; however, there is no required to enroll in FEHB.

OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Department has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

TRICARE is a worldwide health care program providing coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

For additional information, see Note 13, *Federal Employee and Veterans Benefits Payable and* Note 15, *Other Liabilities*.

S. Commitments and Contingencies

The Department recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, *Commitments and Contingencies*. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

The Department executes project agreements pursuant to the framework cooperative agreement with foreign governments. All these agreements give rise to obligations fully reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The Department does not enter into treaties and other international agreements that create contingent liabilities.

The Department does report environmental contingencies separate from legal contingencies. The environmental contingencies are reported in Note 14, *Environmental and Disposal Liabilities*. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 17, *Commitments and Contingencies*.

T. Federal Employee and Veteran Benefits

The Department applies *SFFAS 33*, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost.

Refer to Note 13, *Federal Employee and Veteran Benefits Payable* and Note 19, *General Disclosures Related to the Statement of Net Cost*, for additional information.

As an employer entity, the Department recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DoD employees hired prior to January 1, 1987, participate in the Civil Service Retirement System (*CSRS*), while the majority of DoD employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (*FERS*) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS offers a defined contribution plan (*Thrift Savings Plan*) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the FEHB Program and FEGLI Programs. The Department reports both the full annual cost of providing these other retirement benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for other post-employment benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

U. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the federal budget process, which involves appropriations provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD and Government-wide financial reports.

The Department's budgetary resources reflect past congressional action and enable the Department to incur budgetary obligations, but do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The Department receives congressional appropriations and funding as general, working capital (revolving), trust, and special funds. The Department uses these appropriations and funds to execute its missions, and subsequently reports on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD general fund appropriations cover costs including personnel, operations and maintenance, research and development, procurement, and military construction.

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus. Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with *SFFAS 27*, *Identifying and Reporting Funds from Dedicated Collections*, as amended by *SFFAS 43*, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Department separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections.

For additional information, see Note 18, *Funds from Dedicated Collections*.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DoD funds and, as such, are not available for the Department's operations. The Department is acting as an agent or custodian for funds awaiting distribution.

In accordance with *SFFAS 7*, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Department recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

V. Recognition of Expenses

The Department's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which consolidating entities may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP.

W. Budgetary Resources

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budgetary terms are commonly used:

Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

X. Treaties for Use of Foreign Bases

The Department uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the United States or host nation is negotiated and takes into account the value of capital investments and may be offset by environmental cleanup costs, if applicable.

Y. Use of Estimates

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.

Z. Parent-Child Reporting

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account; and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed all activity be reported in the financial statements of the child entity.

The Department receives allocation transfers, as a child entity, from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation and the Appalachian Regional Commission.

Additionally, the Department also receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent entity, the Department reports in these financial statements certain funds allocated to the Departments of Transportation and Agriculture.

AA. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* by facilitating the sale of U.S. Government approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

AB. Fiduciary Activities

Fiduciary activities which the Department must uphold are the collection or receipt, and the management, protection, accounting, investment, and disposition of cash and other assets in which non-federal individuals or entities have an ownership interest. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet.

For additional information, see Note 23, *Fiduciary Activities*.

AC. Tax Exempt Status

As an agency of the federal government, the Department is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

NOTE 2. NON-ENTITY ASSETS

The Department has stewardship accountability and reporting responsibility for non-entity assets. Non-entity assets consist of assets belonging to other entities but are offset by the Department's liabilities to accurately reflect DoD's net position.

Table 2. Non-Entity Assets

As of September 30 *(dollar in millions)*	2023	Restated 2022
Intragovernmental Assets		
Fund Balance with Treasury	$ 3,512.0	$ 3,008.1
Accounts Receivable	1.3	1.6
Total Intragovernmental Assets	3,513.3	3,009.7
Non-Federal Assets		
Cash and Other Monetary Assets	798.3	980.7
Accounts Receivable	4,461.7	4,687.5
Total Non-Federal Assets	5,260.0	5,668.2
Total Non-Entity Assets	8,773.3	8,677.9
Total Entity Assets	3,772,439.7	3,520,029.0
Total Assets	$ 3,781,213.0	$ 3,528,706.9

Restatements

The Department corrected a $2.5 billion understatement of FY 2022 Accounts Receivable, Net (Other than Intragovernmental) due to a contract dispute with a vendor. The Department also corrected a $30.9 million overstatement of FY 2022 Other Assets due to the incorrect reporting of General Property, Plant, and Equipment permanently removed but not yet disposed. Additionally, the Department corrected Entity Assets for a $513.5 million understatement of FY 2022 Inventory and Related Property, Net due to assets found but not previously recorded in the Accounting Property System of Record. Lastly, the Department corrected Entity Assets for a $3.9 billion understatement of FY 2022 General Property, Plant, and Equipment, Net due to asset balances that had a change in acquisition cost and/or date, asset records that had retrospective depreciation adjustments, asset records with delayed depreciation, and assets not recorded as transfers in prior years. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Assets

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Non-Federal Assets

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges. See Note 1.H., *Significant Accounting Policies, Cash and Other Monetary Assets* and Note 4, *Cash and Other Monetary Assets*, for further information.

Accounts Receivable consists of amounts associated with multiple types of long-term agreements such as easements, sales of hydroelectric power, recreational development, and water storage agreements; canceled year appropriations; and interest, fines, and penalties receivables. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

Other Assets in the prior year consisted of the advance or prepayment made in contemplation of future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, for other than outstanding contract financing payments or advanced personnel reimbursements.

NOTE 3. FUND BALANCE WITH TREASURY

The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balances with Treasury (FBWT) consist of appropriation accounts, revolving funds, trust accounts, special funds and other fund types.

Table 3. Status of Fund Balance with Treasury

As of September 30 *(dollar in millions)*	2023	Restated 2022
Unobligated Balance		
Available	$ 206,250.0	$ 204,722.5
Unavailable	1,699,074.0	1,527,309.9
Total Unobligated Balance	1,905,324.0	1,732,032.4
Obligated Balance Not Yet Disbursed	675,153.5	606,116.7
Non-Budgetary FBWT		
Clearing accounts	56.3	221.1
Deposit funds	3,556.2	3,050.3
Non-entity and other	152.9	161.3
Total Non-Budgetary FBWT	3,765.4	3,432.7
Non-FBWT Budgetary Accounts		
Investments-Treasury Securities	(1,676,781.5)	(1,506,718.2)
Unfilled Customer Orders without Advance	(96,402.7)	(99,482.3)
Contract Authority	(28,092.9)	(26,207.6)
Borrowing Authority	(186.9)	(854.0)
Receivables and Other	(14,703.2)	(15,377.1)
Total Non-FBWT Budgetary Accounts	(1,816,167.2)	(1,648,639.2)
Total FBWT	$ 768,075.7	$ 692,942.6

Section 3, Non-Budgetary FBWT has a difference of $24.7 million within the comparative year. This update moved a legacy FBWT general ledger account that is only used to capture activity related to clearing accounts from 'Non-entity and other' to 'Clearing accounts'.

Restatements

The Department's activity on Note 3 was revised due to a restatement, however the net change on the Note 3 total was zero. Additionally, the total FBWT did not change. The related restatements were due to the obligation and de-obligation of direct loans that occurred within the Defense Production Act Direct Loan Program. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

The Status of FBWT 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 consists primarily of funds invested in Treasury securities and are 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.

Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and Non-Entity FBWT.

Non-FBWT Budgetary accounts create budgetary authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budgetary authority, such as appropriations. The Non-FBWT Budgetary accounts are comprised of investments in U.S. Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Treasury securities provide the Department with budgetary authority and enables the Department to access funds to make future benefit payments or other expenditures. The Department must redeem these securities before they become part of the FBWT.

Contract Authority (Spending Authority from Anticipated Collections) 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.

Unfilled Customer Orders Without Advance - Receivables provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

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

NOTE 4. CASH AND OTHER MONETARY ASSET

Table 4. Cash and Other Monetary Assets

As of September 30 *(dollar in millions)*	2023	2022
Cash	$ 525.8	$ 429.7
Foreign Currency	342.2	615.3
Total Cash and Foreign Currency	$ 868.0	$ 1,045.0

The majority of cash and all foreign currency is classified as non-entity (i.e., cash that a reporting entity collects and holds in a custodial capacity for the U.S. Treasury or other Federal entity) and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. These amounts are held outside of Treasury, in local deposit accounts, or cash, under the custodial responsibility of the disbursing officer and are not directly associated with an appropriation. A Disbursing Officer Cash offsetting liability to Treasury is reported on Note 15, *Other Liabilities*.

In FY 2023 and FY 2022, cash includes unrestricted entity assets of $69.8 million and $64.3 million, respectively, comprised of undeposited collections.

NOTE 5. INVESTMENTS

Table 5A. Intragovernmental Investments

As of September 30 *(dollar in millions)*	2023						
	Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
Intragovernmental Securities							
Non-Marketable, Market-Based							
Military Retirement Fund	$ 1,465,785.7	Eff. Int.	$ (55,627.3)	$ 6,923.4	$ 1,417,081.8	$ (263,939.9)	$ 1,153,141.9
Medicare Eligible Retiree Health Care Fund	388,312.9	Eff. Int.	(21,839.7)	2,882.5	369,355.7	(44,588.5)	324,767.2
U.S. Army Corps of Engineers	10,527.2	Eff. Int.	113.9	18.0	10,659.1	(34.3)	10,624.8
Other Funds	2,329.4	Eff. Int.	(21.6)	7.4	2,315.2	(81.5)	2,233.7
Total Non-Marketable, Market-Based	1,866,955.2		(77,374.7)	9,831.3	1,799,411.8	(308,644.2)	1,490,767.6
Total Intragovernmental Investments	$ 1,866,955.2		$ (77,374.7)	$ 9,831.3	$ 1,799,411.8	$ (308,644.2)	$ 1,490,767.6

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

As of September 30 *(dollar in millions)*	2022 Cost	Amortization Method	Amortized (Premium) / Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
Intragovernmental Securities							
Non-Marketable, Market-Based							
Military Retirement Fund	$ 1,323,520.7	Eff. Int.	$ (51,523.1)	$ 6,376.0	$ 1,278,373.6	$ (189,366.3)	$ 1,089,007.3
Medicare Eligible Retiree Health Care Fund	362,511.6	Eff. Int.	(20,301.2)	2,728.9	344,939.3	(27,290.9)	317,648.4
U.S. Army Corps of Engineers	9,616.2	Eff. Int.	9.8	9.4	9,635.4	(55.7)	9,579.7
Other Funds	2,724.6	Eff. Int.	(54.0)	10.6	2,681.2	(105.0)	2,576.2
Total Non-Marketable, Market-Based	1,698,373.1		(71,868.5)	9,124.9	1,635,629.5	(216,817.9)	1,418,811.6
Total Intragovernmental Investments	$ 1,698,373.1		$ (71,868.5)	$ 9,124.9	$ 1,635,629.5	$ (216,817.9)	$ 1,418,811.6

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

Other Disclosures – Intragovernmental Securities

The Department invests primarily in non-marketable, market-based Treasury securities (See Note 1.I *Significant Accounting Policies, Investments*). The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities were issued to trust and special funds legally authorized to invest funds with Treasury, including Treasury securities held by a fund from dedicated collections, which are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $10.3 billion and $9.3 billion for FY 2023 and FY 2022, respectively, in the Harbor Maintenance Trust Fund.

Other Funds consists primarily of $1.3 billion and $1.5 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund for FY 2023 and FY 2022, respectively, and $860.5 million and $1.0 billion in investments of the DoD Education Benefits Trust Fund for FY 2023 and FY 2022.

The Military Retirement Fund's (MRF) and Medicare-Eligible Retiree Health Care Fund's (MERHCF) investing goals are to maintain expected average maturity of future investments of approximately 20 years depending on the market and performance of the portfolio. The types of investments purchased and related maturity dates are selected to meet the projected timing of funds obligation to pay future benefits. The investments consist of the following for MRF and MERHCF:

- Zero Coupon Bonds: These bonds do not pay interest, but instead are bought at a larger initial discount. These bonds will mature between August 15, 2033 and August 15, 2035.
- Bonds: Bonds pay interest between 1.875% and 7.625%. The maturity dates for bonds held are between February 15, 2025 and February 15, 2051.
- Notes: Notes pay interest between 0.375% and 2.750%. The maturity dates for notes held are between February 15, 2024 and September 15, 2024.
- Treasury Inflation-Protected Security (TIPS): TIPS pay interest between 0.125% and 3.875%. TIPS also pay inflation compensation so the security maintains its original purchase power over the life of the security. This amount varies with the rate of inflation. The maturity dates for TIPS are between July 15, 2024 and February 15, 2052.
- One Day: MRF invests in One Day securities daily. The interest paid by these securities is determined by the Treasury daily.

Table 5B. Other than Intragovernmental Investments

As of September 30 *(dollar in millions)*	**2023**		**2022**	
Beginning Balance	$	11,361.7	$	11,361.7
Other:				
Gains (Losses) upon dissolution of joint ventures		(6.5)		-
Other		(1,961.6)		-
Ending Balance	$	9,393.6	$	11,361.7

Other Disclosures – Other than Intragovernmental Investments

Other than Intragovernmental Investments consists of Military Housing Privatization Initiative (MHPI) agreements in the form of limited partnerships (LP) and limited liability companies (LLC). An LP or LLC is a single purpose entity, defined as public-private partnership (P3) with risk- sharing agreement and an expected life greater than five years. The private sector managing partner provides private industry expertise and financial tools and capital to leverage government dollars. The Department serves as minority and non-managing member which invests in LPs and LLCs involved in the acquisition or construction of family housing at the Department of the Army, Department of the Air Force, and Department of the Navy installations. The Department provides cash, loan guarantees, land (through long-term ground leases), housing or facilities as equity. The Department's involvement in the operations and management of the LP and LLC is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership.

The P3 investments' annual loss was calculated using the equity method in accordance with Financial Management Regulation Volume 4, Chapter 7, "Investments and Other Assets." The amount is shown as Other: Other in Table 5B. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

NOTE 6. ACCOUNTS RECEIVABLE, NET

Table 6. Accounts Receivable, Net

As of September 30 (dollar in millions)	2023					
	Gross Amount Due		Allowance for Estimated Uncollectibles		Accounts Receivable, Net	
Intragovernmental Receivables	$	2,753.1	$	(298.5)	$	2,454.6
Non-Federal Receivables						
(From the Public)		13,143.3		(879.8)		12,263.5
Total Accounts Receivable	$	15,896.4	$	(1,178.3)	$	14,718.1

As of September 30 (dollar in millions)	Restated 2022					
	Gross Amount Due		Allowance for Estimated Uncollectibles		Accounts Receivable, Net	
Intragovernmental Receivables	$	3,486.8	$	(254.6)	$	3,232.2
Non-Federal Receivables						
(From the Public)		12,423.8		(750.1)		11,673.7
Total Accounts Receivable	$	15,910.6	$	(1,004.7)	$	14,905.9

Restatements

The Department corrected a $2.5 billion understatement of Accounts Receivable, Net (Other than Intragovernmental) due to a contract dispute with a vendor. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

FASAB issued *Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables*, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. The intragovernmental allowance was calculated using the same methodology as for public receivables.

Additionally, the Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country.

Consistent with to *SFFAS 1*, the Department has recognized a receivable for $2.7 billion based on a contractually asserted claim against Pratt & Whitney. The $2.7 billion receivable includes prior year principal and interest plus current year interest. The claim seeks recovery of overpayments resulting from a failure to comply with cost accounting standards at *48 CFR 9904.420*, Accounting for Independent Research & Development Costs and Bid & Proposal Costs. Pratt & Whitney disputes the Department's claim and has appealed the matter to the *Armed Services Board of Contract Appeals*, where it is currently pending.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Military Housing Privatization Initiative (MHPI)

The Department operates both direct loan and loan guarantee programs. The programs are authorized by the *NDAA for FY 1996*, which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing, and the *NDAA for FY 2005*, which provides the permanent authority. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage Government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

The *Federal Credit Reform Act of 1990 (FCRA)* governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

There were no credit program activities subject to the FCRA identified in FY 2023 or FY 2022.

MHPI Loan Modification

Since inception of the program, no direct loan project has ever defaulted on its obligations to MHPI. The Department recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every 2 to 3 years outlining the needs of a project. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

Additionally, the Department is planning to perform Government Direct Loan (GDL) modifications and/or make a Government Equity Investment for various projects in the future FYs.

The Department has other projects under consideration for potential modifications in the future which are in the early planning stages and discussions are ongoing with Project Owners. Discussions include, but not limited to nature of planning, budgeting, and negotiations. If plans solidify, these projects will be added to this note in the future.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, *Executive Order (EO) 13922* issued on May 14, 2020, authorizes the Chief Executive Officer of the U.S. International Development Finance Corporation (*DFC*) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and financially report the government direct loans. This delegation of authority applied for the two-year period ending March 27, 2022, during which time the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (*50 U.S.C. 4532(c)(1)*) were waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act (*CARES*). The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories needed to respond to the COVID-19 outbreak.

Under this authority, a Finance Agreement was signed with a borrower in March of 2023. The projects under the Finance

Agreement include the acquisition of and design, architecture, engineering, mechanical, electrical and plumbing work, and completion of certain interior improvements and systems for facilities to enable the development and manufacture of biologics, vaccines, and nucleic acid pharmaceutical products. The first disbursement related to the DPA activity of $246.0 million occurred in August 2023, which is reflected in the tables below. Since the first disbursement had not yet occurred, no loan receivable balance related to the DPA activity was recorded or reflected in the tables below prior to the 4th quarter of FY 2023.

Table 7A. Summary of Direct Loan and Loan Guarantees

As of September 30 *(dollar in millions)*	**2023**	**2022**
Loans Receivable, net		
Direct Loan		
Military Housing Privatization Initiative	$ 1,665.1	$ 1,653.5
Defense Production Act - CARES Act	268.2	
Total Direct Loan	1,933.3	1,653.5
Total Default Loan Guarantees	-	-
Total Loans Receivable, Net	$ 1,933.3	$ 1,653.5

As of September 30 *(dollar in millions)*	**2023**	**2022**
Loan Guarantee Liabilities		
Military Housing Privatization Initiative	27.5	31.0
Total Loan Guarantee Liabilities	$ 27.5	$ 31.0

Loans Receivable

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements;
- Repayment of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

Table 7B. Direct Loans Obligated

As of September 30 *(dollar in millions)*	2023	2022
Direct Loans Obligated After FY 1991:		
Military Housing Privatization Initiative		
Loans Receivable, Gross	$ 1,751.4	$ 1,752.6
Allowance for Subsidy Cost (Present Value)	(86.3)	(99.1)
Direct Loans, Net	1,665.1	1,653.5
Defense Production Act - CARES Act		
Loans Receivable, Gross	246.0	-
Allowance for Subsidy Cost (Present Value)	22.2	-
Direct Loans, Net	268.2	-
Total Direct Loans Receivable, Net		
Loans Receivable, Gross	1,997.4	1,752.6
Allowance for Subsidy Cost (Present Value)	(64.1)	(99.1)
Direct Loans, Net	$ 1,933.3	$ 1,653.5

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

Table 7C. Total Amount of Direct Loans Disbursed (Post-1991)

As of September 30 *(dollar in millions)*	2023	2022
Direct Loan Program		
Military Housing Privatization Initiative	30.1	36.8
Defense Production Act - CARES Act	246.0	-
Total	$ 276.1	$ 36.8

The $30.1 million disbursement made in 2023 was the sixth distribution of the six scheduled distributions under an existing direct loan project. The $36.8 million disbursement made in 2022 was the fifth scheduled distribution under the same project. See Table 7D for the related subsidy expense for new direct loans disbursed and further discussion of subsidy expense on Table 7E.

The $246.0 million disbursement made in 2023 was the first of the two distributions under the new DPA loan project.

Table 7D. Subsidy Expense for Direct Loan by Program

Table 7D.1. Subsidy Expense for New Direct Loans Disbursed

As of September 30 *(dollar in millions)*	2023				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	3.7	4.1	-	-	7.8
Defense Production Act - CARES Act	-	-	-	-	-
Total	$ 3.7	$ 4.1	-	-	$ 7.8

As of September 30 *(dollar in millions)*	2022				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	5.1	4.4	-	-	9.5
Defense Production Act - CARES Act	-	-	-	-	-
Total	$ 5.1	$ 4.4	-	-	$ 9.5

Table 7D.2. Direct Loan Modifications and Reestimates

As of September 30 *(dollar in millions)*	2023			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	-	(10.1)	(16.1)	(26.2)
Defense Production Act - CARES Act	-	0.1	2.8	2.9
Total	$ -	$ (10.0)	$ (13.3)	$ (23.3)

As of September 30 *(dollar in millions)*	2022			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	(6.6)	(11.7)	(44.0)	(55.7)
Defense Production Act - CARES Act	-	-	-	-
Total	$ (6.6)	$ (11.7)	$ (44.0)	$ (55.7)

Table 7D.3. Total Direct Loan Subsidy Expense

As of September 30 *(dollar in millions)*	2023	2022
Military Housing Privatization Initiative	(18.4)	(52.8)
Defense Production Act - CARES Act	2.9	-
Total	$ (15.5)	$ (52.8)

The $7.8 million and $9.5 million subsidy expense for FY 2023 and FY 2022, respectively, is related to the sixth and fifth scheduled loan distributions under an existing MHPI direct loan project.

Table 7E. Budget Subsidy Rates for Direct Loans by Program for the Current Year's Cohorts

As of September 30 *(dollar in millions)*	2023				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%
Defense Production Act - CARES Act	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There was one new loan agreement in FY 2023 disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The budget assumption discount rates are part of the economic assumptions for the budget year of obligation. Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

The Department is required to re-estimate the subsidy cost throughout the life of each direct loan or loan guarantee to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These re-estimates represent additional costs or savings to the Government, new forecasts about future economic conditions, and other events and improvements in the methods used to estimate future cash flows.

Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

As of September 30 *(dollar in millions)*	2023	2022
Beginning Balance of the Subsidy Cost Allowance	$ 99.1	$ 159.0
Add total subsidy expense for direct loans disbursed during the reporting years show in Table 7D.1	7.8	9.5
Adjustments:		
Loan Modifications	-	(6.6)
Subsidy Allowance Amortization	0.4	(7.2)
Other	(19.9)	0.1
Ending Balance of the Subsidy Cost Allowance before Reestimates	87.4	154.8
Add or subtract total subsidy reestimates as shown in Table 7D.2	(23.3)	(55.7)
Ending Balance of the Subsidy Cost Allowance	$ 64.1	$ 99.1

The $19.9 million adjustment is an aggregated total of a $24.8 million of negative subside payment related to the new DPA loan disbursement and a $4.9 million of capitalization of deferred interest related to an existing MHPI loan project.

The data used for budgetary subsidiary cost estimates are updated, or re-estimated, annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. An upward re-estimate indicates that insufficient funds had been paid to the financing account. A downward re-estimate indicates that too much subsidy had been paid to the financing account.

In cases where the Department executes a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the re-estimate shows a subsidy decrease. Characteristics or indicators that may predict cost include the loan-to-value ratio, the relationship between the loan interest rate and relevant market rates, type of school attended for education loans, country risk categories for international loans, various asset or income rations, and major contract terms.

The subsidy allowance amortization may be either positive or negative. A positive amortization implies that the interest received and the accrued interest receivable are greater than the accrued interest expense. This results in an increase to the subsidy cost allowance and a decrease to the loans receivable balance. A negative amortization implies that the interest received and the accrued interest receivable are less than the accrued interest expense. This results in a decrease to the subsidy cost allowance and an increase to the loans receivable balance.

Table 7G. Defaulted Guaranteed Loans from Post-1991 Guarantees

There were no defaulted loan guarantees in FY 2023 or FY 2022.

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

In estimating default costs, the following risk factors are considered: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to the loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to re-estimate defaults are also considered.

Table 7H.1. Guaranteed Loans Outstanding

As of September 30 *(dollar in millions)*	2023		2022	
	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 804.3	$ 804.3	$ 816.6	$ 816.6

Table 7H.2. New Guaranteed Loans Disbursed

There were no new guaranteed loan disbursed in FY 2023 or FY 2022

Table 7I. Liabilities for Loan Guarantees (Present Value)

As of September 30 *(dollar in millions)*	2023	2022
Liability for Post-FY1991 (Present Value):		
Military Housing Privatization Initiative	27.5	31.0
Total Loan Guarantee Liabilities for Loan Guarantees	$ 27.5	$ 31.0

Table 7J. Subsidy Expense for Loan Guarantees by Program

Table 7J.1. Subsidy Expense for New Loan Guarantees

There were no subsidy expenses for new loan guarantees in FY 2023 or FY 2022.

Table 7J.2. Modification and Reestimates

As of September 30 (dollar in millions)	2023			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (1.2)	$ (3.1)	$ (4.3)

As of September 30 (dollar in millions)	2022			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (1.9)	$ (5.7)	$ (7.6)

Table 7J.3. Total Loan Guarantee Subsidy Expense

As of September 30 (dollar in millions)	2023	2022
Military Housing Privatization Initiative	$ (4.3)	$ (7.6)

Table 7K. Budget Subsidy Rates for Loan Guarantees by Program for the Current Year's Cohorts

As of September 30 (dollar in millions)	2023				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2023; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior-year agreements.

Table 7L. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

As of September 30 *(dollar in millions)*	**2023**		**2022**	
Beginning Balance of the Loan Guarantee Liabilities	$	31.0	$	37.6
Add interest expense on entity borrowings		0.8		0.9
Less downward reestimates		(4.3)		(7.5)
Ending Balance of the Loan Guarantee Liabilities	$	27.5	$	31.0

Administrative Expenses

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

Table 7M. Schedule for Reconciling Loans Receivable

As of September 30 *(dollar in millions)*	**2023**		**2022**	
Beginning Balance of the Loans Receivable, Net	$	1,653.5	$	1,598.3
Add Loan Disbursements		276.1		36.8
Less Principal and Interest Payments Received		(98.2)		(35.0)
Add Interest Accruals		62.1		-
Less Subsidy Expense		(7.8)		7.1
Add negative subsidy payments		24.8		-
Less upward reestimates		(2.9)		(30.7)
Add downward reestimates		26.1		86.5
Other increase/(decrease) to the subsidy allowance		(0.4)		(9.5)
Other changes to the loan modifications		-		6.6
Allowance for loan and interest loss adjustments		-		(6.6)
Ending Balance of Loans Receivable, Net	$	1,933.3	$	1,653.5

The above table relates to the Direct Loans Receivable on Tables 7A through 7F.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Table 8A. Inventory and Related Property, Net

As of September 30 *(dollar in millions)*	2023	Restated 2022
Inventory, Net	$ 119,663.9	$ 117,167.2
Operating Materiels & Supplies, Net	220,809.5	219,447.7
Stockpile Materiel, Net	663.1	1,035.0
Total Inventory and Related Property, Net	$ 341,136.5	$ 337,649.9

In FY 2022, a prior period adjustment for $364.0 million was not recorded to Operating Materials and Supplies, Net resulting in a misstatement that was corrected in FY 2023. The adjustment amount was immaterial to the DoD Component. The net effect at the end of FY 2023 was zero.

Restatements

The Department corrected a $513.5 million understatement (net) of FY 2022 Inventory and Related Property, Net due to assets found but not previously recoded in the Accounting Property System of Record. See Note 28, *Restatements* for a summary of all restatements and further information.

Inventory, Net

Table 8B. Inventory Categories

As of September 30 *(dollar in millions)*	2023			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 76,502.8	$ (60.4)	$ 76,442.4	LAC, MAC
Held in Reserve for Future Sale	970.1	-	970.1	LAC, MAC
Held for Repair	46,390.2	(7,386.8)	39,003.4	LAC, MAC
Raw Materials	1,563.3	-	1,563.3	LAC, MAC, SP
Work-in-Process	1,684.7	-	1,684.7	LAC, MAC
Excess, Obsolete and Unserviceable	824.2	(824.2)	-	NRV
Total	$ 127,935.3	$ (8,271.4)	$ 119,663.9	

As of September 30 *(dollar in millions)*	Restated 2022			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 75,219.2	$ (60.9)	$ 75,158.3	LAC, MAC
Held in Reserve for Future Sale	925.9	-	925.9	LAC, MAC
Held for Repair	45,145.5	(6,933.9)	38,211.6	LAC, MAC
Raw Materials	1,354.0	-	1,354.0	LAC, MAC
Work-in-Process	1,517.4	-	1,517.4	LAC, MAC, SP
Excess, Obsolete and Unserviceable	838.9	(838.9)	-	NRV
Total	$ 125,000.9	$ (7,833.7)	$ 117,167.2	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses | NRV = Net Realizable Value | SP = Standard Price
MAC = Moving Average Cost | HC = Historical Cost

General Composition of Inventory

Inventory is tangible personal property that is held for sale, a few examples include raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns types of inventory to a category based on condition: held for sale, held in reserve for future sale, held for repair, raw materials, work-in-process, and excess, obsolete, and unserviceable.

Inventory Restrictions

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with DoD Instruction 3110.06 with a recorded value of $4.4 billion in FY 2023 ($3.6 billion in FY 2022), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces.
- Defense Commissary Agency inventory with a recorded value of $382.2 million in FY 2023 ($417.8 million in FY 2022), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons.
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $126.2 million in FY 2023 ($107.2 million in FY 2022).

There are no known restrictions on inventory disposition related to environmental or other liabilities.

Operating Materiels and Supplies, Net

Table 8C. OM&S Categories

As of September 30 *(dollar in millions)*	2023			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$ 162,413.4	$ -	$ 162,413.4	Note 1
Held in Reserve for Future Use	23,826.2	-	23,826.2	Note 1
Held for Repair	29,415.7	(1,139.2)	28,276.5	Note 1
In Development	6,288.7	-	6,288.7	Note 1
Excess, Obsolete and Unserviceable	529.3	(524.6)	4.7	NRV
Total	$ 222,473.3	$ (1,663.8)	$ 220,809.5	

As of September 30 *(dollar in millions)*	Restated 2022			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$ 159,410.6	$ -	$ 159,410.6	Note 1
Held in Reserve for Future Use	24,440.7	-	24,440.7	Note 1
Held for Repair	31,214.9	(1,072.8)	30,142.1	Note 1
In Development	5,380.1	-	5,380.1	Note 1
Excess, Obsolete and Unserviceable	636.1	(561.9)	74.2	NRV
Total	$ 221,082.4	$ (1,634.7)	$ 219,447.7	

Legend for Valuation Methods:
Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price, Standard Price, and Latest Acquisition Cost
NRV = Net Realizable Value

Restatements

During FY 2023, the Department restated FY 2022 Operating Materials and Supplies balances. The correction was for an understatement of $513.5 million due to assets found but not previously recorded in the Accountable Property System of Record. Also, see Note 28, *Restatements* for a summary of all restatements for further information.

General Composition of OM&S

OM&S consists of tangible personal property to be consumed in normal operations, including spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns types of OM&S to a category based on condition: held for use, held in reserve for future use, held for repair, in development, and excess, obsolete, and unserviceable.

OM&S Restrictions

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete, and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

For excess, obsolete, and unserviceable OM&S, in addition to the amounts reported in Table 8C:

- Army has determined their estimated NRV to be $0 but disclosed a gross value of $32.2 billion and $17.2 billion in FY 2023 and FY 2022, respectively. Army confirms this assessment on an annual basis before any NRV considerations for reporting EOU within its financial statements. The items classified as OM&S EOU are the result of accumulation over many fiscal year periods.
- Navy disclosed $1.1 billion and $1.6 billion in FY 2023 and FY 2022, respectively.

Stockpile Materiel, Net

Table 8D. Stockpile Materiel Categories

As of September 30 *(dollar in millions)*	2023			
	Stockpile Materiel, Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$ 15.1	$ -	$ 15.1	MAC, HC
Held in Reserve for Future Sale	648.0	-	648.0	MAC, HC
Total	$ 663.1	$ -	$ 663.1	

As of September 30 *(dollar in millions)*	2022			
	Stockpile Materiel, Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$ 11.9	$ -	$ 11.9	MAC, HC
Held in Reserve for Future Sale	1,023.1	-	1,023.1	MAC, HC
Total	$ 1,035.0	$ -	$ 1,035.0	

Legend for Valuation Methods:
MAC = Moving Average Cost
HC = Historical Cost

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies.

- The Defense Logistics Agency's (DLA) National Defense Stockpile Transaction Fund reported stockpile materiel for FY 2023 and FY 2022 with a net value of $369.2 million and $762.6 million, respectively.
- The Defense Health Programs (DHP) reported stockpile materiel with a net value of $268.4 million for FY 2023 and $256.4 million for FY 2022.
- The Department of Navy reported stockpile material with a net value of $10.0 million for FY 2023 and $15.9 million for FY 2022.

The DHP and Navy's stockpile materiel includes medicine, vaccines and other biological products, medical devices and other supplies. Vaccines in stockpile materials does not include the COVID-19 vaccine.

The COVID-19 vaccine is not reported by the Department as Inventory and Related Property, as stockpile materiel or other inventory categories, or as other assets. The title for COVID-19 vaccine handled by the Department does not transfer to the Department. Defense Logistics Agency's role is a courier service on behalf of the U.S. Department of Health and Human Services (*HHS*), and DHP's role is administering the vaccine. However, neither role provides for the transfer of title to DoD.

Stockpile Materiel Restrictions

Materiel held by the National Defense Stockpile is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed of except for (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) when determined excess materials will contribute to a potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale. Stockpile materiel held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile, please see: *DLA Strategic Materials*.

NOTE 9. GENERAL PP&E, NET

Table 9A. Major General PP&E Asset Classes

As of September 30 *(dollar in millions)*	2023				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	$ 9,135.7	N/A	$ 9,135.7
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	400,293.8	(236,511.3)	163,782.5
Leasehold Improvements	S/L	Lease Term	802.3	(459.3)	343.0
Software	S/L	2 - 5 or 10	15,663.8	(7,541.8)	8,122.0
General Equipment	S/L	Various	1,206,913.6	(750,903.4)	456,010.2
Assets Under Capital Lease	S/L	Lease Term	336.1	(274.0)	62.1
Construction in Progress	N/A	N/A	194,228.6	N/A	194,228.6
Other	N/A	N/A	2,251.6	(1,940.3)	311.3
Total General PP&E			$ 1,829,625.5	$ (997,630.1)	$ 831,995.4

As of September 30 *(dollar in millions)*	Restated 2022				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	$ 9,136.2	N/A	$ 9,136.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	376,099.3	(217,485.5)	158,613.8
Leasehold Improvements	S/L	Lease Term	878.4	(521.1)	357.3
Software	S/L	2 - 5 or 10	15,134.4	(7,346.7)	7,787.7
General Equipment	S/L	Various	1,208,774.4	(735,863.0)	472,911.4
Assets Under Capital Lease	S/L	Lease Term	320.2	(264.8)	55.4
Construction in Progress	N/A	N/A	169,516.1	N/A	169,516.1
Other	N/A	N/A	1,905.0	(1,706.8)	198.2
Total General PP&E			$ 1,781,764.0	$ (963,187.9)	$ 818,576.1

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method
* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land. A building is a roofed and floored facility with exterior walls and one or more levels suitable for single or multiple functions, including protecting human beings and enclosing property from direct harsh effects of weather and other natural factors (e.g., office building, hospital, housing, and museum). A linear structure is a facility whose function requires traversing land (e.g., runway, road, rail line, pipeline, fence, pavement, and electrical distribution line). A structure is a facility, other than a building or linear structure, constructed on or in land (e.g., bridge, dam, and parking garage).

Restatements

The Department corrected a $3.9 billion understatement of FY 2022 General Property, Plant, and Equipment, Net due to asset balances that had a change in acquisition cost, change in acquisition date, retrospective depreciation adjustments, and unrecorded asset transfers in prior years. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued *SFFAS 50*, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD consolidation entities used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD consolidation entities are excluded from General PP&E opening balances in FY 2023, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 23,463,823 and 22,958,006 in FY 2023 and FY 2022, respectively.

Heritage Assets and Stewardship Land

SFFAS 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its Heritage Assets, which are items of historical, cultural, educational, or artistic importance.

As the Department executed their mission to provide the military forces needed to deter war and protect the security of our country, they have become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's Heritage Assets and Stewardship Land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the Buildings and Stewardship Land in its daily activities and includes the Buildings on the Balance Sheet as Multi-Use Heritage Assets. Multi-Use Heritage Assets are recognized and presented with General PP&E in the basic financial statements, and additional information for the Multi-Use Heritage Assets is included with the Heritage Assets information below and in the Required Supplementary Information section.

The Department is unable to identify quantities of Heritage Assets and Stewardship Land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of Heritage Assets and Stewardship Land, as well as establishing standardized methods for acquisition and withdrawal. The Heritage Asset quantities for Buildings and Structures and Museum Collection Items (Objects, Not Including Fine Art) decreased by 204 pieces and 402 pieces respectively between the FY 2022 ending unit counts and the FY 2023 beginning unit counts. The Stewardship Land beginning balance for Government Owned Land decreased by 1275 acres while the beginning balance for Withdrawn Public Land increased by 1275 acres. Differences in heritage asset quantities and stewardship land acreage result from periodic reviews.

The Department acquires heritage assets through purchase, transfer from other agencies, donation, or other means. The Department designates General PP&E assets as heritage assets and withdraws such designations through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the *National Historic Preservation Act*, as amended. Designation is in accordance with the standards articulated with the collection scopes and collecting plans or by application of the criteria of the *National Register of Historic Places*. Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. In accordance with the National Historic Preservation Act, the Department defines these as follows:

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets.
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places.
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

Table 9B. Heritage Assets

For the period ended September 30, 2023 *(physical unit count)*	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	29,902	550	(2,453)	27,999
Archeological Sites	14,302	465	(17)	14,750
Museum Collection Items (Objects, Not Including Fine Art)	1,330,729	71,892	(7,983)	1,394,638
Museum Collection Items (Objects, Fine Art)	56,511	669	(66)	57,114

Stewardship Land represents land and land rights owned by the Department, but not acquired for, or in connection with items of General PP&E. Regardless of its use, all land from the public domain provided to the Department at no cost is classified as Stewardship Land.

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship Land is categorized by facility type and reported in acres based on the predominant use of the land.

Table 9C. Stewardship Land

For the period ended September 30, 2023
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	9,368	122	-	9,490
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	1,384	-	-	1,384
9140	Public Land	6	-	-	6
Total Stewardship Land		10,758	122	-	10,880

The four categories of Stewardship Land Government Owned Land, State Owned Land, Withdrawn Public Land (not available for settlement, sale, location, or entry), and Public Land (held by local governments) are held in public trust.

All Other Land consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not considered Stewardship Land.

The Department's methods of acquisition and withdrawal of Stewardship Land are as follows:

- Acquiring additional land through donation or withdrawals from public domain
- Identifying missing land records
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component
- Identifying cemeteries and historical facilities
- Disposing of BRAC property or excess installations
- Privatizing residential community initiatives programs

Summary of Activity

To support the *Financial Report of the United States Government* compilation process for General PP&E, Net activity for the current and prior years are provided in Table 9D.

Table 9D. General PP&E, Net - Summary of Activity

As of September 30 *(dollar in millions)*	2023	Restated 2022
General PP&E, Net beginning of year	$ 818,576.1	$ 821,299.9
Capitalized acquisitions	89,599.2	76,454.2
Dispositions	(5,233.3)	(3,864.8)
Transfer in/(out) without reimbursement	(1,122.9)	(3,565.0)
Revaluations(+/-)	(5,002.3)	(9,753.3)
Depreciation expense	(56,346.2)	(59,221.7)
Donations	16.8	0.1
Other(+/-)	(8,492.0)	(2,773.3)
General PP&E, Net end of year	$ 831,995.4	$ 818,576.1

NOTE 10. OTHER ASSETS

Table 10. Other Assets

As of September 30 *(dollar in millions)*	2023	Restated 2022
Intragovernmental		
Advances and Prepayments	$ 1,327.4	$ 646.0
Other Assets	123.3	123.3
Total Intragovernmental	1,450.7	769.3
Other than Intragovernmental		
Outstanding Contract Financing Payments	11,866.6	11,609.2
Advances and Prepayments	340.1	2,555.3
Other Assets	23.2	8.9
Subtotal	12,229.9	14,173.4
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(12,206.7)	(14,164.5)
Net Other than Intragovernmental	23.2	8.9
Total Other Assets	$ 1,473.9	$ 778.2

In FY 2022, activities with other federal entities were mistakenly eliminated resulting in a misstatement within Advances and Prepayments (Intragovernmental) that was corrected in FY 2023. The net effect at the end of FY 2023 was zero.

Restatements

The Department corrected a $30.9 million overstatement of FY 2022 Other Assets, Other than Intragovernmental due to the incorrect reporting of General Property, Plant, and Equipment permanently removed but not yet disposed. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, such as prepaid rent.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2023 and FY 2022), held by the Department of Energy. In accordance with the *Department of Defense Appropriations Act of 1993*, these assets are maintained as a *Strategic Petroleum Reserve* for national defense purposes.

Other than Intragovernmental

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, are Department cash disbursements to a contractor under the contract prior to Department acceptance of goods and services.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets excluding those made as Outstanding Contract Financing Payments.

In FY 2023 and FY 2022, Other Assets (Other than Intragovernmental) consists primarily of General PP&E that was permanently removed from service but not yet disposed and of payment for goods which would not be properly classified as a prepayment or advance.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 *(dollar in millions)*	2023	Restated 2022
Intragovernmental Liabilities		
Accounts payable	$ 1.9	$ 31.4
Other	2,292.0	2,187.2
Total Intragovernmental Liabilities	2,293.9	2,218.6
Other than Intragovernmental Liabilities		
Accounts payable	4,286.6	3,755.0
Federal employee and veteran benefits payable	2,098,669.4	2,084,378.7
Environmental and disposal liabilities	89,394.4	86,213.9
Other liabilities	5,047.8	3,757.4
Total Other than Intragovernmental Liabilities	2,197,398.2	2,178,105.0
Total Liabilities Not Covered by Budgetary Resources	2,199,692.1	2,180,323.6
Total Liabilities Covered by Budgetary Resources	1,744,372.4	1,563,933.7
Total Liabilities Not Requiring Budgetary Resources	7,920.4	6,884.9
Total Liabilities	$ 3,951,984.9	$ 3,751,142.2

Restatements

The Department corrected a $2.5 billion understatement of the FY 2022 Total Liabilities affecting Other Liabilities due to a contract dispute with a vendor. Additionally, the Department corrected Environmental and Disposal Liabilities for a $5.5 million overstatement due to the incorrect classification of expenses. See Note 28, Restatements for a summary of all restatements and further information.

Intragovernmental Liabilities

Accounts payable consists primarily of amounts due for unfunded *Judgment Fund* liabilities.

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

Other than Intragovernmental Liabilities

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2023 and FY 2022, these liabilities primarily consisted of $1.3 trillion in pension liabilities. Additionally, these liabilities consisted of $780.8 billion and $726.5 billion in health benefit liabilities in FY 2023 and FY 2022, respectively. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities*, for additional details.

In FY 2023 and FY 2022, Other Liabilities consists primarily of expected expenditures for the unfunded non-environmental disposal of conventional munitions and contingent liabilities.

Total Liabilities

Budgetary Resources, which covers liabilities, 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, liabilities are covered by budgetary resources 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 having to first meet a contingency.

Liabilities Not Covered by Budgetary Resources require future congressional action before budgetary resources can be provided; whereas 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 in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Liabilities Not Requiring Budgetary Resources are covered by monetary assets that are not budgetary resources to the entity. In FY 2023 and FY 2022, Liabilities Not Requiring Budgetary Resources primarily consist of deposit funds which are used to record amounts held temporarily until paid to the appropriate government or public entity. In prior years, these amounts were reported as Liabilities Covered by Budgetary Resources.

NOTE 12. DEBT

Table 12. Debt

As of September 30 *(dollar in millions)*	2023 Beginning Balance	2023 Net Borrowing	2023 Ending Balance
Source of Debt (Intragovernmental)			
Debt Owed to:			
Treasury other than the Federal Financing Bank	$ 1,597.7	$ 312.4	$ 1,910.1
Total Debt	$ 1,597.7	$ 312.4	$ 1,910.1

As of September 30 *(dollar in millions)*	2022 Beginning Balance	2022 Net Borrowing	2022 Ending Balance
Source of Debt (Intragovernmental)			
Debt to Treasury other than the Federal Financing Bank	$ 1,600.5	$ (2.8)	$ 1,597.7
Total Debt	$ 1,600.5	$ (2.8)	$ 1,597.7

The Department's debt consists of principal amounts due to the Treasury when borrowing funds from the Treasury for the Military Housing Privatization Initiative (MHPI). Debt is established when MHPI borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for more information pertaining to the MHPI direct loan program.

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, *Executive Order (EO) 13922* issued on May 14, 2020, authorized the Chief Executive Officer of the U.S. International Development Finance Corporation (DFC) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and financially report the government direct loans. This delegation of authority applied for the two-year period ending March 27, 2022, during which time the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (*50 U.S.C. 4532(c)(1)*) were waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act (*CARES*). In FY 2023, the Department entered into a Finance Agreement pursuant to the terms of the Defense Production Act with National Resilience, Inc. for $268.2 million. When the private sector repays the loans, DPA returns the funds to the Treasury. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for more information pertaining to the DPA direct loan program.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

The Department complies with the requirements of *SFFAS 33*, which directs that the long-term discount rate, underlying inflation rate, (cost of living adjustment [COLA]) and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions and other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30 *(dollar in millions)*	2023 Liabilities	2023 (Assets Available to Pay Benefits)	2023 Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 2,616,041.0	$ (1,318,609.1)	1,297,431.9
Military Pre Medicare-Eligible Retiree Health Benefits	315,587.4	-	315,587.4
Military Medicare-Eligible Retiree Health Benefits	806,804.8	(341,549.4)	465,255.4
Total Pension and Health Benefits	3,738,433.2	(1,660,158.5)	2,078,274.7
Other Benefits			
FECA	4,827.5	-	4,827.5
Voluntary Separation Incentive Programs	82.4	(42.4)	40.0
DoD Education Benefits Fund	442.0	(442.0)	-
Other	17,637.4	(2,110.2)	15,527.2
Total Other Benefits	22,989.3	(2,594.6)	20,394.7
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	3,761,422.5	(1,662,753.1)	2,098,669.4
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,664.8	(694.2)	970.6
Total Federal Employee and Veteran Benefits Payable	$ 3,763,087.3	$ (1,663,447.3)	$ 2,099,640.0

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.5 trillion

As of September 30 *(dollar in millions)*	2022		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 2,513,153.0	$ (1,175,813.8)	$ 1,337,339.2
Military Pre Medicare-Eligible Retiree Health Benefits	295,085.6	-	295,085.6
Military Medicare-Eligible Retiree Health Benefits	747,145.4	(315,719.7)	431,425.7
Total Pension and Health Benefits	3,555,384.0	(1,491,533.5)	2,063,850.5
Other Benefits			
FECA	4,865.5	-	4,865.5
Voluntary Separation Incentive Programs	107.8	(50.3)	57.5
DoD Education Benefits Fund	567.0	(567.0)	-
Other	17,701.3	(2,096.1)	15,605.2
Total Other Benefits	23,241.6	(2,713.4)	20,528.2
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	3,578,625.6	(1,494,246.9)	2,084,378.7
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,800.5	(840.2)	960.3
Total Federal Employee and Veteran Benefits Payable	$ 3,580,426.1	$ (1,495,087.1)	$ 2,085,339.0

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.4 trillion

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee Benefits

As of September 30 *(dollar in millions)*	2023				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$ 2,513,153.0	$ 295,085.6	$ 747,145.4	$ 674.8	$ 3,556,058.8
Plus Expense:					
Normal Cost	62,651.9	14,522.7	19,128.2	38.6	96,341.4
Interest Cost	70,205.6	8,810.3	22,045.6	14.5	101,076.0
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	33,255.5	(8,985.5)	(29,690.3)	11.3	(5,409.0)
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	166,113.0	14,347.5	11,483.5	64.4	192,008.4
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	20,987.0	81,015.3	-	102,002.3
Changes in Assumptions Other Than Trend	11,128.6	(3,142.6)	(20,594.3)	(49.5)	(12,657.8)
Losses (Gains) from Actuarial Assumption Changes	11,128.6	17,844.4	60,421.0	(49.5)	89,344.5
Total Expenses	177,241.6	32,191.9	71,904.5	14.9	281,352.9
Less: Benefit Outlays	74,353.6	11,690.1	12,245.1	165.3	98,454.1
Total Changes in Actuarial Liability	102,888.0	20,501.8	59,659.4	(150.4)	182,898.8
Ending Actuarial Liability	$ 2,616,041.0	$ 315,587.4	$ 806,804.8	$ 524.4	$ 3,738,957.6

As of September 30 *(dollar in millions)*	2022				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$ 1,928,444.6	$ 256,828.6	$ 609,423.6	$ 702.3	$ 2,795,399.1
Plus Expense:					
Normal Cost	42,788.2	11,689.8	13,341.6	86.8	67,906.4
Interest Cost	55,578.1	8,680.8	20,359.5	15.7	84,634.1
Plan Amendments	72,570.3	-	-	-	72,570.3
Experience Losses (Gains)	103,967.3	7,117.5	(12,707.4)	8.3	98,385.7
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	274,903.9	27,488.1	20,993.7	110.8	323,496.5
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	15,332.9	107,935.4	-	123,268.3
Changes in Assumptions Other Than Trend	376,682.6	6,452.8	20,509.7	38.4	403,683.5
Losses (Gains) from Actuarial Assumption Changes	376,682.6	21,785.7	128,445.1	38.4	526,951.8
Total Expenses	651,586.5	49,273.8	149,438.8	149.2	850,448.3
Less: Benefit Outlays	66,878.1	11,016.8	11,717.0	176.7	89,788.6
Total Changes in Actuarial Liability	584,708.4	38,257.0	137,721.8	(27.5)	760,659.7
Ending Actuarial Liability	$ 2,513,153.0	$ 295,085.6	$ 747,145.4	$ 674.8	$ 3,556,058.8

The Other column is actuarial liability activity related to the Voluntary Separation Incentive Program and the DoD Education Benefits Fund.

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund (MRF) is a non-revolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

The MRF is authorized by the *NDAA for 1984* to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (*BRS*) is the retirement benefit provision that merges aspects of both a defined benefit annuity with a defined contribution account through the Thrift Savings Plan (*TSP*). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. In addition, the *NDAA for FY 2021, §§ 8224-8225* required the U.S. Coast Guard (USCG) be covered by the MRF for funding purposes no later than the beginning of FY 2023. The USCG actuarial liability was first reflected on the Department's financial statements as of September 30, 2022.

Information Related to Military Retirement Fund Benefit Liabilities

Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost; however, it is a complex calculation impacted by the other factors previously discussed, including updated actuarial assumptions, plan amendments, and experience.

The increase in the FY 2023 actuarial liability results from updated actuarial assumptions and experience. The updated long-term economic assumptions under SFFAS No. 33 are as follows, comparing FY 2023 to FY 2022: 2.9% discount rate compared to 2.8% last year; 2.6% COLA compared to 2.3% last year; 2.6% across-the-board salary increase compared to 2.3% last year. There is a $90.6 billion loss due to these newly adopted SFFAS No. 33 long-term economic assumptions. There are also updated non-economic assumptions. Updated non-economic actuarial assumptions led to a $79.4 billion gain. The total effect of the updated actuarial assumptions is an increase in the September 30, 2023, actuarial liability of $11.1 billion. The experience loss of $33.3 billion reflects economic experience being different from that assumed, as well as the new census data on which the September 30, 2023, actuarial liability is based.

The first column of Table 13A reflects two distinct types of liabilities related to MRF. The line titled “Military Retirement Pensions” represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line titled “Other” represents retirement benefits due and payable on the first business day of the next reporting period.

The second column of Table 13A for MRF, “Assets Available to Pay Benefits,” differs from those reported on the balance sheet for MRF. MRF’s balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost, “book value,” of the securities (see Note 5, *Investments and Related Interest*). The value of assets available to pay benefits presented in Table 13A is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

Table 13A also discloses the “Unfunded Liabilities,” i.e. liabilities not covered by budgetary resources, which is the difference between the “Liabilities” and the “Assets Available to Pay Benefits.”

Information Related to MRF’s Actuarial Cost Method

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per SFFAS 5, AEAN is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new entrant cohort are spread over the projected salaries of that group.

Assumptions listed in Table 13C are used by the OACT to calculate the FY 2023 actuarial liability.

Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)	Salary	Interest
FY 2023	8.7% (actual)	4.6% (actual)	N/A
FY 2024	3.2% (estimated)	5.2% (estimated)	2.9%
Long Term	2.6%	2.6%	2.9%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market value of investments in non-marketable, market-based securities: $1,153.1 billion
Assumed Interest Rate: 2.9%

Historically, the initial unfunded liability of the program was amortized over a 50-year period. Effective FY 2008, the initial unfunded liability is amortized over a 42-year period to ensure annual payments cover interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a period determined by a weighted average using 30 years for the new gain or loss and the remaining period for the existing unamortized balance. At its July 2021 meeting, the Board decided to reset the period for benefit, assumptions, and experience gains and losses to 20 years on a combined, layered (projected) basis. At their July 2023 meeting, the Board set the amortization schedule for the USCG initial unfunded liability to be 3 years, with the first amortization payment scheduled to be made on October 1, 2023. Chapter 74 of Title 10, United States Code (U.S.C.), requires the Board approve the methods and assumptions used to (1) compute actuarial costs and liabilities for funding purposes, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the Secretary of Defense.

Information Related to MRF's Revenues

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, Public Law 108-136 requires a Treasury contribution for the normal cost amount of the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

See Note 5, *Investments and Related Interest* and Note 21, *Disclosures Related to the Statement of Budgetary Resources*, for additional information related to MRF's investments and received contributions.

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

Assumptions listed in Table 13D were used to calculate the FY 2023 actuarial liability. In general, the rates below show that retirees and their dependents are still catching up on medical services delayed during the COVID-19 pandemic and are utilizing drugs for new purposes.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2022 - FY 2023	Ultimate Rate FY 2047
Non-Medicare Inpatient (Direct Care)	5.00%	4.60%
Non-Medicare Outpatient (Direct Care)	4.79%	4.60%
Non-Medicare Prescriptions (Direct Care)	8.77%	4.60%
Non-Medicare Inpatient (Purchased Care)	5.31%	4.60%
Non-Medicare Outpatient (Purchased Care)	5.06%	4.60%
Non-Medicare Prescriptions (Purchased Care)	9.20%	4.60%
U.S. Family Health Plan (USFHP) (Purchased Care)	5.88%	4.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 2.9%

For the FY 2023 financial statement valuation, a single equivalent medical cost trend rate of 4.6% was used to calculate the total retiree health benefits liability which includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with *NDAA for FY 2001*, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

Assumptions listed in Table 13E were used to calculate the FY 2023 actuarial liability. In general, the rates below show that retirees and their dependents are still catching up on medical services delayed during the COVID-19 pandemic and are utilizing drugs for new purposes.

Table 13E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits Medical Trend	FY 2022 - FY 2023	Ultimate Rate FY 2047
Medicare Inpatient (Direct Care)	6.08%	4.60%
Medicare Outpatient (Direct Care)	5.05%	4.60%
Medicare Prescriptions (Direct Care)	9.41%	4.60%
Medicare Inpatient (Purchased Care)	9.45%	4.60%
Medicare Outpatient (Purchased Care)	8.32%	4.60%
Medicare Prescriptions (Purchased Care)	9.01%	4.60%
Medicare USFHP (Purchased Care)	8.84%	4.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market value of investments in non-marketable, market-based securities: $324.8 billion
Assumed Interest Rate: 2.9%

The FY 2023 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $806.8 billion liability includes $786.5 billion for the Department, $18.0 billion for the Coast Guard, $2.2 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2022 $747.1 billion liability included $728.8 billion for the Department, $16.3 billion for the Coast Guard, $1.9 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2023 normal cost contributions from each of the Uniformed Services were $9.7 billion from the Department, $251.9 million from the Coast Guard, $33.7 million from the Public Health Service, and $2.0 million from NOAA. The FY 2022 contributions from each of the Uniformed Services were $9.3 billion from the Department, $238.3 million from the Coast Guard, $33.0 million from the Public Health Service, and $1.9 million from NOAA.

For the FY 2023 financial statement valuation, a single equivalent medical cost trend rate of 4.5% was used to calculate the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

Other Benefits

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual payments have been discounted to present value that is based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues (*TNC Yield Curve*) which reflects the average duration of income payments and medical payments. An interest rate for wage benefits of 2.326% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.112% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (COLA) and medical inflation factors (consumer price index medical [CPIM]). The actual rates for these factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

Table 13F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2024	4.04%	3.25%
2025	4.29%	3.21%
2026	4.38%	3.51%
2027	4.13%	3.87%
2028	3.13%	4.03%

Voluntary Separation Incentive (VSI) Program

The VSI Program was established by NDAA for FYs 1992 and 1993 to reduce the size of the armed forces while avoiding serious skill and grade imbalances, which would degrade the readiness of future forces. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.7% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest costs.

The market value of investments in non-marketable, market-based securities is $42.3 million for FY 2023 and $52.1 million for FY 2022.

DoD Education Benefits Fund (EBF)

The EBF was established by NDAA for FY 1985 to recruit and retain military members and aid in the readjustment of military members to civilian life. The DoD OACT calculates the actuarial liability annually based on the assumed interest rate of 2.75% as approved by the DoD Board of Actuaries.

The market value of investments in non-marketable, market-based securities for FY 2023 is $801.6 million and $917.8 million for FY 2022.

Other Federal Employment Benefits

In FY 2023, Other Federal Employment Benefits primarily consists of unfunded annual leave of $13.4 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of $2.7 billion. In FY 2022, Other Federal Employment Benefits primarily consists of unfunded annual leave of $13.4 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of $2.6 billion.

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes liabilities for clearing accounts, amounts that offset undistributed disbursements or deposited collections awaiting disposition or reclassification. It also includes Employer Contributions and Payroll Taxes Payable, which represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. Unfunded FECA Liability and Unfunded Unemployment Insurance Liability, which the DOL bills to the DoD for payments made on the DoD's behalf, is also included. This liability will be funded by future years' budgetary resources.

Life Insurance Liabilities and Other Civilian Insurance Programs

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (*OPM*). The Department does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

Other Military Insurance Programs

The Defense Health Program (DHP) within the Department provides healthcare for military members through the Military Health System (MHS). The DHP is the nomenclature used to describe a congressionally-mandated uniform program of medical and dental care for members and certain former members of the uniformed services and for their dependents. The term "uniformed services" means the armed forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) and of the Public Health Service.

MHS is a complex system, globally integrating healthcare delivery, public health and medical education, and cutting-edge medical research and development. More information, including its most recently published Agency Financial Report, may be found at *Office of the Assistant Secretary of Defense for Health Affairs*.

Covered individuals of the Department include active duty personnel, military retirees, certain members of the Reserve Component, family members, survivors, ex-spouses, and other eligible members. These MHS beneficiaries receive direct care through Military Medical Treatment Facilities (MTFs), private sector care through TRICARE's civilian provider networks and other authorized TRICARE providers, and prescription and mail order coverage through the TRICARE Pharmacy Program.

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty family members, retirees, and Reserve members. The TRICARE Insurance Portfolio includes TRICARE Prime, TRICARE Select, TRICARE Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult Program (TYA), TRICARE Reserve Select (TRS), and TRICARE Retired Reserve (TRR). The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected, due to the relative stability in the number of enrollees. Premium rate calculations are based on the benefit cost from prior calendar years. This eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors, who provide healthcare claims processing and the initial collections on behalf of DHP.

The total amount of Insurance Premium collections was $957.7 million in FY 2023 and $912.1 million for FY 2022. The benefit cost for FY 2023 and FY 2022 correlate to the premium collections reported.

For Calendar Year 2023 Monthly Premium Rates are established on an annual basis in accordance with *Title 10, U.S.C. Sections 1076d*, *1076e*, *1078a*, and *1110b* along with *Title 32, Code of Federal Regulations, part 199.20*, *24*, *25* and *26*, as enacted by *FY 2017 Section 701 of NDAA; Public Law 114 328*. The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP's Agency Financial Report at the link previously noted.

Unfunded actuarial liabilities ($315.6 billion and $295.1 billion for FY 2023 and FY 2022, respectively) related to MHS are reported in Table 13A where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits. The estimated MHS liability for incurred-but-not-reported (IBNR) medical claims ($2.0 billion and $2.1 billion in FY 2023 and FY 2022, respectively) is included on Table 13A, Other Benefits, Other.

Liability for Unpaid Insurance Claims

Beneficiary claims for Premium health care services are processed through the TRICARE Encounter Data Set. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, change in administration cost estimates and required margin, change in population size, and movement of health care delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims, including IBNR.

Table 13G. Liability for Unpaid Insurance Claims

As of September 30 *(dollar in millions)*	2023	2022
Beginning Balance	$ 2,436.9	$ 2,084.7
Claims Expense	16,750.8	16,589.7
Claims Adjustment Expense	(26.5)	(28.8)
Payments to Settle Claims	(16,775.9)	(16,214.0)
Recoveries and Other Adjustments	(1.8)	5.3
Ending Balance	$ 2,383.5	$ 2,436.9

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Table 14. Environmental and Disposal Liabilities

As of September 30 *(dollar in millions)*	2023	Restated 2022
Environmental Liabilities - Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 16,694.0	$ 15,166.0
Active Installations - Military Munitions Response Program (MMRP)	3,998.7	3,994.4
Formerly Used Defense Sites - IRP and BD/DR	3,536.0	3,559.5
Formerly Used Defense Sites - MMRP	10,564.5	9,875.9
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	5,558.5	5,251.9
Environmental Closure Requirements	3,030.9	10,038.0
Asbestos	10,980.0	10,197.1
Non-Military Equipment	6.0	1.0
Other	2,660.4	2,657.6
Base Realignment and Closure Installations		
IRP	6,797.4	5,572.5
MMRP	1,081.8	978.3
Environmental Corrective Action/Closure Requirements	471.7	393.6
Asbestos	10.5	10.3
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	23,037.0	17,367.8
Non-Nuclear Powered Military Equipment	742.2	642.8
Other Weapon Systems	388.4	371.9
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency (CMA)	1,815.5	1,947.2
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	2,244.7	2,529.8
Red Hill Response		
Community Spill	3.2	-
Tank Closure Requirements	144.8	-
Environmental Corrective Action	26.0	-
Total Environmental and Disposal Liabilities	$ 93,792.2	$ 90,555.6

The Department has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program (*DERP*) at active installations, Base Realignment Closure (BRAC), and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not driven by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities - Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (*FUSRAP*) which the U.S. Army Corps of Engineers is responsible for cleaning up sites with contamination resulting from the nation's early atomic energy program.

Restatement

The Department corrected a $5.5 million overstatement of the FY 2022 Environmental and Disposal Liabilities due to the incorrect classification of expenses. See Note 28, *Restatements* for a summary of all restatements and further information.

Environmental and Disposal Liabilities Involving Multiple Component Entities

There are instances when the DoD entity that recognizes General PP&E during its useful life differs from the entity that will eventually be responsible for the future outflow of resources required for cleanup when the General PP&E is removed from service. *FASAB Interpretation 9*, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 and SFFAS 6*, clarifies during the General PP&E's useful life the entity owning the General PP&E must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General PP&E on its Balance Sheet. When the General PP&E is transferred to the designated entity responsible by law, statute, or policy for cleanup, the General PP&E and the associated liability must be de-recognized by the entity that recognized them during the useful life. The General PP&E then must be recognized by the entity responsible for clean-up and liquidating the liability. The entity recording the environmental and disposal liabilities must have sufficient supporting documentation to establish its responsibility for the liability.

Sources for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activities resulting in public health or environmental risks. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Tracking and reporting all environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC action are required by the Department.

The Department follows the *Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA)*, *Superfund Amendments and Reauthorization Act of 1986 (SARA)*, *Resource Conservation and Recovery Act of 1976 (RCRA)* or other applicable federal or state laws to clean up contamination. The CERCLA, SARA, and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The *Atomic Energy Act of 1954*, as amended, set forth the development, use, and control of atomic energy so as to promote world peace, improve general welfare, increase standard of living, and strengthen free competition in private enterprise. The *Nuclear Waste Policy Act of 1982*, as amended, supports the use of deep geologic repositories for the safe storage and disposal of radioactive waste. The *Low Level Radioactive Waste Policy Amendments Act of 1985*, as amended, authorizes and encourages states to enter into compacts for safe and efficient management of low-level radioactive wastes.

The Chemical Weapons Disposal Program is based on the *NDAA for FY 1986*, directing the Department to carry out the destruction of chemical agents and munition stockpile in accordance with the Chemical Weapons Convention.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department utilizes an estimating methodology model which includes the use of mathematical equations to covert resources data into cost data to project environmental cleanup cost. The Department validates the models in accordance with *DoD Instruction 5000.61* and estimates liabilities based on data received during preliminary assessment and site investigation.

Once the environmental cleanup cost estimates are complete, the Department complies with accounting standards to record costs to current and future operating periods, when applicable. The Department expensed cleanup costs for General PP&E placed into service before October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the General PP&E.

For General PP&E placed into service after September 30, 1997, the Department expenses associated Environmental cleanup costs using two methods – (1) physical capacity usage of the General PP&E or (2) systematically recognized over the use life.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E was $4.7 billion as of September 30, 2023, and $3.9 billion as of September 30, 2022.

Nature and Possible Changes in Estimated Cleanup Costs

Environmental and disposal liabilities change over time because of laws and regulation updates, technology advances, inflation or deflation factors and disposal plan revisions.

The Department revises estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Uncertainty Regarding Accounting Estimates

The accounting estimates used to calculate the reported environmental and disposal liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

Emerging Contaminants

Per and Polyfluoroalkyl Substances (PFAS) are classified as emerging contaminants because they do not have established regulatory standards, but evolving science has identified potential risks to humans and regulatory standards are under consideration.

PFAS are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While the Department is only one of the many users of AFFF, there is significant attention on the Department's use and the subsequent potential impact to human health and the environment. The Department follows the existing federal cleanup law CERCLA and long-standing Environmental Protection Agency regulations for all chemicals in its cleanup program, including PFAS. As the Department continues PFAS site investigations and additional regulatory standards are developed and put in place, the PFAS related environmental and disposal liability amounts are likely to increase over time.

As of FY 2023, the Department reported PFAS related environmental and disposal liability amounts through the Remedial Investigation/ Feasibility Study (RI/FS) phase for most PFAS sites. The Department concluded that costs after the RI/FS phase are not yet reasonably estimable because the extent of the PFAS release has not been determined.

Red Hill Bulk Fuel Storage Facility

The Red Hill Fuel Storage Facility (Red Hill) is located on the Island of Oahu, Hawaii, and consists of twenty underground steel-lined tanks encased in concrete and built into cavities. In May 2021, approximately 21,000 gallons of fuel was released during a fuel transfer when two piping joints ruptured. Most of the fuel was collected into an empty retention line. An environmental liability was not estimated during FY 2021 since the fuel release was unknown.

In November 2021, the retention line was struck by a vehicle operating in the facility causing the fuel to release outside of Red Hill. The fuel migrated into the drinking water supply to Joint Base Pearl Harbor Hickam.

In May 2022, the Hawaii Department of Health (DOH) issued an Emergency Order for the twenty underground storage tanks (UST) to close in accordance with Hawaii environmental regulations.

The Department issued "*Department of Defense Report on Red Hill Response Cost Projections*" dated August 31, 2022 (Cost Projection Report) to inform Congress of the Department's projected costs to defuel and permanently close the Red Hill Bulk Fuel Storage Facility to comply with the Hawaii State Department of Health order. In the report, the Department estimated projected costs total $2.0 billion through FY 2027. The Cost Projection Report was developed in a short time frame for budgetary purposes. Therefore, most of the projected costs were not estimated based on specific site information that will be gained from the fuel investigation and response, and do not meet federal accounting standards for estimates. As such, not all costs were reasonably estimable in FY 2022.

In December 2022, the Department of Navy published and released the "Red Hill Tank Closure Plan Analysis of Alternatives & Concept Design to Close In Place" outlining 4 closure alternatives and associated costs. Once Hawaii DOH and EPA approve the Closure Plan, including the tank closure alternative, the current liability will materially change to align with this Closure Plan.

In FY 2023, The Department reports $144.8 million under "Red Hill Response - Tank Closure Requirements," based on the standard parametric closure approach. The current year liability amount is based on the isolation of the impacted Red Hill asset closure population and associated liability. In addition, the Department reports $26.0 million under "Red Hill Response – Environmental Corrective Action" as part of pump and treat activities related to response at Red Hill and $3.2 million under "Red Hill Response – Community Spill."

Asbestos-Related Cleanup Costs

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. Both CERCLA and RCRA address asbestos cleanup, but there is no legal requirement to test for asbestos or to remove and remediate non-friable asbestos before renovation or disposal. In accordance with *FASAB Technical Bulletin 2006-1*, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, the Department environmental and disposal liabilities include estimated cleanup costs related to friable and non-friable asbestos. The Department estimates asbestos cleanup costs based on historic cost factors applied to facility square footage in the real property inventory. Based on the inherent uncertainties associated with asbestos environmental cleanup, the estimated cost will be updated as more relevant data becomes available. The Department does not have either an unrecognized portion of the estimated total asbestos-related cleanup costs nor asbestos-related cleanup costs that are deemed to be probable but not estimable for FY 2023.

Please see Note 17, *Commitments and Contingencies* for additional information.

NOTE 15. OTHER LIABILITIES

Table 15A. Other Liabilities

As of September 30 *(dollar in millions)*	2023		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	$ 805.2	-	$ 805.2
Liabilities for Non-entity Assets	83.8	4,411.2	4,495.0
Other Liabilities	1,321.1	-	1,321.1
Subtotal	2,210.1	4,411.2	6,621.3
Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	1,139.2	525.6	1,664.8
Total Intragovernmental	3,349.3	4,936.8	8,286.1
Other than Intragovernmental			
Accrued Funded Payroll and Leave	6,745.2	-	6,745.2
Withholdings Payable	661.5	-	661.5
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	3,661.4	-	3,661.4
Liability for Clearing Accounts	(0.2)	-	(0.2)
Contract Holdbacks	506.4	1,264.2	1,770.6
Contingent Liabilities	580.5	1,550.6	2,131.1
Benefits Due and Payable	1.4	-	1.4
Other Liabilities without Related Budgetary Obligations	302.5	2,714.8	3,017.3
Other Liabilities with Related Budgetary Obligations	9,144.4	(23.6)	9,120.8
Total Other than Intragovenmental	21,603.1	5,506.0	27,109.1
Total Other Liabilities	$ 24,952.4	$ 10,442.8	$ 35,395.2

As of September 30 *(dollar in millions)*	Restated 2022		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	$ 984.3	-	$ 984.3
Liabilities for Non-entity Assets	317.2	4,469.7	4,786.9
Other Liabilities	1,229.3	-	1,229.3
Subtotal	2,530.8	4,469.7	7,000.5
Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	1,299.2	501.3	1,800.5
Total Intragovernmental	3,830.0	4,971.0	8,801.0
Other than Intragovernmental			
Accrued Funded Payroll and Leave	7,809.8	-	7,809.8
Withholdings Payable	658.8	-	658.8
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	3,161.4	-	3,161.4
Liability for Clearing Accounts	(0.3)		(0.3)
Contract Holdbacks	449.8	1,233.0	1,682.8
Contingent Liabilities	307.4	776.2	1,083.6
Benefits Due and Payable	1.8	-	1.8
Other Liabilities without Related Budgetary Obligations	439.9	2,244.3	2,684.2
Other Liabilities with Related Budgetary Obligations	3,166.2	-	3,166.2
Total Other than Intragovenmental	15,994.8	4,253.5	20,248.3
Total Other Liabilities	$ 19,824.8	$ 9,224.5	$ 29,049.3

Restatements

The Department corrected a $2.5 billion understatement of the FY 2022 Other Liabilities for non-entity assets due to a contract dispute with a vendor. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Other Liabilities

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

Liabilities for Non-entity Assets represent offsetting liabilities for non-entity assets primarily non-entity receivables that, upon collection, will be remitted to Treasury.

Other Liabilities primarily consists of Judgement Fund liabilities under the *Contract Disputes Act of 1978*, for which there is not a related budgetary obligation. The Judgment Fund pays court judgments and compromise settlements of lawsuits against the government. Losses in litigation proceedings may be paid from the Treasury Judgement Fund.

“Intragovernmental Other Liabilities” on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD, *Significant Accounting Policies*). Certain USSGLs on the Balance Sheet line “Intragovernmental Other Liabilities” are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 15. The amounts from the Balance Sheet “Intragovernmental Other Liabilities” reported on Note 13 are aggregated and also included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Than Intragovernmental Other Liabilities

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.

Liability for clearing accounts represent liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or for reclassification. The net amount may present as an overall position or negative balance.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. In FY 2023 and FY 2022 contract holdbacks include $1.5 billion and $1.4 billion, respectively, for contracts authorization progress payments based on cost as defined in the *Federal Acquisition Regulation (FAR)*.

Contingent Liabilities for FY 2023 and FY 2022 include legal contingent liabilities. See Note 17, *Commitments and Contingencies*.

Other Liabilities without Related Budgetary Obligations consist primarily of accrued liabilities for conventional munitions noncurrent liability, non-environmental disposal liabilities and other future funded expense, liabilities for Reserve Officer Training Corps contracts, and estimated costs for services provided.

Other Liabilities with Related Budgetary Obligations consist primarily of estimated costs for goods and services provided; accrued liabilities for inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

Table 15B. Advances from Others and Deferred Revenue (reported separately from Other Liabilities on the Balance Sheet)

As of September 30 *(dollar in millions)*	2023	Restated 2022
Intragovernmental	$ 4,440.1	$ 3,859.4
Other than Intragovernmental	6,844.4	6,194.3

Intragovernmental

Advances from Others and Deferred Revenue represents liabilities for collections received to cover future expenses or acquisition of assets the Department incurs or acquires on behalf of another organization. Advances from Others and Deferred Revenue for FY 2023 and FY 2022 includes $155.5 million and $1.1 billion, respectively for cash advances from Department of Health and Human Services to deliver medical supplies in support of COVID-19 efforts.

Other Than Intragovernmental

Advances from Others and Deferred Revenue represents amounts received for goods and services to be delivered or performed in the future and reflect amounts that have yet to be earned.

NOTE 16. LEASES

Entity as Lessee

Capital Leases:

The Department is reporting Non-Federal capital lease equipment and amortization related to Indefeasible Right of Use agreements, allowing the Department access to portions of undersea fiber optic cables. The Department has other leased assets recorded as equipment for which no future lease payments are due.

Table 16A. Entity as Lessee - Assets Under Capital Lease

As of September 30 *(dollar in millions)*	2023	2022
Equipment	$ 336.1	$ 320.2
Accumulated Amortization	(274.0)	(264.8)
Total Assets Under Capital Leases	$ 62.1	$ 55.4

Description of Lease Arrangements:

Lease arrangements describe the nature of the leases (such as major asset categories, the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements).

Table 16B. Entity as Lessee - Future Payments Due for Federal Capital Leases

Currently, the Department has no significant future capital lease payments with terms longer than one year.

Table 16C. Entity as Lessee - Future Payments Due for Non-Federal Capital Leases

Currently, the Department has no significant future non-federal capital lease payments with terms longer than one year.

Operating Leases:

Description of Lease Arrangements:

The future lease payments due presented in the table below are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risk of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index (CPI).

Federal

Office space is the largest component of Land and Building leases. Other leases primarily consist of General Services Administration motor vehicle leases.

Non-Federal

Office space and buildings are the largest component of Land and Building leases. Other leases primarily consist of commercial vehicle leases, and communication and broadcast towers leases.

Table 16D. Entity as Lessee - Future Payments Due for Non-Cancelable Operating Leases

As of September 30 *(dollar in millions)*	2023 Asset Category			
	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2024	$ 886.8	$ 6.0	$ 116.1	$ 1,008.9
2025	492.4	4.2	117.5	614.1
2026	502.0	4.0	118.8	624.8
2027	507.1	3.6	120.9	631.6
2028	502.6	2.7	123.9	629.2
After 5 Years	1,154.3	2.6	118.7	1,275.6
Total Federal Future Lease Payments	4,045.2	23.1	715.9	4,784.2
Non-Federal				
Fiscal Year				
2024	254.4	0.5	27.1	282.0
2025	203.5	0.5	27.2	231.2
2026	160.5	0.5	27.4	188.4
2027	121.3	0.3	27.8	149.4
2028	71.5	-	28.4	99.9
After 5 Years	164.7	-	28.9	193.6
Total Non-Federal Future Lease Payment	975.9	1.8	166.8	1,144.5
Total Future Lease Payments	$ 5,021.1	$ 24.9	$ 882.7	$ 5,928.7

Entity as Lessor

Capital Leases:

Description of Lease Arrangements:

The Department is currently unaware of any non-cancelable capital leases where it is the lessor.

Table 16E. Entity as Lessor - Future Projected Receipts for Capital Leases

Currently, the Department is unaware of any non-cancelable capital leases where it is the lessor.

Operating Leases:

Description of Lease Arrangements:

The future lease payments due presented in the table below, are for non-cancelable operating leases in which the Department is the lessor.

The United States Army Corps of Engineers (USACE) permits a small number of Federal entities, such as Government Accountability Office, to use its office spaces on a break-even basis.

USACE and the Department of the Army have a small volume of operating leases as the lessor for easements with Non-Federal entities. Private companies' and individuals' lease easements are managed by USACE to operate marinas, restaurants, cell towers, and other businesses on USACE lands and Army installations. Only USACE and the Department of the Army are reporting Non-Cancelable Operating Leases as the lessor.

Table 16F. Entity as Lessor - Future Projected Receipts for Non-Cancelable Operating Leases

As of September 30 *(dollar in millions)*	2023 Land, Land Rights, and Buildings
Federal	
Fiscal Year	
2024	0.1
2025	0.1
2026	-
2027	-
2028	-
After 5 Years	-
Total Federal Future Projected Receipts	0.2
Non-Federal	
Fiscal Year	
2024	25.2
2025	21.5
2026	17.4
2027	14.2
2028	12.4
After 5 Years	54.0
Total Non-Federal Future Projected Receipts	144.7
Total Future Projected Receipts for Operating Leases	$ 144.9

NOTE 17. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the *Treasury Judgment Fund*. In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with *SFFAS 5*, *Accounting for Liabilities of the Federal Government*, as amended by *SFFAS 12*, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The below amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

Table 17. Summary of Legal Contingent Liabilities

As of September 30 *(dollar in millions)*	2023 Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Legal Contingent Liabilities			
Probable	$ 2,012.1	$ 1,522.1	$ 3,567.6
Reasonably Possible	-	$ 391.2	$ 34,397.8

As of September 30 *(dollar in millions)*	2022 Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Legal Contingent Liabilities			
Probable	$ 944.7	$ 508.5	$ 1,436.1
Reasonably Possible	-	$ 1,657.2	$ 40,212.7

As of September 30, 2023, legal claims exist for which the amount claimed, and the potential range of loss cannot be reasonably determined. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

Environmental Contingencies

The Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs. See Note 14, *Environmental and Disposal Liabilities*, for additional information.

Other Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of $119.0 million and $139.0 million have been accrued for FY 2023 and FY 2022, respectively. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the Department's financial statements pursuant to legal authority and appropriated funds none are contingent. All legally binding agreements to which the Department enters, must first be approved by the Department of State, pursuant to *Circular 175*, prior to negotiation and prior to conclusion.

Commitments

The Department has the following obligations as of FY 2023 and FY 2022

- Cancelled appropriations for which it has a contractual commitment for payment ($4.3 billion and $3.7 billion, respectively)
- Contractual arrangements related to loan guarantees ($831.8 million and $847.5 million, respectively)
- Non-cancelable operating leases which may require future financial obligations ($4.7 billion and $6.2 billion, respectively)
- See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for the face value of outstanding principal of guaranteed loans net of the liability recognized at Net Present Value and Note 16, *Leases*, for additional information.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

Table 18A. Combined Balance Sheet – Funds from Dedicated Collections

See Note 1.U. *Summary of Significant Accounting Policies, Revenues and Other Financing Sources* for information related to the Department's Funds from Dedicated Collections.

As of September 30 *(dollar in millions)*	2023						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets							
Fund Balance with Treasury	$ 203.2	$ 2,842.5	$ 2,112.6	$ 1,150.3	$ 6,308.6	$ -	$ 6,308.6
Investments, Net	10,540.3	-	1,393.3	16.1	11,949.7	-	11,949.7
Accounts Receivable, Net	2,790.8	-	-	3.0	2,793.8	(2,217.2)	576.6
Total Intragovernmental Assets	13,534.3	2,842.5	3,505.9	1,169.4	21,052.1	(2,217.2)	18,834.9
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	-	3.1	3.1	-	3.1
Accounts Receivable, Net	-	61.2	-	4.5	65.7	-	65.7
General Property, Plant and Equipment, Net	121.4	240.5	-	157.0	518.9	-	518.9
Advances and Prepayments	-	-	-	0.2	0.2	-	0.2
Total Other than Intragovernmental Assets	121.4	301.7	-	164.8	587.9	-	587.9
Total Assets	13,655.7	3,144.2	3,505.9	1,334.2	21,640.0	(2,217.2)	19,422.8
Intragovernmental Liabilities							
Accounts Payable	4,435.2	0.8	3.2	16.5	4,455.7	(2,217.2)	2,238.5
Advances from Others and Deferred Revenue	-	-	-	1.4	1.4	-	1.4
Other Liabilities:	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	4,441.2	13.7	3.2	20.2	4,478.3	(2,217.2)	2,261.1
Other than Intragovernmental Liabilities							
Accounts Payable	0.1	47.5	-	87.3	134.9	-	134.9
Other Liabilities:							
Advances from Others and Deferred Revenue	-	2,819.9	-	-	2,819.9	-	2,819.9
Other	-	8.6	-	-	8.6	-	8.6
Total Other Liabilities	-	2,828.5	-	-	2,828.5	-	2,828.5
Total Other than Intragovernmental Liabilities	0.1	2,876.0	-	87.3	2,963.4	-	2,963.4
Total Liabilities	4,441.3	2,889.7	3.2	107.5	7,441.7	(2,217.2)	5,224.5
Cumulative Results of Operations	9,214.4	254.5	3,502.7	1,226.7	14,198.3	-	14,198.3
Total Liabilities and Net Position	$ 13,655.7	$ 3,144.2	$ 3,505.9	$ 1,334.2	$ 21,640.0	$ (2,217.2)	$ 19,422.8

As of September 30 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets							
Fund Balance with Treasury	$ 175.5	$ 2,447.6	$ 1,911.3	$ 1,040.9	$ 5,575.3	$ -	$ 5,575.3
Investments, Net	9,516.3	-	1,630.8	16.2	11,163.3	-	11,163.3
Accounts Receivable, Net	1,650.4	-	-	3.0	1,653.4	(1,061.1)	592.3
Total Intragovernmental Assets	11,342.2	2,447.6	3,542.1	1,060.1	18,392.0	(1,061.1)	17,330.9
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	-	2.6	2.6	-	2.6
Accounts Receivable, Net	-	61.5	-	11.7	73.2	-	73.2
General Property, Plant and Equipment, Net	123.4	218.2	-	168.1	509.7	-	509.7
Advances and Prepayments	-	-	-	0.2	0.2	-	0.2
Total Other than Intragovernmental Assets	123.4	279.7	-	182.6	585.7	-	585.7
Total Assets	11,465.6	2,727.3	3,542.1	1,242.7	18,977.7	(1,061.1)	17,916.6
Intragovernmental Liabilities							
Accounts Payable	2,122.7	0.1	6.3	4.5	2,133.6	(1,061.1)	1,072.5
Advances from Others and Deferred Revenue	-	-	-	-	-	-	-
Other Liabilities	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	2,128.7	13.0	6.3	6.8	2,154.8	(1,061.1)	1,093.7
Other than Intragovernmental Liabilities							
Accounts Payable	0.2	41.4	-	39.2	80.8	-	80.8
Other Liabilities:	-	-	-	-	-	-	-
Advances from Others and Deferred Revenue	-	2,418.5	-	-	2,418.5	-	2,418.5
Other	-	9.2	-	-	9.2	-	9.2
Total Other Liabilities	-	2,427.7	-	-	2,427.7	-	2,427.7
Total Other than Intragovernmental Liabilities	0.2	2,469.1	-	39.2	2,508.5	-	2,508.5
Total Liabilities	2,128.9	2,482.1	6.3	46.0	4,663.3	(1,061.1)	3,602.2
Cumulative Results of Operations	9,336.7	245.2	3,535.8	1,196.7	14,314.4	-	14,314.4
Total Liabilities and Net Position	$ 11,465.6	$ 2,727.3	$ 3,542.1	$ 1,242.7	$ 18,977.7	$ (1,061.1)	$ 17,916.6

Table 18B. Combined Statement of Net Cost – Funds from Dedicated Collections

For the period ended September 30 *(dollar in millions)*	2023						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross Program Costs	$ 63.7	$ 342.9	$ 1,241.9	$416.8	$ 2,065.3	$ -	$ 2,065.3
Less: Earned Revenues	-	(428.5)	(867.9)	(260.3)	(1,556.7)	-	(1,556.7)
Net Program Costs	63.7	(85.6)	374.0	156.5	508.6	-	508.6
Net Cost of Operations	$ 63.7	$ (85.6)	$ 374.0	$156.5	$ 508.6	$ -	$ 508.6

For the period ended September 30 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross Program Costs	$ 62.3	$ 353.3	$ 1,364.3	$ 296.7	$ 2,076.6	$ -	$ 2,076.6
Less: Earned Revenues	-	(472.0)	(1,133.5)	(260.3)	(1,865.8)	-	(1,865.8)
Net Program Costs	62.3	(118.7)	230.8	36.4	210.8	-	210.8
Net Cost of Operations	$ 62.3	$ (118.7)	$ 230.8	$ 36.4	$ 210.8	$ -	$ 210.8

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Table 18C. Combined Statement of Changes in Net Position – Funds from Dedicated Collections

For the period ended September 30, 2023 *(dollar in millions)*	2023						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
Beginning Balance	$ 9,336.7	$ 245.2	$ 3,535.8	$ 1,196.7	$ 14,314.4	$ -	$ 14,314.4
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Changes in errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	9,336.7	245.2	3,535.8	1,196.7	14,314.4	-	14,314.4
Other than Intragovernmental Nonexchange revenue							
Miscellaneous taxes and receipts	-	-	340.9	18.0	358.9	-	358.9
Total Other than Intragovernmental Nonexchange revenue	-	-	340.9	18.0	358.9	-	358.9
Intragovernmental Nonexchange revenue	2,382.9	-	-	13.0	2,395.9	-	2,395.9
Donations and forfeitures of cash and cash equivalents	-	-		132.5	132.5	-	132.5
Transfers-in/out without reimbursement (+/-)	(2,441.5)	(80.9)	-	(61.7)	(2,584.1)	-	(2,584.1)
Imputed financing	-	4.6	-	24.5	29.1	-	29.1
Other	-	-	-	60.2	60.2	-	60.2
Less: Net Cost of Operations	63.7	(85.6)	374.0	156.5	508.6	-	508.6
Net Change in Cumulative Results of Operations	(122.3)	9.3	(33.1)	30.0	(116.1)	-	(116.1)
Net Position, End of Period	$ 9,214.4	$ 254.5	$ 3,502.7	$ 1,226.7	$ 14,198.3	$ -	$ 14,198.3

For the period ended September 30, 2022 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
Beginning Balance	$ 10,210.5	$ 277.0	$ 3,602.4	$ 1,076.5	$ 15,166.4	$ -	$ 15,166.4
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Changes in errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	10,210.5	277.0	3,602.4	1,076.5	15,166.4	-	15,166.4
Other than Intragovernmental Nonexchange revenue							
Miscellaneous taxes and receipts	-	-	164.2	12.1	176.3	-	176.3
Total Other than Intragovernmental Nonexchange revenue	-	-	164.2	12.1	176.3	-	176.3
Intragovernmental Nonexchange revenue	2,093.5	-	-	13.7	2,107.2	-	2,107.2
Donations and forfeitures of cash and cash equivalents	-	-	-	107.9	107.9	-	107.9
Transfers-in/out without reimbursement (+/-)	(2,905.0)	(152.5)	-	(68.6)	(3,126.1)	-	(3,126.1)
Imputed financing	-	2.0	-	24.8	26.8	-	26.8
Other	-	-	-	66.7	66.7	-	66.7
Less: Net Cost of Operations	62.3	(118.7)	230.8	36.4	210.8	-	210.8
Net Change in Cumulative Results of Operations	(873.8)	(31.8)	(66.6)	120.2	(852.0)	-	(852.0)
Net Position, End of Period	$ 9,336.7	$ 245.2	$ 3,535.8	$ 1,196.7	$ 14,314.4	$ -	$ 14,314.4

Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund (*26 U.S.C. §9505*) – The *Water Resources Development Act of 1986* covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of related administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Collections on behalf of USACE from the Department of Homeland Security, Customs and Border Protection, are made into the Trust Fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movement of cargo between domestic ports. Treasury manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund (*16 U.S.C. §3951-3956*), Coastal Wetlands Planning, Protection, and Restoration Act as part of *Public Law 101-646* – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds among the members of the Louisiana Coastal Wetlands Conservation and Restoration Task Force. Federal contributions of dedicated collections are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.

Inland Waterways Trust Fund (*26 U.S.C. §9506*) – Collections from excise taxes on fuel used in commercial transportation on inland waterways are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The collections are required to be transferred to the General Fund for execution. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds (*33 U.S.C. §701h*, *702f*, and *703*) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, and enlargement of river channels in the course of flood control and river and harbor maintenance.

Burden Sharing and Other Relocation Activities

Burden Sharing (*Public Law 104-106* and *10 U.S.C. § 2350j*) – Burden sharing and other cooperative activities involving allies and NATO for the acceptance of cash contributions from any country or regional organization designated for purposes of 10 U.S.C. § 2350j by the Secretary of Defense, in consultation with the Secretary of State for the following:

- Compensation for local national employees
- Military construction projects
- Supplies and services

Support for Relocation to Activities (*10 U.S.C. § 2350k*) – Includes the realignment of military installations and the relocation of military personnel. This includes military construction, military family housing, unaccompanied housing, general facilities constructions for military forces, and utilities improvements. Contributions accepted from other nations related to the relocation must be used for payments of costs incurred in connection with the relocation.

Mutually Beneficial Activities (*Public Law 114-92* and *10 U.S.C. § 2350j*) – Accounts established for the acceptance of cash contributions from the government of Kuwait for the purpose of paying for the costs of construction (including military construction not otherwise authorized by law), maintenance, and repair projects mutually beneficial to the Department and Kuwait military forces.

Contributions accepted for the above activities must be available only for the payment of the related costs.

Other Funds

Other Funds from Dedicated Collections have been aggregated in accordance with *SFFAS 43*.

Special Recreation Use Fees (*16 U.S.C. §6812(e)(1)*) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs that are under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The fees cover operation and maintenance of recreational sites and camping facilities.

Hydraulic Mining in California, Debris (*33 U.S.C. §683*) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Federal Regulatory Commission (*FERC*). USACE collects taxes and expends the taxes under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 (*33 U.S.C. §701c-3*) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the county where the property is located or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §803(f)* and *810*) – The FERC assesses charges against licensees directly benefiting when a reservoir or other improvement is constructed by the United States. Proceeds arising from licenses, except those established by the FERC for administrative reimbursement or other limited situations, are paid to the Treasury from which specific allocations are made. From the specific allocations, a portion of the license fees is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (*33 U.S.C. §2326*) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary of the Army determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (*10 U.S.C. §2685*) – Surcharges on sales of commissary goods and services finance construction and improvements to the defense commissary facilities. Revenue is generated through a five percent surcharge applied to each sale. These funds finance construction, repair, improvement, and maintenance, including related environmental evaluation and construction costs, of the physical infrastructure of commissary stores and central product processing facilities of the defense commissary system.

Proceeds from the Sale of Land, Natick land Conveyance, Army (*Public Law 115-91 Sec 2844*) - The Secretary of the Army may sell and convey all right, title, and interest of the United States in and to parcels of real property, consisting of approximately 98 acres and improvements thereon, located in the vicinity of Hudson, Wayland, and Needham, Massachusetts, that are the sites of military family housing supporting military personnel assigned to the United States (U.S.) Army Natick Soldier Systems Center.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30 *(dollar in millions)*	2023	Restated 2022
Military Retirement Benefits		
Gross Cost	$172,946.2	$227,354.6
Less: Earned Revenue	(72,193.2)	(120,470.8)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	71,549.6	505,127.6
Net Program Costs	172,302.6	612,011.4
Civil Works		
Gross Cost	14,329.6	12,631.9
Less: Earned Revenue	(3,094.6)	(2,335.3)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	11,235.0	10,296.6
Military Personnel		
Gross Cost	175,329.3	169,083.1
Less: Earned Revenue	(1,267.2)	(2,505.3)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	174,062.1	166,577.8
Operations, Readiness & Support		
Gross Cost	332,390.5	316,017.8
Less: Earned Revenue	(38,430.4)	(27,572.5)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	17,794.9	21,824.2
Net Program Costs	311,755.0	310,269.5
Procurement		
Gross Cost	148,262.0	141,880.9
Less: Earned Revenue	(8,576.0)	(9,831.0)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	139,686.0	132,049.9
Research, Development, Test & Evaluation		
Gross Cost	149,023.1	157,464.9
Less: Earned Revenue	(26,629.3)	(50,716.0)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	122,393.8	106,748.9

As of September 30 *(dollar in millions)*	2023	Restated 2022
Family Housing & Military Construction		
Gross Cost	20,356.4	16,454.0
Less: Earned Revenue	(7,468.8)	(5,666.1)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	12,887.6	10,787.9
Consolidated		
Gross Cost	1,012,637.1	1,040,887.2
Less: Earned Revenue	(157,659.5)	(219,097.0)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	89,344.5	526,951.8
Total Net Cost	$ 944,322.1	$ 1,348,742.0

Restatements

The Department corrected a $36.1 million overstatement of the FY 2022 Statement of Net Cost due to asset balances that had a change in acquisition cost, change in acquisition date, retrospective depreciation adjustments, unrecorded asset transfers in prior years, and incorrect classification of expenses. See Note 28, *Restatements* for a summary of all restatements and further information.

Other Disclosures

The Statement of Net Cost (SNC) provides gross and net cost information related to the amount of output, or outcome, for a given program administered by a responsible consolidation entity. The Department is in the process of reviewing available data and developing a cost reporting methodology required by *SFFAS 4*, *Managerial Cost Accounting Concepts and Standards for the Federal Government* as amended by *SFFAS 55*, *Amending Inter-Entity Cost Provisions*.

The Department also continues to review the available data and applicability of *SFFAS 7*, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, for disclosures related to the pricing of goods and services provided to the public or another Federal entity. Please see Note 1.E., *Significant Accounting Policies*, Accounting for Intragovernmental and Intergovernmental Activities, for accounting policy related to intra-entity and inter-entity activities.

The Department's military retirement and postemployment costs are reported in accordance with *SFFAS 33*, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.* The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

FY 2023 Earned Revenue for Military Retirement Benefits decreased $48.3 billion (40%) due to decreases in interest revenue related to investments. See Note 5, *Investments and Related Interest*, for further information.

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

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under SFFAS 21, SFFAS 48, and SFFAS 50, that increased the FY 2023 beginning balance from ($839.7) billion to ($835.3) billion, a difference of $4.4 billion. In FY 2022, the Department recorded prior period adjustments that increased the 2022 beginning balance from ($302.3) billion to ($298.3) billion, a difference of $4.0 billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

DoD Components have been electing to change their accounting principles. FASAB issued SFFAS 48 and SFFAS 50, which permitted alternative methods in establishing opening balances and were effective for periods beginning after September 30, 2016. In FY 2023, there were adjustments of $928.9 million related to changes in accounting principles. Restatements related to SFFAS 50 were recorded as corrections of errors, see the restatements section below for details. In FY 2022, these changes in accounting principles decreased the beginning Cumulative Results of Operations by $4.5 billion as the Components established opening balances for Operating Materials & Supplies.

Restatements

In addition to the prior period adjustments to Cumulative Results of Operations, the Department restated its Statement of Changes in Net Position as of September 30, 2023 to correct errors in:

- Accounts Receivable, Net Other than Intragovernmental (was understated by $2.5 billion)
- Inventory and Related Property, Net (was understated by $513.5 million)
- General PP&E, Net (was understated by $3.9 billion)
- Other Assets, Other than Intragovernmental (was overstated by $30.9 million)
- Other Liabilities, Intragovernmental (was understated by $2.5 billion)
- Environmental and Disposal Liabilities (was overstated by $5.5 million)
- Transfers in without Reimbursements (was understated by $333.2 million)
- Net Cost of Operations, Other than Intragovernmental (was overstated by $36.1 million)

See Note 28, *Restatements*, and other Notes cited there for further information.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $89.8 billion in FY 2023 and $79.2 billion in FY 2022.
A reconciliation of these amounts is presented in Table 20A.

Table 20A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30 *(dollar in billions)*	2023	Restated 2022
Appropriations, Statement of Budgetary Resources	$ 1,093.6	$ 1,019.5
Permanent and Temporary Reductions	171.5	205.3
Trust and Special Fund Receipts	(260.5)	(283.1)
Miscellaneous items	(0.7)	(1.4)
Total Reconciling Difference	(89.7)	(79.2)
Appropriations Received, Statement of Changes in Net Position	$ 1,003.9	$ 940.3

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority that has been permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts that are awaiting authorizing legislation or the satisfying of specific legal requirements are not immediately available for obligation.

Miscellaneous Items primarily include the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Non-custodial Nonexchange Revenue

The Department is assessing the applicability of SFFAS 7 *Accounting for Revenues and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* disclosure requirements for non-custodial nonexchange revenue. The U.S. Army Corps of Engineers (USACE) reported the majority of the Department's non-custodial nonexchange revenue for FY 2023. The USACE recognizes non-custodial nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. The USACE reported the following non-custodial nonexchange revenue:

- Trust Funds - interest earned on investments, excise taxes and custom duties
- General Fund Receipt Accounts – miscellaneous receipts, penalties and interest
- Special Fund Receipt Accounts – taxes, receipts, licenses, and fees

For the majority of the non-custodial nonexchange revenue recognized in FY 2023, USACE is not the collecting entity, but receives trust fund revenues from Treasury which is recorded in accordance with applicable law.

Other Disclosures

See Note 18, *Funds from Dedicated Collections*, for disclosures related to the parenthetical presentation of funds from dedicated collections on Statement of Changes in Net Position.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with OMB *Circular No. A-136*; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other financial statements, which are presented on a consolidated basis.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Table 21A. Reconciliation of Prior Year Unobligated Balance EOY to Current Year's Unobligated Balance from Prior Year Budget Authority, Net

As of September 30 *(dollar in millions)*	2023
Unobligated Balance: Brought forward, Oct 1	$ 227,731.2
Transferred to other accounts	(11,020.9)
Transferred from other accounts	7,889.1
Transfers between expired and unexpired accounts	34.7
Adjustment to start of year balances brought forward, October 1	(9.3)
Recoveries of prior year unpaid obligations	64,596.5
Borrowing authority withdrawn	(434.5)
Contract authority withdrawn	(9,435.0)
Other balances withdrawn to Treasury	(11,514.9)
Recoveries of prior year paid obligations	5,268.6
Adjustment for change in allocation (general fund portion)	(176.3)
Adjustment for change in allocation (offsetting collection/collected portion)	176.3
Adjustment for change in allocation (trust fund portion)	176.3
Unobligated balance from prior year budget authority, net	$ 273,281.8

The Department completed adjustments to start of year balances brought forward, October 1, of $9.3 million to correct attributes used in the prior period. This balance differs from the Adjustment to unobligated balance brought forward, October 1 (Line1020) on the Report on Budget Execution and Budgetary Resources (SF-133) by $45.6 million due to activity for the Washington Aqueduct Project. In previous years these funds were reported on the Department's financial statements but were not included in the Department's submission to the Governmentwide Treasury Account Symbol Adjusted Trial-Balance System (GTAS). In the current year, the Department recorded these funds on the appropriation type directed by OMB, thereby resolving the difference between the financial statements and the submission to GTAS.

Terms of Borrowing Authority Used

Borrowing authority is budget authority enacted by law to permit obligations and disbursements against amounts borrowed for a specific purpose. The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB *Circular No. A-129*. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for additional information related to MHPI.

Table 21B. Available Borrowing/Contract Authority

No available borrowing authority remained at the end of the period for FY 2023 or FY 2022.

Undelivered Orders at the End of the Period

Unpaid undelivered orders exist when goods or services have been obligated but have not been paid or received. Prepaid or advanced undelivered orders exist when goods or services have been obligated and paid but the goods or services have not been received.

Table 21C. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 *(dollar in millions)*	2023	Restated 2022
Intragovernmental		
Unpaid	$ 113,356.1	$ 103,544.9
Prepaid / Advanced	5,356.3	4,101.0
Total Intragovernmental	118,712.4	107,645.9
Non-Federal		
Unpaid	486,701.4	440,183.2
Prepaid / Advanced	13,737.7	15,002.2
Total Non-Federal	$ 500,439.10	$ 455,185.4
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 619,151.5	$ 562,831.3

For purposes of the above table, the breakout of the total Budgetary Resources Obligated for Undelivered Orders at the End of the Period are estimated allocations by DoD Components between Intragovernmental and Non-Federal and between Unpaid and Prepaid/Advanced.

Restatements

The Department corrected an understatement of the Statement of Budgetary Resources due to the obligation and de-obligation of direct loans that occurred within the Defense Production Act Direct Loan Program. Table 21C Intragovernmental Unpaid increased by $6.7 million, and Non-Federal Unpaid increased by $25.3 million.

See Note 28, *Restatements*, for a summary of all restatements and further information.

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by public law. The receipts, however, are assets of the funds and are available for obligation in the future.

Explanation of Differences between the SBR and the Budget of the U.S. Government

The table below presents a reconciliation between the FY 2022 Combined SBR to the actual amounts reported for FY 2022 Budget of the U.S. Government (also known as the President's Budget). The FY 2025 President's Budget will display the FY 2023 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget.

Table 21D. Explanation of Differences between the SBR and the Budget of the U.S. Government

As of September 30 *(dollar in billions)*	Fiscal Year 2022 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$ 1,456.2	$ 1,237.4	$ 151.4	$ 943.0
Expired Accounts	(44.6)	(22.3)	-	-
Permanent Reporting Differences*	(0.1)	0.0	-	-
FY 2022 Restatement**	0.6	0.0	-	-
Other	(0.1)	0.0	-	-
Budget of the U.S. Government	$ 1,412.0	$ 1,215.1	$ 151.4	$ 943.0

** The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.*

*** The difference reported above for Budgetary Resources is due to a restatement for FY 2022 for Defense Production Act Direct Loan Program*

Other Disclosures

In compliance with OMB guidance, both the $178.1 billion of FY 2023 and $167.9 billion of FY 2022 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds, within the Appropriations (discretionary and mandatory) line. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received no additional funding in FY 2023 or FY 2022 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of $24.5 billion, which is 2 percent of total budget authority. The Department strives to obligate, as close as prudently possible, to the total available budget authority before it expires. Its internal controls and systemic administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Antideficiency Act*. The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge or high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by *31.U.S.C. §1553*.

Permanent Indefinite Appropriations:

Permanent indefinite appropriations are provided through public law authorizing the Department to retain certain receipts. These appropriations do not specify amounts but are dependent upon the amount of receipts collected. Permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In FY 2023 and FY 2022, the Department collected $49.0 million and $2.6 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23. FIDUCIARY ACTIVITIES

Table 23A. Schedule of Fiduciary Activities

As of September 30 *(dollar in millions)*	2023		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	$ 1,778.9	$ 26.1	$ 1,805.0
Contributions	1,024.8	52.0	1,076.8
Investment Earnings	-	0.5	0.5
Distributions To and On Behalf Of Beneficiaries	(673.1)	(48.4)	(721.5)
Increase / (Decrease) in Fiduciary Net Assets	351.7	4.1	355.8
Fiduciary Net Assets, End of Period	$ 2,130.6	$ 30.2	$ 2,160.8

As of September 30 *(dollar in millions)*	2022		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	$ 1,496.3	$ 41.1	$ 1,537.4
Contributions	759.0	46.3	805.3
Investment Earnings	-	0.6	0.6
Distributions To and On Behalf Of Beneficiaries	(476.4)	(61.9)	(538.3)
Increase / (Decrease) in Fiduciary Net Assets	282.6	(15.0)	267.6
Fiduciary Net Assets, End of Period	$ 1,778.9	$ 26.1	$ 1,805.0

Table 23B. Schedule of Fiduciary Net Assets

As of September 30 *(dollar in millions)*	2023 Foreign Cooperative Project, Navy	2023 Savings Deposit Program	2023 Total
Fiduciary Assets			
Fund Balance with Treasury	$ 2,130.6	$ 30.2	$ 2,160.8
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	$ 2,130.6	$ 30.2	$ 2,1608

As of September 30 *(dollar in millions)*	2022 Foreign Cooperative Project, Navy	2022 Savings Deposit Program	2022 Total
Fiduciary Assets			
Fund Balance with Treasury	$ 1,778.9	$ 26.1	$ 1,805.0
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	$ 1,778.9	$ 26.1	$ 1,805.0

Fiduciary activities exist when the Department has collected, received, managed, protected, accounted for, invested or disposed of assets on behalf of non-Federal entities or individuals which have ownership interest that the government must uphold. Fiduciary assets are not recognized on the Balance Sheet or on Note 3, *Fund Balance with Treasury*, in accordance with *SFFAS 31*.

Foreign Cooperative Project, Navy

In an effort to leverage share of costs, contracts, and other resources where shared interests exist, the President may enter into a cooperative project agreement with the North Atlantic Treaty Organization or with one or more of its member countries authorized by *22 U.S.C. §2767*. The Navy recognizes this activity as fiduciary through an established deposit fund which allows it to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority.

Savings Deposit Program

Public Law 89-538 authorized the Department, through Savings Deposit Program (SDP), to collect voluntary contributions up to $10,000 per deployment, per member of the Armed Forces serving in designated areas. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member through direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

NOTE 24. RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

Table 24. Reconciliation of the Net Cost of Operations to Net Budgetary Outlays

As of September 30 *(dollar in millions)*	2023		
	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ (32,753.5)	$ 977,075.6	$ 944,322.1
Components of Net Cost Not Part of Net Budgetary Outlays			
Change in General property, plant, and equipment, net	-	13,419.3	13,419.3
Change in inventory and related property, net	-	3,486.6	3,486.6
Increase/(decrease) in assets:			
Accounts receivable, net	1,585.4	2,997.6	4,583.0
Loans receivable, net	-	279.8	279.8
Securities and investments	53,268.8	-	53,268.8
Other assets	1,905.8	(2,010.5)	(104.7)
Increase/(decrease) in liabilities:			
Accounts payable	(2,723.2)	(6,602.7)	(9,325.9)
Loans guarantee liability	-	3.5	3.5
Environmental and disposal liabilities	-	(3,236.7)	(3,236.7)
Benefits due and payable	-	0.3	0.3
Federal employee and veteran benefits payable	-	(182,797.0)	(182,797.0)
Other liabilities	(4,665.5)	(6,985.3)	(11,650.8)
Other financing sources:			
Imputed Cost	(7,758.5)	-	(7,758.5)
Total Components of Net Cost Not Part of Net Outlays	41,612.8	(181,445.1)	(139,832.3)
Components of Net Outlays Not Part of Net Cost			
Investments	77.8	(1,968.1)	(1,890.3)
Other	159.1	-	159.1
Financing sources:			
Donated revenue	-	(133.6)	(133.6)
Total Components of Net Outlays Not Part of Net Cost	236.9	(2,101.7)	(1,864.8)
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	1,317.1	-	1,317.1
Distributed offsetting receipts	152.9	(677.9)	(525.0)
Other	49,820.8	1,187.5	51,008.3
Total Other Reconciling Items	51,290.8	509.6	51,800.4
Total Net Outlays	$ 60,387.0	$ 794,038.4	$ 854,425.4
Budgetary Agencies Outlays, Net (Statement of Budgetary Resources)			$ 852,558.9
Unreconciled Difference			$ 1,866.5

As of September 30 (dollar in millions)	Restated 2022 Federal	Restated 2022 Non-Federal	Restated 2022 Total
Net Cost of Operations (SNC)	$ (118,324.5)	$ 1,467,066.5	$ 1,348,742.0
Components of Net Cost Not Part of Net Budgetary Outlays			
Change in General property, plant, and equipment, net	-	(2,723.8)	(2,723.8)
Change in inventory and related property, net	-	20,759.6	20,759.6
Increase/(decrease) in assets:			
Accounts receivable, net	(5,127.6)	6,128.7	1,001.1
Loans receivable, net	-	55.2	55.2
Securities and investments	93,879.0	-	93,879.0
Other assets	578.2	(6,611.7)	(6,033.5)
Increase/(decrease) in liabilities:			
Accounts payable	2,346.4	2,023.3	4,369.7
Loans guarantee liability	-	6.6	6.6
Environmental and disposal liabilities	-	(8,597.2)	(8,597.2)
Benefits due and payable	-	0.4	0.4
Federal employee and veteran benefits payable	-	(755,529.2)	(755,529.2)
Other liabilities	(3,048.8)	1,819.5	(1,229.3)
Other financing sources:			
Imputed Cost	(5,136.5)	-	(5,136.5)
Total Components of Net Cost Not Part of Net Outlays	83,490.7	(742,668.6)	(659,177.9)
Components of Net Outlays Not Part of Net Cost			
Investments	7.0	-	7.0
Other	150.5	-	150.5
Financing sources:			
Donated revenue	-	(109.7)	(109.7)
Total Components of Net Outlays Not Part of Net Cost	157.5	(109.7)	47.8
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	67,277.2	-	67,277.2
Distributed offsetting receipts	192.5	(1,120.8)	(928.3)
Other	48,004.7	(8,100.7)	39,904.0
Total Other Reconciling Items	115,474.4	(9,221.5)	106,252.9
Total Net Outlays	$ 80,798.1	$ 715,066.7	$ 795,864.8
Budgetary Agencies Outlays, Net (Statement of Budgetary Resources)			$ 791,558.5
Unreconciled Difference			$ 4,306.2

Restatements

The Department corrected FY 2022 balances affecting lines on the table above to correct errors in:

- Accounts Receivable, Net Other than Intragovernmental (was understated by $2.5 billion)
- Inventory and Related Property, Net (was understated by $513.5 million)
- General property, plant, and equipment (PP&E), Net (was understated by $3.9 billion)
- Other Assets, Other than Intragovernmental (was overstated by $30.9 million)
- Other Liabilities, Intragovernmental (was understated by $2.5 billion)
- Environmental and Disposal Liabilities (was overstated by $5.5 million)
- Miscellaneous Reconciling Items, Other (was understated by $4.0 billion)
- Transfers in without Reimbursements (was understated by $333.2 million)
- Net Cost of Operations, Other than Intragovernmental (was overstated by $36.1 million)

See Note 28, *Restatements*, and other Notes cited there for further information.

Other Disclosures

There is an offsetting $12.5 billion difference within the comparative year between Change in General PP&E, net and Miscellaneous Reconciling Items, Other due to presentation updates to prior year restatement activity.

There is an offsetting $55.2 million difference within the comparative year between Loans Receivable, net and Unreconciled Difference due to updates to the note presentation to report Loans Receivable activity.

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between Net Cost of Operations, reported on the Statement of Net Cost, and Net Outlays, reported on the Statement of Budgetary Resources. Net Cost of Operations is reported on an accrual basis and Net Outlays is reported on a budgetary basis.

While financial (proprietary) and budgetary 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 Department'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 receipt and use of cash by the Department. Outlays are payments to liquidate an obligation, excluding repayment to the Treasury of debt principal.

The reconciliation illustrates key items between Net Cost of Operations and Net Outlays, which includes three sections.

- Components of Net Cost Not Part of Net Budgetary Outlays primarily consists of a $182.8 billion increase in Federal Employee and Veteran Benefits Payable related to changes in actuarial assumptions, plan amendments, and increased interest costs. See Note 13, *Federal Employee and Veteran Benefits Payable* for additional information.
- Components of Net Budgetary Outlays Not Part of Net Cost includes a $2.0 billion decrease in investments due to the recognition of periodic/annual decrease/loss on Public-Private Partnership investment valuation. See Note 5, *Investments* for additional information.
- Miscellaneous Reconciling Items includes $48.7 billion on the Other line recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information, specifically the first paragraph under the Other Disclosures section. Note 24 only includes the undistributed amount related to this business versus the entire appropriation included in Note 21.

The Unreconciled Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Research is on-going to resolve the remaining difference.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

The Department of Defense (Department) identified Military Housing Privatization Initiative (MHPI) agreements as Public-Private Partnerships (P3) requiring disclosure. P3s are risk-sharing agreements with expected lives greater than five years between public and private sector entities. They can be extremely complex agreements which transfer or share various forms of risk among the P3 partners and may involve government assets. Disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. SFFAS 49 *Public-Private Partnerships*, requires disclosing the nature of DoDs relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*.

Military Departments are reviewing the details of individual agreements to ensure the underlying transactions are recorded and reported in accordance with Generally Accepted Accounting Principles (GAAP). Due to the complexity of some of the MHPI agreements, the Department may need to adjust previously recorded transactions to be GAAP compliant. Additionally, the Department is researching and analyzing the materiality of prospective adjustments, which may impact the financial position and results of operations of the MHPI agreements.

Overview

MHPI authority stems from the National Defense Authorization Act (NDAA) for Fiscal Year 1996, Public Law 104-106 (110 Stat 186, Section 2801), as amended. Title 10 U.S.C. §§ 2871-2894a codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. MHPI allows the Department to work with the private sector entities (Private Partners) to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the DoD benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow.

MHPI agreements are between the Department and Private Partners established as Limited Liability Companies (LLC) or Limited Partnerships (LP) single purpose entities. Private Partners serve as the projects' managing members ensuring performance objectives are met over the expected life of the agreement. Military Departments generally serve as the minority member. Minority membership allows the Military Departments to have a voice in the key decisions, without having to manage day-to-day operations. They also enter into a long-term ground lease (generally 50 years) with Private Partners for a nominal consideration, often as low as one dollar. In rare instances, Private Partners provide the land to the MHPI project LLC or LP in which case there is no ground lease. Military Departments also convey the associated real property assets (buildings, structures, facilities, and utilities) to the MHPI project LLC or LP. The contractual terms and termination clauses vary by agreement. The Department's involvement in the operations and management of the MHPI project LLC or LP is governed by evaluating the percentage of ownership interest and analyzing ownership control indicators, which determine the level of influence over the partnership.

Each MHPI Operating Agreement prescribes revenue flow "waterfall" during the life of the arrangement and upon liquidation of the arrangement. These waterfalls generally allow the managing Partner an opportunity to earn incentives and returns for economic performance after providing a set aside of capital for the maintenance of the facilities.

Funding and Contributions

The Department provides funding to the LLC or LP through:

- Equity Investments (§2875) - Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses (up to and not exceeding the monetary contribution).
- Government Direct Loans (GDL) (§2873) - Provision of cash to a project with the expectation of future payment;
- Government Loan Guarantees (§2873) - Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project;
- Differential Lease Payments (§2877) - Provision of monthly payments to a project above the rental amount paid by the military personnel.

See Note 7, *Loan Receivable, Net and Loan Guarantee Liabilities*.

At the inception of the agreement, the project duration and projected gap in available development funding to establish housing determines the amount of DoD contributions. Cash contribution from the Department's Family Housing Improvement Fund (FHIF) or Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification. *10 U.S.C. § 2883* also requires providing a justification to Congress for the transfer of authorized and appropriated amounts (i.e. Army General Fund, Treasury Index 21 Family Housing Construction Funds) to the Department's FHIF or MUHIF (i.e. Other Defense Organizations, Treasury Index 97) for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease. The agreement is established through negotiations between Military Departments and the MHPI project's LLC and/or LP. Should monies exist in excess of the required reserves securing or repaying the debt, the required reserves for maintenance of the facilities, and the contractual incentive payments to the managing Partner, the excess would be returned to the FHIF or MUHIF at entity dissolution. The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. If the entity is sold, the Department receives compensation through the FHIF or MUHIF.

Investment Recognition

Beginning in FY 2020, the Department adopted Financial Accounting Standards Board Accounting Standards Codification 323 Investments – Equity Method and Joint Ventures to evaluate and account for its investments in LLC and LP Private Partnerships engaged in MHPI projects. This treatment was chosen in the absence of specific Federal Accounting Standards Advisory Board (FASAB) accounting standards for the MHPI financial arrangement. During FY 2021, the Department performed additional analysis and research, resulting in a revised DoD policy. This policy refined the guidance and instructions prescribing evaluation criteria and financial treatment to account for and report investments and contributions to the MHPI projects. The revised guidance provides detailed instruction on recording initial cash and non-cash asset contributions and recording gains and losses annually and at the dissolution of the agreements. The policy includes GAAP compliant methodology to report profits and losses.

The following tables represent the aggregated contribution amounts paid to the MHPI Program and LLC and LP Private Partners.

Military Housing Privatization Initiative (MHPI)
Table 25. Cumulative Contributions as of September 30

As of September 30 (dollar in millions)	2023	2022	Estimated Amount to be Received Over Expected LIfe***	Estimated Amount to be Paid Over Expected LIfe***
DoD Initial Contributions to the MHPI Programs (FHIF)*				
Direct cash contributions (See Note 5 - Other Investments)	$ 4,126.6	$ 4,126.2	$ -	4,283.0
Real property contributions to the MHPI project LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB Scoring Documents) (see Note 5, Other Investments)	7,912.8	7,901.6	-	8,077.2
Bonds	-	-	-	-
Direct loans disbursed	1,970.7	1,831.9	-	1,970.0
DoD On-Going Contributions to the DoD MHPI Partnerships				
DoD direct payments**	958.9	835.2	-	Unknown
Basic Allowance for Housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY2022 and FY2021	8,881.1	6,737.4	-	Unknown
Differential lease payments	16.5	16.5	-	16.5
Property, cash, bonds, and loans	4,186.0	-	-	4,323.1
Private Partner Initial Contributions to the MHPI Partnerships				
Direct cash contributions	638.5	624.2	-	673.0
Real property contributions to the LLCs and LPs	121.3	1.5	-	121.3
Bonds and direct loans contributed	18,715.6	18,825.0	-	18,715.6
Private Partner On-Going Contributions to the MHPI Partnerships				
Direct cash contributions	59.6	-	-	59.6
Bonds/Loans contributed	8,575.5	8,701.3	-	8,575.5
Real property and land contributions	51.7	51.7	-	51.7

** The DoD cash and real property contributions in the table above are currently reported in the DoD's consolidated financial statements. See Note 5, Investments and Related Interest.*

*** DoD direct payments to the MHPI entities, as required by Public Law 115-232 § 606, as amended. If the Military Member uses MHPI, the associated BAH amount is considered to be an indirect third-party payment from Military Departments.*

**** The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined. As provided in SFFAS 49, para 24.b, Military Departments do not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual National Defense Authorization Acts (NDAAs) and are implemented through annual appropriations to the Military Departments. Further, it is a Service Member's discretionary choice to live in MHPI housing.*

Service Members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the Military Departments to any MHPI entity to ensure a minimum number of military residents in MHPI housing.

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other civilians. OETs do not provide or receive money from the project or the Government. MHPI entity's audited financial statements do not differentiate rental income by tenant military status and there is no requirement for the entity to do so. Therefore, the funding received from non-military tenants is also not estimable.

BAH History

The 2015 NDAA included a change to the BAH Program that allowed DoD to reintroduce an out-of-pocket component (member cost-sharing) not to exceed 1% of national average housing costs by grade. The cost-sharing element is administered by using an absorption rate, which is computed to ensure members of a similar pay grade/dependency status pay the same amount out-of-pocket regardless of their location. The 2016 NDAA expanded the out-of-pocket amount by 1% each year until it reached 5% in 2019.

The enactment of *Public Law 115-91 § 603*, required the Military Departments to make monthly direct payments to the MHPI project LLC or LP (lessors) of 1% of the Pre-Absorption BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under the military pay statute in *37 U.S.C. § 403(b)(3)(A)(i)* for the area in which the covered housing existed.

From September 1, 2018 through December 31, 2019, *Public Law 115-232 § 606* required the Military Departments to make monthly direct payments to the lessor of 5% of the Pre-Absorption BAH. From January 1, 2020 to December 31, 2021, *Public Law 116-92* §§ 3036 and 3037 required the Military Departments to make monthly direct payments to the lessor of 2.5% of BAH. Furthermore, monthly underfunded projects may receive up to an additional 2.5% of BAH at the determination of the DoD Chief Housing Officer and Secretaries of the Military Departments.

From January 1, 2022 until Congress modifies or rescinds this direction, *Public Law 117-81 § 2811* directs that payments to the lessor of 50% of the BAH Absorption Rate calculated in accordance with 403(b)(3)(A)(ii) of the military pay statute in Title 37, U.S.C., for covered housing would be made monthly.

Risk

Private Partner potential risks include loss of cash and non-cash contributions, inability to recover returns on investment, default under the ground lease, and loss of a long-term revenue source. The Private Partner is not entitled to the return of its capital contribution nor to be paid interest on its capital contribution. The Department's potential risks, depending on the terms of the partnership agreement and initial contributions, include loss of the initial cash and non-cash contributions, default by the MHPI project LLC or LP on a GDL, guarantee threshold event such as the need to request additional funds above the initial threshold amount triggered under a loan guarantee agreement, need to provide direct management support and financial contribution to the project until its completion if the Private Partner fails to comply with contractual terms, and failure to deliver quality housing services to military personnel. If unpredicted events occur, such as natural disasters and severe weather events, the Military Departments may need to provide resources.

To mitigate financial risk, each MHPI agreement prescribes to accrual accounting (revenue flow) to include liquidation of the agreement. This financial tool is used to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the Private Partner an opportunity to earn incentives and returns for economic performance after providing capital for the maintenance of the facilities. Cash and non-cash assets in excess of required reserves are returned to the FHIF at agreement liquidation. Detailed reports to the appropriate committees of Congress on the MHPI projects are required by *10 U.S.C. § 2884* for each project, conveyance, or lease proposed as a part of the annual budget submission and as an annual report concerning the status of oversight and accountability. Additionally, the *House Report 116-63*, Pages 23-24, accompanying *H.R. 2745*, the DoD Appropriations Bill, 2020, directs the Service Secretaries to submit a report to the congressional defense committees detailing how the Services monitor privatized facilities at a national level and any planned upgrades to this system to improve transparency.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Department's overall risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer), plus the commercial loan guarantees (if applicable) associated with the MHPI agreements.

The Department recognizes other risk scenarios may occur, such as Private Partner's non-compliance with the MHPI agreements or risk of loan modifications. To address non-compliance risk, the Department performs compliance reviews which is a joint effort between the Military Department local housing office, installation command, and other ranking members with the Private Partners. These reviews can include exterior of military housing units and neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the MHPI project LLC or LP.

Private Partner performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, *GAO-20-280T*, *Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing*, provides information about the Department's governance activities. The *NDAA for 2020* §§ 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of MHPI projects, protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI projects.

To address the risk of loan modifications or restructures, which may be necessary to ensure the sustainability of affected projects, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Department is required to re-forecast projected cash flows to assess each project's sustainability. If the assessment results in a funding shortfall or going concern for the project, a loan modification may be requested from the OMB. OMB must approve all loan modifications before the applicable Military Department and MHPI project LLC or LP can begin to restructure the loan.

Other Disclosures

The Military Departments continue to provide MHPI details within their Agency Financial Report (AFR), such as description of contractual terms, significant events, and inherent risks. Gains and losses as the minority and non-managing member of an LP or LLC are currently being recorded by the Department of the Army (DA) and the Department of the Air Force (DAF).

The likelihood that the real property conveyed to non-equity partnerships will return to the MHPI partnerships where the Military Departments have an ownership interest in the partnership real property assets, but not in the partnerships themselves is highly unlikely. The lease of property provides that the owner will demolish the assets upon termination of the ground lease. However, the lease provides Military Departments the option of retaining the improvements at the end of the lease term; although they do not foresee resuming ownership, management, or operation of housing for military members. The language in MHPI ground leases and operating agreements enables (1) the government and the private sector managing member to extend the project lease term, subject to Congressional notification; and (2) the replacement of the private sector managing member by the government if the managing member wishes to exit the agreement. If the MHPI entity is dissolved for breach or at the end of the agreement, the Military Departments anticipate attempting to establish a successor entity.

The Military Departments are also assessing their MHPI agreements in an effort to provide actual and estimated amounts received and paid over the expected life of the agreements. As contributors of P3 activity, please refer to the DoA, DAF, and Department of the Navy AFRs.

See Note 5, *Investments and Related Interest* for DoD's consolidated cash and real property contributions.

Other Potential P3 Arrangements

All DoD Components continue to assess agreements using criteria from *SFFAS 49* to determine if there are additional P3s to disclose. The Department will report these agreements as soon as these assessments are complete.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Disclosure Entities

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with SFFAS 47 "Reporting Entity," the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents; however, these entities are disclosed in this Note as their risk and rewards and assets (available for use) and liabilities (to be settled in the future) are limited. The quantitative amounts of the Department's appropriated funding support for NAFIs and FFRDCs are FY 2022 balances reported one year in arrears.

Nonappropriated Fund Instrumentalities

NAFIs are entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to provide morale, welfare, and recreation programs to enhance the quality of life of DoD personnel. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of *10 U.S.C.* The Department requires Components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

1. Military Morale, Welfare, and Recreational (*MWR*) Programs,
2. Armed Services Exchange Programs,
3. Civilian MWR Programs,
4. Lodging Program Supplemental Mission Funds,
5. Supplemental Mission Funds, and
6. Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (*USD(P&R)*) establishes policy and provides oversight of DoD NAFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) and the Defense Finance and Accounting Service (*DFAS*), in coordination with the USD(P&R) and General Counsel, provide guidance on accounting policies for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

Federally Funded Research and Development Centers

The DoD-sponsored FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with *FAR Part 35-017*, FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. There are three categories of FFRDCs:

1. Research and Development Laboratories,
2. Systems Engineering and Integration Centers, and
3. Study and Analysis Centers.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the FFRDC is required to conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, be free from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Related Parties

Pursuant to SFFAS 47 reporting disclosure requirements, related parties are considered related if: (1) one party to an established relationship, has the ability to exercise significant influence over the other party in making policy decisions and (2) the relationship is of such significance that it would be misleading to exclude information about it. While the Department identified Public Private Partnerships (P3s) as related parties in prior years, the Department performed assessments of P3s and determined that these partnerships and relationships do not meet the criteria to be reported as related parties, because they meet the inclusion principles defined in SFFAS 47: a) In the Budget, b) Majority Ownership Interest, c) Control with Risk of Loss or Expectation of Benefit. The Department's Military Housing Privatization Initiative P3s meet the criteria for disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships* for additional disclosure details and information.

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

The DoD has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which is budgeted and reported in *Title 22, Foreign Relations and Intercourse* under the purview of Congress. The SAA is a significant reporting entity, and in accordance with SFFAS 47 "Reporting Entity," its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements. Although the SAA has not been consolidated into the DoD financial statements, the Department will continue to reevaluate the current reporting status of the SAA based on the generally accepted accounting principles and federal financial reporting requirements. See the *SAA Agency Financial Report* for additional information.

The DoD leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the DoD or the U.S. Government resulting from the transactions entered into.

NOTE 28. RESTATEMENTS

In addition to the consolidated audit on the DoD-wide financial statements, twenty-nine Components within the Department underwent independent standalone audits in FY 2023. These Components include the Components with the highest asset values, as well as those deemed by management to be special-focus. While striving to maintain or moving closer to achieving an unmodified audit opinion, Components may uncover accounting errors related to a prior fiscal year. SFFAS 21 *Reporting Corrections of Errors and Changes in Accounting Principles* requires a restatement of the prior year presented when material errors are discovered in the prior period financial statements. In FY 2023, some Components restated the prior year presentation, in certain cases even when the amounts were individually immaterial, as opposed to including the effects of a prior year error in the current year activity. The Department restated its financial statements as of September 30, 2022 for the following. The net effects of the restatements on each financial statement line affected are included in the Table 28B.

- Accounts Receivable, Net (Other than Intragovernmental) was understated due to a contract dispute with a vendor.
- Inventory and Related Property, Net was understated due to assets found but not previously recorded in the Accountable Property System of Record.
- General Property, Plant, and Equipment, Net was understated due to asset balances that had a change in acquisition cost, change in acquisition date, retrospective depreciation adjustments, and unrecorded asset transfers in prior years.
- Other Assets was overstated due to the incorrect reporting of General Property, Plant, and Equipment permanently removed but not yet disposed.
- Other Liabilities was understated due to a contract dispute with a vendor.
- Environmental and Disposal Liabilities was overstated due to the incorrect classification of expenses.
- Cumulative Results of Operations – Beginning Balances, Prior Period Adjustments and Transfers In/Out Without Reimbursement was understated due to asset balances that had a change in acquisition cost, change in acquisition date, retrospective depreciation adjustments, unrecorded asset transfers in prior years, and incorrect classification of expenses.
- Net Cost of Operations was overstated due to asset balances that had a change in acquisition cost, change in acquisition date, retrospective depreciation adjustments, unrecorded asset transfers in prior years, and incorrect classification of expenses.
- Statement of Budgetary Resources was understated due to the obligation and de-obligation of direct loans that occurred within the Defense Production Act Direct Loan Program.
- COVID-19 Activity related budgetary activity was understated due to the improper use of TFM attributes.

The following notes were restated: Note 2, *Non-Entity Assets*, Note 3, *Fund Balance with Treasury*,* Note 6, *Accounts Receivable, Net*, Note 8, *Inventory and Related Property, Net*, Note 9, *General PP&E, Net*, Note 10, *Other Assets*, Note 11, Liabilities Not Covered by Budgetary Resources, Note 14, Environmental and Disposal Liabilities, Note 15, *Other Liabilities*, Note 19, *Disclosures Related to the Statement of Net Cost*, Note 20, *Disclosures Related to the Statement of Changes in Net Position*, Note 21, *Disclosures Related to the Statement of Budgetary Resources*, Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*, and Note 29, *COVID-19 Activity*.

**Although the activity on Note 3 was revised due to a restatement, the net change on the Note 3 total was zero. The Department's Fund Balance with Treasury did not change.*

Table 28A. Effect on FY 2023 Beginning Cumulative Results of Operations

(dollar in millions)	Prior to Restatements	Effect of Restatements	After Restatements
FY2023 Net Position			
Cumulative Results of Operations - Other Funds	(857,252.8)	4,409.9	(852,842.9)
Total Net Position	**(175,181.8)**	**4,409.9**	**(170,771.9)**

Table 28B. Effect on FY2022 Comparative Balances

(dollar in millions)	Per FY2022 Statements	Effect of FY2023 Restatements	After Restatements
FY2022 Balance Sheet			
Accounts Receivable, Net - Other Than Intragovernmental	9,155.7	2,518.0	11,673.7
Inventory and Related Property, Net	337,136.4	513.5	337,649.9
General PP&E, Net	814,654.3	3,921.8	818,576.1
Other Assets – Other than Intragovernmental	39.8	(30.9)	8.9
Total Assets	**3,521,784.5**	**6,922.4**	**3,528,706.9**
Other Liabilities - Intragovernmental	6,283.0	2,518.0	8,801.0
Environmental and Disposal Liabilities	90,561.1	(5.5)	90,555.6
Total Liabilities	**3,748,629.7**	**2,512.5**	**3,751,142.2**
Cumulative Results of Operations - Other Funds	(854,026.9)	4,409.9	(849,617.0)
Total Net Position	**(226,845.2)**	**4,409.9**	**(222,435.3)**
FY2022 Statement of Changes in Net Position			
Cumulative Results of Operations - Prior Period Adjustments - Corrections of Errors	0.0	4,040.6	4,040.6
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	(302,319.9)	4,040.6	(298,279.3)
Transfers in/out without reimbursement	(67,524.6)	333.2	(67,191.4)
Net Cost of Operations	1,348,778.1	(36.1)	1,348,742.0
Net Change in Cumulative Results of Operations	(537,392.6)	369.3	(537,023.3)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	**(839,712.5)**	**4,409.9**	**(835,302.6)**
Net Position	**(226,845.2)**	**4,409.9**	**(222,435.3)**
FY2022 Statement of Net Cost			
Gross Costs	1,040,923.3	(36.1)	1,040,887.2
Gross Costs - Operation, Readiness & Support	316,028.5	(10.7)	316,017.8
Gross Costs - Procurement	141,906.3	(25.4)	141,880.9
Net Cost before Losses/(Gains) from Actuarial Assumption	821,826.3	(36.1)	821,790.2
Net Program Costs Including Assumption Changes	1,348,778.1	(36.1)	1,348,742.0
Net Cost of Operations	**1,348,778.1**	**(36.1)**	**1,348,742.0**

(dollar in millions)	Per FY2022 Statements	Effect of FY2023 Restatements	After Restatements
FY2022 Statement of Budgetary Resources (Budgetary Column)			
Borrowing Authority (discretionary and mandatory)	243.6	634.5	878.1
Total Budgetary Resources	323.9	634.5	958.4
New obligations and upward adjustments (total)	285.4	634.5	919.9
Total Budgetary Resources	323.9	634.5	958.4

The amounts presented in the "Per FY 2022 Statements" column are based on the presentation of the current financial statements which had significant changes during FY 2023 and may not reconcile to the FY 2022 AFR.

NOTE 29. COVID-19 ACTIVITY

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations. In FY 2020, two of these public laws had a direct impact on the Department through the provision of $10.7 billion in supplemental appropriations. Additional supplemental funding was not received in subsequent fiscal years.

Families First Coronavirus Response Act

The *Families First Coronavirus Response Act* (FFCRA) (Public Law 116-127) was signed into law on March 18, 2020. FFCRA responds to the COVID-19 outbreak by providing paid sick leave, tax credits, free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. The provisions of the FFCRA included $82.0 million in emergency supplemental Operations and Maintenance funding for the *Defense Health Program* to waive *TRICARE* participant copayments and cost sharing associated with COVID-19 related testing and medical visits. The funds are to remain available until September 30, 2022 or until the funds are used, whichever occurs first. The remaining undisbursed funds at 4th quarter FY2023 are immaterial. For additional information on TRICARE, see Note 1. *Summary of Significant Accounting Policies*, R. *Other Liabilities*.

Families First Coronavirus Response Act
Table 29A. - FY2020 DoD Appropriations in the FFCRA (P.L. 116-127)

Appropriations Enacted	(dollar in millions)
Defense Health Program	$ 82.0
Defense-Wide Total	82.0
TOTAL DoD Appropriations	$ 82.0

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) (Public Law 116-136) was signed into law, which provided FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations were designated as emergency spending, which is exempt from discretionary spending limits. Within the DoD budget, the CARES Act provided the Department with $10.6 billion in supplemental funding for National Guard personnel, operation and maintenance, *Defense Production Act* (50 U.S.C.) purchases, the Defense Working Capital Funds, the Defense Health Agency, and the Office of the Inspector General.

In an effort to quickly respond to pandemic needs, the CARES Act waives certain contract restrictions for the Department to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price, where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DoD to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DoD the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

On April 10, 2020, the Office of Management and Budget (OMB) issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, *OMB Memorandum M-20-21* directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. *OMB M-20-21* further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

In FY 2023, there were no additional appropriations or changes to the reprogramming action amounts in the September 30, 2020 Table 29B below. Military Personnel and Operation and Maintenance funds expired on September 30, 2020. Research Development, Testing, and Evaluation funds expired on September 30, 2021. Working Capital and Defense Production Act funds remain available until expended.

Table 29B. FY2020 DoD Appropriations in the CARES Act (P.L. 116-136)

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Military Personnel, Army	-	89.4	89.4
Personnel, Army National Guard	$ 746.6	$ (677.0)	$ 69.6
Operations & Maintenance (O&M), Army	160.3	728.1	888.4
O&M, Army Reserve	48.0	(12.0)	36.0
O&M, Army National Guard	186.7	(122.1)	64.6
Other Procurement, Army	-	61.4	61.4
Research, Development, Test & Evaluation (RDT&E), Army	-	65.3	65.3
Department of the Army Total	1,141.6	133.1	1,274.7
Military Personnel, Navy	-	3.0	3.0
Military Personnel, Marine Corps	-	5.4	5.4
Reserve Personnel, Marine Corps	-	0.2	0.2
O&M, Navy	360.3	545.9	906.2
O&M, Marine Corps	90.0	100.5	190.5
O&M, Navy Reserve	-	6.3	6.3
Other Procurement, Navy	-	10.8	10.8
Working Capital Fund, Navy**	475.0	-	475.0
Department of the Navy Total	925.3	672.1	1,597.4
Military Personnel, Air Force	-	106.1	106.1
Reserve Personnel, Air Force	-	16.7	16.7
National Guard Personnel, Air Force	482.1	(424.7)	57.4
O&M, Air Force	155.0	783.4	938.4
O&M, Air Force Reserve	-	19.6	19.6
O&M, Air Force National Guard	75.8	(58.8)	17.0
Other Procurement, Air Force	-	32.1	32.1
RDT&E, Air Force	-	60.0	60.0
Working Capital Fund, Air Force**	475.0	2.8	477.8
Department of the Air Force Total	1,187.9	537.2	1,725.1
O&M, Defense-Wide	827.8	(540.0)	287.8
Procurement, Defense-Wide	-	2.1	2.1
Defense Production Act Purchases	1,000.0	(100.0)	900.0
Defense Production Act Program Account	-	100.0	100.0
RDT&E, Defense - Wide	-	298.1	298.1
Working Capital Fund, DW (DeCA)	-	34.7	34.7
Working Capital Fund, DW (DLA)**	500.0	30.2	530.2
Overseas Humanitarian, Disaster, and Civic Aid (OHDACA) "	-	120.3	120.3
Defense Health Program	3,806.1	(1,302.7)	2,503.4
Defense Health Program*	1,095.0	-	1,095.0
Chemical Agents & Munitions Destruction	-	14.9	14.9
Office of Inspector General	20.0	-	20.0
Defense-Wide Total	7,248.9	(1,342.4)	5,906.5
TOTAL DoD Appropriations	10,503.7	-	10,503.7

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
O&M, U.S. Army Corps of Engineers (USACE)	50.0	-	50.0
General Expenses, USACE	20.0	-	20.0
U.S Army Corps of Engineers Total	70.0	-	70.0
TOTAL DoD and USACE Appropriations	$ 10,573.7	$ 0.0	$ 10,573.7

**Additional Appropriations non-COVID-19 related, [Public Law 116-136 § 13002]*
*** Included in the CARES Act, Congress appropriated $1.45 billion for the DWCF as an emergency requirement under Section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985 to prevent, position, prepare for, and respond to coronavirus, domestically or internationally. The appropriations were used to position funds to address an anticipated impact on cash liquidity to cover actual costs incurred and expected future costs.*

Table 29C. Budgetary Resources for COVID-19 Activity Funded by COVID-19 Disaster Emergency Fund (DEF) Codes

For the period ended September 30 *(dollar in millions)*	2023	Restated 2022
Unobligated and unexpired balance, beginning of year	$ 661.7	$ 894.1
New budget authority	(61.4)	-
Less: Obligations	(88.9)	(309.1)
Less: Expiring funds	(489.2)	(495.3)
Unobligated and unexpired balance, end of period	22.2	89.7
Outlays, Net (Total)	$ 324.1	$ 757.1

DEF Codes applicable to DoD are:
M for *Families First Coronavirus Response Act (Public Law 116-27), Emergency*
N for *Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Public Law 116-136), Emergency*

Restatement

The Department corrected a $68.7 million overstatement of Unobligated Balances beginning of year, a $32.6 million understatement of Obligations, a $101.2 million overstatement of Expiring Funds, and a $32.6 million understatement of Outlays related to the incorrect usage of COVID-19 Disaster and Emergency Funding Codes (DEF). See Note 28, *Restatements* for a summary of all restatements and further information.

Other Information Related to Table 29C

The accuracy of the COVID-19 reporting by DEF Code is dependent on the financial data from the DoD Components' accounting systems. The Components are unable to fully separate and report the receipt and execution of COVID-19 funding from non-COVID-19 funding. The reported balances disclosed above include adjustments completed in the current year to correct prior year activity and are not yet reconciled to balances reported for DEF Codes M and N in Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

Other Information

Disbursements (outlays) in FY 2023 and FY 2022 for obligated funds related to COVID-19 prevention, preparation and response include:

- Purchase of medical supplies and equipment;
- Payroll/other personnel costs;
- Co-pay/cost share waivers for COVID-19 diagnostic testing and health care related expenses;
- Training, mobilization and preparedness;
- Operations support programs and base support;
- Emergency operations support;
- Restriction of movement measures and quarantine implementation;
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to soldiers, in lieu of dining facility operations to maintain social distancing;
- Enhancements of IT equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training;
- Purchase of non-medical personal protective equipment;
- Cleaning/disinfecting supplies and contracts;
- Measures to mitigate impacts at recruit training depots;
- Costs incurred to deliver inventory at overseas commissaries;
- Administrative costs.

The impact on the Department's assets, liabilities, costs, revenues, and net position cannot be separately determined, as mechanisms within the financial reporting systems needed to track such transactions through the proprietary accounts generally do not exist. However, given the nature of the COVID-19 transactions, impacts to the Department's balances in the following accounts would be expected, although not easily quantifiable: Fund Balance with Treasury, Accounts Receivable, Inventory, General PP&E, Non-federal and Intragovernmental Accounts Receivable and Payables. In addition, impacts would be expected to the Statement of Net Cost and the Statement of Changes in Net Position.

See Note 7. *Loans Receivable, Net and Loan Guarantee Liabilities* for information related to *Executive Order 13922*, for activity to support the national COVID-19 response.

NOTE 30. SUBSEQUENT EVENTS

As of the date of this report, there are no subsequent events to report. However, FY 2023 financial statements and related notes of the DoD Components listed below were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Components. If changes that are material to the DoD Agency-wide consolidated/combined financial statements are identified upon the finalization of the outstanding DoD Components financial statements, the Department would revise and re-issue the DoD Agency-wide financial statements. The expected timeframe for these events is December 2023 and February 2024.

- Defense Information Systems Agency, Working Capital Fund (December 2023)
- Office of Inspector General (December 2023)
- U.S. Marine Corps (February 2024)

NOTE 31. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (*Financial Report*). The FY 2023 FR will be published by The Bureau of Fiscal Service upon its release.

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

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- Dedicated Collections Combined represents all transactions that involve Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- Dedicated Collections Eliminations reflects identified transactions between the Department's Dedicated Collections.
- All Other Amounts (with Eliminations) includes funds other than Dedicated Collections, presented net of their eliminations.
- Eliminations between Dedicated and All Other reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

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

Table 31A. Statement of Net Cost

FY 2023 DoD Statement of Net Cost		Line Items Used to Prepare FY 2023 Government-wide Statement of Net Cost					
Financial Statement Line[1] (dollar in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs							**Gross Cost**
Gross Costs	$ 942,570.5	$ 1,772.4		$ 940,798.1		$ 942,570.5	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	89,344.5			89,344.5		89,344.5	Gains/losses from changes in actuarial assumptions
Total Non-Federal Gross Cost	$ 1,031,915.0					$ 1,031,915.0	Total Non-Federal Gross Cost
Federal Gross Cost							**Federal Gross Cost**
Gross Costs	19,704.6	15.2		19,689.4		19,704.6	Benefit program costs (RC 26)
Gross Costs	7,758.4	4.6		7,778.3	(24.5)	7,758.4	Imputed costs (RC 25)
Gross Costs	37,674.5	244.3		37,612.0	(181.8)	37,674.5	Buy/sell cost (RC24)
Gross Costs	200.9			200.9		200.9	Purchase of assets (RC 24)
Gross Costs	67.4			67.4		67.4	Borrowing and other interest expense (RC05)
Gross Costs	4,861.7	4.4		4,857.3		4,861.7	Other expenses (w/o reciprocals) (RC 29)
Total Federal Gross Costs	$ 70,267.5					$ 70,267.5	Total Federal Gross Costs
Total Gross Costs	$ 1,102,182.5					$ 1,102,182.5	Total Gross Costs
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	(54,839.1)	(1,455.8)		(53,383.3)		(54,839.1)	Non-federal earned revenue
Federal Earned Revenue							**Federal Earned Revenue**
(Less: Earned Revenue)	(1,097.8)			(1,097.8)		(1,097.8)	Benefit program revenue (exchange) (RC 26)
(Less: Earned Revenue)	(30,495.6)			(30,677.4)	181.8	(30,495.6)	Buy/sell revenue (exchange) (RC 24)
Gross Costs	(200.9)			(200.9)		(200.9)	Purchase of assets offset (RC 24)
(Less: Earned Revenue)	(71,163.5)	(43.3)		(71,120.2)		(71,163.5)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03)
(Less: Earned Revenue)	(5.8)			(5.8)		(5.8)	Borrowing and other interest revenue (exchange) (RC 05)
(Less: Earned Revenue)	(57.7)	(57.7)				(57.7)	Collections Transferred in to a TAS Other Than the GF - Exchange (RC 13)
Total Federal Earned Revenue	$ (103,021.3)					$ (103,021.3)	Total Federal Earned Revenue
Department Total Earned Revenue	$ (157,860.4)					$ (157,860.4)	Department Total Earned Revenue
Net Cost of Operations	$ 944,322.1					$ 944,322.1	**Net Cost of Operations**

[1] The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements. However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:

Gross Cost	$ 1,012,637.1
Less: Earned Revenue	(157,659.5)
Losses/(Gains) from Actuarial Assumption Changes	89,344.5
	$ 944,322.1

Table 31B. Statement of Changes in Net Position

FY 2023 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2023 Government-wide Statement of Changes in Net Position					
Financial Statement Line[2] (dollar in millions)	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Beginning Balances (Includes Funds from Dedicated Collections)	$ (222,435.3)	$ 14,314.4		$ (236,749.7)		$ (222,435.3)	Net Position, Beginning of Period
Non-Federal Prior-Period Adjustments							**Non-Federal Prior-Period Adjustments**
Changes in accounting principles (+/-)	(928.9)			(928.9)		(928.9)	Changes in accounting principles
Net Position, Beginning of Period - Adjusted	$ (223,364.2)					$ (223,364.2)	**Net Position, Beginning of Period - Adjusted**
Non-Federal Non-Exchange Revenue							**Non-Federal Non-Exchange Revenue**
Miscellaneous taxes and receipts	706.9	358.9		348.0		706.9	Other taxes and receipts
Donations and forfeitures of cash and cash equivalents	133.6	132.5		1.1		133.6	Other taxes and receipts
Donations and forfeitures of property	16.8			16.8		16.8	Other taxes and receipts
Other	735.3	60.2		675.1		735.3	Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	$ 1,592.6					$ 1,592.6	Total Non-Federal Non-Exchange Revenue
Federal Non-Exchange Revenue							**Federal Non-Exchange Revenue**
Non-exchange revenue (Note 20)	438.9	436.2		2.7		438.9	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03)
Non-exchange revenue (Note 20)	94.6	94.6				94.6	Other Taxes and Receipts (RC 45)
Non-exchange revenue (Note 20)	1,861.3	1,861.3				1,861.3	Collections Transferred to a TAS Other than the GF of the USG (RC 15)
Non-exchange revenue (Note 20)	3.7	3.7				3.7	Accrual for the Entity Amounts to be Collected in a TAS Other Than the GF of the USG - Nonexchange (RC 16)
Total federal non-exchange revenue	$ 2,398.5					$ 2,398.5	Total Federal Non-Exchange Revenue
Financing sources							**Financing sources**
Appropriations received	990,320.3			990,320.3		990,320.3	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
Appropriations used	(932,481.2)			(932,481.2)		(932,481.2)	Appropriations used (RC 39)
Appropriations used	932,481.2			932,481.2		932,481.2	Appropriations expended (RC 38)
Transfers-in/out without reimbursement	1.7	108.0	(108.0)	1.7		1.7	Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)

FY 2023 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2023 Government-wide Statement of Changes in Net Position					
Financial Statement Line[2]	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Transfers-in/out without reimbursement		(108.0)	108.0				Appropriation of unavailable special or trust fund receipts transfers-out (RC 07)
Transfers-in/out without reimbursement	767.4	2,613.1	(2,518.5)	746.4	(73.6)	767.4	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(3,416.5)	(2,633.8)	2,518.5	(3,374.8)	73.6	(3,416.5)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(0.4)	0.3		2,494.0	(2,494.7)	(0.4)	Expenditure transfers-in of financing sources (RC 09)
Transfers-in/out without reimbursement	(159.1)	(2,494.4)		(159.4)	2,494.7	(159.1)	Expenditure transfers-out of financing sources (RC 09)
Transfers-in/out without reimbursement	(13.2)			(13.2)		(13.2)	Non-expenditure transfers-out of financing sources - capital transfers (RC 11)
Other adjustments (+/-)	(7.5)			(7.5)		(7.5)	Revenue and other financing sources - cancellations (RC 36)
Other	(50.7)			(50.7)		(50.7)	Other financing sources with budgetary impact (RC 29)
Transfers in/out without reimbursement	188.7	72.3	(48.6)	255.1	(90.1)	188.7	Transfers-in without reimbursement (RC 18)
Transfers in/out without reimbursement	(1,463.6)	(141.8)	48.6	(1,460.5)	90.1	(1,463.6)	Transfers-out without reimbursement (RC 18)
Imputed financing	7,758.5	29.1		7,753.9	(24.5)	7,758.5	Imputed financing sources (RC 25)
Other	(1,047.7)			(1,047.7)		(1,047.7)	Non-entity collections transferred to the GF of the USG (RC 44)
Other	(5.3)			(5.3)		(5.3)	Accrual for non-entity amounts to be collected and transferred to the GF of the USG (RC 48)
Other	50.7			50.7		50.7	Other non-budgetary financing sources (RC29)
Total Financing Sources	$ 992,923.3					$ 992,923.3	Total Financing Sources
Net Cost of Operations (+/-)	$ (944,322.1)					$ (944,322.1)	Net Cost of Operations (+/-)
Net Position, End of Period	$ (170,771.9)					$ (170,771.9)	**Net Position, End of Period**

[2] Basis of presentation - Note 31 and Note 18, Funds from Dedicated Collections: The compilation underlying the presentation of Note 31 is based on each program being designated either as a dedicated collection or a non-dedicated collection. If a program is designated as a dedicated collection, all of the program's activity is treated as such, and vice versa. In contrast, Note 18 uses the program designation and also uses the trial balance Fund Type attribute of 9*, a system-designation for dedicated collection amounts. Note 18 is presented on a combined basis (without eliminations).

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, *Standardizing Facility Condition Assessments*. The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

Table RSI-1. Real Property Deferred Maintenance and Repairs (excluding Military Family Housing)

As of September 30 *(dollar in millions)*	2023		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,611,799.7	$ 151,812.0	9%
Category 2	137,672.5	18,723.9	14%
Category 3	64,972.1	10,634.0	16%
Total	$ 1,814,444.3	$ 181,169.9	10%

As of September 30 *(dollar in millions)*	2022		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,319,456.6	$ 105,214.9	8%
Category 2	107,146.8	14,668.0	14%
Category 3	62,096.1	7,652.0	12%
Total	$ 1,488,699.5	$ 127,534.9	9%

Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of September 30 *(dollar in millions)*	2023				
	Plant Replacement Value		Required Work (Deferred Maintenance & Repair)		Percentage
Property Type					
Category 1	$	28,895.0	$	7,139.0	25%
Category 2		1,053.0		319.0	30%
Category 3		947.0		345.0	36%
Total	$	30,895.0	$	7,803.0	25%

As of September 30 *(dollar in millions)*	2022				
	Plant Replacement Value		Required Work (Deferred Maintenance & Repair)		Percentage
Property Type					
Category 1	$	35,137.0	$	3,156.0	9%
Category 2		1,069.0		291.0	27%
Category 3		2,028.0		319.0	16%
Total	$	38,234.0	$	3,766.0	10%

Significant Changes in Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of the end of FY 2023, the Department estimates facility maintenance cost of more than $181.2 billion for facilities with replacement cost of $1.8 trillion. The totals include $4.8 billion in civil works related maintenance needs under the USACE with replacement cost of more than $206.0 billion.

Maintenance and Repair Policies

The Department continues migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 *(dollar in millions)*	2023	2022
Major Categories		
Aircraft	$ 1,610.0	$ 1,515.7
Automotive Equipment	855.7	534.3
Combat Vehicles	21.1	250.0
Construction Equipment	67.0	48.3
Electronics and Communications Systems	633.6	209.3
Missiles	221.5	196.7
Ships	166.2	699.9
Ordnance Weapons and Munitions	855.0	532.2
Other Items Not Identified Above	727.4	496.3
Total	$ 5,157.5	$ 4,482.7

Significant Changes in Deferred Maintenance and Repair

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems increased by $674.8 million during FY 2023. The increase was primarily driven by revised airframe and engine workloads, increase in unplanned repairs, and increased program requirements for aircraft.

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Table RSI-4. Estimated Acreage by Predominate Use - General PP&E Land and Permanent Land Rights

As of September 30, 2023 *(acres in thousands)*	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year*	-	-	-	-
End of Prior Year/Start of Current Year*	2	157	31,564	31,723
End of Current Year	152	157	25,416	25,725
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	-	-

**The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. Due to the timing of the requirement, the Components implemented the new breakout in time for year-end of FY 2022. Some Components reported consolidated estimated acreage for General PP&E Land and Stewardship Land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.*

Table RSI-5. Estimated Acreage by Predominate Use - Stewardship Land and Permanent Land Rights

As of September 30, 2023 *(acres in thousands)*	**Commercial**	**Conservation or Preservation**	Operational	**Total Estimated Acreage**
Start of Prior Year*	-	-	-	-
End of Prior Year/Start of Current Year*	-	6	2,660	2,666
End of Current Year	-	442	10,426	10,868
Held for disposal or exchange				
End of Prior Year*	-	-	1,131.0	1,131.0
End of Current Year	-	-	-	-

**The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. Due to the timing of the requirement, the Components implemented the new breakout in time for year-end of FY 2022. Some Components reported consolidated estimated acreage for General PP&E Land and Stewardship Land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.*

Table RSI-6. Combining Statement of Budgetary Resources (Budgetary)

As of September 30 (dollar in millions)	2023							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 9,304.9	$ 84,325.9	$ 35,853.6	$ 25,445.9	$ 60.0	$ 48,486.6	$ 69,766.4	$ 273,243.3
Appropriations (Discretionary and Mandatory)	174,209.8	176,076.1	143,612.1	16,999.3	86,384.9	11,842.5	484,522.4	1,093,647.1
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	90,653.1	90,653.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	744.8	2,961.4	13,516.3	8,556.6		20,457.5	89,554.0	135,790.6
Total Budgetary Resources	184,259.5	263,363.4	192,982.0	51,001.8	86,444.9	80,786.6	734,495.9	1,593,334.1
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	182,487.0	$ 188,561.2	$ 161,834.1	$ 26,668.9	$ 86,444.9	$ 30,957.9	$ 684,518.9	$ 1,361,472.9
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	318.0	71,188.9	29,127.5	22,144.3	-	49,819.5	29,623.0	202,221.2
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-	4,029.0	4,029.0
Unapportioned, Unexpired Accounts	-	0.1	11.2	110.9	-	-	991.2	1,113.4
Unexpired Unobligated Balance, End of Year	318.0	71,189.0	29,138.7	22,255.2	-	49,819.5	34,643.2	207,363.6
Expired Unobligated Balance, End of Year	1,454.5	3,613.2	2,009.2	2,077.7		9.2	15,333.8	24,497.6
Unobligated Balance, End of Year (Total)	1,772.5	74,802.2	31,147.9	24,332.9	-	49,828.7	49,977.0	231,861.2
Total Budgetary Resources	184,259.5	$ 263,363.4	$ 192,982.0	$ 51,001.8	$ 86,444.9	$ 80,786.6	$ 734,495.9	$ 1,593,334.1
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	173,285.6	141,176.6	124,413.4	10,040.3	86,247.4	8,865.5	459,275.3	1,003,304.1
Distributed Offsetting Receipts (-)	-	-	-	-	(148,159.5)	(1,060.0)	(1,525.7)	(150,745.2)
Agency Outlays, Net (Discretionary and Mandatory)	$ 173,285.6	$ 141,176.6	$ 124,413.4	$ 10,040.3	$ (61,912.1)	$ 7,805.5	$ 457,749.6	$ 852,558.9

As of September 30 (dollar in millions)	Restated 2022							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory) (Note 21)	$ 5,531.2	$ 65,947.7	$ 29,556.7	$ 22,337.5	$ -	$ 30,603.7	$ 59,790.3	$ 213,767.1
Appropriations (Discretionary and Mandatory)	167,524.8	152,182.3	121,952.2	13,024.1	77,946.4	29,882.6	457,014.8	1,019,527.2
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	81,232.0	81,232.0
Spending Authority from Offsetting Collections								-
(Discretionary and Mandatory)	2,484.7	2,475.0	41,873.0	5,757.0	-	14,528.5	83,204.3	150,322.5
Total Budgetary Resources	$ 175,540.7	$ 220,605.0	$ 193,381.9	$ 41,118.6	$ 77,946.4	$ 75,014.8	$ 681,241.4	$ 1,464,848.8
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	173,477.3	$ 150,191.0	$ 163,032.8	$ 18,211.6	$ 77,946.4	$27,458.4	$ 626,838.6	$ 1,237,156.1
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	760.8	66,820.5	28,228.1	21,496.1	-	47,501.6	36,144.5	200,951.6
Exempt from Apportionment, Unexpired Accounts	-	-	0.4	-	-	45.6	3,724.9	3,770.9
Unapportioned, Unexpired Accounts	-	(159.7)	21.1	1.9	-	0.1	799.3	662.7
Unexpired Unobligated Balance, End of Year	760.8	66,660.8	28,249.6	21,498.0	-	47,547.3	40,668.7	205,385.2
Expired Unobligated Balance, End of Year	1,302.6	3,753.2	2,099.5	1,409.0	-	9.1	13,734.1	22,307.5
Unobligated Balance, End of Year (Total)	2,063.4	70,414.0	30,349.1	22,907.0	-	47,556.4	54,402.8	227,692.7
Total Budgetary Resources	$ 175,540.7	$ 220,605.0	$ 193,381.9	$ 41,118.6	$ 77,946.4	$ 75,014.8	$ 681,241.4	$ 1,464,848.8
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	170,207.2	$ 135,479.9	$ 109,398.9	$ 9,450.5	$ 82,706.3	$ 9,641.6	$ 426,066.3	$ 942,950.7
Distributed Offsetting Receipts (-)	-	-	-	-	(148,160.1)	(1,464.7)	(1,767.4)	(151,392.2)
Agency Outlays, Net (Discretionary and Mandatory)	$ 170,207.2	$ 135,479.9	$ 109,398.9	$ 9,450.5	$ (65,453.8)	$ 8,176.9	$ 424,298.9	$ 791,558.5

Table RSI-7. Combining Statement of Budgetary Resources (Non-Budgetary Credit Reform Financing Account)

As of September 30 *(dollar in millions)*	2023 Operations, Readiness & Support	2023 Combined	Restated 2022 Operations, Readiness & Support	Restated 2022 Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget				
Authority, Net (Discretionary and Mandatory)	$ 38.5	$ 38.5	$ 45.2	$ 45.2
Borrowing Authority (Discretionary and Mandatory)	151.1	151.1	878.1	878.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	60.7	60.7	35.1	35.1
Total Budgetary Resources	250.3	250.3	958.4	958.4
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	218.5	218.5	919.9	919.9
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	31.8	31.8	38.5	38.5
Unexpired Unobligated Balance, End of Year	31.8	31.8	38.5	38.5
Unobligated Balance, End of Year (Total)	31.8	31.8	38.5	38.5
Total Budgetary Resources	250.3	250.3	958.4	958.4
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	319.7	319.7	2.3	2.3
Disbursements, Net (Total) (Mandatory)	$ 319.7	$ 319.7	$ 2.3	$ 2.3

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OTHER INFORMATION

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

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

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

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

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

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

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

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

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

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

SUMMARY OF FINANCIAL STATEMENT AUDIT

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

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

Exhibit 1. Summary of DoD OIG Identified Material Weaknesses

Audit Opinion: Disclaimer
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems Modernization	1				1
Configuration Management	1				1
Security Management	1				1
Access Controls	1				1
Segregation of Duties	1				1
Interface Controls	1				1
Universe of Transactions	1				1
Reporting Entity	1				1
Fund Balance with Treasury	1				1
Inventory and Stockpile Materials	1				1
Operating Materials and Supplies	1				1
General Property, Plant, and Equipment	1				1
Real Property	1				1
Governmental Property in the Possession of Contractors	1				1
Joint Strike Fighter Program	1				1
Contingent Legal Liabilities	1				1
Accounts Payable	1				1
Environmental and Disposal Labilities	1				1
Beginning Balances	1				1
Unsupported Accounting Adjustments	1				1
Intragovernmental Transactions and Intradepartmental Eliminations	1				1
Gross Costs	1				1
Earned Revenue	1				1
Reconciliation of Net Cost of Operations to Outlays	1				1
Budgetary Resources	1				1
Service Organizations	1				1
Component Entity-Level Controls	1				1
DoD-Wide Oversight and Monitoring	1				1
Total Material Weaknesses	28				28

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

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

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

SUMMARY OF MANAGEMENT ASSURANCES

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

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

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

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

Internal Control over Financial Reporting – Material Weaknesses and Corrective Actions

Entity Level Controls

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

Material Weaknesses

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

Corrective Actions

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

Fund Balance with Treasury

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

Material Weakness

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

Corrective Actions

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

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

Financial Reporting Compilation

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

Material Weaknesses

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

Corrective Actions

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

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

Health Care Liabilities

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

Material Weakness

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

Corrective Actions

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

Accounts Payable

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

Material Weaknesses

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

Corrective Actions

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

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

Intragovernmental Transactions

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

Material Weaknesses

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

Corrective Actions

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

Equipment Assets

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

Material Weaknesses

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

Corrective Actions

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

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

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

Joint Strike Fighter Program

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

Material Weakness

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

Corrective Actions

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

Real Property Assets

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

Material Weakness

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

Corrective Actions

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

Environmental and Disposal Liabilities

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

Material Weakness

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

Corrective Actions

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

Property in the Possession of Contractors

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

Material Weakness

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

Corrective Actions

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

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

Internal Use Software

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

Material Weakness

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

Corrective Actions

- Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.
- Develop and implement processes and system changes to APSRs to properly capture and sustain accountability of IUS.
- Continue to deploy the Defense Property Accountability System as the APSR solution for IUS.
- Evaluate Department-wide compliance with IUS APSR requirements to drive IUS APSR policy changes.
- Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.
- Validate corrective actions in conjunction with the DoD Chief Information Officer (CIO) through results of standalone audits, Agency-wide audit, Component Statements of Assurance, and information presented by Components at the IUS working group.
- Continue to promote use of SFFAS 50 for establishing opening balance for IUS.
- Evaluate planned changes from the Federal Accounting Standards Advisory Board on accounting for software, software licenses, and other intangible assets for potential accountability and policy changes.

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

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

Inventory

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

Material Weaknesses

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

Corrective Actions

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

Operating Materials & Supplies

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

Material Weaknesses

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

Corrective Actions

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

- Implement new DoD policy requiring inventory counts of OM&S. Conduct inventory counts in accordance with existing policies and supplement existing policies as necessary based on new DoD policy. Develop Component-level risk control matrices based on inventory control gap analyses to implement changes to the inventory count process. Report metrics on physical inventory counts of OM&S, adjustments, and OM&S in the possession of third parties for use in governance meetings.
- Develop solutions for a new munitions control system that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new munition control system solutions.
- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement improved reconciliation processes to address OM&S held by service providers and contractors. All contractor inventory control point programs will be identified, and controls developed to maintain OM&S along with policies and procedures for oversight.
- Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.
- Continue the OM&S working group to analyze processes and integrate remediation efforts among Components to optimize system change efforts and harmonize reporting. This working group will report on progress and share lessons learned across the DoD OM&S community.

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

FMFIA Section 2, Effectiveness of Internal Control over Operations

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

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

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

INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

Acquisition

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

Material Weaknesses

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

Corrective Actions

- Continue to drive progress toward Clinger-Cohen Act compliance through implementation of strong controls, checklists, re-organization of duties, and standardization of position descriptions. Also, ensure that DoDI 5000.74, and DoDI 5000.75 include sufficient guidance on management and oversight of DoD IT services and defense business systems.
- Conduct systems review, capability portfolio reviews, configuration steering boards, and cost reviews to identify process inefficiencies and improve the acquisition management process.
- The Department continues to migrate into the Defense Property Accountability System (DPAS) Warehouse Module which allows it to use the Defense Logistics Management Standard (DLMS) process to successfully transfer all relevant information (Unique Item Identifier, serialization) and provide an electronic transaction back from the Global Combat Support System-Army to DPAS for complete transparency of the asset while in transit. DoD continues to explore the use of Item Unique Identification (IUID) as a way to help with in-transit visibility, specific item's identification, description, location, condition, status, ownership, and that a recorded quantity is not duplicative with any other recorded quantity.
- The Department will publish guidance for category management implementation in the 4th Estate by the end of 2023.

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

Comptroller and/or Resource Management

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

Material Weaknesses

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

Corrective Actions

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

Contract Administration

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

Material Weaknesses

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

Corrective Actions

- Reinforce internal controls to provide reasonable quality assurance that contracting officers designate a qualified contracting officer representative for all service contracts or retain and execute contract oversight responsibilities, and develop a process that will direct and prevent improper payments and fraud.
- The Department has developed a process to review codes annually for medical equipment and supplies that are paid as billed. Further, DoD will evaluate potential options for the upcoming T-5 TRICARE contracts to mitigate risk posed by excessive billed charges.
- The Department will extract data from the MHS GENESIS system sites that will enable Patient Safety Indicator #90 calculation, evaluate performance, and take appropriate steps to improve performance.

Force Readiness

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

Material Weaknesses

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

Corrective Actions

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

Information Technology – Business System Modernization

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

Material Weaknesses

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

Corrective Actions

- Continue to strengthen governance and investment certification processes through the Defense Business Council (DBC) and expand review and analysis of proposed IT systems to include non-financial management systems.
- Enhance current processes and ensure stakeholder participation in the cybersecurity scorecard meetings and alignment of component scorecard metrics to audit findings.
- Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring, and public key infrastructure-based authentication/credentials.
- Continue development of an enterprise Identity, Credential, and Access Management (ICAM) solution with nine pilot systems to address access control gaps across the Department.
- Coordinate with DoD Components to confirm that current acquisition and IT purchase contracts and policy require the adoption of established user access controls and encryption/hardening standards.
- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform workload studies and associated manning adjustments as necessary.
- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in *DoDI 8520.03* for stronger authentication.
- Develop, communicate, implement, and continuously monitor entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.
- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Clearly identify lines of demarcation between acquisition and provisioning.
- Instruct communication squadron commanders to develop and document a process to ensure personnel document network component purchases in the Department's accountable record upon receipt.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Instruct communication squadron commanders to develop and document a process to ensure that network component vulnerabilities which cannot be mitigated are documented in corrective plans.
- DoD will develop a new Electronic Archive and Records Management System with training and establish/update policies and procedures for records management as required by the National Archives and Records Administration (NARA).
- Defense Health Program's (DHP) contractual requirements have been written or revised, including updated timelines for testing and milestones and data transfer specifications.
- Former criminal justice system is being replaced by newer system. Digital fingerprinting hardware and software is installed, and the codification of Department of the Air Force Criminal Justice Information Cell (DAF-CJIC) is underway. Long-term software solution for case management will be implemented.
- The DON will implement SFIS requirements for Navy's Enterprise Risk Management Program (ERP), which will enhance financial reporting capabilities and improve compliance with Treasury, OMB reporting, and other DoD systems requirements. The DON will also establish a Data Governance Dashboard to govern Navy ERP data in support of near-term operational and audit goals.
- The Department will update system business rules with enhanced guidance on permission levels, perform permission and voucher approval audits and annual Staff Assisted Visits (SAVs) at the installation level, establish oversight procedures to ensure implementation of the audit/SAV requirement, and provide oversight for Accountable Official training to ensure segregation of duties and permission levels are addressed.

Manufacturing, Maintenance, and Repair

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

Material Weakness

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

Corrective Actions

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

Personnel and/or Organizational Management

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

Material Weaknesses

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

9. Department needs to monitor morphine milligrams equivalent per day by beneficiary, examine data for unusually high opioid prescriptions, and if appropriate, hold providers accountable for overprescribing opioids. In addition, the Department lacks controls that ensure that prescriptions in the Military Health System Data Repository exist and that the dispense date and the metric quantity field for opioid prescriptions in liquid form in the Military Health System Data Repository are accurate and consistent among all systems.
10. Internal control weaknesses exist for TRICARE payments for the administration of COVID-19 vaccines.
11. Opportunity exists to improve access to services supporting caregivers of dependents with special needs. The Director of the Defense Health Agency should communicate in writing to each military branch's Exceptional Family Member Program (EFMP) that there is no TRICARE requirement that another adult remain in the home to access the Extended Care Health Option (ECHO) respite care and determine if additional training is needed to inform EFMP staff on ECHO program requirements.
12. To meet the future needs of the Department of the Navy's Fleet and Sailors and mitigate the threat to the DON's ability to execute future missions vital to national security, the Department needs to transform and overcome the challenges of an antiquated industrial age service model across the MyNavy HR Enterprise.

Corrective Actions

- Develop and implement Component-level action plans to reduce time-to-hire. Foster Department-wide cooperation and information sharing by using data analytics and Defense Business Council governance to improve hiring practices.
- Articulate procedures to simplify, streamline, and standardize HR processes to provide better quality HR hiring services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.
- Automate manpower systems and personnel systems reconciliation; strengthen internal controls; establish business rules for personnel accountability to avoid double counting of personnel.
- Under Secretary of Defense for Acquisition and Sustainment is hiring additional Full Time Equivalents (FTEs) and has assigned Mission Requirement to current FTEs leaving lower priority Mission Requirements unfulfilled.

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

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

Support Services

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

Material Weaknesses

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

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

Corrective Actions

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

Supply Operations

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

Material Weaknesses

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

Corrective Actions

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

FMFIA SECTION 4, CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS

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

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

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

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

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

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

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

Business System Modernization

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

Non-Conformance

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

Corrective Actions

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

IT Controls

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

Non-Conformance

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

Corrective Actions

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

FFMIA Compliance

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

Non-Conformance

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

Corrective Actions

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

MANAGEMENT AND PERFORMANCE CHALLENGES

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

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

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

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

INSPECTOR GENERAL

U.S. Department of Defense

FISCAL YEAR 2024

TOP DOD MANAGEMENT AND PERFORMANCE CHALLENGES

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

Mission

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

Vision

Engaged oversight professionals dedicated
to improving the DoD

HOTLINE
Department of Defense
www.dodig.mil/hotline
664.8799 (DSN) | 800.424.9098 (TOLL-FREE) | 703.604.8799 (COMMERCIAL)

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

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

October 16, 2023

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

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

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

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

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

Robert P. Storch
Inspector General

Executive Summary

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

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

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

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

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

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

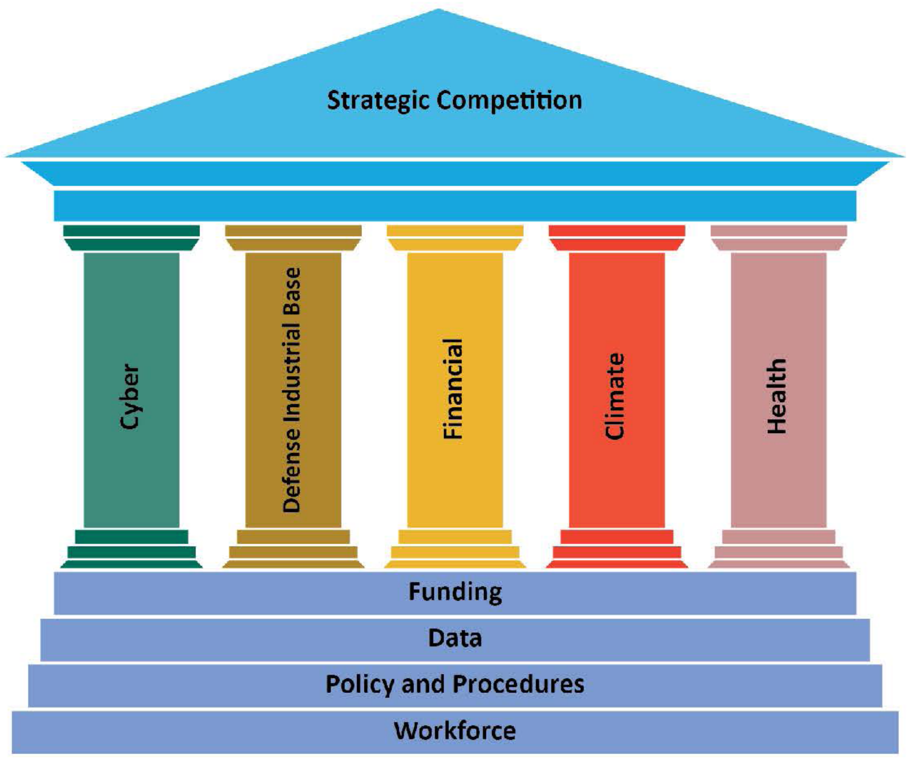
Challenges	Highlights
4. Improving DoD Financial Management and Budgeting	• Scope-limiting material weaknesses hamper auditors' abilities to perform procedures to draw a conclusion on the financial statements. • A lack of coordination among and across personnel, processes, and systems covering the DoD's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

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

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

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

Figure 1. FY 2024 TMPC Cross-Cutting Challenge Areas



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

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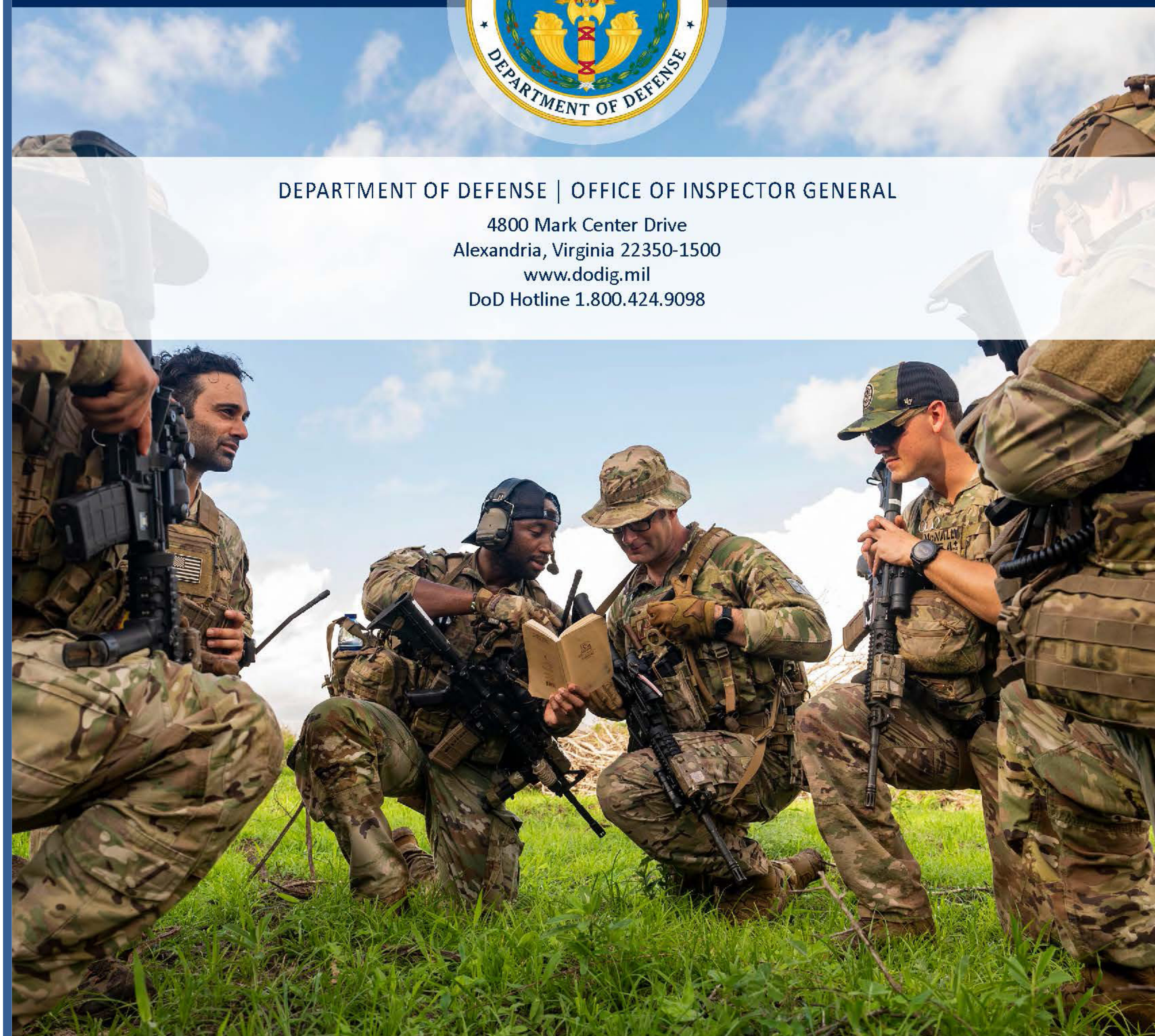


PAYMENT INTEGRITY INFORMATION ACT REPORTING

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

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

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

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

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

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

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

PHASE 1 PROGRAMS

- **U.S. Army Corps of Engineers (USACE) Commercial Pay:** Payments disbursed by the USACE to vendors and contractors for goods and services. It also includes Disaster Relief and COVID-19 response funding payments made by USACE.
- **USACE Travel Pay:** Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes disaster relief and COVID response funding payments made by USACE.
- **Military Health Benefits – Administrative:** Payments disbursed by Defense Health Agency (DHA) for TRICARE program administrative and other contract costs.
- **Military Health Benefits – TRICARE East Region Program:** Payments disbursed by DHA for TRICARE East Region contractor for medical claims for the beneficiaries.
- **Military Health Benefits – TRICARE West Region Program:** Payments disbursed by DHA for TRICARE West Region contractor for medical claims for the beneficiaries.
- **Military Health Benefits – TRICARE Medicare Eligible Program (TMEP):** Payments disbursed by DHA for TRICARE TMEP Region contractor for medical claims for the beneficiaries.
- **Military Health Benefits – TRICARE Pharmacy Program (TPharm):** Payments disbursed by DHA for TRICARE TPharm Region contractor for medical claims for the beneficiaries.
- **Military Health Benefits – TRICARE Overseas Program (TOP):** Payments disbursed by DHA for TRICARE TOP Region contractor for medical claims for the beneficiaries.

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

PHASE 2 PROGRAMS

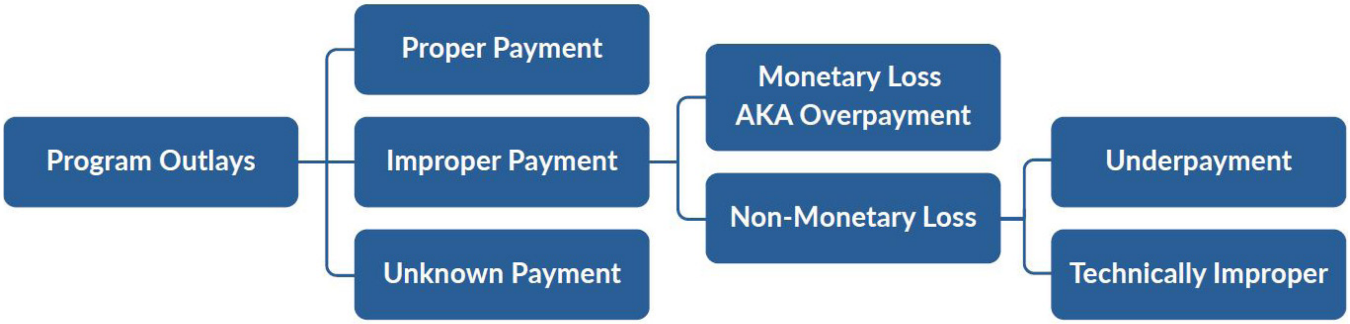
- **Civilian Pay:** Payments disbursed by Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.
- **Commercial Pay:** Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and COVID-19 response funding payments made by the Military Services and DoD Components.
- **DoD Travel Pay:** Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes COVID-19 response funding payments made by the Military Services and DoD Components.
- **Military Pay - Army:** Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Navy:** Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Air Force:** Payments disbursed by DFAS for the Air Force and Space Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Marine Corps:** Payments disbursed by the U.S. Treasury for the Marine Corps to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
- **Military Retirement:** Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and disability entitlements.

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

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

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

Exhibit 7. OMB Payment Type and Improper Payment Type Categories



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

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

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

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

Exhibit 8. Estimated Improper Payments by Payment Type and Improper Payment Category

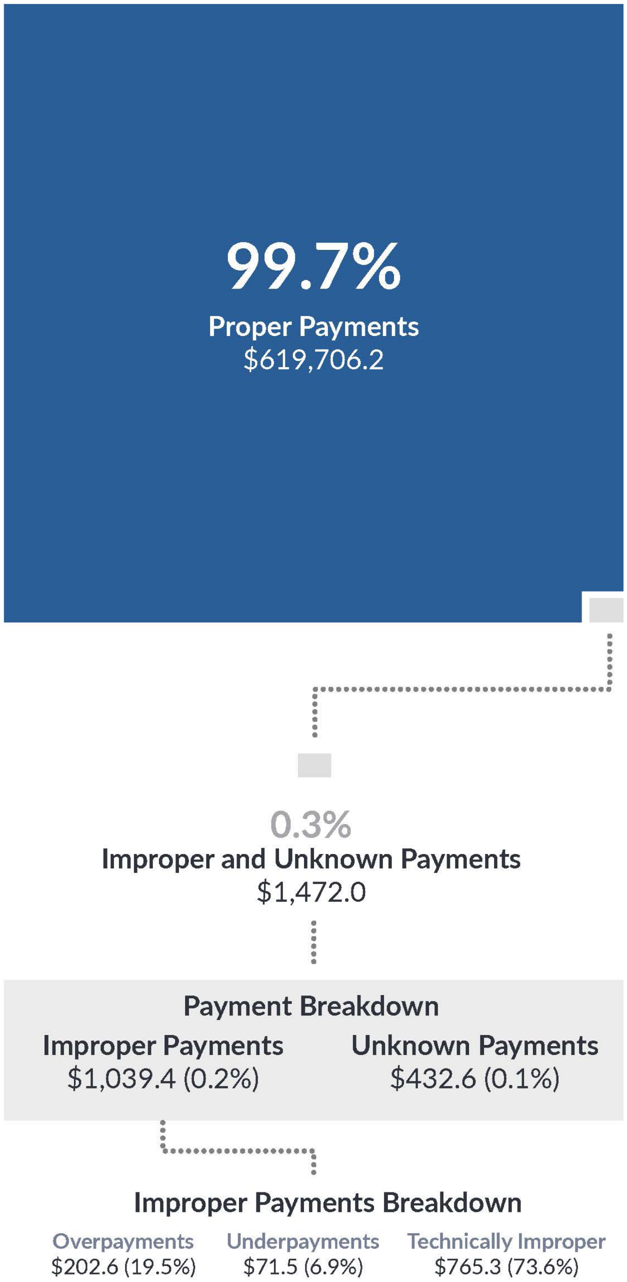
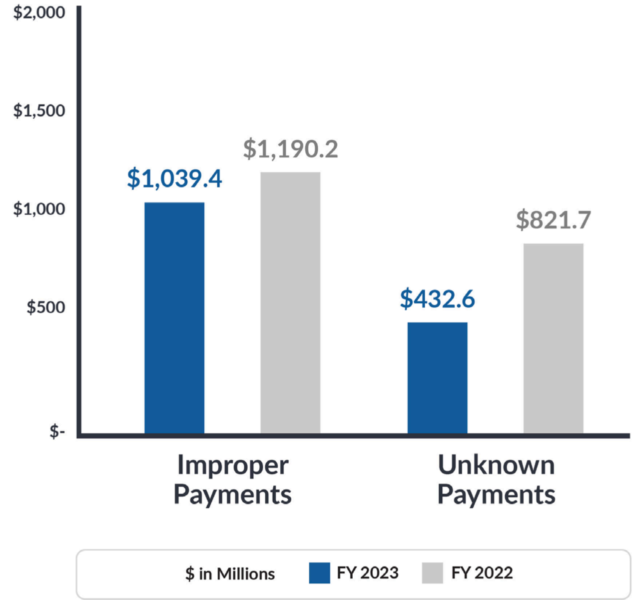


Exhibit 9. Annual Comparison of Estimated Improper and Unknown Payments



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

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

PAYMENT INTEGRITY HIGH PRIORITY PROGRAMS

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

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

Military Health Benefits

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

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

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

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

Military Retirement

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

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

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

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

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

DoD Travel Pay

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

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

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

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

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

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

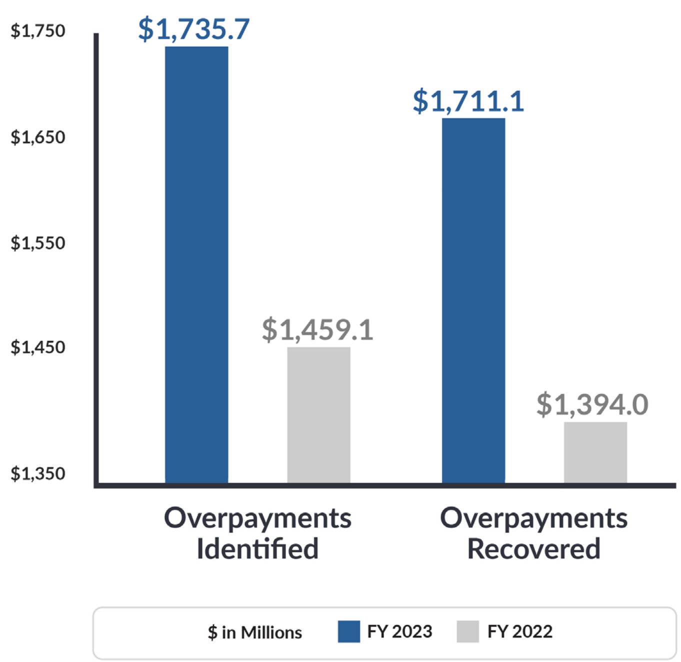
PAYMENT RECOVERY AUDIT

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

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

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

Exhibit 10. Annual Comparison of Actual Overpayments Identified and Recovered



CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

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

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

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

Exhibit 11. FY 2023 Civil Monetary Penalty Adjustments for Inflation

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

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

BIENNIAL REVIEW OF USER FEES

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

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

GRANT PROGRAMS

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

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

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

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

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

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

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

CLIMATE-RELATED RISK

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

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

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

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

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

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

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

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

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

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

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

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APPENDICES

Quick Reference for Acronyms and Abbreviations Used Throughout the Report

Left: A Marine spots a target while participating in a designated marksman range during Exercise Bright Star 23 at Mohamed Naguib Military Base, Egypt, Sept. 3, 2023. Bright Star 23 is a multilateral U.S. Central Command exercise held with Egypt that promotes and enhances regional security and cooperation. (U.S. Marine Corps photo by Staff Sgt. Victor Mancilla)

Right: Air Force Maj. Kristin "BEO" Wolfe flies an F-35A Lightning II while performing a dedication pass during an air show over Kleine Brogel Air Base, Belgium, Sept. 8, 2023. (U.S. Air Force photo by Staff Sgt. Thomas Barley)

APPENDIX A: CONSOLIDATION ENTITIES

DoD Consolidation Entities Designated to Prepare and Issue Financial Statements Annually as Mandated by OMB Bulletin No. 24-01

Department of the Air Force, General Fund	Military Retirement Fund
Department of the Air Force, Working Capital Fund	U.S. Army Corps of Engineers - Civil Works
Department of the Army, General Fund	U.S. Marine Corps, General Fund
Department of the Army, Working Capital Fund	U.S. Navy, General Fund
Department of the Navy, Working Capital Fund	

Other DoD Consolidation Entities in DoD-wide Financial Statements

Consolidated Defense Health Programs	Defense Logistics Agency, National Defense Stockpile Trust Fund
Defense Commissary Agency, General Fund	Defense Logistics Agency, General Fund
Defense Commissary Agency, Working Capital Fund	Defense Logistics Agency, Working Capital Fund
Defense Contract Audit Agency	Department of Defense Office of Inspector General
Defense Finance and Accounting Service, Working Capital Fund	DoD Component Level Accounts
Defense Health Agency - Contract Resource Management	DoD Medicare-Eligible Retiree Health Care Fund
Defense Information Systems Agency, General Fund	U.S. Special Operations Command
Defense Information Systems Agency, Working Capital Fund	U.S. Transportation Command

Other Defense Activities - Agency-Wide Component	Other Defense Activities - Director, Operational Test and Evaluation
Other Defense Activities - Burden Sharing Account by Foreign Allies, Defense	Other Defense Activities - Emergency Response Fund, Defense
Chemical Biological Defense Program	Other Defense Activities - Homeowners Assistance Fund, Defense
Other Defense Activities - Defense Acquisition University	Other Defense Activities - Host Nation Support for U.S. Relocation Activities, Defense
Defense Advanced Research Projects Agency	Joint Chiefs of Staff
Defense Contract Management Agency	Medicare - Eligible Retiree Health Care Fund Payment- Pass through Account
Other Defense Activities - Defense Cooperation Account	Other Defense Activities - Military Housing Privatization Initiative
Other Defense Activities - Defense CounterIntelligence and Security Agency, Working Capital Fund	Military Retirement Fund Payment - Pass through Account
Other Defense Activities - Defense Gift Fund	Missile Defense Agency
Other Defense Activities - Defense Human Resources Activity	Other Defense Activities - Mutually Beneficial Activities, Defense Wide
Other Defense Activities - Defense Media Activity	Other Defense Activities - National Security Education Trust Fund
Other Defense Activities - Defense Prisoner of War/ Missing In Action Accounting Agency	Other Defense Activities - Office of Local Defense Community Cooperation (Formerly Office of Economic Adjustment)
Defense Security Cooperation Agency	Other Defense Agencies Working Capital Funds (pass through account)
Defense Technical Information Center	Other TI-97 Funds Provided to the Air Force by the Office of the Secretary of Defense
Other Defense Activities - Defense Technology Security Administration	Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense
Defense Threat Reduction Agency	Other TI-97 Funds Provided to the Navy by the Office of the Secretary of Defense
Department of Defense Education Activity	Other Defense Activities - Support for U.S. Relocation to Guam Activities, Defense
Other Defense Activities - Department of Defense Education Benefits Fund	Other Defense Activities - Voluntary Separation Incentive Trust Fund
Washington Headquarters Services	

APPENDIX B: ACRONYMS

A

ACWA	Assembled Chemical Weapons Alternatives
ADA	Antideficiency Act
AFFF	Aqueous Film Forming Foam
AFR	Agency Financial Report
AO	Approving Officials
APG	Agency Priority Goals
APP	Annual Performance Plan
APR	Annual Performance Report
APSR	Accountable Property System of Record
ASD	Assistant Secretary of Defense

B

BAH	Basic Allowance for Housing
BRAC	Base Realignment and Closure
BRS	Blended Retirement System
BSO	Budget Submitting Office

C

CA	Cyberspace Activities
CAP	Corrective Action Plan
CARES	Coronavirus Aid, Relief, and Economic Security
CDAO	Chief Digital and Artificial Intelligence Officer
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CHCBP	TRICARE Continued Health Care Benefits Program
CHIPS	Creating Helpful Incentives to Produce Semiconductors
CIO	Chief Information Officer
CJCS	Chairman of the Joint Chiefs of Staff
CMC	Commandant of the Marine Corps
CNGB	Chief of the National Guard Bureau
CNO	Chief of Naval Operations
COLA	Cost of Living Adjustment
COTS	Commercial Off-The-Shelf
CPI	Consumer Price Index
CPIM	Consumer Price Index Medical
CSA	Chief of Staff of the Army
CSAF	Chief of Staff of the Air Force
CSD	Customer Support Division
CSO	Chief of Space Operations
CSRS	Civil Service Retirement System
CUEC	Complementary User Entity Controls
CWGC	Climate Working Group

D

DA	Department of the Army
DAI	Defense Agencies Initiative
DAF	Department of the Air Force
DBC	Defense Business Council
DBS	Defense Business Systems
DEAMS	Defense Enterprise Accounting and Management System
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Programs
DISA	Defense Information Systems Agency
DITRP	DoD Information Technology Portfolio Repository
DLA	Defense Logistics Agency
DLMS	Defense Logistics Management Standard
DMAG	Deputy's Management Action Group
DMS	Digital Modernization Strategy
DOL	Department of Labor
DON	Department of the Navy

DPA	Defense Production Act
DPIC	Defense Performance Improvement Council
DSCA	Defense Security Cooperation Agency
DTMO	Defense Travel Management Office
DTS	Defense Travel System
DW	Defense-wide

E

E&DL	Environmental and Disposal Liabilities
EBF	Education Benefits Fund
EBS	Enterprise Business System
ECHO	Extended Care Health Option
EDI	European Deterrence Initiative
EEBP	DLA Enterprise External Business Portal
EFMP	Exceptional Family Member Program
eGCR	Enterprise Governance, Risk, and Compliance
ELC	Entity Level Controls
EMR	Electronic Medical Records
EO	Executive Order
EOU	Excess, Obsolete, and Unserviceable
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning

F

FAA	Foreign Assistance Act of 1961
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facility Condition Index
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEHB	Federal Employees Health Benefits
FERC	Federal Energy Regulatory Commission
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Centers
FGB	FIAR Governance Board
FHIF	Family Housing Improvement Fund
FIAR	Financial Improvement and Audit Remediation
FISCAM	Federal Information System Controls Audit Manual
FL	Field Level
FLTCIP	Federal Long Term Care Insurance Program
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Foreign Military Sales
FR	Federal Register, Financial Report of the U.S. Government
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS-A	Global Combat Support System – Army
GE	General Equipment
GF	General Fund
GFEBS	General Fund Enterprise Business System
GFP	Government Furnished Property
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System

H

HR	Human Resources

I

IA	Implementing Agency
IAD	Information Assurance Division
ICAM	Identity, Credential, and Access Management
IG	Inspector General
IGD	Information Governance Division
IP	Improper Payments/Improperly Paid
IPA	Independent Public Auditor
IPPM	Interest paid per million
IPPS-A	Integrated Personnel Pay System – Army
IRC	Independent Review Commission
IRP	Installation Restoration Program
IT	Information Technology
IUS	Internal Use Software

J

JCP	Joint Chiefs of Staff
JSF	Joint Strike Fighter

K

KSD	Key Supporting Documents

L

LAC	Latest Acquisition Cost
LDTA	Lead Defense Travel Administrators
LLC	Limited Liability Company
LMO	Legislative Management Office
LMP	Logistics Modernization Program
LP	Limited Partnership

M

MAC	Moving Average Cost
MD&A	Management Discussion and Analysis
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
MMRP	Military Munitions Response Program
MOU	Memoranda of Understanding
MRE	Meals, Ready to Eat
MRF	Military Retirement Fund
MRHB	Military Retirement Health Benefits
MTF	Military Treatment Facilities
MUHIF	Military Unaccompanied Housing Improvement Fund
MWR	Morale, Welfare, and Recreation

N

NAF	Nonappropriated Fund
NAFI	Nonappropriated Fund Instrumentality
NARA	National Archives and Records Administration
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NGA	National Geospatial-Intelligence Agency
NOAA	National Oceanic and Atmospheric Administration
NP2	Navy Personnel and Pay System
NPV	Net Present Value
NRV	Net Realizable Value
NTDO	Non-Treasury Disbursing Office

O

O&M	Operations & Maintenance
OACT	Office of the Actuary
OMB	Office of Management and Budget
OACT	Office of the Actuary
OCIO	Office of the Chief Information Officer
OCS	Operational Contract Support
ODA&M	Office of the Director of Administration and Management
ODNI	Office of the Director of National Intelligence
OET	Other Eligible Tenants
OHDACA	Overseas Humanitarian, Disaster, and Civic Aid
OIG	Office of the Inspector General
OM&S	Operating Materials & Supplies
OMB	Office of Management and Budget
OPEB	Other Post-employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSD	Office of the Secretary of Defense
OTL	Oracle Time and Labor
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)

P

P&R	Personnel and Readiness
P2P	Procure-to-Pay
PCN	Process Control Narratives
PDA	Presidential Drawdown Authority
PDI	Pacific Deterrence Initiative
PFAS	Per- and Polyfluoroalkyl Substances
PG	Performance Goal
PID	Performance Improvement Directorate
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PIO	Performance Improvement Officer
PMD	Property Management Division
PMO	Program Management Office
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
PPE	Personal Protective Equipment
PRA	Payment Recapture Audit
PRC	The People's Republic of China
PSA	Principal Staff Assistant
PSI	Patient Safety Indicators

R

R&E	Research and Engineering
RCRA	Resource Conservation and Recovery Act
RACER	Remedial Action Cost Engineering Requirements
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RFID	Radio-Frequency Identification
RMF	Risk Management Framework
RMIC	Risk Management and Internal Controls
RSC	Requester Service Center
RSI	Required Supplementary Information

S

SAA	Security Assistance Accounts
SABRS	Standard Accounting, Budgeting, and Reporting System
SAO	Senior Accountable Official
SARA	Superfund Amendments and Reauthorization Act of 1986
SAV	Staff Assisted Visit
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SFFAS	Statement of Federal Financial Accounting Standards
SLA	Service Level Agreements
SMP	Strategic Management Plan
SMS	Sustainment Management System
SNC	Statement of Net Cost
SO	Strategic Objectives
SOA	Statement of Assurance
SOC	Service and Organization Control
SOP	Standard Operating Procedure
SP	Strategic Priority
SSAE	Statement of Standards for Attestation Engagements
SSP	Shared Service Providers
STAMIS	Standard Army Management Information Systems
STARS	Standard Accounting and Reporting System

T

TDO	Treasury Disbursing Offices
TFM	Treasury Financial Manual
THAAD	Terminal High Altitude Area Defense
TIPS	Treasury Inflation-Protected Security
TMEP	TRICARE Medicare Eligible Program
TNC	Treasury Nominal Coupon
TOP	TRICARE Overseas Program
TPharm	TRICARE Pharmacy Program
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TSP	Thrift Savings Plan
TYA	TRICARE Young Adult Program

U

U.S.	United States
U.S.C.	United States Code
UBO	Uniform Business Office
UII	Unique Item Identifiers
UoT	Universe of Transactions
USACE	United States Army Corps of Engineers
USAI	Ukraine Security Assistance Initiative
USCYBERCOM	United States Cyber Command
USD	Under Secretary of Defense
USD(P)	Undersecretary of Defense for Policy
USFHP	United States Family Health Plan
USMC	United States Marine Corps
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
UST	Underground Storage Tanks

V

VA	Department of Veterans Affairs
VCJCS	Vice Chairman of the Joint Chiefs of Staff
VSI	Voluntary Separation Incentive

W

WCF	Working Capital Fund

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